

Is the worst behind us?

TOP MACRO THEME(S):

- **The economy is turning the corner (p.2):** Monthly economic activity indicators for April-June confirm that GDP in 2q23 declined in y/y terms for the second quarter in a row, amid deepening consumer recession, moderate growth of fixed investment and resilient exports. At the same time, the most recent data for June suggest that the Polish economy has turned the corner and enters a recovery path, to be driven mostly by a rebound in consumption.

WHAT ELSE CAUGHT OUR EYE:

- **MPC's talk on NBP rate cuts is getting louder** as a few rate-setters (including NBP governor) said that the first move could be made already this year. Some of them indicate it could take place even before the release of the new NBP projection in November, if CPI inflation becomes single-digit and there is clarity on strong disinflationary trend going forward. We assume the first rate cut in October, but do not exclude the MPC will start trimming rates already in September (if CPI inflation declines below 10% y/y in August).
- **Key measure of core inflation (CPI less food, energy and fuel) declined to 11.1% in June.** While core inflation momentum strongly decelerated in recent months (0.6% m/m sa in June vs peak of 1.2% m/m sa in late 2022), it is still much above the level (0.2% m/m sa) needed to reach the inflation target. It is noteworthy that for the first time since the outbreak of the war in Ukraine one of core inflation measures (CPI excl. the most volatile items) showed a monthly decline of prices by 0.1%. Disinflation is gaining strength.
- **There are also some other good news on the inflation front.** Deputy MinFin A.Sobon said the government would consider extending the reduced VAT rate on food into 2024. Meanwhile, the main gas supplier for retail customers anticipates to keep gas prices the next year at the current level (frozen by the government). **Prolonged 0% VAT rate for food and flat gas prices create a downward risk to our CPI forecast for 2024, thus we put it under revision.**

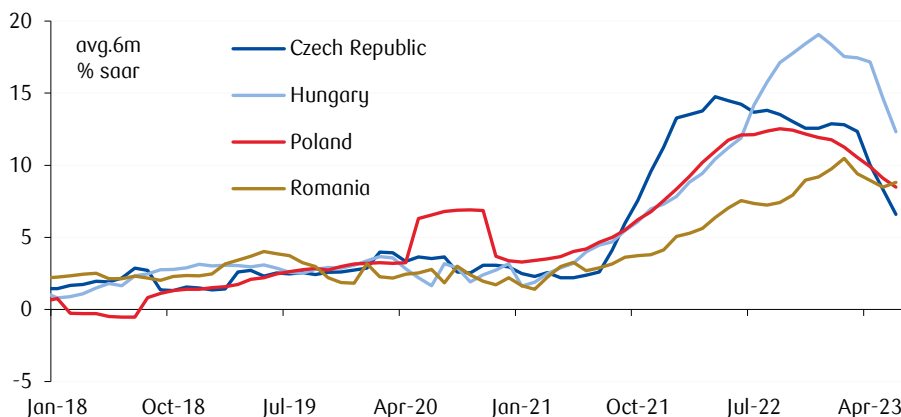
THE WEEK AHEAD:

- **Not much food for thought locally due this week:** data on registered unemployment and monetary statistics for June.

NUMBER OF THE WEEK:

- **10 months** – long period of real decline in corporate wages in Poland, eventually interrupted in June 2023.

CHART OF THE WEEK: HICP core inflation in the CEE region



Source: Macrobond, PKO Bank Polski

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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.1
Core inflation** (%)	9.1	10.6
Money supply M3 (%)	5.6	6.0
C/A balance (% GDP)	-3.0	0.8
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.1
NBP reference rate## (%)	6.75	6.25
EURPLN###	4.69	4.50

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

The economy is turning the corner

- Monthly activity data for 2q23 confirms that GDP has probably declined in y/y terms for the second quarter in a row, amid deeper consumer recession, moderate growth of fixed investment and resilient exports.
- We see some downward risk to our earlier GDP estimate (-0.1% y/y), but stick to our view that 2h23 should be marked by economic recovery.

Economic activity remains subdued, but June has likely marked the tipping point in the current business cycle, as most of the readings came in line with expectations (and not below as was the case before).

Industrial production fell by 1.4% y/y in June vs 2.8% y/y drop in May (revised from -3.2% y/y). However, excluding seasonal factors, June brought the first increase in production on a monthly basis since February (by 0.4%). Export-oriented industries and investment goods remained the driving force behind the domestic industry. These include automotive (+19.7% y/y), production of machinery (+7.4% y/y) and electrical equipment (+9.7% y/y). Other sectors were definitely in worse shape. Some of them are still experiencing the effects of the energy shock (chemical: -20.4% y/y, metal: -12.9% y/y), and weaker consumer demand (furniture: -10.7% y/y). At the same time, disinflation tendencies in the industry are intensifying.

