

Expected interest rate cuts support the housing market

TOP MACRO THEME(S):

- **Housing market on the path to recovery (p. 2):** Revival in transactional volumes and return to increasing housing prices were the main market trends in 1q23.

WHAT ELSE CAUGHT OUR EYE:

- **CPI inflation in June declined further to 11.5% y/y from 13.0% y/y in May.** Fuel price drop, lower core inflation as well as decelerating energy and food prices were conducive to the decline of CPI vs. May. For the first time in 2 years a monthly fall in food prices was recorded (with the exception of the introduction of Anti-inflationary Shield in Feb'22). Core inflation surprised positively falling stronger than expected, most likely to approx. 11% y/y.
- **According to preliminary data, the budget deficit after May increased by 10.8bn PLN against April to 20.8bn PLN.** Budget deterioration stemmed from a negative impact of lower tax burden on labour and reduced VAT rates. On the expenditures side, higher debt service costs and defence spending contributed most to the worsening of the budget balance. However, we link this deterioration to anticipated "fiscal consolidation" involving a shift of off-budget expenses towards including them in the state budget. We maintain our forecast for the public finance sector deficit at 5.4% GDP in 2023.
- **Registered unemployment rate in May fell to 5.1%.** The number of unemployed for company reasons was 0.8% lower than in May 2022, while those unemployed for longer than a year fell by 20% y/y. Hence we see no potential for a significant increase of unemployment rate.

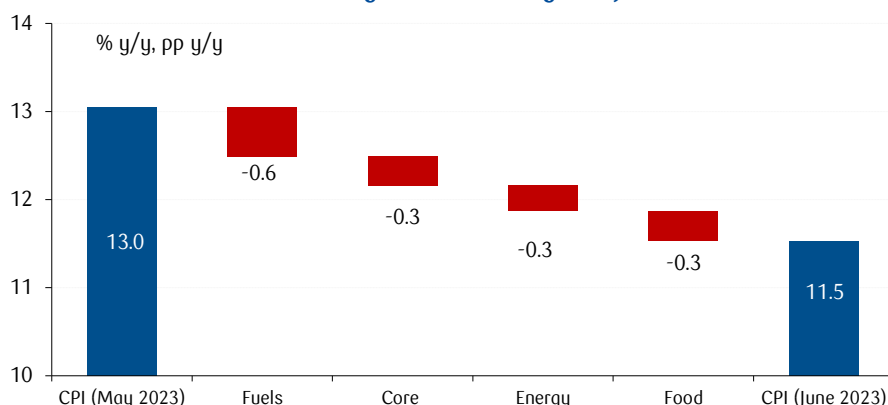
THE WEEK AHEAD:

- **MPC meeting (Thursday)** will most likely bring no change in interest rates. More noteworthy will be a new inflation and GDP projection. Its (likely) downward revision, in particular inflation's prompter return to the upper bound of deviations from the target (3.5%) may give the MPC more comfort for a discussion on the interest rate cuts.
- We expect a slight deterioration of **manufacturing PMI** as output and new orders continue to fall.

NUMBER OF THE WEEK:

- **12.1 bn PLN** – additional spending on national defence (as of May) in comparison to the amount assumed in the budget act.

CHART OF THE WEEK: CPI change between May and June



Source: GUS, PKO Bank Polski.

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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.1
Core inflation** (%)	9.1	10.6
Money supply M3 (%)	5.6	6.0
C/A balance (% GDP)	-3.0	0.8
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.1
NBP reference rate## (%)	6.75	6.50
EURPLN###	4.69	4.53

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

Housing market on the path to recovery

- Revival in transactional volumes and return to increasing housing prices were the main market trends in 1q23. On the supply side we saw a rapid drop in the number of completed and unsold primary market units, effectively ending a short period of oversupply. In our opinion positive trends will be maintained in the coming quarters on expectation of interest rate cuts and imminent start of the government mortgage subsidy program.

Housing market recovered in 1q23 with the return of upward trend in transaction prices on the primary market (after several months of flat market), which coincided with the reviving mortgage lending segment. Sales growth mainly involved the primary market, which typically is more frequently chosen by “buy to rent” purchasers.

Housing sales in the six largest cities during 1q23 amounted to 11.4k, this was 34% higher q/q. As a result, the primary market stock under offer decreased significantly and any oversupply problem is off the table for now. In our opinion the main reason for the sales recovery is the perspective of a near term start of the interest rate cuts cycle together with the expectations of further increases in housing prices as a consequence of a strong reduction in the new supply.

On the supply side we can see some regional variation. In the structure of newly launched projects 42% are apartments in the six largest cities (+7.6 pp y/y); the remaining municipal counties account for 24% (+2.4 pp y/y) and land counties account for 35% (-10 pp y/y). This suggest that there are clear signs of recovery in the construction activity.

In our opinion 2h23 will bring a clear revival of sales also to the secondary market (as a result of commencement of the government mortgage subsidies program for first time buyers), which will coincide with a declining offer in this segment.

