

Towards the interest rate cut in September

TOP MACRO THEME(S):

- **Single-digit inflation - not yet, not yet (p.2)** - CPI inflation in August remained double-digit - it declined to 10.1% y/y from 10.8% y/y in July. Our estimates suggest a noticeable fall in core inflation and weakening of its momentum, which may convince the MPC to start rate cuts in September.

WHAT ELSE CAUGHT OUR EYE:

- **GDP growth rate in 2q23 dropped to -0.6% y/y from -0.3% y/y in 1q23.** The number is slightly worse than the flash estimate (-0.5% y/y). The revision of seasonally adjusted data was more visible, of the order of 1.5pp for q/q change. However, even after the change, the seasonally adjusted series does not look intuitive - GDP in 2q23 fell by as much as 2.2% after a robust growth of 1.6% in 1q23. Anyway, the data suggest that activity in the Polish economy has been in a slight downward trend since mid-2022. The broad picture of the economy in 2q23 was similar to that observed in 1q23, and the detailed components of GDP did not differ significantly from our forecast. However, it is noteworthy that **investments surprised positively, rising by 7.9% y/y**, after an increase of 5.5% y/y in 1q23. The strong result is a consequence of high investment activity of companies (accelerated energy transition and unblocked supply chains amid good financial results) and the public sector. Real private consumption drop deepened to -2.7% y/y in 2q23 from -2.0% y/y in 1q23, as high inflation was still hampering real incomes. Similarly to the previous quarter, inventories had a large negative contribution to GDP growth (-3.8pp), but the same as in 1q23 it was offset by positive contribution from net exports (+3.1pp). **In our opinion, 2q23 marked a low in activity in the Polish economy. The following quarters should already show positive GDP growth. Our full-year GDP growth forecast of +0.7% remains unchanged.**
- **Manufacturing PMI declined to 43.1 in August from 43.5 in July**, more than expected as production, new orders and purchasing activity all declined. Downward pressures on prices were only slightly lower than during record July 2023. Lead time quickened to greatest extent since June 2009.

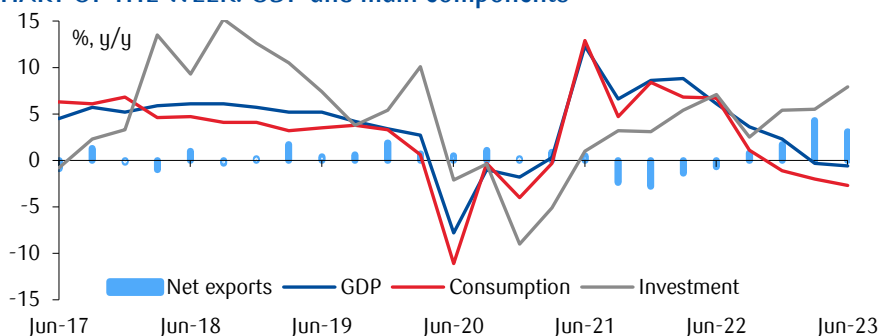
THE WEEK AHEAD:

- **MPC meeting will likely mark the beginning of interest rate cuts.** It is too close to call, but we bet on a 25pbs rate cut on Wednesday.

NUMBER OF THE WEEK:

- **11.2%** - y/y increase of nominal GDP in 2q23, the least in 2 years. The ongoing disinflation is affecting nominal economic volumes.

CHART OF THE WEEK: GDP and main components



Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
+48 693 333 127

Macro Research Team

[@PKO_Research](https://twitter.com/PKO_Research)

Marta Petka-Zagajewska
Senior Economist
marta.petka-zagajewska@pkobp.pl
tel. +48 691 335 426

Urszula Krynska
Economist
urszula.krynska@pkobp.pl

Kamil Pastor
Economist
kamil.pastor@pkobp.pl

Agnieszka Pierzak
Economist
agnieszka.pierzak@pkobp.pl

Anna Wojtyniak
Economist
anna.wojtyniak@pkobp.pl

	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.9
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.0
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	7.2
C/A balance (% GDP)	-3.0	1.0
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.2
NBP reference rate## (%)	6.75	6.00
EURPLN###	4.69	4.46

Source: GUS, NBP, MinFin, ‡PKO BP Market Strategy team forecasts; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end.

Single-digit inflation - not yet, not yet

- **CPI inflation in August remained double-digit – it declined to 10.1% y/y from 10.8% y/y in July. On average prices remained unchanged in monthly terms after a minor fall in July. Our estimates suggest a noticeable fall in core inflation, which together with its more moderate momentum may convince the MPC to start rate cuts in September.**

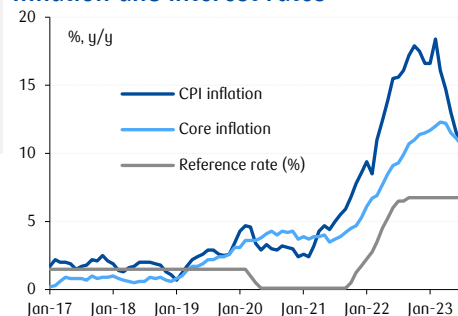
According to flash estimate, CPI inflation in August declined to 10.1% y/y from 10.8% y/y in July. Just as in previous months, the main driver of disinflation was food prices, which declined by 1.0% m/m, more profoundly than the seasonal pattern would imply. Consequently, its annual growth decreased to 12.7% y/y from 15.6% y/y in July and against this year's peak of 24.0% y/y in spring. Developments in the global agricultural commodities market suggest that food disinflation should continue, driving domestic CPI food prices growth down to around 7-8% y/y by the end of this year.