Construction and assembly output increased by 1.5% y/y in June after a 0.7% y/y decline in May. Negative annual growth in the building construction segment has been maintained since November 2022 (the effect of high interest rates), with strong increases in the engineering segment (+5.9% y/y), resulting from the finalization of projects under the previous EU financial perspective 2014-2020.

Retail sales went down by 4.7% y/y in June vs. -6.8% y/y in May. The decline in sales slowed down for the second month in a row, thanks to both lower deflator and the first increase in enterprise sector real wages in 10 months. The data indicates that the financial situation of households is starting to improve. The expected further disinflation, and the acceleration of real wage growth, means that the prospect of an increase in sales in real terms (and the prospect of private consumption turning positive) is getting closer and closer.

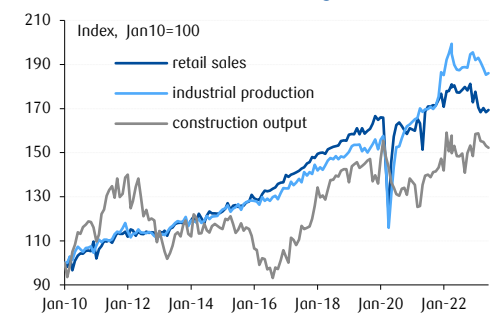
Looking at averages of monthly data for April-June, we revise down our estimate of GDP growth in 2q23. We see a steeper decline in industrial output (-3.5% y/y vs. -0.9% y/y in 1q23) as well as a stronger decline in real retail sales (-6.2% y/y vs. -4.1% y/y in 1q23). At the same time, growth in construction output decelerated (to 0.6% y/y vs. 1.9% y/y in 1q23). As the sectors above constitute around half of the value added, and PKO internal data suggests that consumer services were underperforming the overall consumer spending, our earlier GDP estimate for 2q23 (-0.1% y/y) has become too high and we adjust our nowcast down to -0.5% y/y. **This revision is only a fine-tuning and we still expect a recovery later this year.** With the most recent monthly data for June showing that the Polish economy has turned the corner, we stick to our long-held view that the second half of 2023 should be already marked by economic recovery driven by a rebound in consumer demand with relatively stable performance of fixed investments and net export.

Key macro indicators for 2q23

% y/y	1q23	2q23
Industrial production	-0.9	-3.5
Construction	1.9	0.6
Retail sales	-4.1	-6.2
Enterprise wages	13.3	12.1
CPI	17	13.1

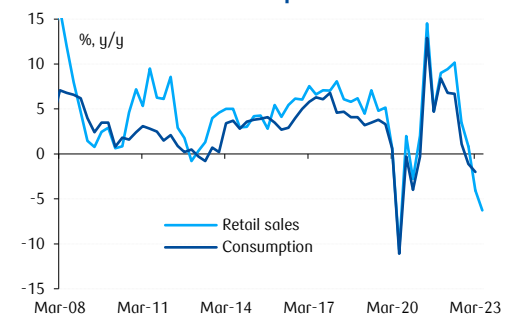
Source: Statistics Poland, NBP, PKO Bank Polski.

Levels of economic activity indicators



Source: Statistics Poland, PKO Bank Polski.

Retail sales vs consumption



Source: Statistics Poland, PKO Bank Polski.

