NARODOWY BANK POLSKI

Monetary Policy Council

March 2024

Inflation Report

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Warsaw, 2024

The Inflation Report presents the Monetary Policy Council's assessment of macroeconomic developments influencing inflation. The projection of inflation and GDP presented in Chapter 4 has been prepared at the Economic Analysis and Research Department of Narodowy Bank Polski (NBP). In terms of the contents, works on the projection have been supervised by Director of the Economic Analysis and Research Department. The projection has been prepared with the use of the NECMOD macroeconomic model. The NBP Management Board has approved the submission of the projection to the Monetary Policy Council. The projection of inflation and GDP is one of the inputs to the Monetary Policy Council's decision-making process.

The time frame of the analysis presented in the *Report* is conditioned by the availability of macroeconomic data, while its periodisation (breakdown into sub-periods) is conditioned by the development of particular variables. Chapters 1 and 2 of the *Report* include data available until 23 February 2024 as well as GDP data published on 29 February 2024, while the projection of inflation and GDP presented in Chapter 4 has been prepared taking into account data available until 15 February 2024.

This *Inflation Report* is a translation of NBP *Raport o inflacji* in Polish. In case of discrepancies, the original prevails.

Contents

Summary

Since the previous *Inflation Report*, economic conditions in the environment of the Polish economy have remained subdued. In the euro area, annual GDP growth declined in the second half of 2023 compared to the first half, standing at close to zero. In contrast, the annual GDP growth in Central and Eastern Europe picked up slightly in the second half of 2023, but remained well below its long-term average. In the United States, in turn, annual GDP growth accelerated in the second half of 2023. Global economic conditions were adversely affected by the effects of the previous tightening in financial conditions and the impact of elevated inflation on real incomes and domestic demand in many economies. At the same time, activity growth was supported by still very good labour market conditions in most economies.

The disinflation process has continued. In the euro area, HICP inflation fell in January 2024 compared to September 2023. Similarly, in the United States CPI inflation in January 2024 was lower than in September 2023. In the Central and Eastern European countries outside the euro area, the disinflation process has also continued in recent months. Global disinflation in the second half of 2023 was, however, slowed down by a rise in annual energy price growth related to base effects. Nevertheless, given the lower commodity prices than a year ago and the earlier easing of supply chain disruptions, cost pressure remained limited, which was reflected in lower – and in many economies, negative – growth in producer prices.

Lately, global markets have seen energy commodity prices fall and agricultural commodity prices fluctuate slightly. At the same time, commodity prices have been running markedly below the record high levels of 2022. Nevertheless, they are still much higher than before the onset of the COVID-19 pandemic, due to the continued limited supply in certain commodity markets.

Recently, central banks of major advanced economies have kept interest rates unchanged. At the same time, the expectations of financial market participants implied from the valuation of financial instruments suggest possible interest rate cuts in most advanced economies in 2024. In turn, some central banks in emerging market economies have reduced their interest rates in past months.

In recent months, government bond yields have remained high, although they have declined in most economies. The improved sentiment contributed to a decline in risk aversion, which led to a weakening of the US dollar against many other currencies.

Annual consumer price growth in Poland has continued to decline in recent months. The fall in inflation at the end of 2023 was mainly due to lower core inflation and slower annual growth in the prices of food and non-alcoholic beverages, while accelerated annual growth in energy prices worked in the opposite direction. In turn, the fall in inflation in January 2024 (to 3.9% y/y, according to preliminary data by Statistics Poland) reflected a decline in the annual growth of all the main components of the CPI basket, including, in particular, prices of energy carriers amid the extended shielding measures. Lowering inflation was driven by weakened consumer demand and the fading of cost pressures related to, among others, external supply shocks. Other factors limiting price growth included the appreciation of the zloty,

lower inflation in Poland's economic partners and the base effects. The decline in industrial producer prices has deepened in recent months.

In 2023, GDP in Poland increased by 0.2% (compared to 5.3% in 2022), whereby, after the decline in economic activity in the first half of the year, the second half of the year saw a gradual recovery. In 2023 Q4, GDP growth picked up, yet, it remained relatively low. According to preliminary estimate by Statistics Poland, GDP growth stood at 1.0% y/y (compared to 0.5% y/y in 2023 Q3), driven by a clearly positive, albeit slightly lower than in 2023 Q3, contribution of net exports and relatively high investment growth. Alongside that, similarly to the previous quarters of 2023, the change in inventories had a significantly negative contribution to GDP growth. In turn, growth in private consumption lowered compared to the previous quarter and, in effect, its contribution to GDP growth was close to zero.

In the first three quarters of 2023, the general government deficit in ESA2010 terms was PLN 91.4 billion (2.7% of GDP), compared to a deficit of PLN 22.7 billion (0.7% of GDP) in the same period of 2022. In the whole of 2023 a deficit of PLN 85.6 billion was recorded in the state budget compared to a deficit of PLN 12.6 billion in 2022. The deterioration was mainly related to the high growth in state budget expenditure, mainly on national defence and servicing of the State Treasury debt, as well as the relatively low growth in tax revenue.

In 2023 Q3, the financial performance of the enterprise sector deteriorated, and aggregate gross financial result of the sector dropped significantly compared to the corresponding period a year earlier. This was driven by lower result from the sale of products, goods and materials. Under these conditions, the profitability of the enterprise sector declined. Despite this, liquidity of the enterprise sector remained relatively high.

In 2023, the situation in the labour market remained good, as evidenced by the low unemployment rate and high employment. In the second half of 2023, however, amid subdued economic activity, employment growth and growth in nominal wages slowed down.

The decline in Polish government bond yields was driven by lowering government bond yields in global markets and a fall in inflation in Poland. The decreasing expectations of financial market participants about the scale and pace of NBP interest rate cuts worked in the opposite direction. Meanwhile, in February 2024 the average monthly exchange rate of the zloty against the euro was the strongest in 4 years.

The growth rate of the M3 aggregate in 2023 Q4 increased again. At the same time, both household and corporate bank debt declined in annual terms.

The current account balance increased again in 2023 Q4, which was a result of a markedly improved balance of trade in goods. External imbalance indicators evidence that the Polish economy is well balanced.

The *Report* is structured as follows: Chapter 1 presents the analysis of economic conditions in the external environment of the Polish economy in terms of their impact on inflation developments in Poland. These developments and the domestic factors that might affect them are described in Chapter 2. Chapter 3 includes *Minutes of the Monetary Policy Council decision-making meetings* held between November 2023 and February 2024, together with the *Information from the meeting of the Monetary Policy Council* in March 2024. Chapter 5 presents the Monetary Policy Council voting records from the meetings held between October 2023 and January 2024.

Chapter 4 of the *Report* presents the projection for inflation and GDP based on the NECMOD model, which is one of the inputs into the Council's decision-making process on the NBP interest rates. In line with the projection, prepared under the assumption of unchanged NBP interest rates and taking into account data available until 15 February 2024, there is a 50-percent probability that the annual price growth will be in the range of 2.8 – 4.3% in 2024 (against 3.2 – 6.2% in the November 2023 projection), 2.2 – 5.0% in 2025 (compared to 2.2 – 5.3%) and 1.5 – 4.3% in 2026. At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.7 – 4.3% in 2024 (against 1.9 – 3.8% in the November 2023 projection), 3.2 – 5.3% in 2025 (compared to 2.4 – 4.7%) and 2.0 – 4.5% in 2026. In the current round, inflation projection is associated with substantial uncertainty, related in particular to the horizon over which the shielding measures on energy and food prices will apply as well as to their design. Due to the assumption that these measures will continue in their current form over the projection horizon, the balance of risk for inflation is markedly asymmetric. In the case of 2024, the probability that annual price growth will run above the 50-percent confidence interval is 43%, while the probability that it will run below this range is 7%.

1. External developments

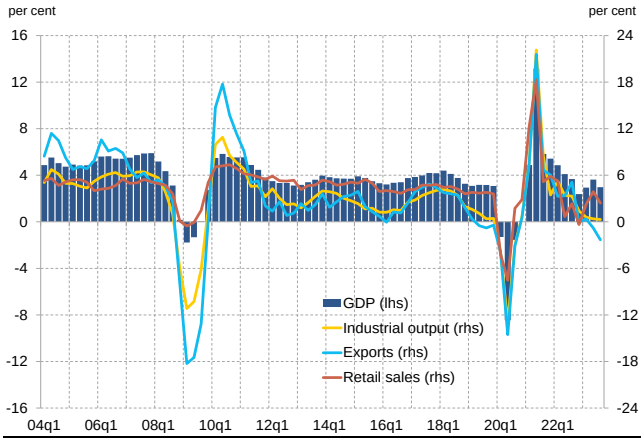
1.1 Economic activity abroad

Since the previous *Inflation Report*, economic conditions in the environment of the Polish economy have remained subdued (Figure 1.1). In the euro area, annual GDP growth declined in the second half of 2023 compared to the first half, standing at close to zero. In contrast, the annual GDP growth in Central and Eastern Europe picked up slightly in the second half of 2023 but remained well below its long-term average. In the United States, in turn, annual GDP growth accelerated in the second half of 2023.

Global economic conditions were adversely affected by the effects of the previous tightening in financial conditions and the impact of elevated inflation on real incomes and domestic demand in many economies. As a result, global industrial output growth continued to slow down, and the fall in world trade volumes deepened. Moreover, growth in services sector declined in the second half of 2023. In turn, activity growth was supported by still very good labour market conditions in most economies.

In the euro area, GDP edged up (by 0.1% y/y) in 2023 Q4, following stagnation in 2023 Q3 (Figure 1.2).[1] GDP growth in 2023 Q3 was backed by rising public expenditure and higher net exports as exports had fallen by less (-3.0% y/y) than imports (-4.0% y/y). This was largely offset by a decline in private consumption (of 0.4% y/y, amid falling real disposable income) and investment

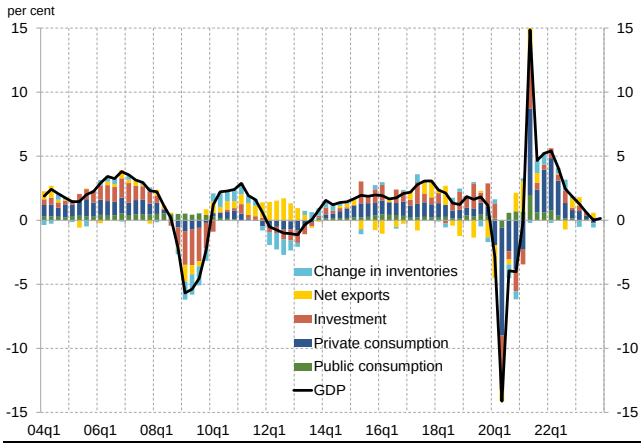
Figure 1.1 Global GDP growth and economic activity indicators (y/y)



Source: Datastream, Centraal Planbureau, OECD, Eurostat, IMF and national statistical offices data, NBP calculations.

The growth in GDP, industrial output and retail sales are calculated using weights based on GDP expressed in purchasing power parity (PPP). The sample consists of 58 economies comprising over 80% of global GDP expressed in PPP. Growth in global exports according to Centraal Planbureau. Due to limited availablility of data from some countries, the sets of economies used for calculating each time series differ slightly.

Figure 1.2 GDP growth in the euro area and its components (y/y)



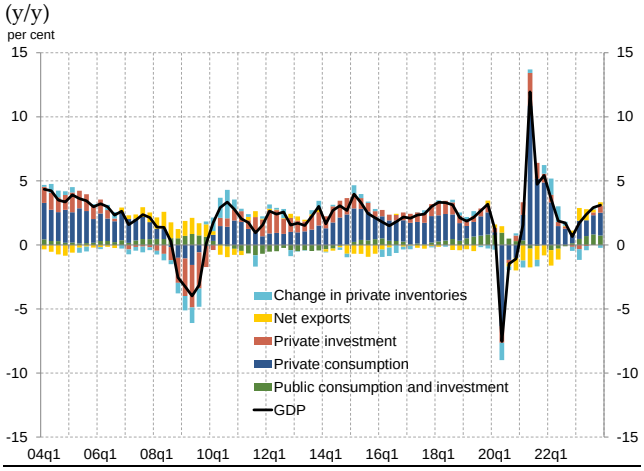
Source: Eurostat data, NBP calculations.

[1] In quarterly terms, GDP growth in the euro area did not change in 2023 Q4 following a decline by 0.1% in 2023 Q3.

(of 0.1% y/y),[2] negatively affected – as in previous quarters – by the downturn in the housing market. Labour market conditions continued to be good in the second half of 2023: the unemployment rate remained low (falling to 6.4% in December 2023), which, however, was accompanied by gradually slowing employment growth (to 1.3% on average in the second half of 2023 compared with 1.5% in the first half).

In the United States, GDP growth picked up to 3.1% y/y in 2023 Q4 (compared to 2.9% y/y in 2023 Q3; Figure 1.3).[3] In 2023 Q4, GDP growth was supported by an increase in domestic demand, including, in particular, private consumption. A major factor acting in the opposite direction was change in inventory. At the same time, the situation in the labour market remained favourable in 2023 Q4, and, in particular, employment growth continued amid a low unemployment rate (3.7% in December 2023).

Figure 1.3 GDP growth in the United States and its components (y/y)



Source: Bureau of Economic Analysis data, NBP calculations.

In China, GDP growth was 5.2% y/y in 2023 Q4 (compared to 4.9% y/y in 2023 Q3).[4] Private consumption continued to expand at a slow pace. There was also moderately high industrial output growth, as well as a slight pick-up in investment growth in manufacturing and some recovery in exports. However, economic activity growth continued to be constrained by the persistent downturn in the real estate market.

In the Central and Eastern European countries outside the euro area,[5] GDP growth amounted to 0.4% y/y in 2023 Q4 (compared to 0.9% y/y in Q3).[6] In 2023 Q3, economic growth was mainly driven by a positive contribution from net exports as the decline in imports deepened. Amid elevated inflation and the effects of earlier monetary policy

[2] Investment growth was reduced by a considerable drop in Ireland (-19.7% y/y) due to a decline in expenditure on intellectual property rights. With Ireland excluded from the aggregate, euro area investment rose by 0.7% y/y in 2023 Q3, while GDP increased by 0.2% y/y.

[3] In quarterly terms, GDP in the United States grew by 3.3% saar in 2023 Q4, compared to 4.9% saar in 2023 Q3.

[4] In quarterly terms, GDP growth in China was 1.0% sa (compared to 1.3% sa in 2023 Q3).

[5] Aggregate GDP growth in the Czech Republic, Hungary and Romania.

[6] In quarterly terms, GDP growth in the non-euro CEE economies shrank by 0.1% in 2023 Q4 against growing by 0.3% in 2023 Q3.

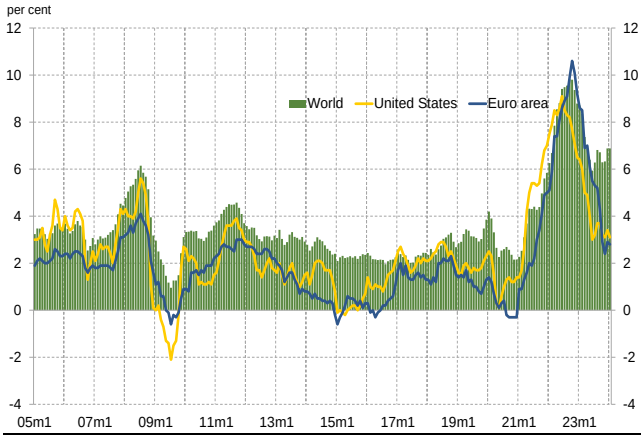
tightening, private consumption growth remained close to zero (-0.1% y/y vs. 0.2% in 2023 Q2), while investment growth continued to fall (to 1.9% y/y from 2.2% y/y in in 2023 Q2). At the same time, the labour market situation continued to be favourable in the second half of 2023. In December 2023, the average unemployment rate was 4.1%.

