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Economic Comment

CPI and core inflation unchanged in March

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March CPI inflation in Poland printed 4.9% y/y, unchanged from January and February. Monthly price growth was revised up to 0.2% m/m from 0.1% m/m shown in the preliminary reading. We estimate core inflation excluding energy prices at 3.6% y/y - slightly higher than after the preliminary reading. Services prices slowed to 6.4% y/y from 6.6% y/y and goods prices accelerated to 4.4% y/y from 4.3% y/y.

We expect CPI growth to slow to 4.2-4.3% y/y in April (influenced by the base effect of the reintroduction of VAT on food in April 2024). Another significant fall in inflation is very likely in July, due to a second negative base effect (linked to the increase in energy prices in July 2024). By the end of the year, CPI inflation should be close to 3.5% y/y, in our view. Such an inflation trajectory supports an interest rate cut, which we believe will take place as early as May, given the recent dovish turn in the MPC members' rhetoric.

According to a new publication by GUS, the rate of growth of services output was at 7.7% y/y, above the 4.1% y/y in December and averaging just under 4% y/y for the whole of 2024.

Food prices went up moderately

Food prices rose by 0.3% m/m in March, which was a moderate increase. A relatively low price pressure was clearly visible in meat (0.3% m/m), bread (0.2% m/m), oils and fats (-1.2% m/m) as well as fruit (-0.1% m/m) and vegetables (-0.3% m/m).

In the case of meat, pork (-0.4% m/m) and poultry prices (+1.4% m/m, against a March 2015-2024 average above 3%) were on the lower side, and this stems from the ongoing recovery of supply in their markets. In the case of poultry, avian influenza is a threat, which could trigger price increases in this category. On the other hand, there are rumours of a possible ban on poultry exports from Poland, which in turn could generate a strong downward impulse. As for oils and fats, butter is leading the way (-2.9% m/m), coming off peaks triggered by a jump in milk prices. We assume that the downward trend in butter prices will continue, with an increase in supply in the face of increased profitability in the production of this item.

Prices in the milk, cheese and eggs category rose by 0.2% m/m, roughly in line with the average for the month, but the detailed data show that the rather weak increase in the prices of dairy products is masking the fact that egg prices advanced by 2.6% m/m, partly due to the conversion of production from cage rearing to other methods. This is not good news for Polish consumers as Easter approaches. Still, prices of other products typical for the traditional Polish Easter basket are rising at a markedly lower pace than one year earlier.

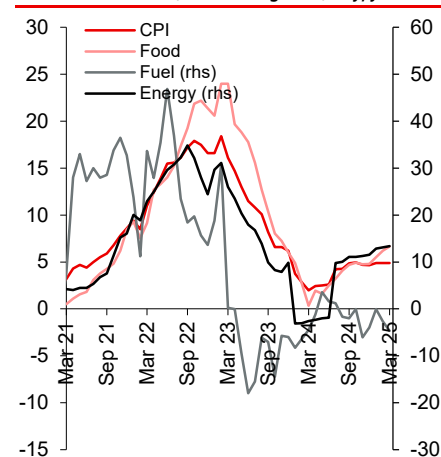
Fuel prices down, energy stable

Fuel prices fell by 2.0% m/m in March, helped by the strengthening of the zloty against the dollar and the decline in oil prices. In our view, the downward trend in this market will continue at least through April. Global economic outlook will be key for the oil market, with the ongoing trade war being the most important factor currently. Energy prices were roughly stable in March (-0.1% m/m), with a slight decline in slid fuel prices (-1.2% m/m). We expect the prices of energy to remain stable for the coming months. According to recent statements by government representatives, the electricity tariff may remain unchanged place until October rather than until July.

Core inflation similar to January and February, monthly price growth still strong

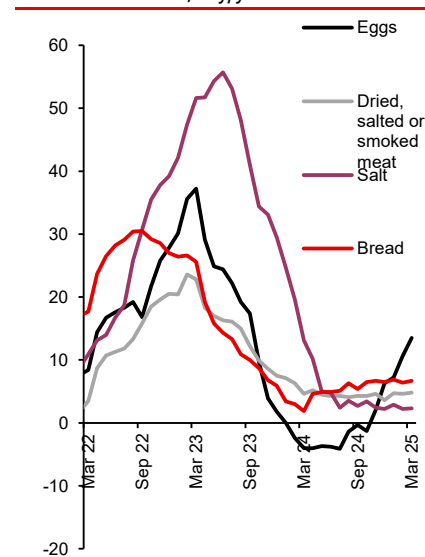
According to our estimates, core inflation could have been equal to 3.6% y/y in March, the same as in February and close to 3.7% y/y for January. After the publication of the

Polish CPI inflation, main categories, % y/y



Source: GUS, Santander

CPI inflation – typical elements of traditional Polish Easter basket, % y/y



Source: GUS, Santander

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preliminary data, a fall to 3.5% y/y seemed more likely to us. In m/m terms, price increases in core categories apparently remained quite strong in March, of the order of 0.5%, with 0.2-0.3% of this attributable to natural seasonal factors. In January the price movement in core categories was 0.5% m/m and in February 0.4% m/m. Supercore inflation, additionally excluding administered prices from core inflation, remained at 3.1% y/y and 0.4% m/m according to our calculations.

We were surprised the most by a 1.3% m/m rebound in the 'communications' category, driven by price increases of 2.8% m/m for mobile phone services and 2.2% m/m for internet services. A large price drop was recorded in leisure, down 2% m/m, with prices of package holidays abroad falling by 7.4% m/m (helped by strong złoty) and domestic package holiday prices down 0.5%. Audio-video and IT equipment also fell in prices, by 1.6% m/m, as did software, by 1.8% m/m (also attributable to the strength of the local currency). The 0.6% m/m rise in prices in the 'other goods and services' category was driven on the one hand by personal care services, appliances and products which rose by around 1% m/m, and on the other hand by insurance prices, which corrected lower after a strong rise in February, and childcare services, which continued to fall.