Prices of energy stabilized for a second consecutive month, confirming that the strongest disinflationary impulse (in particular regarding solid fuels) is over. Disinflation was hindered by growing fuel prices, whose monthly growth accelerated to 1.9% m/m from 0.4% m/m in July, in line with growing crude oil prices in the global market. Fuel prices are still lower than a year ago, however, their fall decelerated to -6.1% y/y from -18.0% y/y in June.

Our estimates imply that core inflation (excluding food and energy prices) decreased for a fifth consecutive month, to around 9.9-10.0% y/y against 10.6% y/y in July. The scale of core disinflation was similar to that of the overall CPI. Monthly price growth in core categories stood at approx. 0.3%, while its momentum stabilized at around 0.4-0.5% m/m sa – still higher than price growth corresponding to the NBP inflation target (0.2-0.3% m/m sa), but much lower than over 1.0% at the beginning of 2023. It could be expected that labour market cool-down, including decelerating wage growth, should support further disinflation in core categories.

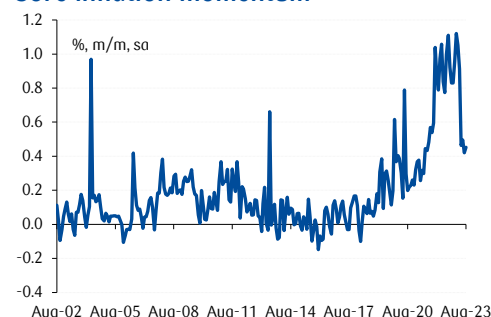
In our opinion the Polish MPC may deliver the first rate cut as early as in September, despite the fact that we still have to wait for a single-digit inflation reading, which was mentioned by the NBP governor as one of conditions for a rate cut. Nevertheless, we see a clear decline of core inflation and continuation of the broad disinflationary trend, which in our view may urge the MPC to cut rates without further delay. Especially that the September CPI reading markedly below 10% seems to be very likely for now and economic activity indicators have been disappointing lately (see PMI manufacturing for August described on the front page). There is, however, some uncertainty regarding the final outcome of September meeting, as MPC's H.Wnorowski said yesterday that it is too early to say whether a cut will happen in September or October. Anyway, we still see three interest rate cuts (25bps each) by the end of 2023, driving the NBP reference rate to 6.0%. Further interest rate cuts could be expected in the first months of 2024, with stabilization at 5% in the rest of the next year, as the pace of disinflation slows down.

Inflation and interest rates



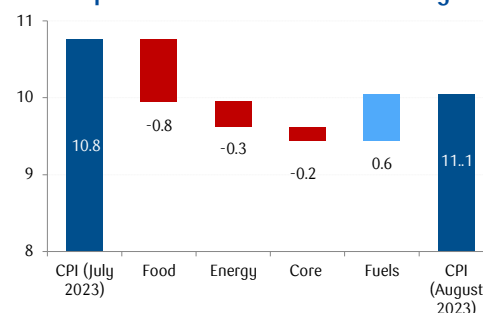
Source: Statistics Poland, PKO Bank Polski.

