

16 April 2025

Eyeopener

Large deficit in central budget after March

Today March core inflation in Poland, Eurozone HICP inflation, US retail sales and output
CPI inflation confirmed at 4.9% y/y in March
Large central budget deficit in March, among others due to repayment of PFR bonds
PLN and Polish bonds stable

Today, we will see core inflation data for March. Based on the full CPI data, we estimate that core inflation stood at 3.6% y/y, rather than at 3.5% as we had assumed after the release of the flash CPI data. In the euro area, final March HICP inflation data will be released, and in the US, March retail sales and industrial production data. The Chinese economy did not slow in 1Q25, contrary to expectations. Chinese GDP grew for the second consecutive quarter by 5.4% y/y, the fastest pace since 2Q23. March retail sales data showed the fastest growth (5.9% y/y) since early 2024 and industrial production grew at the fastest pace (7.7% y/y) since mid-2021, beating the expectations for the second consecutive month.

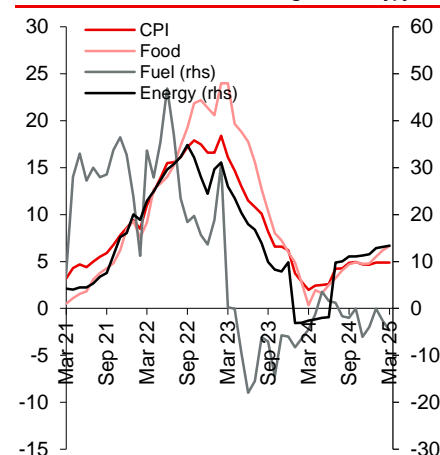
March CPI inflation in Poland printed 4.9% y/y, unchanged from January and February. Services prices slowed to 6.4% y/y from 6.6% y/y and goods prices accelerated to 4.4% y/y from 4.3% y/y. We expect CPI growth to slow to 4.2-4.3% y/y in April (influenced by the base effect of the reintroduction of VAT 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. Read more in our [Economic Comment](#).

Poland's central budget recorded a deficit of PLN76.3bn in the January-March period, much larger than the January-February deficit of PLN36.3bn. This is a much wider gap than after first quarters of previous years (2024: PLN24.6bn, 2023: PLN12bn, 2022: PLN0.3bn). There are however good reasons for such a print. One thing is the change in local government financing introduced this year – a larger chunk of PIT and CIT revenues is sent to them directly, bypassing central budget revenue accounts. As a result, the PIT account shows net inflow of -PLN28.7bn so far this year (vs. +PLN13.9bn in the same period last year; it could also be that the Ministry of Finance accelerated personal income tax returns). The Ministry of Finance reported that the change in local government financing has cost the central budget PLN15.8bn in March alone in terms of income tax revenue reduction. CIT revenues look better at +40.3% y/y year-to-date and +65.0% y/y in March alone. VAT revenues were up 12.1% y/y year-to-date and -1.2% y/y in March. Another thing helping explain the large March deficit is the maturity of Polish Development Fund (PFR) bond, worth PLN18.5bn – this year the government pledged to increase fiscal transparency by repaying this off-budget debt. If we correct for these two factors, PFR and local government financing, making a conservative assumption that PIT revenues would be flat y/y without the local government financing reform – the central budget deficit would be just PLN15bn. We expect the central budget deficit to remain wide during the year as a reduction of general government deficit from 6.6% of GDP in 2024 to less than 6% may be difficult to achieve, especially if the economy responds negatively to the effects of trade wars. The 12M rolling sum of central budget balances moved in March from -6.6% of GDP to -7.2% of GDP.

EURPLN rose gently on Tuesday, ending the day close to 4.29. The Czech koruna and the Hungarian forint fared better, strengthening against the euro by around 0.1% and 0.5%, respectively. At the same time, the dollar strengthened against the euro by around 0.6%, so EURUSD went below 1.13.

