

## Poland's CPI inflation trends higher in May amid strong services price growth

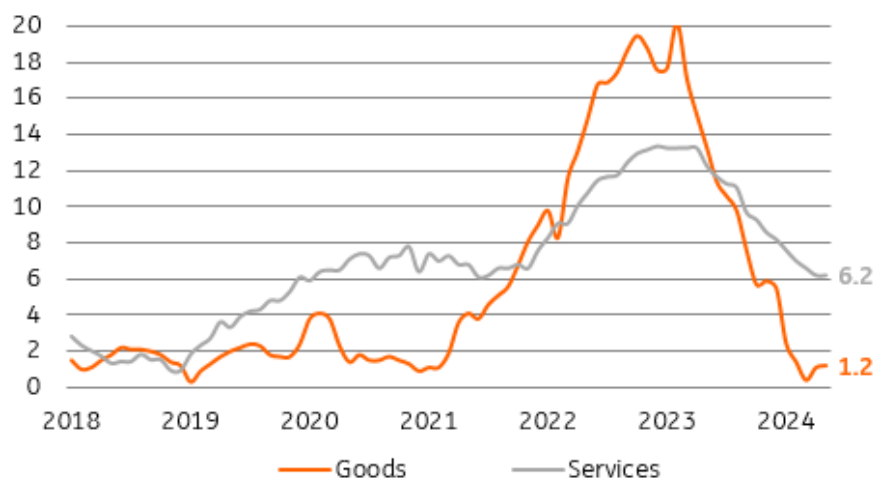
Final data has confirmed that CPI inflation rose to 2.5% year-on-year in May up from 2.4% in April amid still robust growth in services prices. Headline inflation is expected to continue trending upwards in the coming months, while core inflation is likely to remain sticky around 4% YoY, leaving the MPC no room to cut rates this year



Prices of goods rose by 1.2% YoY and of services by 6.2% YoY as compared with 1.1% YoY and 6.2% YoY, respectively in April. The main source of the increase in annual inflation relative to April was fuel, whose prices in May were 3.6% higher than in May 2023 (down by 1.2% YoY in April this year). Food price growth continues at a low level, supported by strong competition between major retail chains and favourable weather conditions. Fruit prices were 2.5% lower in May than a year ago and vegetable prices were broadly unchanged YoY. A positive surprise is the further decline in core inflation which, according to our estimates, fell to around 3.8% YoY from 4.1% YoY in April. Compared to April, the prices of foreign travel services fell markedly (-9.3% month-on-month).

## Services inflation still high in Poland

Prices of consumer goods and services, %YoY



Source: GUS.

We have seen a gradual increase in inflation since April. This process should continue, with inflation rising markedly in 2H24 due to the partial unfreezing of electricity and gas prices. As a result, by the end of 2024, inflation could rise towards 5% YoY and the MPC should most likely keep interest rates unchanged this year. Unless some protective measures are introduced, a further increase in inflation is expected at the beginning of 2025 (restoration of the capacity fee, expiry of the maximum price for electricity at PLN500/MWh), so the first central bank rate cuts should not be expected before 2Q25. The MPC's cautious approach will also, in our view, be linked to the evolution of core inflation. We do not see room for it to fall noticeably further and forecast that it will remain around 4% in the coming quarters. We expect that the National Bank of Poland's main rate could be cut by a total of 75bp to 5.00% next year.

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