Rising imports and weak demand for Polish exports erodes current account surplus

Import performance outpaced exports in August, leading to a continued deterioration in the trade balance. As a result, the current account surplus is gradually narrowing. The PLN should be supported by the increasing interest rate disparity compared to core markets, as the Polish central bank keeps rates on hold, while the ECB and the Fed cut

The Polish current account recorded a deficit of €2,827million in August compared with a revised €1,116m in July. The deficit comprised of negative gaps in primary income (€3060m) and secondary income (€519m) as well as a surplus in trade in services (€2996m) and a deficit in trade in goods (€2244m). The monthly deficit in trade in goods hit a two-year high in August. Exports in euros fell by 3.3% year-on-year, while imports rose by 4.9%YoY, as domestic demand overperformed external demand.

The National Bank of Poland (NBP) reported that the increase in exports was limited to fuels, while all other export categories saw declines, with the steepest drops in investment, intermediate, and consumer goods. There was a significant decrease in passenger car exports, which continue to be affected by the struggling German car industry. On the import side, the strongest growth was in consumer goods, including durable goods, indicating a continued recovery in domestic consumption. However, we expect the annual growth in the third quarter of 2024 to be slightly lower than in the previous two quarters. The NBP also noted a visible slowdown in passenger car imports in recent months.

Apart from a sizable gap in trade in goods, the deficit in secondary income was also notable as the government sector posted a PLN1.5bn deficit in this area. In August, the inflow of EU funds reported in the current account amounted to PLN0.9bn, while Poland's contribution to the EU budget totalled PLN2.6bn.

The main headwind to Polish exports is the weakness in export demand. The eurozone economy, which accounts for about 75% of Polish exports of goods, is close to stagnant (GDP growth was estimated at around 0.1% quarter-on-quarter between July and September). The economy of Poland's main export partner, Germany, which accounts for some 27% of total exports, most likely shrank in the third quarter. European manufacturing in particular remains weak and the German automotive industry is in the doldrums.

Looking back on the last 12 months, we can see there has been a gradual deterioration in Poland's external position. The 12-month rolling current account surplus moderated to about 0.8% of GDP after August vs. 1.2% of GDP after July and has narrowed in the last four months. Foreign trade in goods over the last 12 months shifted from a surplus after July to a deficit after August.

Recently, there has been a deterioration in the foreign trade balance, which may potentially be negative for the PLN exchange rate, but the current account balance surplus for the last 12 months is still notable. Imports are more robust than exports which leads to a widening trade gap. Still, the potential negative impact of rising foreign trade imbalance on the PLN should be compensated by the expected increase in the interest rate disparity in favour of Poland, as the NBP is expected to keep policy rates unchanged in the coming months, while the Fed and the ECB are projected to continue monetary easing.

At the same time, Poland will be a beneficiary of sizable EU money inflows from the Recovery and Resilience Fund as well as the new EU budget for 2021-27.

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