Minor deterioration of Poland's external balance on falling trade turnover

Poland's external trade data reflected the underlying macro developments while awaiting for the disruptions in global trade due to Trump's tariffs. Exports declined due to weak external demand, especially from Germany, and a strong zloty. Imports growth slowed sharply, in line with disappointing domestic retail sales

Poland's current account balance deteriorated sharply in March on the frontloading of imports ahead of President Trump's tariffs

In February 2025, a current account deficit of €220 million was recorded, above the consensus and our forecast of a €680 million deficit. This was the result of deficits in: goods trade (€0.9 billion), primary income account (€2.4 billion), and secondary income account (€0.4 billion), along with the traditional surplus in services trade (€3.5 billion). On a twelve-month basis, the current account balance deteriorated to a minimal deficit of -0.1% of GDP in February from a minimal surplus of 0.1% of GDP after January 2025. The trade balance deteriorated accordingly to -1.1% of GDP from -1.0% of GDP.

February did not bring significant changes in the trends in goods trade from previous months, but the dynamics of exports and imports clearly declined. The value of goods exports in euros fell by 1.4% YoY (after a slight increase of 0.2% in January), and import growth slowed significantly to 2.3% YoY in February from 8.9% a month earlier. The decline in exports and the sharp slowdown in imports are consistent with disappointing February data on industrial production and retail sales.

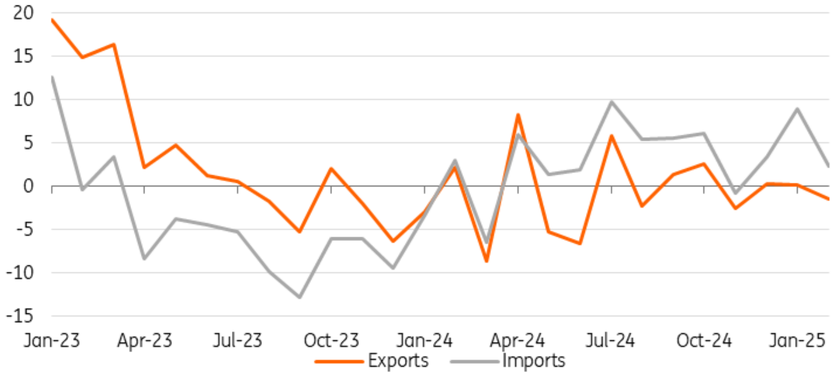
According to National Bank of Poland information, automotive industry export sales fell sharply, both in the category of vehicles and car parts, and declines were noted in the export of intermediate goods, durable goods, and investment goods. An increase in the export of agricultural products was an exception, mainly due to higher global prices. The sharp slowdown in import growth was also driven by transport equipment and intermediate goods, particularly iron and steel products. But imports of consumer goods and agricultural products increased.

Throughout 2025, we expect a gradual deepening of the current account deficit to 1.3% of GDP by the end of the year, due to the further growth in the trade deficit. We see several barriers to export growth and room for higher imports along with accelerating domestic demand and purchases of military equipment abroad. As for the largest market for Polish exports, the short-term growth prospects for the German economy are weak. This year it will feel the impact of Trump's tariffs (so far the US-EU trade war is suspended for 90 days, although 10% universal tariffs and increased sectoral tariffs on steel, aluminium, and cars are in effect). Next year, German GDP growth should be boosted by the fiscal package of the future Merz government. The prospects for Polish exports may be hampered by a strong zloty, although recent turmoil related to Trump's tariffs resulted in a correction of the zloty's overvaluation.

Since the beginning of April, global trade has been affected by a trade war, particularly between the US and China, with a three-month suspension approach to other regions, including the EU. Although Poland is less exposed to Trump's tariffs than other countries in the region, the scale of Polish goods exports' exposure to the US is about twice as high when re-exports of Polish goods to the US through other countries are taken into account, as well as the significant role of services (especially IT and technical) in Polish exports to the US.

The zloty exchange rate in recent weeks has been shaped by global factors, turmoil in many markets, and changing prospects in negotiations on a ceasefire in the Russian war in Ukraine. Today's balance of payments data has a limited impact on the PLN exchange rate, with domestic expectations regarding the NBP interest rate path after the dovish turn in the Monetary Policy Council rhetoric following the April Council meeting having greater significance for the FX market.

Growth of Poland's merchandise exports and imports, in % (values in €), YoY



Source: National Bank of Poland data

Author

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

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