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Economic Comment

Strong March C/A, mild decline of imports

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March balance of payments data showed a major improvement in current account to €2.4bn from €0.9bn in February versus expectations at €0.9bn. There was a major improvement in primary incomes balance on assumed deterioration of reinvested earnings. Exports fell by 7.5% and imports by 4.5%, with deeper declines likely to come in the following months due to the pandemic.

C/A improvement due to low earnings of foreign companies

March balance of payments data showed a major improvement in current account balance to €2.4bn from €0.9bn in February versus expectations at €0.9bn. The surprise was mostly due to a major improvement in primary incomes balance.

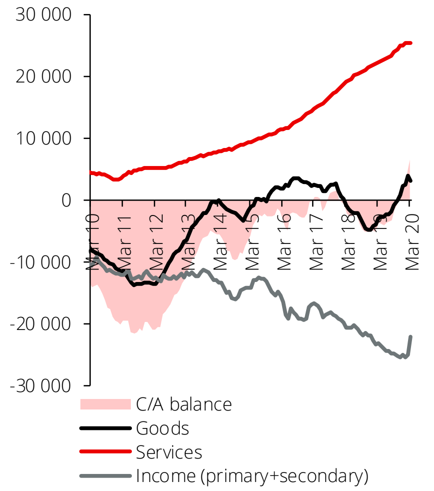
The improvement in primary income balance was caused by a significant decrease in outflows which totalled modest €125m versus 2019 monthly average at €2920mn. According to the NBP this number was due to an assumed deterioration in earnings of foreign-owned companies given the epidemic lockdown. The central bank noted that this is based on “fragmented data”. Such a situation is likely to repeat in the incoming months, in our view.

Exports fell by 7.5% and imports by 4.5% with the strongest declines in automotive sector and in oil imports. GUS data on foreign trade released earlier today suggest that in March there was a strong decline in exports to Italy, France, the Netherlands (and possibly Spain, as it fell off the reported ‘top ten’ list), but a somewhat better result in exports to Germany. On the imports side we continued to observe strong flows from Korea (+30.9% y/y in Jan-Mar period), the US, the Netherlands, but also a rather steady c.4% y/y growth of imports from China despite the pandemic. We expect falls in exports and imports to deepen in the following months. In March, there was also a notable deterioration in service flows: exports down by 10.6% y/y and imports by 14.7% y/y.

Decline in NBP assets explained

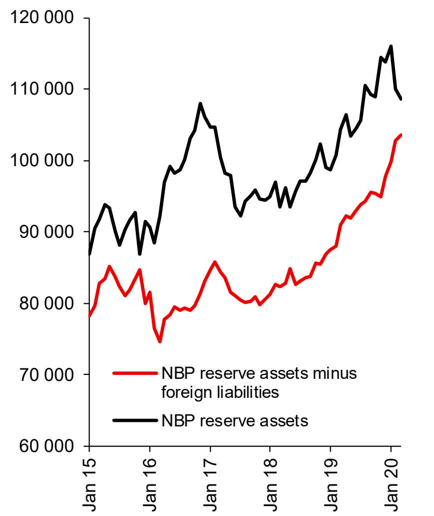
In March, NBP’s reserve assets fell by over 5% m/m and this was the strongest decline since 2015. Some market players interpreted this move as sign of NBP interventions on the FX market. Today’s NBP comment explains this decline: it was caused by the central bank’s decision to pull out from FX reverse repo operations. Reverse repo transactions are a part of NBP investment strategy and have been conducted for a few years. In such an operation the NBP was buying FX-denominated bonds and agreeing to sell them again in a short term. Together with these reverse repo transactions, the NBP was conducting repo transactions (so a reversed form) on the FX market in order to hedge its position and take advantage of market spreads in order to increase its gains. These two legs lead to parallel rise in both foreign assets and liabilities of the central bank. So a decision not to conduct new operations would lead to a parallel decline in foreign assets and liabilities. And this is exactly what happened. NBP’s net foreign assets (i.e. gross foreign assets minus gross foreign liabilities) are recording a steady growth.

Current account data, €mn, 12m sum



Source: NBP, Santander

NBP reserve assets, €mn



Source: NBP, Santander

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