

Poland

Poland's external imbalance narrowing amid slowing trading dynamics

Poland's current account deficit amounted to 3.1% of GDP in 2022 vs. 1.4% of GDP in 2021, but the scale of the external imbalance started narrowing in recent months. This turnaround should be positive for the prospects of the zloty as the current account deficit is expected to continue improving towards 2.5% of GDP this year



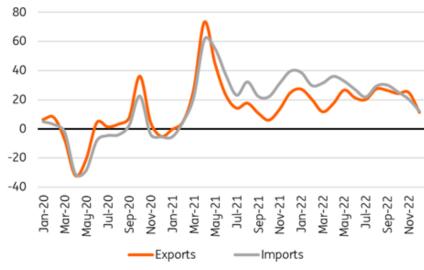
Source: Shutterstock

Substantial current account deficit in December 2022

The current account deficit amounted to ≤ 2.5 bn in December 2022, turning out to be wider than the market consensus (≤ 1.6 bn) and our forecast (≤ 1.4 bn). Revised data show that the current account recorded a surplus of ≤ 0.3 bn in November. We estimate that on a 12-month basis the deficit narrowed to around 3.1% of GDP from 3.4% of GDP after November, but was more than double the 2021 deficit of 1.4% of GDP. The main factor behind the headline figure in December was the sizable gap in the trade in goods. The value of imports exceeded the value of exports by ≤ 2.7 bn (a year earlier it was ≤ 2.3 bn). This was accompanied by a traditional surplus in the services account and a seasonal deterioration in the primary income balance. In contrast, the deficit on the secondary income account was narrow (merely €93m).

Trade turnover growth slowing down

December brought a further slowdown in trade growth, which was associated with, among other things, (1) slower growth in transaction prices amid a decline in the prices of commodities, (2) fewer working days than in December 2021, and (3) a smaller scale of PLN weakening against foreign currencies on an annual basis. Exports expressed in euro increased by 11.5% year-on-year while imports advanced by 12.1% YoY. Imports again grew faster than exports and the trade values were mainly influenced by price changes.



Foreign trade in goods (% YoY)

Source: NBP, ING

Smoother global supply chains functioning and softer pressure from import prices

Improvements in the functioning of global supply chains allow some industries to reduce their work backlog. It is particularly visible in automotive. As in previous months, high growth in export sales was observed in the case of automotive parts (including lithium-ion batteries) as well as passenger cars. In addition, the course of the energy crisis in Europe is less acute than previously feared, translating into a slower than previously anticipated deterioration in the main export markets. On the imports side, changes in fuel prices continue to play the key role in driving value swings. According to the National Bank of Poland, fuel prices accounted for more than 70% of the increase in the value of total imports in December.

External imbalance is narrowing

The reversal of the trend in the current account deficit in relation to GDP observed in recent months is a positive factor for the prospects of the zloty. On the 12-month base the current account narrowed from 3.5% in mid-2022, to 3.1% at the end of the year. In the coming months, we expect the solid exports to be accompanied by a relative weakening of imports, which in Poland is more sensitive to changes in the economic climate. Along with less unfavourable terms of trade,

this should translate into a further improvement of the current account deficit to around 2.5% by the end of 2023. The main risks towards a larger external imbalance are linked to military spending and possible renewed upward pressure on prices of imported raw materials.

Author

Adam Antoniak Senior Economist, Poland adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (**"ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.