

It can only get better

TOP MACRO THEME(S):

- **2q23 marked the trough (p.2)** – GDP in 2q23 fell by 0.5% y/y and we expect it to be the low point of this economic downturn.

WHAT ELSE CAUGHT OUR EYE:

- **Final estimate confirmed that CPI inflation fell to 10.8% y/y in July from 11.5% y/y in June.** Prices fell in monthly terms for the first time since Feb. 2022. Noteworthy was the return of food price growth to the seasonal pattern. Core inflation fell to 10.6% from 11.1% in June, while its momentum decelerated noticeably, close to 0.4-0.5% m/m (sa), which brings core inflation closer to (yet still above) the NBP inflation target. At the same time our current forecast points to August inflation balancing on the edge of 10% y/y, with upside risks stemming from higher fuel prices (in line with higher crude oil prices globally) and downside risks related to faster than the seasonal pattern would suggest fall in food prices. **Single-digit inflation is a crucial condition for the NBP to start interest rate cuts, as for now it seems that we may not see single-digit number till September.** However, the likelihood of the cut on the next meeting (postponed to 12-13 Sep.) is high.
- **Current account surplus in June was (again) much higher than expected, it stood at 2.4 bn EUR, which in terms of 12m rolling sum translated into 0.1% GDP surplus against 0.3% deficit in May.** Export growth was slightly weaker than expected, 1.7% y/y vs. 3.3% y/y in May, although it still reflected the resilience of foreign sales in the automotive sector. Imports fell by 5.8% y/y against -6.3% y/y in May, while its growth was recorded only for automotive parts in line with high import-intensity of Polish exports. Joint current and capital account balance recorded a surplus of 0.3% GDP, for the first time since Nov'21. June brought another evidence that sudden deterioration of balance of payments was temporary, while further normalization of *terms-of-trade* and reversing inventory cycle will support its improvement.

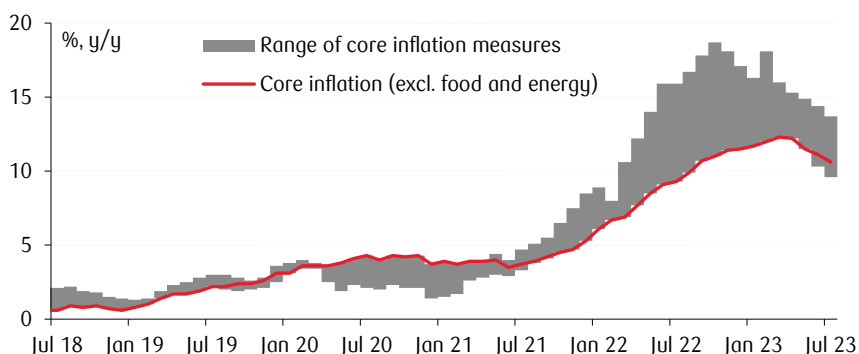
THE WEEK AHEAD:

- **Solid dose of monthly data will show the condition of the Polish economy at the start of 3q23.** We expect, among others, that industrial production remained subdued accompanied by further decline in producer prices. While July most likely brought a meagre growth in employment, it was a 2nd month with real growth in wages, which should soften the fall in retail sales.

NUMBER OF THE WEEK:

- **60%** – According to the NBP, approx. 60% of enterprises report a limited impact of minimum wage increase on average wage growth.

CHART OF THE WEEK: Core inflation measures



Source: NBP, PKO Bank Polski

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	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.

2q23 marked the trough

- GDP growth in 2q23 turned more negative and equaled -0.5% y/y against -0.3% y/y in 1q23, in line with our forecast. Economic activity was dragged down by even more profound retrenchment in consumer spending. We believe that 2q23 brought the lowest y/y GDP growth in this economic cycle and we see a return of positive growth in 2h23.
- We expect GDP to grow by 0.7% in 2023, mainly due to better consumer outlook, recovering investment and solid net export contribution.