1.2 Inflation developments abroad

Since the previous *Report*, the disinflation process has continued, however, average global inflation in January 2024 was running at a similar level as in September 2023 (Figure 1.4).[7] Global disinflation in the second half of 2023 was slowed down by a rise in annual energy price growth related to base effects. Alongside that, given the lower commodity prices than a year ago and the earlier easing of supply chain disruptions, cost pressure remained limited, which was reflected in lower – and in many economies, negative – growth in producer prices (Figure 1.5). In these conditions, core inflation declined in many economies, although its fall remained gradual due to the still elevated growth in services prices.

In the euro area, HICP inflation fell to 2.8% y/y in January 2024 (compared to 4.3% y/y in September 2023). The fall was mainly a result of a decline in annual food price growth and the continuing slowdown in the growth of industrial goods prices amid weak demand and earlier easing of the supply chain disruptions. Weaker growth in services prices contributed to lowering inflation to a lesser extent. Consequently, core inflation declined to 3.3% y/y in January 2024 (against 4.5% y/y in September 2023; Figure 1.6).[8] Compared to September 2023, average annual energy price growth also moderated.[9]

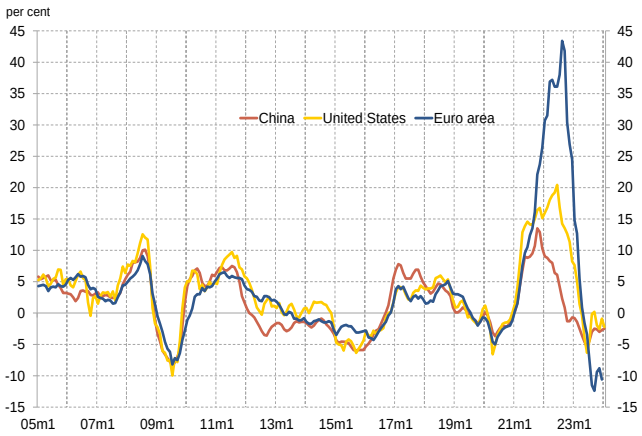
Figure 1.4 CPI inflation globally and in selected economies (y/y)



Source: Datastream and IMF data, NBP calculations.

World - average consumer price inflation weighted by GDP in purchasing power parity (PPP). As of 2019, the combined contribution of the included economies to global GDP (in PPP) is approximately 90%, according to IMF estimates. Estimates up to 2018, due to limited data availability, are based on a different set of economies, covering approximately 85% of global GDP. United States - annual CPI inflation. Euro area – annual HICP inflation.

Figure 1.5 Producer price inflation index in selected economies (y/y)



Source: Eurostat, Bureau of Labor Statistics and Datastream data.

For the United States – producer price growth in sectors of manufacturing industry, for the euro area and China – producer price growth in industry.

[7] Amid falling inflation in most economies, the stabilisation of global inflation was caused by a rise in inflation in certain emerging market economies (in particular, by a sharp increase in inflation in Argentina).

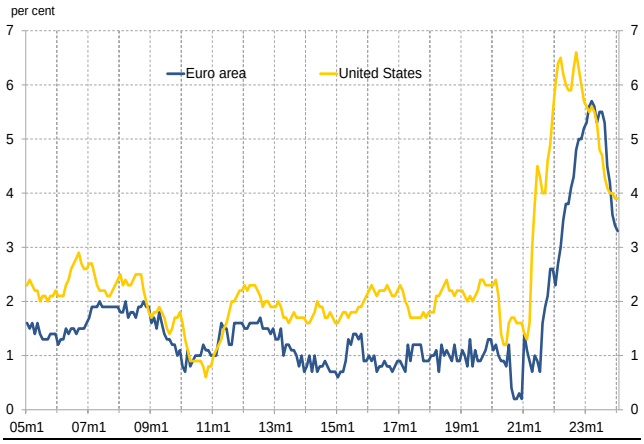
[8] Core inflation is understood as the domestic CPI index excluding food and energy prices (in the case of the euro area also excluding prices of alcoholic beverages and tobacco products).

[9] Annual energy price growth in the euro area stood at -6.1% in January 2024 compared to -4.6% in September 2023. However, in October and November 2023, the annual fall in energy prices exceeded 11% as a result of the strong base effect.

In the United States, CPI inflation stood at 3.1% in January 2024 (down from 3.7% y/y in September 2023), while CPI core inflation declined to 3.9% y/y (against 4.1% y/y in September 2023). At the same time, services prices continued to rise significantly faster than goods prices. The fall in CPI inflation was also driven by the decline in food price growth.

In the Central and Eastern European countries outside the euro area, the disinflation process has also continued in recent months (Figure 1.7). In January 2024, CPI inflation fell to 2.3% y/y in the Czech Republic (from 6.9% y/y in September 2023) and to 3.8% y/y in Hungary (from 12.2% y/y in September 2023), while in Romania it declined to 7.4% y/y (from 8.8% y/y in September 2023). Compared to September 2023, in all three economies the fall in consumer price growth was accounted for by the decline in both annual food price growth and core inflation. Moreover, in the Czech Republic and in Hungary energy price growth dropped significantly, which in both economies made a key contribution to the fall in inflation in recent months.

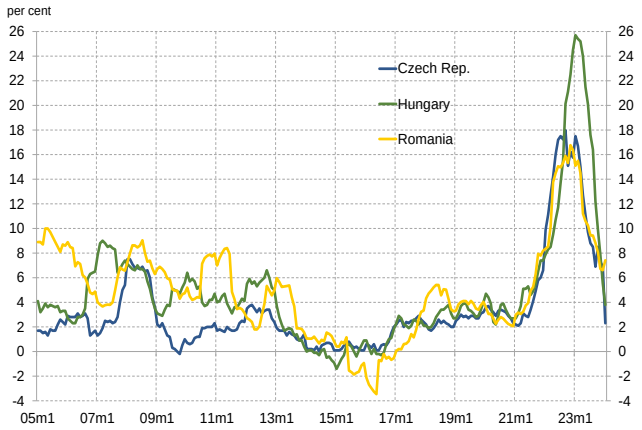
Figure 1.6 Core inflation rate in the United States and the euro area (y/y)



Source: Eurostat and Bureau of Labor Statistics data.

For the United States – CPI inflation excluding food and energy prices. For the euro area – HICP inflation excluding energy, food, alcohol and tobacco.

Figure 1.7 CPI inflation in the Czech Republic, Romania and Hungary (y/y)



Source: national statistical offices.

1.3 Global commodity markets

Global markets have seen energy commodity prices fall and agricultural commodity prices fluctuate slightly in the recent period.[10] At the same time, commodity prices have been running markedly below the record high levels of 2022. Nevertheless, they are still much higher than before the onset of the COVID-19 pandemic, due to the continued limited supply in certain commodity markets.[11]

In February 2024, the average price of Brent oil was 9% lower than in October 2023 and 3% lower than a year before (Figure 1.8). Oil prices declined

[10] Average energy commodity prices in February 2024 were calculated on the basis of daily data available up to 23 February 2024. The agricultural price index, in turn, includes data available up to 20 February 2024.

[11] Prices of oil, gas and coal in February 2024 stood, respectively, 41%, 41% and 23% above the average levels for 2015-2019, while prices of agricultural commodities were 53% higher than the corresponding average.

amid subdued growth in the global economy (see Chapter 1.1 *Economic activity abroad*) and, consequently, weaker demand for fuels. Alongside that, oil output cuts by the OPEC+ (currently, some of them on voluntary basis) as well as the continuation of EU sanctions imposed on Russia and the price cap introduced on Russian oil worked in the opposite direction.[12] Since November 2023, oil prices have been additionally affected by geopolitical tensions in the Middle East (the effect of attacks on commercial vessels in the Red Sea).[13]

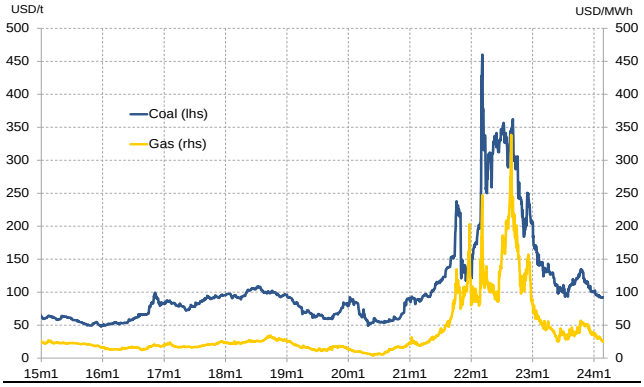
Prices of natural gas and coal have declined in recent months, running markedly below the previous year's level (by 50% y/y and 36% y/y, respectively; Figure 1.9). The decline in natural gas prices was largely the effect of the high natural gas stocks in Europe, subdued economic activity worldwide, actions undertaken by European governments to ensure sufficient supply of energy commodities, as well as high production of electricity from renewable energy sources. The decline in natural gas prices dragged down coal prices and, due to the subdued activity in energy-intensive industries of the European economy, also greenhouse gas emission allowances.

In recent months, NBP's agricultural price index fluctuated only slightly, reaching in February 2024 the level close to that recorded in October 2023 and approx. 3% higher than a year before (Figure 1.10). In the analysed period, amid the favourable supply conditions in the EU, prices of wheat and skimmed milk powder fell. Despite the decline in the pig population, the prices of European pork have also fallen, driven by limited import demand, mainly from Asian countries. The prices of frozen orange juice have fallen as well due to the forecasted higher orange production in the

Figure 1.8 Brent oil barrel price

Source: Bloomberg data.

Figure 1.9 Hard coal and natural gas prices



Source: Bloomberg data, NBP calculations.

Prices express prices of Dutch TTF Natural Gas Futures and Coal FOB Richards Bay Futures one-month-ahead contracts. USD/t – price expressed in US dollar per metric tonne. USD/MWh – price expressed in US dollar per megawatt hour.

Figure 1.10 Index of agricultural commodity prices

Source: Bloomberg data, NBP calculations.

Index of agricultural prices includes prices of wheat, colza, pigmeat, potatoes, sugar, cocoa, coffee, skimmed milk powder, butter and frozen concentrated orange juice. The weights reflect the consumption structure of Polish households.

[12] Under successive packages of sanctions, the EU has banned the sea import of oil and petroleum products from Russia. In addition, the G7 countries, the EU and Australia introduced a price cap on Russian oil, banning services for ships carrying Russian oil sold above the set limit. The EU (and previously also Poland) has also banned the import of coal and other solid fuels from Russia.

[13] The increase in geopolitical risks has not resulted in a sharp rise in oil prices, so far, but it increases the risk of disruptions in global flows of oil, natural gas, and other raw materials and goods, and consequently price increases in the future.

2023/2024 season. In contrast, prices of cacao, coffee and potatoes were higher in February 2024 than in October 2023 (the effect of limited supply).

1.4 Monetary policy abroad

Over the recent past, central banks of major advanced economies have kept interest rates unchanged (Figure 1.11). At the same time, the expectations of financial market participants implied from the valuation of financial instruments suggest possible interest rate cuts in most advanced economies in 2024 (Figure 1.12). In turn, some central banks in emerging market economies have reduced their interest rates in recent months (Figure 1.13).

The European Central Bank (ECB) has been keeping its interest rates unchanged since September 2023, including the deposit rate at 4.00%. The expectations of financial market participants point to a high likelihood of interest rates cut in the next quarters.

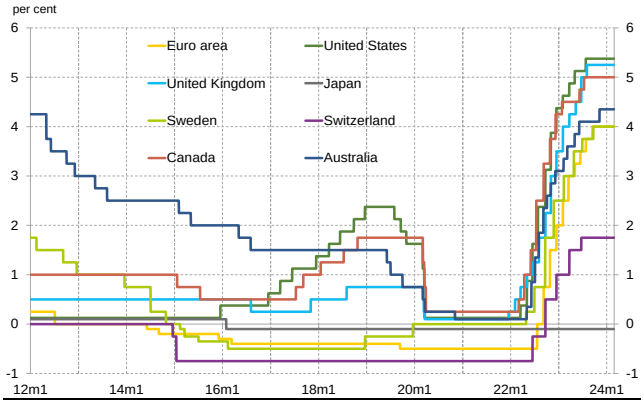
The United States Federal Reserve (the Fed) has kept interest rates unchanged since July 2023. The fed funds rate range is 5.25-5.50%. Financial market participants are expecting an interest rate cut in the coming quarters.[14]

Most of the remaining central banks of advanced economies have also kept their interest rates unchanged in the recent period.

Turning to the Central and Eastern European region, since the previous *Inflation Report*, the central banks of the Czech Republic and Hungary have lowered their interest rates, while in Romania interest rates have been kept unchanged.

In the largest emerging market economies, trends in monetary policy were diversified. In some of them – including Brazil, China and Chile – the central banks have eased monetary policy

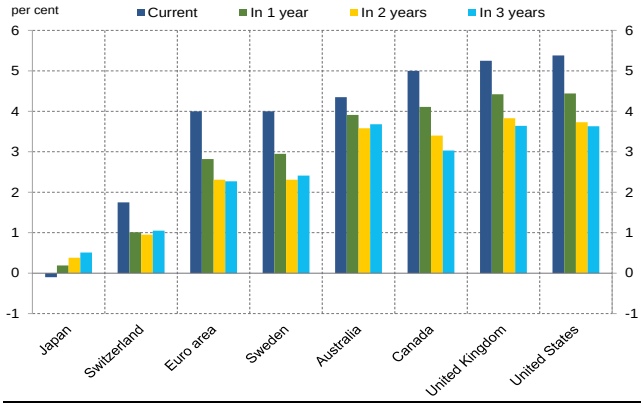
Figure 1.11 Central banks' interest rates in selected advanced economies



Source: Bloomberg data.

Central bank interest rate: for the United States – the midpoint of the fed funds range; for the euro area – the deposit facility; for Japan – the Complementary Deposit Facility; for Switzerland – the policy rate; for the United Kingdom – the Bank Rate; for Sweden – the policy rate; for Canada – the overnight rate target; for Australia – the cash rate target.

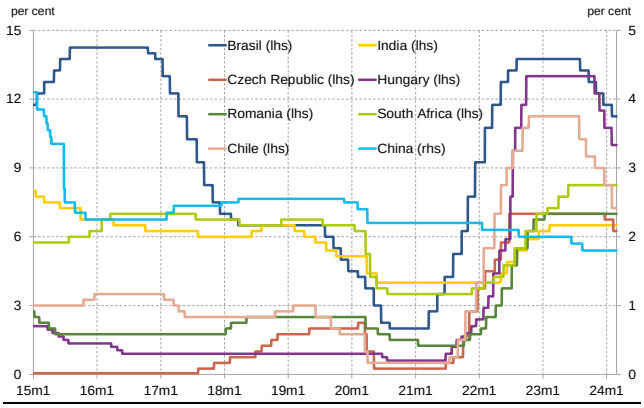
Figure 1.12 Current and expected by market participants level of central banks' interest rates in selected advanced economies



Source: Bloomberg data.

Central bank interest rate: for the United States – the midpoint of the fed funds range; for the euro area – the deposit facility; for Japan – the Complementary Deposit Facility; for Switzerland – the policy rate; for the United Kingdom – the Bank Rate; for Sweden – the policy rate; for Canada – the overnight rate target; for Australia – the cash rate target. Market expectatations according to Bloomberg based on IRS, as of 23 February 2024.

Figure 1.13 Central banks' interest rates in selected emerging market economies



Source: Bloomberg data.

Central bank interest rate: for Brasil – Selic Rate; for India – repo rate; for China – 7-day reverse repo; for Czech Republic – 2W repo rate; for Romania – Policy rate; for Hungary – base rate; for South Africa – repo rate; for Chile – monetary policy interest rate.

[14] Also, the median projection of the Federal Open Market Committee (FOMC) members of December 2023 indicates the possibility of a gradual interest rate reductions in the current and following years.

parameters. The central banks of, among others, India, Korea and Mexico have kept interest rates unchanged. By contrast, the central banks of Russia and Turkey have raised interest rates.

