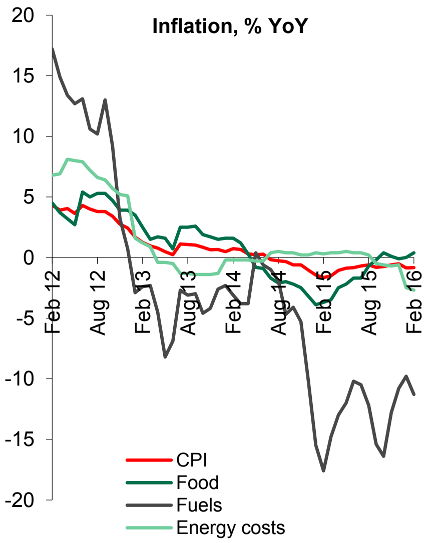
INSTANT COMMENT

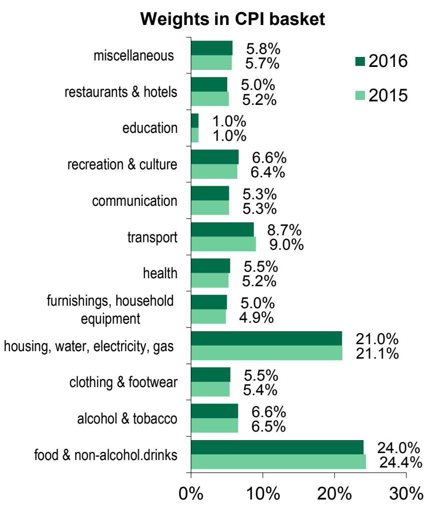
15 March 2016

Inflation below zero, current account in surplus

Data on deflation again proved lower than expected, this time mainly due to change in weights in the CPI basket, and reached -0.8% y/y in February. Flash January's estimate was lowered to -0.9% y/y, while core inflation fell to -0.1% y/y in the two first months of the year, according to our estimates. Inflation is likely to remain negative until end of Q3, but it seems it may be not enough for the MPC to cut interest rates, given that the last NBP projection (showing inflation staying well below the target until end of projection horizon in 2018) did not encourage the Council to change its monetary policy.

Current account balance (€764mn) was above market expectations, but below our forecast. We were disappointed by exports, yet its contraction in annual terms may have been partly due to calendar effects. We are expecting both export and import to rebound in the following months and rise by c10% y/y on average. A potential slowdown in the EU is a risk factor for our forecast.





CPI inflation again below forecasts

Inflation rate in February amounted to -0.8% y/y, well below our expectations (-0.6% y/y) and market consensus (-0.7% y/y). The main source of surprise for us was impact of changes in inflation basket weights used to calculate the CPI by the Stat Office, which caused a significant decline in January inflation. After adjustment to changes in weights January's inflation rate was revised down from -0.7% y/y to -0.9% y/y. We had assumed that changes in weights may slightly increase inflation rate in the first months of this year, which apparently proved wrong.

As compared to previous year the biggest decline in weight was recorded in case of food and non-alcoholic beverages (by 0.32pp), transport (by 0.30pp) and recreation and culture (by 0.2pp). The highest growth in the weight was in case of health (by 0.25pp), recreation and culture (by 0.21pp) and housing equipment (by 0.14pp).

After these data we estimate that core inflation excluding food and energy prices reached -0.1% y/y in January and February.

We maintain our forecast that inflation will remain in negative territory until the end of 3Q16. At the same time, core CPI could stay around zero for the next half a year and rise marginally only at the very end of 2016.

Such scenario might not be however enough to convince the MPC to cut interest rates if - after seeing the most recent NBP projection (showing that inflation does not return to the target until the end of 2018) - the Council did not see a reason to change the monetary policy at the last meeting.

Export below forecast, import above

January's current account balance posted a surplus of €764mn (as compared to market expectations at €109mn and our forecasts at €1398mn). Our forecast was not very accurate due to a surprise in trade: export reached €13.3bn (decline by 0.4% y/y) as compared to our forecast at €13.6bn, and import amounted to €12.7bn (rise by 0.1% y/y), while we expected €12.4bn. Interestingly, statistics office's data showed a rise in exports and decline in imports in annual terms, while the NBP showed just the opposite. Additionally, these numbers suggested a downward risk of our import forecast, which proved above our expectations. January's trade was undermined by negative working-day effect. We are expecting both export and import to rebound in the following months and rise by c10% y/y on average. A potential slowdown in the European Union is a risk factor for our forecast.

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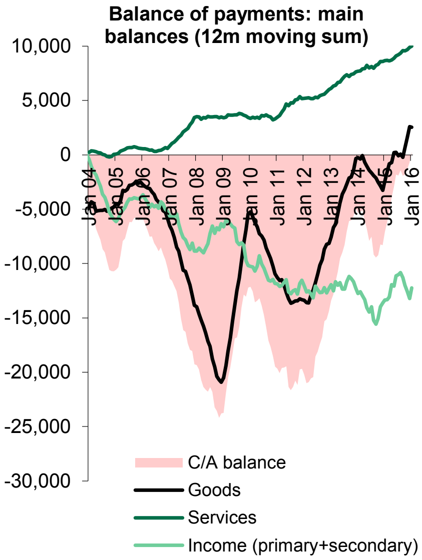

Services balance showed a surplus at €762mn, primary income a deficit at €662mn and secondary income a surplus at €88mn, more or less in line with our forecasts. Income balances were more favourable than usually in January (last three years showed an average deficit €1561mn) due to high inflows of EU funds, especially linked to the Common Agriculture Policy.

12-month rolling C/A balance reached €282mn, that is 0.1% of the GDP (annual surplus for the first time since the comparable data are available). However, we do not expect the surplus to be maintained until the end of the year and we forecast a deficit of 0.7% of GDP for the whole 2016.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.