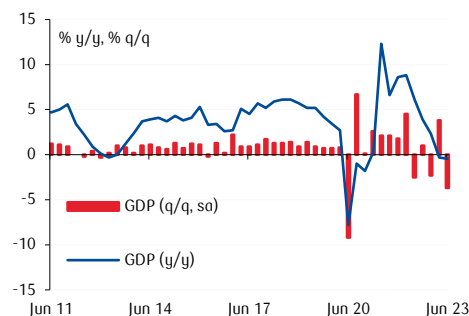
GDP in 2q23 fell by 0.5% y/y against -0.3% y/y in 1q23, which we believe marked the trough of this downturn. Detailed structure of GDP growth will be published on the 31st of August, but monthly data indicate that pullback in spending was the main factor dragging down economic activity. Consumption fell for a third consecutive quarter as a result of elevated inflation, which has had a significantly negative impact on the financial situation of households. Fall in inventories was another factor contributing negatively to the GDP growth due to the reversal of inventory cycle after their significant increase in 2021-2022. Insufficient demand reported by many enterprises also played a part. Economic activity was supported by strong investment growth and solid net exports contribution (mainly due to relatively resilient exports accompanied by weaker imports amid meagre consumer demand).

Data on quarterly GDP growth remain greatly distorted by the seasonal adjustment mechanism and hence have been subject to high volatility recently, which did not correspond to economic fundamentals. Therefore, we would be very cautious in interpreting data that showed a 3.7% q/q fall in GDP in 2q23 after 3.8% q/q growth in 1q23 (sa). Revisions of these data in the future are very likely.

In our opinion 2q23 brought the lowest GDP growth in y/y terms in this cycle and we see positive growth in 2h23. We expect higher, yet still negative, consumption growth in 3q23 and its rebound (positive y/y growth) in 4q23. Better consumer outlook is supported by the ongoing disinflation, which supports real income growth (since 2q23 in the national economy and since June in the enterprise sector).

Our forecast of 0.7% GDP growth in 2023 and 3.2% in 2024 remains intact. The driving forces of economic activity on the demand side should be improvement in consumption, recovery in investment (however it will lose some momentum in 2024) and still solid export growth.

Real GDP growth



Source: Statistics Poland, PKO Bank Polski.

GDP level – seasonally adjusted



Source: Statistics Poland, PKO Bank Polski

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 21 August						
GER: PPI inflation (Jul)	7:00	% y/y	0.1	--	--	--
POL: PPI inflation (Jul)	9:00	% y/y	0.5	-1.1	-1.0	July should bring y/y decline in producer prices, for the first time since 2020.
POL: Industrial production (Jul)	9:00	% y/y	-1.4	-0.7	-1.8	IP level is near the low point and should gradually rise, but not yet in July as y/y growth will remain negative.
POL: Wages (Jul)	9:00	% y/y	11.9	11.0	11.1	Nominal wage growth slows down, but remains slightly positive in real terms. Employment growth is modest amid cooling demand for labour.
POL: Employment (Jul)	9:00	% y/y	0.2	0.1	0.2	
Tuesday, 22 August						
POL: Construction output (Jul)	9:00	% y/y	1.5	2.5	2.9	--
POL: Retail sales (Jul)	9:00	% y/y	-4.7	-3.8	-4.4	Fall in retail sales is getting shallower as consumers' real incomes rebound.
USA: Existing home sales (Jul)	15:00	mm	4,16	4,15	--	--
Wednesday, 23 August						
GER: Manufacturing PMI (Aug, flash)	8:30	pts.	38.8	37.9	--	--
GER: Services PMI (Aug, flash)	8:30	pts.	52.3	51.2	--	--
EUR: Manufacturing PMI (Aug, flash)	9:00	pts.	42.7	--	--	--
EUR: Services PMI (Aug, flash)	9:00	pts.	50.9	--	--	--
POL: Money Supply M3 (Jul)	13:00	y/y	7.9	7.7	7.6	We expect no major changes in lending and deposit trends.
USA: Manufacturing PMI (Aug, flash)	14:45	pts.	49.0	49.0	--	--
USA: New home sales (Jul)	15:00	thous.	687	707	--	--
EUR: Consumer Confidence (Aug, flash)	15:00	pts.	-15.1	--	--	--
Thursday, 24 August						
POL: Unemployment Rate (Jul)	9:00	%	5.0	5.0	5.0	Favorable seasonality will be offset by cooling labour demand.
POL: Consumer Confidence (Aug)	9:00	pts.	-24.9	-23.6	--	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	239	--	--	--
USA: Durable goods orders (Jul, flash)	13:30	% m/m	4.6	-4.0	--	--
Friday, 25 August						
GER: GDP growth (2q)	7:00	% y/y	-0.6	--	--	--
GER: Ifo Business Climate Index (Aug)	9:00	pts.	87.3	86.9	--	--
USA: University of Michigan sentiment (Aug, final)	15:00	pts.	71.2	71.2	--	--