Core inflation momentum



Source: Statistics Poland, PKO Bank Polski

Decomposition of CPI inflation change



Source: Statistics Poland, PKO Bank Polski

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 4 September						
GER: Exports (Jul)	7:00	% m/m	0.1	-1.5	--	--
GER: Imports (Jul)	7:00	% m/m	-3.4	--	--	--
EUR: Sentix Index (Sep)	9:30	pts.	-18.9	-19.7	--	--
Tuesday, 5 September						
GER: Services PMI (Aug, final)	8:55	pts.	52.3	47.3	--	--
EUR: Services PMI (Aug, final)	9:00	pts.	50.9	48.3	--	--
EUR: PPI inflation (Jul)	10:00	% y/y	-3.4	--	--	--
USA: Factory orders (Jul)	15:00	% m/m	2.3	-2.5	--	--
USA: Durable goods orders (Jul, final)	15:00	% m/m	-5.2	--	--	--
Wednesday, 6 September						
GER: Factory orders (Jul)	7:00	% m/m	7	-4.0	--	--
GER: Factory orders (Jul)	7:00	% y/y	3	-3.4	--	--
EUR: Retail sales (Jul)	10:00	% y/y	-1.4	-1.1	--	--
USA: Trade balance (Jul)	13:30	bn USD	-65.5	-67.5	--	--
POL: NBP base rate (Sep)	--	%	6.75	6.50	6.50	MPC will likely cut rates on decelerating momentum and inflation slower economy.
Thursday, 7 September						
GER: Industrial production (Jul)	7:00	% m/m	-1.5	-0.6	--	--
GER: Industrial output (Jul)	7:00	% y/y	-1.7	-2.1	--	--
EUR: GDP growth (2q)	10:00	% y/y	1.0	0,6	--	--
USA: Initial Jobless Claims (Sep)	13:30	thous.	228	--	--	--
Friday, 8 September						
GER: CPI inflation (Aug, final)	7:00	% y/y	6.2	6.1	--	--
GER: HICP inflation (Aug, final)	7:00	% y/y	6.5	6.4	--	--
HUN: CPI inflation (Aug)	7:30	% y/y	17.6	16.2	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"Any talk about cuts is harmful to the economy today (...) Today, I consider the level of our interest rates to be insufficient." (10.08.2023, PAP)
L. Kotecki	4.8	"Lowering interest rates at this stage would be a mistake. And I hope it doesn't happen. Behind us is only the first month of core inflation stabilization. The July Inflation Report indicates that we are missing the target even more than it seemed in March, in the previous report." (18.07.2023, Money.pl via PAP)
P. Litwiniuk	3.7	"ECB and Fed rates are rising. The latest economic thought on combating inflation, in particular in the conditions of persistent core inflation, does not encourage to ease the parameters of monetary policy in the situation in which the Polish economy finds itself now. Especially as it is to some extent mitigated by the mechanisms of fiscal policy - I am talking about shields, credit holidays, legislation on, for example, cheap loans. (...) Today, the most cautious attitude is wait&see, i.e. to wait and see what September and October will bring." (8.08.2023, PAP).
H. Wnorowski	2.7	"We are clearly heading towards the first cut of interest rates. (...) It is too early to determine, if it is to take place at the upcoming [MPC] sitting or the next one, it is too early to say." (31.08.2023, Radio Maryja/PAP)
A. Glapinski	2.4	"The MPC has decided that we are ending the cycle of rate hikes. Officially, we were in the tightening cycle, we were ready all the time to raise rates, now we are putting this weapon aside. No one expects something like this to happen anytime soon (...) Of course, if something happens, in the emergency mode, we can take that action, but we are no longer in that mode" (7.07.2023, NBPTv, PAP)
C. Kochalski	2.4	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"In my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
G. Maslowska	2.1	"If this declining (inflation) trend is to be maintained and other macroeconomic factors are not to undergo a radical change, (...) we will have a reason to discuss interest rate cuts. In my view, there are some premises to cut interest rates and I would vote for it, if such motion were to be submitted on the MPC sitting in September." (31.08.2023, PAP)
I. Dabrowski	1.9	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. If the MPC was to consider a motion to cut interest rates, it would rather happen in October (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, PAP)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

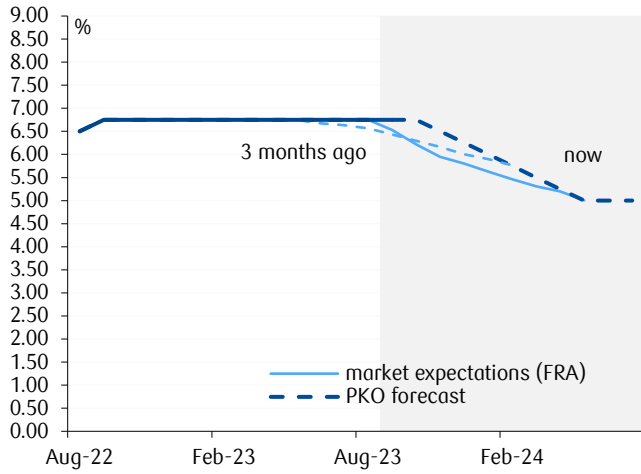
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	31-Aug	30-Sep	30-Oct	30-Nov	30-Dec	30-Jan	29-Feb	29-Mar	29-Apr	29-May
WIBOR 3M/FRA†	6.65	6.38	6.07	5.78	5.55	5.33	5.12	4.96	4.80	4.61
implied change (b. p.)		-0.27	-0.58	-0.88	-1.10	-1.32	-1.54	-1.69	-1.85	-2.05
MPC Meeting	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-
PKO BP forecast*	6.75	6.50	6.25	6.00	6.00	5.75	5.50	5.25	5.00	5.00
market pricing^		6.48	6.17	5.88	5.75	5.58	5.42	5.26	5.10	4.91

WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

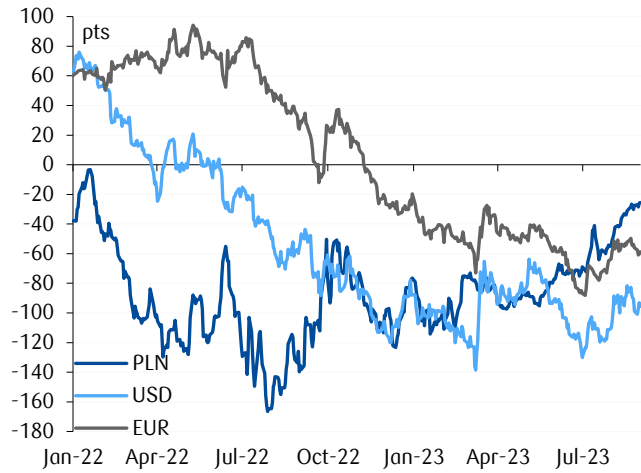
NBP policy rate: PKO BP forecast vs. market expectations



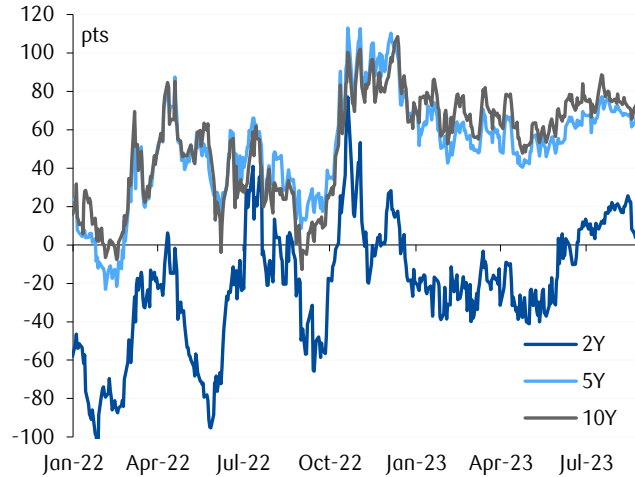
Short-term PLN interest rates



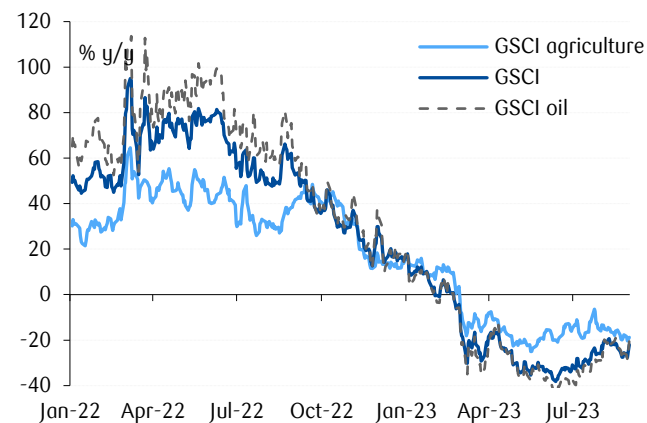
Slope of the swap curve (spread 10Y-2Y)*



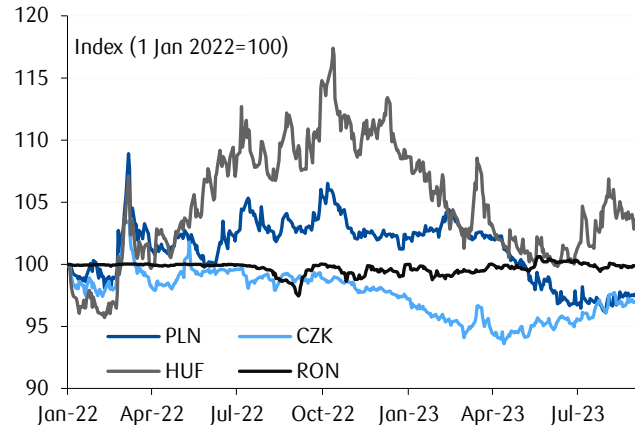
PLN asset swap spread



Global commodity prices (in PLN)

