Bank Zachodni WBK
Grupa Santander

INSTANT COMMENT

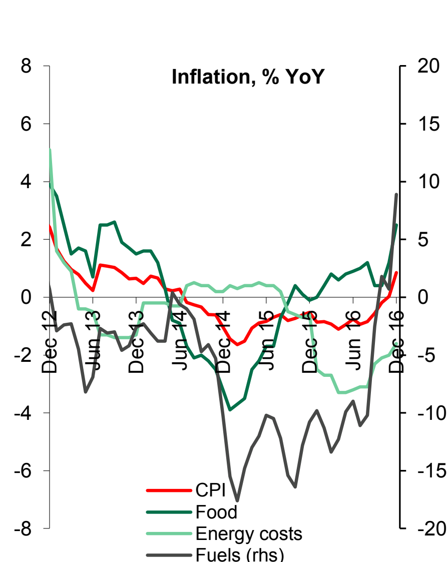
13 January 2017

This year inflation will be higher than expected

CPI increased to 0.8% y/y in December from 0% in November, in line with the flash estimate. The main reason for the significant inflation rise was a spike in prices of fuels and food. Prices in the remaining categories were quite stable so we estimate that core inflation excluding food and energy did not move much and reached 0.0% y/y (vs -0.1% in November).

Despite inflation rising faster than predicted by the central bank (last NBP's inflation projection assumed CPI below 1.5% throughout 2017 while already in January inflation may rise above this level) we do not expect Polish MPC to start mulling interest rate hikes anytime soon. At the press conference after the last Council's meeting, Adam Glapiński said very clearly that interest rates will stay unchanged in 2017. Indeed, considering rate hikes amid still sluggish economic growth and lack of any clear demand-side pressure (higher CPI is almost entirely the effect of higher fuel and food prices) would not be a good idea.

Current account deficit in November was higher than expected and the deficit for October has been revised up. Import and export growth accelerated in November, but mainly due to calendar effect, in our view. The signals abound economic recovery abroad should support a revival of Polish exports in 2017. Import will be also growing faster thanks to solid domestic demand.



Fuels and food pushed inflation up

In December CPI increased to 0.8% y/y from 0% in November, in line with the flash estimate. The main reason for the significant inflation rise was a spike in prices of fuels at the end of the year (5.3% m/m) driven by oil price rise in the global market and higher food prices (1.2% m/m, big jump even for December). Prices in the remaining categories were quite stable so we estimate that core inflation excluding food and energy did not move much and reached 0.0% y/y (vs -0.1% in November).

We expect inflation uptrend to continue in the months to come supported by – next to high prices of food and fuel – very low base effect from early 2016 and price hikes in some other categories (electricity, tobacco). Already in January CPI may rise to c1.7% y/y and even the unexpected cut in gas prices approved by the Energy Regulatory Office (URE) is not likely to stop inflation from rising to around 2% in March/April, in our view. Later on, we expect CPI to stabilise and then to drop towards 1.5% in December 2017 due to very high base effect. At the same time, core CPI is likely to lag behind, growing only to 1% y/y in Decemeber 2017 from 0% y/y in early 2017.

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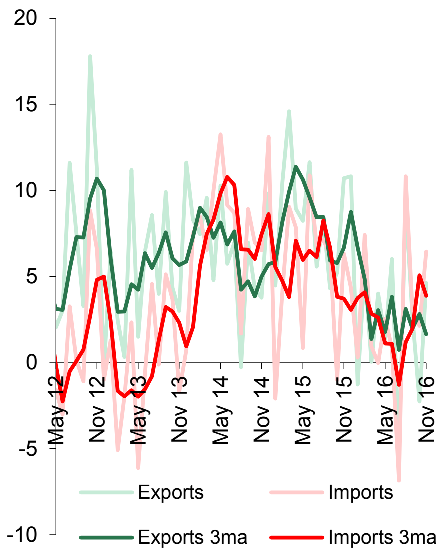
Slight improvement in exports

In November the current account deficit narrowed to €427m from €531m in October (revised data), which mainly resulted from trade balance improvement. Trade surplus amounted to €102m , with exports at €15.943bn (increase by 4.6% y/y) and imports at €15.841bn (6.4% y/y). In line with our expectation November brought improvement in foreign trade with better than expected nominal volumes of both exports and imports. Higher than in October growth in trade resulted, to a large extent, from calendar effect and currently it is still too early to

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



herald exports revival – 3M moving average of exports growth even slightly declined after November. In contrast, improvement in imports was more visible, which probably mainly resulted from a strong consumer demand. In our view, exports growth might decelerate somewhat in December due to this time the adverse effect of working days, but the trend in the following months should be positive, as indicated by signals on rising export orders in recent business surveys.

Other categories of current account (balance of services, primary and secondary income) did not differ significantly from our expectations. However, the surplus in services amounted to just below €1bn, mainly due to higher than our forecasts, import of services.

After November the 12-month deficit of the current account reached the level of €2.8bn and accounted for c0.7% of GDP.

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, 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.