

Dry loan tap has frozen the market

TOP MACRO THEME(S):

- **Dry loan tap has frozen the market (p. 2):** The large drop in demand for mortgages is a textbook reaction of the market to a series of interest rate hikes. Weaker lending activity results in a decline in sales of dwellings. The period of dynamic price increases in the housing market is coming to an end and we think a correction is likely in the coming year. At the same time, a strong increase in construction costs, with no possibility of further price increases, will limit the new supply.

WHAT ELSE CAUGHT OUR EYE:

- **Falling real labour income** in May (amid weaker employment and wages growth rate lagging inflation) as well as **darkening consumer sentiment** in June indicate that **Polish retailers will face a shake-up** as consumers trade down to beat rising prices. Only a basic stuff has recorded positive growth rates of sales in May, boosted by refugee spending.
- A robust **expansion in industry continued in May**, with capital goods output rising most – an indication that a shift in the structure of economic growth is likely (more investments, less consumption), but it is still too early to herald this. Indeed, **business sentiment survey** for June revealed that high costs of investment goods and elevated inflation still weigh on investment demand.
- **Narrow money (M1) adj. for inflation declined in May** by a whopping 12.4% y/y indicating a technical recession in Poland in coming quarters.
- Banking stats revealed that **PLN mortgage growth rate** (+8.6% y/y in May) hit a speed-bump and was even lower than in the post-GFC and pandemic crisis episodes. Declining housing starts (at a 25%-ish rate in May) bode ill for construction output, which held up well yet in midst 2q22.

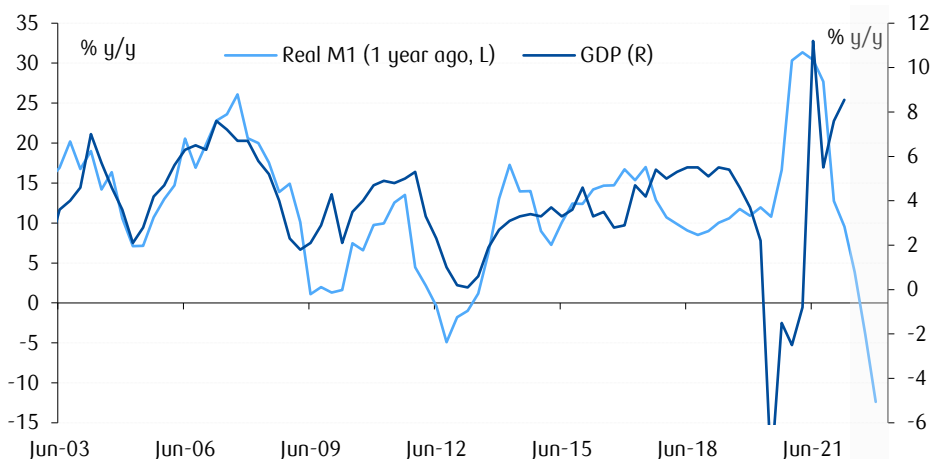
THE WEEK AHEAD:

- **CPI inflation in June** has been mercilessly heading north, most likely crossing 'a-15-per-cent' river.
- **Manufacturing PMI in June** stayed in a recession territory (on our estimates).

NUMBER OF THE WEEK:

- **6.83%** – 10Y POLGBs yield as of June 24, 133bps lower than 3 days earlier.

Industrial output of capital goods vs. investments – a light in a tunnel ahead?



Source: GUS, PKO Bank Polski.

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	2021	2022 _t
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate [#] (%)	5.4	5.8
CPI inflation ^{**} (%)	5.1	12.8
Core inflation ^{**} (%)	4.1	8.0
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.6	-2.3
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	49.9
NBP reference rate ^{##} (%)	1.75	6.50
EURPLN ^{†##}	4.60	4.55

Source: GUS, NBP, MinFin, †PKO BP Macro Research team forecasts; ‡PKO BP Market Strategy team forecasts; under revision; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end.

Dry loan tap has frozen the market

- The large drop in demand for mortgages is a textbook reaction of the market to a series of strong interest rate hikes that began in October '21 resulting in a decline in apartment sales. The period of dynamic increases in apartment prices is ending and it is possible to correct in the coming year. At the same time, a strong increase in construction costs, with no possibility of further price increases, will limit the new supply.

The rental market saw a strong increase in rental rates in 1q22, related to the housing needs of war refugees from Ukraine. Analysis of bid rates in the following months of 2q22 suggests stabilization of rates from April '22, at a high level of March '22. The revival on the rental market, related to meeting the housing needs of refugees, coincides with an increase in mortgage interest rates, which limits the access of some consumers to financing the purchase of a flat with a loan, naturally directing them to the rental market. In this situation, with short-term limited supply of apartments for rent and high demand in this market, rental rates are likely to remain high.

The implementation of the Financial Supervisory Authority's (KNF) recommendation by the banks, regarding the tightening of creditworthiness criteria from April '22, quickly and significantly reduced the availability of housing loans for some potential borrowers - apartment buyers. Currently, when calculating creditworthiness, banks take into account higher costs of maintaining a household and take actual interest rates increased by 5 pp.