Retail sales vs real wages



Source: Statistics Poland, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 24 July						
GER: Manufacturing PMI (Jul, flash)	8:30	pts.	40.6	41.0	--	--
GER: Services PMI (Jul, flash)	8:30	pts.	54.1	53.0	--	--
EUR: Manufacturing PMI (Jul, flash)	9:00	pts.	43.4	43.5	--	--
EUR: Services PMI (Jul, flash)	9:00	pts.	52.0	51.6	--	--
POL: Money Supply M3 (Jun)	13:00	% y/y	7.1	7.6	8.0	We expect M3 growth to accelerate reflecting a low base effect. No major changes expected in lending activity and earlier trends seen for deposits.
USA: Manufacturing PMI (Jul, flash)	14:45	pts.	46.3	46.1	--	--
Tuesday, 25 July						
GER: Ifo Business Climate Index (Jul)	9:00	pts.	88.5	88.0	--	--
POL: Unemployment Rate (Jun)	9:00	%	5.1	5.0	5.0	Unemployment rate most likely declined on positive seasonality.
HUN: MNB meeting (Jul)	13:00	%	13.0	13.0	--	--
USA: S&P CoreLogic CS 20-City (May)	14:00	% y/y	-1.7	--	--	--
USA: Consumer confidence (Jul)	15:00	pts.	109.7	112.0	--	--
Wednesday, 26 July						
EUR: M3 money supply (Jun)	9:00	% y/y	1.4%	1.0%	--	--
USA: New home sales (Jun)	15:00	thous.	763	722	--	--
USA: Fed meeting (Jul)	19:00	%	5.25	5.50	5.50	--
Thursday, 27 July						
EUR: ECB Refinancing Rate (Jul)	13:15	%	4.00	4.25	4.25	--
EUR: EBC deposit rate (Jul)	13:15	%	3.50	3.75	3.75	--
USA: GDP growth (2q)	13:30	% q/q saar	2.0	1.8	--	--
USA: Personal consumption (2q)	13:30	% q/q saar	4.2	--	--	--
USA: Durable goods orders (Jun, flash)	13:30	% m/m	1.8	1.0	--	--
USA: Initial Jobless Claims (Jul)	13:30	thous.	228	--	--	--
USA: Trade Balance (Jun)	13:30	bn USD	-91.1	-91.8	--	--
GER: Retail sales (Jun)	7:20	% y/y	-5.1	--	--	--
Friday, 28 July						
EUR: Consumer Confidence (Jul, final)	10:00	pts.	-16.1	-15.1	--	--
EUR: Economic Sentiment Indicator (Jul)	10:00	pts.	95.3	94.7	--	--
GER: CPI inflation (Jul, flash)	13:00	% y/y	6.4	6.1	--	--
GER: HICP inflation (Jul, flash)	13:00	% y/y	6.8	6.6	--	--
USA: Personal Income (Jun)	13:30	% m/m	0.4	0.5	--	--
USA: Personal spending (Jun)	13:30	% m/m	0.1	0.4	--	--
USA: PCE Deflator (Jun)	13:30	% y/y	3.8	3.1	--	--
USA: Core PCE inflation (Jun)	13:30	% y/y	4.6	4.2	--	--
USA: University of Michigan sentiment (Jul, final)	15:00	pts.	64.4	72.6	--	--
JP: BoJ meeting (Jul)	--	%	-0.10	-0.1	--	--

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	"For many months now the Council has been keeping rates at an unchanged level, a level I consider too low. (...) each current discussion about rate cuts currently harms the credibility of the monetary policy in Poland. Such talks also reduce efficiency of MPC actions, with 3M WIBOR now lower by ca. 0.8 pps than after the last rate hike. Let's not take this path because otherwise fight against inflation will take longer and will bear higher social costs" (12.06.2023, Parkiet, 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	"The government has to date declared a budget policy neutral for inflationary processes but it is changing. (...) The question is what will change and how many more ideas will be presented in the frame of the election campaign - this could have a negative impact on inflationary processes." (15.06.2023, TOK FM, PAP)
H. Wnorowski	2.7	"We are dealing with a sharp decline in inflation and soon, perhaps - this is my dream - even the July reading (...) will be below 10%. If it is not July, we will certainly reach single-digit inflation, which is symbolic, in August and it will continue to fall until the end of the year. One should not rule out a scenario that still in this calendar year the MPC will judge that there are sufficient grounds for the first cut" (18.07.2023, Radio Maryja via PAP, 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.

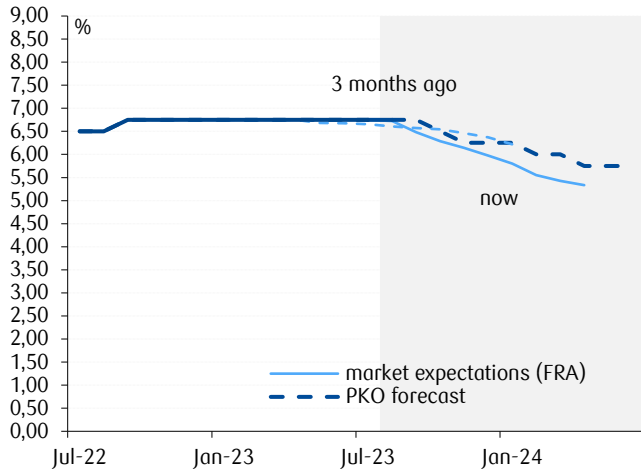
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	20-Jul	20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	20-Jan	20-Feb	20-Mar	20-Apr
WIBOR 3M/FRA†	6.78	6.71	6.47	6.25	6.03	5.81	5.59	5.33	5.16	5.07
implied change (b. p.)		-0.07	-0.32	-0.54	-0.76	-0.98	-1.20	-1.45	-1.62	-1.72
MPC Meeting	6-Jul	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-
PKO BP forecast*	6.75	6.75	6.75	6.50	6.25	6.25	6.25	6.00	6.00	5.75
market pricing^		6.68	6.44	6.22	6.10	5.93	5.76	5.50	5.33	5.24