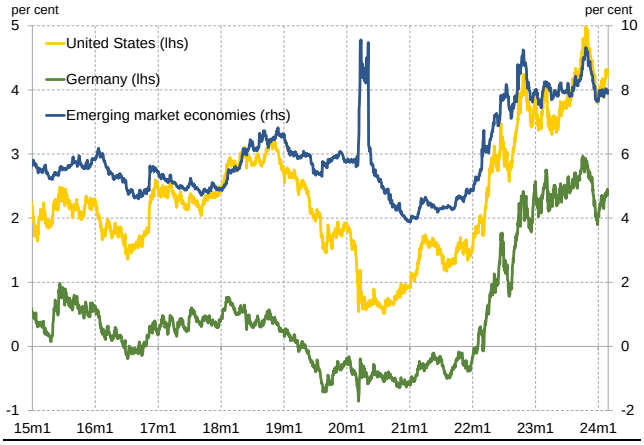
1.5 International financial markets

In recent months, sentiment in the global financial markets has improved due to expected interest rate cuts by the major central banks this year (see Chapter 1.4 *Monetary policy abroad*). At the same time, the persistence of subdued economic conditions in some of the largest economies and uncertainty about their outlook have had a negative impact on sentiment in global financial markets (see Chapter 1.1 *Economic activity abroad*).

Under these conditions, government bond yields have declined in most economies, although they remained high following the earlier sharp interest rate hikes (Figure 1.14). Strong sentiment in global financial markets was also translated into an increase in equity prices, particularly in advanced economies, where share prices were running close to record highs (Figure 1.15).

In addition, the improved sentiment contributed to a decline in risk aversion, which led to a weakening of the US dollar against many other currencies (Figure 1.16).

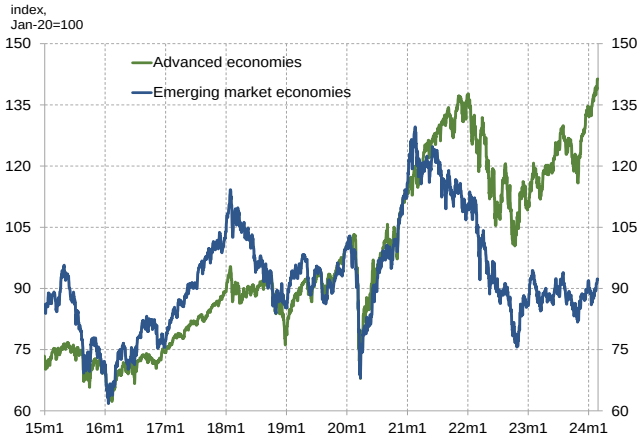
Figure 1.14 Yields on long-term government bonds



Source: Bloomberg data.

For the United States and Germany – 10 year government bond yield; emerging market economies – *Bloomberg Barclays Emerging Markets Sovereigns*.

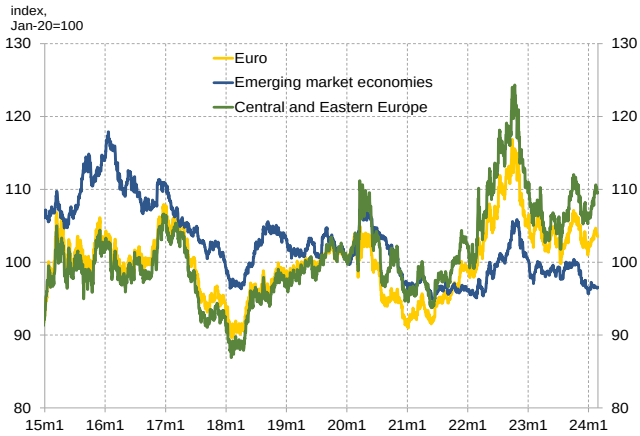
Figure 1.15 Equity prices



Source: Bloomberg data.

Advanced economies – *MSCI World Equity Index*; emerging market economies – *MSCI Emerging Markets Equity Index*.

Figure 1.16 US dollar exchange rates against the currencies of emerging market economies and the euro (rise indicates appreciation of the dollar)



Source: Bloomberg data, NBP calculations.

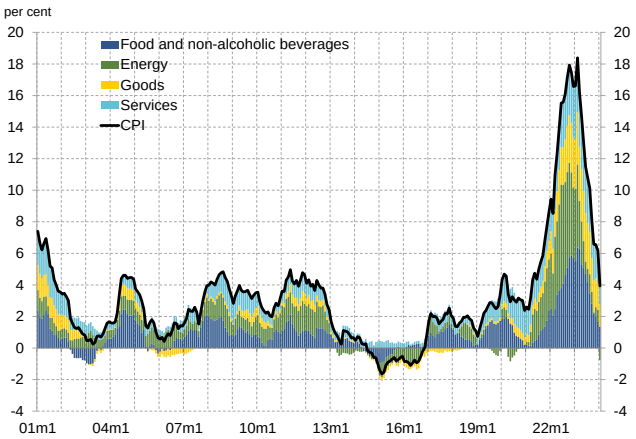
Emerging market economies – *MSCI Emerging Market Currency Index*; Central and Eastern Europe – GDP-weighted average of exchange rates of the Czech koruna, the Hungarian forint, and Romanian leu against the US dollar.

2. Domestic economy

2.1 Inflation developments

Annual consumer price growth in Poland has continued to decline in recent months (Figure 2.1). The fall in inflation at the end of 2023 (from 6.6% y/y in October to 6.2% y/y in December 2023) was mainly due to lower core inflation and slower annual growth in the prices of food and non-alcoholic beverages, while accelerated annual growth in energy prices worked in the opposite direction. In turn, the fall in inflation in January 2024 (to 3.9% y/y, according to preliminary data by Statistics Poland, GUS) reflected a decline in the annual growth of all the main components of the CPI basket, including, in particular, prices of energy carriers amid the extended shielding measures.

Figure 2.1 Composition of CPI inflation (y/y)

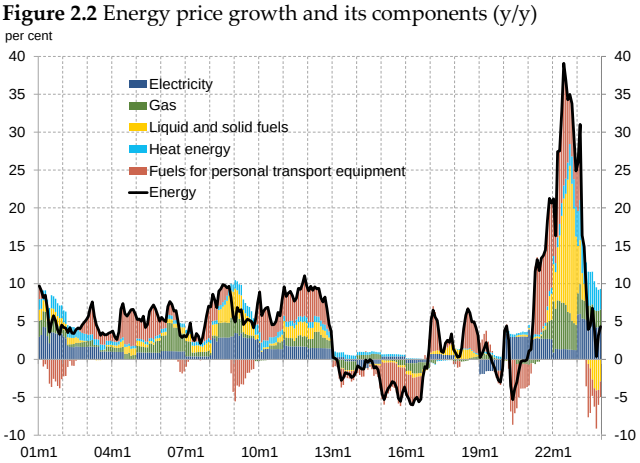


Source: Statistics Poland (GUS) data, NBP calculations.
CPI inflation in January 2024 – preliminary data by Statistics Poland.

Lowering inflation was driven by weakened consumer demand and the fading of cost pressures related to, among others, external supply shocks. Other factors limiting price growth included the appreciation of the zloty, lower inflation in Poland's economic partners and the base effects (see Chapter 1.2 *Prices of goods and services abroad* and 2.6 *Financial markets and asset prices*).

Inflation of food and non-alcoholic beverages prices dropped from 8.0% y/y in October to 6.0% y/y in December 2023 and, according to preliminary data by Statistics Poland, to 4.9% y/y in January 2024. This was due to the fading of cost pressures, a decline in retail sales of the food, beverages and tobacco products, the favourable supply conditions in selected agricultural commodity markets (see Chapter 1.3 *Global*

Figure 2.2 Energy price growth and its components (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.

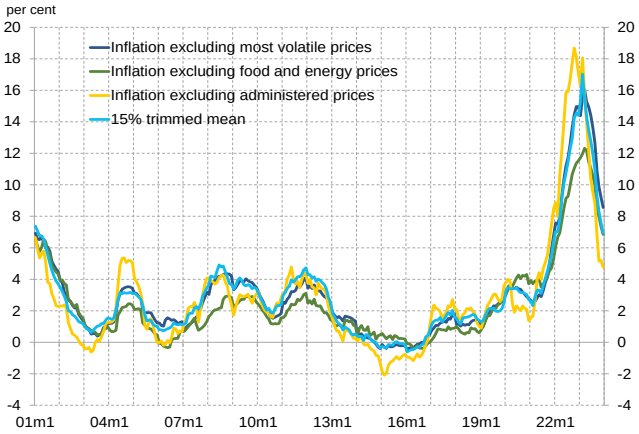
commodity markets) and the appreciation of the zloty.

Energy price inflation picked up from 0.4% y/y in October to 4.3% y/y in December 2023 (Figure 2.2), before falling considerably – according to preliminary data by Statistics Poland – in January 2024. Higher energy price inflation in the late months of 2023 was driven by a rise in annual growth in prices of both fuels for private means of transport (due to monthly changes in fuel prices at petrol stations) and liquid and solid fuels (due to base effects). With the freeze on prices of elecricity, heating and gas in place, slower energy price growth in January 2024 resulted largely from the negative base effect related mainly to the increase in VAT rates on energy carriers in January 2023.

Inflation excluding food and energy prices decreased from 8.0% y/y in October to 6.9% y/y in December 2023. Based on preliminary data by Statistics Poland, it is expected to have declined further in January 2024 (Figure 2.3). The fall in this inflation measure was due to slower annual growth in the prices of a wide range of non-food products and market services. This was driven by the easing of cost pressures amid weakened demand, the earlier fading of global supply chain disruptions and the appreciation of the zloty. The decline in services price inflation was also supported – albeit to a limited extent – by temporary factors (price promotions for communications services and a drop in demand for tourist trips in November 2023 in view of the rise in geopolitical risks in the Middle East). The decrease in inflation excluding food and energy prices was accompanied by a fall in the remaining measures of core inflation, including inflation net of administered prices to 4.8% in December 2023.

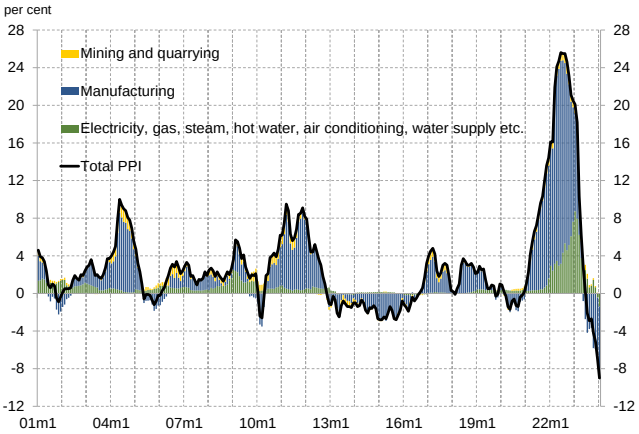
The decline in industrial producer prices (PPI) has deepened in recent months (to -9.0% y/y in January 2024 from -2.7% y/y in September 2023; Figure 2.4). It largely reflects the fading of the supply shocks effects, including those related to the outbreak of the Russian military aggression against Ukraine.

Figure 2.3 Core inflation indices (y/y)



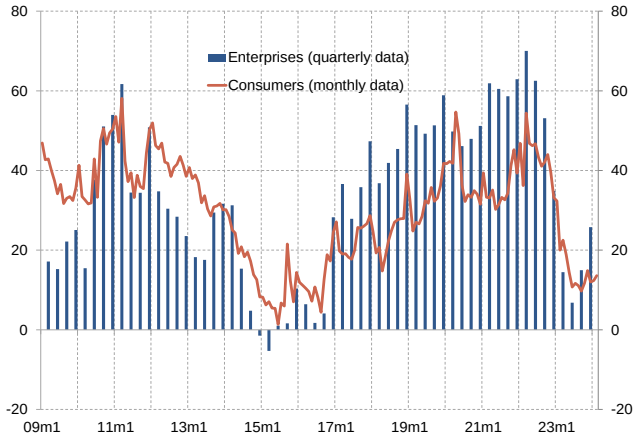
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 2.4 Composition of PPI inflation (y/y)



Source: Statistics Poland (GUS) and Eurostat data.

Figure 2.5 Balance statistics of consumer and enterprise inflation expectations



Source: Statistics Poland (GUS) and NBP data, NBP calculations.

Balance statistics is defined as a difference between the fraction of respondents expecting a faster rise in prices or at the same pace as at present (or as currently perceived) and the percentage of respondents expecting no change or a fall in prices (with respective weights). A rise in balance statistics should be interpreted as a shift in opinions towards higher rise in prices.

At the same time, prices of production for exports have recently been falling faster than those for domestic market, which is attributable to the significant appreciation of the zloty in year-on-year terms and the subdued economic conditions in the environment of the Polish economy. During the period under review, the growth in PPI lowered in a vast majority of industries, with prices of energy and intermediate goods continuing to decline most rapidly, which had a dampening effect on downstream producer price growth. There was also a decline, albeit markedly slower, in the prices of consumer goods included in the PPI (following a slight increase in September 2023).

Inflation expectations of consumers and enterprises measured by balance statistics are currently running low, by historical standard, despite a recent rise which occurred on the back of a marked fall in both inflation perceived by consumers and price growth reported in the survey question posed to enterprises (Figure 2.5).[15]

The results of the *NBP Survey of Professional Forecasters* from December 2023 and the Refinitiv survey from January 2024 indicate a further decline in inflation expectations of external experts in the short- (4-quarter ahead) and medium-term (8-quarter ahead) horizon (Table 2.1). According to the Refinitiv survey, CPI inflation, after a temporary rise in the second half of 2024 and in 2025 Q1, will fall to 2.9% y/y in 2026 Q1 (Figure 2.6).

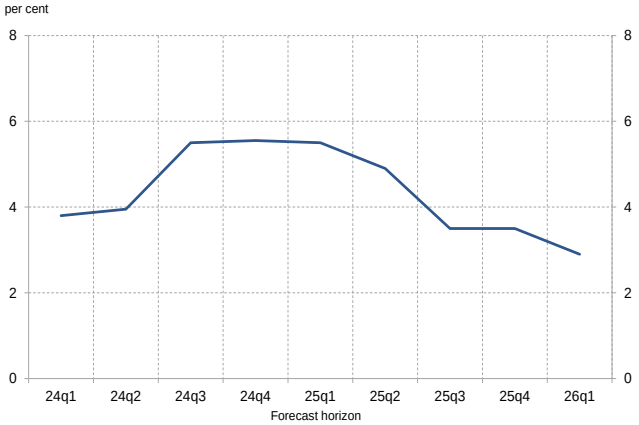
Table 2.1 Inflation expectations of financial sector analysts and participants to the *NBP Survey of Professional Forecasters* (per cent)

	Survey conducted in:				
	23q1	23q2	23q3	23q4	24q1
Refinitiv Survey, inflation expected in 4 quarters	7.8	7.1	5.8	5.6	5.5
Refinitiv Survey, inflation expected in 8 quarters	4.3	4.1	4.0	3.7	2.9
NBP Survey, inflation expected in 4 quarters	7.5 (5.9-9.7)	7.1 (5.5-9.0)	6.1 (4.7-7.9)	5.7 (4.3-6.7)	-
NBP Survey, inflation expected in 8 quarters	4.8 (3.1-7.1)	4.6 (3.1-6.9)	4.6 (3.1-6.5)	3.8 (2.8-5.4)	-

Source: NBP and Refinitiv data.

Inflation expectations of the financial sector analysts show the median forecast of the analysts surveyed by Refinitiv in the last month of a given quarter, except 2024 Q1, where the forecast of January 2024 is presented. Inflation expectations of the participants to the *NBP Survey of Professional Forecasters* reflect the median probability distribution obtained from the aggregation of probability forecasts of the experts surveyed by NBP. In the parentheses there are given 50% probability intervals (between the 1st and 3rd quartiles) of this distribution (interpreted as the range of typical scenarios considered by the experts). The survey takes place in the last month of a given quarter.

Figure 2.6 Inflation forecasts of financial sector analysts in January 2024



Source: Refinitiv data.

Median of forecasts of analysts surveyed by Refinitiv.