According to BIK data, the value of granted housing loans decreased by 15.5% y/y in January-April (a decrease by 32.5% y/y in April alone). Also, the number of loans granted in this period decreased by 24.8% y/y (a decrease by 38.7% y/y in April alone). The declines were due to worsening consumer sentiment and lower creditworthiness of households. In May 2022, the value of inquiries on housing loans decreased by 51.1% y/y, this is the lowest reading in the history of the BIK survey for 14 years, i.e. since January 2008.

According to JLL monitoring of housing markets, developers sold 10,400 sq.m. of dwellings in 1q22 in the largest agglomerations (-31% q/q and -46% y/y). With weaker sales, the offer increased to 40.3 thousand of dwellings (+ 7.8% q/q and -4.8% y/y), this still is a low level compared to the last few years.

The accounting records of large developers (employing more than 49 people) at the end of 1q22 signal a weakening of demand for flats - customer prepayments grew slower, reaching the level of 1q21. The stocks of finished flats in 1q22 decreased slightly compared to 4q21, but were clearly higher in annual terms. Housing projects in progress were growing, with the continuation of weaker demand, this may mean problems with the sale of apartments in the second half of 2022.

Construction costs (excluding the cost of land) of selected facilities in 1q22, according to the current SEKOCENBUD rates, increased strongly - by 12-17% y/y depending on the facility (vs 10-15% y/y in 4q21). Disruptions in the markets of many raw materials used in construction, rising energy and fuel costs, and problems with labour shortage portend the continuation of the upward trend in construction costs.

In the baseline scenario, we assume a decline in home prices up to 5% in 2q22-1q23. The forecast consists of: (1) a strong decline in credit demand amid significant interest rate hikes; (2) significant decline in the creditworthiness of households following the implementation of the latest banking supervision recommendations; (3) assumption of an increase in the reference rate to the level of 6.50% and maintaining it at this level during the forecast period; (4) slow response of supply to weaker demand for apartments, especially in the situation of still large number of projects under construction.

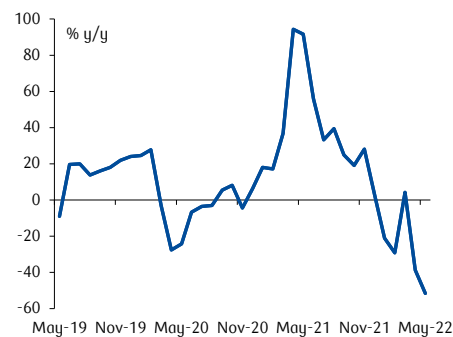
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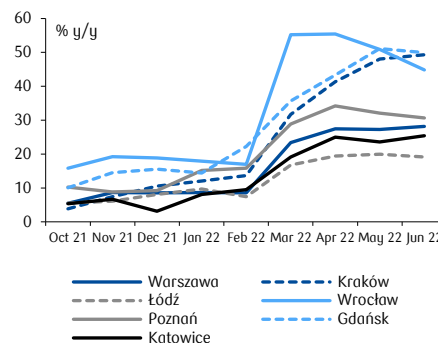
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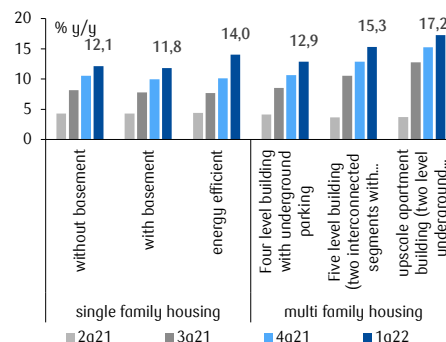
Value of inquiries on housing loans (BIK - Credit Information Bureau)



Rental rates (advertising portals)



Housing construction costs* (Sekocenbud)



