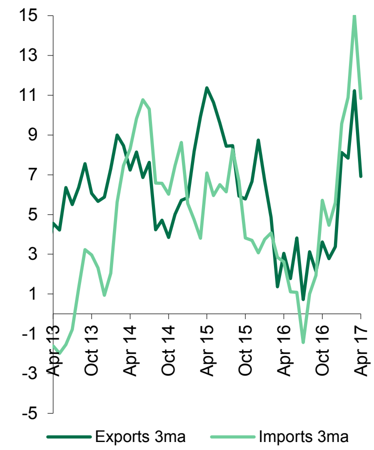
INSTANT COMMENT

13 June 2017

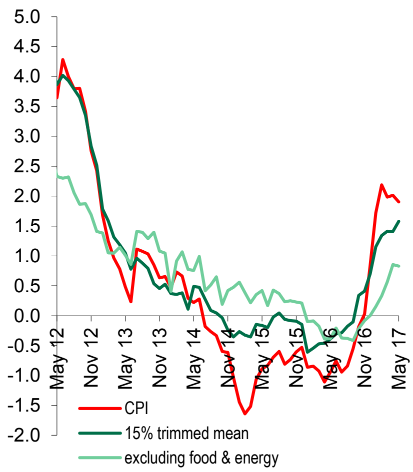
Reduced C/A deficit in April, core CPI decreased to 0.8% y/y

Polish C/A deficit amounted to €275mn in April and was in line with expectations. However, the breakdown proved rather surprising, as both export and import were weak. The market consensus on exports was clearly overshot, despite the fact that weak industrial output suggested a paltry growth of that measure (+0.6% y/y). It is possible that the same effect dragged imports down (+3.4% y/y), but this low reading came as a surprise to us, given strong private consumption. In our view, low growth of imports may be suggesting that recovery in investment did not start yet. 12-month C/A deficit amounted to 0.2% of GDP, according to our estimates. The main measure of core CPI went back to 0.8% y/y in May from 0.9% y/y in April. The downward pressure on core CPI was put mostly by lower prices of transport services and health, offsetting the growth of telecom prices. We see little upward pressure on CPI ex food and energy in the months to come

Foreign trade turnover, % YoY



CPI and core inflation, %YoY



The improvement in C/A balance came from surprisingly weak imports

Polish C/A deficit decreased from €738mn to €275mn in April and was in line with expectations. However, the breakdown proved rather surprising, as both export and import were weak. The market consensus on exports was clearly overshot, despite the fact that weak April industrial output (reported earlier) suggested a paltry growth of that measure (+0.6% y/y vs market expectations of +3.8%). It is possible that the same effect dragged imports down (+3.4% y/y, +8.8% was expected), but this low reading came as a surprise to us, given strong private consumption. In our view, low growth of imports may be suggesting that recovery in investment did not start yet. As a reminder, lack of investment growth in 1Q GDP release was a big negative surprise in a generally quite positive growth report. On the other hand, imports was the category behind the deterioration of C/A in March where it accelerated from 9.9% y/y to 18.9 y/y. 12-month C/A deficit amounted to 0.2% of GDP, according to our estimates, up from 0% in March but still below its path in 2016.

The goods balance turned slightly positive (€86mn) and the services balance increased from just above €1bn to €1.3bn There was a second decrease of c€1.5bn in a row in the balance of primary income balance deteriorated further to €1.6bn as the outflows exceeded our expectations by c€250mn.

We treat the April slowdown in export and import as based mostly on calendar-effects and a return to double-digit growth seems likely in the following months because of improving economic situation among main trading partners.

Core CPI mixed

Core CPI excluding food and energy prices went back to 0.8% y/y in May from 0.9% y/y in April. The downward pressure on core CPI was put mostly by lower prices of transport services and health, offsetting the growth of telecom prices. CPI ex administered prices also fell, to 2.0% y/y from 2.1% y/y, while CPI ex most volatile prices and 15% trimmed mean rose, to 1.2% y/y and 1.6% y/y fom 1.1% and 1.4%, respectively. In our view, CPI ex food and energy will remain close to current levels in the months to come and then may climb above 1.0% y/y.

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