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# Economic Comment

## GDP and CPI slightly above forecasts

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In 1Q25, Poland's GDP growth slowed to 3.2% y/y, in line with the median of market forecasts, and seasonally adjusted data showed a higher-than-expected rise by 3.8% y/y and as much as 0.7% q/q. This indicates that the slowdown in economic activity at the beginning of the year was not as significant as suggested by the monthly production and sales data published earlier, probably thanks to still high activity in services. The final CPI inflation data showed a decline to 4.3% y/y, slightly smaller than reported in the preliminary data (4.2% y/y). The detailed data suggest a moderation in core inflation in April to 3.5-3.6% y/y. Overall, today's set of information does not significantly alter the economic scenario for the coming quarters (we expect a gradual acceleration of GDP growth and deceleration of inflation later in the year), but it supports a cautious approach to further monetary easing (just like the 1Q wage data released last week which still showed double-digit growth, 10% y/y).

### GDP growth still above 3% y/y

Poland's GDP growth slowed to 3.2% y/y in 1Q25 from 3.4% y/y in 4Q24, in line with Bloomberg median forecast and a notch above our own estimate 3.1%. Seasonally adjusted GDP rose 3.8% y/y and as much as 0.7% q/q, which is way above our expectations (we have assumed quarterly change close to zero) and suggests that despite the disappointing set of monthly data on economic activity from the first quarter, the Polish economy has actually remained on a path of stable, moderately fast expansion (one of the fastest in the EU). It is worth noting, though, that we still treat the seasonally adjusted data with a pinch of salt, due to their limited credibility and susceptibility to deep revisions.

We do not know the breakdown of the GDP growth at this stage, it will be released on June 2nd, but we think the solid economic growth was supported by moderate growth in private consumption (near 3% y/y), while fixed investments probably fell y/y but clearly less than in the previous quarters. We also expect a clearly positive contribution from inventories and a negative contribution from net exports in 1Q. On the supply side, we expect a solid contribution from services, with weaker performance from manufacturing and construction.

The data released today bode well for Poland's economic growth in the coming quarters - we still believe GDP growth should be gradually accelerating, mainly due to a revival in investment activity, reaching 3.4% in 2025 on average.

### CPI inflation slowed down in April slightly less than initially shown

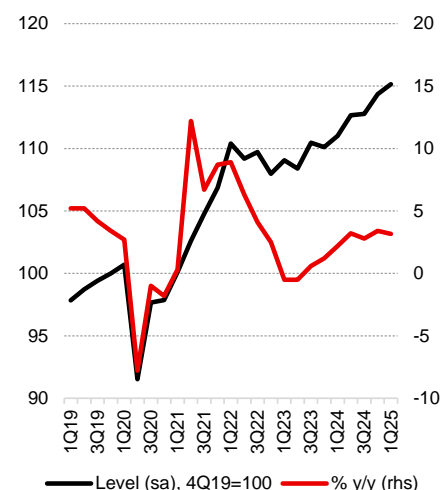
April CPI inflation was revised to 4.3% y/y from 4.2% y/y shown in the flash release. Most categories were more less in line with our expectations. The slowdown from 4.9% y/y in March was caused by a negative base effect in food prices, falling prices of fuel and several core inflation categories (durable goods). Services prices rose 6.3% y/y (previously 6.4%), goods prices were up 4.3% y/y (4.9% in March). In the next two months, inflation should be close to the April level or slightly higher. We expect it to decline in July to around 3.5% y/y and to stay in the 3-3.5% y/y until the end of the year, which should allow the MPC to continue monetary easing.

### Marginally lower core inflation

We estimate that core inflation excluding food, energy and fuel prices equalled 3.5-3.6% y/y in April, slightly below its March rate of 3.6% y/y. We assume that by the end of the year, core inflation will oscillate around 3.5% y/y. According to our estimates, super-core inflation (i.e. after excluding administered prices) stood at 2.9% y/y, below 3.1% y/y in March.

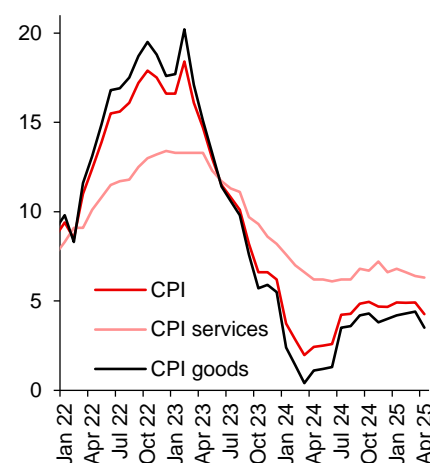
A significant decline in prices was registered in the home furnishings category, by 0.5% m/m. The detailed data showed a 1.4% m/m drop in furniture prices, but also widespread

GDP in Poland



Source: GUS, Santander

CPI inflation, goods and services prices, %y/y



Source: GUS, Santander

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decreases in prices of household appliances, averaging 1.6% m/m, with irons down 6.6% m/m, toasters down 3.0% m/m, kettles down 2.7% m/m, and fridges down 2.5% m/m. We do not rule out that these were temporary discounts that may reverse in the following month.