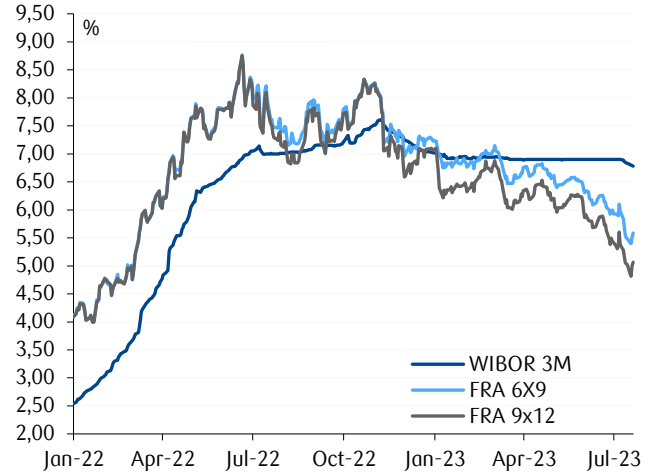
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

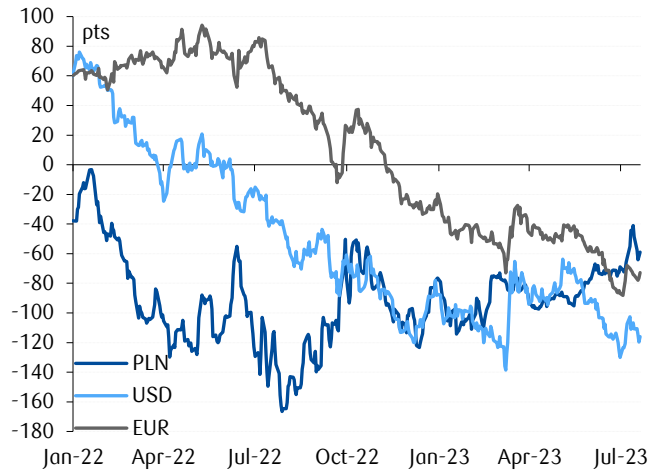
NBP policy rate: PKO BP forecast vs. market expectations



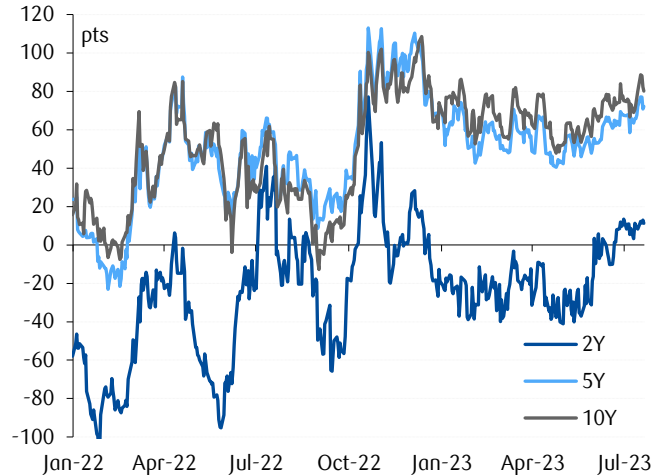
Short-term PLN interest rates



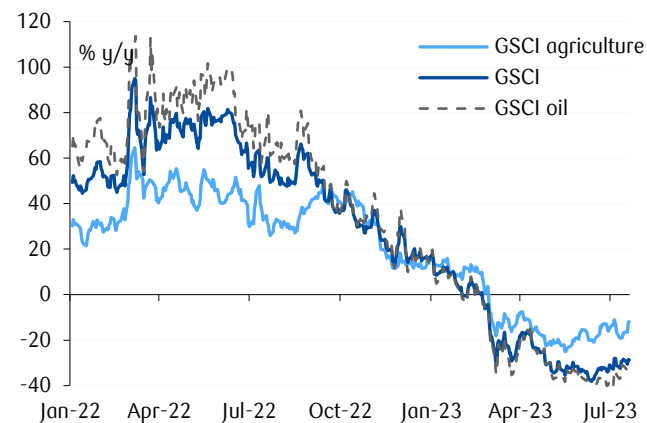
Slope of the swap curve (spread 10Y-2Y)*



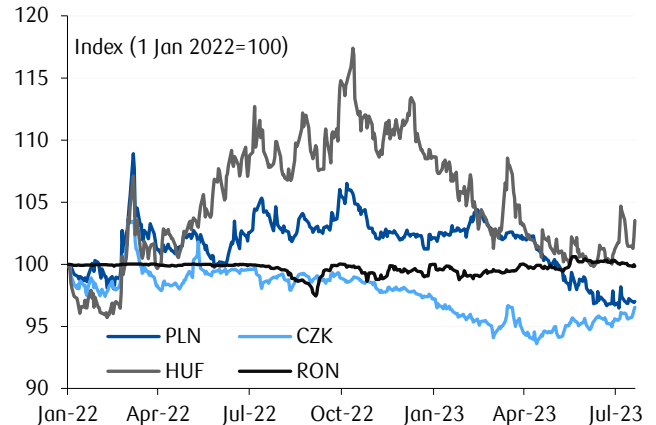
PLN asset swap spread



Global commodity prices (in PLN)

