

## Polish GDP continues to shrink in 2Q23

In 2Q23, Polish GDP fell by 0.5% YoY (ING: -0.3%), following a 0.3% YoY decline in 1Q23. We see room for a downward revision to our GDP growth forecast for 2023 at 1%. The weak economy and inflation approaching single-digits will be arguments for the MPC to start interest rate cuts after the summer.



Seasonally adjusted GDP showed a 3.7% QoQ decline in economic activity, following a 3.8% QoQ increase in the previous quarter. Detailed data on GDP composition in 2Q23 will be released on 31 August, but our estimate is that the decline in household consumption worsened markedly in 2Q23 and was close to -3% in annual terms. We expect investment to have continued to grow, driven by the public sector and large companies, among others. Balance of payments data suggest that, in 2Q23, foreign trade had a positive contribution to annual GDP and should more than offset the negative impact of inventory changes.

The global environment (weak Chinese economy and dismal German industry performance) suggests that the recovery will be slow later this year and we will not see a markedly better economic performance before 4Q23. In the context of today's data, we see room for a downward revision of our GDP growth forecast for 2023, from the current 1%. We will provide a final estimate after the analysis of GDP composition in 2Q23.

The weak economy and inflation approaching single-digit levels will be arguments for the MPC to start a cycle of interest rate cuts after the summer. The 2Q23 GDP reading turned out to be worse than forecast in the July NBP projection (-0.1% YoY), and the outlook for 2H23 is also subject to rising downside risks. We expect the MPC to cut interest rates by 25bp in September.

## Author

### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

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