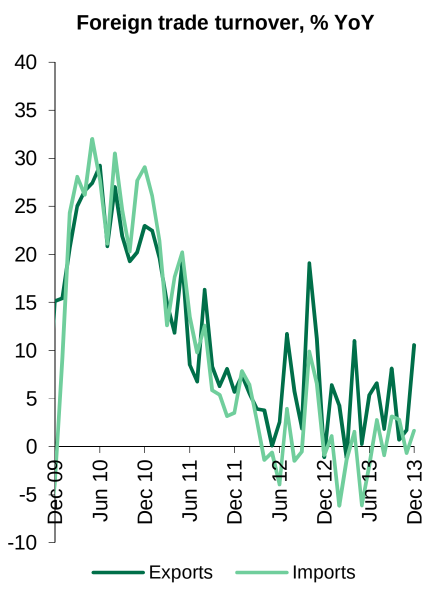
Bank Zachodni WBK
Grupa Santander

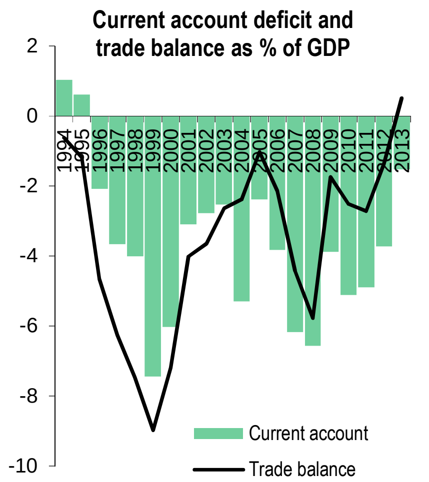
INSTANT COMMENT

12 February 2014

Current account gap declined to 1.5% of GDP

Current account deficit in December 2013 was lower than expected and amounted to €843m. The good result is primarily due to acceleration of exports (10.6%YoY). In entire year the current account deficit amounted to 1.5% of GDP, the lowest level since 1995. The economic recovery in the euro zone and the sluggish appreciation of the domestic currency should help maintaining a two-digit growth rate of exports growth this year, so the trade balance will remain in surplus and current account deficit will drop further. Today's data positively affected the zloty, which gained ca. 0.015 versus the euro.





In December 2013 current account deficit amounted to €843m, which is better than market consensus (-€1.3bn) and our forecast (-€1.1bn). Trade balance recorded a deficit of €232m after eight months of surpluses, but please note that deterioration on this account in December is a seasonal pattern. Export, even though in nominal terms it was lower than in recent few months (also due to seasonal effect), surprised us to the upside, posting a strong acceleration of annual growth rate to 10.6%YoY. On the other hand, growth rate of imports remained sluggish, showing 1.7%YoY. There were no major surprises in other segments.

Current account deficit for the entire year 2013 amounted to €5.9bn, i.e. ca. 1.5% of GDP. This means that in one year the current account to GDP ratio more than halved (from 3.7% in 2012), falling to the lowest level since 1995 (!). Moreover, the last year was probably the first since the beginning of economic transformation, which saw a surplus in trade balance – it amounted to almost €2bn (historical data at our disposal do not reach beyond 1993). Surplus in services account reached €5bn (highest ever recorded), and surplus in the transfers balance reached €3.8bn (slightly less in the two previous years). Income balance was still very negative, amounting to -€16.7bn (last year -€17.7bn).

In our opinion, 2014 will be the second consecutive year when trade balance remains in positive territory. This will be fuelled by persistently high pace of exports growth (we anticipate two-digit growth vs. average 4.5% in 2013) due to an economic revival in our main trading partners and not-too-fast appreciation of the zloty helping to sustain price competitiveness of Polish goods. Positive signals from German economy at the beginning of the year (among others, strong increase of PMI and other economic sentiment indexes) and turmoil on the EM markets (triggering temporary weakening of the zloty) support this scenario. As the same time, gradual recovery of domestic demand should support imports, but it should continue lagging behind export growth.

December saw an outflow of net foreign direct investments by ca. -€1.2bn. Overall, in whole 2013 a net FDI inflow of only €0.3bn was recorded, which is the lowest amount since comparable data is available (2000). For the sake of comparison, a net inflow of FDI reached €4.1bn in 2012 and €8.9bn in 2011. Nevertheless, coverage of falling C/A deficit by the long term capital is still high due to EU funds. In the past year, the sum of net FDI and EU transfers constituted nearly 170% of the current account deficit.

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