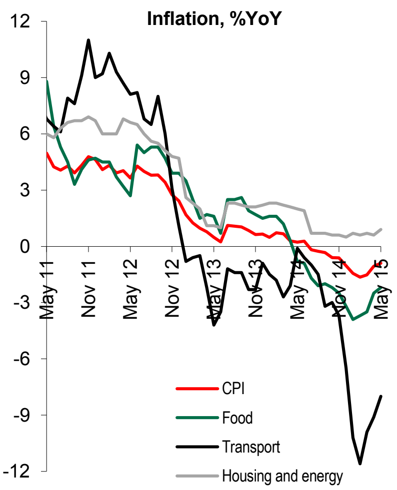
Bank Zachodni WBK
Grupa Santander

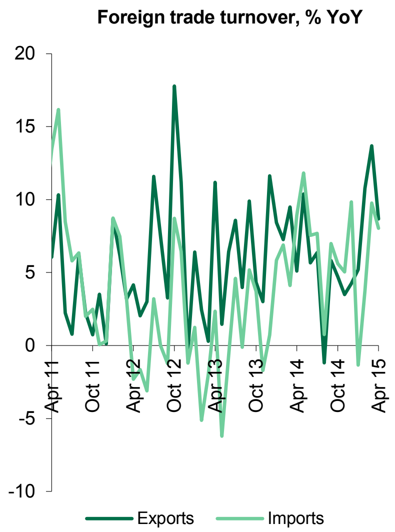
INSTANT COMMENT

15 June 2015

Inflation and current account surplus slightly lower than expected

May inflation reached -0.9% YoY so it continued the rebound from the trough but at a slower pace than it had been expected. This, however, does not change our expectations for the coming quarters. We expect CPI to continue rising to c.0.7% YoY at the year-end. April was fourth consecutive month with a current account surplus and although the balance (€1.14bn) was slightly below our estimates (due to stronger imports), we still think that 2015 will be the first year for two decades when C/A will end with a surplus. The zloty depreciated slightly after the today's data but we think that this week the global events (Greece, Fed) will be key for the market direction and Polish data will remain in the background.





CPI up, but slower than expected

Inflation rate increased in May to -0.9%YoY from -1.1%YoY in April. This was below our forecast and market consensus (-0.7%YoY in both cases). This may have been a bigger surprise for some investors, as some of them anticipated that higher-than-expected inflation readings in Czech Republic and Hungary generated upward risk for Polish data as well.

As compared with our forecasts, the surprise stemmed mainly from food and beverage prices, which fell in May by 0.2%MoM, according to the CSO (while we expected a rise by 0.3%MoM). Fruit prices went strongly up (7.2%MoM – the highest monthly rise in May since 2010), but this was offset by falls in other categories, like vegetables, dairy and meat. We still think that in the upcoming months the growth rate of food prices will accelerate (first due to very low statistical base, second thanks to less favourable weather conditions, given the rather cold spring), pushing the CPI upwards. Communication and tourism prices were also lower than we estimated. Also fuel prices climbed less than we expected (1.3%MoM). Relatively high USDPLN exchange rate can put an upward pressure on prices in these three categories in the upcoming months.

After the CPI data we estimate, that core inflation after excluding food and energy prices stayed unchanged in May at 0.4% YoY.

We still expect gradual rebound in inflation later in the year. The annual CPI is likely to stay negative until the end of 3Q15 and should reach c.0.7% at the end of the year. At the same time, we forecast the core inflation to climb above 1% yet before the end of 2015.

The current account surplus lower than expected due to high imports

April's current account balance showed surplus worth of €1.1bn. The 12-month cumulated current account amounted to -€1.5bn and the current account to GDP ratio fell, according to our estimates, to 0.4%, the lowest level since the mid-90's. The positive current account balance consisted of surpluses on the trade balance (€127m), the services balance (€881m) and the secondary income balance (€163m) and the deficit on primary income (€33m).

The current account surplus was slightly lower than forecasts, which resulted from higher than expected imports. Import volume reached the level of €14.4bn (our forecast: €13.8bn, market consensus: €13.9bn) after increasing by 8.0%YoY. As regard exports, the volume was roughly in line with market forecast and amounted to €14.5bn, climbing by 8.7%YoY. Strong export growth reflects the recovery in demand from the European Union - CSO data published on Friday show the significant acceleration of exports growth to Poland's main trade partners from the EU. On the other hand, good pace of imports growth witnesses the

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strength of domestic demand, although such rapid growth in nominal terms is quite surprising, considering the still low commodity prices, especially Brent oil.

We expect solid exports and imports growth also in the coming months and imports could be stronger than we had been anticipating so far which may lead to lower positive contribution of net exports into 2Q GDP growth.

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