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

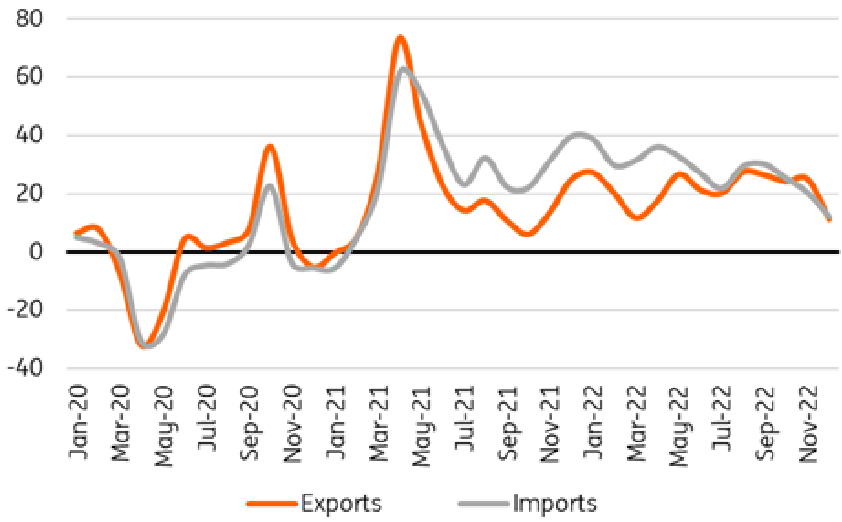
Substantial current account deficit in December 2022

The current account deficit amounted to €2.5bn in December 2022, turning out to be wider than the market consensus (€1.6bn) and our forecast (€1.4bn). Revised data show that the current account recorded a surplus of €0.3bn 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 €2.7bn (a year earlier it was €2.3bn). 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.

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