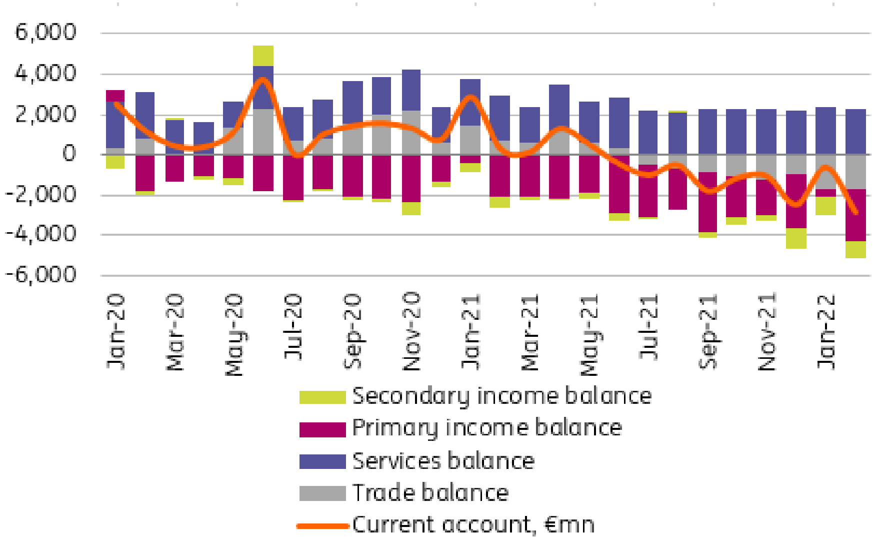
Poland's current deficit widened to nearly €3bn with further deterioration ahead

Soaring commodity prices pushed up the value of imports and led to a deterioration in Poland's trade balance and the current account. The negative balance will increase further in the coming months as the war in Ukraine hits exports markets and boosts the costs of imports. External imbalances should remain moderate and are unlikely to hurt the zloty

In February, Poland's current account balance of payments posted a deficit of €2,871m (ING: -€2,233m; consensus: -€2,095m). In February 2021 it recorded a surplus of €276m. In February this year exports of goods went up by 10.4% year-on-year, while imports increased by 21.6% YoY. We estimate that on a 12-month moving basis the current deficit increased to 1.8% of GDP from 1.2% of GDP in January. Data released today covers mostly the period before the outbreak of the war in Ukraine, which will have a profound negative impact on foreign trade turnover.

Current account deficit reached nearly €3bn in February



Source: GUS

In the note accompanying the data release the National Bank of Poland stressed the importance of price developments in terms of foreign trade. In the case of exports the strongest growth in value was observed in the case of electricity, coke, coal, fertilizers, computers and processors. As regards imports, sharp growth was reported in the value of natural gas and crude oil as well as some other commodities (steel products, aluminum).

Poland's external position is broadly balanced and the current account deterioration in recent quarters was mainly driven by price developments, ie, sharp increases in commodity prices (natural gas, crude oil) that boosted the nominal value of imports. At the same time, the economic rebound buoyed demand for imports in real terms.

The current account gap is expected to widen further in the upcoming months. The collapse of trade with the East (Ukraine, Russia, and Belarus) and softer demand from the euro area because of military conflict in Ukraine will hit Poland's exports. Production downtimes in the automotive industry will also weigh on foreign sales. In turn, imports will continue to remain high in nominal terms on the back of high commodity prices amid stiff demand for imported energy.

The current account balance is currently not particularly important for the zloty (PLN). Exchange rate moves are chiefly shaped by fiscal and monetary developments as well as geopolitics (war in Ukraine, lack of agreement between Polish government and the European Commission on the National Recovery Plan). The level of external imbalances is projected to remain moderate and unlikely to be a source of downward pressure on the PLN exchange rate.

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