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Economic Comment

Inflation rebounded less than expected

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According to the statistical office's preliminary estimate, inflation rose in April to 2.4% y/y (1% m/m) from 2.0% in March, i.e. below market consensus at 2.5% and our estimate at 2.7%. The downward surprise vs. our estimate was mainly due to food prices (2.1% m/m vs. our assumption at 3%) but also fuel (2.1% m/m) and energy prices (-0.2% m/m) were marginally lower than we presumed. Large increase in monthly food prices resulted mainly from return of higher VAT rate on food. Our estimate of core inflation remained nearly unchanged at 4.1% (0.7% m/m) with some asymmetric downside risk. We presume that the higher VAT may gradually pass through to food prices collected by the statistical office also in the next months. Our baseline scenario assumes gradual increase in inflation to 2.8% in May and ~5% at year-end. Amid economic growth recovery driven by private consumption we presume core inflation will likely remain in 3.9-4.8% range till end of next year, which will prevent the MPC from fast rate reductions. We still presume first cut only in mid-25.

According to the statistical office's preliminary estimate, inflation rose to 2.4% y/y (1% m/m) in April from 2.0% in March, below the market consensus of 2.4-2.5% and our estimate of 2.7%. The downward surprise versus our estimate was mainly due to food prices (2.1% m/m vs. our 3% assumption), but fuel (2.1% m/m) and energy (-0.2% m/m) prices were marginally lower than we presumed.

The large increase in monthly food prices was mainly due to the return of a higher VAT rate on food. Although some discounters announced they would cut margins rather than raise prices we assumed high food prices growth based on online price data we collect, which signaled strong price increases. Internet prices reflected well the price changes in statistical office data in previous months, but this time the price changes captured by the office turned out to be lower. Nevertheless, we assume that the VAT increase will be reflected in higher food prices reported by the statistical office in the following months.

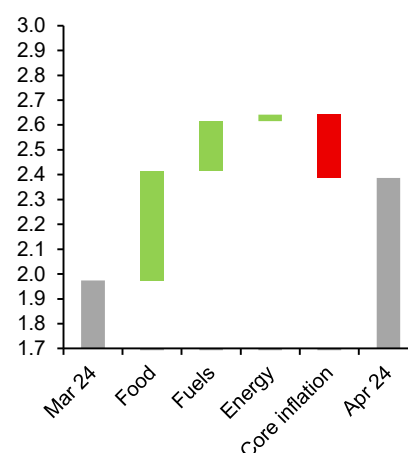
Our estimate of core inflation remained nearly unchanged at 4.1% (0.7% m/m) with some asymmetric downside risk versus 4.6% in March. Lower net inflation was partly affected by VAT reduction for beauty services to 8% from 23%, which likely reduced CPI by ca. 0.05pp.

In the baseline scenario we assume a gradual increase in inflation to 2.8% in May and about 5.1% by year-end. Our forecasts for the second half of the year are still subject to uncertainty regarding energy prices. The Standing Committee of the Council of Ministers approved the draft law on the energy voucher including details on energy prices, but the government will review it for approval on May 7. Given the updated bill, we maintain our estimate of an increase in the amount of the electricity bill of about 18% in July. At the same time, we have slightly raised our estimate of a heat bill increase of about 5% in the second half of this year and about 5% for gas in July. We see some upside potential with regards to gas prices depending on the approval from the regulator. Changes to energy prices could lift the annual CPI by ca. 1pp in 2H24 in our view.

Amid a recovery in economic growth driven by private consumption, we assume that core inflation will remain in the 3.9-4.8% range through the end of next year. Monthly core inflation likely exceeded the seasonal pattern in April by about 0.25-0.3 pp, and we assume that monthly changes will remain on average around 0.3% m/m over the next several months (min. 0.1% m/m, max. 0.6% m/m).

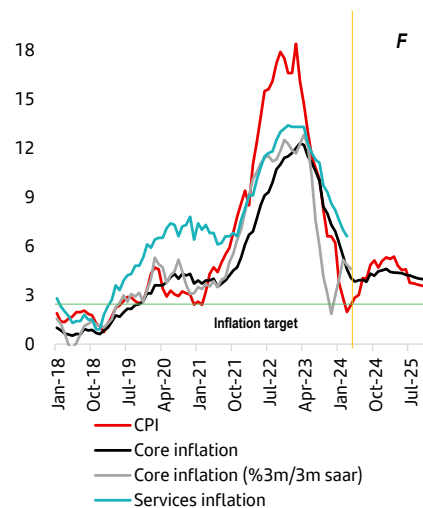
We assume that elevated core inflation will be the main argument against rapid rate cuts. This was signalled also in the today's comments from Ludwik Kotecki, who stated that core inflation is still very high and is the main obstacle for decision to cut rates. We maintain our view that the first interest rate reduction will not occur until mid-2025.

Annual inflation change decomposition, % y/y, pp



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander forecast

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