

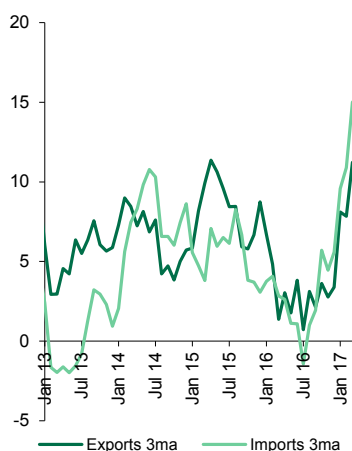
# INSTANT COMMENT

15 May 2017

## Strong March in Polish foreign trade, core CPI up to 0.9% y/y

NBP calculations of core CPI confirmed our estimate of 0.9% y/y. It accelerated from 0.6% y/y to the highest level since June 2014. March current account balance for Poland was significantly lower than market expectations. It was equal to €-738mn instead of €-354mn. Imports are responsible for a major part of the surprise, having accelerated from 9.9% y/y to 18.9%. At the same time exports growth went from 4.9% y/y to 14.9% which serves as a confirmation of the increasing external demand from Western Europe. The revival in imports points to the strength of domestic demand.

Foreign trade turnover, % YoY



### High imports prevented an improvement in current account balance

March current account balance for Poland was significantly lower than market expectations. It was equal to €-738mn instead of €-354mn. Imports are responsible for a major part of the surprise. They sharply exceeded market forecasts having accelerated from 9.9% y/y to 18.9% y/y (we expected +16.2%). This is the fastest pace since May 2011. The earlier Statistics Office release on foreign trade suggested that analysts might have underrated the scale the revival of imports. Such a big acceleration both on the export and import side was caused by highly positive trading day effect in March, but it can not explain the whole improvement.

Surprising imports growth highlights the strength of domestic demand. At the same time, we are facing a sharp improvement in the pace of growth of exports, 14.9% y/y in March (we expected 16.6%) vs 4.9% in February. The goods balance remained slightly negative (€-218mn) and the services balance remained above €1bn. There was a second decrease of c€1.5bn in a row in the balance of primary income.

In 1Q17, exports increased by 11.2% y/y vs 3.4% in 4Q16 and imports by 15% y/y, compared to 5.6% y/y in the final quarter of last year.

Data on balance of payments once again confirm that the foreign demand for Polish products is reviving in line with business confidence in Western Europe, eg reflected in PMI indices. We are expecting the imports will be growing at a higher rate than exports in the months to come, putting a pressure on the current account, but at the same time confirming that recovery in Poland is based on more than just foreign demand.

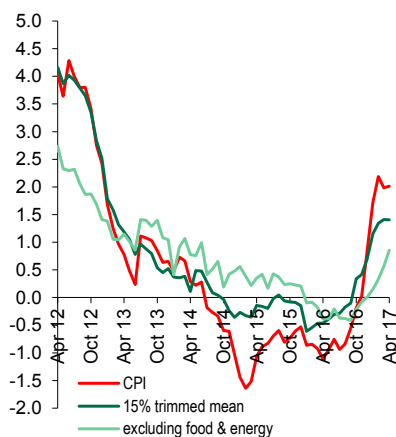
12-month current account deficit amounted to 0.0% of GDP in April.

### Core CPI further up

Core CPI after excluding food and energy prices rose 0.9% y/y in April, in line with our estimate after the CPI data. This was already seventh month in a row of an increase taking the pace of growth to its highest since June 2014. The main factor driving core CPI up was the low base effect in "recreation and culture" resulting from lower cable TV in March and April 2016. We expect core CPI to continue rising later in the year.

The other core CPI measures did not change much – inflation after excluding administrative prices fell to 2.1% y/y from 2.2%; CPI excluding the most volatile prices stayed at 1.1% y/y and the 15%-trimmed mean held at 1.4% y/y.

CPI and core inflation, %YoY



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