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	"In my opinion, single-digit inflation in September will be for sure. Of that I have no doubts anymore. I do not even rule out such a scenario that exactly in a month in August we will see 9.8 or 9.9%. (...). I think that 10% or below 10%, or if you prefer single-digit inflation, is a symbolic dimension that means something to every member of the Monetary Policy Council. However, the truth is that our target is not single-digit inflation, but the target is 2.5% ± 1 percent." (1.08.2023, BIZNES24, PKO transl.)
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	"Theoretically, it is possible to start the phase of interest rate cuts even before the newest inflation and GDP projection appears. (...) if, for example, in September or October, the MPC members will decide that the incoming data are so convincing that it is worth deciding on the first cut before the projection appears, I think that it would be understandable for participants of economic life" (18.07.2023, 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.

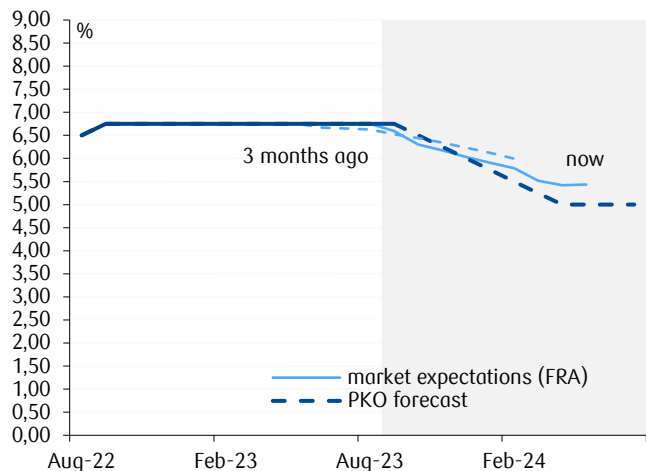
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May
WIBOR 3M/FRA†	6.68	6.48	6.19	6.04	5.81	5.64	5.47	5.20	5.05	5.07
implied change (b. p.)		-0.21	-0.50	-0.64	-0.87	-1.04	-1.22	-1.48	-1.63	-1.62
MPC Meeting	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-
PKO BP forecast*	6.75	6.75	6.50	6.25	6.00	5.75	5.50	5.25	5.00	5.00
market pricing^		6.55	6.26	6.11	5.98	5.86	5.74	5.47	5.32	5.34

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

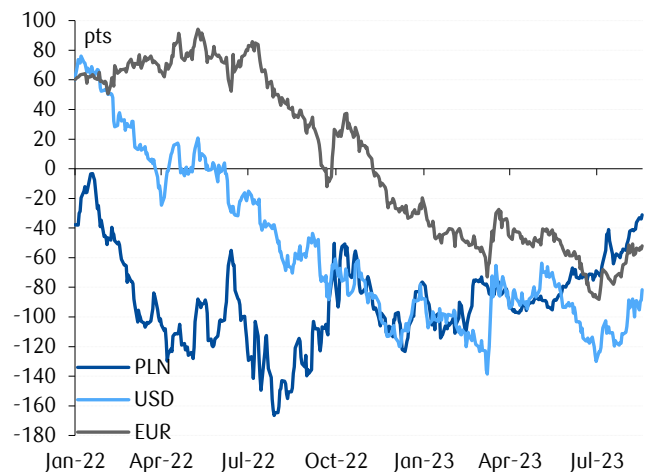
NBP policy rate: PKO BP forecast vs. market expectations



