

Summer sale

TOP MACRO THEME(S):

- **Consumers' belt tightening in the CEE continued in 2q23 (p.2):** Weak private consumption remained a drag on economic activity in the CEE region in 2q23. A rebound of real incomes is expected which should boost spending.

WHAT ELSE CAUGHT OUR EYE:

- **CPI inflation in July (flash reading) fell to 10.8% y/y from 11.5% y/y in June,** stronger than forecasted. Price level decreased m/m (by 0.2%) for the first time since Aug. 2020 (excluding the VAT reduction in Feb. 2022). Food prices were the main source of inflation drop, with some additional disinflationary impact generated by energy and core inflation. Core inflation fell to 10.7% y/y from 11.1% y/y, on our estimate. The focus now shifts to the CPI reading for August, as the fundamental question is: when does inflation turn single-digit, opening space for the first interest rate cut. Our current estimate shows CPI inflation in August at 10%. Food prices may push it below this level, while fuel prices generate the key upward risk. As a result, our base scenario still assumes the first interest rate cut in October. However, regardless of breaking the 10% level, we see a clear weakening of the momentum of core inflation, which reduces concerns about inflation persistence, improves the 2024 inflation outlook and increases probability of NBP interest rate cuts.
- **Manufacturing PMI in July declined to 43.5 (cons: 44.5) from 45.1 in June.** According to the PMI survey, July was the 15th consecutive month of production decline, and it brought the deepest drop in export orders since the pandemic May 2020. Along with weaker foreign demand, the level of inventories and the demand for labour (employment sub-index) decreased. The drop of input prices recorded in July was the deepest in the history of the survey. **Prices of finished products also fell at a record pace, as more than 27% of respondents lowered their charges last month.** Hopes of a recovery in demand and new orders supported optimism in the year-ahead outlook for production, but the confidence was weaker than the series-average.
- **Harmonised unemployment rate in Poland stabilised at 2.7% in June, and was the second lowest in the EU, right after Malta and jointly with Czechia.**

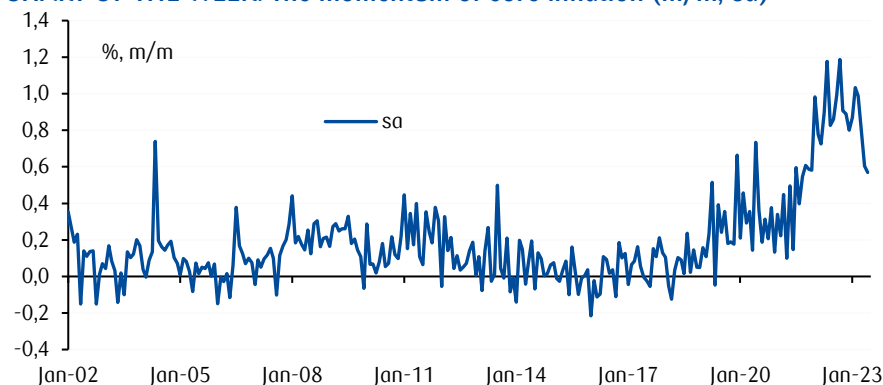
THE WEEK AHEAD:

- Idle week ahead without major domestic events and data releases.

NUMBER OF THE WEEK:

- **1.2%** – PLN depreciation against EUR during a week, the most since 24-30th Sep'22, following the strongest PLN appreciation trend since 2009-2010.

CHART OF THE WEEK: The momentum of core inflation (m/m, sa)



Chief Economist

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

Macro Research Team

[@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	-0.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.0
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	6.0
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, ^ under revision.

Consumers' belt tightening in the CEE continued in 2q23

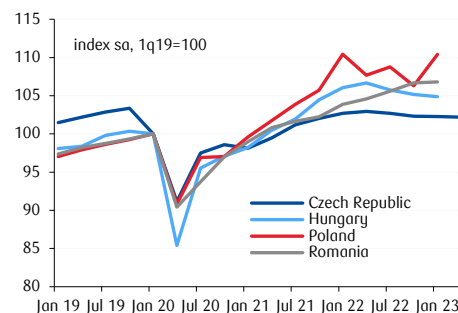
- 2q23 was marked by weak economic conditions in the CEE, in particular with regard to private consumption. At the same time falling inflation heralds improvement in real incomes and nascent recovery in spending. CEE central banks seem to be in the starting blocks to interest rate cuts, although some of them are less open than others to admit it.

