

New Europe Economics & Strategy

www.eurobank.gr/research

Thursday, October 7, 2010

Focus Notes: Poland

Polish current account deficit widened in July

- ✓ Poland's **current account deficit widened to €1.54bn in July, nearly twice as much as the market consensus of €0.95bn**. This came out as **imports outpaced exports** and payments to foreign investors increased. What's more, the current account deficit almost doubled relative to a year earlier; it stood at €776mn in July 2009. This deterioration reflects mainly a widened trade gap on the back of slower export growth. The trade deficit reached €865mn in July, driven by lower export receipts (+16% yoy vs. 29% yoy in June), which more than offset a concomitant slowdown in imports (19% yoy vs. 28% yoy in June). Another contributing factor to the current account deterioration in July was the higher dividend payments (€753mn) by foreign subsidiaries operating in Poland. Lower FDI inflows (€154mn in July compared to average €720mn per month in H1-2010) also played a role, though this slowdown is likely to prove temporary. Note that 12-month cumulative figures for FDI inflows reach €10.7bn in July vs. €7.6bn a year earlier.
- ✓ **Polish inflation was 2.0% yoy in August**, unchanged from a month earlier and slightly less than the consensus of 2.1% yoy. On a monthly basis, inflation fell to -0.4% mom, following 0.2% mom drop in June. In EU-harmonized terms, **Polish HICP inflation fell to 1.9% in July; its lowest level since February 2007**. Inflation has been running below the lower bound of the NBP's target of 2.5% and below expectations for several months, driven mainly by lower-than anticipated food price increases.
- ✓ **Retail sales surprised on the upside** and stood at **6.6% yoy in August** from 3.9% yoy growth in July, beating consensus of 5.2% yoy. The main drive of the strong retail sales reading in August was **household goods**, up by 33.7% yoy, which appears to be consistent with private consumption growth of around 3.0% yoy in Q3-2010 (the same level as in Q2-2010).

Dr Stella Kanellopoulou, Research Economist
skanellopoulou@eurobank.gr

Research Team:

Gikas Hardouvelis, *Chief Economist and Director of Research*
 Platon Monokroussos, *Head of Financial Markets Research*
 Tassos Anastasatos, *Senior Economist*
 Ioannis Gkionis, *Research Economist*
 Stella Kanellopoulou, *Research Economist*
 Galatia Phoka, *Emerging Markets Analyst*
 Theodoros Rapanos, *Junior Economic Analyst*

Sales Team:

Fokion Karavias, *Treasurer*
 Nikos Laios, *Head of Sales*
 Yiannis Seimenis, Ioannis Manggal, *Corporate Sales*
 Stogioglou Achilleas, *Private Banking Sales*
 Petropoulos Theodore, *Institutional Sales*
 Karanastasis Kostas, *Retail Sales*

EFG Eurobank Ergasias, 8 Othonos Str, GR 105 57, Athens, Tel: (30210) 3718 906, 3718 999, Fax: (30210) 3337 190, Reuters Page: EMBA, Internet Address: <http://www.eurobank.gr>

Disclaimer: This report has been issued by EFG Eurobank – Ergasias S.A and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank – Ergasias S.A. and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgement and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect, that may occur from the use of this report.