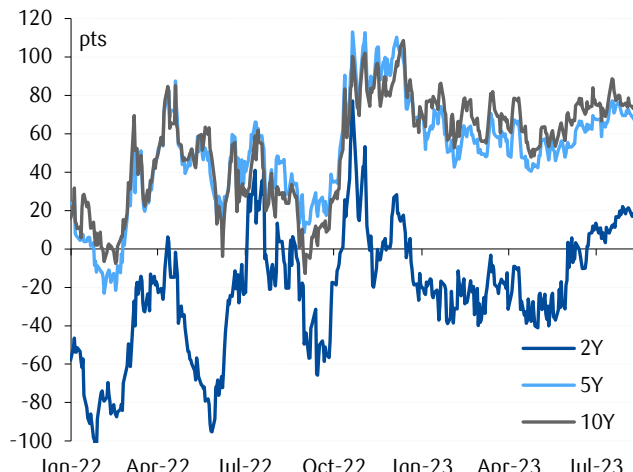
Short-term PLN interest rates



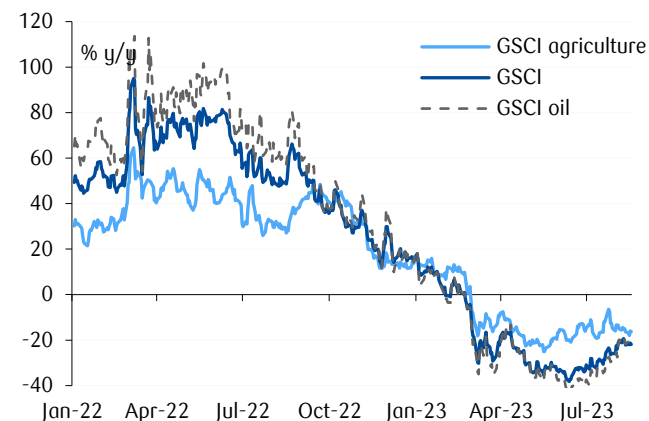
Slope of the swap curve (spread 10Y-2Y)*



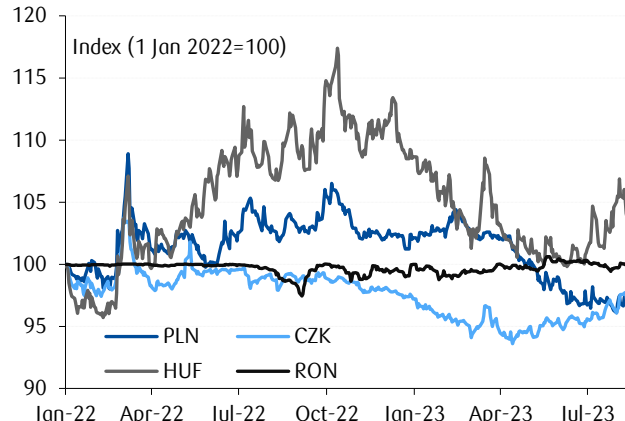
PLN asset swap spread



Global commodity prices (in PLN)