Incoming monthly data suggest that weak economic conditions in the CEE region continued throughout 2q23. A pullback in spending continued as retail sales have been falling in y/y terms in the Czech Republic, Poland and Hungary, with the most profound fall in the latter one. Even in Romania consumer segment seems to be losing speed, as retail sales growth turned negative in April, for the first time in 3 years, implying that 2q23 was slightly worse than 1q23. In case of the Czech Republic, for which preliminary estimate of GDP growth in 2q23 is available, economy expanded by meagre 0.1% q/q (against 0.0% q/q in 1q23), balancing on the edge of recession and stagnation as private consumption stagnated in q/q terms. Renewed growth in real incomes should support household spending. The CNB expects a rebound of consumption in y/y terms at the end of 2023 and an actual recovery (positive growth q/q) in spring 2024. In Hungary household consumption is expected to return to an upward trajectory in 2024 amid positive real income growth. In Poland, where real wages started to rise after 10-months of declines, consumption has most likely passed the bottom.

Meanwhile, the disinflation in the region continues, with Czech inflation falling to single digit (9.7% y/y) in June and consumer price growth in Poland and Romania following suit with slight delay (10.8% y/y in July and 10.3% y/y in June respectively). Hungary experiences elevated inflation standing slightly above 20% y/y in June, however, just as food prices boosted CPI, they are also going to fuel its decline. Headwind may come from projected higher than average price adjustment in services in the beginning of 2024. Hungarian inflation is not expected to return to the tolerance band of deviations from the target until early 2025. Rapid disinflationary process in the Czech Republic is likely to be put on hold in 4q23 due to statistical base effect stemming from the introduction of reduced energy tariff a year earlier. A sudden drop in administered prices (from 34.2% y/y in 4q23 to just 1.3% y/y in 1q24) will stand behind CPI approaching 2% already in 2q24. NBR continues to see inflation falling in line with its May projection to 6.6% y/y in 4q23 and to 3.6% y/y by the end of projection horizon, not reaching the inflation target. In Poland, the NBP sees inflation reaching the upper band of deviations from the 2.5% target in 3q25.

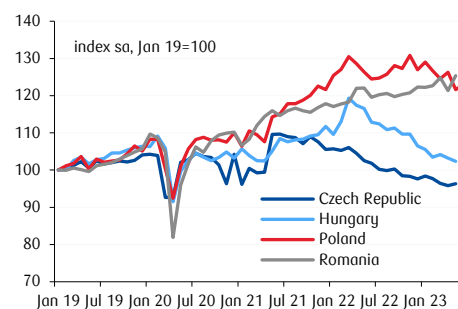
Despite most forceful disinflation taking place in the Czech Republic, the CNB is far from announcing immediate interest rate cuts, cooling emotions with statements that market expectations on rate cuts in 4q23 are exaggerated. In Hungary, monetary policy normalisation has already started with four cuts implemented on the upper bound of interest rate corridor and the effective rate already brought down to 15% from its peak at 18.0%. In Romania, the 3M ROBOR rate has also fallen closer towards the deposit rate. In Poland it seems that the MPC would be ready to reduce rates as early as in September subject to single-digit inflation in August.

Gross domestic product



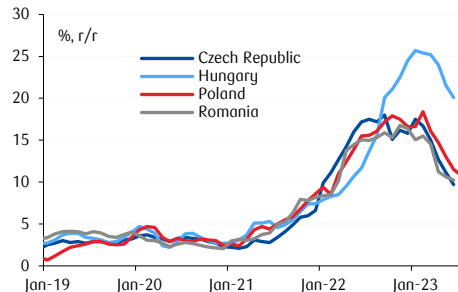
Source: Eurostat, PKO Bank Polski.

Retail sales



Source: Eurostat, PKO Bank Polski.

CPI inflation



Source: Macrobond, PKO Bank Polski.

CEE central banks' forecasts/projections

Czech Rep. (August)	2022	2023	2024
GDP	2.4	0.1	2.3
Private consumption	-0.8	-3.4	3.8
CPI inflation	15.1	11.0	2.1
Core inflation	13.2	7.9	3.5
Hungary (June)			
GDP	4.6	0.0-1.5	3.5-4.5
Private consumption	6.5	(-2.1)-(-1.3)	2.2-3.2
CPI inflation	14.5	16.5-18.5	3.5-5.5
Core inflation	15.7	17.7-19.6	4.6-7.0
Poland (July)			
GDP	5.1	0.6	2.4
Private consumption	3.3	-1.8	3.0
CPI inflation	14.4	11.9	5.2
Core inflation	9.1	10.5	6.1
Romania (July)			
Output gap (4q)	2.1	2.0	0.7
CPI inflation (year-end)	16.4	7.1	4.2
Adj. CORE2 (year-end)	14.7	9.3	4.8

