Poland’s current account surplus was surprisingly high in February

Another surprisingly high current account surplus in February (€2.6bn after €2.1bn in January). The year-on-year decline in imports reflects a slump in consumer demand (evident in retail sales data) and lower inventory accumulation, thanks in part to the normalisation of global supply chains

In February, Poland's current account balance amounted to €2.6 billion, which was clearly above consensus (€0.3bn) and our forecast (€0.6bn). In addition, the surplus for January was revised up by €0.7bn (from €1.4bn to €2.1bn). February's merchandise trade balance stood at €2.2bn compared to €1.6bn in January. Poland also recorded a surplus in services trade (€3.4bn) and deficits in primary income (€2.2bn) and secondary income (€0.8bn). On a 12-month basis, we estimate that the current account deficit narrowed to around 2.5% of GDP (2.9% of GDP in January), while the goods deficit fell to 3.3% of GDP (3.6% of GDP in January).

February brought a further decline in trade turnover: the value of exports expressed in euro rose by 10.0% year-on-year and imports fell by 5.4% YoY. This was largely related to a gradual reduction in transaction prices (in 2022, the average annual price increase in exports was 20.4% YoY and in imports 25.2%), which was due, among other things, to declines in commodity prices.

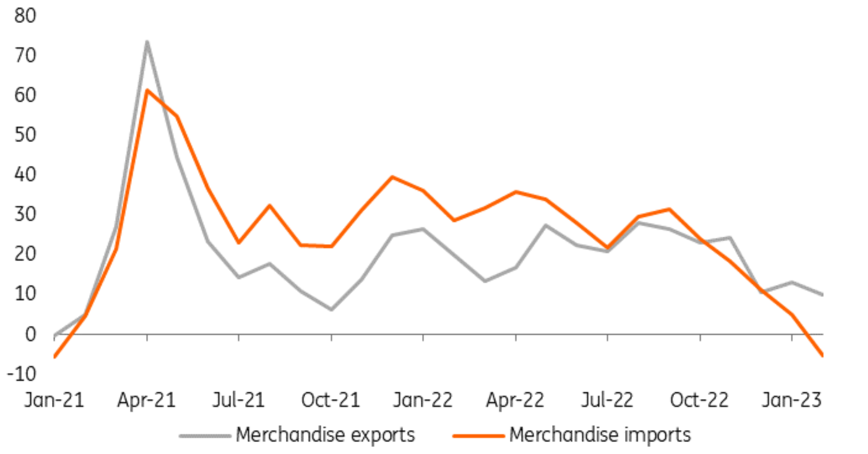
A decrease in imports YoY was recorded for the first time since January 2021. In our view, this reflects both weak consumer demand (evident in retail sales data) and lower inventory accumulation. In our forthcoming research on supply chains, Polish companies indicate that they are slowly returning to their old inventory management practices, in line with just-in-time principles, although they maintain - appropriate in a given sector - elevated stock levels for reasons of business security (just in case).

Foreign trade performance is currently largely determined by demand factors. However, a return to the normal (pre-pandemic) functioning of global supply chains is playing a role. It is also noteworthy that sea freight rates from China to Europe or the US are at the same level as before the Covid-19 pandemic.

According to the National Bank of Poland's communiqué, on the export side, sales in the automotive sector (car parts, lithium-ion batteries and cars) and food increased strongly, while supply goods and fuel declined. On the import side, compared to previous months, there was a much smaller increase in food imports and deeper declines in input goods (iron and steel and plastic intermediates), and consumer goods. In contrast, an increase in the value of imports was recorded in categories such as fuel, transport equipment and car parts, linked to the continued high growth of exports in the automobile sector.

The improvement in the current account balance in relation to GDP observed in recent months is a positive factor for the zloty. We expect that in the coming months, the relatively solid export performance will be accompanied by low imports, which in Poland is characterised by greater sensitivity to changes in the economic situation. This should translate into a further decline in the current account deficit to around 2% of GDP by the end of 2023. The main risks towards a larger external imbalance are military spending and possible renewed increases in commodity prices due, among other things, to OPEC+ crude oil supply constraints or increased demand from the accelerating growth of the Chinese economy.

Exports and imports growth, YoY, in percent



Source: NBP data.

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