Sizeable surplus in Poland's current account but domestic demand is weak

Poland recorded a sizeable surplus in its external current account in March, though it was lower than expected. It was driven by both faster year-on-year growth of exports, led by the automobile industry, and a drop in imports in YoY terms, for the first time since January 2021, indicating weak domestic demand

Poland's positive current account balance in March reached €1.6bn, but was clearly below consensus (€2.4bn) and above our forecast (€0.9bn), after a €1.4bn surplus in February. The merchandise trade surplus was at a disappointingly low €0.6bn in March, down from €1.1bn in February. Traditionally, Poland has recorded a solid surplus in services trade (€3.1bn) and a deficit in primary income (€2.5bn). A surplus in secondary trade (€0.4bn) was surprising after 11 consecutive months of deficits (averaging -€0.3bn per month) in this category.

On a 12-month rolling basis, we estimate that the current account deficit narrowed to around 1.2% of GDP only in March (down from 2.0% of GDP in February, a year ago the current account balance recorded a huge deficit of almost €4bn in March), while the merchandise trade deficit fell to 2.1% of GDP from 2.9% of GDP accordingly.

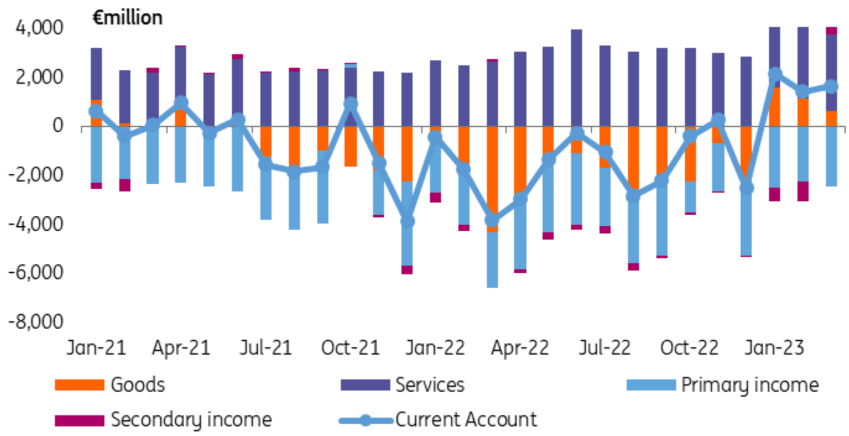
The growth rate of exports, expressed in euro, rebounded markedly in March, to 15.5% YoY from 13.5% in February, while the value of imports fell by 3.0% YoY, following an increase of 2.3% in February. The YoY decline in the value of imports was recorded for the first time since January 2021. This was partly related to a further decline in the dynamics of transaction prices, among other things, in commodity prices. Weak imports reflect both weak consumer demand (visible in retail sales data) and lower inventory accumulation.

The return to a normal functioning of global supply chains is not sufficient to rebuild trade volumes, as these have been impacted by weak demand and heightened uncertainty in core markets in recent months. The global economy has been dealing with the consequences of a number of negative shocks in recent years. In this context, our latest ING Monthly refers to the polycrisis.

According to the National Bank of Poland release, on the export side, the value of sales of transport equipment, including vans, automotive parts, passenger cars, road tractors and lithium-ion batteries, increased strongly. In other categories, export growth was weaker than in previous months, consistent with the weak industrial production in the eurozone, particularly Germany – Poland's main trade partner. In imports, there were declines in 4 of the 6 main categories of imported goods in March, the deepest in imports of fuels and supply goods. In contrast, imports of transport equipment increased, mainly parts for the automotive industry, which recorded solid growth in exports.

The improvement in the current account balance in relation to GDP observed in recent months is in our view a positive factor for the zloty. In the coming months, we expect the solid export performance to be accompanied by low import dynamics, which in Poland is characterised by greater sensitivity to changes in the economic situation. This should translate into a further improvement in the current account balance and a positive contribution of foreign trade to GDP growth. Maintaining current trends could lead to a current account balance at the end of the year. The main risk factors towards the deficit are military spending and possible renewed increases in global commodity prices, although the rebound in the services sector rather than industry in China reduces such risks.

Poland's current account balance and its components (in € million)



Source: NBP data

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