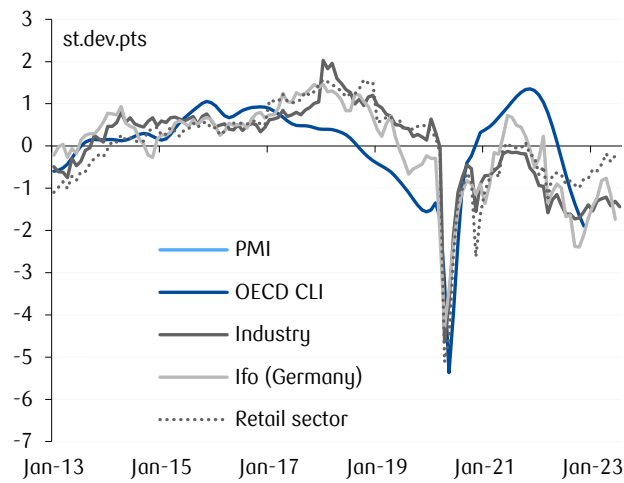


Selected CEE exchange rates against the EUR

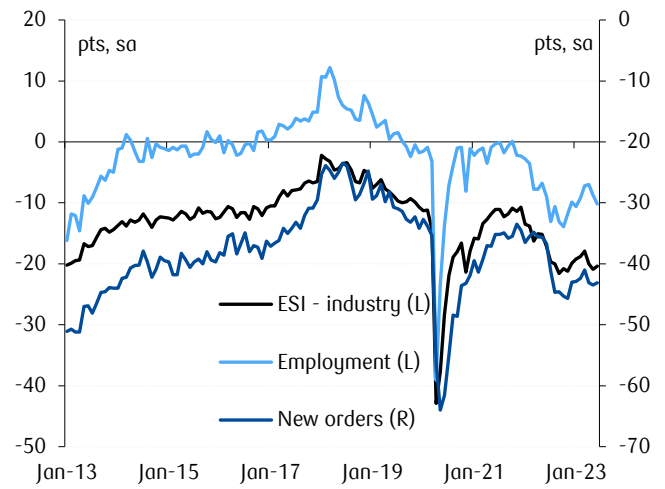


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

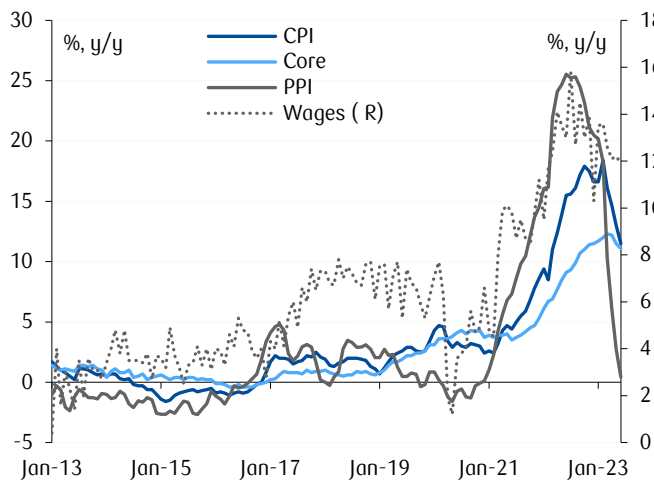
Economic sentiment indicators



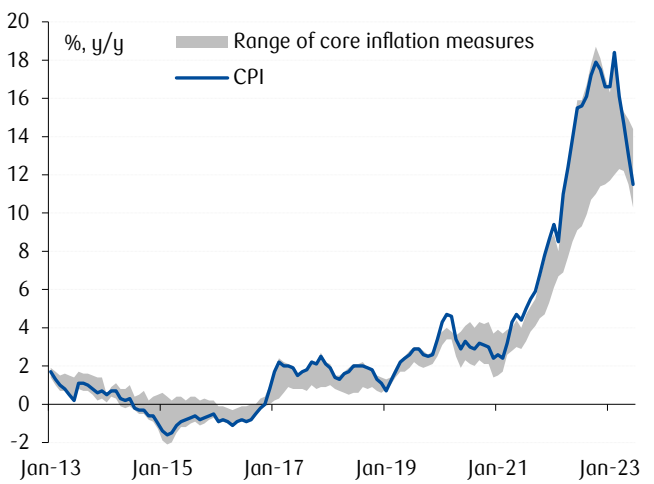
Poland ESI for industry and its components