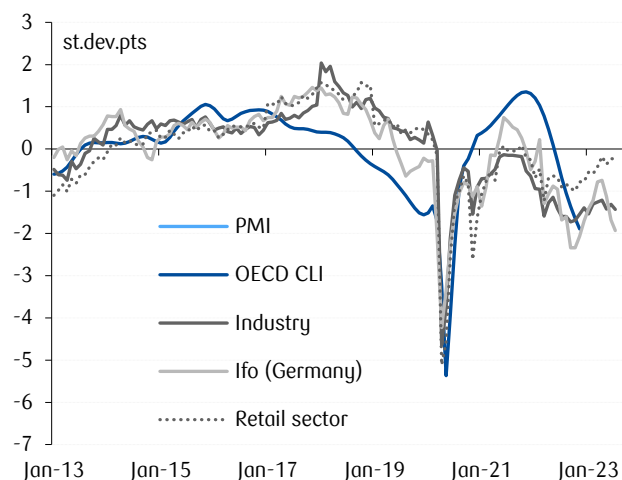


Selected CEE exchange rates against the EUR

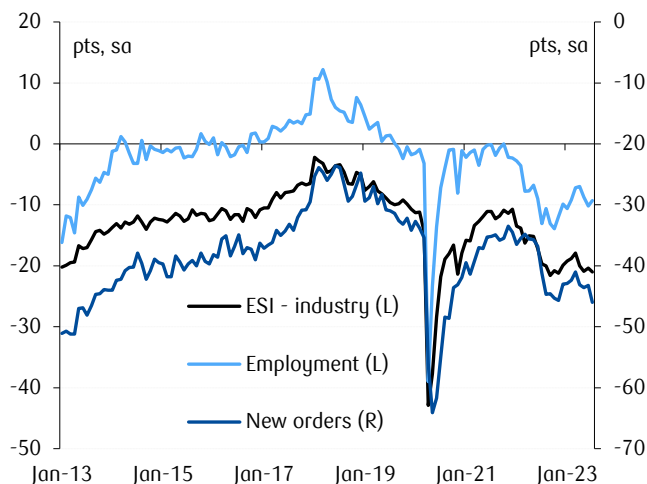


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

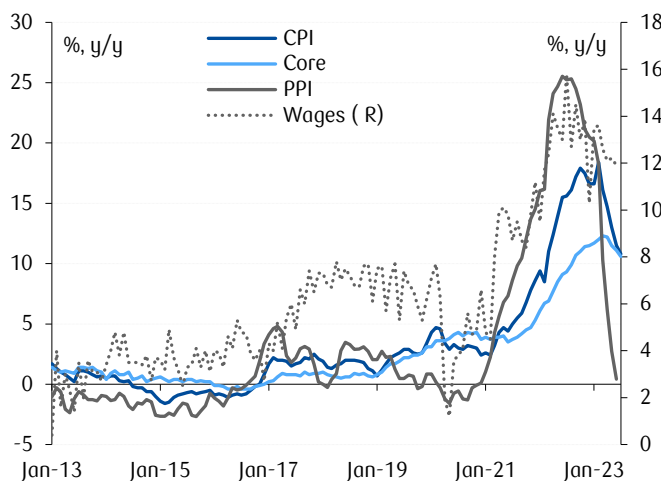
Economic sentiment indicators



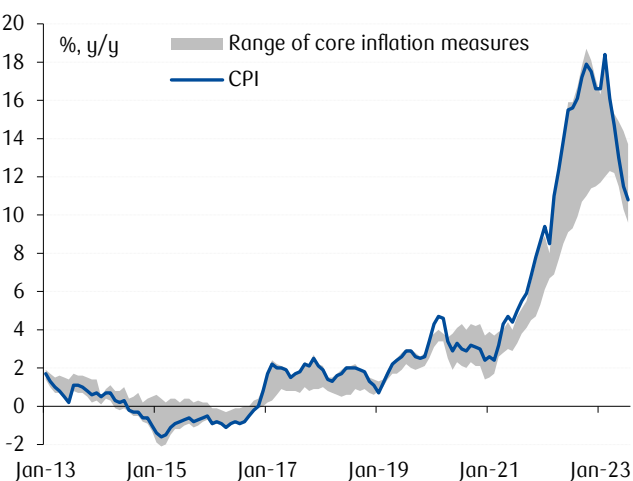
Poland ESI for industry and its components



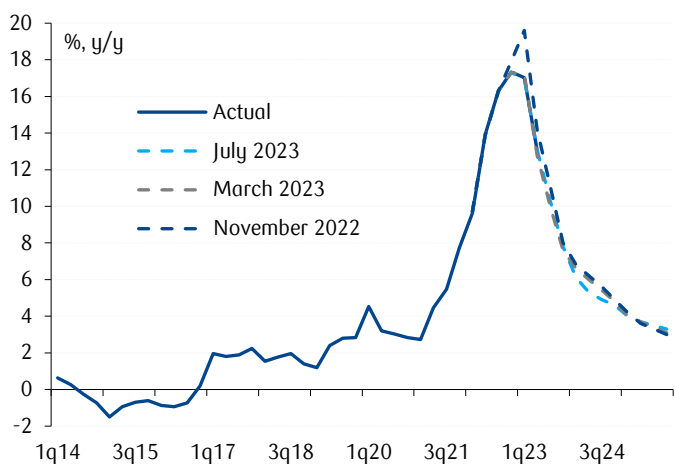
Broad inflation measures



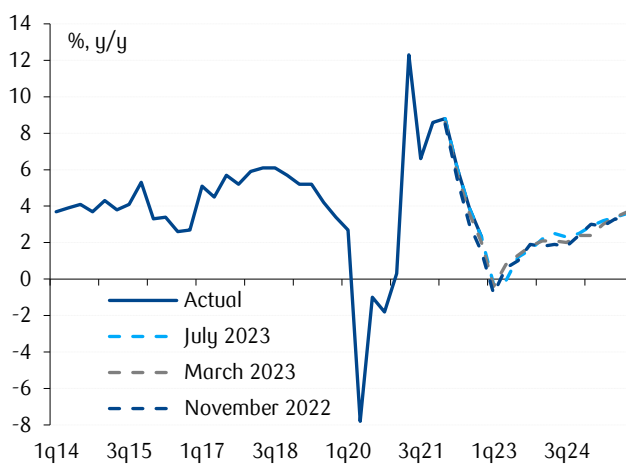
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

