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Economic Comment

CPI at 11%

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March CPI inflation amounted finally to 11.0% y/y vs flash readings at 10.9% y/y and February at 8.5% y/y. We estimate that the war-related shock added about 2 percentage points to CPI, mainly through higher fuel prices. Core inflation accelerated as well, to 6.9-7.0% y/y from 6.7% y/y in February, according to our estimates.

We expect that in the coming months inflation will be relatively stable above 11% y/y. We expect to see the peak in June above 11.5% y/y. Core inflation should keep rising and may soon cross 7% y/y. We think that in such environment the MPC will continue to hike rates, but may return to steps of 50bp.

March CPI inflation amounted finally to 11.0% y/y vs flash readings at 10.9% y/y and February at 8.5% y/y. We estimate that the war-related shock added about 2 percentage points to CPI, mainly through higher fuel prices. Goods prices accelerated to 11.6% y/y from 8.3% y/y in February, while services rose steadily by 9.1% y/y. Inflation was supported by fuels (28.1% m/m), energy (4.7% m/m) and food (2.2% m/m), but core inflation accelerated as well, to 6.9-7.0% y/y from 6.7% y/y in February, according to our estimates.

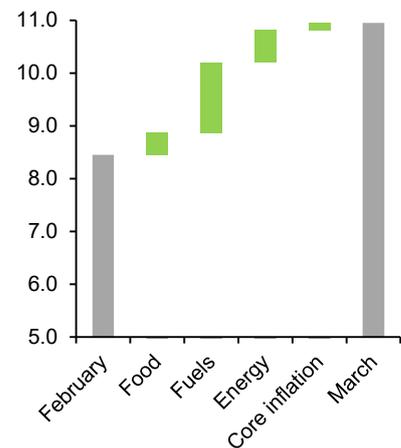
Food prices increased by 2.2% m/m and in our view increases will be strong also in the months to come. Especially meat prices went markedly up, with pork higher by 11.1% m/m and poultry by 11.3% m/m, which is an effect of rising forage prices and declining herd populations. Significant upward tendencies were also visible in bakery and oils/fats (by 1.7% m/m), which may be partially due to war in Ukraine (Ukraine and Russia are major producers of grains and oil seeds).

Rise in energy prices by 4.7% m/m was mostly driven by higher solid fuel prices (mostly coal), by 14.2% m/m and by natural gas prices (7.1% m/m). This is also an effect of Russian aggression on Ukraine.

In core categories price growth was not as dynamic as in the cases described above, but still most of them consistently pushed upward. Shoes and clothes prices rose by 3.9% m/m, a bit less than in 2021, but more than in the previous years. Actual rentals for housing went up by 1.9% m/m, which might be linked to the inflow of refugees. Prices in restaurants and hotels rose by 1.2% m/m, in education by 0.4% m/m. On the other hand organised tourism prices dropped significantly, by 3.9% m/m, which we also attribute to the war.

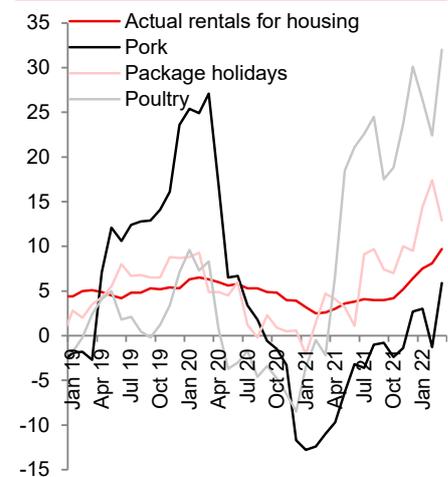
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CPI inflation breakdown, % y/y



Source: GUS, Santander

CPI inflation - selected categories % y/y



Source: GUS, Santander

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