The sentiment on the rental market is much worse, annual growth in rental rates in 1q23 slowed down to single digits and rates were slightly down compared to the previous quarter. This is partially due to the stabilization of housing needs of people displaced by the war in Ukraine. Moreover, in the coming months demand pressure on the rental market will further weaken as the government mortgage subsidies program will effectively provide creditworthiness to a large portion of population, who under current conditions, are effectively pushed out from the mortgage market.

In the coming year (2q23-1q24) we expect housing prices to increase by 5-10%. Price increases will be supported by: (1) recovery in the mortgage demand scaled back during the period of tightened prudential regulations; (2) a decrease in the effective value of housing, effectively increasing housing affordability due to the improving price to income ratio; (3) demand generated by the government mortgage program (unrestricted access to the program for eligible persons in 2023); (4) investment demand; (5) gradual emergence of demand from the migrant population of Ukraine and growing demand by other foreign investors. At the same time, the supply side will continue to be characterized by the tightening offer as a result of partial freeze in the new

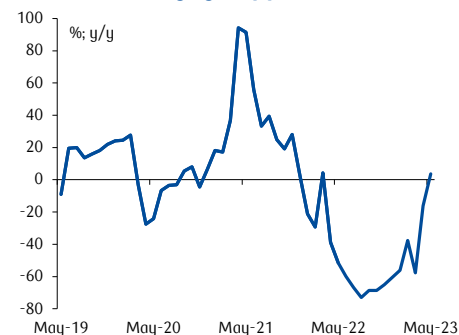
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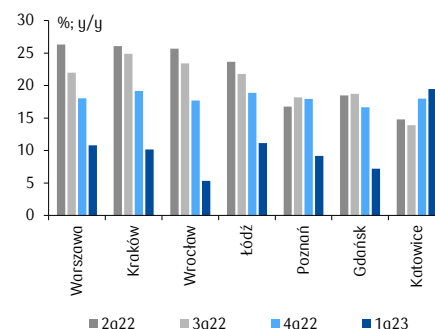
Agnieszka Grabowiecka-Laszek
 Wojciech Matysiak

Value of mortgage applications



Source: BIK, PKO Bank Polski.

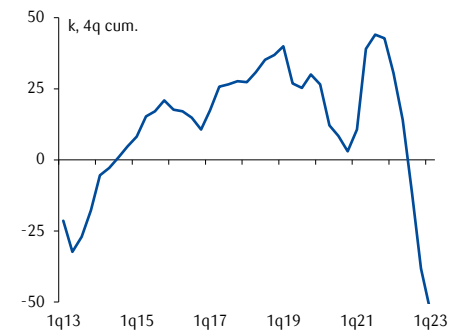
Rental rates



Source: AMRON-Mzuri, PKO Bank Polski.

supply observed since 1q22. On the flip side upward trends in housing prices will be hampered by (1) a likely return of the negative trend in housing affordability – future wage growth may be lower than future housing price dynamics; (2) stabilization of rental rates may effectively weaken the incentive for “buy for rent” purchasers; (3) we may see higher supply elasticity than in the previous cycle.

Housing starts less units completed



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 3 July						
CHN: Manufacturing PMI (Jun)	2:45	pts.	50.9	50	--	--
POL: Manufacturing PMI (Jun)	8:00	pts.	47	46.0	46.7	PMI will reflect both falling output and inflow of new orders.
GER: Manufacturing PMI (Jun, final)	8:55	pts.	43.2	41.0	--	--
EUR: Manufacturing PMI (Jun, final)	9:00	pts.	44.8	43.6	--	--
USA: Manufacturing PMI (Jun, final)	14:45	pts.	48.4	46.3	--	--
USA: ISM Manufacturing (Jun)	15:00	pts.	46.9	47.4	--	--
Tuesday, 4 July						
GER: Exports (May)	7:00	% m/m	1.2	--	--	--
GER: Imports (May)	7:00	% m/m	-1.7	--	--	--
Wednesday, 5 July						
GER: Services PMI (Jun, final)	8:55	pts.	57.2	54.1	--	--
EUR: Services PMI (Jun, final)	9:00	pts.	55.1	52.4	--	--
EUR: PPI inflation (May)	10:00	% y/y	1.0	--	--	--
USA: Factory orders (May)	15:00	% m/m	0.4	-0.1	--	--
USA: Durable goods orders (May, final)	15:00	% m/m	1.2	1.7	--	--
USA: Fed minutes (Jun)	19:00	--	--	--	--	--
Thursday, 6 July						
GER: Factory orders (May)	7:00	% m/m	-0.4	--	--	--
GER: Factory orders (May)	7:00	% y/y	-9.9	--	--	--
EUR: Retail sales (May)	10:00	% y/y	-2.6	--	--	--
USA: ADP National Employment (Jun)	13:15	thous.	278	250	--	--
USA: Trade balance (May)	13:30	bn USD	-74.6	-70.2	--	--
USA: Initial Jobless Claims (Jul)	13:30	thous.	--	--	--	--
USA: JOLTS Report (May)	15:00	10,103	10,103	--	--	--
POL: NBP base rate (Jul)	--	%	6.75	6.75	6.75	The MPC will keep interest rates unchanged. New inflation and GDP projection may prompt more serious discussion on interest rate cuts.
Friday, 7 July						
GER: Industrial production (May)	7:00	% m/m	0.3	--	--	--
GER: Industrial output (May)	7:00	% y/y	1.6	--	--	--
HUN: CPI inflation (Jun)	7:30	% y/y	21.5	--	--	--
USA: Non-Farm Payrolls (Jun)	13:30	thous.	339	213	--	--
USA: Unemployment Rate (Jun)	13:30	%	3,7	3,6	--	--
USA: Average Earnings (Jun)	13:30	% y/y	4.3	--	--	--