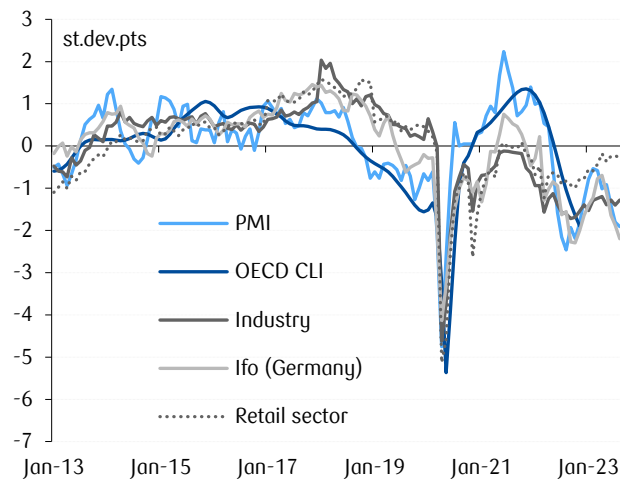


Selected CEE exchange rates against the EUR

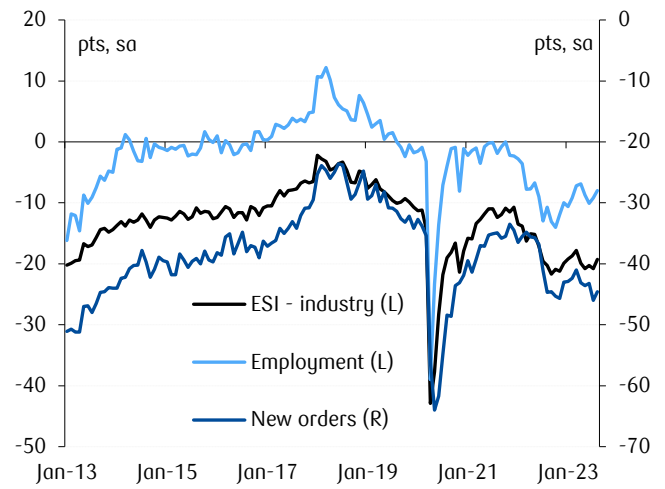


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

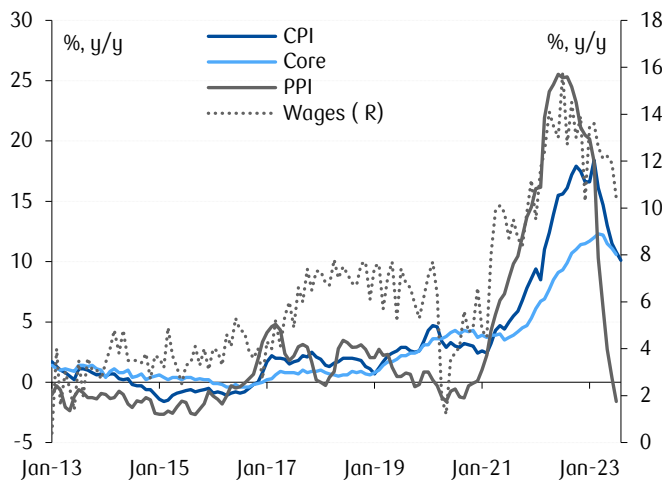
Economic sentiment indicators



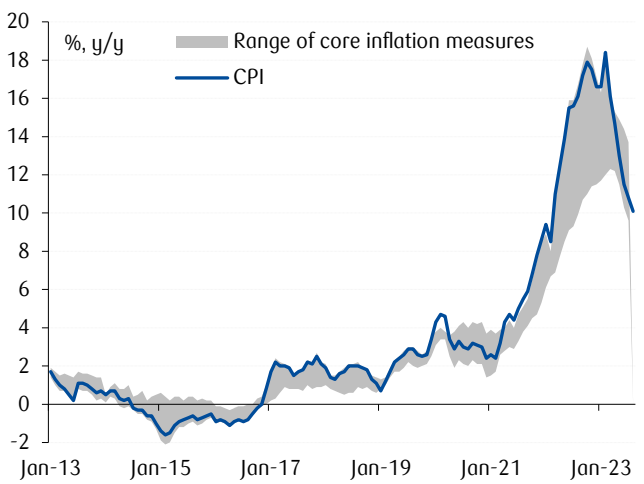
Poland ESI for industry and its components



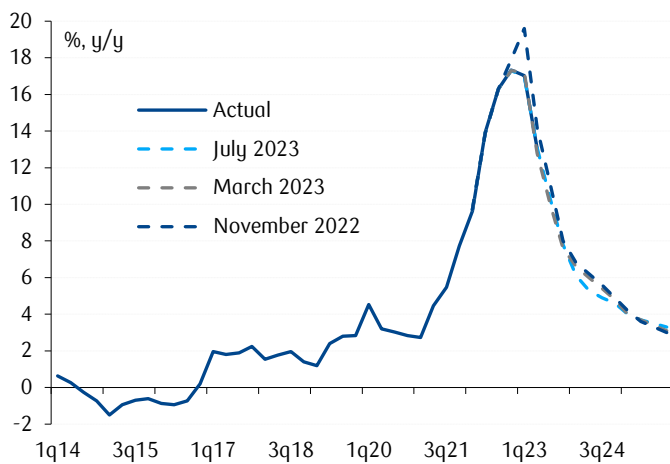
Broad inflation measures



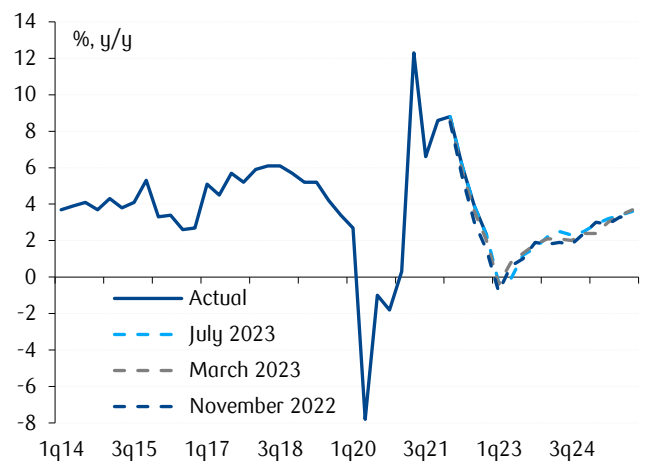
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

