

Fixed Income & Economics Daily

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FX & RATES STRATEGY RESEARCH

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ECONOMICS

- **ARGENTINA:** Primary Deficit Reached 3.7% of GDP in February
- **POLAND:** Inflation out of the Band

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ARGENTINA

ECONOMICS

Primary Deficit Reached 3.7% of GDP in February

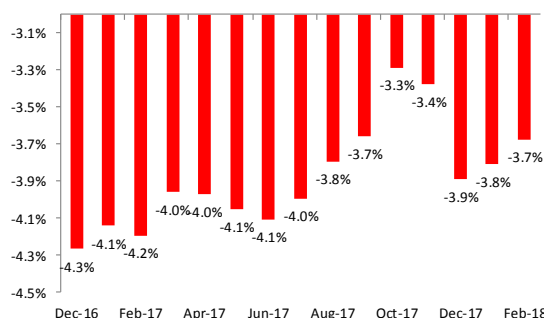
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The primary deficit was 3.7% of GDP in the last 12 months to February, according to Treasury figures. In the first bimester, the primary deficit reached ARS16.2 bn, equivalent to a 29.6% annual decline compared to the same period of 2017. Taking into account interest payments, the fiscal deficit reached ARS 53.6 bn, increasing 50.8% y/y.

In February, revenues expanded 26.7% while public expenditures increased 18.4% (below the 25.5% annual CPI rate). Despite the positive growth in real terms of social security expenditures (+5.8% y/y), there were negative real growth rates in economic subsidies (-45.1% y/y), transfers to provinces (-23.9% y/y), capital expenditure (-15% y/y) and wages (-7.3% y/y).

With the results of the first two months, the primary deficit/GDP ratio reached 0.15% of GDP. In this context, fiscal revenues expanded in real terms due to the GDP growth and the reduction of expenditures for subsidies and capital expenditures. As a result, we expect that the federal government will over-accomplish the 0.6% primary-deficit-to-GDP target for 1Q18.

Primary Deficit Reduced in the Last Two Months



Primary deficit (% GDP). Sources: Treasury and Santander.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE ATTACHED.

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CEE ECONOMICS

POLAND

ECONOMICS

Inflation out of the Band

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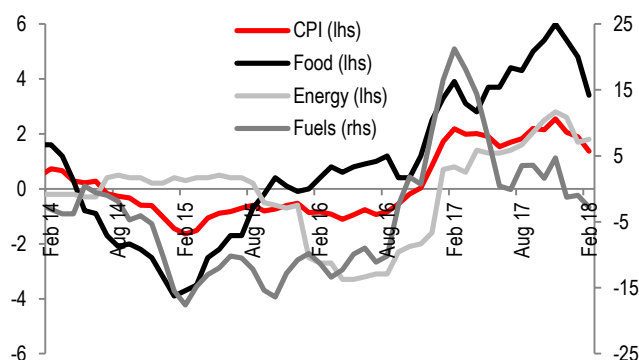
February inflation in Poland was only 1.4% y/y, down from 1.9% y/y. Consensus was at 1.7%-1.8%; we expected 1.6%. This was the first release to include revised CPI weights. Food was the main culprit of the larger-than-expected CPI decline – all items that were pushing inflation higher in 2017 subsided in early 2018, i.e. eggs, butter, milk, meat, sugar and vegetables (it is quite unusual for this last item to see lower prices in February). Food prices fell 0.4% m/m, while we expected +0.2%, already assuming some decreases in the abovementioned items. Fuel prices were the greatest source of negative pressure on the m/m CPI change (-0.08pp), but this was expected. A negative surprise, apart from food price behavior, was also seen in the prices for telecommunications and ‘footwear and apparel’ – which enter the core inflation basket.

Our rough estimate points to a decrease of core inflation to 0.8% y/y in February from 1.0% in January. This only amplifies the downside surprise of the release, as core CPI was expected to rise from 0.9% to 1% in January and remain at that level in February (the January release for CPI provided limited information and did not allow for calculation of the core measure). Goods prices growth decreased from 1.5% y/y to 1%, while **services inflation fell from 2.8% y/y to 2.3%** – **despite growing labor costs due to the tight labor market.** We still think core CPI will be heading higher in 2018, possibly coming close to 2% y/y at the end of the year.

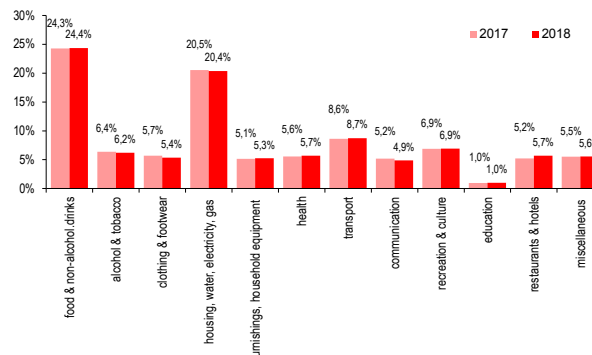
The change of weights in the CPI basket did not change the January reading, but in the coming months it should result in only slightly higher inflation (by no more than 0.03pp at year-end). Hotels and restaurants saw the largest weight increase, by 0.48pp to 5.71%; food weight rose only slightly, despite the fact that 2017 inflation was driven primarily by price changes in this category. Healthcare weight was also increased. The share of household expenditures on shoes and clothes; communication; and home maintenance decreased.

It now seems much less likely that CPI could hit the 2.5% y/y inflation target this year, as we had previously expected. After adjusting for the substantial negative surprise in the February reading, we now doubt whether inflation can pick back up and hold above 2% this year. It still might temporarily exceed 2% in the middle of the year, but the base effect could bring it down to about 1.5% in November-December. **The February CPI reading supports the current MPC rhetoric that interest rates should stay unchanged not only this year, but also in 2019 if the economic environment develops in line with the March inflation projection.** After all, CPI unexpectedly slipped out of the +/-1pp band of tolerable deviations around the 2.5% target, where it had remained since the start of 2017. We have recently delayed our expectations for the beginning of monetary tightening to late 2019.

Inflation and selected components, % y/y



Change of CPI weights



Source: Stats Office, BZ WBK.



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