

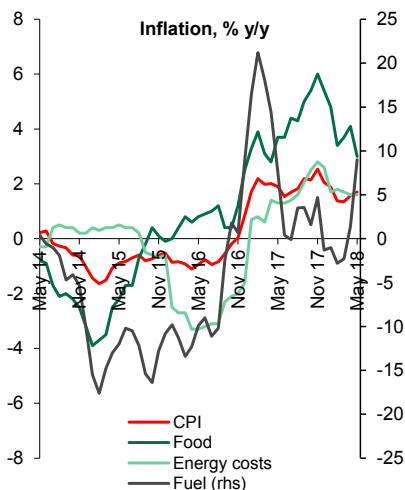
# ECONOMIC COMMENT

14 June 2018

## CPI a notch higher in May

Inflation rose from 1.6% y/y to 1.7% in May, in line with the flash estimate. In m/m terms the flash figure of 0.1% was revised up to 0.2%. The rise of inflation would not be possible without a 5.6% m/m surge of fuel prices. According to our estimate core inflation remained at 0.6% y/y and in the coming months it should start to rise. We expect that in June-July inflation will rise slightly above 2%/y/y on higher oil prices only to return to c1.5% y/y at the end of the year amid high base effect.

Grzegorz Ogonek  
tel. 22 534 19 23  
[grzegorz.ogonek@bzwbk.pl](mailto:grzegorz.ogonek@bzwbk.pl)



Final May CPI confirmed that inflation rose to 1.7% y/y from 1.6% y/y. Statistics Poland revised the monthly consumer prices change to +0.2% from +0.1%. CPI rise would not be possible without higher fuel prices that jumped 5.6% m/m. At the same time, the contribution of food prices to the headline figure decreased by 0.3pp vs April. Among core CPI components, healthcare and telecomm services prices rose more than we expected. Prices of insurance continued to fall (-3.6% m/m).

Core inflation ex food and energy prices remained at 0.6% y/y in May, even though we saw some downward risk after the flash data. In the upcoming months we are expecting a rise of core CPI towards c1.4% in 4Q18. Headline CPI is likely to surpass 2% y/y in the months to come given high oil prices, but in 2H18 the high base effect will bring it down to 1.5% again.

May inflation reading did not bring a strong enough message to influence the MPC attitude. In just a few weeks we will see the new NBP inflation projection, which probably will be lower than the March version due to the lower-than-expected CPI readings coming in the course of last months. Therefore we remain of the view that MPC will decide to raise interest rates only at the end of 2019.

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### ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40  
email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl) Web site: <http://www.bzwbk.pl>  
Piotr Bielski +48 22 534 18 87  
Marcin Luziński +48 22 534 18 85  
Grzegorz Ogonek +48 22 534 19 23  
Konrad Soszyński +48 22 534 18 86  
Marcin Sulewski +48 22 534 18 84

### TREASURY SERVICES:

Poznań +48 61 856 5814/30  
Warszawa +48 22 586 8320/38  
Wrocław +48 71 369 9400