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 7 August						
GER: Industrial production (Jun)	7:00	% m/m	-0.2	-0.4	--	--
GER: Industrial output (Jun)	7:00	% y/y	0.7	--	--	--
EUR: Sentix Index (Aug)	9:30	pts.	-22.5	-25	--	--
ROM: Monetary policy decision	13:00	%	7.00	7.00	7.00	--
USA: Consumer credit (Jun)	20:00	bn USD	7.24	13.5	--	--
Tuesday, 8 August						
GER: CPI inflation (Jul, final)	7:00	% y/y	6.4	6.2	--	--
GER: HICP inflation (Jul, final)	7:00	% y/y	6.8	6.5	--	--
HUN: CPI inflation (Jul)	7:30	% y/y	20.1	--	--	--
USA: Trade balance (Jun)	13:30	bn USD	-69	-65	--	--
Wednesday, 9 August						
CHN: CPI inflation (Jul)	2:30	% y/y	0	-0.5	--	--
CHN: PPI inflation (Jul)	2:30	% y/y	-5.4	-4.0	--	--
Thursday, 10 August						
CZ: CPI inflation (Jul)	8:00	% y/y	9.7	8.8	--	--
USA: CPI inflation (Jul)	13:30	% y/y	3	3.3	--	--
USA: Core inflation (Jul)	13:30	% y/y	4.8	4.8	--	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	217	--	--	--
Friday, 11 August						
USA: PPI inflation (Jul)	13:30	% y/y	0.1	0.7	--	--
USA: University of Michigan sentiment (Aug, flash)	15:00	pts.	71.6	71	--	--

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	"In the following five projections, prices only move further and further away from the target. On the other hand, the costs in the form of unemployment and/or smaller pay rises for employees are lower than it would result from the projection and are getting even lower. There is no room for interest rate cuts" (24.07.2023, 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	"Considerations on further interest rate increases should be suspended. (...) I do not see any reasons to think about and communicate interest rate cuts in the near future, but I count on the fact that such decisions may be taken by the majority of the Council." (31.07.2023, TVN24, PKO transl.)
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.

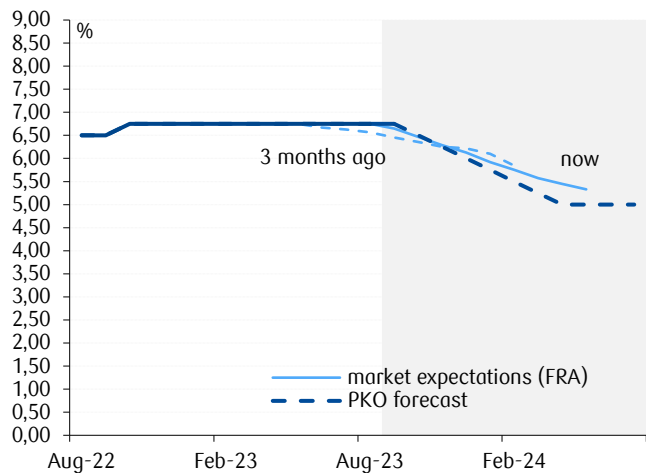
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	3-Aug	3-Sep	3-Oct	3-Nov	3-Dec	3-Jan	3-Feb	3-Mar	3-Apr	3-May
WIBOR 3M/FRA†	6.74	6.59	6.41	6.21	5.97	5.71	5.49	5.31	5.14	5.02
implied change (b. p.)		-0.15	-0.33	-0.53	-0.77	-1.03	-1.25	-1.43	-1.60	-1.72
MPC Meeting	6-Jul	-	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^		6.60	6.42	6.22	6.08	5.87	5.70	5.52	5.35	5.23

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

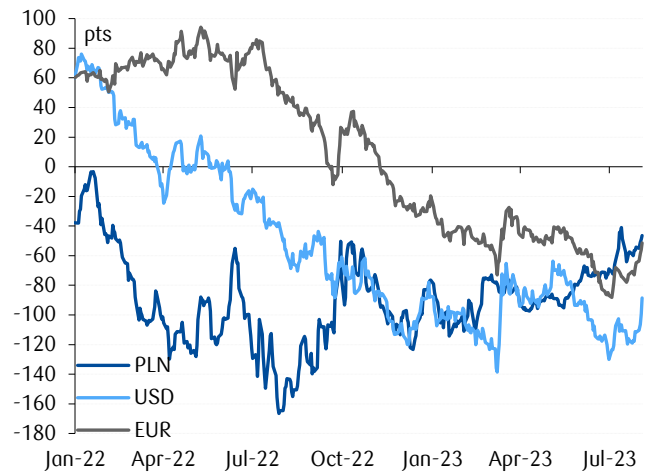
NBP policy rate: PKO BP forecast vs. market expectations



