

Polish inflation at the central bank target in May, but set to rise in months ahead

Headline inflation surprised to the downside in May, but this does not mark the end of the upward trend. CPI inflation will continue rising in the coming quarters, leaving the MPC little room to start its monetary easing cycle. In 2024, rates should remain unchanged and cuts may not take place before mid-2025



According to the StatOffice flash estimate, CPI inflation rose to 2.5% year-on-year in May from 2.4% YoY in April. Food and non-alcoholic beverage prices rose by 0.3% month-on-month, fuel prices fell by 0.3% MoM and energy prices slowed by 0.2% MoM.

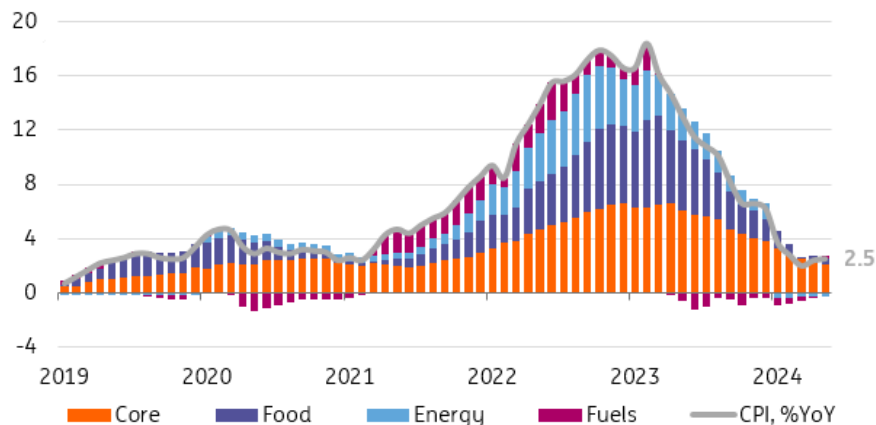
The increase in the annual growth of fuel prices was the largest contributor to the increase in the YoY inflation rate relative to April (fuel prices fell 4.8% MoM in May 2023). In May, fuel prices rose in annual terms for the first time since March 2023.

Food prices turned out to be markedly lower than our forecast. The upward pressure on the price of vegetables and fruit was limited, but we had expected a larger impact from further price adjustments to the new VAT rates. In May, low inflation was facilitated by warm weather. The growing season started a month earlier in some regions, which impacted food prices, but may also

have held back increases in energy e.g. heating.

CPI inflation at the NBP target, but should continue rising

CPI, %YoY, percentage points



Source: GUS, ING.

We estimate that core inflation eased to around 3.8-3.9% YoY from 4.1% YoY in April. On a monthly basis, core price growth slowed to around 0.2%, against relatively high momentum seen in previous months (0.4-0.7% MoM). However, seasonally adjusted data does not show much improvement compared to the February-April period.

The May inflation report is a positive surprise, but a continuation of the upward trend in inflation lies ahead. The 2023 reference base is becoming less favourable and the second half of the year will bring an upward adjustment in energy prices. In the coming months, CPI inflation should continue rising to around 5% YoY by the end of 2024. At the beginning of 2025, a further increase in inflation is to be expected due to, i.e., regulatory factors (expiry of the maximum price for electricity at PLN600/MWh, potential reinstatement of the power charge, which is to be suspended in 2H24).

The local peak of the current inflation uptrend is likely to come at the end of 1Q25, which means that the MPC should maintain restrictive monetary policy for multiple months. We expect NBP rates to remain unchanged until the end of 2024, and rate cuts may not occur before the middle of next year.

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