*Construction costs excluding land.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 27 June						
USA: Durable goods orders (May, flash)	13:30	% m/m	0.5	0.1	--	--
Tuesday, 28 June						
HUN: MNB meeting	13:00	%	5.9	6.4	--	--
USA: Trade Balance (May)	13:30	bn USD	-106.7	--	--	--
USA: S&P CoreLogic CS 20-City (Apr)	14:00	% y/y	21.2	21.2	--	--
USA: Consumer confidence (Jun)	15:00	pts.	106.4	100.0	--	--
Wednesday, 29 June						
EUR: M3 money supply (May)	9:00	% y/y	6.0	5.8	--	--
EUR: Economic Sentiment Indicator (Jun)	10:00	pts.	105.0	103.5	--	--
EUR: Consumer Confidence (Jun, final)	10:00	pts.	-21.2	-23.6	--	--
GER: CPI inflation (Jun, flash)	13:00	% y/y	7.9	7.9	--	--
GER: HICP inflation (Jun, flash)	13:00	% y/y	8.7	8.8	--	--
USA: GDP growth (1q)	13:30	%q/q saar	-1.5	-1.4	--	--
USA: Personal consumption (1q)	13:30	%q/q saar	3.1	3.1	--	--
Thursday, 30 June						
GER: Retail sales (May)	7:00	% y/y	2.5	-1.8	--	--
SWE: Riksbank meeting	8:30	%	0.25	0.75	--	--
GER: Unemployment Rate (Jun)	8:55	%	5.0	5.0	--	--
USA: Personal Income (May)	13:30	% m/m	0.4	0.5	--	--
USA: Personal spending (May)	13:30	% m/m	0.9	0.4	--	--
USA: Initial Jobless Claims	13:30	ths.	229	--	--	--
USA: PCE Deflator (May)	13:30	% y/y	6.3	--	--	--
USA: Core PCE inflation (May)	13:30	% y/y	4.9	4.8	--	--
Friday, 1 July						
CHN: Manufacturing PMI (Jun)	2:45	pts.	48.1	--	--	--
POL: Manufacturing PMI (Jun)	8:00	pts.	48.5	48.5	48.5	We expect that PMI indicator will remain below 50 pts. due to sustained decreases of production and new orders subindices.
GER: Manufacturing PMI (Jun, final)	8:55	pts.	54.8	52.0	--	--
EUR: Manufacturing PMI (Jun, final)	9:00	pts.	54.6	52.0	--	--
POL: CPI inflation (Jun, flash)	9:00	% y/y	13.9	15.6	15.1	Due to strong petroleum prices increases and to a lesser extend food prices we expect that CPI will top 15% and come closer to its peak.
EUR: CPI inflation (Jun)	10:00	% y/y	8.1	8.3	--	--
EUR: Core inflation (Jun, flash)	10:00	% y/y	3.8	3.9	--	--
USA: Manufacturing PMI (Jun, final)	14:45	pts.	57.0	52.4	--	--
USA: ISM Manufacturing (Jun)	15:00	pts.	56.1	55.4	--	--

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^
L. Kotecki	4.8	"This year and possibly also next year, inflation will hold at double-digit levels, especially given the likelihood of further growth of energy prices," he said. "That means that we won't end the interest rate hike cycle quickly, because that would weaken the zloty." (22.06.2022, PAP)
H. Wnorowski	4.2	"We are certainly closer to the end of rate hikes cycle than to the beginning. . . I see room for at least two more consecutive hikes. If signals from the economy allowed for just two consecutive rate hikes, it would be a good scenario for the economy." (21.06.2022, PAP)
A. Glapinski	3.4	"We are certainly closer to the end than to the beginning of the cycle. (...) Assuming that no unexpected events take place, towards the end of 2023 the option could open to cut interest rates. (...) What if inflation peak shifts to the autumn? Then the rate hike cycle will last longer." (9.06.2022, NBP)
R. Sura	3.4	"We should adjust the scale of hikes to inflowing data on inflation and business sentiment, as well as to forecasts. Hence, the Council does not set the target interest rate level or the time frame for tightening. It would be difficult even without the additional uncertainty tied to the war in Ukraine." (24.05.2022, PAP).
I. Dqbrowski	3.1	"Poland is not expected to suffer stagflation within a year." (23.05.2022, PAP)
C. Kochalski	3.1	"The room for rate hikes is in July, possibly also in September. (...) 50-75 bps are the very likely ranges of the pace of change of interest rates. (...)We expect inflation peak to take place in Q3." (10.06.2022, PAP).
P. Litwiniuk	2.9	"I am a proponent of monetary policy tightening, but not [PAP: of one conducted] in a sudden manner (...) I believe that rate hikes should take place at a pace allowing stakeholders from the banking sector, including borrowers, to adapt to this phenomenon." (16.05.2022, TVN24, PAP)
W. Janczyk	2.4	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...)That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
(Vacant places)	--	--

*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.

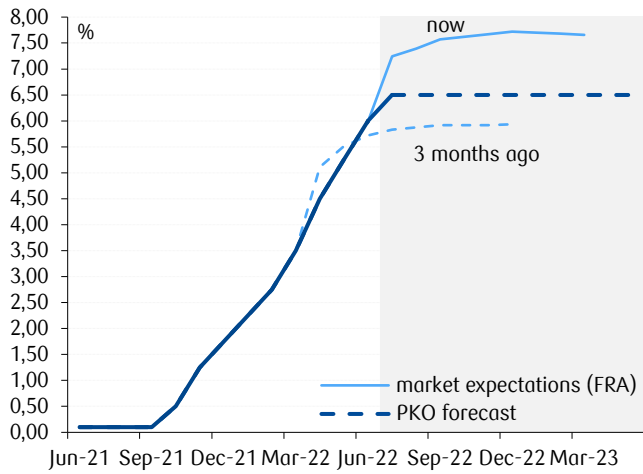
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	23-Jan	23-Feb	23-Mar
WIBOR 3M/FRA†	6.98	7.45	7.59	7.77	7.82	7.87	7.92	7.90	7.88	7.86
implied change (b. p.)		0.47	0.61	0.79	0.84	0.89	0.94	0.92	0.90	0.88
MPC Meeting	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-
PKO BP forecast*	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
market pricing*		6.47	6.61	6.79	6.84	6.89	6.94	6.92	6.90	6.88