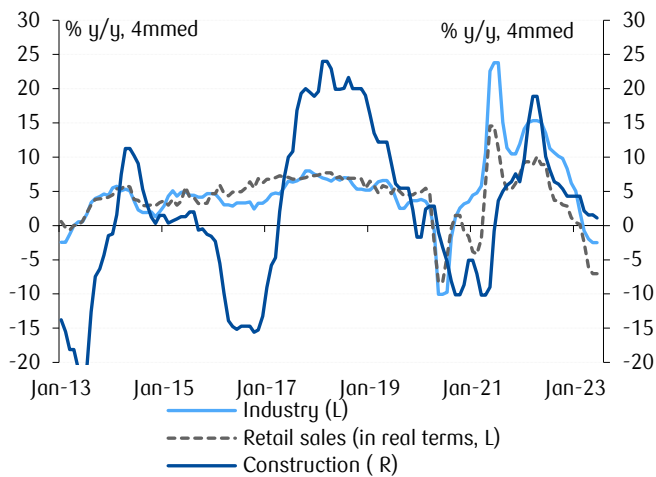


Real GDP growth - NBP projections vs. actual

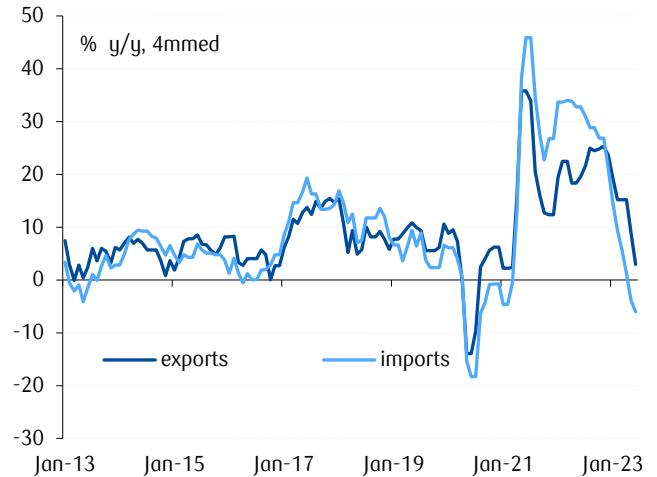


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

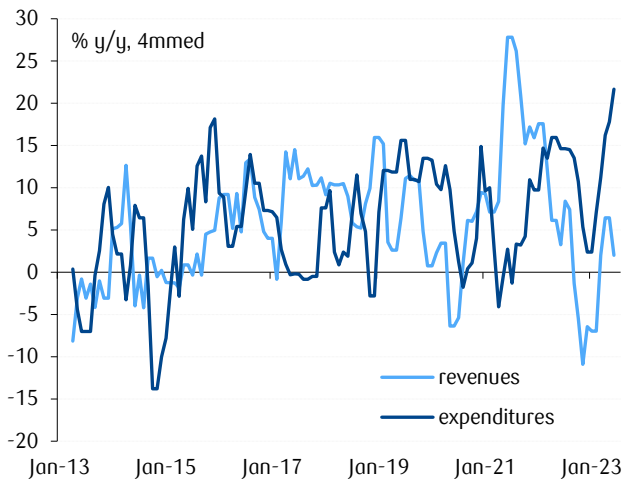
Economic activity indicators



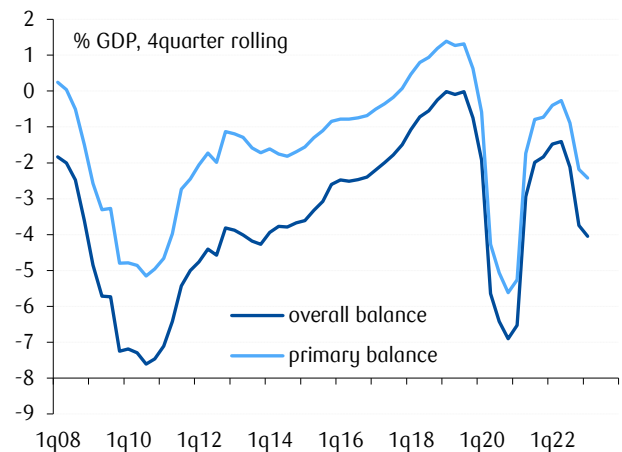
Merchandise trade (in EUR terms)



