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Economic Comment

Inflation jumped to 3% in March

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Rising fuel prices pushed inflation up to 3% y/y in March. A slight decline is likely in April, but the size of this move will depend on the behaviour of commodity prices in the coming weeks. Given developments in the Middle East, we currently assess that even in a scenario of a relatively rapid de-escalation of the conflict, the return of commodity prices to lower levels will be gradual. As a result, the inflation path for the coming months is shifting upwards, which will most likely rule out any interest rate cuts this year.

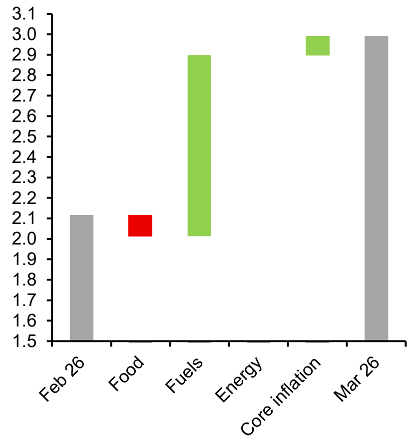
CPI inflation rose in March to 3.0% y/y from 2.1% in February, a notch below our forecast (3.1%) and market consensus (3.2%). As we expected, the main factor pushing up consumer prices in March was a jump in fuel prices, by 15.4% m/m – slightly below our estimate of 18% m/m. Food prices remained stable (we were assuming a minor drop -0.2% m/m), while energy prices decreased 0.1% m/m, in line with our assumptions.

According to our estimate, core inflation ex prices of food energy was at the verge of 2.6%/2.7% y/y, slightly higher than 2.5% recorded in February, but still very close to the target.

In April the CPI inflation is likely to decrease, but the size of the move will depend heavily on what happens with Brent crude oil price in the coming weeks. The government's "CPN package" of indirect tax cut on fuels may potentially shave up to 0.8pp from CPI "ceteris paribus" i.e. under the assumption that Brent oil price in April does not change vs. March. Today's prices at the pump are already c.15% lower than a week ago. This effect may be obviously reduced if the crude oil price goes up.

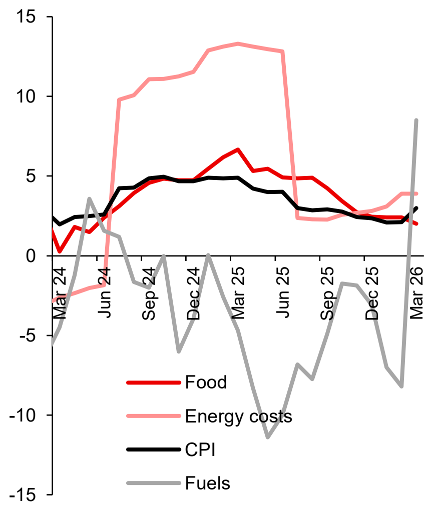
Our current forecast, assuming Brent crude price averaging at $110 in April, and then going down steadily towards $80 by December, assumes CPI going down to 2.6% y/y in April, then rebounding towards 3% y/y by July and ending the year above 3.5% y/y. Such scenario will most likely prevent the MPC from any additional rate cuts this year.

CPI – breakdown of change in annual growth rate, % y/y



Source: GUS, Santander Bank Polska

CPI inflation, selected categories, % y/y



Source: GUS, Santander Bank Polska

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