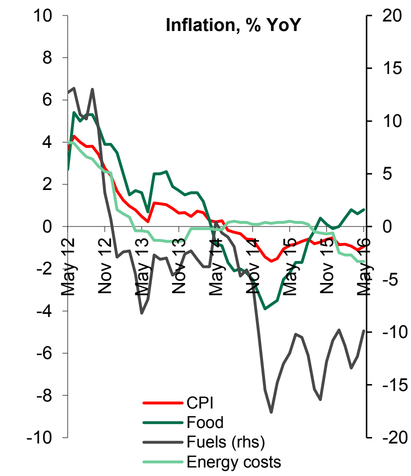
INSTANT COMMENT

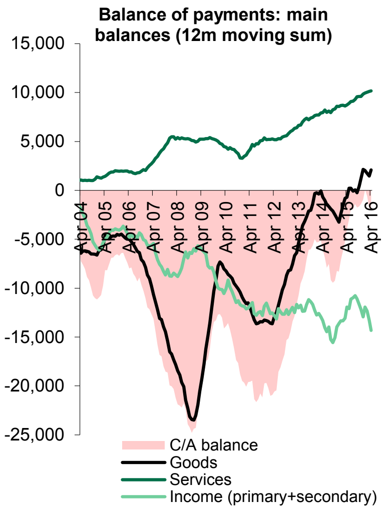
13 June 2016

Final CPI slightly above flash reading

Inflation rate in May reached -0.9% y/y (vs. flash estimate -1.0% y/y and April's -1.1% y/y). The main factor pushing prices up as compared to April were fuel prices (+4.2% m/m), while prices in most of other categories remained roughly stable. We were surprised by a small drop of food prices (-0.1% m/m), as our estimates suggested a moderate increase. Core inflation reached -0.4% y/y, according to our estimate (the same as in April). In general, it seems that deflation in Poland will persist until 4Q16. However, this is not going to trigger a monetary policy easing unless we see a further deceleration of GDP growth.

Data on balance of payments were slightly better than expected, with current account surplus at €594mn (our forecast: €397mn, consensus: €372mn). 12-month cumulated current account deficit equaled 0.5% of GDP, a bit more than at the end of 2015 (0.2% of GDP). Improvement of current account in April was mostly due to good results of foreign trade – exports rose by 4.8% y/y (highest growth rate this year), while import added a mere 0.4% y/y. In general, balance of payments data were in line with our expectations. We expect a further acceleration of exports in the following months on the back of economic recovery in the euro zone. However, weaker growth in emerging economies may put a drag on Polish exports. On the other hand, imports will accelerate thanks to strengthening domestic demand.





Deflation will last until 4Q16

Inflation rate in May reached -0.9% y/y vs. flash estimate -1.0% y/y and April's -1.1% y/y. For us the biggest surprise was a small drop of food prices (-0.1% m/m), as our estimates suggested a moderate increase for fifth month in row already. The main factor pushing prices up versus previous month were fuel prices (+4.2% m/m) which was a result of both rising oil price in the global market and weaker zloty. In June fuel prices are likely to rise again although the pace of increase has faded in the recent days. As regards the remaining categories, there were no surprises – prices of goods and services were roughly stable or followed the seasonal pattern (among others, prices of clothing and footwear fell slightly). According to our estimates, core inflation (CPI excluding prices of food and energy) reached -0.4% y/y, the same as in April, signaling lack of any price pressure. We think deflation could persist until 4Q16 but this is not likely to trigger any monetary policy easing unless we see a further deceleration of GDP growth (which we do not expect).

April's balance of payments slightly better than expected

April's data on balance of payments were slightly better than expected, with current account surplus at €594mn (our forecast: €397mn, consensus: €372mn). 12-month cumulated current accout showed a deficit at 0.5% of GDP, widening a bit as compared to end of 2015 (0.2% of GDP).

Improvement of current account in April was mostly due to good results of foreign trade – exports reached €15.1bn (or forecast at €15.0bn) after adding 4.8% y/y (best result this year), and imports sat at €14.6bn (our forecast at €14.8bn) after a mere 0.4% y/y. We expect a further acceleration of exports in the following months on the back of economic recovery in the euro zone. However, weaker growth in emerging economies may put a drag on Polish exports. On the other hand, imports will accelerate thanks to strengthening domestic demand.

Results on other balance were more or less in line with expectations: surplus on services account reached €1bn (the second best results since comparable data are available), primary income deficit was at €1.1bn and secondary income surplus at €0.1bn.

In general, balance of payments data were in line with our expectations and did not change the picture of the economy. We expect some tighteninig of the current account deficit in the months to come.

ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

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.