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Economic Comment

CPI a notch above forecasts, GDP below

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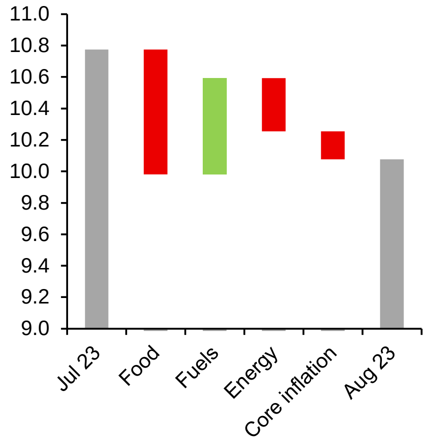
Inflation surprised to the upside in August, falling to 10.1% y/y. Thus, one of the conditions for a rate cut (one-digit CPI inflation), set by NBP president Adam Glapiński at the July MPC meeting, was not fulfilled. However, it will happen in September, as our current forecast for this month is at 8.9% y/y. At the end of the year CPI may be below 7%, but next year the downward trend will slow down due to the expected economic rebound, high wage growth, expansionary fiscal policy, but also revocation of the electricity price freeze and the zero VAT rate on food.

GDP growth was -0.6% y/y in 2Q23, a bit below the flash estimate. However, the detailed data look slightly less pessimistic than we anticipated. Overall, we think that the data are compatible with our long-held view that the slowdown in Polish economy recorded a trough in 1H23 and should be recovering in the coming quarters, with domestic demand revival being the main driver behind that. We see continuation of strength of investments and gradual turnaround in private consumption ahead, driving GDP growth towards 3% in 2024, from slightly below 1% on average in 2023.

CPI inflation change, breakdown, %y/y



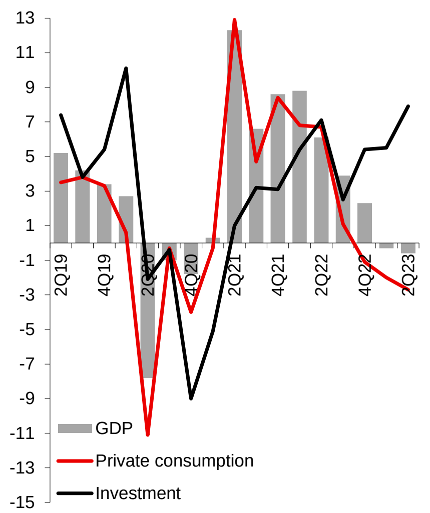
Source: GUS, Santander

CPI inflation still at double-digit levels

CPI inflation printed 10.1% y/y in August, a notch above our call and market consensus (both at 10.0% y/y). Food prices declined 1.0% m/m, energy prices were flat, in line with our forecasts. Fuel prices rose by 1.9% m/m, slightly higher than we expected, and core inflation seems to have declined less than we have assumed, to 9.9-10.0% y/y from 10.6% y/y in July (our forecast stood at 9.8% y/y).

Thus, condition for a cut (one-digit CPI inflation), set by NBP president Adam Glapiński at the July MPC meeting, was not fulfilled. However, it will happen almost surely in September, as our current forecast for this month is at 8.9% y/y. Based on these numbers, we are expecting the MPC to cut rates by 25bp in October. Still, a move in September cannot be ruled out, given that the August print confirmed that one-digit readings are within reach and given recent weaker economic numbers (GDP in 2Q23, July industrial output).

GDP and its components, % y/y



Source: GUS, Santander

GDP most likely reached the trough

GDP growth in 2Q23 has been revised down to -0.6% y/y vs. flash estimate -0.5% shown by GUS two weeks ago. However, if we go into the details, the data look slightly less pessimistic than we anticipated.

GDP growth and its components (% y/y)

	2021	2022	2Q22	3Q22	4Q22	1Q23	2Q23
GDP	6.9	5.1	6.1	3.9	2.3	-0.3	-0.6
Domestic demand	8.5	5.1	7.2	3.1	0.6	-5.2	-4.1
Total consumption	5.8	2.0	5.3	0.9	-3.3	-1.6	-1.5
Private consumption	6.2	3.3	6.7	1.1	-1.1	-2.0	-2.7
Public consumption	5.0	-2.0	1.3	0.4	-8.7	-0.5	2.6
Gross accumulation	19.4	15.9	14.6	10.5	10.4	-18.4	-14.3
Fixed investment	1.2	5.0	7.1	2.5	5.4	5.5	7.9
Stock building *	3.4	2.6	1.6	2.0	1.7	-4.6	-4.1
Net export *	-1.1	0.2	-0.6	0.9	1.8	4.8	3.4