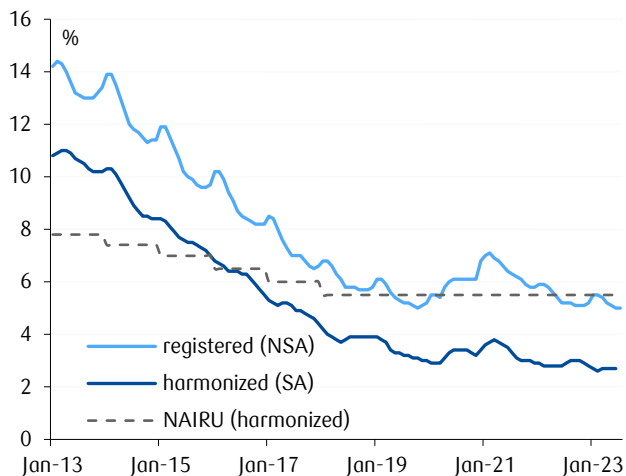
Central government revenues and expenditures*



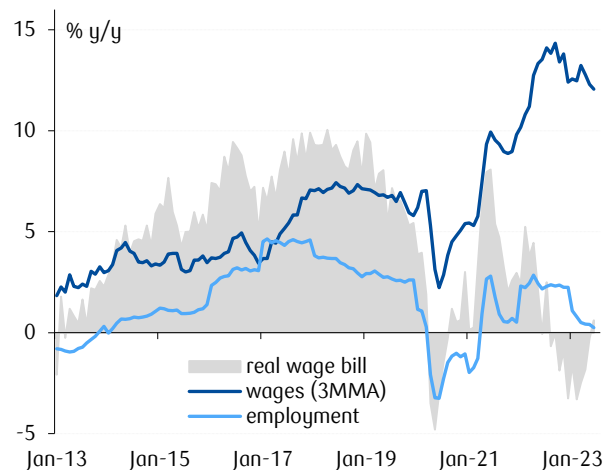
General government balance (ESA2010)



