Bank Zachodni WBK

Instant comment

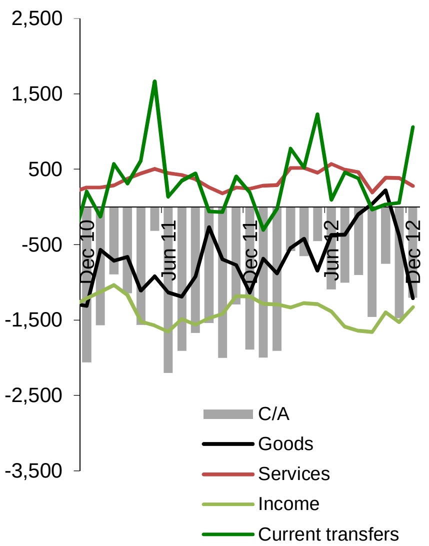
Higher trade deficit

12 February 2013

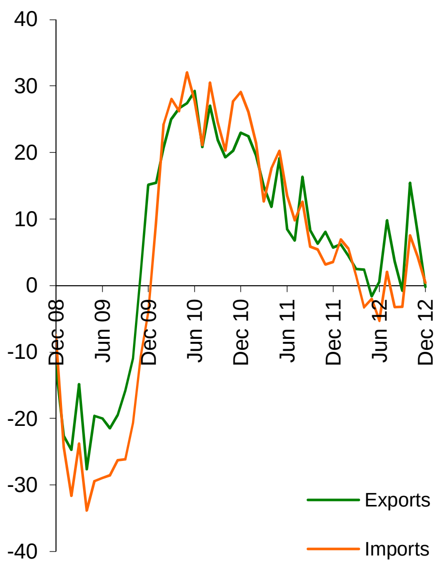
Current account deficit was higher than expected in December and amounted to over €1.2bn. This was primarily due to a deeper decline of exports than of imports. Still, data were under influence of calendar and one-off effects, so it is difficult to formulate precise conclusions about tendencies in foreign trade based on today's figures. We are assuming that in the upcoming months the growth rate of exports will be gradually accelerating (due to recovery abroad), while growth rate of imports will remain low, due to weakness of domestic demand. In due course, net exports will remain the main driver of GDP growth.

The zloty reacted to today's release with a 0.015PLN weakening against the euro. Friday's data on CPI, showing a decline of inflation above 2% can provide another depreciating impulse for the domestic currency.

Current account, EURm



Foreign trade turnover, % YoY



December's current account deficit reached €1204m and was clearly higher than expected (our forecast at €543m and market consensus at €851m). The main factor that caused such a surprise was visible deterioration of trade balance. In December the trade deficit amounted to over €1.2bn – highest in 2 years and ca. three times more average balance seen in 11 first months of 2012. In line with our expectations, the value of trade declined compared to November due to, among others, lower number of working days and plunge of industrial output. However, even if value of exports was very close to our forecast (as it reached €10.64bn compared to €13.02bn in November), the decline of imports was smaller than we assumed (at €11.85bn versus €13.4bn a month earlier). The annual pace of growth of exports decelerated to -0.2%YoY (from 7.8%YoY in November) while the pace of growth of imports to 0.4%YoY (from 4.3%YoY). Remaining items of the balance of payments were close to our expectations. It is worth to notice strong surplus of current transfers (by €1.06bn) due to inflow of the EU funds.

As December's data were distorted by one-off factors (effect of working days, delay in payments of direct subsidies for farmers) they are not a good prognostic for real tendencies in foreign trade. We assume that in coming months exports growth will start rebounding gradually (due to improvement in economic activity abroad), while pace of growth of imports might be limited as a consequence of weak domestic demand.

In 2012 the current account deficit reached €13.5bn, i.e. 3.5% of GDP (vs €1798bn or 4.9% of GDP in 2011). This gap was covered in 85% by long-term capital inflows (changes in net foreign direct investments plus inflows form the EU, classified on capital account). Foreign portfolio inflows in 2012 amounted to €15.3bn.

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