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Economic Comment

CPI surpassed 10% easily

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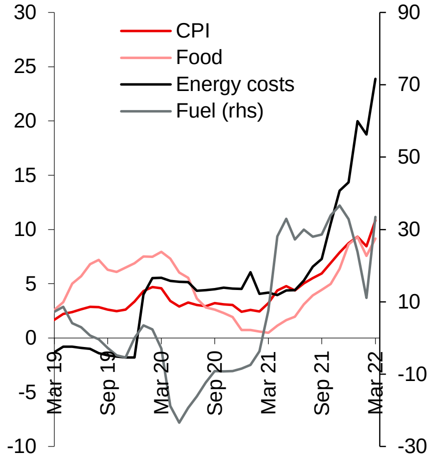
CPI inflation jumped to 10.9% y/y in March, surprising to the upside markedly (we: 10.0%, market: 10.1%). Core inflation also increased, to 6.8-6.9% y/y from 6.7% y/y in February, according to our estimate. CPI monthly change (3.2% m/m) was the highest since late 1994. The data is strong argument for the central to continue interest rate hikes and supports our expectations for an above-consensus rate hike at the nearest MPC meeting on April 6th (+75bp). Poland's manufacturing PMI declined in March to 52.7pts from previous 54.7, affected mainly by the war in Ukraine. According to flash data Poland's fiscal balance (GG) improved in 2021 to -1.8% of GDP from -6.9% in 2020. Public debt ended the year at 53.8% of GDP vs. 57.1% in 2020 and 45.6% in 2019.

CPI inflation, % y/y



Source: GUS, Santander

CPI in two-digit area

CPI inflation jumped to 10.9% y/y in March, surprising to the upside markedly (we: 10.0%, market: 10.1%). Jump from 8.5% y/y in February was mostly caused by very strong upward tendencies in fuel (28.0% m/m), energy (4.4% m/m) and food (2.2% m/m). Core inflation also increased, to 6.8-6.9% y/y from 6.7% y/y in February, according to our estimate. CPI monthly change (3.2% m/m) was the highest since late 1994. The strong momentum in consumer prices and disruptions on various markets caused by the war in Ukraine imply that the peak of inflation is likely to be clearly higher than we had thought before. CPI is likely to remain in double digits at least until late summer. Core inflation should start fading over time as demand-side and wage pressure should go down, but before it happens it may reach new peaks well above 7% in mid-year. The data is strong argument for the central to continue interest rate hikes and supports our expectations for an above-consensus rate hike at the nearest MPC meeting on April 6th (+75bp).

PMI down on war-related worries

Poland's manufacturing PMI declined in March to 52.7pts from previous 54.7, affected mainly by the war in Ukraine. The survey confirmed tendencies that were broadly anticipated: production fell for the first time in 14 months, disruptions of supply chains worsened as a result of the war, export orders were hit significantly, probably reflecting weakening demand from the Western Europe, not only disruptions in trade with Russia and Ukraine. Cost pressure has intensified and companies continued hiring, albeit at weakest pace in 4 months. Overall, the scale of index deterioration was moderate and it remained in expansionary zone, well above 50. Yet, some slowdown in production growth seems to be likely.

Low fiscal deficit in 2021, but may widen a lot

According to flash data Poland's fiscal balance (GG) improved in 2021 to -1.8% of GDP from -6.9% in 2020. Public debt ended the year at 53.8% of GDP vs. 57.1% in 2020 and 45.6% in 2019. Fiscal deficit for 2022 was originally planned at 2.8% of GDP, but we think it will be much higher due to the unexpected costs resulting from fighting inflation, managing migrant crisis, recently announced income tax reductions. As a result, General Government balance may widen this year towards 4.5% of GDP. Amid nominal GDP growth near 10%, such level of deficit implies that debt/GDP ratio should decline slightly in 2022.

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