

Polish current account back to deficit in July as trade turnover increased

The monthly current account balance has remained highly volatile this year. July saw a significant deficit, though on a 12-month basis it stands at only 1% of GDP. The economy maintains a solid external balance, but economic growth must rely on domestic engines rather than the contribution from net exports in a challenging world



Poland's current account was negative in November on rising competition from China

Following an unexpected surplus in June (+€651 million), July reverted to a significant deficit (-€1,335m), markedly below consensus (-€352m) and our forecast (-€761m). The 12-month balance has slightly deteriorated to -1.0% of GDP in July from -0.9% in June. Meanwhile, the 12-month trade balance in goods remained at -1.5% of GDP. The positive current account surplus in June was the result of a large goods trade deficit (-€1,265m), a deficit in the primary income account (-€3,247m) and the secondary income account (-€104m), as well as a substantial surplus in the trade in services (€3,281m).

The surplus in services was lower than in June and below the level seen in July last year. The sizeable surplus services trade, largely resulting from activity in business services sectors such as

ICT, technical, consulting, or administrative services, is a bright spot in the structure of current transactions with foreigners. In 2024, Poland recorded a surplus of €40.2 billion in trade in services (4.8% of GDP).

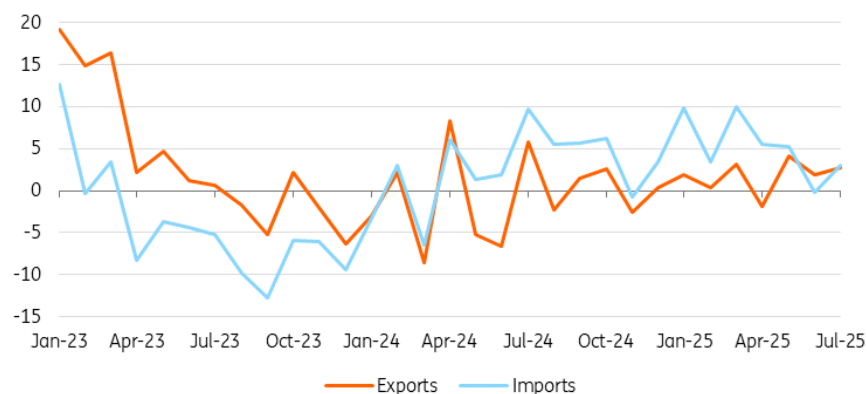
Merchandise trade flows unexpectedly rebounded in July, with the same number of working days as the previous year; it is possible that some orders were frontloaded due to upcoming US-EU trade agreements. The annual growth rate of exports in euro terms accelerated in July to 2.7% year-on-year from 1.9% in June. Meanwhile, import growth rebounded to 3.0% YoY after a decline of 0.2% in June. July's trade flows align with broader macroeconomic trends – a gradual recovery in domestic demand in Poland and weak external demand from the eurozone.

The National Bank of Poland (NBP) commentary notes a large increase in exports of clothing, footwear, and toys, which was largely re-exported, as well as agricultural products. There was also an improvement in exports from the automotive sector (passenger cars, buses, delivery vehicles, and road tractors). However, exports of consumer and intermediate goods, especially metals, continued to decline. On the imports side, there was a strong increase in goods intended for re-export and a clear rise in imports of passenger cars, mostly from China. Imports of energy commodities have continued to decline due to falling oil prices, as well as a drop in intermediate goods imports.

The July balance of payments report fits into the trend of a gradual increase in the current account deficit, in line with the ongoing domestic economic recovery and turbulence in global trade resulting from frequent changes in US tariffs. Although trade policy uncertainty decreased after agreements between the US and key partners at the end of July, the average effective tariff on goods imported from the US increased sixfold (to over 16% currently from 2.5% at the beginning of Trump's second term). Combined with the relatively strong euro against the US dollar, this may weaken US demand for EU goods, which, together with the slowdown in the eurozone, will indirectly affect Poland's business conditions. This year, we forecast a moderate widening of the current account deficit to 1.3% of GDP by year-end.

Nevertheless, the Polish economy remains externally balanced, and trade flows have only a limited impact on short-term PLN rates, which have traded within a relatively narrow range around 4.25 per euro in the recent half a year. For the FX market, decisions by major central banks and geopolitical factors are key. Domestically, decisions by the Monetary Policy Council and communications from NBP officials regarding adjustments to interest rates are of primary importance.

Exports and imports growth (YoY, in %)



Source: NBP data

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