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^
J. Tyrowicz	5.0	"For many months now the Council has been keeping rates at an unchanged level, a level I consider too low. (...) each current discussion about rate cuts currently harms the credibility of the monetary policy in Poland. Such talks also reduce efficiency of MPC actions, with 3M WIBOR now lower by ca. 0.8 pps than after the last rate hike. Let's not take this path because otherwise fight against inflation will take longer and will bear higher social costs" (12.06.2023, Parkiet, PAP)
L. Kotecki	4.8	"If signals of weaker economic growth are confirmed in the July projection, it may change my outlook on interest rates. I won't be advocating a rate hike then. (...) However, I still believe that it is too early to talk about any interest rate cut. at the current level of inflation. (8.06.2023, PAP, PKO transl.)
P. Litwiniuk	3.7	"The government has to date declared a budget policy neutral for inflationary processes but it is changing. (...) The question is what will change and how many more ideas will be presented in the frame of the election campaign - this could have a negative impact on inflationary processes." (15.06.2023, TOK FM, PAP).
H. Wnorowski	2.7	"I will not draw the prospect of interest rate cuts precisely as long as inflation remains in double digits. Undoubtedly, the outlook of the first rate cut appears on the horizon, and I personally believe that it extends beyond 7 months of this year. It is not caused by doubts about the path of inflation and the sustainability of the trend of falling inflation, as I am convinced of it". (31.05.2023, ISB news)
A. Glapinski	2.4	"We have not ended the tightening cycle, in case of unfavorable events we are ready for a hike. (...) If we are certain that in the coming quarters inflation will fall, then opportunity will open to cut rates," (7.06.2023, NBPtv, PAP)
C. Kochalski	2.4	"In light of the current projection and incoming data and forecasts, the topic of interest-rate cuts was simply not taken up or discussed by anyone. There were no grounds (to do that) in relation to the ongoing economic and inflationary processes." (14.04.2023, Bloomberg).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"Good data may indeed encourage discussion on interest rate cuts, however, for the MPC to decide about the interest rate cut, the entire Council must see that the downward trend is permanent and that inflation is indeed quickly approaching the target. These are the conditions necessary to make such a decision" (31.05.2023, Biznes24, PAP, PKO transl.)"
G. Maslowska	2.1	"The process of disinflation will continue and perhaps in the last quarter of this year interest rate cuts will be possible, which will relieve indebted borrowers and support economic growth. However, this will be possible only when we will be sure that inflation has been brought under control and is falling towards the NBP's inflation target" (29.06.2023, PAP)
I. Dabrowski	1.9	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. If the MPC was to consider a motion to cut interest rates, it would rather happen in October (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September. I cannot say whether there will be cuts, but maybe at least the council will focus on this topic and hold a discussion" (26.06.2023, PAP)

*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.

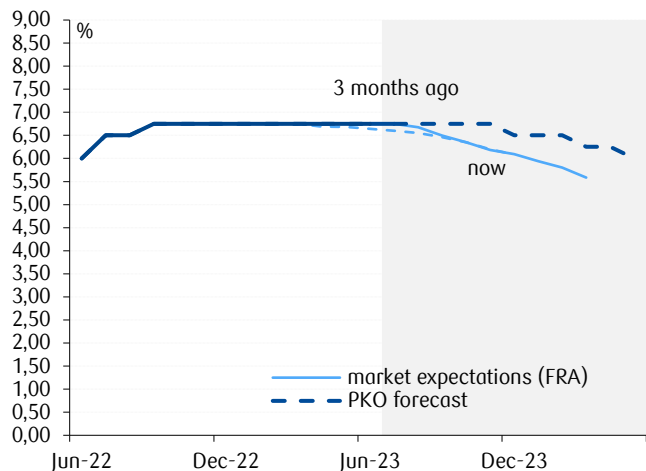
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	29-Jun	29-Jul	29-Aug	29-Sep	29-Oct	29-Nov	29-Dec	29-Jan	29-Feb	29-Mar
WIBOR 3M/FRA†	6,90	6,85	6,77	6,58	6,35	6,14	6,00	5,84	5,65	5,44
implied change (b. p.)		-0,05	-0,13	-0,33	-0,55	-0,76	-0,91	-1,06	-1,25	-1,47
MPC Meeting	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-
PKO BP forecast*	6,75	6,75	6,75	6,75	6,75	6,75	6,50	6,50	6,50	6,25
market pricing^		6,70	6,62	6,43	6,20	5,99	5,85	5,79	5,65	5,44