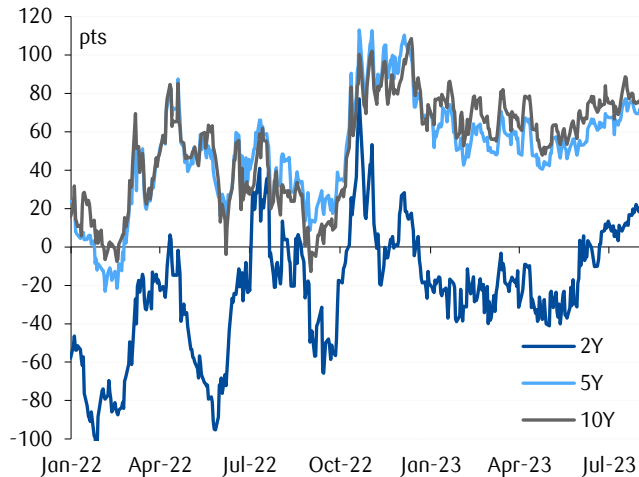
Short-term PLN interest rates



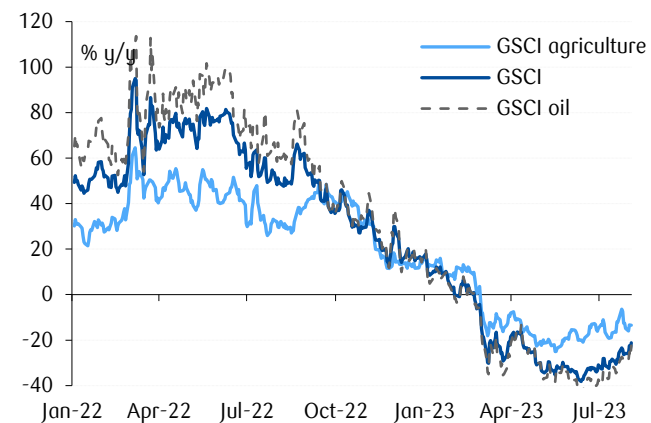
Slope of the swap curve (spread 10Y-2Y)*



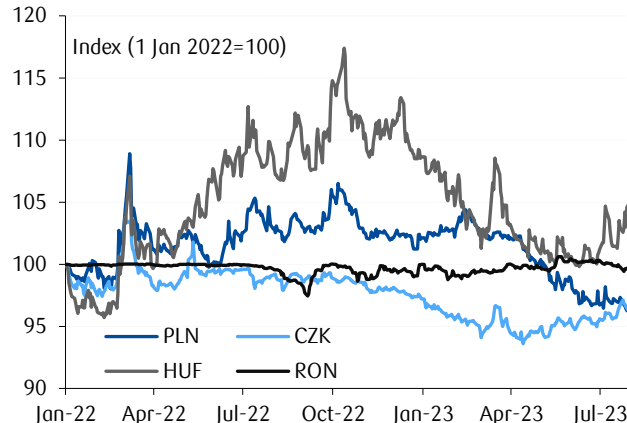
PLN asset swap spread



Global commodity prices (in PLN)

