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## Economic Comment

### Inflation on the edge of the plateau

Grzegorz Ogonek, tel. 609 224 857, [grzegorz.ogonek@santander.pl](mailto:grzegorz.ogonek@santander.pl)

According to preliminary data for March, CPI inflation in Poland equalled 4.9% y/y, unchanged from January and February, in line with our estimates and below the 5.1% market consensus. Core inflation could be 3.5% y/y in March, a tad lower than our estimate before the flash CPI release. In April, annual CPI growth should already be clearly lower, around 4.3%, and throughout 2H25 it might be no higher than 3.5%. Such an inflation path will, in our view, convince the MPC to start cutting interest rates in 3Q.

According to preliminary data for March, CPI inflation in Poland equalled 4.9% y/y, unchanged from January and February. The result was in line with our estimates and below the market consensus of 5.1% y/y. The previous inflation reading also surprised downwards (4.9% y/y against a median forecast of 5.3% y/y), but largely due to the annual revision of weights in the CPI basket.

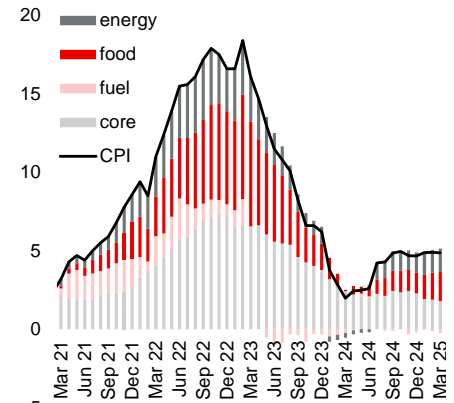
Month-on-month, prices rose 0.1% in March, below the consensus of 0.3% and our estimate of 0.2%. Food prices increased 0.3% m/m, above our estimate of 0.0% m/m based on data sourced from retailers' websites. Fuel prices fell by 2% m/m, close to our expectations. Energy prices fell by 0.1% m/m.

Our estimate of core inflation based on preliminary March CPI data is 0.4% m/m and 3.5% y/y, coming after 3.6% in February. Prior to the release of the data, our estimate was slightly higher.

The March headline CPI print should mark this year's peak (or rather a plateau) in annual inflation. We expect CPI growth to fall to 4.3% y/y in April (influenced by the base effect associated with the reintroduction of VAT on food in April 2024) and then slowly build up to 4.3%-4.4% in May-June. The next significant fall in inflation will very likely come in July, also due to a strong negative base effect (related to the increase in energy prices in July 2024). We think that inflation will not exceed 3.5% y/y between July and December this year. On the other hand, we expect that core inflation will not enter a clear downward trend this year but will instead oscillate around its March level.

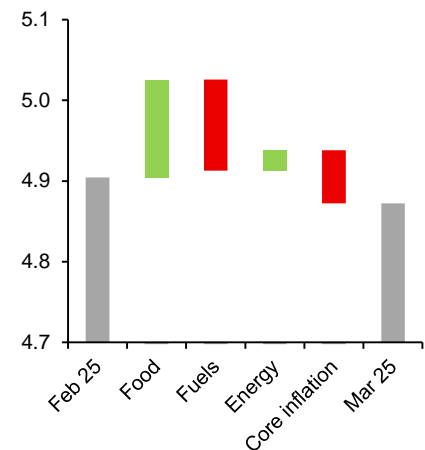
Such an inflation path will, in our view, convince the MPC to start cutting interest rates in the third quarter of the year. We expect a total of 75 bp of rate cuts this year. The preliminary March inflation results were part of a recent series of data (including lower-than-expected wage growth and retail sales) prompting the market to price in a larger scale of cuts this year, which already exceeds 100 bps. In our view, however, given the tariff wars and European fiscal stimulus, the MPC will take a cautious approach to monetary easing.

Structure of Polish CPI inflation, % y/y



Source: GUS, Santander

Decomposition of CPI inflation change, % y/y



Source: GUS, Santander

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#### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)

website: [santander.pl/en/economic-analysis](http://santander.pl/en/economic-analysis)

Piotr Bielski +48 691 393 119

Bartosz Biały +48 517 881 807

Marcin Luźniński +48 510 027 662

Grzegorz Ogonek +48 609 224 857