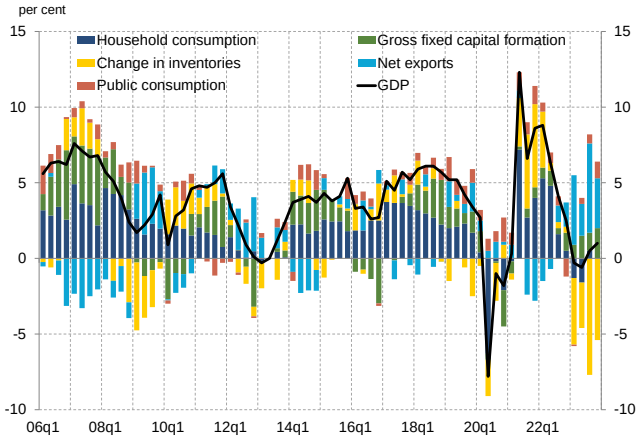
2.2 Demand and output

In 2023, GDP in Poland increased by 0.2% (compared to 5.3% in 2022), whereby, after the decline in economic activity in the first half of the year, the second half of the year saw a gradual recovery.

[15] Balance statistics can only approximate changes in the level of inflation expectations under relatively stable inflation. This results from the design of the survey questions posed to consumers and enterprises, in which the respondents relate their expectations to current inflation.

In 2023 Q4, GDP growth picked up, yet, it remained relatively low. According to preliminary estimate by Statistics Poland, GDP growth stood at 1.0% y/y (compared to 0.5% y/y in 2023 Q3; Figure 2.7), driven by a clearly positive, albeit slightly lower than in 2023 Q3, contribution of net exports and relatively high investment growth. Alongside that, similarly to the previous quarters of 2023, the change in inventories had a significantly negative contribution to GDP growth. In turn, growth in private consumption lowered compared to the previous quarter and, in effect, its contribution to GDP growth was close to zero.

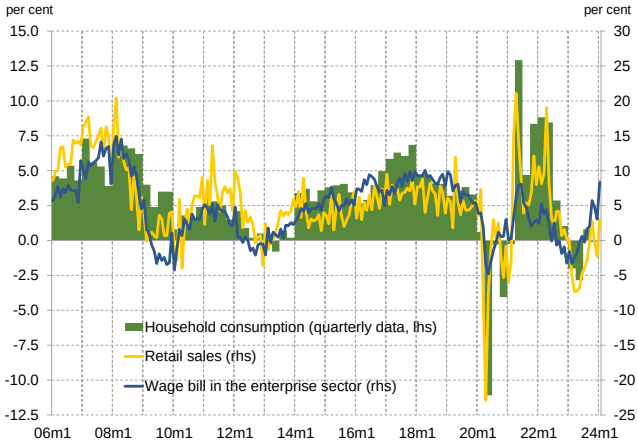
Figure 2.7 GDP growth and its components (y/y)



Source: Statistics Poland (GUS), NBP data.

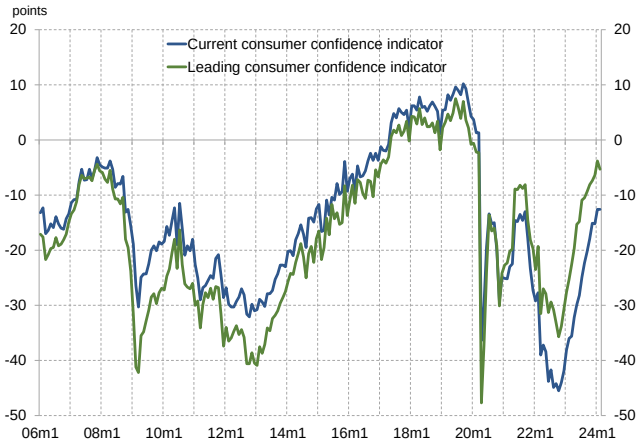
According to Statistics Poland estimates, in 2023 Q4 household consumption in year-on-year terms decreased slightly (its growth stood at -0.1% y/y compared to 0.8% y/y in 2023 Q3 and -1.0% in the whole of 2023). On the one hand, consumption was still weakened by the effects of the earlier price rises and monetary policy tightening. Also the uncertainty caused by Russia's military aggression against Ukraine, weighing heavily on household sentiment, as indicated by the Statistics Poland consumer survey,[16] might have had a negative impact on household spending. On the other hand, consumption was supported by still good situation in the labour market (see Chapter 2.5 *Labour market*), including continued low unemployment. The increase in the wage bill of the enterprise sector in real terms in 2023 Q3 and Q4 was another factor boosting consumption (after a period of its decline; Figure 2.8). This was accompanied by a further improvement in consumer sentiment (Figure 2.9).

Figure 2.8 Real growth in household consumption, retail sales and wage bill in the enterprise sector (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.

Figure 2.9 Consumer confidence indicators



Source: Statistics Poland (GUS) data.

In 2023 Q4, the annual growth in gross fixed capital formation increased to 8.7% y/y (compared to 7.2% y/y in 2023 Q3; Figure 2.10), reflecting a marked rise in corporate and public investment. At the same time, for the first time since mid-2022, housing investment increased in year-on-year terms, which might have been driven by the impact of the so-called "Safe Mortgage" programme. In

[16] See: *Consumer tendency – December 2023*, Statistics Poland, December 2023.

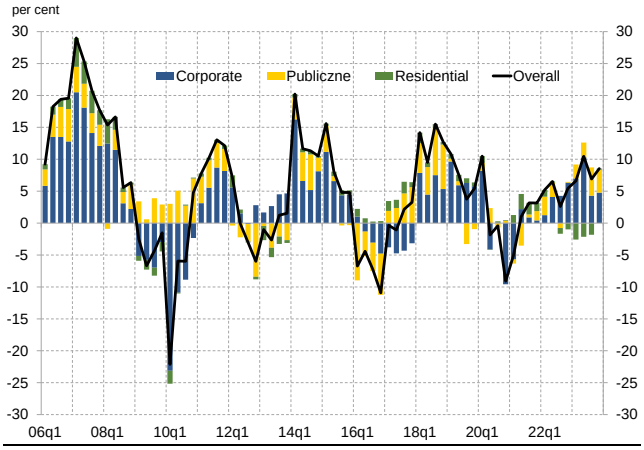
line with the NBP surveys,[17] in 2023 Q4 optimistic investment sentiment was declared mainly by the largest enterprises and, in sectoral terms, by the enterprises operating in construction and industry.

The contribution of net exports to GDP decreased, but remained at a clearly positive level (3.3 p.p. in 2023 Q4 compared to 5.9 p.p. in 2023 Q3). According to preliminary estimate by Statistics Poland, after a fall in the previous two quarters, in 2023 Q4 exports rose in annual terms, though its growth remained relatively weak. At the same time, similarly to the previous quarters of 2023, growth in imports was negative, yet, Statistics Poland estimates that the fall slowed down markedly. Alongside that, data on trade in goods in nominal terms[18] point to a decline in both exports and imports in 2023 Q4. The recovery in exports was hampered mostly by the nominal fall in exports to the euro area countries, following the low level of activity in these economies. The decline of nominal imports of goods, in turn, followed primarily by a fall in imports of fuels due to, among others, lower prices of energy commodities than a year earlier (Figure 2.11; see Chapter 1.3 *Global commodity markets*).

In 2023 Q4, the gross value added rose by 1.4% y/y (compared to 0.8% y/y in 2023 Q3; Figure 2.12), reflecting positive growth in all its major categories. Compared to 2023 Q3, acceleration in growth of gross value added in industry and construction was accompanied by its marked deceleration in market services.

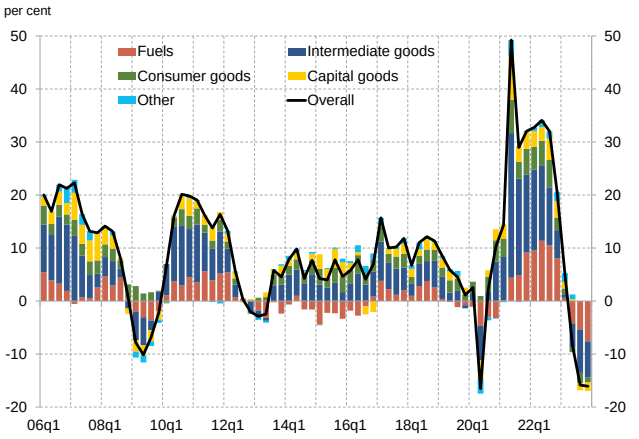
Incoming data point to some improvement in economic activity at the beginning of 2024, including in consumption. Retail sales in January 2024 grew by 3.0% y/y (compared to -0.5% y/y in 2023 Q4), amid continued improvement in consumer sentiment (Figure 2.9) and acceleration in the real growth of wage bill (Figure 2.8). In turn,

Figure 2.10 Growth in investment and its main components (y/y)



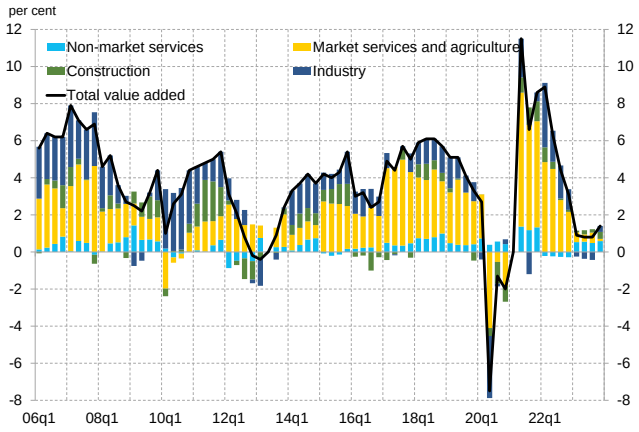
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 2.11 Growth in goods imports and its main components (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.
Data based on Statistics Poland (GUS) classification of the main product categories for the value of Polish exports and imports in zlotys. "Other" comprises passenger cars and goods else not classified.

Figure 2.12 Growth of gross value added by sectors (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.

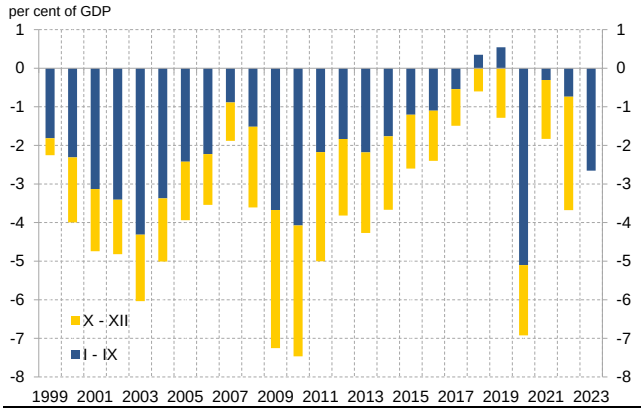
[17] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, October 2023.
[18] Nominal growth of imports and exports of goods according to Statistics Poland data. According to preliminary NBP data on balance of payments, in 2023 imports of goods accounted for 84% of total imports, while exports of goods was 77% of total exports.

industrial output in January grew by 1.6% y/y (compared to -0.2% y/y in 2023 Q4), while construction and assembly output fell by 6.1% y/y (compared to the growth of 9.5% y/y in 2023 Q4).

2.3 Public finance

In the first three quarters of 2023, the general government deficit in ESA2010 terms was PLN 91.4 billion (2.7% of GDP), compared to a deficit of PLN 22.7 billion (0.7% of GDP) in the same period of 2022 (Figure 2.13). Its significant increase took place in 2023 Q3 (in the first half of 2023 the deficit reached PLN 42.5 billion), which, in particular, was a result of the disbursement of the so-called 14th pension and the high level of investment spending of local government units. The rise of the deficit in the first three quarters of 2023 stemmed also, among others, from an increase in expenditure on public debt servicing (of 55.3% y/y). In accordance with the *Justification* to the *2024 Draft Budget Act*, the general government deficit amounted to 5.6% of GDP in the whole of 2023.

Figure 2.13 General government balance in ESA 2010 terms



Source: Eurostat data.

According to Ministry of Finance data, in the whole of 2023 a deficit of PLN 85.6 billion was recorded in the state budget compared to a deficit of PLN 12.6 billion in 2022. The deterioration was mainly related to the high growth in state budget expenditure (of 27.5% y/y), mainly on national defence and servicing of the State Treasury debt, as well as the relatively low growth in tax revenue (8.9% y/y).[19]

In the first three quarters of 2023, the general government gross debt in ESA2010 terms increased by PLN 111.1 billion, to reach PLN 1,623.2 billion. In line with the estimate contained in the *Justification* to the *2024 Draft Budget Act*, at the end of 2023 the general government gross debt amounted to 49.3% of GDP, i.e. it remained at the same level as at the end of 2022.

[19] The *2023 Budget Act* assumed an increase in tax revenue of 17.2% y/y, and the amended *Budget Act* of 15.3% y/y.

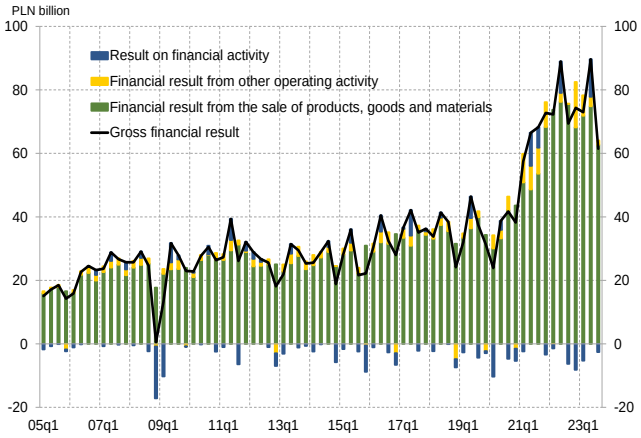
2.4 Financial situation of enterprises

In 2023 Q3, the financial performance of the enterprise sector deteriorated, and aggregate gross financial result of the sector dropped significantly compared to the corresponding period a year earlier (Figure 2.14).[20] This was driven by considerably lower result from the sale of products, goods and materials. Revenue from this category declined for the first time in three years (by 0.7% y/y against a growth of 5.5% y/y in 2023 Q2; Figure 2.15). This was due to a sharp fall in export sales (by 9.4% y/y, compared to a growth of 3.7% y/y in 2023 Q2) and a weaker growth in domestic sales (down to 2.4% y/y from 6.1% y/y in 2023 Q2). The decline in sales revenue growth was observed in the overwhelming majority of the PKD (NACE) sections.[21] Alongside that, the improvement in the result on financial activity and the result on other operating activity had a positive impact on the gross financial result.

The fall in the result from the sales in 2023 Q3 was driven by a faster growth in costs of products sold (0.4% y/y) than in the corresponding growth of revenues (-0.7% y/y). The rise in this cost category stemmed mainly from a high growth in labour costs (14.7% y/y), increasing the share of this component in operating costs (by 0.5 p.p. q/q to 12.6%). The pace of cost growth was, nevertheless, lowered by declining costs of commodities and materials used for production (by 11.6% y/y), as well as a fall in costs of goods for resale (by 1.2% y/y).

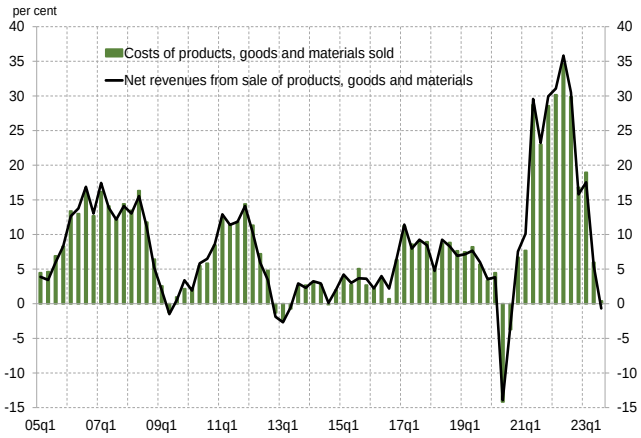
Under these conditions, the profitability of the enterprise sector declined (Table 2.2). In annual terms, the return on sales fell (by 1 p.p., to 5.1%) as well as return on net turnover (by 0.5 p.p., to 4.0%). The share of profitable firms was also lower than a

Figure 2.14 Gross financial result of enterprises and its components



Source: Statistics Poland (GUS) data, NBP calculations.
Data from the survey conducted by Statistics Poland (GUS) on revenues, costs, financial results and gross fixed capital formation (F-01/I-01 forms).