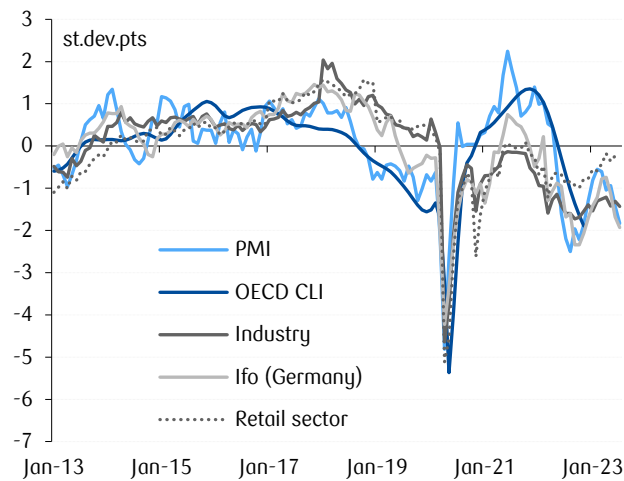


Selected CEE exchange rates against the EUR

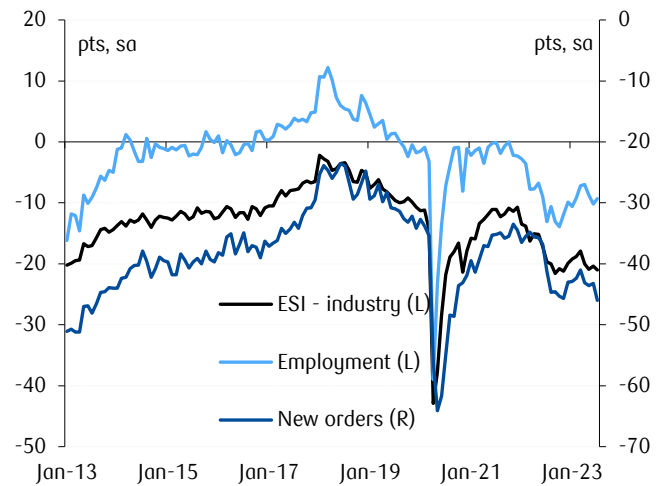


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

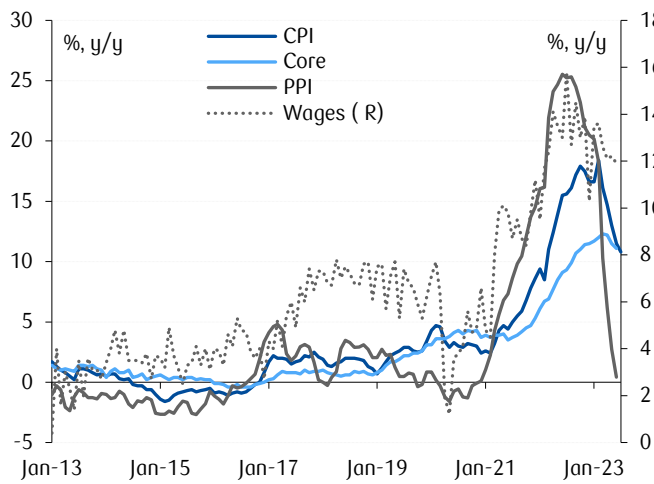
Economic sentiment indicators



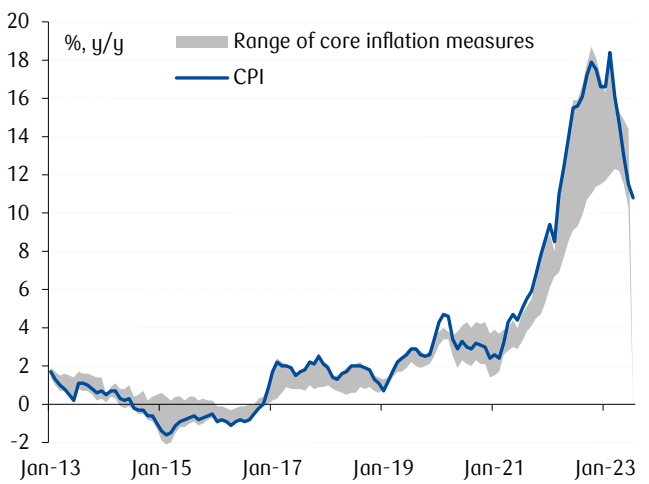
Poland ESI for industry and its components



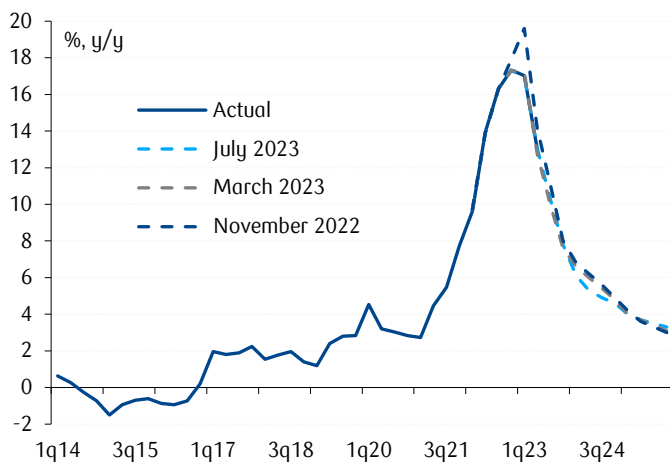
Broad inflation measures



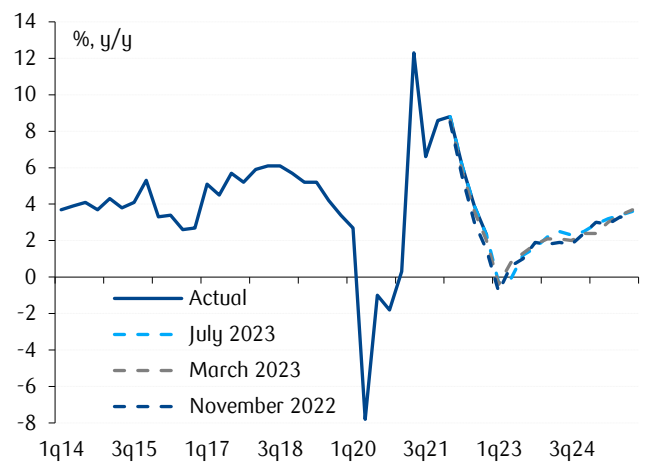
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