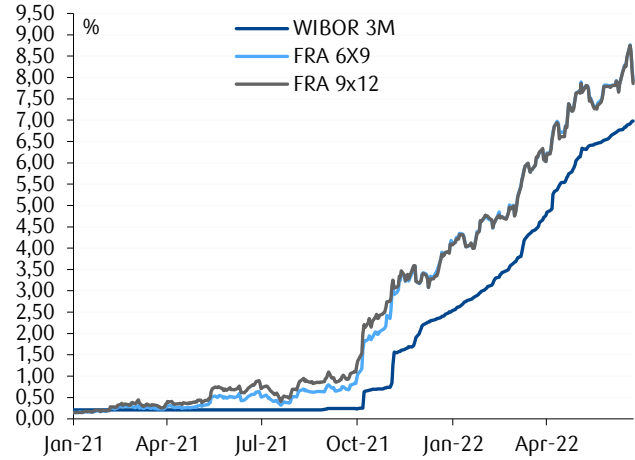
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

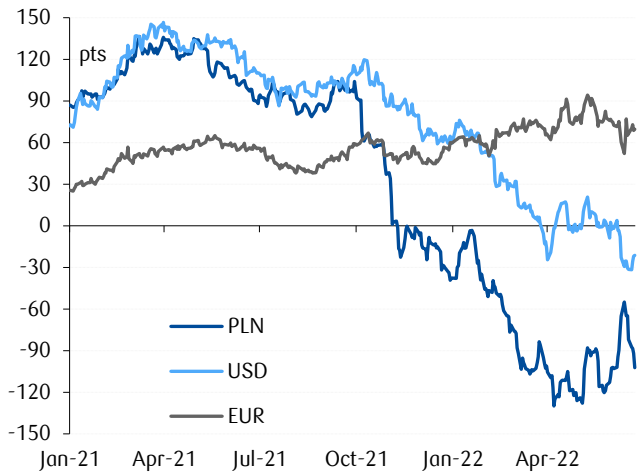
NBP policy rate: PKO BP forecast vs. market expectations



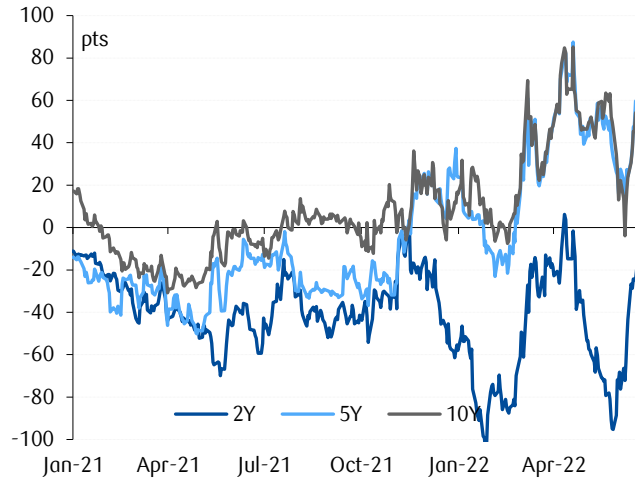
Short-term PLN interest rates



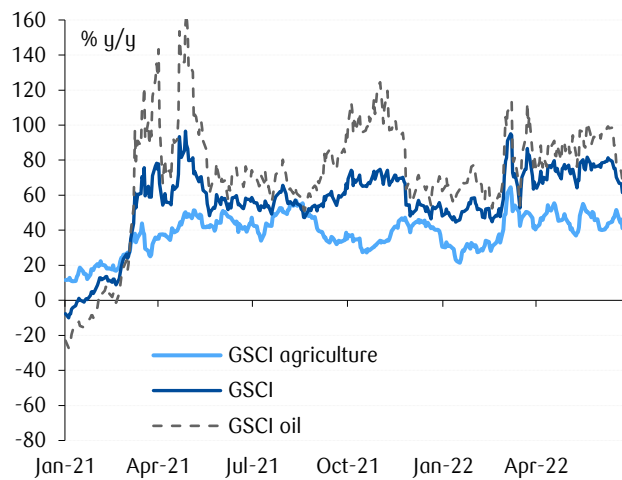
Slope of the swap curve (spread 10Y-2Y)*



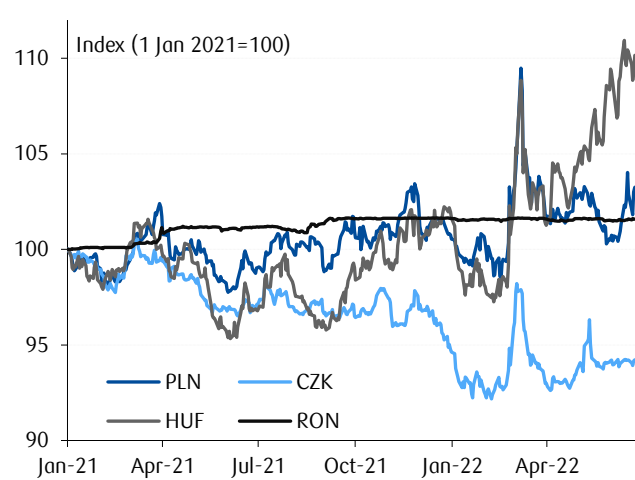
PLN asset swap spread



Global commodity prices (in PLN)