Figure 2.15 Growth in net sales revenue and costs of sales in the enterprise sector (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.
Data from the survey conducted by Statistics Poland (GUS) on revenues, costs, financial results and gross fixed capital formation (F-01/I-01 forms).

[20] In 2023 Q3, the gross financial result stood at PLN 61.5 billion compared to PLN 89.6 billion in 2023 Q2 and PLN 69.4 billion in 2022 Q3.

[21] At the same time, in most sections of the Polish Classification of Activities (PKD) sales revenue growth remained positive in 2023 Q3.

year ago, although the number of firms with profitability above 5% increased, which is evidence of the widening of differences in the profitability of enterprises. At the same time, the changes in profitability varied between sectors of the economy – in industry (except for the energy sector) profitability declined in annual terms, while in construction and certain services industries it increased.

Despite the fall in the financial result in 2023 Q3, liquidity of the enterprise sector remained relatively high. Both liquidity ratios (cash, quick and financial), and the share of enterprises with a safe level of liquidity, were running above their long-term averages.

Following a period of significant declines in the assessment of economic conditions of enterprises over the last two years, the results of the *NBP Quick Monitoring Survey*[22] point to its improvement in 2023 Q4, and growing conviction of firms about the possibilities of a further improvement in 2024 Q1. Increased optimism was noted in the majority of the analysed sections of the economy and for the majority of enterprise categories.

2.5 Labour market

In 2023, the situation in the labour market remained good, as evidenced by the low unemployment rate and high employment. In the second half of 2023, however, amid subdued economic activity, employment growth and growth in nominal wages slowed down.

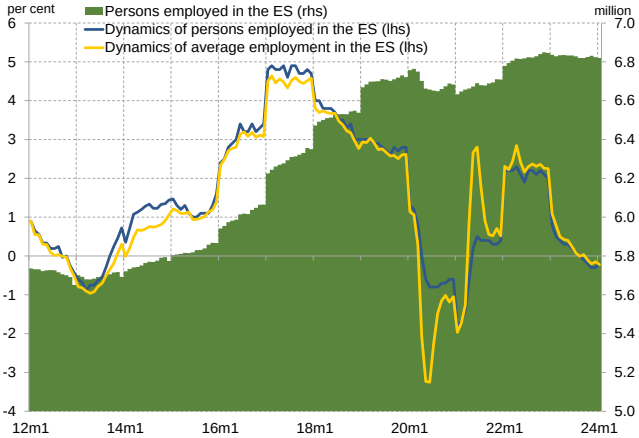
Statistics Poland data, including data based on the LFS, and data from the Social Insurance Institution (ZUS) indicate subdued employment growth in the second half of 2023 (Figure 2.16, Figure 2.17).[23] According to the LFS, in 2023 Q4 growth in the number of people employed declined to 0.1% y/y (compared to 0.5% y/y in 2023 Q3). Employment

Table 2.2 Selected financial indicators in the enterprise sector (per cent)

	average	2020				2021				2022				2023		
	2010-2019	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3
Sales profitability indicator	4.7	3.9	4.9	5.5	4.9	6.0	5.5	5.6	5.9	6.7	6.4	6.1	5.1	5.5	5.9	5.1
Net turnover profitability indicator	4.0	2.4	4.5	4.4	3.3	5.4	6.2	5.9	5.1	5.2	6.1	4.5	4.2	4.4	5.7	4.0
Share of profitable enterprises	73.4	74.4	73.3	75.8	74.4	76.3	77.9	79.0	78.4	77.6	77.3	76.8	77.1	77.5	76.6	75.2
Share of enterprises with profitability above 5%	34.2	37.8	39.0	41.5	41.8	42.7	45.4	45.5	46.4	43.5	42.1	41.6	42.3	43.1	42.6	42.1
1st degree financial liquidity indicator	36.3	38.9	42.6	42.9	43.9	43.0	44,1	44.6	44.1	42.7	40.9	39.9	39.0	37.5	37.3	38.7
Return on assets indicator	1.2	0.7	1.1	1.2	1.0	1.5	1.8	1.8	1.8	1.7	2.1	1.5	1.5	1.5	1.9	1.2
Share of bank credits and loans in the balance sheet total	15.2	15.9	15.9	15.2	15.1	14.7	14.3	14.5	14.5	14.1	14.2	14.7	14.3	14.1	14.1	13.7

Source: Statistics Poland (GUS) data, NBP calculations.
Data from the survey conducted by Statistics Poland (GUS) on revenues, costs, financial results and gross fixed capital formation (based on F-01/I-01 forms). Share of profitable firms and firms with profitability above 5% – seasonally adjusted data. The average share of bank credits and loans in the balance sheet total covers only the years 2015-2019.

Figure 2.16 Annual growth rates in the number of persons employed and average employment, and the number of persons employed in the enterprise sector (ES)



Source: Statistics Poland (GUS) data.
The enterprise sector (ES) is comprised of companies with 10 or more employees, which carry out activities classified under selected PKD (NACE) sections of the economy.
Unlike the employment statistics, the number of persons employed in the ES is not expressed in the number of full-time jobs and includes employees who are on sickness benefit or child care leave.

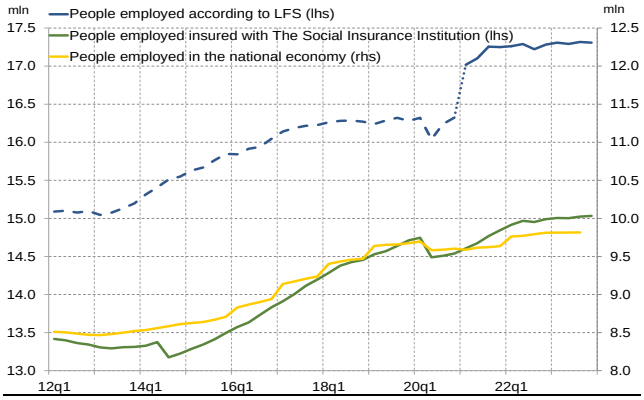
[22] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, January 2024.
[23] The annual growth in the number of employed persons in the national economy declined from 0.4% in 2023 Q2 to 0.2% in 2023 Q3.

growth in the enterprise sector (ES) also declined and was negative in 2023 Q4 (-0.3% y/y compared to 0.0% y/y in 2023 Q3).[24] In turn, in the second half of 2023, growth in the number of persons employed estimated on the basis of data from the Social Insurance Institution was close to the figure recorded in 2023 Q2 (0.4% y/y in 2023 Q4 compared to 0.3% y/y in 2023 Q2 and Q3).[25] The latest results of Statistics Poland and NBP economic conditions surveys, as well as data on the number of job offers at labour offices suggest a gradual improvement in the outlook for employment in the economy.[26]

The unemployment rate remains very low (Figure 2.18). This is indicated both by the LFS data (unemployment rate of 3.0% in 2023 Q4 compared to 2.8% in 2023 Q2 and Q3, seasonally adjusted data) and data from labour offices (in the second half of 2023 the registered unemployment rate of 5.1%,[27] seasonally adjusted data).

The annual growth in nominal wages has remained high in the recent period, although in the second half of 2023 it was lower than at the beginning of the year (Figure 2.19). In 2023 Q4, growth in the average wage in the national economy (NE) amounted to 12.0% y/y (compared to 11.0% y/y in 2023 Q3 and 14.0% y/y on average in the first half of 2023), and in the ES to 11.5% y/y (compared to 10.8% y/y in 2023 Q3 and 12.7% y/y on average in the first half of 2023).[28] At the same time, due to a further fall in inflation, the annual growth in real wages in the NE and ES has risen. The results of the *NBP Quick Monitoring Survey* point to a rise in the percentage of firms planning wage increases in 2024 Q1,[29] which may be related to the need to

Figure 2.17 Number of employed persons according to the LFS, according to reporting data from the national economy and according to the Social Insurance Institution (ZUS) data, seasonally adjusted data

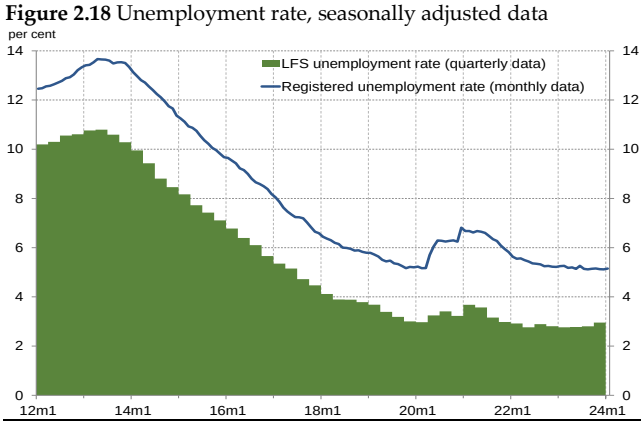


Source: Statistics Poland (GUS) and The Social Insurance Institution (ZUS) data, NBP calculations.

The number of employed persons insured with ZUS, given as at the end of the quarter, includes those working under an employment contract, civil law contracts, the self-employed and those employed who are insured under another title (such as uniformed services employees and clergy). Unlike the LFS data, the number of employed persons in the NE concerns entities with more than 9 employees and does not include the following: (1) individual farming, (2) employment in the grey economy, (3) employment based on civil law contracts.

Due to a change in the LFS methodology introduced in 2021 Q1, data from 2012 Q1 to 2020 Q4 have been recalculated to make definitions classifying respondents into different categories in the labour market more consistent. Despite this, because of the significant degree of change in the survey, data from 2021 Q1 onward are not fully comparable with earlier periods. Since 2023 Q4, the LFS data are harmonized with the number of the population according to the 2021 National Census. The retrospectively recalculated data, however, cover the period from 2021 Q1 to 2023 Q3, making periods before 2021 Q1 (dashed line) not comparable with later periods (solid line).

Figure 2.18 Unemployment rate, seasonally adjusted data



Source: Statistics Poland (GUS) data, NBP calculations.

There are three reasons for the difference between the unemployment rate according to labour offices and the LFS unemployment rate: (1) the definition of an unemployed person is different, (2) the definition of the population to which the number of the unemployed is referred is different, (3) registered unemployment rate is based on the number of unemployed people registered in labour offices, while LFS unemployment rate is based on survey results (on a representative sample of respondents).

Change in the LFS methodology introduced in 2021 Q1 – see note to Figure 2.17. Data on the unemployment rate since December 2020 take into account the number of persons employed in agriculture as estimated on the basis of the 2020 Agricultural Census and are not fully comparable with earlier periods. The method of taking the 2021 National Census data into account in the LFS data – see note to Figure 2.17.

[24] In January 2024, growth in the average employment in the ES amounted to -0.2% y/y.

[25] In January 2024, growth in the number of employed persons estimated on the basis of data from the Social Insurance Institution (ZUS) amounted to 0.3% y/y.

[26] See: *Business tendency survey in manufacturing, construction, trade and services 2000-2024 (January 2024)*, Statistics Poland (GUS), January 2024 and *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, January 2024.

[27] In January 2024, the registered unemployment rate increased slightly - to 5.2%.

[28] The rise in wage growth in the ES in 2023 Q4 was largely driven by payment of one-off bonuses in the mining and power industries.

[29] In January 2024, growth in nominal wages in the ES amounted to 12.8% y/y.

adjust wages to the rise in the minimum wage as of January 2024 (by 21.5% y/y).[30]

Growth in unit labour costs in the second half of 2023 fell and amounted to 10.3% y/y in 2023 Q4 (compared to 10.6% y/y in 2023 Q3 and 15.0% y/y on average in the first half of 2023), which was mainly a result of the decrease in the annual wage growth in the NE amid GDP growth in annual terms (following its decline in the first half of 2023).

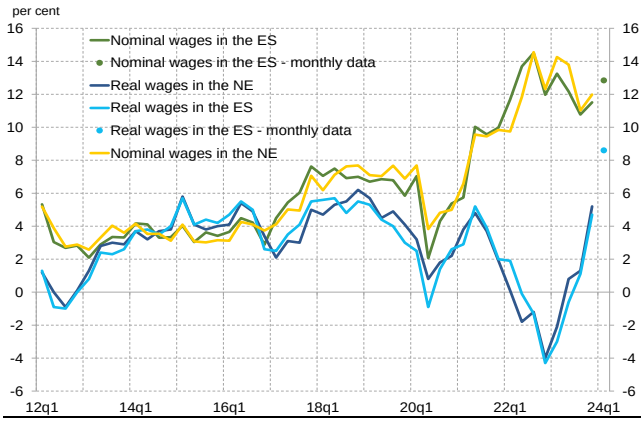
The large number of economically active migrants continues to have an impact on the domestic labour market conditions. According to the Social Insurance Institution data, at the end of January 2024 over 1.1 million foreigners were covered by retirement and disability insurance due to their employee status in Poland (an increase of 6.3% y/y). Among these, 755.8 thousand people (i.e. 67.2%) were Ukrainian citizens, of which approx. 240 thousand were refugees with ZUS insurance coverage, and 129.1 thousand (i.e. 11.5%) were Belarussian citizens.[31]

2.6 Financial markets and asset prices

In recent months, prices of financial instruments in Poland have been determined by, among others, improved sentiment in global financial markets, the observed fall in domestic inflation, and the upward revision of market participants' expectations about the level of NBP interest rates in the coming quarters (Figure 2.20; see Chapter 1.5 *International financial markets*).

The decline in Polish government bond yields was driven by lowering government bond yields in global markets and a fall in inflation in Poland (Figure 2.21). The decreasing expectations of financial market participants about the scale and

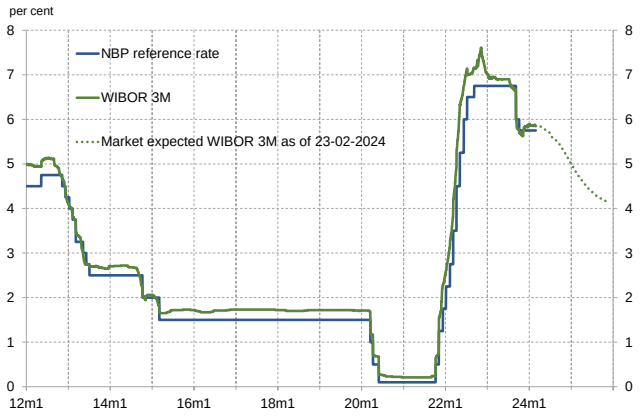
Figure 2.19 Annual nominal and real wage growth rates in the national economy (NE) and in the enterprise sector (ES)



Source: Statistics Poland (GUS) data.

Wages in the ES concern entities classified in selected PKD (NACE) sections that employ 10 or more people. Data on wages in the NE cover the whole statistical population, i.e. regardless of the number of people employed, and also cover all PKD (NACE) sections of the economy. The Figure shows quarterly data (lines) and monthly data for January 2024 (dots).

Figure 2.20 NBP reference rate and WIBOR 3M with expectations based on FRA contracts



Source: NBP and Bloomberg data.

Figure 2.21 Yields on Polish government bonds

Source: Bloomberg data.

[30] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, January 2024.

