

## Revising our Polish GDP forecast lower after poor second-quarter data

Polish GDP in the second quarter has been revised down to -0.6% year-on-year from -0.5%. GDP contracted more than in the first quarter largely due to a deeper decline in private consumption. Monthly real economic data point to a slow recovery in the third quarter, leading us to downgrade our 2023 GDP growth projections



The outlook for the Polish economy for the remainder of the year is gloomy

The seasonally adjusted data for second-quarter GDP in Poland point to a 2.2% quarter-on-quarter decline, following a 1.6% QoQ increase in the first quarter. Despite some revisions, seasonally adjusted data remain excessively volatile and carry little informative value. We will therefore focus on analysing the data on an annual basis.

In the second quarter, domestic demand fell by 4.1% year-on-year following a 5.2% YoY decline in the previous quarter. An improvement in the foreign trade balance made a positive contribution of 3.1pp to the year-on-year change in GDP (4.3pp in 1Q23). The weakness in domestic demand was primarily driven by the deepening decline in household consumption, which fell by 2.7% YoY in the second quarter, following a 2.0% YoY decline in the first quarter. Despite some improvement, the real disposable income of households remains under pressure, and improved consumer sentiment has yet to translate into bolder purchasing decisions.

On the positive side, investment continues to come in higher than expectations, rising by 7.9% YoY in 2Q23, following a 5.5% YoY increase in 1Q23. Investment by large companies and public outlays are growing, while the situation seems to be much worse for small and medium-sized enterprises. The change in inventories was still a drag on GDP (-3.8pp in 2Q23 vs. -4.1pp in 1Q23).

We had previously expected a sluggish recovery in the second half of the year and more vivid growth in the fourth quarter, but the outlook has turned gloomier recently. July monthly figures were worse than expected and our forecasts for August retail sales and industrial production do not look pretty either. Household consumption in particular remains weak, while export prospects have deteriorated (mostly due to the poor performance of German industry and the deterioration in export orders). The risk is that the third quarter may not deviate much from 0% YoY and may even be slightly negative for the third quarter in a row. In the face of those facts, we are revising our 2023 economic growth forecast down to 0.4% from 1.0%.

A gradual rebound in late 2023 and 2024 should be supported by a recovery in private consumption, given improving real household disposable incomes and better consumer sentiment. However, households remain cautious and the revival in consumption is likely to lag the recovery in real purchasing power. In 2024, we expect GDP growth in the vicinity of 2.5% with a markedly weaker investment performance than this year (the start of the new EU financial perspective).

Weak economic conditions and inflation approaching single-digit levels should be arguments for the Monetary Policy Council (MPC) to start rate cuts as soon as September. The 2Q23 GDP dynamics turned out to be worse than the National Bank of Poland's July projection (-0.1% YoY), and the GDP outlook for the second half of the year is also subject to increasing risks. We expect the MPC to cut interest rates by 25 basis points at the September meeting.

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