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Economic Comment

Acceleration of inflation and GDP

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GDP growth in Poland in 1Q24 accelerated to 1.9% y/y, according to flash estimate, from 1.0% y/y in 4Q23. The reading was a notch above the market consensus and our forecast, both at 1.8% y/y. Seasonally adjusted GDP picked up by 0.4% q/q (vs 0.6% market consensus), which does not look impressive. The details will be out in late May. We treat the result as a confirmation of our long-expected scenario of gradual economic reacceleration in 2024.

The statistical office confirmed a rebound in CPI inflation in April to 2.4% y/y from 2.0% y/y in March. The m/m growth was revised up to 1.1% from 1.0%. The acceleration in annual inflation was mainly due to the reinstatement of VAT on food, the other major factor was the fuel price rebound. Upon seeing the CPI details, we upkeep our view that core inflation eased to 4.1% y/y in April from 4.6% y/y in March. We expect CPI inflation to keep growing in the coming months and reach c.5.5% y/y by the end of the year.

Economy is re-accelerating

GDP growth in Poland in 1Q24 accelerated to 1.9% y/y, according to flash estimate, from 1.0% y/y in 4Q23. The reading was a notch above the market consensus and our forecast, both at 1.8% y/y. Seasonally adjusted GDP picked up by 0.4% q/q (vs 0.6% market consensus), which does not look impressive, especially that 4Q23 was revised from 0.0% q/q to -0.1% q/q. Such result placed Poland slightly below median GDP growth for those EU countries that have already published the results for the first quarter, below Czechia (0.5%) and Hungary (0.8% q/q), but clearly above Germany (0.2%). Yet, we still have doubts regarding the credibility of the s.a. data for Poland due to their extreme volatility and often/large revisions.

Today's data does not give us much insight into the state of the economy in 1Q, as the flash release does not reveal the structure of GDP growth. We will learn more from the next GDP release at the end of May. However, we treat the result as a confirmation of our long-expected scenario of gradual economic reacceleration in 2024, led predominantly by the revival in private consumption. We think the positive trend will continue, lifting GDP growth to 3.0% in 2024 as a whole.

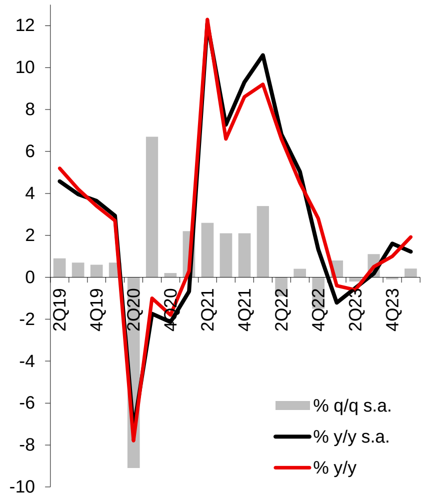
Inflation rebounds in April to 2.4% y/y

The statistical office confirmed a rebound in CPI inflation in April to 2.4% y/y from 2.0% y/y in March. April's monthly increase, however, was revised upward to 1.1% m/m from 1.0%. The acceleration in annual inflation from the March bottom was mainly due to the reinstatement of VAT on food and the other major factor was the rebound in fuel prices. Inflation of goods prices rebounded to 1.1% y/y from 0.4% in March, which was the lowest print since January 2019. Services price inflation came in at 6.2% y/y, down from 6.6% in March, which is its lowest level since July 2021. At the same time, however, monthly service price growth (+0.9%) moved well above the usual seasonal pattern after remaining below the pattern for the previous four months.