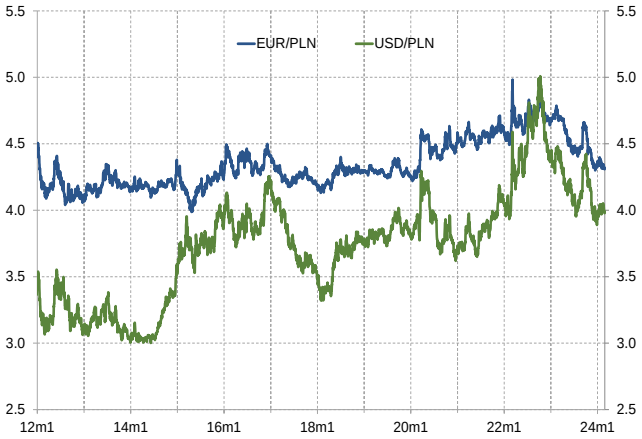
[31] The estimate of the number of working refugees from Ukraine covered by ZUS insurance relates to December 2023 and includes people who, in their application for pension and disability insurance, indicated Ukrainian citizenship and were assigned a "UKR" personal identification number (PESEL UKR). The estimate does not include people who work but are not subject to compulsory ZUS insurance, e.g. pupils and students up to 26 years of age employed on the basis of mandate contracts, or people working in the grey economy.

pace of NBP interest rate cuts worked in the opposite direction.

Meanwhile, the zloty continued to appreciate against the main currencies (Figure 2.22). In effect, in February 2024 the average monthly exchange rate of the zloty against the euro[32] was the strongest in 4 years.

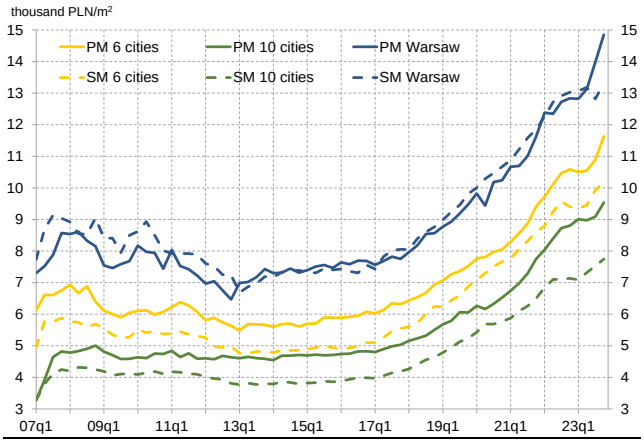
In the housing market, nominal transaction prices rose significantly in 2023 Q4. The increase in real estate prices was attributable to a rise in demand supported by the so-called "Safe Mortgage" programme, amid limited supply of apartments and higher costs of their construction (Figure 2.23).[33] According to NBP data,[34] growth in average nominal housing transaction prices increased and stood at 8.4% y/y in 2023 Q4 (compared to 4.1% y/y in 2023 Q3).[35]

Figure 2.22 Exchange rates of the euro and the US dollar in zloty



Source: Bloomberg data.

Figure 2.23 Nominal transaction prices of flats in major cities in Poland



Source: NBP data.

PM – primary market, SM – secondary market. Transaction prices – an average weighted with the share of the housing stock in a given city in the total housing stock. Aggregate of 6 cities consists of: Gdańsk, Gdynia, Kraków, Łódź, Poznań, Wrocław, whereas of 10 cities: Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra.

2.7 Money and credit[36]

The growth rate of the M3 aggregate in 2023 Q4 increased again (to 9.1% y/y compared to 8.9% y/y in 2023 Q3), but the pace of acceleration was lower than in previous quarters (Figure 2.24). The rise in M3 was driven by an increase in household and corporate deposits (by 12.7% y/y and 11.4% y/y, respectively), especially in household term deposits. Unlike in previous quarters of 2023, the growth in the M3 aggregate was also supported by an increase in cash in circulation (by 1.7% y/y, compared to a fall of 0.8% y/y in 2023 Q3).[37] Among M3 counterparts, net foreign assets had the largest contribution to the annual growth of broad money.

[32] The exchange rate data for February cover the period up to 23 February 2024.

[33] More information about the situation in the Polish housing market can be found in the cyclical NBP publications: *Information on home prices and the situation in the residential and commercial real estate market in Poland*.

[34] The discussed data on prices do not fully correspond to the quarters of the calendar year. In particular, data referring to 2023 Q4 include transactions concluded between September and November 2023.

[35] These data apply to the average housing transaction prices (PLN/m²) in 17 cities (16 voivodeship capitals and Gdynia) in the primary and secondary markets, weighted by the housing stock. In quarterly terms, this nominal price growth was running at 4.4% in 2023 Q4 (against 2.7% in 2023 Q3).

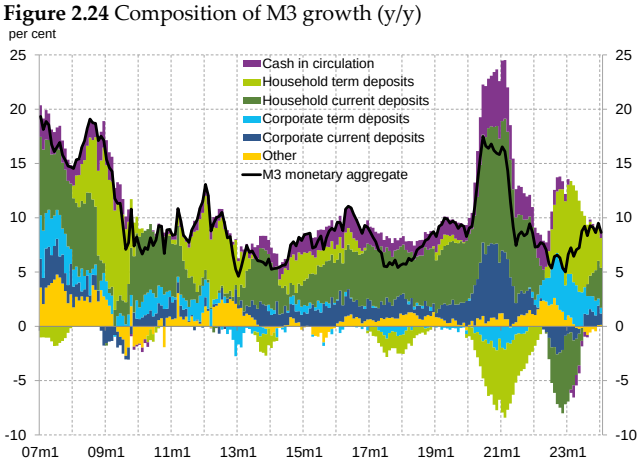
[36] In this chapter, growth in the broad money aggregate M3, deposits and loans is defined as nominal annual growth resulting from transaction changes, on average in a given quarter. The data refer to monetary financial institutions.

[37] In January 2024, the growth rate of the M3 aggregate amounted to 8.6% y/y. The pace of growth in cash in circulation stood at 3.1% y/y, household deposit growth was 12.4% y/y, and corporate deposit growth 7.0% y/y.

Household bank debt declined again in 2023 Q4, though the decline was markedly slower than in previous quarters (-0.7% y/y compared to -3.1% y/y in 2023 Q3; Figure 2.25). The annual growth in housing loans increased, although it remained negative (it amounted to -2.1% y/y in 2023 Q4 compared to -4.6% y/y in 2023 Q3). Like in 2023 Q3, banks reported a rise in demand for housing loans,[38] notably attributable to the so-called "Safe Mortgage" programme.[39] At the same time, however, housing loan growth was being hampered by increased overpayments and early repayments of zloty loans (financed partly from deferred instalments under "loan repayment holidays"). The decreasing stock of FX loans, stemming from, among others, settlements between banks and borrowers, also curbed the growth in housing loans. Alongside that, growth in consumer loans increased gradually as consumer sentiment improved (it amounted to 3.7% y/y in 2023 Q4 compared to 1.7% y/y in 2023 Q3; see Chapter 2.2 *Demand and output*).[40]

In 2023 Q4, corporate bank loans also declined again (-1.3% y/y compared to -0.9% y/y in 2023 Q3; Figure 2.26). Similarly to 2023 Q3, this was due to a decrease in the stock of current loans (by 5.0% y/y in 2023 Q4 compared to a fall of 5.1% y/y in 2023 Q3), which was accompanied, however, by an increase in the stock of investment loans (by 3.7% y/y in 2023 Q4 compared to 4.0% y/y in 2023 Q3).[41]

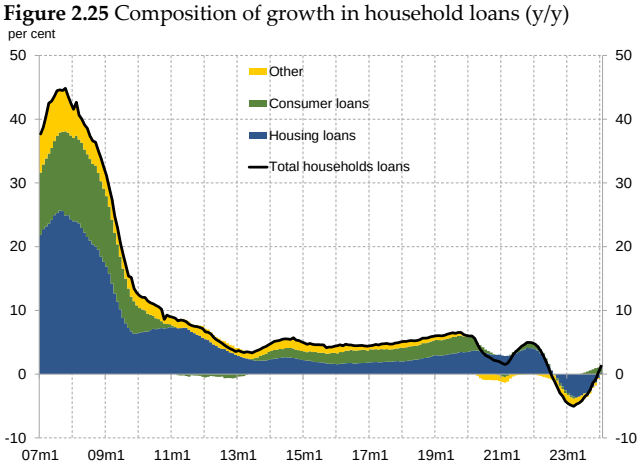
Figure 2.24 Composition of M3 growth (y/y)



Source: NBP data.

The category *Other* covers deposits of non-monetary financial institutions and local government units, repurchase agreements between banks and non-banking sector as well as debt securities with maturity up to 2 years issued by banks.

Figure 2.25 Composition of growth in household loans (y/y)



Source: NBP data.

The category *Other* covers credit card loans, loans to individual entreprenuers and individual farmers as well as other receivables.

2.8 Balance of payments[42]

The current account balance increased again in 2023 Q4 (to 1.6% of GDP compared with 1.0% of

[38] See also *Senior loan officer opinion survey on bank lending practices and credit conditions – 1st quarter 2024*, NBP, February 2024.

[39] It can be estimated that most loan applications in 2023 Q4 were submitted under the so-called "Safe Mortgage" programme. The programme was suspended towards the end of 2023 after the amount of funds provided under the programme for the years 2023-2024 was used up.

[40] In January 2024, the growth of loans to households amounted to 1.3% y/y. Housing loan growth was 0.4% y/y and consumer loan growth 4.5% y/y.

[41] In January 2024, corporate loan growth amounted to -0.5% y/y. Current loan growth was -3.3% y/y and investment loan growth 3.5% y/y.

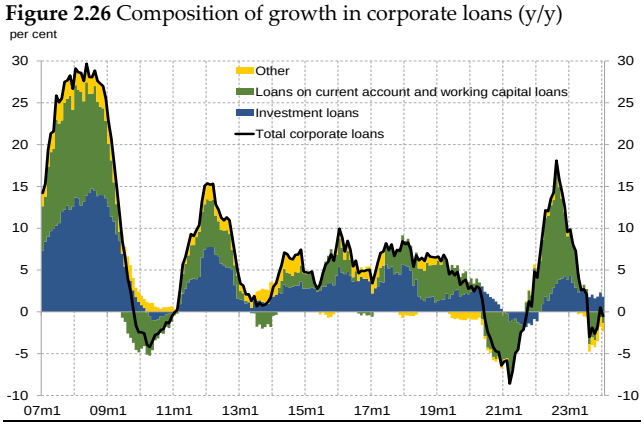
[42] In this chapter, data on the balance of payments in relation to GDP are presented in terms of a four-quarter rolling sum. For 2023 Q4 the presented data are estimates that have been compiled on the basis of monthly data on the balance of payments and the preliminary estimate of GDP as of 29 February 2024.

GDP in 2023 Q3; Figure 2.27), which was a result of a markedly improved balance of trade in goods (1.2% of GDP in 2023 Q4 compared with 0.2% of GDP in 2023 Q3). The improvement in the balance of trade in goods was driven by the surplus of exports of goods over imports in 2023, in particular, amid lower deficit in the trade of fuels (see Chapter 2.2 *Demand and output*). Alongside that, the balance of services – despite narrowing – remained positive (it amounted to 5.1% of GDP in 2023 Q4 compared with 5.3% of GDP a quarter before), while primary income balance was negative (it amounted to -4.3% of GDP in 2023 Q4 and to -4.2% of GDP in 2023 Q3) on account of foreign direct investors income in Poland.

At the same time, the financial account balance amounted to 1.4% of GDP in 2023 Q4, similarly to 2023 Q3, which was accompanied by an improvement in the direct investment balance and a decline in the portfolio investment balance.

External imbalance indicators evidence that the Polish economy is well balanced (Table 2.3). In 2023 Q3, Poland's net international investment position (in relation to GDP) continued to improve and amounted to -30%. Alongside that, the external debt to GDP ratio stood at 52% and was running below the long-term average.

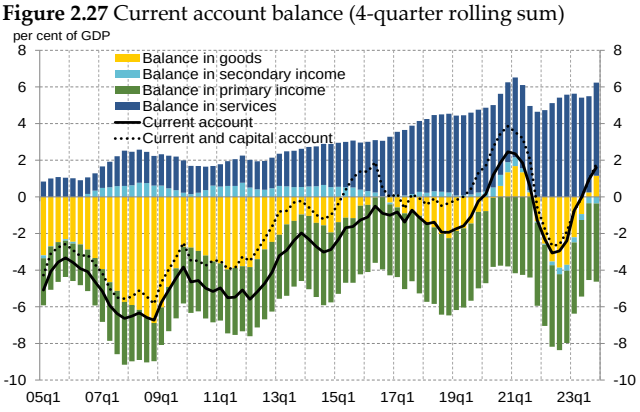
Figure 2.26 Composition of growth in corporate loans (y/y)



Source: NBP data.

The category *Investment loans* covers loans for investments and real estate purchases. The category *Other* covers i.a. car loans, loans for security purchases and other receivables.

Figure 2.27 Current account balance (4-quarter rolling sum)



Source: NBP data.

Data for 2023 Q4 are based on monthly estimates for October, November and December 2023.

Table 2.3 Selected external imbalance indicators (4-quarter rolling sum in per cent, unless indicated otherwise)

	2021	2022				2023			
	q4	q1	q2	q3	q4	q1	q2	q3	q4
Current account balance/GDP	-1.3	-2.3	-3.1	-3.0	-2.4	-0.7	0.0	1.0	1.6
Current and capital account balance/GDP	-0.6	-1.7	-2.7	-2.6	-1.9	-0.8	-0.1	0.9	1.8
Trade balance/GDP	3.3	2.2	1.6	1.6	1.9	3.4	4.5	5.5	6.2
Official reserve assets (in monthly imports of goods and services)	5.7	5.1	5.0	5.0	4.7	4.6	4.7	5.2	5.2
Foreign debt/GDP	57	56	56	57	53	52	51	52	-
Net international investment position/GDP	-40	-39	-36	-34	-33	-32	-32	-30	-
Official reserve assets/short-term foreign debt minus forecasted current account balance	121	111	115	124	140	136	141	135	-
Official reserve assets/short-term foreign debt	140	115	116	118	127	122	123	121	-

Source: NBP data.

The two last indicators include external debt and the level of reserve assets at the end of the period. Data for 2023 Q4 are based on monthly estimates for October, November and December 2023.

3. Monetary policy in November 2023 – March 2024

This chapter includes the previously published *Minutes of the Monetary Policy Council decision-making meetings* held between November 2023 and February 2024 as well as the *Information from the meeting of the Monetary Policy Council* in March 2024.

Minutes of the Monetary Policy Council decision-making meeting held on 8 November 2023

At the meeting, it was noted that the economic conditions in Poland's largest trading partners remained weakened. At the same time, uncertainty about the activity outlook persisted in the external environment of the Polish economy. In 2023 Q3, annual GDP growth in the euro area had slowed down to 0.1%, and in Germany economic activity had declined. Available forecasts suggest that growth in the euro area would recover in 2024, albeit gradually. At the same time, the recovery would be fraught with uncertainty, among others, due to the effects of monetary policy tightening by the European Central Bank and also due to structural problems in some of the large euro area economies. In turn, in the United States the economic conditions remained favourable, and in 2023 Q3 activity growth had increased. However, it was pointed out that some of the recently published data, including data on the labour market, signalled the risk of a slowdown in this economy.

The Council members observed that the disinflation process was advancing across the world. According to the Eurostat flash estimate, inflation had fallen to 2.9% in the euro area in October. Core inflation had also declined, although it remained higher. In Central and Eastern Europe price growth had also fallen. It was pointed out that according to the forecasts of the major central banks, further disinflation would, however, proceed more slowly. As a result, the inflation target in the euro area should be met in the second half of 2025, and in the United States as late as 2026.

It was underlined that the central banks in the euro area and in the United States had kept interest rates unchanged at their recent policy meetings. Certain Council members observed that both the European Central Bank and the Federal Reserve of the United States were signalling that their monetary policy would remain restrictive for an extended period.

At the meeting it was noted that the heightened geopolitical tensions in the Middle East were a risk factor for the global economy. These tensions were pushing up prices of some commodities, although the scale of the impact had, so far, been limited.

Amid the weakened global economic conditions, also in Poland activity growth remained low, although some data signal its gradual recovery. The Council members pointed out that in September 2023 retail sales had declined in annual terms, but the scale of the fall had been smaller than in previous months. Industrial output had also declined in annual terms; however, in monthly terms and after seasonal adjustment it had risen. In turn, the growth in construction and

assembly output had been the highest in more than a year. Moreover, a gradual improvement in consumer sentiment was highlighted. Taking into account monthly data, the Council members judged that GDP growth in 2023 Q3 had most likely been positive, although it had remained low.