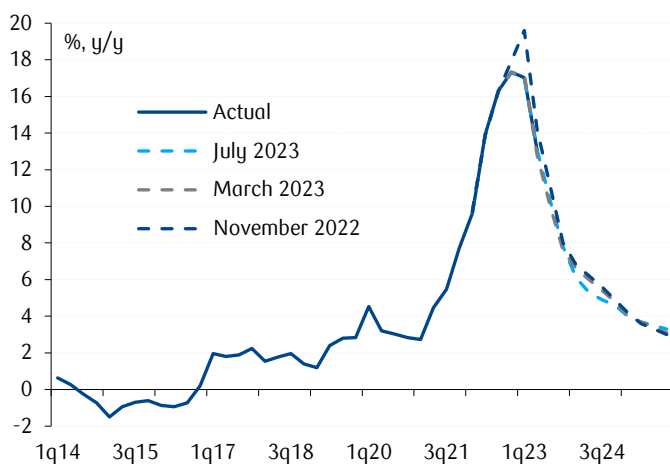
Broad inflation measures



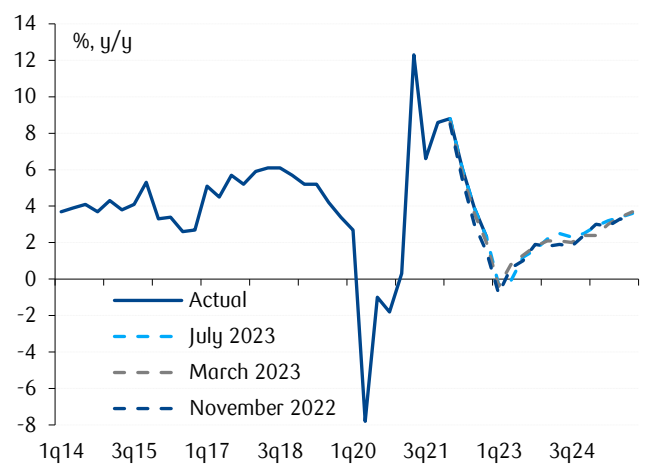
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