Domestic bond yields remained fairly stable, with a daily change of ± 1 bp. Movements were also limited in the core markets. In Germany, yields rose by around 1-2 bp with a curve steepening of around 2 bp, and in the US, yields fell by 1-3 bp, with no significant change in the slope of the curve. Domestic IRS rates rose by 2-4 bp, stronger at the long end of the curve, and FRA rates increased by 1-6 bp, also stronger at the long end of the curve.

Polish CPI inflation, main categories, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4,3034	CZKPLN	0,1714
USDPLN	3,7861	HUFPLN*	1,0394
EURUSD	1,1365	RONPLN	0,8649
CHFPLN	4,6480	NOKPLN	0,3566
GBPPLN	5,0238	DKKPLN	0,5763
USDCNY	7,3242	SEKPLN	0,3847

*for 100HUF

Last session in the FX market

15.04.2025

	min	max	open	close	fixing
EURPLN	4,2722	4,2914	4,2763	4,2896	4,2767
USDPLN	3,7605	3,8034	3,7663	3,8005	3,7692
EURUSD	1,1281	1,1378	1,1357		1,1288

Interest rate market

15.04.2025

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS0527 (2L)	4,39	-4
PS0130 (5L)	4,78	0
DS1034 (10L)	5,29	2

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	4,54	1	4,16	0	2,05	-1
2L	4,10	4	3,89	0	1,97	0
3L	3,98	4	3,83	-2	2,04	0
4L	3,99	4	3,85	-2	2,13	1
5L	4,03	6	3,88	-4	2,22	2
8L	4,25	6	4,01	-5	2,42	4
10L	4,40	6	4,08	-5	2,52	5

WIBOR rates

Term	%	Change (bps)
O/N	5,75	4
T/N	5,80	-1
SW	5,83	2
1M	5,79	-5
3M	5,53	-8
6M	5,24	-5
1Y	5,01	-2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5,20	-2
3x6	4,50	1
6x9	4,05	4
9x12	3,81	2
3x9	4,29	2
6x12	3,89	4

CDS rates and 10Y yield spread vs. German Bund

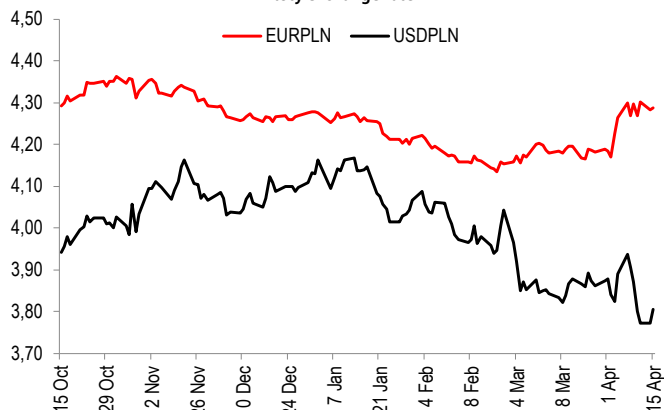
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	76	0	275	0
France	22	0	76	0
Hungary	139	-3	461	-1
Spain	38	-1	71	1
Italy	28	0	118	2
Portugal	19	0	60	1
Ireland	15	0	36	0
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

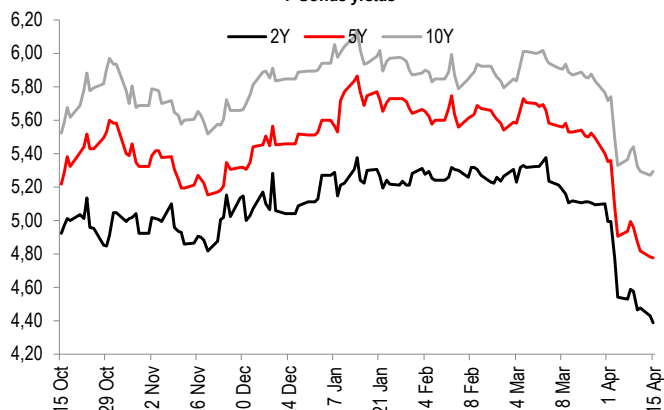
**Information shows bid levels on the interbank market at the end of the trading day