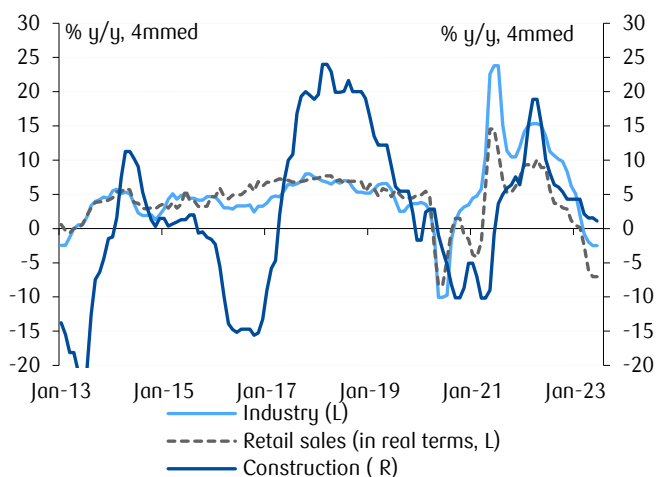


Real GDP growth - NBP projections vs. actual

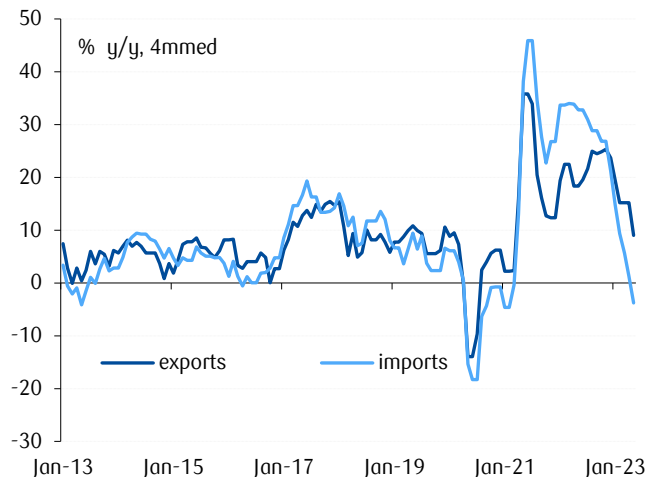


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

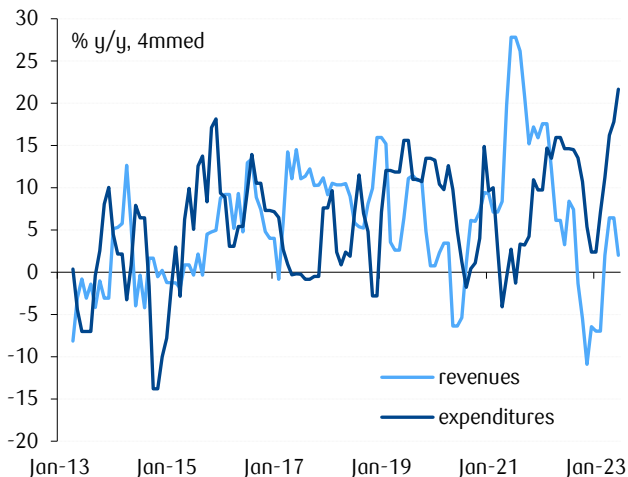
Economic activity indicators



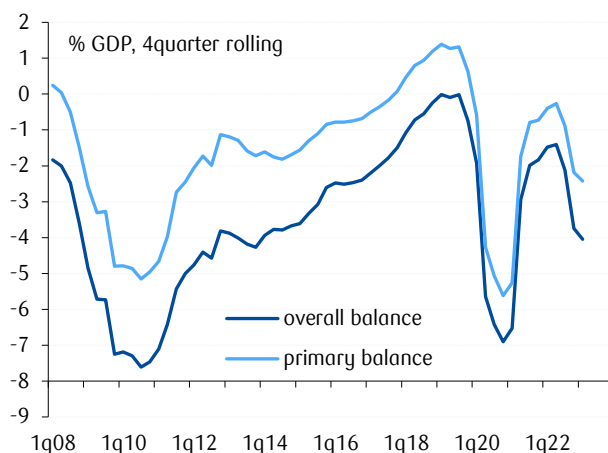
Merchandise trade (in EUR terms)