Unemployment rate

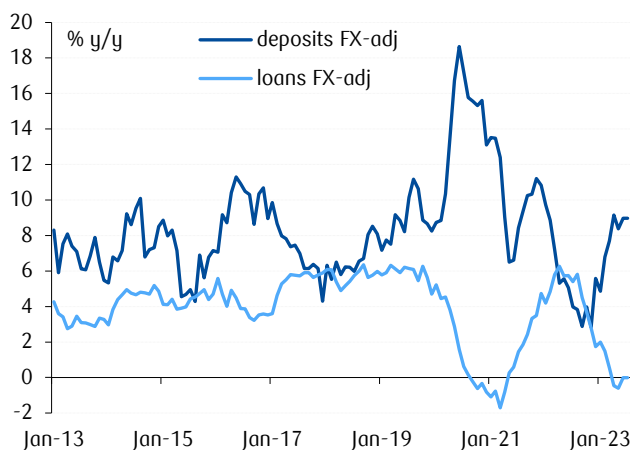


Employment and wages in the enterprise sector

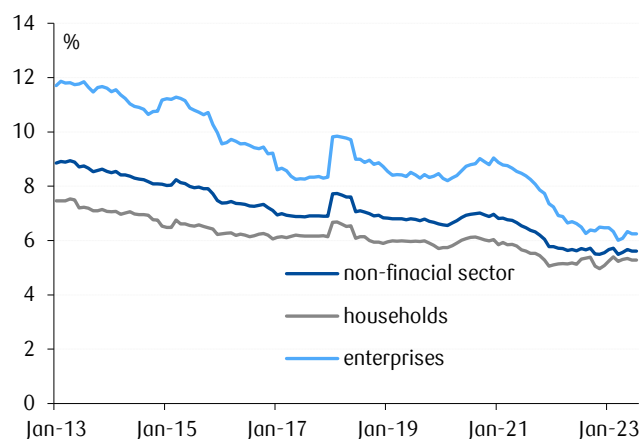


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

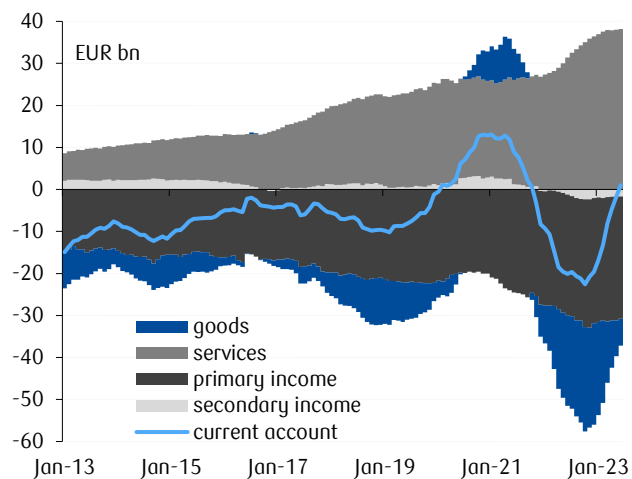
Loans and deposits



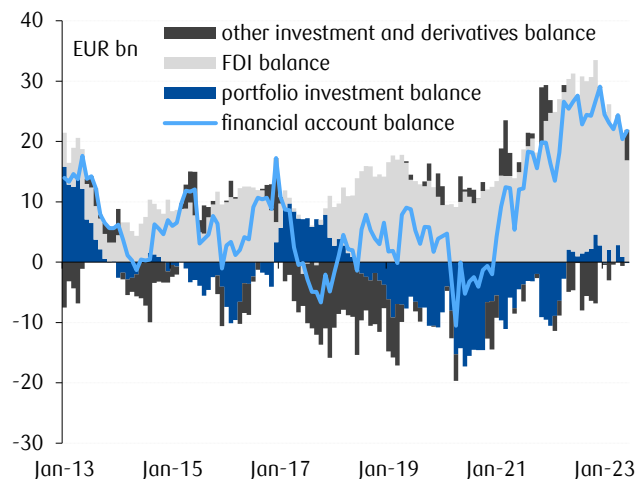
Non-performing loans (NPLs) - by sectors*



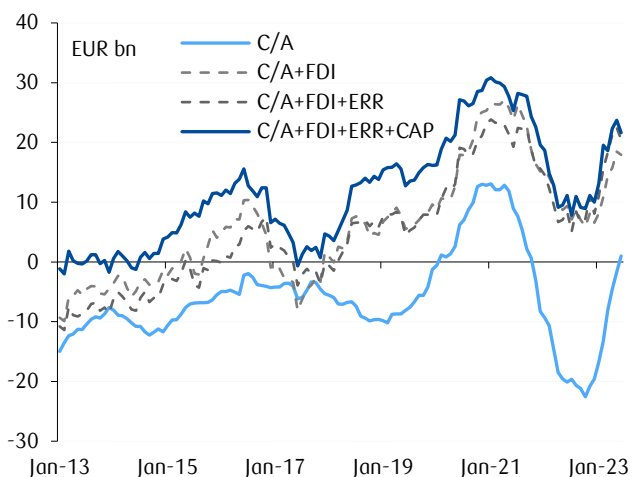
Current account balance



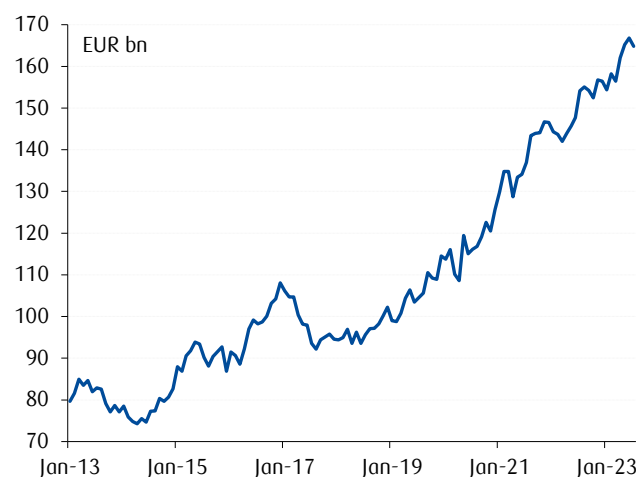
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



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

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- [Summer sale](#) (August 4, 2023)
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- [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)
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- [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)
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- [Happy 2023!](#) (Jan 13, 2023)
- [2023 in preview](#) (Dec 23, 2022)
- [Housing market: The worst is over](#) (Dec 16, 2022)
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- [Disinflation ahead](#) (Dec 2, 2022)

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