While analysing the labour market situation, the Council members noted that it remained good. Nevertheless, in September 2023 annual employment growth in the enterprise sector once again stood at zero. On the other hand, amid a marked fall in inflation, growth in real wages in this sector was positive. At the same time, nominal wage growth was gradually slowing down. Also survey results indicated that wage pressure was weakening somewhat. However, certain Council members drew attention to the fact that the percentage of firms planning wage increases remained above the long-term average.

According to the majority of the Council members, the effects of the previous NBP monetary policy tightening were still observed in the credit market. The annual growth in lending to households continued to be negative, in particular, due to the decline in total volume of mortgage loans, despite some revival observed in this market segment. Whereas, consumer credit was rising, albeit at a relatively slow pace.

While discussing the outlook for economic activity, the Council members pointed out that although in 2023 activity growth was low, in line with the NBP November projection the coming quarters would see GDP growth accelerate. It was also indicated that in 2023 GDP growth was to be lower than expected in July, while in the next two years it was to be somewhat faster. Yet, it was emphasised that output gap was expected to remain negative in the projection horizon, which would support the decline in inflation.

At the meeting, it was pointed out that the annual CPI index had again fallen markedly in October 2023, running at 6.5% according to the Statistics Poland flash estimate. It was stressed that price growth had fallen in all the main components of the inflation basket, probably including also core inflation. It was assessed that this was the effect of the weakening of both demand and cost pressure, whose decline was reflected, in particular, in the negative annual PPI growth.

While discussing the outlook for inflation in Poland, the majority of the Council members pointed out that in line with the November projection, inflation would decline in the coming quarters, albeit, as previously anticipated, the decline would be slower than to date. It was emphasised that the projection assumed that inflation would return to the NBP inflation target, i.e. 2.5% ±1 percentage point, in 2025 Q4. Thus, it was assessed that the horizon of inflation returning to the target had not materially changed compared to the July projection, which resulted from the fact that lower NBP interest rates were offset with weaker demand pressure and lower inflation at the starting point of the projection. It was also indicated that the slightly higher inflation in 2025 assumed in the November projection compared to the July projection was the effect of higher food and energy prices amid unchanged average annual core inflation. Certain Council members pointed out that core inflation was to remain above the upper limit for deviations from the NBP inflation target until the end of the projection horizon.

The Council members pointed out that inflation developments, both in the short- and medium-term, were fraught with uncertainty, including the uncertainty related to the future course of fiscal and regulatory policies. Special attention was drawn to the uncertainty about future VAT rates on food products and the uncertainty related to energy price regulations as well as other elements of fiscal policy in the coming years.

The majority of the Council members assessed that the current interest rate level was supporting the decline in inflation. Those members argued that

further decline in inflation, which contributes to lowering inflation expectations, increases real interest rates. On the other hand, certain Council members pointed to a slight rise in inflation expectations of enterprises in the recent period and a slight deterioration in the structure of responses in the survey of consumer inflation expectations.

The majority of the Council members assessed that incoming data indicated low demand and cost pressures in the Polish economy, which amidst weakened economic conditions and falling inflation pressure abroad would support a gradual decline in domestic inflation. Considering the adjustment in the NBP interest rates introduced in recent months, together with uncertainty about a future course of fiscal and regulatory policies and their impact on inflation, the Council decided to keep the NBP interest rates unchanged. The Council judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term. It was emphasised that the Council flexibly determined the desirable time necessary to bring inflation back to the target, as bringing inflation rapidly back to the target might entail significant costs to macroeconomic and financial stability. The Council members upheld the assessment that the decrease in inflation would be faster if supported by an appreciation of the zloty exchange rate, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy.

The view was expressed that given the persistently high annual price growth and elevated inflation expectations, the level of the NBP interest rates was too low to ensure the return of inflation to the target in the medium term and to lower inflation expectations to levels consistent with the medium-term inflation target.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 5.75%; the lombard rate at 6.25%; the deposit rate at 5.25%; the rediscount rate at 5.80%; the discount rate at 5.85%.

The Council members pointed out that further decisions of the Council would depend on incoming information regarding the prospects for inflation and economic activity.

Minutes of the Monetary Policy Council decision-making meeting held on 6 December 2023

At the meeting, it was noted that the economic conditions in the external environment of the Polish economy remained weakened, although it varied across countries. It was pointed out that the economic situation in the United States was still favourable, yet – after the rapid GDP growth in 2023 Q3 – activity growth might have slowed down. On the other hand, stagnation tendencies continued in the euro area. Annual GDP growth in Germany, Poland's main trading partner, was negative in 2023 Q3. Forecasts suggest that in 2024 GDP in Germany will return to the upward trend; however, uncertainty persists as to the materialisation of this scenario. The uncertainty is related to the structural problems of the German economy, the previous monetary policy tightening by the ECB and the likely fiscal tightening.

The Council members underlined that annual price growth in the external environment of the Polish economy was declining further, although in many countries it remained elevated. In the euro area, inflation – including core inflation – declined by more than expected. Price growth in the countries of the Central and Eastern Europe region was also slowing down, yet it remained higher than in advanced economies.

It was observed that amid the falling inflation, most central banks in advanced economies had recently kept interest rates unchanged after prior increases. It was pointed out that market expectations indicated a possibility of interest rate cuts in the major economies in 2024, although it

was also stressed that those expectations were subject to uncertainty.

At the meeting it was observed that amid the weakened global economic conditions, also in Poland activity growth remained low, although it rose recently. According to the Statistics Poland preliminary estimate, GDP growth in Poland stood at 0.5% y/y in 2023 Q3 compared to -0.6% y/y in the previous quarter. GDP growth was positively affected by the contribution of net exports, and, albeit to a lesser extent, an increase in investment and consumption. Some Council members emphasised that consumption growth had been higher than expected. At the same time, the Council members stated that the contribution of changes in inventories to GDP growth was markedly negative in 2023 Q3.

While discussing the outlook for the economic activity, it was pointed out that GDP growth would probably be accelerating in the coming quarters. This would be driven by an increase in consumption on the back of real wage growth. The majority of the Council members emphasised that despite the expected higher GDP growth, the output gap in the following quarters would, according the NBP's November projection, remain negative. Certain Council members observed that also the rise in the nominal value of household assets observed in recent years might have an upward effect on consumption.

During the discussion it was stated that the latest monthly data were consistent with the scenario of accelerating economic growth as outlined in the November NBP's projection. In October, retail sales as well as industrial output and construction and assembly production were higher than the year before. At the same time, it was underlined that consumer confidence was improving. The PMI Manufacturing index had also risen, although it continued to indicate an ongoing downturn in industry.

While analysing the labour market situation, the Council members noted that it remained good, as reflected in particular in the low unemployment rate. Although the number of working persons remained high, employment in the enterprise sector was lower than at the beginning of the year. Certain Council members pointed out that despite the increase in the number of foreign workers in the Polish labour market, demographic changes might be one of the factors hampering employment growth.

Alongside that, as inflation decreased, the annual real wage growth in the national economy increased in 2023 Q3, and, like in Q2 of that year, was positive. The majority of the Council members judged that despite the observed increase in real wages, the overall cost pressure among enterprises was easing. In contrast, certain Council members drew attention to the fact that real wages were rising faster than labour productivity, and – according to surveys – the measures of wage pressure, despite falling, remained above the long-term average.

According to the majority of the Council members, the effects of the previous NBP monetary policy tightening were still observed in the credit market. The ratio of bank credit to the non-financial private sector to GDP was approximately 15 percentage points lower than before the pandemic. Annual growth in credit to both households and corporates remained negative. However, the Council members pointed out that increasingly visible signs of recovery could be observed in the credit market. It was indicated that banks were granting more and more housing loans, which was supported in particular by the so-called "2% Safe Mortgage" programme.

At the meeting, it was pointed out that – according to the data available at that time, i.e. the Statistics Poland flash estimate – the annual inflation rate was running at 6.5% in November. The Council members pointed out that, as previously expected, the disinflation process was slower than in

previous months, although given the available Statistics Poland data, the decrease in core inflation in November could be estimated as greater than in October. The majority of the Council members argued that price growth was curbed by the weakened demand pressures and the decline in cost pressures. The diminishing cost pressures and the fading of most external supply shocks were also indicated by the increasingly sharper declines in the PPI index. At the same time, the Council members judged that the decrease in inflation was being supported by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy.

Some Council members observed that in recent months, the indicators of inflation expectations had decreased. Yet certain Council members drew attention to the slight deterioration in the structure of the responses in the surveys of inflation expectations.

While discussing the outlook for inflation in Poland, the majority of the Council members pointed out that a further decline in price growth was expected. It was also emphasised that inflation developments, both in the short- and medium-term, were associated with uncertainty, related in particular to the pace of economic recovery in Poland and its impact on price developments as well as future course of fiscal and regulatory policies. In particular, it was pointed out that despite the incoming announcements concerning the shape of fiscal policy, uncertainty persisted as to future VAT rates on food products, energy price regulations as well as other elements of fiscal policy. It was underlined that fiscal and regulatory measures might affect future inflation developments, both directly and through their impact on the economic conditions and demand in the economy.

The majority of the Council members assessed that the incoming data indicated low demand and cost pressures in the Polish economy, which amidst the weakened economic conditions and falling inflation pressure abroad would support a gradual decline in domestic inflation. Considering the adjustment in the NBP interest rates introduced in previous months, together with uncertainty about a future course of fiscal and regulatory policies and their impact on inflation, the Council decided to keep the NBP interest rates unchanged. The Council judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term. It was emphasised that the Council flexibly determined the desirable time necessary to bring inflation back to the target, as bringing inflation rapidly back to the target might entail significant costs to macroeconomic and financial stability.

The view was expressed that given the persistently high annual price growth and elevated inflation expectations, the level of the NBP interest rates was too low to ensure the return of inflation to the target in the medium term and to lower inflation expectations to levels consistent with the medium-term inflation target.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 5.75%, the lombard rate at 6.25%, the deposit rate at 5.25%, the rediscount rate at 5.80%, and the discount rate at 5.85%.

The Council members pointed out that further decisions of the Council would depend on incoming information regarding the prospects for inflation and economic activity.

Minutes of the Monetary Policy Council decision-making meeting held on 9 January 2024

At the meeting, it was noted that the global economic conditions remained weakened, although they varied across the major economies. It was emphasized that stagnation tendencies continued in the euro area. The subsequent quarters were expected to see a certain recovery in this economy, yet it was likely to be slow. By contrast, the economic situation in the United

States remained favourable. It was also pointed out that the pace of economic recovery in China was limited. It was indicated that uncertainty regarding the outlook for global economic activity – including uncertainty related to the geopolitical situation – persisted.

It was underlined that disinflationary processes continued in the external environment of the Polish economy, although in many countries inflation remained elevated. It was also pointed out that in December 2023 the annual growth in the prices of consumer goods in the euro area rose, yet it resulted mainly from the statistical base effects of energy prices. At the same time, core inflation in the euro area continued to decline. It was pointed out that inflation was also declining in many Central and Eastern European economies.

The Council members indicated that most central banks in advanced economies had been keeping interest rates unchanged. In turn, in the region of Central and Eastern Europe, central banks of the Czech Republic and Hungary had recently cut interest rates.

At the meeting it was observed that the Polish economy was on a gradual recovery path. After a rise in October 2023, the annual growth of retail sales and industrial output fell below zero in November 2023, yet remained above the average recorded in previous months. At the same time, construction and assembly production continued to grow. It was also emphasized that in 2023 Q4 consumer and business sentiment indicators had been better than in previous quarters. Consequently, the Council members judged that in 2023 Q4 the annual GDP growth had probably picked up, although remained relatively low. Certain Council members drew attention to the uncertainty regarding the impact of migration flows between Poland and Ukraine on consumption growth.

While analysing the labour market situation, the Council members noted that it remained good, as reflected, in particular, in the low unemployment rate. It was pointed out that in recent months the annual nominal wage growth in the enterprise sector remained elevated. Alongside that, it was observed that increase in the minimum wage, as well as salary increases for public sector employees in 2024 would contribute to a higher wage growth in the economy. It was also noted that although the number of working persons remained high, the annual employment growth in the enterprise sector in November 2023 was again slightly negative. At the same time, the number of job vacancies in the economy at the end of 2023 Q3 was markedly smaller than a year before.

According to the majority of the Council members, the effects of the previous NBP monetary policy tightening were still observed in the credit market. The ratio of bank credit to the non-financial private sector to GDP was 15 percentage points lower than before the pandemic. Some members of the Council pointed out that the annual growth in household and corporate loans remained negative. Yet, it was emphasized that from month to month banks granted more and more loans to households, including especially mortgages. This was significantly supported by the so-called "2% Safe Mortgage" programme. The Council Members noted that although the statutory limit of subsidies under this programme had been exhausted, new solutions had been announced, which – if put in place – might continue to contribute to a rise in housing loans. Certain Council members also paid attention to the fact that the annual growth in housing loans denominated in PLN, as well as consumer loans, was positive.

At the meeting it was pointed out that – according to the data available at that time, i.e. the Statistics Poland flash estimate – the annual inflation rate declined to 6.1% in December 2023. It was noted that these data were lower than the market expectations. It was emphasised that the annual price growth in December was almost three times

lower than the peak seen in February 2023. It was observed that when taking into account the Statistics Poland data, it might be estimated that in December core inflation fell for the ninth consecutive month. Certain Council members underlined that core inflation remained elevated, although its decline in the past quarters was faster than previously forecasted.

The majority of the Council members assessed that the decline in inflation was driven not only by the reduced cost pressure or statistical effects but also by the low demand pressure. Those members pointed out that at present it was relatively difficult for enterprises to raise prices, especially as consumers' inflation expectations had fallen sharply in recent quarters. On the other hand, certain Council members expressed the opinion that entrepreneurs' expectations regarding price increases – as well as inflation forecasts formulated by financial sector analysts for 2025 – continued to be elevated. Certain Council members judged that amid the fading of external shocks boosting price growth, domestic factors started to play a more important role in inflation developments in Poland. At the same time, the Council members judged that the decrease in inflation was being supported by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy.

While discussing the short-term outlook for inflation in Poland, it was pointed out that a further decline in price growth was expected in the coming months. It was also emphasised that in 2024 Q1 inflation would probably be lower than predicted in the NBP's November projection. It was judged, that according to the current forecasts, the annual price growth might decline below 3% in March 2024, i.e. to the level consistent with the NBP inflation target of 2.5% +/-1 percentage point.

While discussing the longer-term outlook for inflation, the Council members underlined that inflation developments in the subsequent quarters were subject to high uncertainty. In this context, it was pointed out that in accordance with the draft Budget Act, zero VAT rate on food products was supposed to be in place until the end of March 2024. Alongside that, according to the current legal status, prices of gas, electricity and district heating for households were to remain frozen until the end of June 2024. It was emphasized that should higher VAT rate on food products be restored and energy prices raised, inflation might rise significantly in the second half of 2024.

At the same time, it was noted, that uncertainty about the pace of economic recovery in Poland and its impact on inflationary pressures persisted. It was also pointed out that in particular higher wages in the public sector together with rising childcare benefits as well as old-age and disability pensions would increase household income, thus contributing to higher consumption, and, consequently, higher price growth. Some Council members also drew attention to the uncertainty about external factors affecting inflation, including those related to the future global economic conditions and commodity prices developments.

The Council members expressed an opinion that given the above mentioned factors which were likely to affect CPI inflation in 2024, core inflation developments were of significant importance for the assessment of domestic inflation processes.

The majority of the Council members assessed that despite the observed economic recovery, demand and cost pressures in the Polish economy remained low, which amidst the weakened economic conditions and falling inflation pressure abroad would support lower price growth in Poland. In the first months of 2024, the annual CPI growth is likely to fall significantly, while the decline in core inflation will be slower. However, inflation developments in subsequent quarters are associated with high uncertainty, related in particular to the impact of fiscal and regulatory policies on price developments, as well as the pace of economic recovery in Poland. It was

emphasized that should higher VAT rate on food products be restored and energy prices raised, inflation might rise significantly in the second half of 2024. At the same time, increases in salaries for public sector employees and social benefits would contribute to higher inflation. Under these circumstances, the Council decided to keep the NBP interest rates unchanged. The Council judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term.