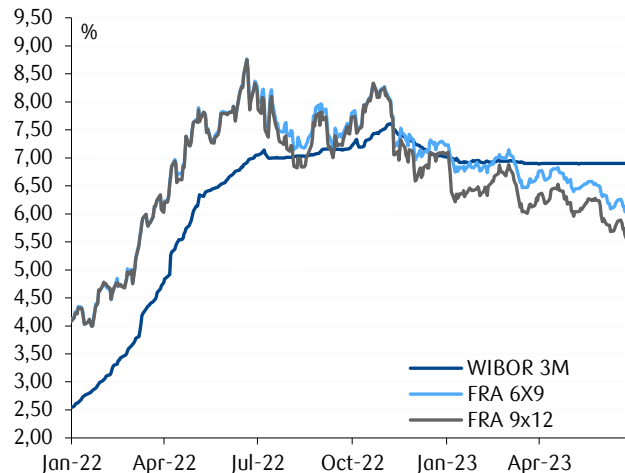
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

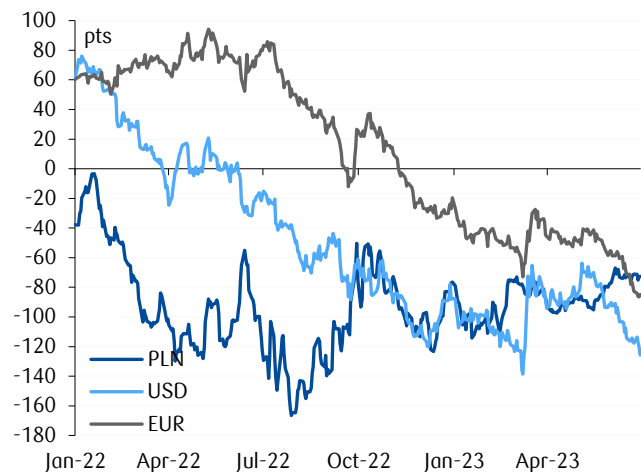
NBP policy rate: PKO BP forecast vs. market expectations



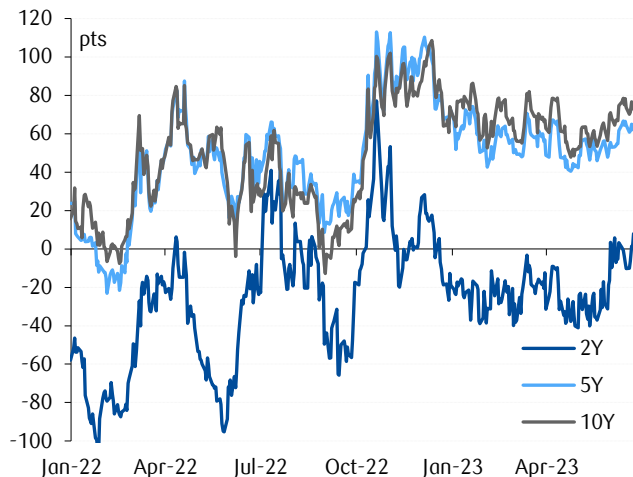
Short-term PLN interest rates



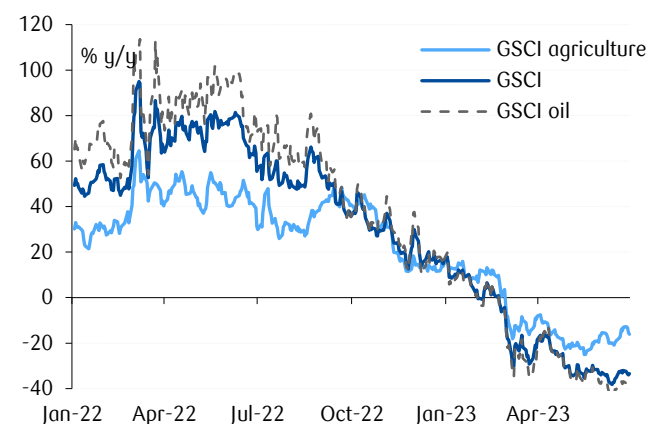
Slope of the swap curve (spread 10Y-2Y)*



