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Economic Comment

Inflation temporarily lower

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CPI inflation in Poland fell to 8.5% y/y in February (we predicted 8.6%, Bloomberg consensus 8.4%) from 9.4% y/y in January (revised up from 9.2%). The decline in February resulted in large part from the implementation of the “anti-inflation” shield, which lowered prices of food, fuel and energy. Overall, the result was close to our expectations and do not change our inflation forecast for the coming months: CPI inflation rate is likely to start climbing again since March in response to surge in commodity prices, and may top 10% y/y in June. Core inflation (excluding food and energy) soared to 6.5% y/y in February, according to our estimate (official data due tomorrow) and may head towards 7% y/y in the coming months. The data support continuation of interest rate hikes by the MPC, we expect two more hikes by 75bp bringing the reference rate to 5.0% in May

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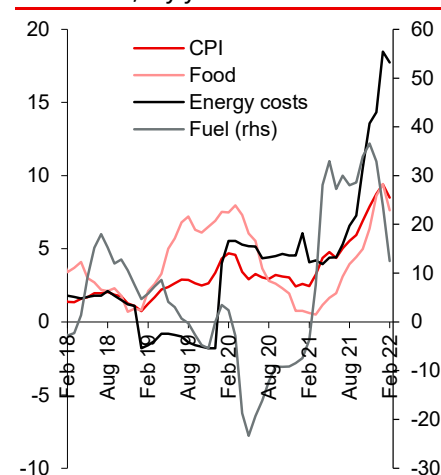
The decline in February resulted in large part from the implementation of the “anti-inflation” shield, which lowered prices of food, fuel and energy. Actually, food prices fell more than we had anticipated (-1% m/m), signalling that the pass through from lower VAT tax to retail prices was a bit more effective than we had thought. Meanwhile, energy price decline was a bit smaller than we anticipated (heating in particular).

The biggest upside surprise vs our expectations took place in services prices, mainly communication (+1.4% m/m), healthcare (+1.2% m/m), recreation and culture (+2.7% y/y), which seems to reflect the underlying strong inflationary pressure in the economy just before the war in Ukraine broke out. Total services accelerated to 9.1% y/y (the highest on record), while goods slowed to 8.5% y/y.

As we expected, the change of weights in the CPI basket increased inflation slightly at the start of the year. Most of the weight changes to the 12 broad categories went in the direction of partially reversing the previous year’s shifts caused by the pandemic: food weight went down (by 1.2pp to 26.6% vs, 25.2% before the pandemic) and so did the weight of alcohol and tobacco products, while the categories covering shoes and clothes, transport, recreation and culture, education as well as restaurants and hotels rebounded, but not recovered in full to their pre-pandemic weights. Some categories pushed higher by the pandemic grew even more as percentage of total household expenditures: house maintenance, health products and services, other goods and services (including personal care, insurance, financial services).

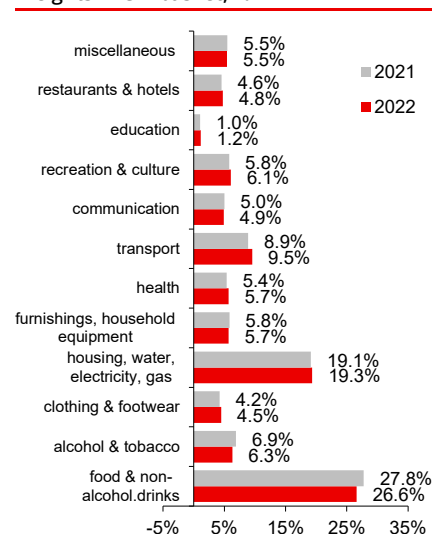
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CPI inflation, % y/y



Source: GUS, Santander

Weights in CPI basket, %



Source: GUS, Santander

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