Source: LSEG, Datastream

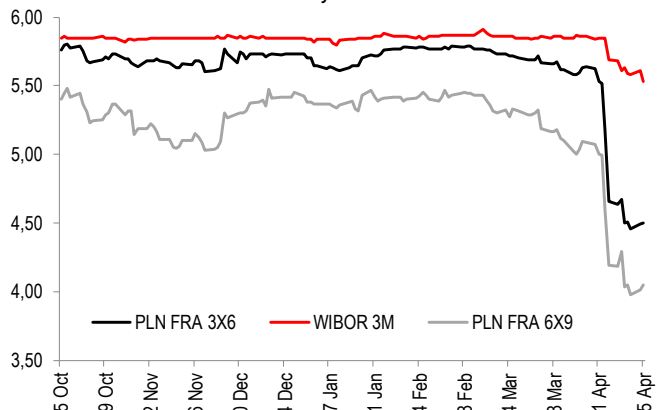
Zloty exchange rate



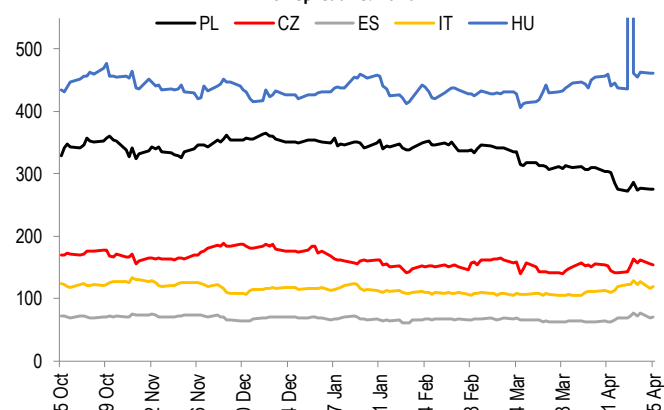
T-bonds yields



3M money market rates



10Y spread vs. Bund



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (11 April)								
08:00	DE	HICP	Mar	% m/m	0.4	-	0.4	0.5
14:00	PL	Current Account Balance	Feb	€mn	-680	-636	-220	558
14:00	PL	Trade Balance	Feb	€mn	-1 650	-2 062	-919	-1 208
14:00	PL	Exports	Feb	€mn	27 506	26 707	27 240	27 533
14:00	PL	Imports	Feb	€mn	28 970	28 769	28 159	28 741
16:00	US	Michigan index	Apr	pts	53.5	-	50.8	57.0
MONDAY (14 April)								
No data releases								
TUESDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	4.9	4.9	4.9	4.9
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	-	1.1	0.6
11:00	DE	ZEW Survey Current Situation	Apr	pts	-86.8	-	-81.2	-87.6
WEDNESDAY (16 April)								
11:00	EZ	HICP	Mar	% y/y	2.2	-	-	2.2
14:00	PL	CPI Core	Mar	% y/y	3.5	3.5	-	3.6
14:30	US	Retail Sales Advance	Mar	% m/m	1.4	-	-	0.2
15:15	US	Industrial Production	Mar	% m/m	-0.2	-	-	0.75
THURSDAY (17 April)								
10:00	PL	Revised GDP data for 2023-2024						
14:15	EZ	ECB Main Refinancing Rate	Apr	%	2.40	-	-	2.65
14:30	US	Initial Jobless Claims	weekly	k	223	-	-	223
14:30	US	Housing Starts	Mar	% m/m	-6.1	-	-	11.2
FRIDAY (18 April)								
14:30	US	Housing Starts	Mar	% m/m	-6.1	-	-	11.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

* in the case of a revision the data is updated

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