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## Economic Comment

### CPI down to 13%

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May CPI inflation was confirmed by the GUS at 13.0% y/y. Goods prices slowed to 13.3% y/y from 15.1% y/y and services prices to 12.3% from 13.3% y/y. We estimate core inflation at 11.4% y/y vs. 12.2% y/y in April. We expect further declines in inflation in the months ahead. There is a growing probability that CPI will slip into single digits at the end of the year, although we believe it will remain close to 10%. We see core inflation reaching around 8% y/y by the end of the year. We believe that such circumstances will not be conducive to rate cuts.

May CPI inflation was confirmed by the GUS at 13.0% y/y. Goods prices slowed to 13.3% y/y from 15.1% y/y and services prices to 12.3% from 13.3% y/y (last time the latter measure was below was in September 2022). We estimate core inflation at 11.4% y/y vs. 12.2% y/y in April.

#### Typical rise in food prices, but drought risk increases

Food and non-alcoholic beverage prices were 18.9% higher than a year ago (April: +19.9% y/y). Detailed data have finally shown some negative annual growth rates: butter (-1.9% y/y) and poultry meat (-1.0% y/y). On the other hand, sugar was still more than 60% more expensive y/y, while vegetables, yoghurt, cream and eggs by around 25%.

In m/m terms, in May the behaviour of food prices followed a typical seasonal pattern, after unusually strong price increases in February and March, and a slight increase in April. The largest downward deviations from the typical May price behaviour occurred in oils and fats (sixth consecutive m/m price drop, this time by 1.0%), milk (-1.2% m/m), among others. Oils and fats are recovering from the shock of the decline in the supply of oilseed crops in Ukraine (oilseed crops have recently increased markedly in South America and the EU, among others). Milk supply is also increasing, but there is weak demand growth in China. In addition, in eggs, fruit and flour, there was an uncharacteristically small increase for the month, by just 0.1% m/m. There were clear upward deviations in pork (+2.1% m/m), soft drinks (+1.7% m/m) and vegetables (-0.3% m/m).

The latest IUNG (Institute of Soil Science and Plant Cultivation) drought report showed that in recent weeks the water balance has turned the worst in the last five years, generating an increasing risk of crop losses. Therefore, we believe that although the last two inflation readings have been reassuring in terms of the behaviour of food prices, the situation may soon change and unusual upward deviations are likely to emerge again.

Upward pressure on food prices in Poland may also appear as a consequence of the destruction of the Novaya Kakhovka dam, which may reduce the flow of food into the global market from Ukraine.

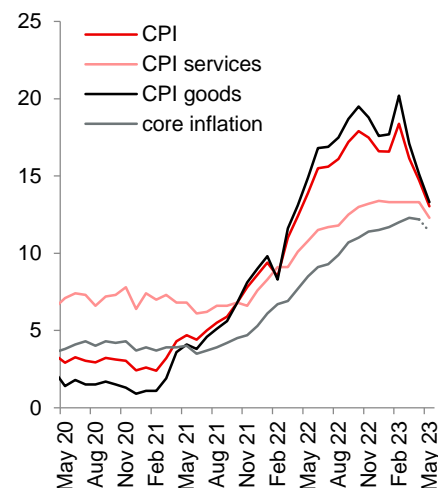
#### Energy prices down slightly, but could soon start to rise

Energy prices fell by 0.4% m/m (revised from -0.5% m/m in the flash release), led by further falls in fuel (-2.6% m/m) and gas (-0.4% m/m) prices, with a further rise in heating prices (0.5% m/m). While fuel and gas prices may continue to fall, we believe that energy prices will soon start to show the effects of households exceeding the electricity consumption limit, up to which prices are frozen this year.

#### Gradual easing in the core categories

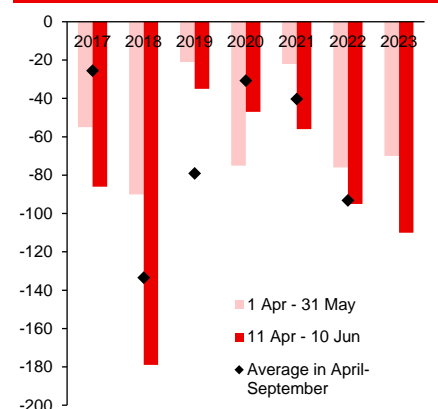
Above-normal price increases were recorded in the following categories: health (1.9% m/m, especially pharmaceuticals, the effect of a new list of reimbursed drugs), restaurants and hotels (1.3% m/m), other goods and services (1.2% m/m - including insurance by 2.9% m/m), alcoholic beverages and tobacco (0.9% m/m). Meanwhile, price changes more in line with seasonal patterns were recorded in clothing and footwear (0.1% m/m), house maintenance (-0.1% m/m), home furnishings (0.5% m/m), communications (0.0% m/m),

CPI, main measures, % y/y



Source: GUS, NBP, Santander

Water balance\*, mm



Source: IUNG-PIB, Santander

\*difference between precipitation and evaporation

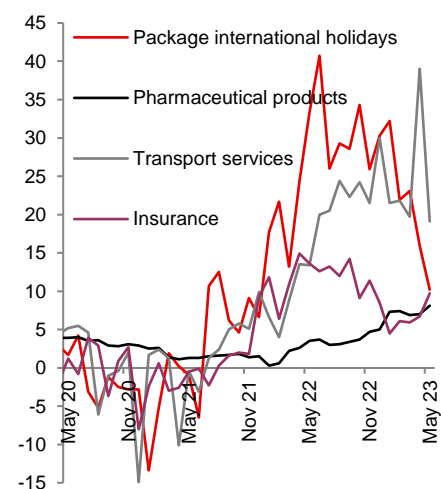
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recreation and culture (-0.5% m/m), and education (0.1% m/m). Transport prices (probably mainly airline tickets) fell by 16.5% m/m, marking a return to the regular seasonal pattern after the atypical behaviour in 2021-2022.

We expect further declines in inflation in the months ahead. There is a growing probability that CPI will slip into single digits at the end of the year (we see a good chance of a single-digit reading in October), although we believe it will remain close to 10%. Core prices rose by 0.3% m/m according to our estimate, and we believe that monthly dynamics will not return above 1.0% m/m, recorded between February and April. Consequently, we see core inflation reaching around 8% y/y by the end of the year. We believe that such circumstances will not be conducive to rate cuts, especially in the context of the economic recovery we expect and the growing scale of pro-inflationary election promises.

CPI inflation, selected items, %y/y



Source: GUS, Santander

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