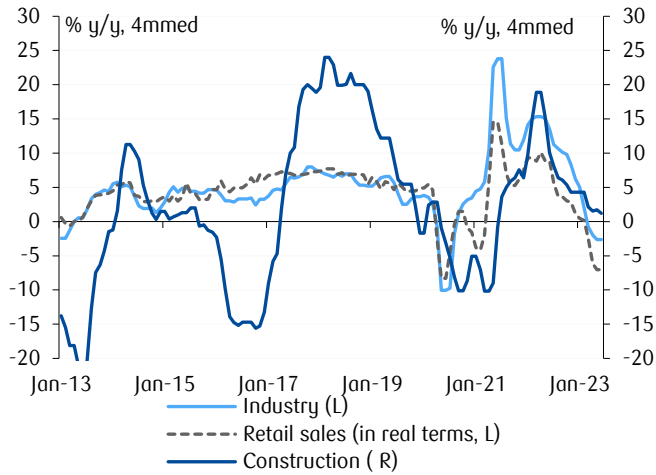


Real GDP growth - NBP projections vs. actual

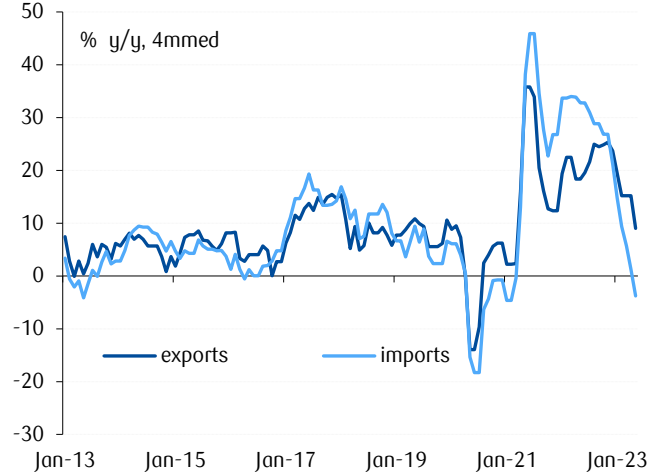


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

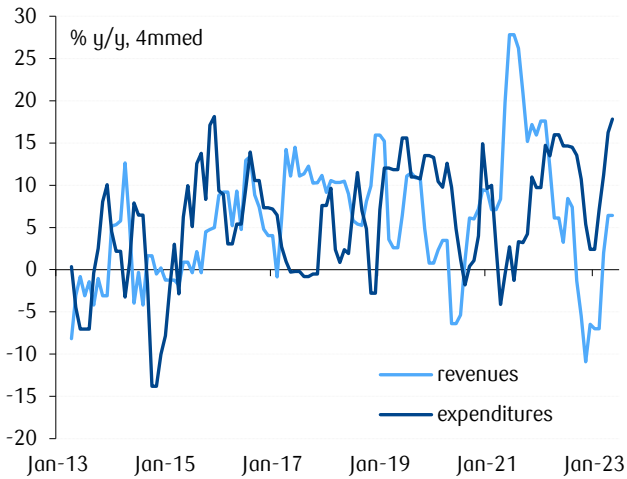
Economic activity indicators



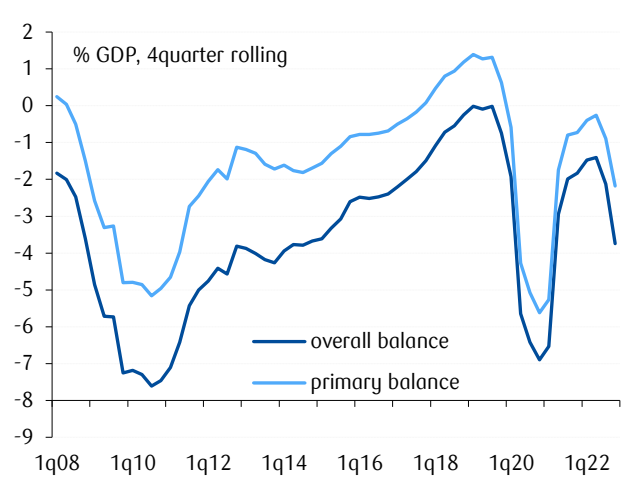
Merchandise trade (in EUR terms)



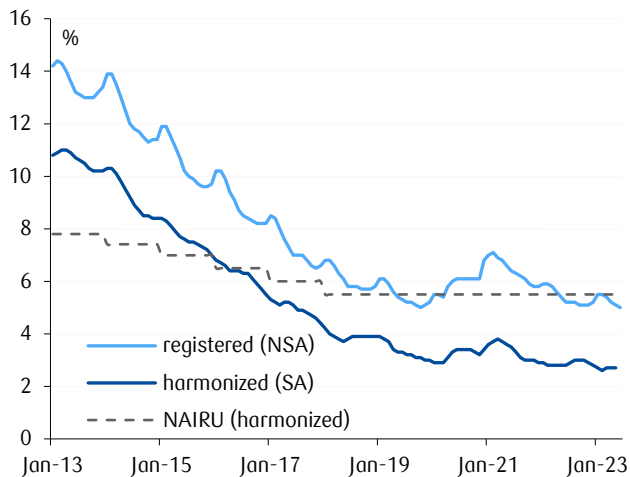
Central government revenues and expenditures*



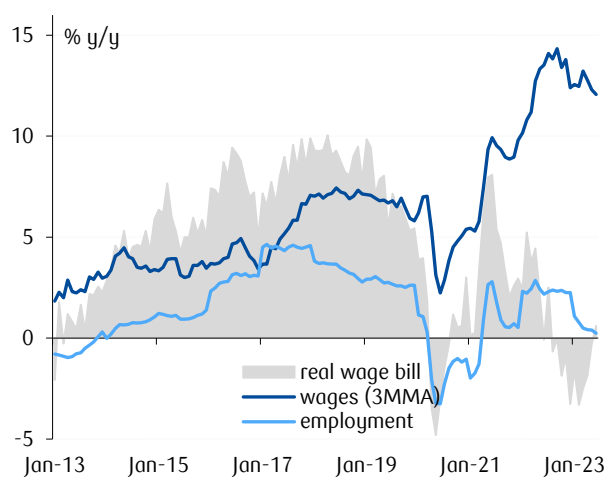
General government balance (ESA2010)



