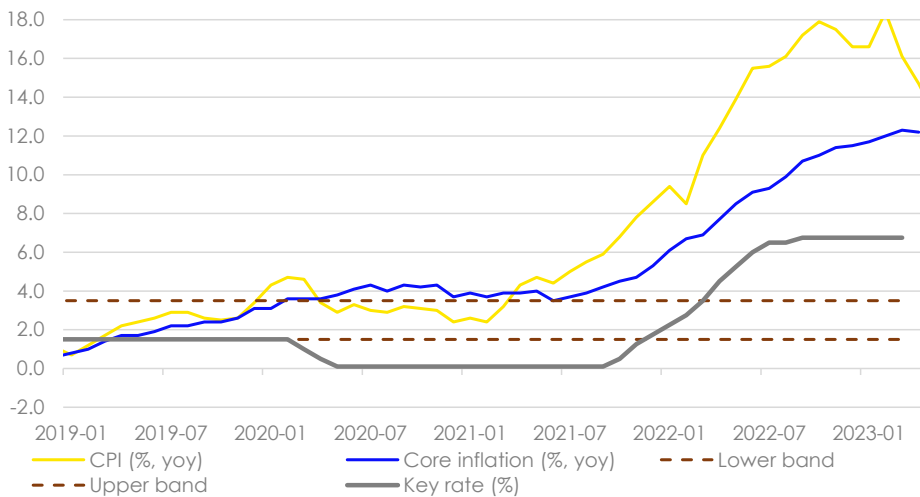


Poland Watch: Accelerated disinflation while consumption still weak

Disinflation accelerated in May while GDP details confirmed the weakness of the consumption and manufacturing sector as implied also by the PMI. The data does not affect our 0.5% YoY GDP forecast for 2023 and expectation for rate cuts in 2024. IMF's model suggests more hikes.



Disinflation now also in core categories?	1
GDP structure confirms weakness of consumer demand and the rise of net exports	2
PMI still in slowdown area	3
IMF's update on Poland	3
Disclaimer	5
Analyst	9



Source: Refinitiv, RBI/Raiffeisen Research

Disinflation now also in core categories?

The flash CPI release for May showed a stronger-than-expected decline to 13% from 14.7% YoY in April.

Prices stagnated amid an almost 5% MoM decline in fuel prices, a 0.5% MoM drop in energy prices, and a 0.6% MoM growth in food prices. For the second consecutive month, the latter has recorded lower dynamics, resembling the lower levels from 2021. The deceleration follows global food prices and was also visible last month in other countries in the region.

The flash data implies that core inflation dropped more than we expected to around 11.4% from 12.2% YoY, with the monthly dynamic probably near 0.4% MoM. This means that finally core inflation dynamics may stabilize and return to the pre-2022 MoM pattern.

The data released today adds downside risks to our full-year CPI forecast of 13.4% YoY and supports expectations of single-digit CPI growth in Q4. However, we still

Dorota STRAUCH

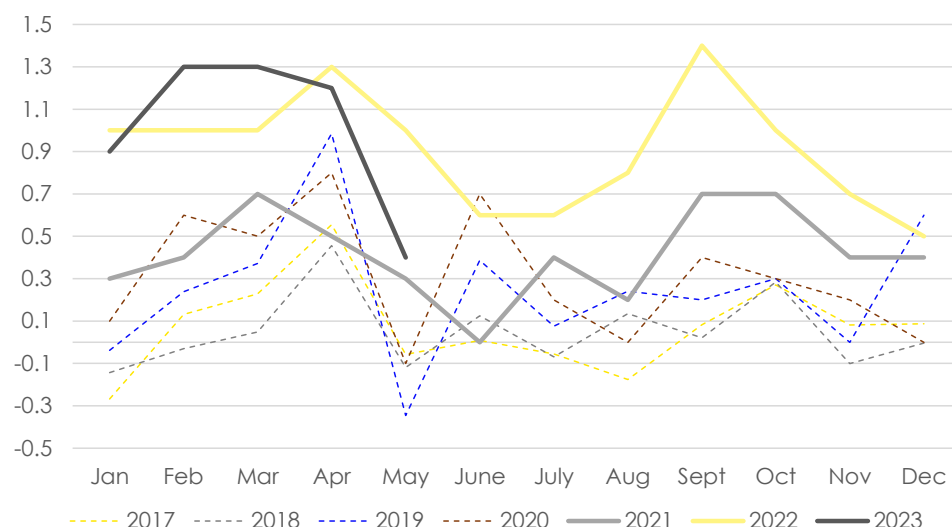
Analyst Editor

+48 609 920 663

dorota.strauch@raiffeisen.pl

see risks of the indicator staying above the central bank target in 2024. As a result, we still expect rate cuts to come into effect only in 2024.

