

Economic Comment

How did the war affect Polish exports?

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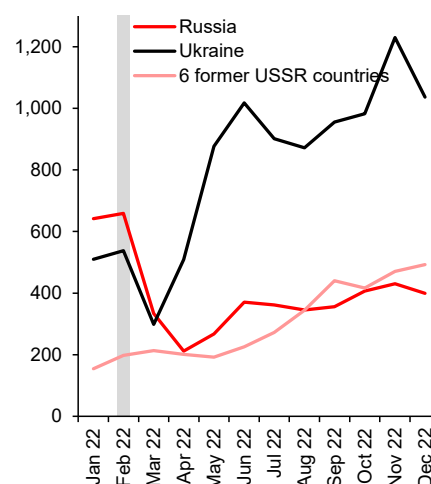
The Russian aggression against Ukraine triggered significant changes in many aspects of the economic system. In particular, it has affected the Polish exports. Sales of domestic goods to Russia has halved, and almost doubled to Ukraine. At the same time, Poland began to sell more products to former USSR countries and we do not rule out that at least a part of these products is then re-exported to the Russian market. On the other hand, Poland is re-exporting some Ukrainian goods, especially cereals and vegetable oils and fats.

Export to Russia has halved

In 4Q2022, the Polish economy exported 44% fewer goods to Russia than in 4Q2021. In nominal terms, this is a decrease of almost €1bn. This is not surprising - after the Russian aggression against Ukraine, sanctions were imposed on many export products, the Russian economy slid into recession, reducing the demand for foreign goods, and many Polish companies have withdrawn from the Russian market.

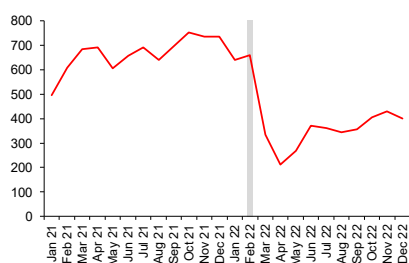
A strong downward trend was already evident in March, but a slight increase has been visible since May. Declines were recorded in all major categories except food and oils and fats (in the SITC classification), which rebounded after initial declines. The strongest downward trends, in terms of impact on total export volume, were seen in exports of machinery and transport equipment (especially computers, electrical appliances, cars), industrial goods classified by material (rubber, paper and metal products), miscellaneous industrial goods (clothing, furniture) and chemicals (paints). The latter category, however, registered a stronger rebound than the others in the second half of the year. Overall, exports in these four categories declined by €1bn y/y in 4Q2022.

Polish export do several countries, €mn

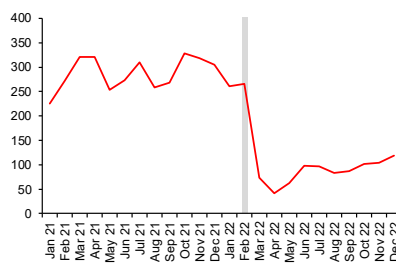


Source: Eurostat, Santander

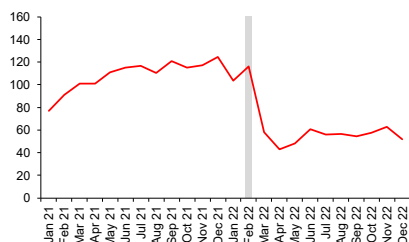
Export to Russia - total, €mn



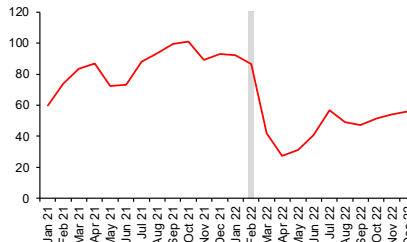
Machinery and transport, €mn



Manufactured goods classified by material, €mn



Miscellaneous manufactured goods, €mn



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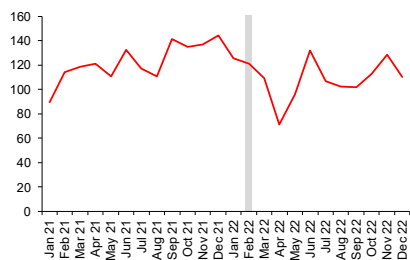
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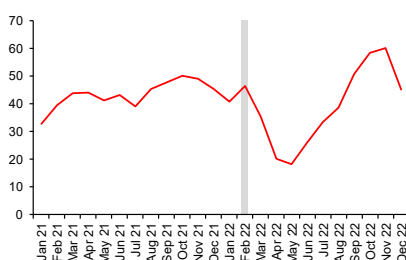
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Chemical products, €mn



Food, €mn



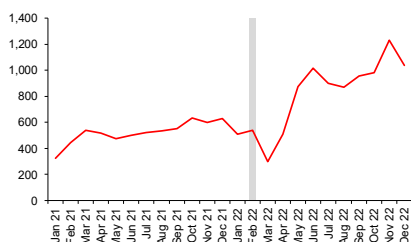
Source: Eurostat, Santander

Export to Ukraine almost doubled

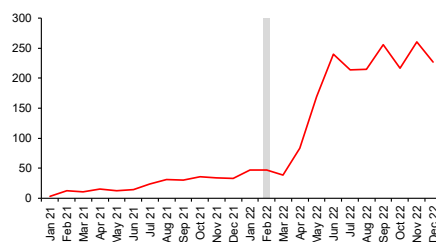
Exports of goods to Ukraine increased by 74.6% y/y (€1.4bn) in 4Q2022, and the total volume was more than 2.5 times that of sales to Russia in this period. Ukraine became the seventh largest recipient of Polish exports, while in 2021 it oscillated around fifteenth position.