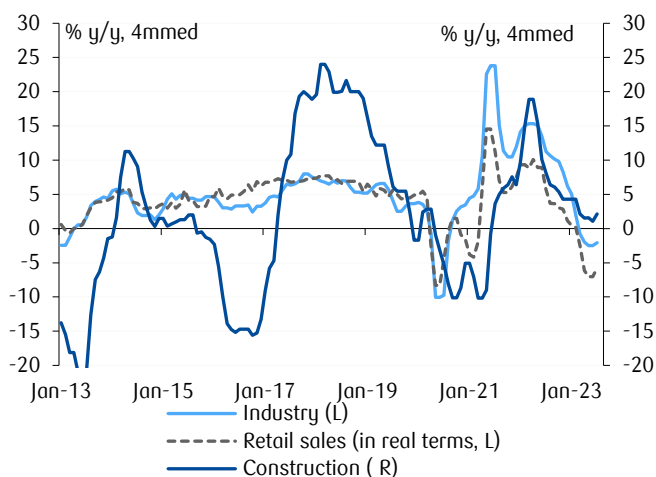


Real GDP growth - NBP projections vs. actual

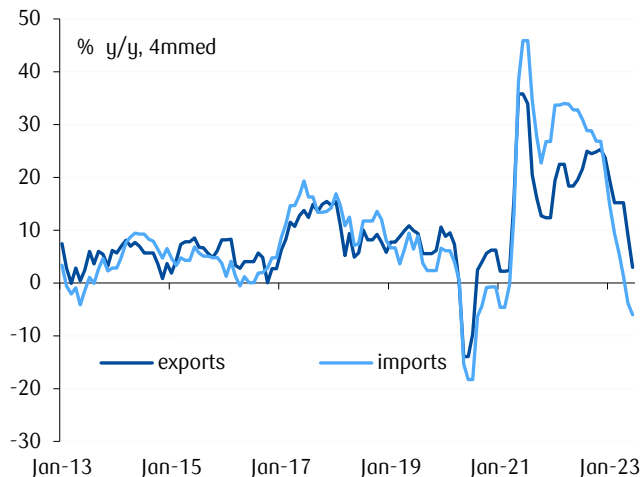


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

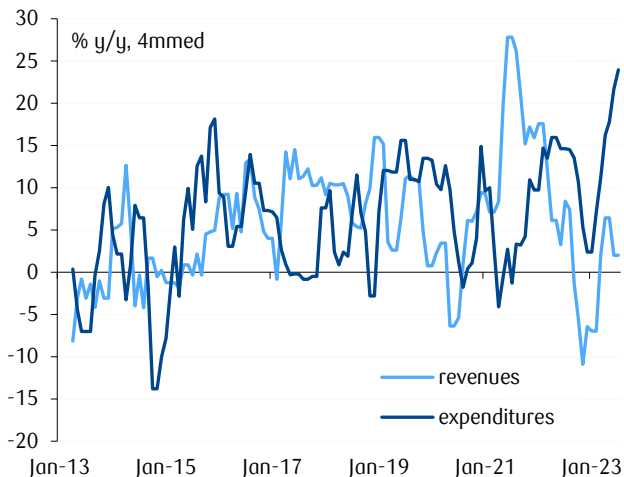
Economic activity indicators



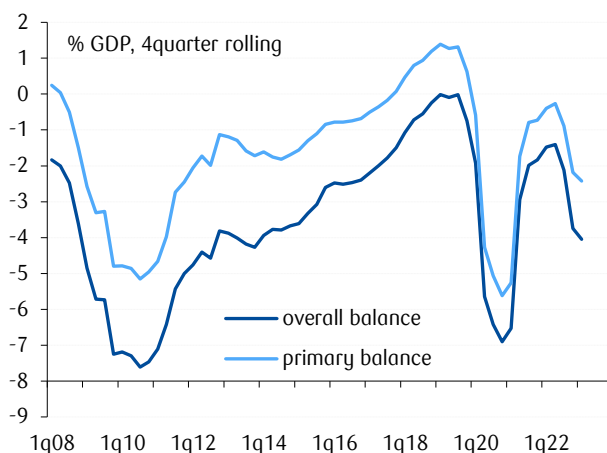
Merchandise trade (in EUR terms)



