

Poland's high €2bn current account surplus thanks to a smaller primary income deficit

Poland's high current account surplus in October was driven by a marked one-off improvement in the negative primary income balance. There are some green shoots in trade turnover figures, too



The Warsaw skyline

The key factor

Poland's balance of payments data for October surprised slightly to the positive side. The current account showed a significant surplus (€2.0bn after €0.4bn in September). It was close to our forecast and slightly above the consensus. Surpluses in merchandise trade (€1.3bn after €0.8bn in September) and services (€3.0bn, the same as the month before) offset deficits in primary (€1.9bn) and secondary income (€0.4bn). In cumulative terms from the last 12 months, we estimate that the current account balance surplus improved to 0.8% of GDP in October from 0.6% a month earlier. At the same time, the positive goods balance improved to 0.7% of GDP from 0.2% of GDP, respectively.

The key factor affecting the current account balance in October was a marked improvement in the negative primary income balance. This balance consists of income from direct, portfolio, and other

investments. We estimate that the largest improvement was in the balance of income from direct investment, which consists of reinvested profits, dividends and interest on debt instruments. Based on the pattern of previous years, October was generally a month with lower dividend payments to foreign owners. CSO data show a 7.2% YoY decline in profits on core business in the Q3 2023 YTD in medium and large non-financial companies (companies with more than 50 employees).

As for other current account items:

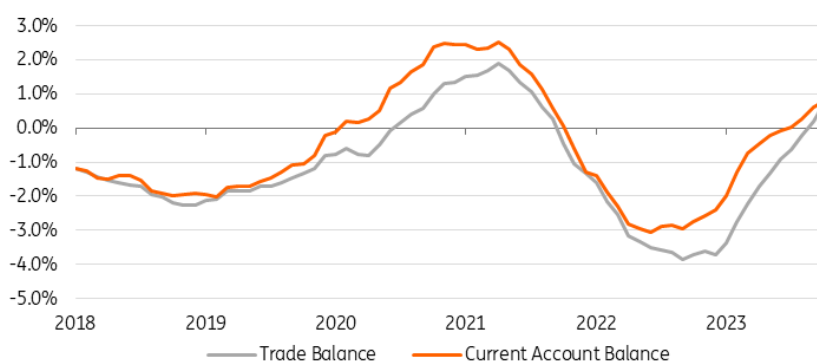
- The merchandise surplus came with a surprising improvement in the value of trade, especially exports.
- The value of euro-denominated merchandise exports rose 1.6% YoY (after falling 4.3% in September), while imports fell 8.4% YoY, following a deep 14.8% drop a month earlier.

As a net importer of energy commodities, Poland is benefiting from the extinction of last year's energy shock, primarily in the natural gas and coal markets.

Nevertheless, the relatively low trade volumes continue to reflect the stagnant eurozone economy and a (shallow) recession in Germany (on the export side), as well as resurgent domestic consumer and investment demand and the continued YoY decline in energy commodity prices (on the import side). Yesterday's disappointing industrial production data from the eurozone (down 0.7% MoM, seasonally adjusted) does not bode well for a rapid rebound in external demand. In contrast, domestic disinflation will support real wage growth and a rebound in consumer demand, which should translate into a rebound in imports.

According to the NBP's comment, in October there was a decline in the value of exports, expressed in PLN, in five of the six major commodity categories, most strongly in supply goods but also in capital goods, food and consumer products. There was an increase only in transportation equipment, led by exports of vans, road tractors, electric multiple units, and passenger cars (eastward). Exports of automotive parts declined, reflecting the weak economy in Western Europe. As for imports, they fell in categories such as fuels, supply goods and capital goods. There was a smaller decline in consumer goods and food than in previous months, while imports of transportation equipment were at similar levels to last year.

Poland's external balance, as % of GDP



FX implications and what we expect

Today's data is neutral for the zloty and confirms Poland's generally solid external balance. In

recent weeks, the zloty has been supported by positive market sentiment toward the CEE region and expectations related to the improvement of relations between the new government and the EC and the imminent unblocking of the inflow of EU funds in 2024. For 2023 as a whole, we expect a 1.1% GDP current account surplus after a 2.4% GDP deficit in 2022. In the latest [Directional Economics](#) report, we forecast that Poland's current account surplus will continue to improve gradually to 1.4% of GDP in 2024.

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

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