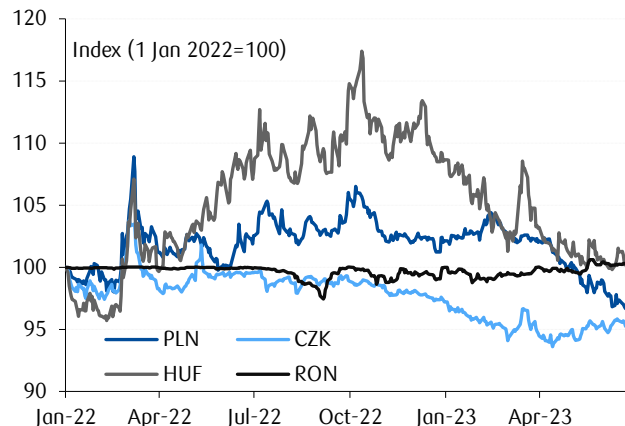
PLN asset swap spread



Global commodity prices (in PLN)

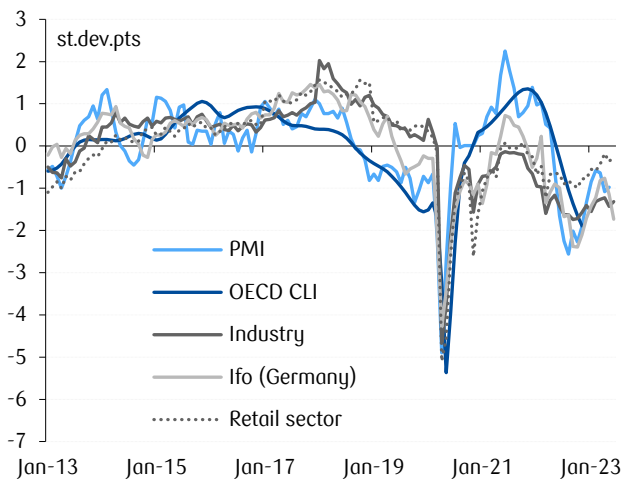


Selected CEE exchange rates against the EUR

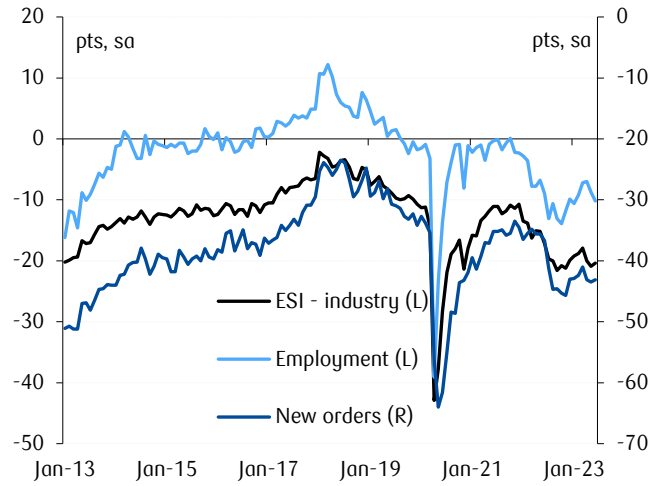


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

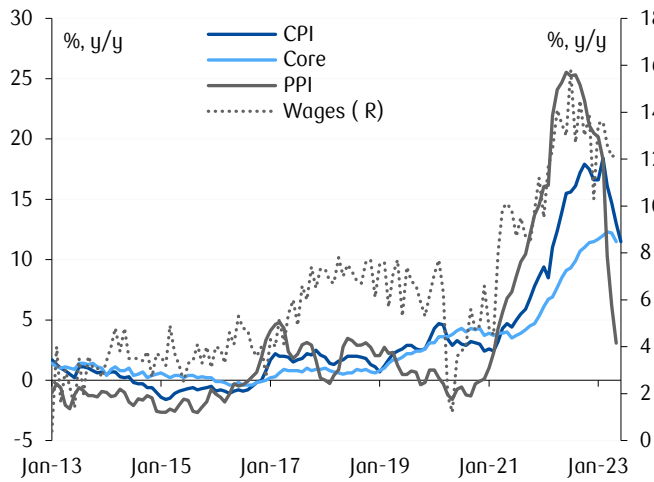
Economic sentiment indicators



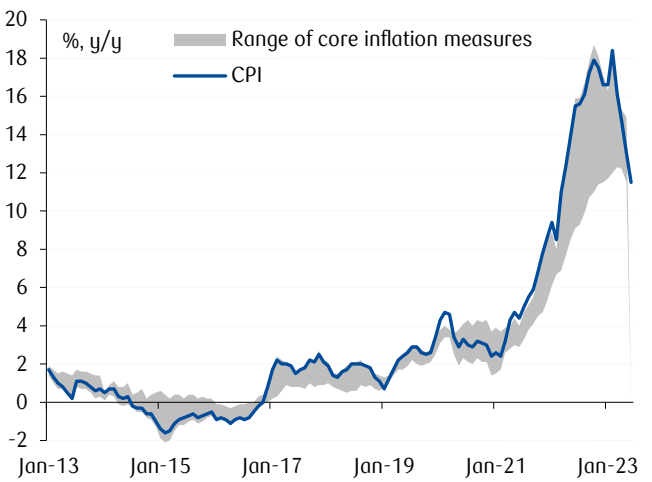
Poland ESI for industry and its components