* contribution to GDP growth (percentage points),
Source: GUS, Santander

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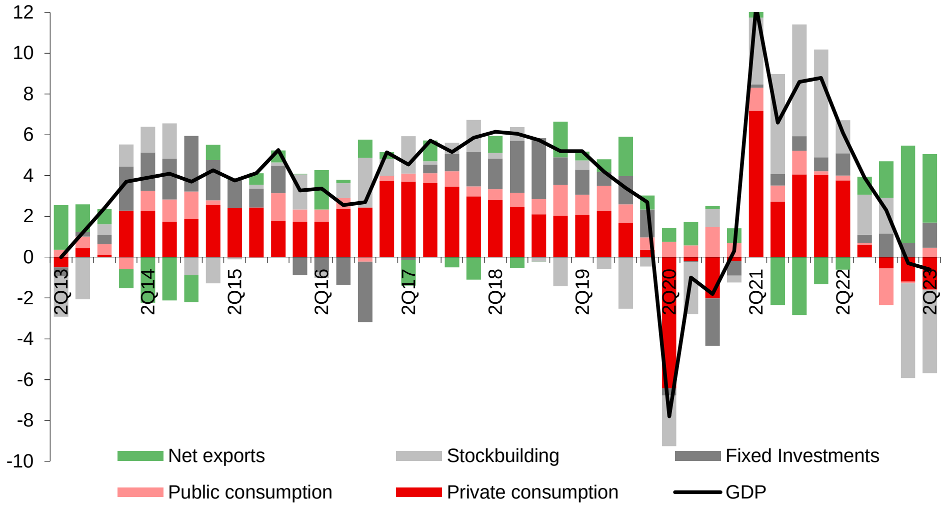
Domestic demand growth was -4.1% y/y, vs -5.2% in 1Q. Private consumption declined by 2.7% y/y (after -2.0% y/y in 1Q), less than we had expected. Investments accelerated further to 7.9% y/y from 5.5% in 1Q which is yet another surprisingly strong print given the circumstances (economy at the cycle trough, high interest rates environment, outlook for only modest global recovery with much uncertainty). The change in inventories trimmed GDP growth in 2Q by 3.8pp, while net exports' contribution was positive (+3.1pp), yet lower than we had assumed given a massive improvement in the foreign trade balance versus last year.

The statistical office revised the seasonally adjusted data, which now show a bit lower volatility in the headline number from one quarter to another. GDP in 2Q23 was now shown at -2.2% q/q s.a. while its flash print was -3.7%. The 1Q result was changed to +1.6% q/q s.a. from +3.8%. We still have doubts whether the revised numbers correctly reflect the real trends in the economy. Interestingly, the current data show that private consumption recorded two quarters in a row of improvement in s.a. terms, while before the revision the data indicated that it was still in deep contraction in 1Q.

Overall, we think that the data are compatible with our long-held view that the slowdown in Polish economy recorded a trough in 1H23 and should be recovering in the coming quarters, with domestic demand revival being the main driver behind that. We see continuation of strength of investments and gradual turnaround in private consumption ahead, driving GDP growth towards 3% in 2024, from slightly below 1% on average in 2023.

GDP growth and its components (% y/y)



Source: GUS, Santander

The value added side of the GDP data confirmed the weakness observed in industry (-1.2% y/y, and q/q s.a. showed the third consecutive decline, this time by 1.4%) as well as transport and storage (-4.9% y/y, -15.0% q/q s.a.). Deepening of decline in value added was also visible in trade and repair (-6.9% y/y from -4.4% in 1Q, -2.6% q/q s.a.). However, the other service categories taken together showed a growth rate of 4.6% y/y, down from 4.7% y/y in 1Q and an average of 4.9% y/y in 2H22. This is a solid result given that in previous downturns, positive growth in such category tended to disappear almost entirely.

It is worth to note that in spite of the annual GDP growth being negative in the first two quarters of 2023, the value-added growth during this period was positive (0.7% y/y in 1Q, 0.5% y/y in 2Q). The difference between these statistics equalled 1.0 percentage points in 1Q and 1.1 pp in 2Q, making it a record high. GDP is equal to the value added in the economy plus taxes on products minus subsidies on products. In our view, this unusual behaviour is primarily due to the increase in product subsidies in recent quarters, primarily through subsidies on energy and gas. Subsidies reduce the costs of companies, thereby allowing an accounting increase in the value added. However, they are included in GDP calculations with a negative sign, so the net effect is zero.

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