Flash CPI data suggest core inflation dynamics finally normalise (on a mom basis)



% mom increase in core inflation in given month of each year

Source: Refinitiv, RBI/Raiffeisen Research

GDP structure confirms weakness of consumer demand and the rise of net exports

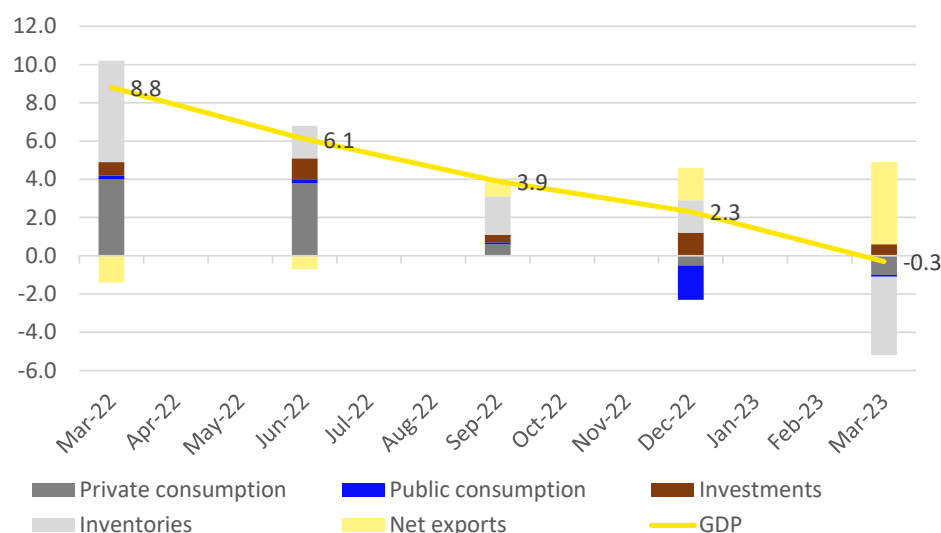
The CSO revised Q1 GDP to -0.3% YoY vs to -0.2% in the flash reading. The structure of growth showed further deterioration of private consumption (-2% YoY), while investment growth remained stable, rising by 5.5% YoY (5.4% in Q4'22). As expected, net exports rebounded significantly and added 4.3pp compared to 1.7% in Q4. This helped balance the negative impact of inventories (-4.1pp) and private consumption (-1pp).

As visualized below, the downturn continues in Poland, with inventories finally taking an opposite turn after contributing to growth in 2022. The weak consumer demand remains a key concern; however, we expect some recovery later in the year, especially as disinflation allows for a return to positive real growth in wages, amid an overall limited impact on the labour market (the unemployment rate in April declined to 5.2%, the lowest since Dec'22).

Looking at specific sectors, the -1.4% YoY change in value added for the industry is worth noting, given its relevance to the economy. Signs of renewed weakness were visible recently in confidence indicators, with industrial output also declining (on average by 3.5% YoY in Q1).

The data does not affect our GDP forecasts. As recovery will occur amid still weakened consumer demand and a high base from 2022, we expect GDP to grow by merely 0.5% YoY, while acknowledging some upside risks.

GDP growth and contribution: Negative dynamic in Q1 amid weak consumption and destocking



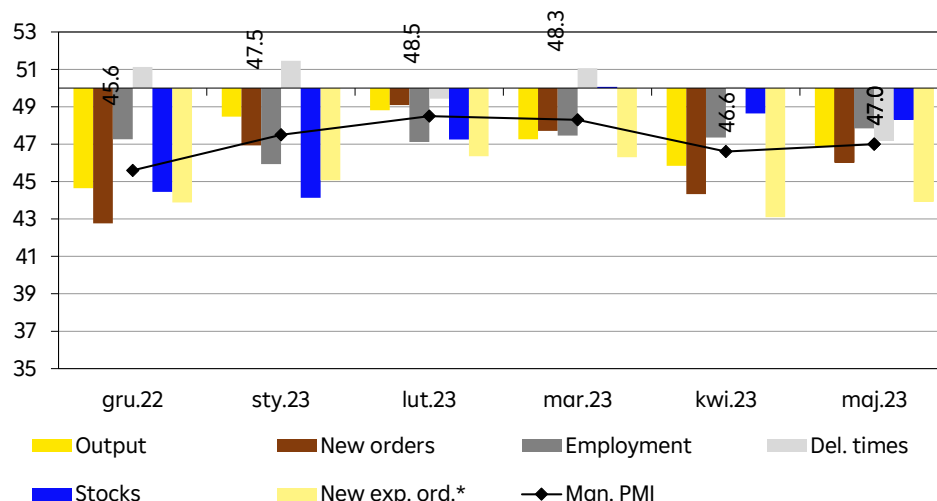
GDP in %, yoy, others in pp

Source: Polish CSO, RBI/Raiffeisen Research

PMI still in slowdown area

The Polish PMI increased slightly in May but remained below the 50-point threshold, measuring at 47 points, following a drop in April. The weakness can be attributed, among other factors, to the ongoing decline in output and orders, especially for exports. On a positive note, the [report](#) highlights improved supply-side conditions, while the most significant change in the indicator was driven by decreasing input and output prices. This improvement can be attributed to a stronger Polish złoty (PLN) and lower prices of certain materials.