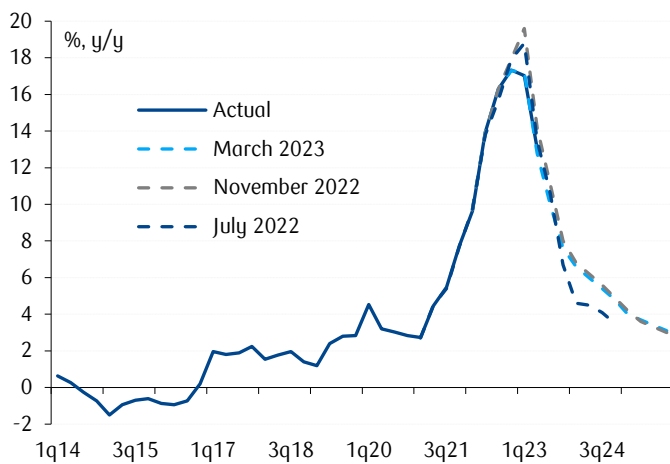
Broad inflation measures



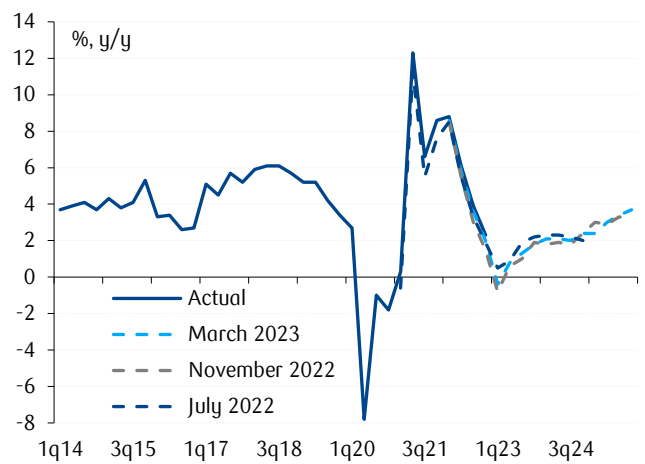
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