The strongest increases were registered in sales of fuels and lubricants, miscellaneous industrial goods and machinery and transport equipment. After February 2022, Polish exports to our eastern neighbour declined slightly, but then started to rebound strongly. It must be admitted that such a strong increase in exports to a country experiencing a deep economic slump is unusual. In our opinion, it is due to two factors - the serious problems of Ukrainian manufacturing in the face of the war and hence the need to replace domestic production, sales of arms and munitions, the severance of Ukraine-Russia trade links (e.g. fuel delivery).

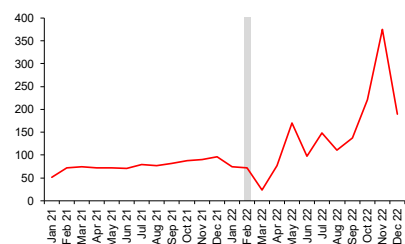
Export to Ukraine - total, €mn



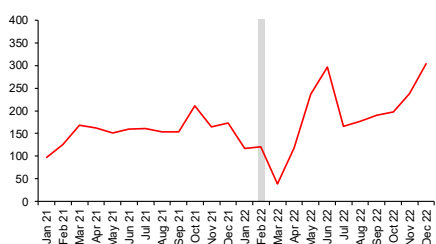
Fuels, lubricants, €mn



Miscellaneous manufactured goods, €mn



Machinery and transport, €mn



Source: Eurostat, Santander

Rising export to former USSR countries... Re-export to Russia?

However, the decline in exports to Russia and the increase to Ukraine are not the only interesting developments in domestic exports. We also analysed volumes of Polish exports to other countries (outside the EU) in 4Q2022 compared to 4Q2021. We discarded changes worth less than €30m y/y nominally (i.e. we are looking at the 10% largest changes) and sorted them by annual growth rates.

It turns out that out of the 10 fastest-growing markets for Polish products, as many as six are former USSR countries: Kyrgyzstan, Armenia, Kazakhstan, Uzbekistan, Georgia and Belarus (see table on the right-hand side). The growth rates of Polish exports to these destinations are simply staggering: exports to Kyrgyzstan have increased almost 12-fold, to Armenia more than 8-fold and to Kazakhstan 2.5-fold.

In 4Q2022, domestic exports to these six countries were almost €660mn higher than a year earlier (up 90% y/y). The second interesting thing: more than 90% of this growth was generated in the very categories that saw the strongest decline in exports to Russia (€613mn).

Non-EU countries recording the fastest growth of imports from Poland in 4Q22 (change by at least €30mn)

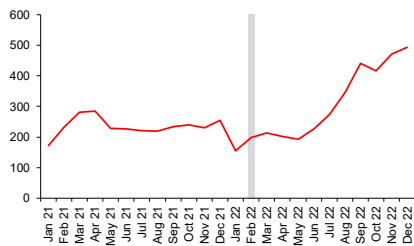
	Change in 4Q22	
	% y/y	€mn
Kyrgyzstan	1088.1	58.7
Angola	937.8	42.0
Armenia	716.7	79.3
Kazakhstan	143.2	198.1
Panama	176.1	42.5
Uzbekistan	82.1	46.2
Taiwan	79.1	30.3
Ukraine	74.6	1387.8
Georgia	73.2	33.3
Saudi Arabia	54.1	81.5
Belarus	51.7	241.2
UAE	39.8	70.2
South Korea	38.4	73.7
Brazil	35.5	44.9
Turkey	30.4	238.1
USA	30.0	634.8
Israel	29.7	69.9
Serbia	26.4	68.3
Switzerland	24.9	208.5
India	16.2	53.7

Source: Eurostat, Santander

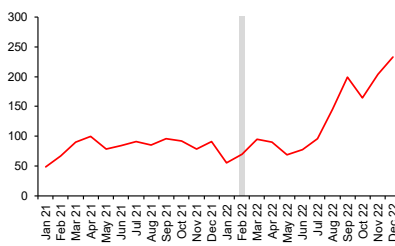
It therefore appears that Polish companies have redirected some of their sales, which originally were intended to go Russia, to surrounding countries. For example: in 4Q22 car exports to Russia fell by €144mn, but rose by €240mn to the six former-USSR countries; paint exports to Russia fell by €47mn, rose by €39mn to the six; rubber product exports to Russia fell by €33mn, they rose by €33mn to the six; paper product exports to Russia fell by €32mn, but rose by €28mn to the six. However, such substitution was not achieved in all categories, it was almost non-existent in case of computers, electrical machinery or metal products. Exports to these six former USSR countries covered more than half of the decline in exports to Russia.

