

INSTANT COMMENT

16 March 2015

Record-high trade surplus

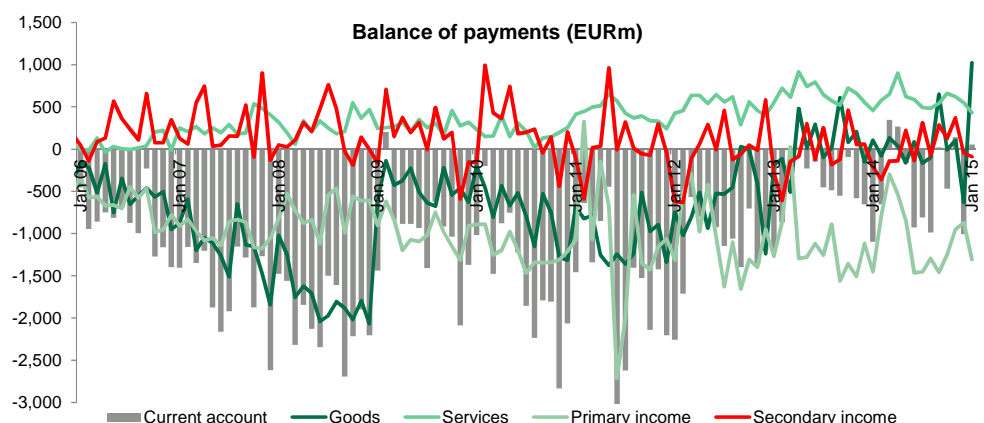
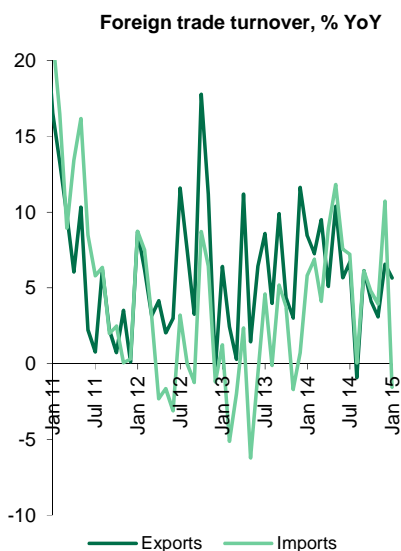
In January the current account recorded a €56mn surplus driven by surprisingly strong exports and lower than expected imports. Improvement in exports is probably the result of economic rebound in the euro zone, while weaker imports results from lower commodity prices rather than from struggling domestic demand. Thus, this data strengthen optimism regarding the Polish economic growth in the coming quarters. Core CPI after excluding food and energy prices reached 0.6% YoY in January and 0.4% YoY in February, in line with our estimates after the CPI data. We expect a gradual rebound in core inflation in the months to come.

Strong exports and weak imports improved the trade balance

In January the current account balance was in surplus and reached €56m. It was the result of record-high surplus in trade of goods (€1.02bn), surplus in services (€431m), and deficits in primary income (-€1.3m) and in secondary income (-€90m).

This was the first time ever (or at least since when monthly data are available, i.e. 2000), when the current account was in surplus in January. It was possible mainly thanks to surprisingly high positive balance in trade of goods. And the latter was reached because export was much higher than expected, and import proved to be below forecast. Export reached €13.47bn and rose 5.7%YoY (versus 6.6%YoY in December). We think that such good result was possible thanks to economic revival in the euro zone, which implies higher demand for Polish goods. It is suggested by, among other things, data from CSO and Eurostat, which show accelerating growth rate of Polish export to some euro zone countries for a few months already. Improving outlook for economic growth in Europe allows us to expect further acceleration of export growth in the following months and quarters. At the same time, imports reached €12.45bn and fell 1.5% YoY (after having grown 10.7% in December). The NBP's comment to this data reads that the core factor driving imports down was the falling price of the imported oil. This confirms our suspicions presented after the Friday's release of the stat office data on the foreign trade that showed a noticeable plunge in imports from Russia (c-50% YoY in dollar terms) where Poland buys oil.

12-month rolling C/A deficit decreased according to our estimates to 1% of GDP after January (from 1.3% at the end of 2014). The negative balance was covered in more than 100% by the net inflow of foreign direct investments.



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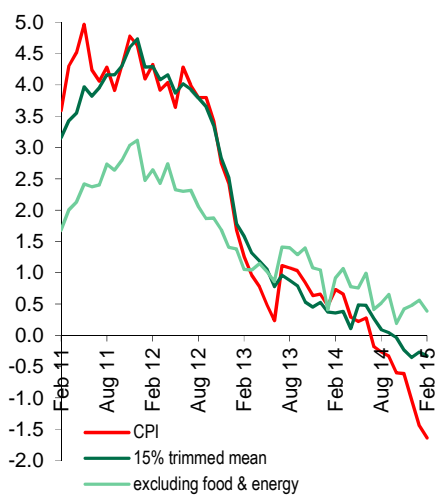
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CPI and core inflation, %YoY



All in all, we interpret January's balance of payments data positively – high export indicates the recovery of the foreign demand and imports is pushed down by the low commodity prices, rather than the weakness of the domestic demand. Consequently, in 1Q15 the net exports' contribution to the GDP growth may be larger than we had expected and this generates an upside risk to our economic growth forecasts.

Core measures fell in February

All measures of core inflation declined in February, while in January only one of them (net of administrated prices) declined and three (most volatile prices, net of food and energy prices, 15% trimmed mean) rose. CPI inflation excluding food and energy prices was 0.6%YoY in January and 0.4%YoY in February, in line with our estimates based on CPI data. As in case of the headline CPI, it was probably the bottom of core inflation. We expect a rebound in core inflation excluding food and energy prices to above 1%YoY till year-end.

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