PMI still showing weakness of the manufacturing sector



Source: Refinitiv, RBI/Raiffeisen Research

IMF's update on Poland

The latest [regular](#) update on Poland from the IMF included the results of its [monetary policy model \(QPM\)](#). While acknowledging the limitations of the model, the IMF model pointed to even higher interest rates in Poland. The alternative scenarios, which suggest rate cuts in 2024, align with our expectations (fast cuts from Q2'24, core inflation in target by the end of 2024).

Results of IMF's model and alternative scenarios

	Rate implications	Comments
QPM	125bp more hikes to 8% (vs 6.75 at end 2022), easing in late 2023	Larger impact on growth, FX appreciation brings core inflation in target by the end of 2024
On hold till 2024	Slow reduction to neutral rate	Less severe impact on growth vs QPM, but slower recovery, core inflation in target in 2025; consistent with RBI scenario
On hold till H2 2024	Faster reduction in H2 2024	Core inflation in target at the end of 2024, GDP slowest in 2024 vs other scenarios

Source: IMF, RBI/Raiffeisen Research

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Symbol	Date	Recommendation	Company
PL	02.05.2023	Under Revision	Poland

History of long term recommendations			
Symbol	Date	Recommendation	Company
PL	02.05.2023	Not rated	Poland

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	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	61.7%	60.3%
Hold recommendations	22.2%	21.8%
Sell recommendations	16.2%	17.8%

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	Column A	Column B
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Sell recommendations	17.5%	18.8%

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Thomas SternbachLegal and ComplianceRaiffeisen Bank International AGAm Stadtpark 9, 1030 WienTel: +43-1-71707-1541Fax: +43-1-71707-761541thomas.sternbach@rbinternational.com


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FABIAN BLASCH

📍 Austria 
✉ fabian.blasch@rbinternational.com


AMADEA HIESS

📍 Austria 
✉ amadea.hiess@rbinternational.com

MARKUS TSCHAEPECK

📍 Austria 
✉ markus.tschaepeck@rbinternational.com


VALBONA GJEKA

📍 Albania 
✉ valbona.gjeka@raiffeisen.al


OLGA ZHEGULO

📍 Belarus 
✉ olga.zhegulo@priorbank.by


MIRZA ZORNIC

📍 Bosnia Herzegovina 
✉ mirza.zornic@raiffeisengroup.ba

HELENA HORSKA

📍 Czech Republic 
✉ Helena.Horska@rb.cz

ZOLTÁN TÖRÖK

📍 Hungary 
✉ torok.zoltan@raiffeisen.hu


ANDREEA-ELENA DRAGHIA

📍 Romania 
✉ Andreea-Elena.DRAGHIA@raiffeisen.ro

GREGORY CHEPKOV

📍 Russia 
✉ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia 
✉ tibor_lorincz@tatrabanka.sk

GUNTER DEUBER

📍 Austria 
✉ gunter.deuber@rbinternational.com

MATTHIAS REITH

📍 Austria 
✉ matthias.reith@rbinternational.com


FRANZ ZOBL

📍 Austria 
✉ franz.zobl@rbinternational.com

FJORENT RRUSHI

📍 Albania 
✉ Fjorent.Rrushi@raiffeisen.al

ASJA GRDJO

📍 Bosnia Herzegovina 
✉ asja.grdjo@raiffeisengroup.ba


ELIZABETA SABOLEK-RESANOVIC

📍 Croatia 
✉ elizabetha.sabolek-resanovic@rba.hr

LEVENTE BLAHÓ

📍 Hungary 
✉ levente.blaho@raiffeisen.hu


DOROTA STRAUCH

📍 Poland 
✉ dorota.strauch@raiffeisen.pl


IONUT DUMITRU

📍 Romania 
✉ Ionut.Dumitru@raiffeisen.ro

STANISLAV MURASHOV

📍 Russia 
✉ stanislav.murashov@raiffeisen.ru

SERHII KOLODII

📍 Ukraine 
✉ serhii.kolodii@raiffeisen.ua


CASPER ENGELEN

📍 Austria 
✉ casper.engelen@rbinternational.com

GOTTFRIED STEINDL

📍 Austria 
✉ gottfried.steindl@rbinternational.com


BRISIDA BUZI

📍 Albania 
✉ Brisida.BUZI@raiffeisen.al


ARISTEA VLLAHU

📍 Albania 
✉ Aristea.Vllahu@raiffeisen.al

IVONA ZAMETICA

📍 Bosnia Herzegovina 
✉ ivona.zametica@raiffeisengroup.ba

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia 
✉ zrinka.zivkovic-matijevic@rba.hr

GERGELY PÁLFFY

📍 Hungary 
✉ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania 
✉ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia 
✉ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia 
✉ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine 
✉ oleksandr.pecherytsyn@raiffeisen.ua

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