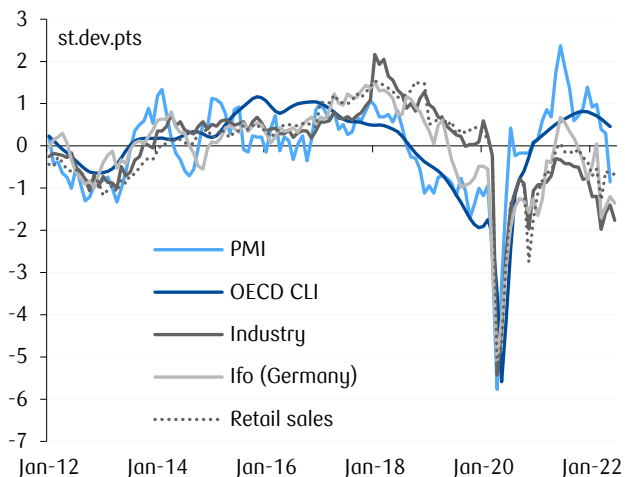


Selected CEE exchange rates against the EUR

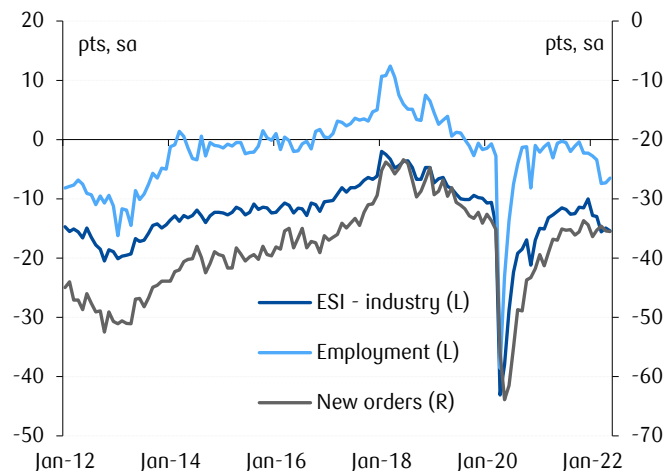


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

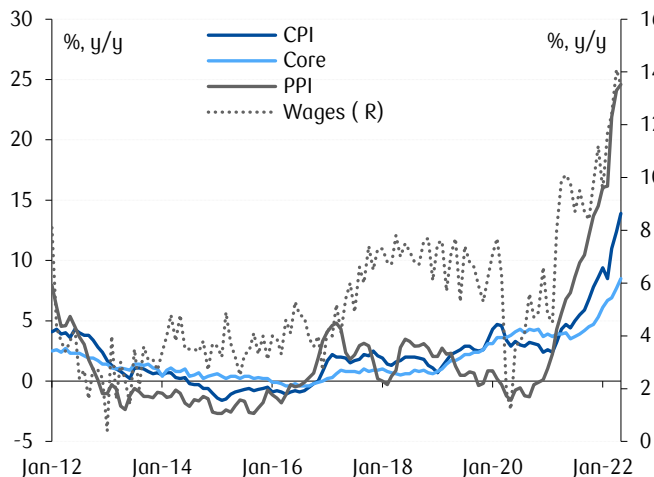
Economic sentiment indicators



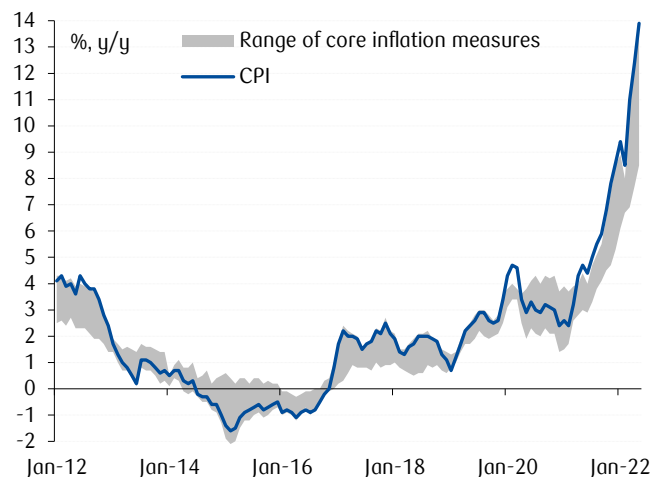
Poland ESI for industry and its components



