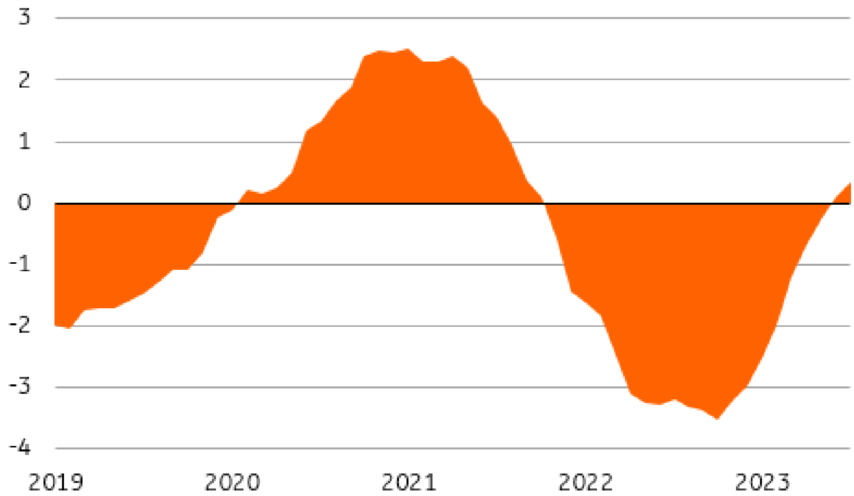
Poland's current account still in surplus

Poland's current account is in surplus amid a sharp decline in import prices. The stagnating European economy is taking its toll on exports. In 2023, the current account may hit 1.5% of GDP vs. a deficit of 3.0% of GDP in 2022. The main downside risks include high spending on imported military equipment and further increases in crude oil and natural gas prices

July's balance of payments data surprised to the downside with a significantly lower current account surplus and low trade turnover. The current account surplus in July (€0.6mn vs. €2.4mn in June) was clearly below market consensus (€1.2mn) and our forecast (€1.6mn).



Source: NBP, GUS, ING.

Current account balance in % of GDP

On a 12-month basis, we estimate that the current account balance continued to improve to +0.3% of GDP in July from +0.1% of GDP in June. At the same time, the surplus of trade in goods in July (€1.1bn compared with €1.0bn the month before) translated into a 12-month improvement to -0.6% of GDP from -1.0% of GDP in the previous month.

Regarding the current account composition, the surplus in services trade of €3.mn was clearly lower than the €4.mn seen a month earlier, although this was due to seasonal effects (in July 2022 €3.1bn). High deficits in primary income (€3.3bn) and secondary income (€0.3bn) dragged down the CA balance.

Foreign trade turnover data suggests a deepening decline in trade in goods, driven both by falling prices and lower volumes. The nominal value of goods exports was only 1.3% higher than a year earlier after a 1.7% year-on-year increase in June, reflecting the stagnation of Europe's economy and effective recession in Germany's economy in recent quarters. The eurozone accounts for around 60% of Polish exports, almost half of which goes to Germany. Imports of goods fell for the fifth consecutive month (by 8.9% YoY in July after -5.8% YoY in June). This was due to both a drop in import prices (especially energy) and weakness in domestic demand in the second quarter. Poland - as a net importer of energy - benefited from the normalisation in the European energy market, but positive trends in global energy markets (in particular crude oil and natural gas) started to reverse in August.

The National Bank of Poland's comment on the balance of payments data indicates a continuation of the decline in exports of intermediate goods and consumer goods. In addition - for the first time this year - the value of exports of food and capital goods also declined. Increases were maintained in exports of transport equipment and automotive parts (mainly vans, lithium-ion batteries, passenger cars, engines and other automotive parts). In imports, five out of six categories of goods (the exception being transport equipment) saw an annual decline. The deepest fall was in imports of fuels and intermediate goods.

July's data will be neutral for the zloty, which - after a period of several months of appreciation -

has lost around 5% in recent days in response to a surprisingly large cut in interest rates by the NBP. For the year as a whole, we expect a further improvement in the current account balance to +1.5% of GDP by the end of the year after a deficit of 3.0% of GDP in 2022. The main risk factors for the current account balance this year are military spending and further increases in crude oil and natural gas prices, which rebounded in August.

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