Unemployment rate

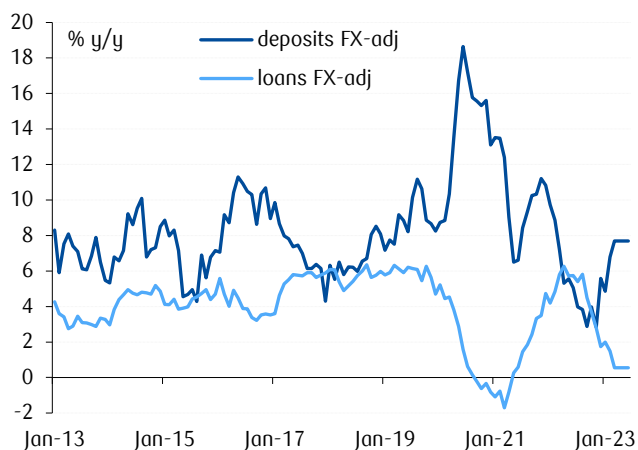


Employment and wages in the enterprise sector

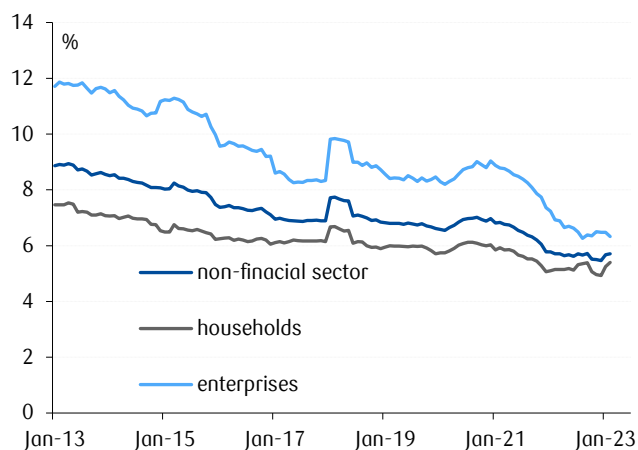


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

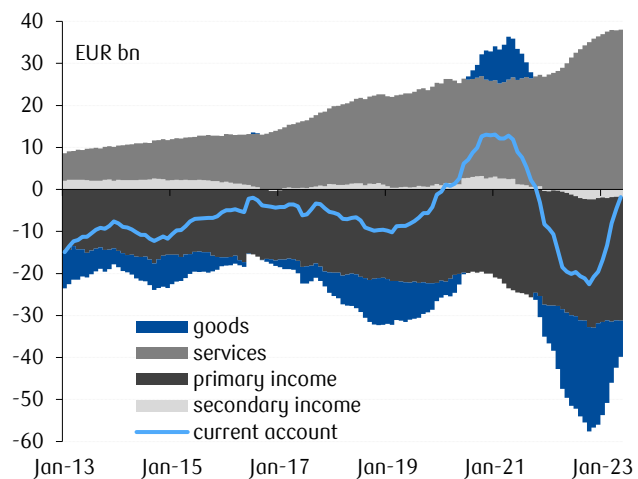
Loans and deposits



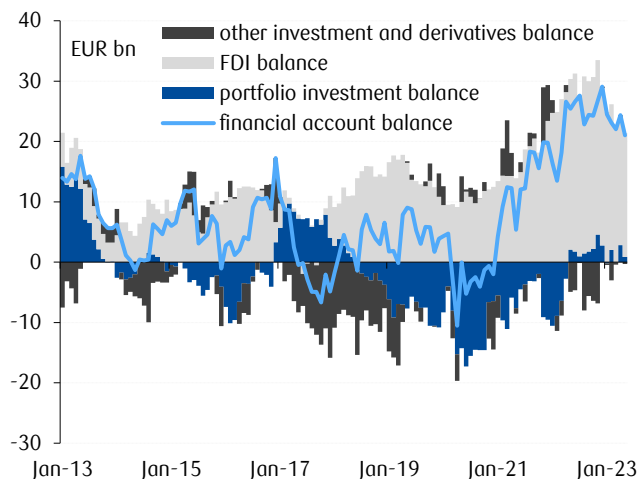
Non-performing loans (NPLs) - by sectors*



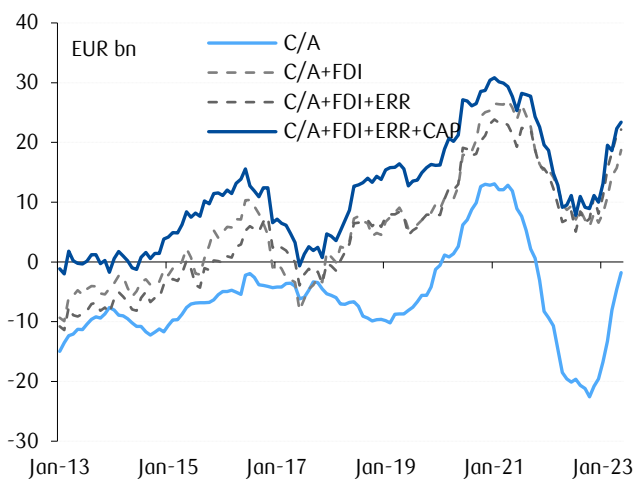
Current account balance



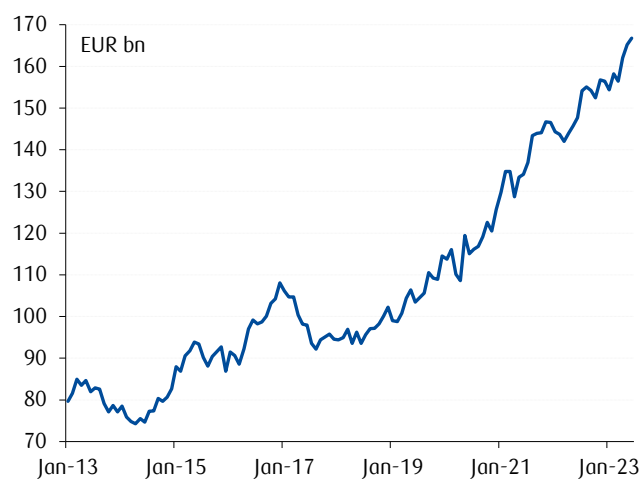
Financial account balance



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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- [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)
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- [Housing market: The worst is over](#) (Dec 16, 2022)
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- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)
- [A soft patch](#) (Nov 18, 2022)
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- [Is Poland crisis resilient?](#) (Oct 28, 2022)

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