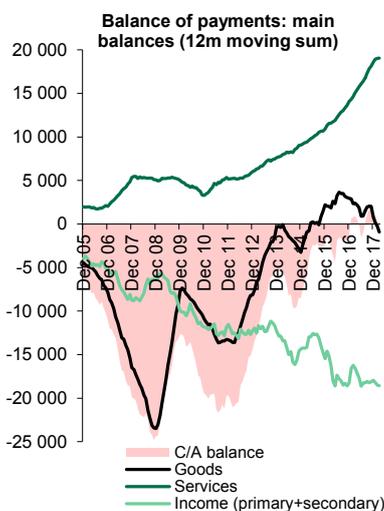


ECONOMIC COMMENT

14 May 2018

March C/A: Airplane instead of automobiles

Current account in March was more or less in line with expectations, showing a deficit of €1.0bn. Exports fell by 2% y/y, driven by negative working day effect as well as by decelerating exports of cars, observed also in the previous months. Import, on the other hand, rose by 1.6% y/y with increasing fuel purchases and one-off big ticket purchase of an airplane. In our view, there is a downward risk for exports in the upcoming months, given weaker signals from the Euro zone and especially Germany, while imports will remain strong driven by robust domestic demand. Net exports contribution was most likely negligible in 1Q, but in the following quarters it might turn slightly negative.

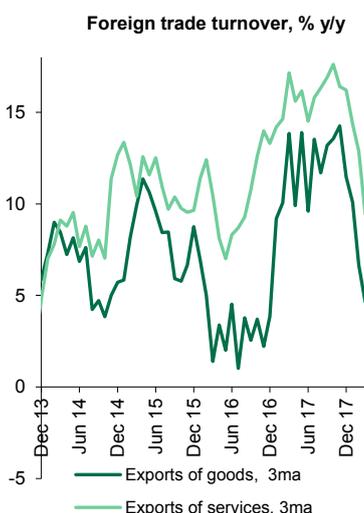


In March current account balance was close to estimates at €0.98bn. The market consensus was €-1.09bn vs our estimates of €-1.18bn. A year ago current account balance was €700mn higher - the deterioration was mainly a consequence of lower trade balance (in March 2018 trade balance was €-317mn vs €+344mn in March 2017).

Exports fell 0.2% y/y mainly owing to negative effect of number of working days but also due to lower exports of autos. We anticipated a drop of 1.4% y/y while the consensus was at -2.4% y/y. At the same time, imports rose 1.6% y/y and was boosted by exceptionally large purchases of fuels and a purchase of an airplane. Still, it performed weaker than we expected (+4% y/y).

Worse business sentiment and economic results in the Euro zone in 1Q18 pose some risk for Polish export outlook in the months to come. At the same time, the strong domestic demand is likely to underpin imports. In our view, in 1Q18 the domestic demand rose by more than 5% y/y in real terms and will stay at a similar growth rate in the upcoming quarters, with strong consumption and revival in investment. In our view, contribution of net exports to GDP growth was close to neutral in 1Q18, but in the upcoming quarters this category may exert a negative impact on the GDP growth.

Services balance at €+1.34bn was almost unchanged versus March 2017. In 1Q18, we saw a considerable slowdown in exports of services, from 16.7% y/y in December 2017 to 6.4% y/y in March. Total income balance amounted to c€-2.0bn. 12-month current account balance deteriorated to -0.1% of GDP in March from +0.1% of GDP in February and in our view the deficit will rise to 0.5-1.0% of GDP in the months to come.



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