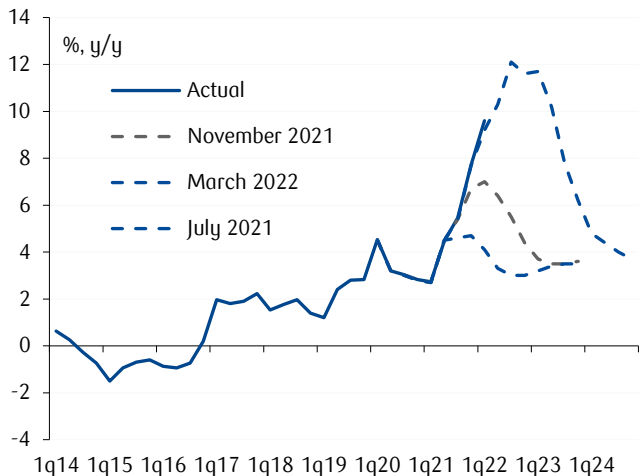
Broad inflation measures



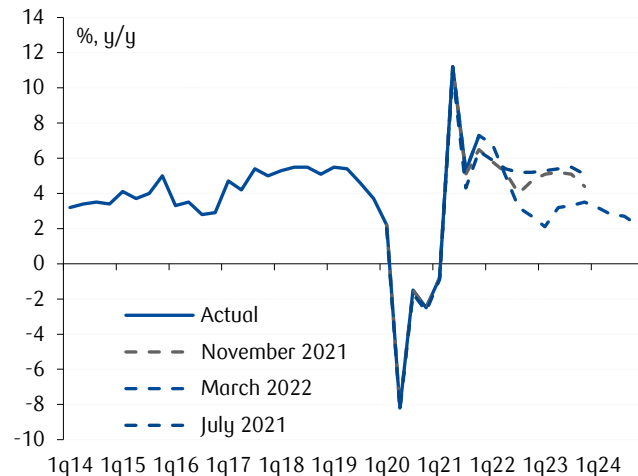
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