The prices of alcoholic beverages and tobacco rose by 0.7% m/m vs 1.0% m/m in March, reflecting the gradual fading of price hikes, resulting, in our view, mainly from the increase in tobacco excise tax. Note however that cigar prices jumped in April by 2.7% m/m.

Transport prices excluding fuels, rose by 0.8% m/m, quite low by historical comparison. Passenger car prices fell by 0.8% m/m and this was the 19th consecutive monthly decline for this category. Bicycle prices also fell markedly (-1.4% m/m).

In recreation and culture, there was a 1.1% m/m rebound in prices after a strong 2.0% m/m decline in March, and this pattern was generated primarily by a fluctuation in the prices of package holidays.

Prices in restaurants and hotels rose faster than in March, by 0.8% m/m. This was mainly the result of accommodation price rises of 2.7% m/m.

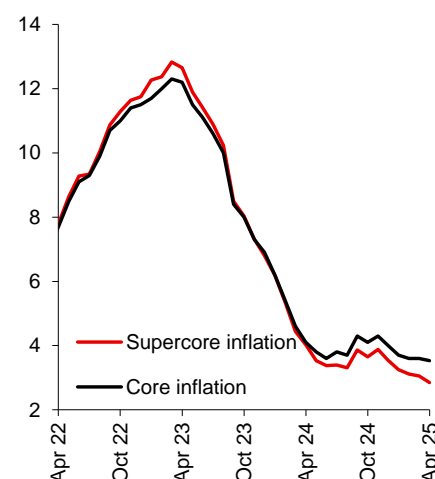
#### Base effect in food prices, cheaper fuel

In April, the prices of food and non-alcoholic beverages rose by 0.8% m/m and 5.3% y/y, in line with the preliminary information provided earlier by the stats office. The deceleration in annual growth from 6.7% in March is the result of the statistical base rather than current price behaviour - VAT on food was reinstated a year earlier. The contribution of food to the price growth of the overall CPI basket was 0.35pp lower than in March, meaning that this category was the main reason for the 0.6pp deceleration in inflation in April. In our view, food inflation should already fall below 5% y/y in the coming months and reach the region of 3-3.5% y/y by the end of the year, with the risk that the drought will slow the pace of its deceleration.

On a monthly basis, the prices of raw meat increased markedly (from 2.4% m/m for poultry meat to 4.0% m/m for veal) and on an annual basis, their increase exceeds 10% (except for pork). Egg prices were also much higher (3.8% m/m, up 16.4% y/y). April was also another month of price increases of coffee (+1.5% m/m, 10.6% y/y) as well as cocoa and chocolate powder (+2.8% m/m, 14.3% y/y). The significant increase in the prices of fruit (1.9% m/m) and juices (0.9% m/m) was accompanied by a drop in the price of vegetables by 0.4% which is an unusual direction for April. The price of butter remained much higher than a year ago (+18% y/y), although it changed little in April alone (0.2% m/m). Food categories that showed y/y price declines were flour (down 2.9%), pork (down 1.1%) and sugar (down 31%).

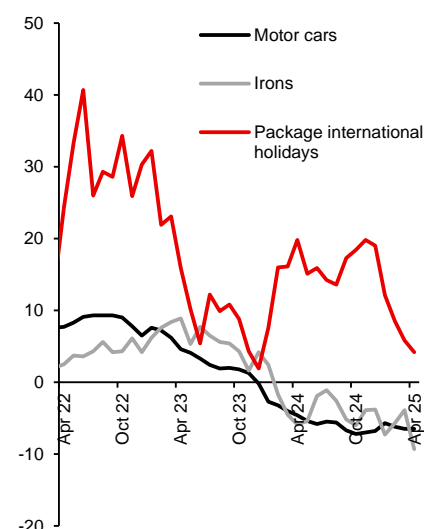
Fuel prices were 1.7% lower than in March and 8.3% lower than in April 2024. Low oil prices make another large m/m decline in May quite likely (that would be the third significant price decline in a row). The prices of energy fell by 0.2% m/m in April, with solid fuel down by 1% and system heat down by 0.3% and stable electricity and gas prices.

Core and super-core inflation, %y/y



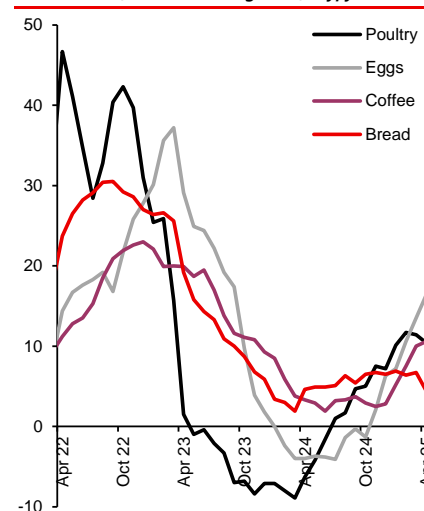
Source: GUS, Santander

CPI inflation, selected categories, %y/y



Source: GUS, Santander

CPI inflation, selected categories, %y/y



Source: GUS, Santander

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