

Strong increase in imports pushes up March current account deficit in Poland

Poland's external indicators deteriorated in March due to the effects associated with the war in Ukraine



The current account deficit reached almost €3bn in March (close to consensus of €2.8bn), following the €2.7bn deficit in February. We estimate the current account balance on a 12-month cumulative basis deteriorated from -1.7% of GDP in February to -2.2% of GDP in March. The trade deficit jumped from €1.6bn in February to €3.3bn in March. On a 12-month cumulative basis the trade deficit widened from 1% of GDP in February to 1.7% of GDP in March. The €2.1bn surplus in services compensated for deficits in primary and secondary income (€1.5bn and €0.3bn, respectively).

The deterioration in external indicators in March reflects the effects associated with the war in Ukraine, including an increase in import bills due to higher energy prices on global markets and a collapse of exports to the East. The difference between annual dynamics of merchandise imports (34.3% year-on-year) and exports (16.2% YoY) widened significantly in from 10.4 percentage points in February to 18.1ppt in March.

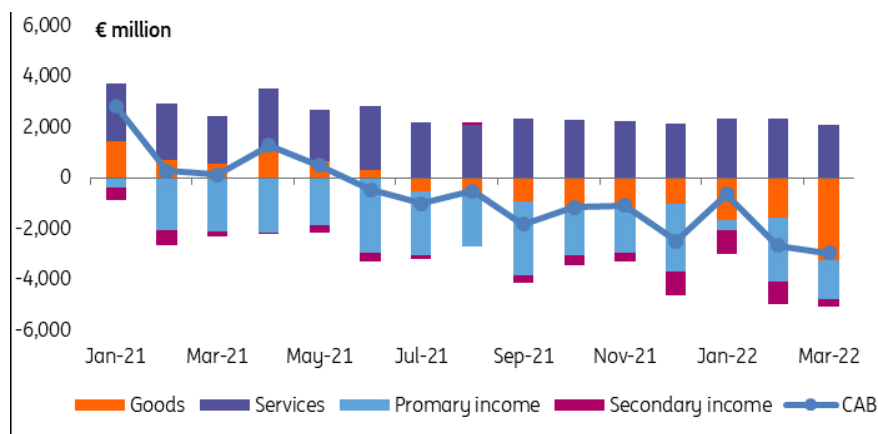
The National Bank of Poland's press releases indicates an important role of price changes as key drivers of exports and imports value, while changes in volumes remained relatively minor. Due to

the war, exports to Ukraine collapsed (some increases were recorded only in exports of fuels, food, and medical equipment), while exports to Russia and Belarus dropped because of sanctions. The shares of Russia and Belarus in Poland's exports declined to the lowest levels from at least 2000.

In addition to disruptions in foreign trade with the East, Polish companies still suffer from global supply chain disruptions, resulting from the pandemic. We wrote about it extensively in our new report Poland in Global Value Chains during the Pandemic and War (link to the Polish version: <https://ing-ekonomiczny.pl/publikacja/739803>).

Today's reading is in our view neutral for the zloty as the deterioration of external indicators results from the war and associated price effects, especially on the energy markets. The zloty exchange rate is still affected by the war in Ukraine and expectations on continued NBP interest rates hikes and uncertainty associated with unlocking the EU funds from the National Recovery Plan. Amid difficult external conditions, we expect Poland's current account deficit to deteriorate further in the coming months to above 3% of GDP levels.

Current account balance and its components



Source: ING based on NBP data.

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

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