Snap | 13 November 2024

Poland

Why Poland's external position is beginning to deteriorate

Poland's current account deficit reached nearly €1.5bn in September, broadly in line with consensus. On a 12-month basis, the surplus narrowed to 0.4% of GDP from 0.8% in August. Merchandise trade posted a deficit for the fifth month straight, as exports struggle with weak European demand and imports recover on the back of domestic consumer spending



Krakow, Poland

In September, Poland's current account closed with a deficit of €1434m after a deficit of €2731m in August, and was close to consensus (-€1500m). According to our estimates, on a 12-month basis, the current account surplus narrowed to 0.4% of GDP after September from 0.8% of GDP after August. September was the fifth consecutive month with a trade deficit (€690m), although this was clearly lower than the €2244m seen in August, with exports up 0.5% year-on-year and imports rebounding by 5.1% YoY.

As for the components of the current account, apart from the trade deficit, the other categories were very similar in September to the values registered in August. We saw a traditionally high surplus in services (€3028m), a large deficit in the income balance (€-3235m) and a significant

deficit in secondary income (€-537m).

In the trade balance, exports are suffering from weak external demand from the euro area – in particular, Germany's GDP growth, which is oscillating around 0%. Import spending is driven by domestic demand (particularly consumption) and is probably still related to military spending. On a 12-month basis, we estimate that the trade balance deteriorated to -0.4% of GDP in September after -0.3% of GDP after August.

Neither hard data from Germany (GDP or industrial production) nor soft confidence indicators (PMI or yesterday's ZEW investor sentiment index) bode well for a rapid improvement in Poland's external environment. A slight rebound was perhaps indicated by stronger German orders and Polish PMI recently. Possible decisions by the incoming US administration on tariffs on China and Europe are also an important risk – although the experience of 2018-19 shows that the mere uncertainty surrounding tariffs has a stronger chilling effect on economic activity in Europe than the final decision to impose tariffs. The situation in Germany will be further complicated, at least for the next six months, by the break-up of the government coalition and the likely Bundestag elections in February 2025.

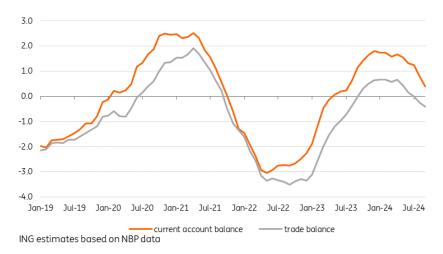
The National Bank of Poland's press release, which refers to trade turnover expressed in PLN (-6.5% YoY decline in exports), shows that declines in exports were recorded in all six categories of goods. The deepest declines were seen in capital goods, means of transport and intermediate goods. Export declines were dominated by the automotive sector, with sales of electric batteries and passenger cars weakening considerably. As for imports, which decreased by 2.1% YoY in PLN terms, a downward trend was recorded in the supply of goods and capital products. On the other hand, imports of consumer goods increased – in particular, imports of durables and new and used passenger cars. These trends have been evident for many months.

The continuation of the deterioration in the trade balance is moderately negative for the zloty, with the current account balance still in a slight surplus in 12-month terms and the trade balance already recording a small deficit. On the other hand, the zloty is positively influenced by the expected increase in the interest rate disparity between Poland and the euro area as the European Central Bank continues its cycle of rate cuts and the NBP has no room to cut rates until the second quarter of 2025.

An additional supportive factor for the zloty exchange rate is the expected GDP outperformance in Poland vs the rest of EU, as well as the prospect of a significant inflow of EU funds under the National Recovery Plan and the traditional 2021-27 cohesion policy budget. In December, the government expects the next payment from the Recovery and Resilience Facility of over €9bn. However, the absorption of RRF funds by final beneficiaries is still relatively slow.

3

Poland's current account and trade balances, % of GDP



Author

Leszek Kasek

Senior Economist, Poland leszek.kasek@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@inq.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.

Snap | 13 November 2024