

## Poland: EU sentiment, not US trade war, is biggest threat to exports

In April, the current account balance posted a small deficit and we expect further deterioration ahead. But this is due to domestic demand rather than the risk of a trade war



Source: Shutterstock

The April current account balance posted a small deficit of €21 million, implying a relatively low 12-month rolling deficit to GDP (0.15%). The trade balance in April recorded a €314 surplus (after deteriorating in the first quarter) as import growth decelerated. We expect a modest deterioration in the coming months. The current account should post a deficit of close to 0.5% of GDP by the end of 2018.

Here are three major trends, that justify our view:

### 1 Imports should remain elevated with recovering investment

Poland's growth structure relies strongly on domestic demand. Both solid private consumption and rebounding investment should generate demand for imported goods.

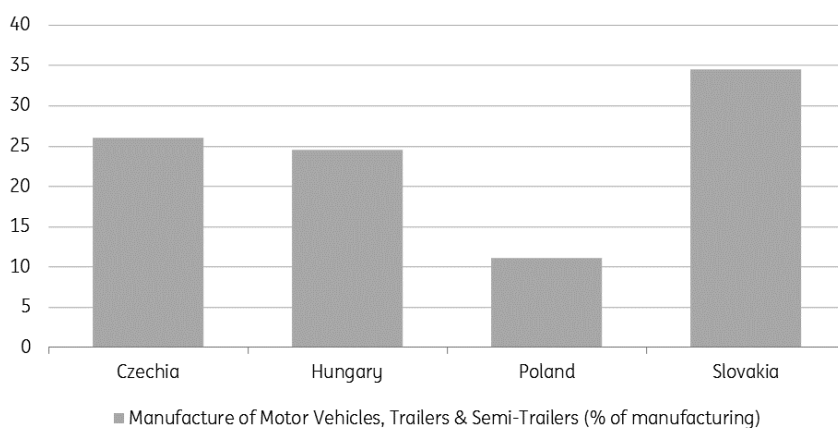
## German sentiment is a major concern for exports

The major unknown is European sentiment, especially in Germany. Polish export orders were negative in 1Q18. In April, only a moderate recovery was recorded. We estimate that a deceleration of German GDP by one percentage point (in euro, current prices) results, on average, in a 3.2-4pp drop in Polish exports to that country (and approximately 0.8-1pp of total exports volume).

### 3 Fallout from trade wars should be lower compared to other CEE states

The share of exports from Poland to the US does not exceed 5% of Polish exports. The major risk comes from the automotive sector, as Poland remains significant in the German supply chain. Still, the fallout from increased tariffs on motor vehicles should be less painful compared to other CE4 states. In 2015 (latest available full-year Eurostat comparable data) automotive sector production accounted for 11.1% of manufacturing turnover in Poland, compared to 24.5% in Hungary, 26% in the Czech Republic and 34.5% in Slovakia.

### CEE: Automotive share in total manufacturing



Source: Eurostat