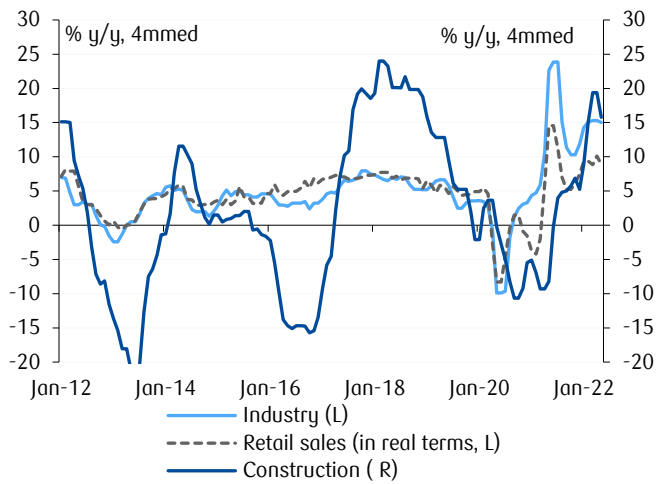


Real GDP growth – NBP projections vs. actual

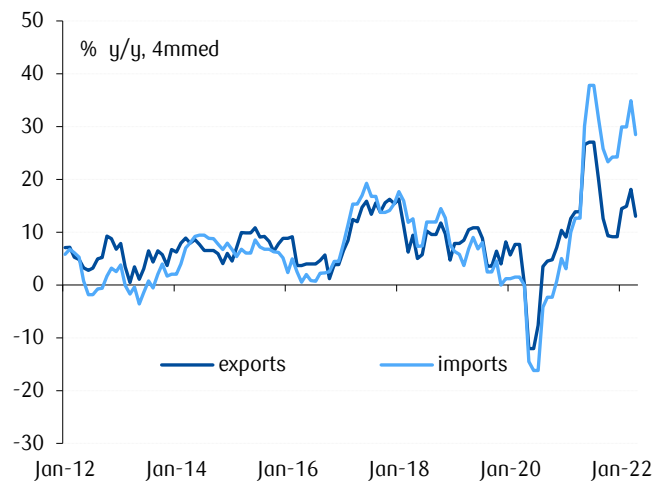


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

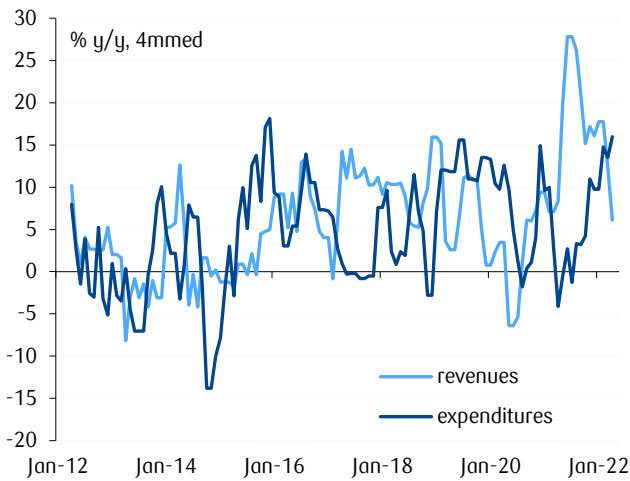
Economic activity indicators



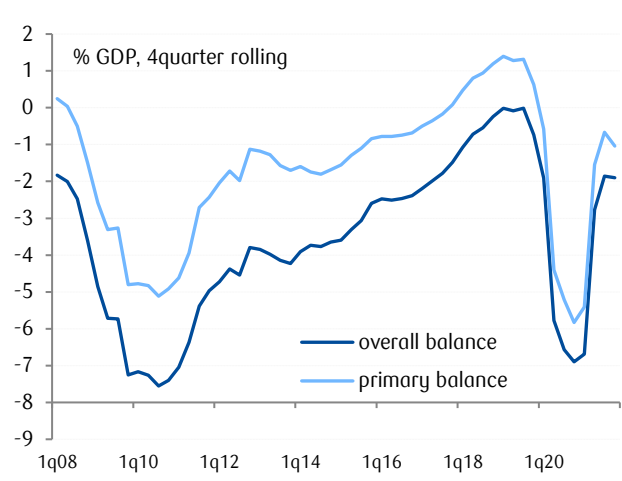
Merchandise trade (in EUR terms)



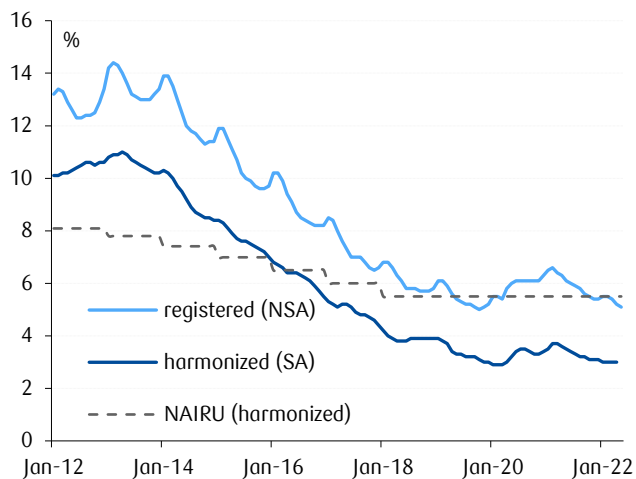
Central government revenues and expenditures*



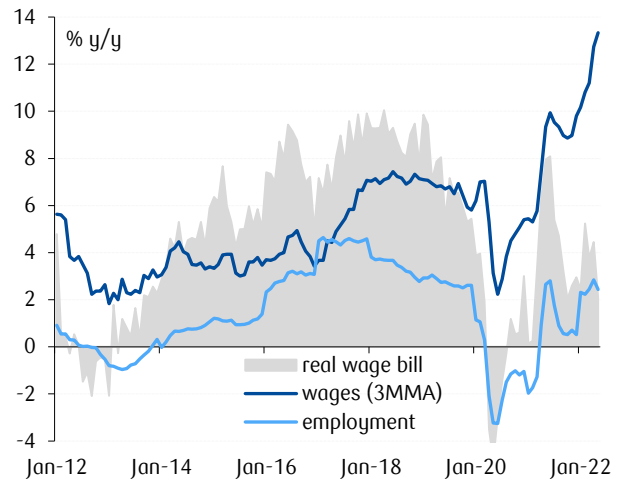
General government balance (ESA2010)