What could be the reason for this? It cannot be ruled out that Polish entrepreneurs who lost sales in Russia were simply looking for similar markets. But on the other hand, we suspect that these products may be then re-exported to Russia, so the declines in direct Poland-Russia trade are to some extent illusory. Our analysis of data prepared by statistical offices in these six former USSR countries indeed shows rising exports in the categories highlighted above, supporting our re-export hypothesis.

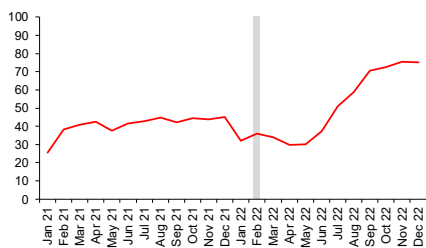
Export to 6 ex-USSR countries - total, €mn



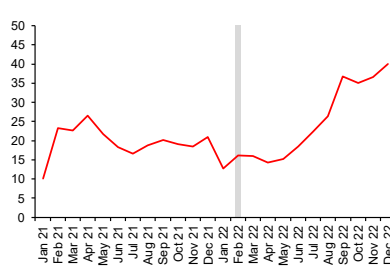
Machinery and transport, €mn



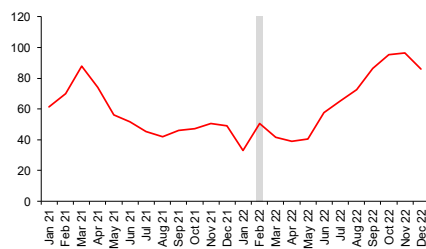
Manufactured goods classified by material, €mn



Miscellaneous manufactured goods, €mn



Chemical products, €mn

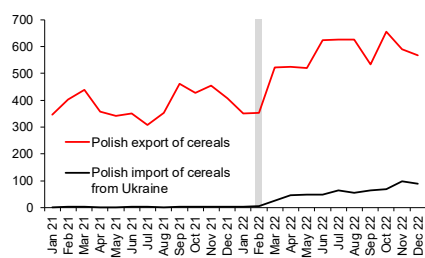


Source: Eurostat, Santander

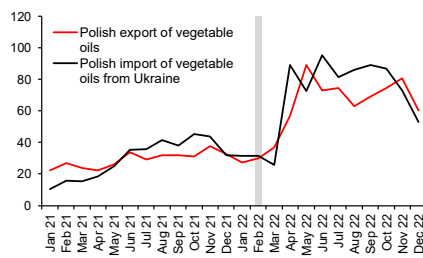
Re-export of Ukrainian goods

As a result of the war, the Ukrainian economy has lost the ability to expand into foreign markets. However, a clear increase in Poland's imports from Ukraine is evident for three types of commodities: cereals and cereal preparations (4Q2022, €248mn y/y, +2461%) oilseeds and oleaginous fruits (€183mn y/y, 947% y/y), vegetable oils and fats (€92mn y/y, 76% y/y). Polish exports of cereals (especially wheat) and vegetable oils and fats began to accelerated markedly in March 2022, and we think this may have been partially caused by re-export of Ukrainian products. However, note that – especially at the beginning of the war – ports in Ukraine were blocked, undermining the country's ability to ship overseas, so Polish exporters could have captured a larger share of markets from Ukrainian counterparts that were not able to make deliveries.

Domestic export of cereals vs import of cereals from Ukraine, €mn



Domestic export of vegetable oils vs import of vegetable oils from Ukraine, €mn



Source: GUS, Eurostat, Santander

Domestic cereal exports in 4Q22 grew by most to: Germany (€200mn y/y, 50% y/y), Israel (€62mn y/y, 840% y/y), France (€42mn y/y, 112% y/y), Angola (€35mn y/y, 422080% y/y), Nigeria (€32m y/y, 13734% y/y). Exports of vegetable oils rose by most to Spain (€29mn y/y, 17814% y/y) and the Netherlands (€24mn y/y, 399% y/y). The very high growth rates show that these are new markets for Polish cereal exporters, which makes the re-export hypothesis plausible.

Other countries – a mixed bag

As for the rest of the countries on our list of fastest growing markets for Poland outside the EU, it is more difficult to find a common denominator for them.

For a few countries, food is the main driver of growth, particularly cereals (Angola, United Arab Emirates, Israel). As we wrote in the previous section, this was probably partially re-exports from Ukraine or substitution of Ukrainian products by Polish products.

In most other countries machinery and transport equipment lead the way, especially engines and heaters (Switzerland, Brazil, USA), electrical appliances (Taiwan, Turkey, USA), industrial machinery (South Korea, USA), ships (Panama).

In the case of Saudi Arabia the leading product is tobacco, in the case of India iron ore, in the case of Serbia rubber and paper products.

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