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Economic Comment

Core CPI and C/A surplus still high

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Core inflation excluding food and energy prices reached 3.9% y/y in January and 3.7% in February (back at December's level), remaining elevated and suggesting that the underlying price pressure refuses to go away despite the pandemic shock. We think that the main core inflation measure (ex food and energy) should decline gradually later in 2021 in a lagged response to subdued consumer demand (especially that the recent surge in Covid-19 cases suggests that pandemic restrictions may be extended well into Q2), but also due to base effects. From the monetary policy point of view, we do not change the opinion that main interest rates will remain on hold at least until the middle of 2022, when the NBP governor's term of office ends.

Poland's current account balance amounted to EUR3.3bn in January, close to our call at EUR3.1bn and vs consensus at EUR2.4bn. Details proved to be somewhat disappointing, though, as foreign trade noted negative growth rates. 12M current account amounted to 3.6% of GDP, a new all-time high. We think that this number is likely to climb a bit more in the upcoming months.

Core inflation remained high

Core inflation excluding food and energy prices reached 3.9% y/y in January and 3.7% in February (back at December's level), remaining elevated and suggesting that the underlying price pressure refuses to go away despite the pandemic shock.

On the other hand, two other measures of core inflation (CPI excluding most volatile prices and 15% trimmed mean) decreased in January-February to their lowest levels in six quarters (2.5% and 2.3%, correspondingly), while the CPI excluding administered prices rose to 1.7% but remained the lowest in the group, confirming that large part of the high inflation results from rising taxes, fees and other non-market driven factors. In general the core inflation in Poland remains in downward trend and we think this trend will continue in the months to come.

According to our forecast, the main core inflation measure (CPI excluding food and energy) should decline to c. 2% y/y or even slightly below in 2Q21 in a lagged response to subdued consumer demand (especially that the recent surge in Covid-19 cases suggests that pandemic restrictions may be extended well into Q2), but also due to base effects. We see an upward risk for inflation forecast in 2022, when economic growth may finally bounce up strongly after the pandemic threat is contained, while the supply bottlenecks may push up prices of goods and services, at least for some time.

From the monetary policy point of view, we do not change the opinion that main interest rates will remain on hold at least until the middle of 2022, when the NBP governor's term of office ends.

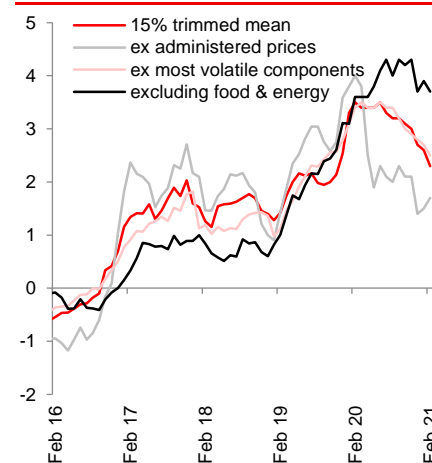
Current account at all-time high, but details disappointed

Poland's current account balance amounted to EUR3.3bn in January, setting a new all-time high. However, details proved to be somewhat disappointing, as exports fell by 3.8% y/y and imports by 5.3% y/y.

Exports recorded a negative annual growth rate for the first time since May 2020. Yesterday's GUS data on foreign trade suggested a major decline of exports to the UK in January. As Polish exports in December were exceptionally strong, we think that some pre-Brexit restocking could have been in play. End of pandemic-related VAT cut in Germany also could have been a contributor and this factor was visible in German retail sales.

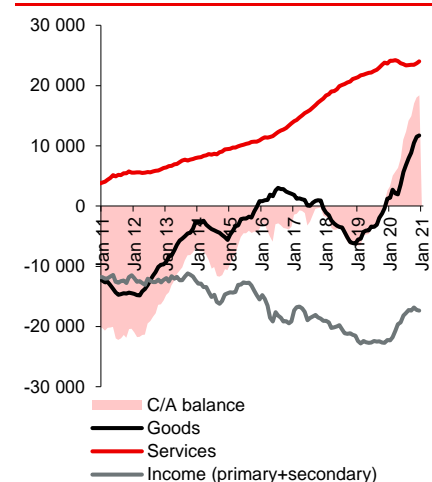
This means that the decline of Polish foreign trade in January was probably a one-off, but generally the renewed lockdowns in Europe could be negative for Polish exports in the months to come.

Core inflation measures, % y/y



Source: NBP, Santander

Current account, EURm, 12m sum



Source: NBP, Santander

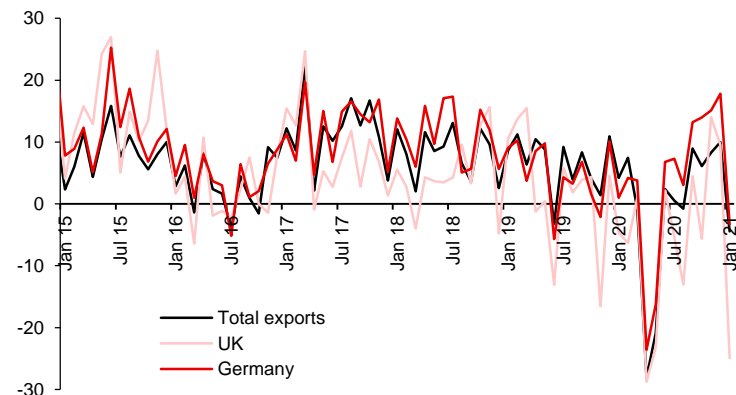
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Trade in services also took a hit, with exports shrinking by 12% y/y and imports by 18.1% y/y (compared to -4.9% y/y and -15.0% y/y in December).

12M current account amounted to 3.6% of GDP, a new all-time high. We think that this number is likely climb a bit in the upcoming months.

Export growth in EUR, %y/y



Source: GUS, Santander

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