Unemployment rate

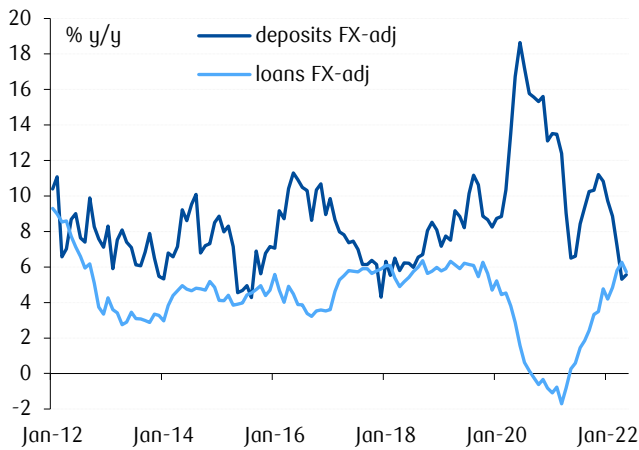


Employment and wages in the enterprise sector

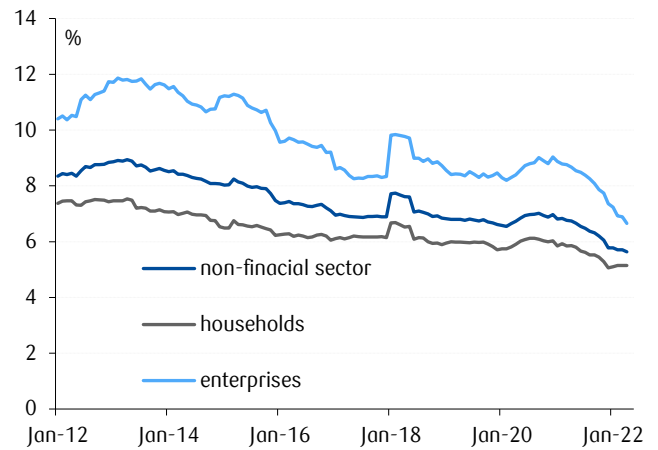


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

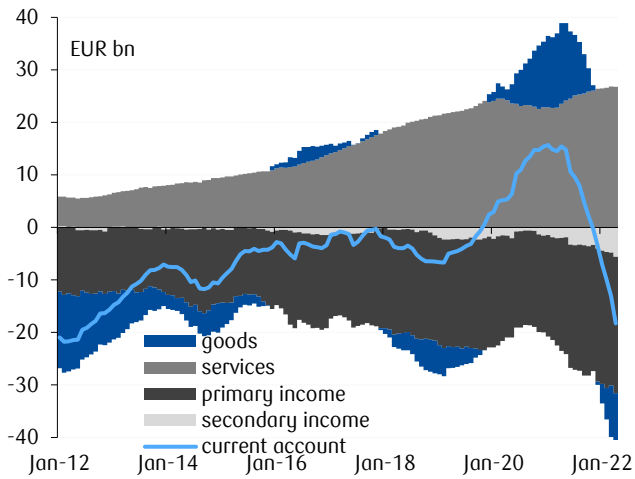
Loans and deposits



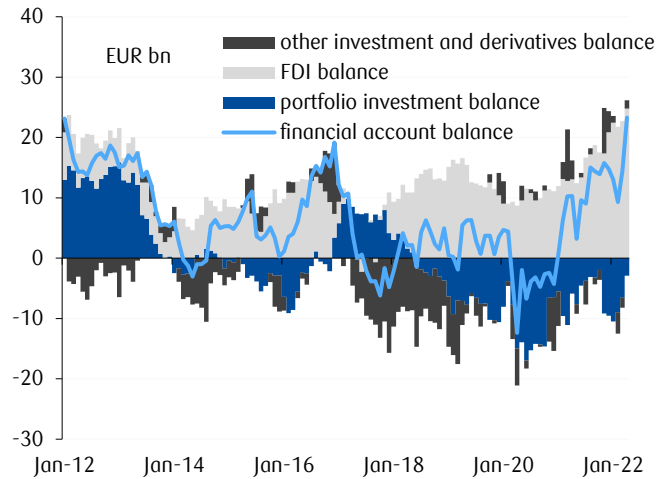
Non-performing loans (NPLs) - by sectors*



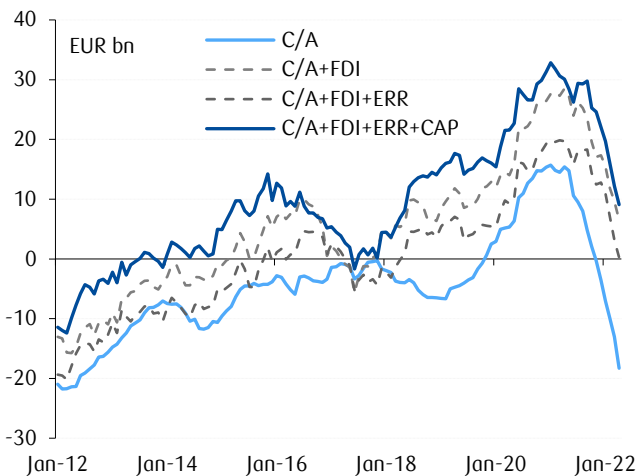
Current account balance



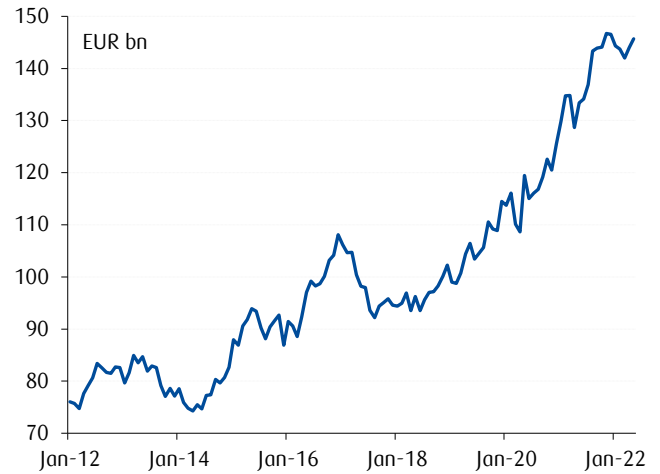
Financial account balance



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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- [MPC is slowing down](#) (May 6, 2022)
- [100bps month by month?](#) (Apr 29, 2022)
- [Nothing lasts forever](#) (Apr 22, 2022)
- [Deleveraging](#) (Apr 8, 2022)
- [The economic whirlwinds of war](#) (Apr 1, 2022)
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- [Inflation's back, policy fights back](#) (Jan 14, 2022)
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- [Can households afford NBP rate hikes?](#) (Nov 5, 2021)
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