The largest monthly price increase was in clothing and footwear (+3.4% m/m), which was in line with the seasonal pattern and close to our expectations. Alcohol and tobacco prices rose by 1.0% m/m and have already increased by 3.8% since the beginning of this year, which in our view indicates that a large part of the significant excise duty increase on these products has already been passed on to the final consumer.

Housing-related prices excluding energy costs in March became more expensive by 0.5% m/m, the same as in February, following a strong increase of 2.1% m/m in January. This translated to an annual increase of 7.9% (the highest rate of growth since December 2023). Prices related to home furnishings, equipment and routine maintenance rose by 0.1% m/m. Furniture for the home became more expensive by 0.5%, housekeeping services by 1.1% m/m, white goods prices remained unchanged and prices of non-durable household goods (including cleaning products) decreased by 0.4% m/m. Transport services were 1.4% m/m more expensive in March, with domestic flights becoming 14.6% m/m more expensive and foreign flights 5.7% m/m more expensive, unlike in March last year when these price changes were much smaller. Passenger cars continued to cheapen month on month (for the 18th month in a row), both new and used (in March by 0.4% m/m and 0.8% m/m respectively), while their maintenance and repair grew more expensive (by 0.8% m/m, the last m/m decline in this category was recorded by GUS more than 10 years ago).

Inflation and NBP interest rate outlook

We expect the CPI inflation rate to start declining from April - initially dropping to a range of 4.2-4.3% y/y, where it will remain until mid-year, before falling sharply below 3.5% y/y in July, where we believe it will remain for most of 2H25, before briefly returning to 3.5% y/y in December.

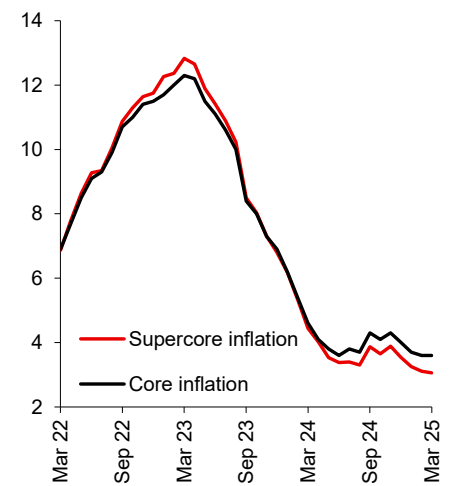
The improving inflation outlook (compared to earlier forecasts, including the results of the March NBP projection) and the risks to economic growth arising from increased protectionism in US trade policy will allow the Monetary Policy Council to resume rate cuts, probably as early as May. We expect a 50bp rate cut in May, another by 25bp in July and see room for another 100bp of cuts in 2026.

Acceleration of services output growth

According to the new monthly publication of the Polish stats office, output of services increased in January 2025 by 7.7% y/y, up from 4.1% y/y in December and above the average of below 4% y/y over the whole 2024. After seasonal adjustment, output of services rose 2.6% m/m, after 0.7% m/m in December, marking the best result since February 2024.

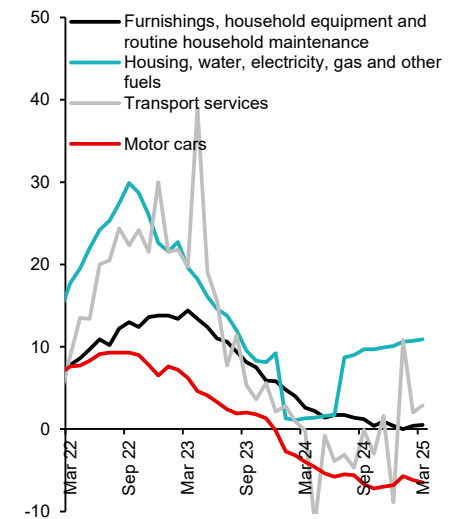
Month-on-month increases in output were registered in all the main sectors surveyed, with the strongest ones in administrative and support services, by 7.8% m/m in seasonally adjusted terms (sa), and information and communication, by 4.2% m/m sa. The smallest increases took place in accommodation and food services, by 0.2% m/m, and real estate activities, by 0.8% m/m. It is worth to note that the real estate sector was the only one in which the growth rate of services output was negative, equal to -9.8% y/y. Moreover, the sector's growth rate was the sole one which trended clearly downwards.

Core and supercore inflation, % y/y



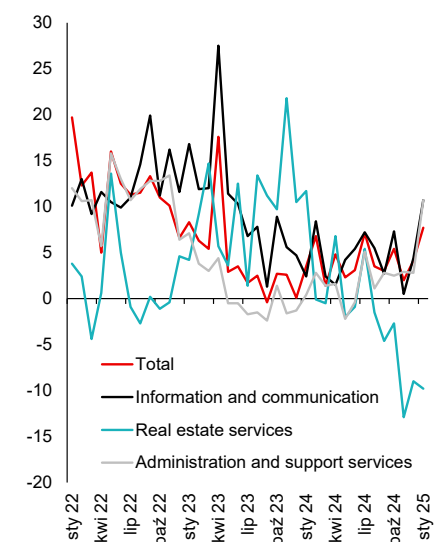
Source: GUS, Santander

CPI inflation – selected categories, % y/y



Source: GUS, Santander

Production of services, % y/y



Source: GUS, Santander

Overall, the services output data suggest that in contrast to the industrial sector, the Polish services sector remains in good condition, supporting our expectations that GDP growth will remain above 3% y/y in the coming quarters.

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