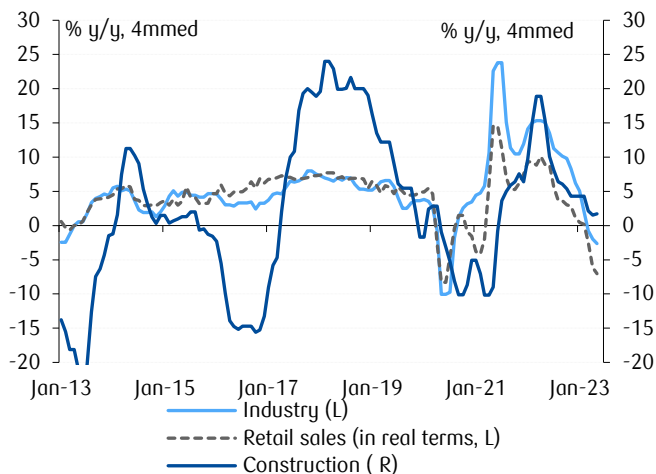


Real GDP growth - NBP projections vs. actual

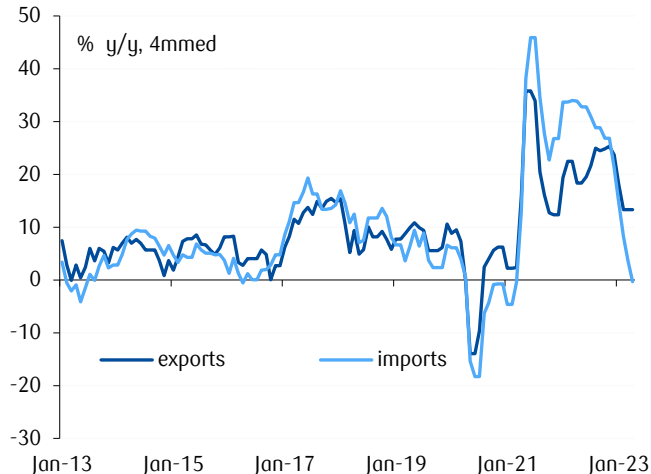


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

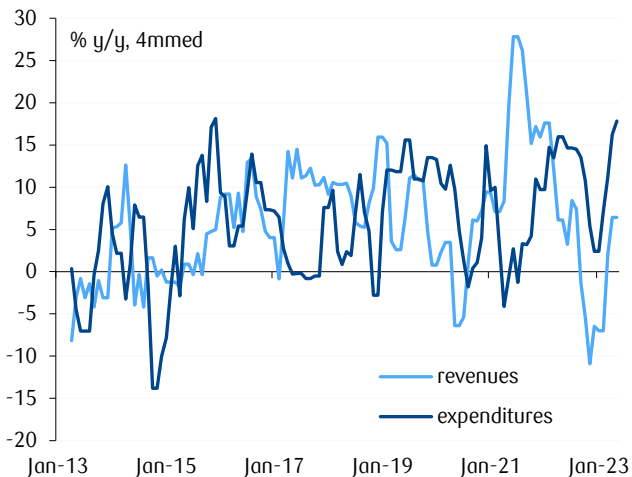
Economic activity indicators



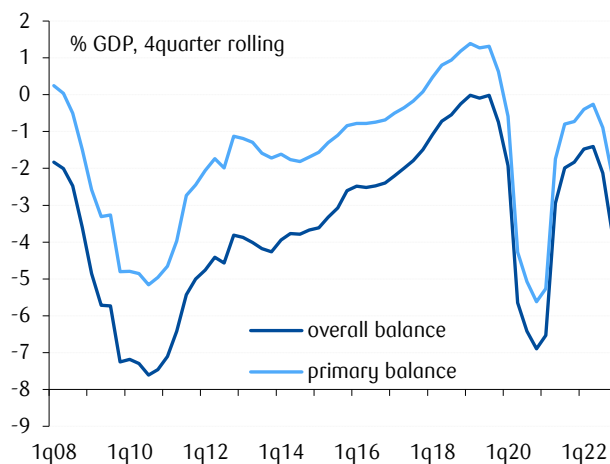
Merchandise trade (in EUR terms)



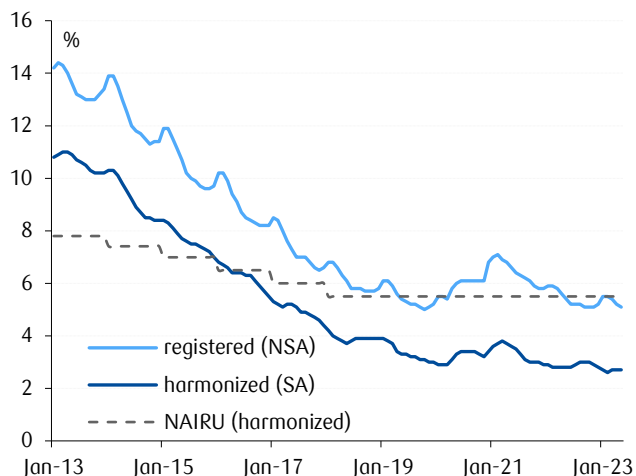
Central government revenues and expenditures*



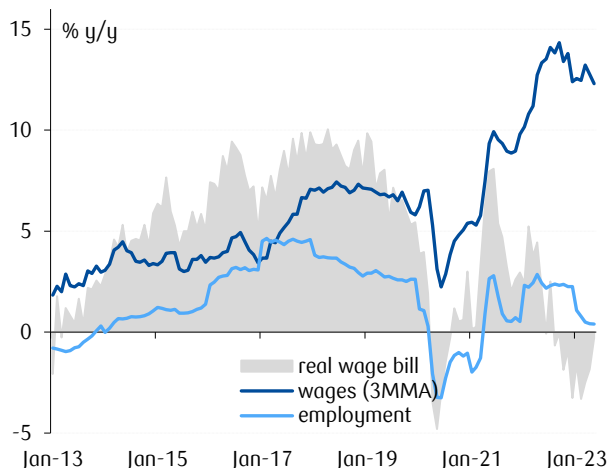
General government balance (ESA2010)