VAT reintroduction was the decisive factor in food price increase

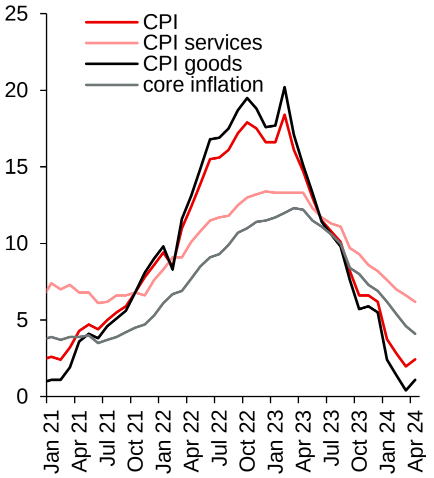
The monthly increase in food prices was confirmed by GUS at 2.1%. This is a very large move for April and was mainly due to the return of the 5% VAT rate on food. The price changes within this category were uneven. Particularly large increases were seen in rice, 6.2% m/m, and butter, 4.4% m/m (the broader category, oils and fats showed +3.2% m/m). Bread increased by 2.9% m/m, meat by 2.4% (including pork and poultry by 3.3-3.4%). Prices of milk and dairy products rose by 2.1% m/m. The increases in the prices of fruit (1.1% m/m) and vegetables (2.8% m/m) do not look particularly high relative to the seasonal pattern when adjusted for the VAT change. On the other hand, fruit and vegetable juices became more expensive by 2.6% m/m. In contrast, there was an unusually low for April increase in prices of flour, 0% m/m, while sugar, cocoa/chocolate powder

GDP growth in Poland



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

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prices fell, by 3.6% m/m and 0.3% m/m respectively. We assume that due to the policy signalled by some retail chains to not fully transmit the VAT increase to their prices in April, the effect of the tax change may still drive up food price growth in the following months.

Energy prices decreased by 0.1% m/m in April, or 2.2% on an annual basis. This was made up of no change in electricity prices, gas prices falling by 0.1% m/m, solid fuel price going down by 1.9% m/m and system heat becoming more expensive by 1.2% m/m. We assume that, as a result of the introduction of the government's new energy price measures, the increase in this category in July will be limited to around 12% m/m and its contribution to CPI inflation will be around +1.5 percentage points. In the case of fuels, the price rebound of 2.1% m/m in April was primarily driven by a +3.3% m/m movement in petrol prices, while diesel became 0.7% m/m more expensive and LPG became 0.4% m/m cheaper. In our view, the 1.2% y/y drop in fuel prices may have been the last negative y/y reading this year.

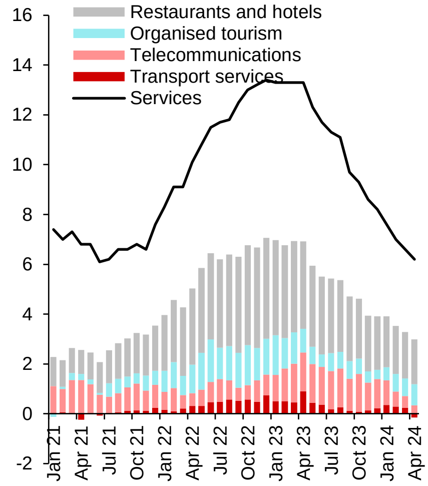
Core inflation declines, but its momentum remains high

We upkeep our view that core inflation eased to 4.1% y/y in April from 4.6% y/y in March. In monthly terms, prices in core categories grew by 0.7% m/m and by around 0.3-0.4% m/m after seasonal adjustment, which is still inconsistent with the inflation target (c. 4% y/y annualized).

In the core categories, prices rose faster than usual in home furnishings and equipment (+0.5% m/m), mainly due to more expensive furniture (+0.8% m/m), in health (+0.5% m/m), recreation and culture (+1.2% m/m), with package holidays becoming more expensive, especially foreign ones (+7.1% m/m), as well as in other goods and services (0.7% m/m), mainly due to higher insurance prices (3.0% m/m). On the other hand, prices of clothing and footwear (2.6% m/m), as well as communications (-0.8% m/m) grew slightly weaker than the seasonal pattern suggests. Also of note is the behaviour of transport services, which fell by 11.6% y/y after showing -0.2% y/y in March. We assume that this is due to a weaker than usual seasonal increase in airfares. Car prices, on the other hand, fell by 0.9% m/m, marking their seventh consecutive decline.

CPI inflation should continue to rebound in the coming months. In our view, it should already be approaching 3% y/y in June, and the government's energy price measures should bring it close to 4.5% in July and to around 5.5% by the end of the year. Core inflation may stabilise slightly below 4% y/y in the next few months, but in our view it will move into an upward trend after the summer holidays, mainly due to the pressure from high increase in labour costs, and will end the year close to 4.5% y/y.

Inflation in services, breakdown, % y/y



Source: GUS, Santander

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