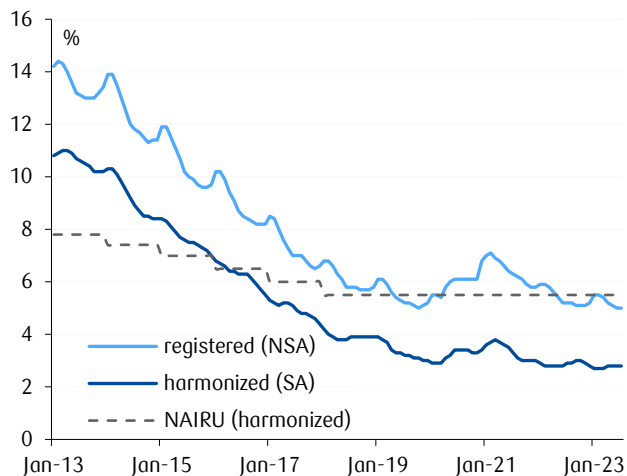
Central government revenues and expenditures*



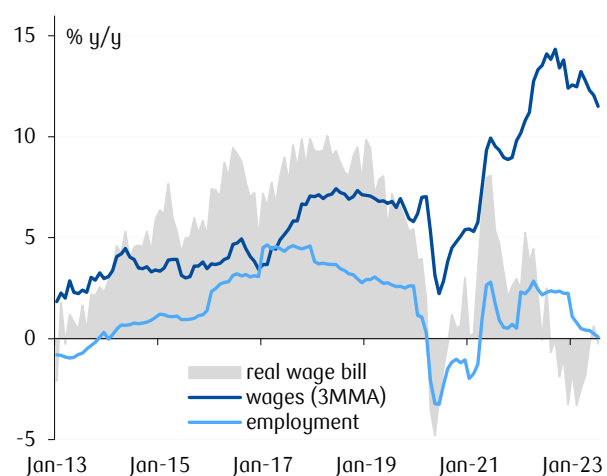
General government balance (ESA2010)



