CEE Economics

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Economic Comment

Core inflation still on the rise

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In February, core inflation set another record, with inflation ex food and energy prices up to 12.0% y/y from 11.7% y/y in January and 11.5% y/y in December. We thought that core inflation would set its peak in February, just like headline CPI. Currently is seems less certain and core may stay at elevated levels for longer. We do not think that core inflation will give the MPC reasons to think about rate cuts this year.

In January, Polish C/A balance showed an unexpected surplus of €1.43bn while we and the market were prepared to see a deficit of around €1bn The main source of the surprise was a sudden deceleration in imports, to 3.1% y/y from 12.1% y/y.

Core inflation setting a new record… again

In February, core inflation set another record, with inflation ex food and energy prices up to 12.0% y/y from 11.7% y/y in January. Other measures followed this trend with CPI ex administered prices up to 18.1% y/y from 16.3% y/y, CPI ex most volatile prices up to 15.5% y/y from 14.4% y/y and 15% trimmed mean up to 17.0% y/y from 15.2% y/y.

In monthly terms core inflation rose by 1.3% m/m in February and 0.9% m/m in January, clearly gaining momentum versus November and December (0.7% m/m and 0.6% m/m, respectively). We thought that core inflation will set its peak in February, just like headline CPI. Currently is seems less certain and core may stay at elevated levels for longer. We do not think that core inflation will give the MPC reasons to think about rate cuts this year.

Balance of payments – finally a surplus in trade account

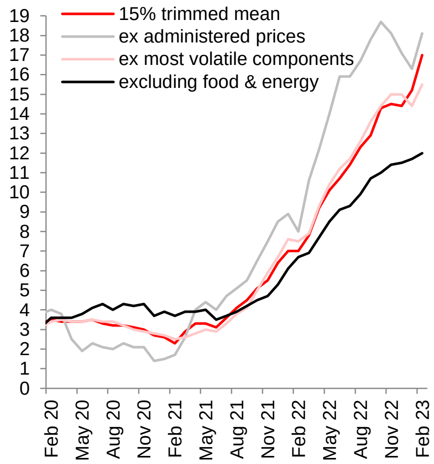
In January, Polish C/A balance showed an unexpected surplus of €1.43bn while we and the market were prepared to see a deficit of around €1bn The main source of the surprise was the trade balance in goods, coming at €1.23bn, or €2.4bn above expectations – this reading broke the streak of 18 negative monthly prints.

While export growth (+10.8% y/y coming after +11.5% in December) was quite close to our estimates, import came in at just +3.1% y/y vs. market expectations at +12.9% y/y and our 11.9% forecast. The NBP comment mentioned once again the automotive sector as the backbone of the export growth, with food and fuels also playing an important role. On the imports side the deceleration was due to further weakness in intermediate goods (especially related to iron, steel and plastics) and consumer goods. The latter can mean that the weakness of private consumption in 4Q22 could also be observed in 2023.

Services balance at +€3.37bn was €0.47bn higher than we had thought thanks to an acceleration of services exports to 29.3% y/y from 25.9% in December. The balance on the income account was -€3.16bn.

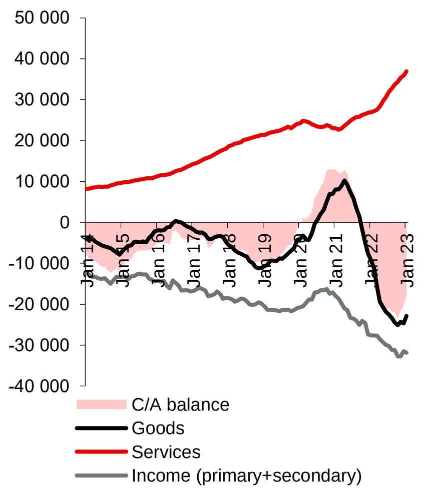
12M moving sum of C/A balances shows a rise in January to -2.7% GDP from -3.1% in December, and vs. the low recorded in October 2022 at -3.7%.

Core inflation, % y/y



Source: GUS, Santander

Balance of payments: main balances (12m moving sum), €mn



Source: NBP, Santander

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