Unemployment rate

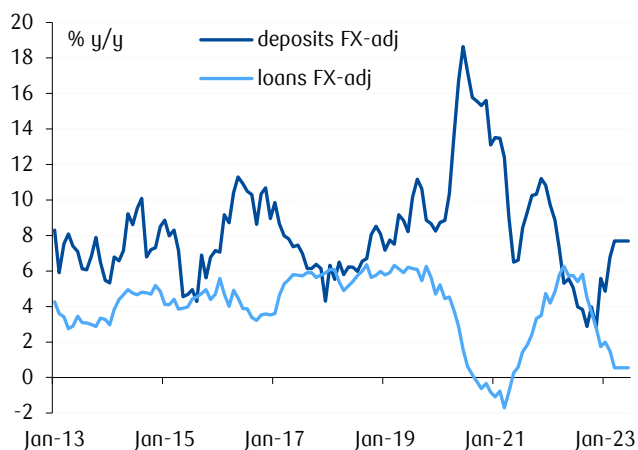


Employment and wages in the enterprise sector

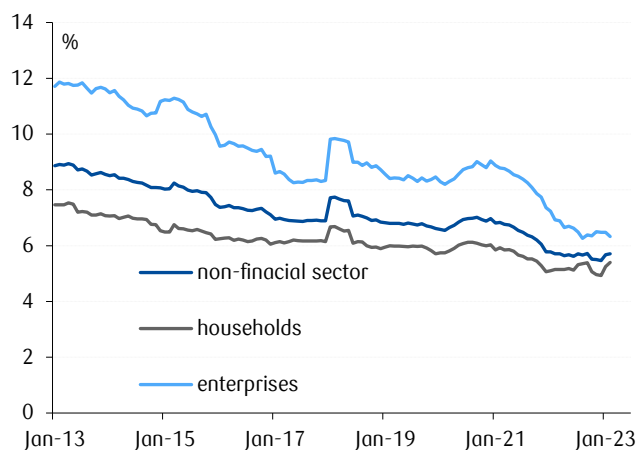


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

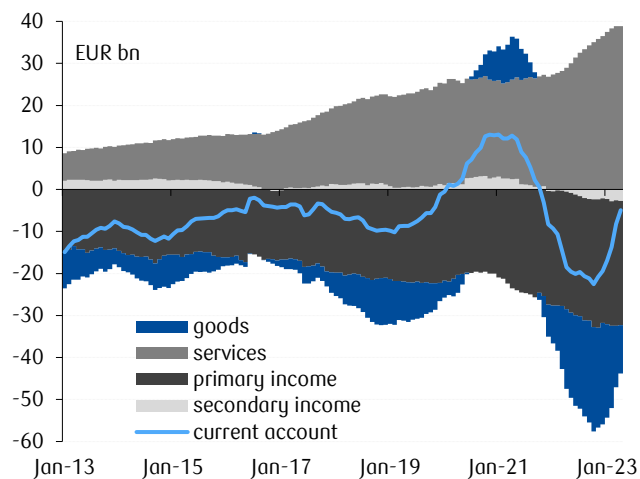
Loans and deposits



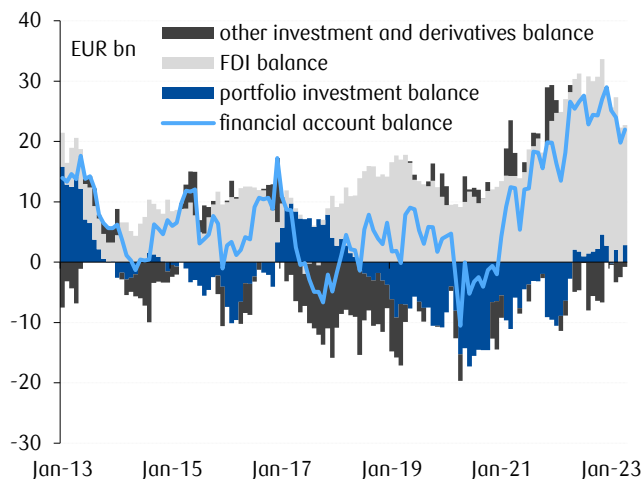
Non-performing loans (NPLs) - by sectors*



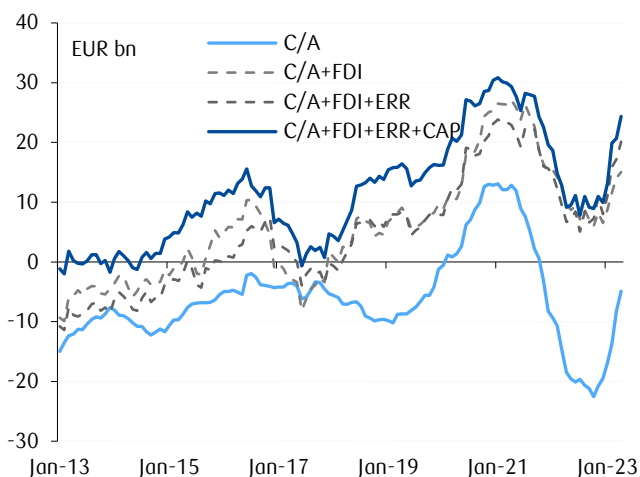
Current account balance



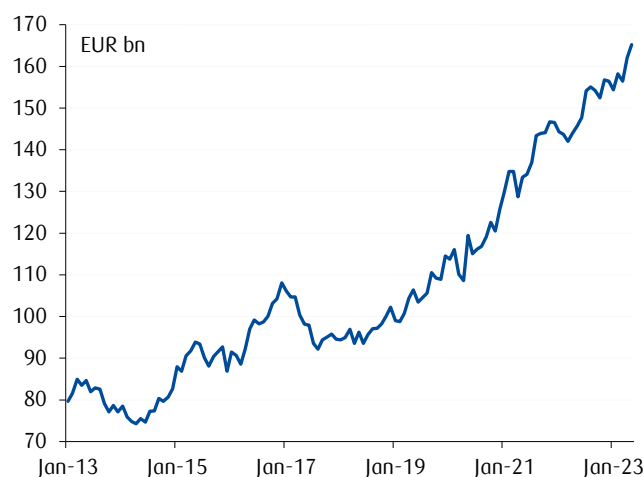
Financial account balance



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 changes nothing](#) (May 12, 2023)
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