Unemployment rate

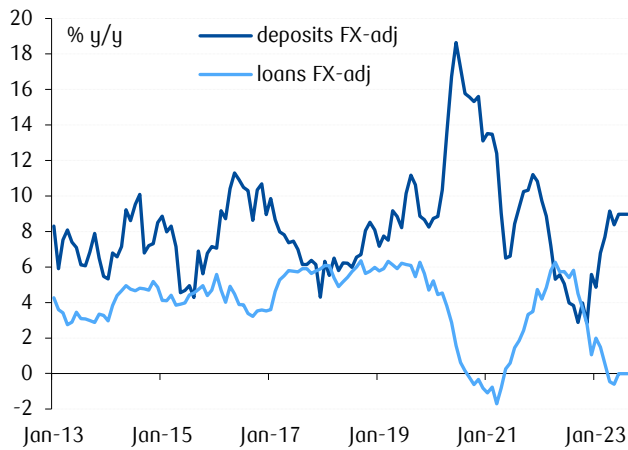


Employment and wages in the enterprise sector

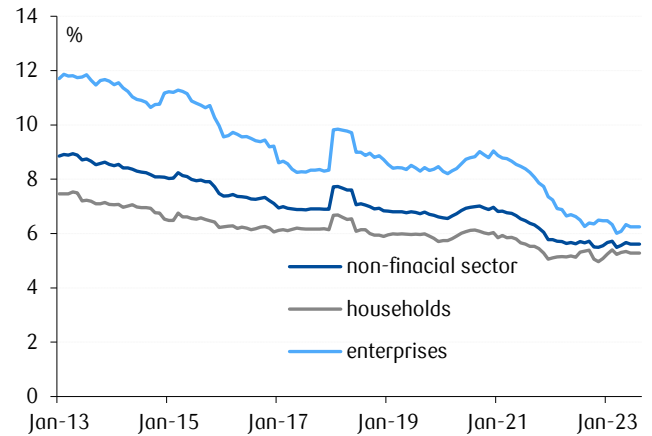


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

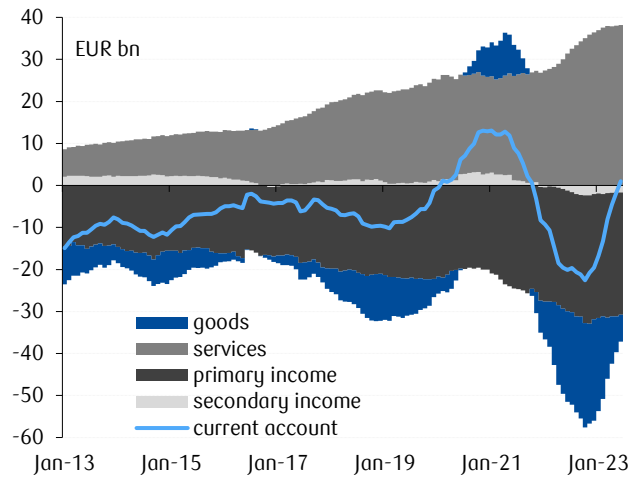
Loans and deposits



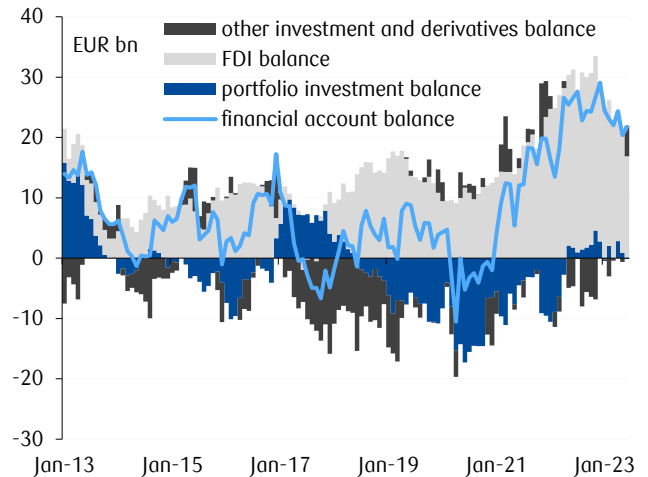
Non-performing loans (NPLs) - by sectors*



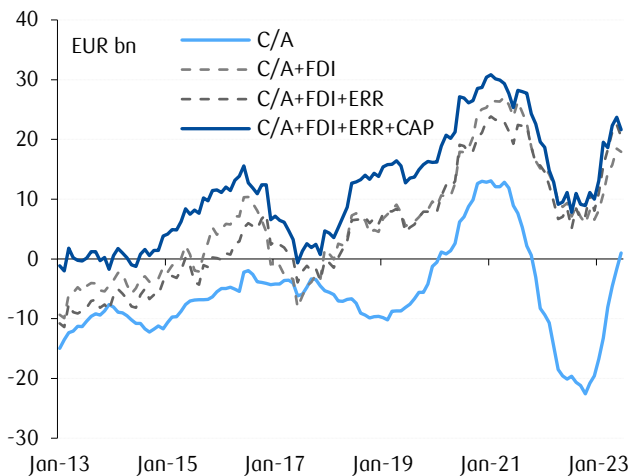
Current account balance



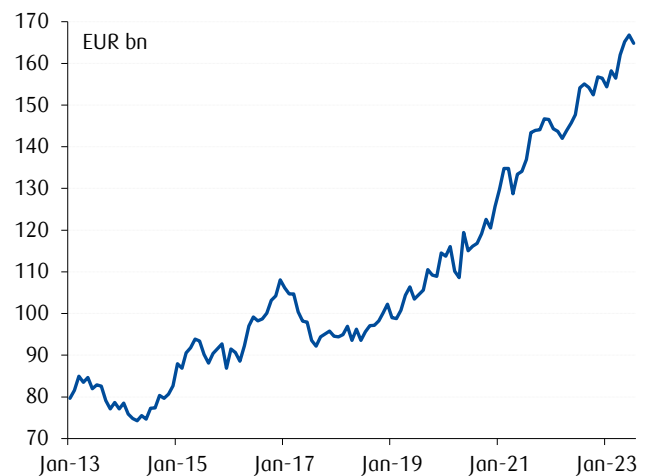
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- [Slow start of 3q23](#) (August 25, 2023)
- [It can only get better](#) (August 18, 2023)
- [Employees still call the shots](#) (August 11, 2023)
- [Summer sale](#) (August 4, 2023)
- [Poland's public finances are safe](#) (July 28, 2023)
- [Is the worst behind us?](#) (July 21, 2023)
- [Keep calm and don't expect too many cuts](#) (July 14, 2023)
- [The end of the tightening cycle](#) (July 7, 2023)
- [Expected interest rate cuts support the housing market](#) (June 30, 2023)
- [A soft landing scenario](#) (June 23, 2023)
- [External position rapidly improving](#) (June 16, 2023)
- [Exports shine, disinflation continues](#) (June 2, 2023)
- [No fireworks at the start of 2q](#) (May 26, 2023)
- [A surprisingly smooth start into 2023](#) (May 19, 2023)
- [MPC changes nothing](#) (May 12, 2023)
- [CPI keeps falling down](#) (Apr 28, 2023)
- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
- [Let the disinflation begin](#) (Mar 31, 2023)
- [Corporate profits dwindle, margins narrow](#) (Mar 24, 2023)
- [Inflation never ceases to surprise](#) (Mar 17, 2023)
- [Spring is coming after all](#) (Mar 10 2023)
- [Consumers under pressure](#) (Mar 3 2023)
- [Bumpy road ahead](#) (Feb 24 2023)
- [Inflation peak not as scary as feared](#) (Feb 17 2023)
- [Nothing to see here](#) (Feb 10, 2023)
- [Growth less inflation-prone](#) (Feb 3, 2023)
- [GDP growth in 4q22 heading south](#) (Jan 27, 2023)
- [This time is different, again](#) (Jan 20, 2023)
- [Happy 2023!](#) (Jan 13, 2023)
- [2023 in preview](#) (Dec 23, 2022)
- [Housing market: The worst is over](#) (Dec 16, 2022)

The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.