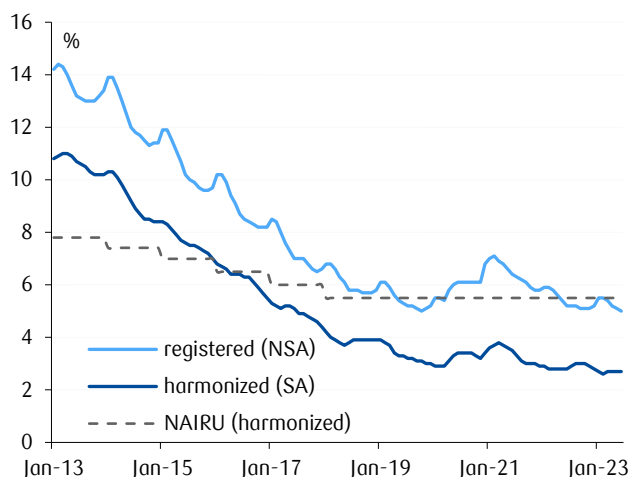
Central government revenues and expenditures*



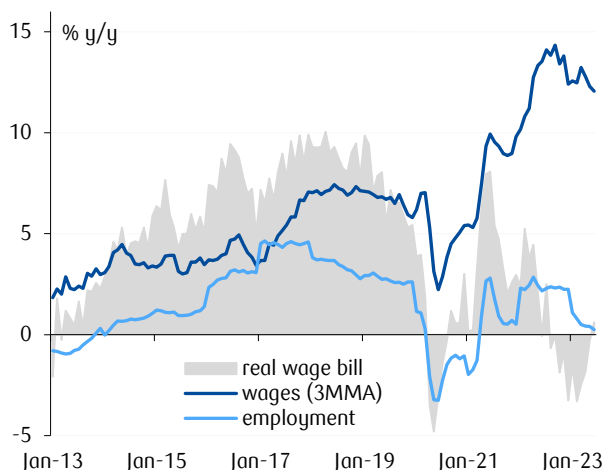
General government balance (ESA2010)



