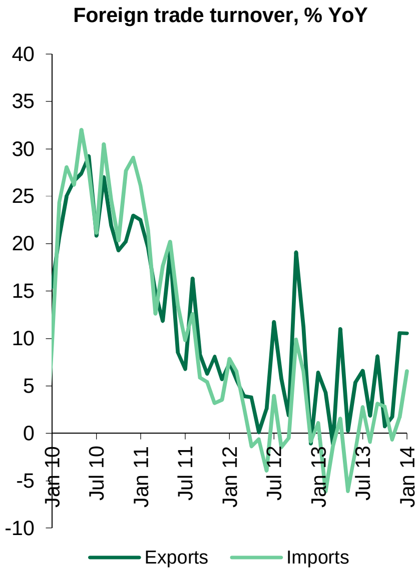
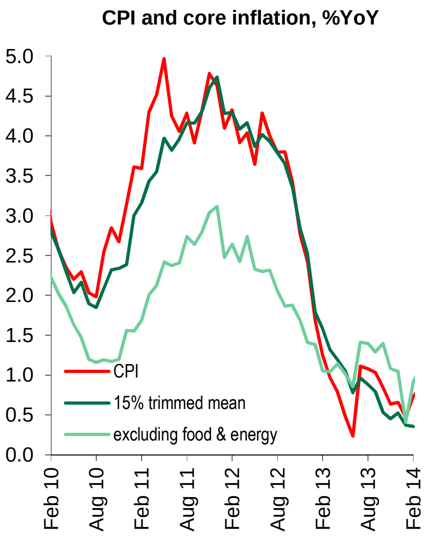
INSTANT COMMENT

17 March 2014

Strong acceleration in trade, core inflation low

Current account deficit in January was deeper than expected and amounted to -€1.1bn. However, tendencies in foreign trade are still positive – growth rate of exports exceeded 10%YoY for the second month in a row, while import growth accelerated to 6.6%YoY and trade balance recorded a considerable surplus (€419m). Data confirmed the economic recovery fuelled with rising external demand but also with growing role of domestic demand. At the same time, core inflation numbers confirmed the weakness of inflationary pressure, which will probably let the MPC to keep interest rate unchanged until the year-end.





Trade volumes rising quickly

In January the current account deficit reached €1.1bn, more than we expected and widest since January 2013. At the same time, the trade balance delivered a positive surprise, showing a surplus of €419m, above our forecasts. Exports and imports beat our expectations as they grew by 10.6%YoY and 6.6%YoY. The data seem to confirm strong economic revival at the beginning of the year, which is driven not only by export orders but also by accelerating domestic demand. However, the surplus on services account declined to €164m (lowest since October 2010) due to visible increase of imports of services amid lower revenues from exports. When compared to the previous month, balances of incomes and current transfers were lower (at -€1.4bn and -€286m, respectively). Deficit in transfers is a seasonal pattern, due to schedule of flows from the EU, while a significant deficit in incomes is in line with the long-term tendency.

Cumulated 12-month current account deficit is still running at a low level of 1.5% of GDP. Moreover, despite weak inflow of foreign direct investment to Poland (only €722m net inflow during last 12 months), current account deficit is covered by inflow of long-term capital thanks to EU funds – after January long-term capital inflow (net FDI + EU funds classified on the capital account) amounted to 180% of annual current account deficit.

All core inflation measures at low levels

Core CPI after excluding food and energy prices reached the level of 0.4%YoY in January and 0.9%YoY in February. One should notice that January's reading was the lowest since October 2006. Other core CPI measures stayed also at very low levels; CPI after excluding administrated prices amounted to 0.1% and 0.4%, respectively, while CPI after excluding the most volatile prices was at 0.5% and 0.5% (the lowest level from August 2003) and the so-called 15%-trimmed mean (excluding the impact of 15% of the price basket characterised by the lowest and highest growth rates) was running at 0.4% in both months (the lowest level in history, i.e. since 2001). It confirms the low demand-side inflationary pressure. In our opinion, acceleration in private consumption and further improvement in labour market may increase this pressure later this year. Therefore we foresee core inflation to continue upward trend. However, we do not expect the core CPI after excluding food and energy prices to exceed 2%YoY in 2014.

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