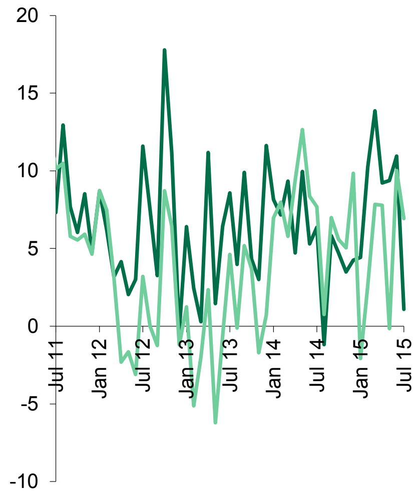
INSTANT COMMENT

14 September 2015

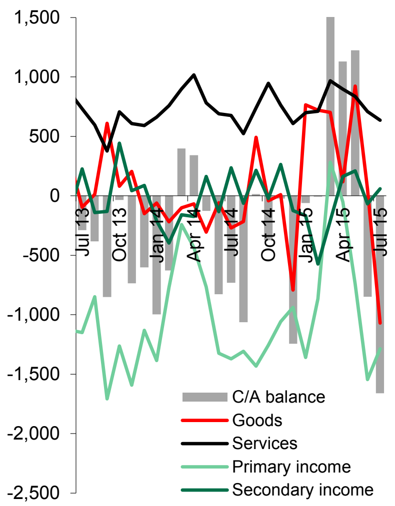
Trade deficit due to weaker exports

A considerable weakening of exports in July (1%YoY) and better-than-expected imports (6.9%YoY) caused the first trade deficit this year (-€1.1bn) and a considerable rise in current account deficit (€1.7bn). We cannot stay whether the deterioration of exports was a persistent phenomenon. Recovery in the euro zone, expected by us, should be supportive for exports in the months to come, but the risk of introduction temporary border controls in the EU countries is a threat for these forecasts. Growth rate of M3 money supply slowed down to 7.3%YoY in August under impact of high base effect, but growth rates of loans and deposits stayed at high levels, in line with moderately fast rise of the economy.

Foreign trade turnover, % YoY



Current account, EURm



The surprising trade deficit

The current account balance in July reached -€1660mn, which is the highest deficit in more than three years. The median market forecast amounted to -€527mln. The significant deterioration of balance compared to June resulted from the imbalance of foreign trade – in July the trade deficit was recorded for the first time this year and the gap was the highest since December 2012 (-€1071mln). This in turn was a result of the surprisingly weak exports (the annual dynamics fell from c11% in June to nearly 1% in July) and better-than-expected imports (6.9%YoY vs 10%YoY in previous month). The NBP's data were in line with statistics office data on foreign trade released on Friday (see more details in our today's Eyeopener).

According to the NBP's comment, weaker exports were mainly due to sharp plunge in sales of mobile phones. It is hard to judge whether that sudden change was due to some (perhaps temporary) disorder in statistics or a more sustainable phenomenon. One cannot exclude that this was the effect of government's actions aimed at curbing tax evasion. Friday's foreign trade data released by the statistics office showed that exports deteriorated in the case of all main Poland's trading partners. We think it is hard to make any far reaching conclusions for the foreign trade after the July's data.

We still expect a continuation of economic revival in the EU, which should be supportive for a dynamic rise of Polish exports. However, the re-introduction of state border controls in the UE countries under impact of inflow of refugees is possible – such a change can undermine goods flow between the UE countries (at least temporarily) and negatively affect the economic activity in Europe.

Cumulated 12-month current account balance deteriorated to -0.3% of GDP (versus -0.1% in June). The higher-than-expected deficit in foreign trade increases the downward risk for GDP forecasts in Q3, but an improvement in trade balance is possible if this was only a one-off development.

M3 growth down on the high base effect

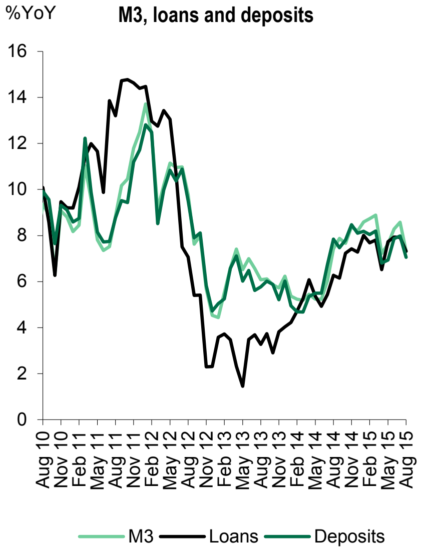
Pace of M3 money supply growth decelerated in August to 7.3%YoY from 8.6%YoY in July, more than the market expected (8%YoY). Slower growth was mainly due to high base effect in the deposits of non-monetary financial institutions (15.1%YoY drop). In the remaining categories no breaking changes were recorded – growth of the households' deposits accelerated to 9.2%YoY (its highest since 2012) from 8.8%YoY and corporate deposits

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



slowed to 6.6%YoY from 7.1%YoY (mainly on the back of the FX effect – weakening of the Swiss franc). At the same time, companies liabilities rose 7.7%YoY from 7.6%YoY. Overall, data confirm tendencies observed so far, including lack of deposits outflow from the banking sector despite the record low interest rates and the loans are growing at a moderate pace.