Unemployment rate

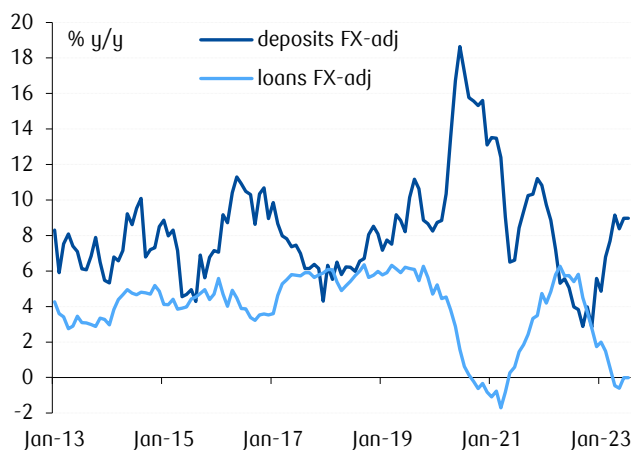


Employment and wages in the enterprise sector

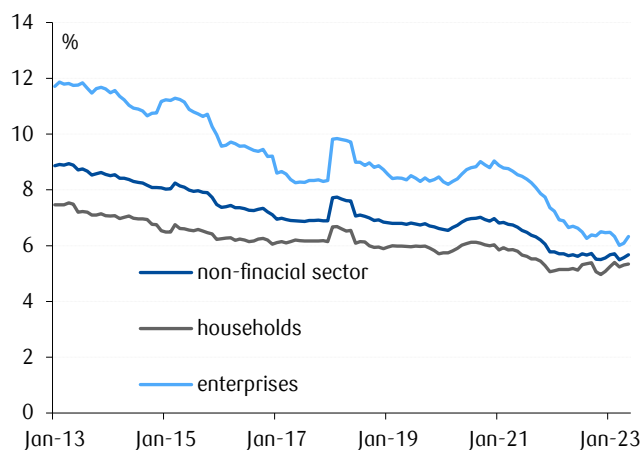


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

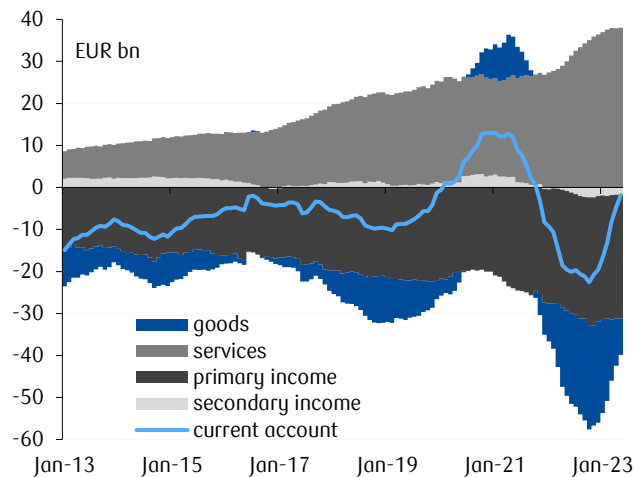
Loans and deposits



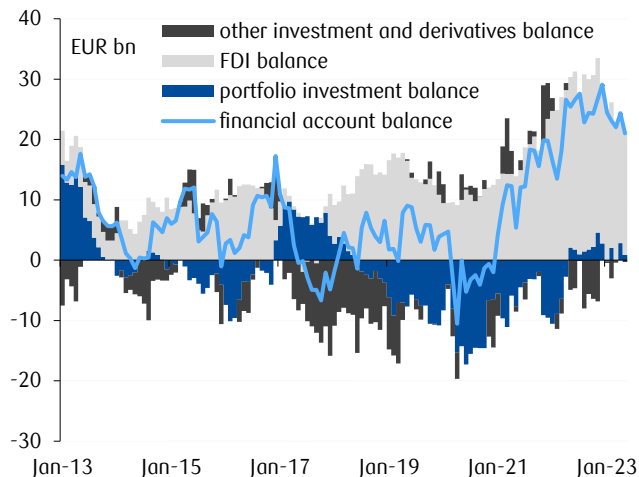
Non-performing loans (NPLs) - by sectors*



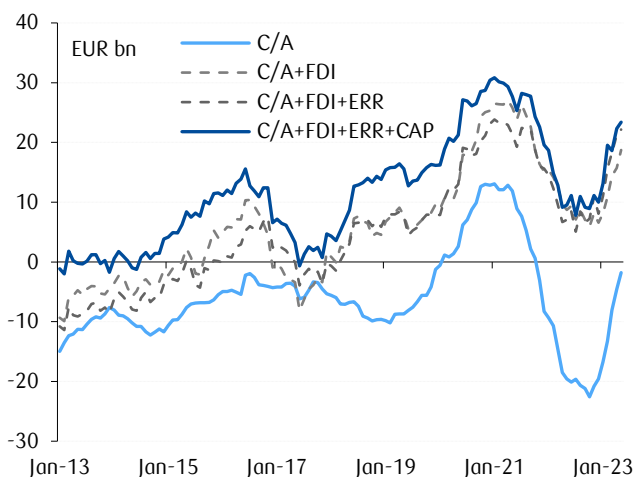
Current account balance



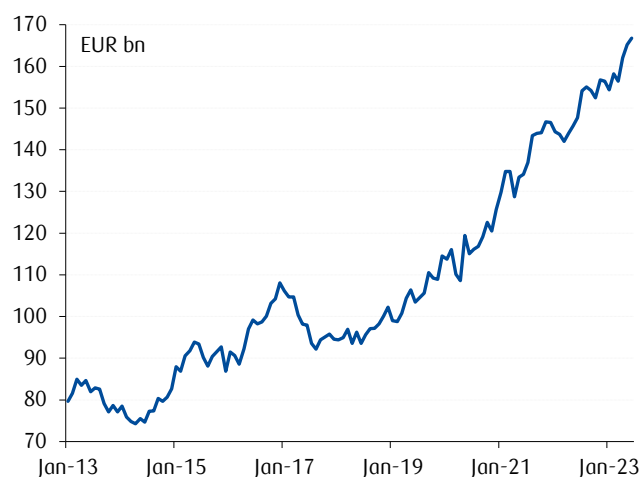
Financial account balance



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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- [Keep calm and don't expect too many cuts](#) (July 14, 2023)
- [The end of the tightening cycle](#) (July 7, 2023)
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- [A soft landing scenario](#) (June 23, 2023)
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- [Exports shine, disinflation continues](#) (June 2, 2023)
- [No fireworks at the start of 2q](#) (May 26, 2023)
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- [MPC changes nothing](#) (May 12, 2023)
- [CPI keeps falling down](#) (Apr 28, 2023)
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- [Inflation peak not as scary as feared](#) (Feb 17, 2023)
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- [Growth less inflation-prone](#) (Feb 3, 2023)
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- [Disinflation ahead](#) (Dec 2, 2022)
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- [A soft patch](#) (Nov 18, 2022)

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