Certain Council members expressed the opinion that given the persistently high annual price growth and elevated inflation expectations, as well as amid the expected further recovery in demand and the fiscal measures launched, the level of the NBP interest rates was too low to ensure the return of inflation to the target in the medium term and to lower inflation expectations to levels consistent with the medium-term inflation target.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 5.75%, the lombard rate at 6.25%, the deposit rate at 5.25%, the rediscount rate at 5.80%, and the discount rate at 5.85%.

The Council members pointed out that further decisions of the Council would depend on incoming information regarding the prospects for inflation and economic activity.

Minutes of the Monetary Policy Council decision-making meeting held on 7 February 2024

At the meeting, it was noted that the euro area was stagnant in 2023 Q4 and GDP in Germany had fallen. In contrast, economic conditions in the United States remained favourable and the labour market situation was even better than expected. At the same time, it was observed that the disinflation process was proceeding in the environment of the Polish economy. In particular, core inflation in the largest advanced economies continued to gradually decline and recently a significant fall in the global prices of most energy commodities had also been recorded.

At the meeting, it was pointed out that – according to the Statistics Poland preliminary estimate – GDP growth in Poland stood at 0.2% in 2023. The Council members indicated that this implied a certain acceleration in GDP growth in 2023 Q4, which was in line with the NBP November projection and was evidence of a gradual economic recovery. At the same time, it was observed that monthly data for December showed a year-on-year decline in retail sales, a fall – although smaller than market expectations – in industrial output, and a strong rise in construction and assembly output. In turn, certain Council members underlined that the situation in many industrial sections had been improving steadily for several months.

Some Council members judged that the available data confirmed that despite the recovery, GDP growth was still relatively subdued and significantly lower than the potential of the Polish economy. In the opinion of these Council members, going forward the economic recovery could be expected to continue – above all, due to the anticipated higher growth in consumption – although its scale was subject to uncertainty. It was pointed out that consumption growth would be boosted by the pick-up in growth of real household income, amid lower inflation, which would be accompanied by an increase in the minimum wage, indexation of social benefits and wage increases in the public sector. Yet, some Council members judged that households' efforts to rebuild savings could weigh visibly on the outlook for consumer demand.

When referring to the labour market conditions, it was indicated that they were still good as reflected, in particular, in the low unemployment rate. The scale of the fall in employment in the enterprise sector was also slightly smaller in year-on-year terms. Alongside that, certain Council

members underlined that the number of people working under other forms of employment relationship than an employment contract was rising. At the same time, it was pointed out that in December 2023 annual nominal wage growth in the enterprise sector had fallen below 10%, although it was argued that – taking into account the minimum wage increases and the wage rises for public sector employees – wage growth could rise significantly in 2024 Q1. Moreover, certain Council members observed that at the end of 2023 real wage growth was higher than in previous quarters, and was not accompanied by a marked improvement in labour productivity.

According to the majority of the Council members, the effects of NBP earlier monetary policy tightening could still be seen in the credit market. In the opinion of these Council members, this is particularly evidenced by the fact that the ratio of credit of the private non-financial sector to GDP was much lower than before the pandemic. At the same time, a recovery in the credit market was noted, which was attributable to the so-called "Safe Mortgage" programme. Certain Council members also indicated a rise in the stock of both consumer and corporate loans.

At the meeting, it was observed that the annual inflation rate in December 2023 had declined to 6.2%, which meant that it was almost three times lower than its peak in February 2023. The Council members underlined that the fall in the CPI index was not only the result of lower commodity prices or statistical base effects, since the monthly growth of the majority of price categories had declined to their long-term averages. Additionally, it was noted that in December core inflation had fallen yet again, driven by weakened demand pressure and the earlier monetary policy tightening, although it remained elevated. Some Council members drew attention to the fact that in December the fall in industrial producer prices had also deepened, which evidenced the fading of the earlier external supply shocks and weak cost pressure. It was judged that the decline in inflation was being supported by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy.

When discussing the short-term inflation outlook in Poland, it was pointed out that a further fall in price growth was expected at the beginning of 2024. As at the January meeting, the Council members observed that in 2024 Q1 inflation would most likely be lower than predicted in the NBP November projection. It was judged that according to current forecasts, the CPI index might fall below 3% in March 2024, i.e. to a level consistent with the NBP inflation target of 2.5% +/- 1 percentage point. At the same time, the Council members underlined that core inflation would also ease, although at a slower pace, and consequently it would remain higher than headline inflation. In this context, the Council members expressed the opinion that developments in core inflation were of significant importance for the assessment of domestic inflation processes. Certain Council members emphasised that a further marked fall in inflation at the beginning of 2024 – with unchanged interest rates – would be a factor pushing up real interest rates.

When discussing the longer-term inflation outlook, the Council members upheld the assessment that price dynamics in the coming quarters would depend on regulatory and fiscal decisions and were subject to high uncertainty. It was pointed out that, according to the current regulations, the zero VAT rate on food products was supposed to be in place until the end of March 2024, while the prices of gas, electricity and district heating for households were to remain frozen until the end of June 2024. It was observed that assuming no increase in the VAT rate on food and unchanged energy prices until the end of the year, inflation might remain at a level consistent with the NBP inflation target from February until the end of 2024. However, should the VAT rate on

food products be restored from zero to 5% and should subsidies to energy prices be totally or partially removed, inflation might rise significantly in the second half of 2024. Moreover, some Council members drew attention to the fact that risks around the inflation path included developments in commodity prices and the return of tensions in international trade due to the situation in the Red Sea, which had caused a sharp increase in freight prices in recent months.

Also, when discussing the longer-term outlook for core inflation, the Council members underlined that uncertainty persisted about its further path, which was related to, in particular, the pace of economic recovery in Poland and its impact on inflationary pressure. Some Council members judged that the significant rise in public sector wages would be a factor that could boost core inflation. This was because it would push up wage growth in the whole economy as well as consumer demand. The implementation of other fiscal measures, such as an increase in the tax-free allowance, could have a similar effect, although some Council members emphasised that currently it was not clear whether and to what degree these proposals would be implemented. In this context, certain Council members pointed out that – particularly in view of the need for increased public expenditure on the military and on energy transformation – the room for increasing the expansiveness of fiscal policy was limited and rather consolidation policies should be expected.

The majority of the Council members assessed that despite the observed economic recovery, demand and cost pressures in the Polish economy remained low, which amidst the weakened economic conditions and fading inflationary pressure abroad would support lower price growth in Poland. In 2024 Q1, the annual CPI growth is likely to fall significantly, while the decline in core inflation will be slower. However, inflation developments in subsequent quarters are subject to high uncertainty, related in particular to the impact of fiscal and regulatory policies on price developments, as well as the pace of economic recovery in Poland. It was emphasised that should higher VAT rate on food products be restored and energy prices raised, inflation might rise significantly in the second half of 2024. At the same time, higher nominal wage growth, including due to increases in public sector wages, would contribute to higher demand pressure in the economy. Under these circumstances, the Council decided to keep the NBP interest rates unchanged. The Council judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term.

Certain Council members expressed the opinion that given the persistently high annual price growth and elevated inflation expectations, as well as amid the expected further recovery in demand and the fiscal measures launched, the level of the NBP interest rates was too low to ensure the return of inflation to the target in the medium term and to lower inflation expectations to levels consistent with the medium-term inflation target.

The Council decided to keep the NBP interest rates unchanged: the reference rate at 5.75%, the lombard rate at 6.25%, the deposit rate at 5.25%, the rediscount rate at 5.80%, and the discount rate at 5.85%.

The Council members pointed out that further decisions of the Council would depend on incoming information regarding prospects for inflation and economic activity.

Information from the meeting of the Monetary Policy Council held on 5-6 March 2024

The Council decided to keep the NBP interest rates unchanged: reference rate at 5.75%; lombard rate at 6.25%; deposit rate at 5.25%; rediscount rate at 5.80%; discount rate at 5.85%.

The global economic conditions remain weakened, although they vary between the largest economies. In 2023 Q4, the annual GDP growth in the euro area remained close to zero, and in Germany it was again negative. Meanwhile, in the United States, GDP growth stayed relatively robust. Uncertainty about the activity outlook in the largest economies persists.

In the environment of the Polish economy the process of disinflation continues. Inflation is driven down by the reduction of cost pressures reflected in falling producer prices, and by the weak growth in economic activity. In many economies core inflation also declines, although it is still elevated.

In Poland, a gradual economic recovery continues, albeit annual GDP growth remains relatively low. According to Statistics Poland preliminary estimate, in 2023 Q4 GDP grew by 1.0%. The GDP growth was positively affected by the contribution of net exports and investment. At the same time, the consumption growth declined. Incoming data indicate an increase in economic activity growth in 2024 Q1.

The labour market situation remains good and unemployment is low. Although the number of working persons continues to be high, employment in the enterprise sector in January 2024 was lower than a year ago. At the same time, annual wage growth rose.

According to the Statistics Poland preliminary data, annual CPI inflation in January 2024 declined to 3.9% (from 6.2% in December 2023). The decrease in inflation in annual terms was driven by a fall in all major components of the CPI basket, in particular energy carriers. In January 2024, the fall in producer prices deepened, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the relatively low economic activity growth, it is conducive to a decline in inflation. The Council judges that the decrease in inflation is supported by the appreciation of the zloty exchange rate, which is consistent with the fundamentals of the Polish economy.

The Council became acquainted with the results of the March projection of inflation and GDP based on the NECMOD model. In line with the projection, prepared under the assumption of unchanged NBP interest rates and taking into account data available until 15 February 2024, there is a 50-percent probability that the annual price growth will be in the range of 2.8 – 4.3% in 2024 (against 3.2 – 6.2% in the November 2023 projection), 2.2 – 5.0% in 2025 (compared to 2.2 – 5.3%) and 1.5 – 4.3% in 2026. At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.7 – 4.3% in 2024 (against 1.9 – 3.8% in the November 2023 projection), 3.2 – 5.3% in 2025 (compared to 2.4 – 4.7%) and 2.0 – 4.5% in 2026. In the current round, inflation projection is associated with substantial uncertainty, related in particular to the horizon over which the shielding measures on energy and food prices will apply as well as to their design. Due to the assumption that these measures will continue in their current form over the projection horizon, the balance of risk for inflation is markedly asymmetric. In the case of 2024, the probability that annual price growth will run above the 50-percent confidence interval is 43%, while the probability that it will run below this range is 7%.

In the Council's assessment, incoming data indicate that despite the observed economic recovery, demand and cost pressures in the Polish economy remain low, which amidst weakened economic conditions and falling inflation pressure abroad supports lower domestic inflation. As a result, it is expected that in the coming months annual CPI growth will run at the level consistent with the NBP inflation target. At the same time, the decline in core inflation will be slower and core inflation will remain above CPI inflation.

In subsequent quarters, inflation developments are, however, associated with substantial uncertainty, related in particular to the impact of fiscal and regulatory policies on price developments, as well as the pace of economic recovery in Poland and labour market conditions. Should higher VAT on food products be restored and energy prices raised, inflation might increase significantly in the second half of 2024. Alongside that, over the medium term demand pressure in the economy will be stimulated by wage growth, stemming i.a. from wage increases in the public sector.

Against this background, the Council decided to keep the NBP interest rates unchanged. The Council judges that the current level of the NBP interest rates is conducive to meeting the NBP inflation target in the medium term.

Further decisions of the Council will depend on incoming information regarding prospects for inflation and economic activity.

NBP will continue to take all necessary actions in order to ensure macroeconomic and financial stability, including above all to bring inflation down sustainably to the NBP inflation target in the medium term. NBP may intervene in the foreign exchange market.

4. Projection of inflation and GDP

This inflation and GDP projection was prepared by the Economic Analysis and Research Department (EARD) of Narodowy Bank Polski and presents a forecast of economic developments under the assumption of unchanged NBP interest rates. In terms of the contents, work on this projection was supervised by the Director of the Economic Analysis and Research Department. The process was coordinated by the Macroeconomic Forecasts Division of the EARD and the projection was prepared using the macroeconomic NECMOD model. The Management Board of NBP approved the projection to be submitted to the Monetary Policy Council. The projection constitutes one of the inputs to the Monetary Policy Council's decision-making process concerning the NBP interest rates.

The March projection based on the NECMOD model covers the period from 2024 Q1 to 2026 Q4. The starting point for the projection is 2023 Q4.

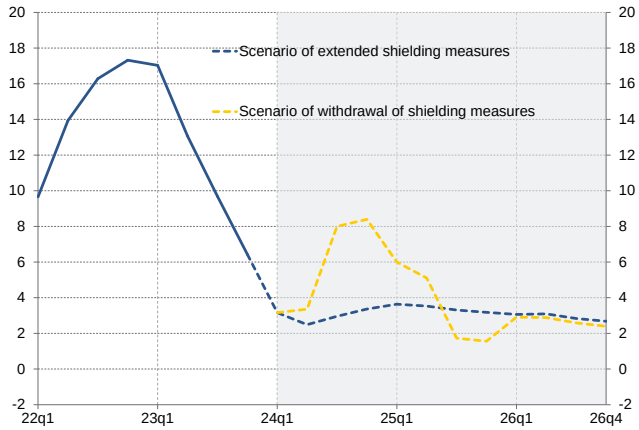
The projection was prepared under the assumption of unchanged NBP interest rates, including a reference rate of 5.75%. The cut-off date for the data used in this projection is 15 February 2024.

4.1 Summary

The future inflation path is highly dependent on the form of the government's future shielding measures which up to now have mitigated the effects of energy price rises on households and firms. In the case of food prices, there is significant uncertainty about the horizon in which the zero VAT rate on staple food products will remain in force. For this reason, the March projection was prepared with two scenarios. In the first scenario, which plays the role of the central scenario, it was assumed that the anti-inflation shielding measures will be continued over the whole projection horizon. It was also assumed that these measures will be financed by the state budget. In this scenario inflation runs close to the NBP inflation target over the whole projection horizon. The adoption of the second, extreme scenario, i.e. the assumption that the government will discontinue these measures, means that CPI inflation in the second half of 2024 will rise sharply, but in the long-term it may run at a lower level than in the central scenario due to the lower household disposable income and consequently weaker demand pressure (Figure 4.1, Box 1, point *Forecast uncertainty sources*).

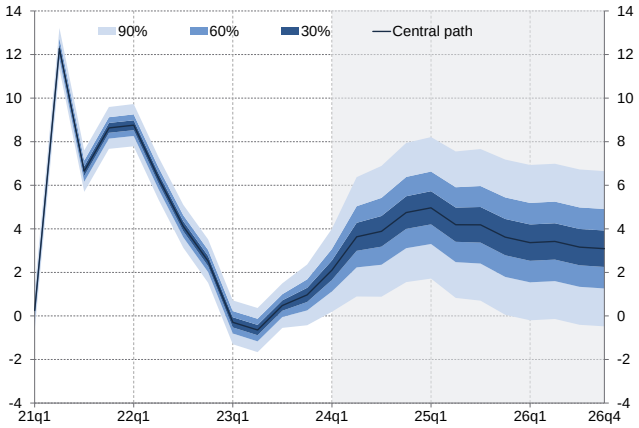
With the assumption that the shielding measures on food and energy prices will be maintained, a significant acceleration of economic growth is expected over the projection horizon. This will be supported by the further unwinding of the effects of the supply shocks in the global energy commodity markets. The rebound of economic activity over the projection horizon will also be supported by other fiscal measures that increase household disposable income, including wage rises for selected groups of public sector workers and further increases in the value of social benefits. In the years 2025-2026, the expected sharp increase in the inflow of EU funds under the 2021-2027 financial framework will have a positive impact on GDP growth. Domestic economic growth will be

Figure 4.1 CPI inflation (y/y, %) – scenario of extension and complete withdrawal of the anti-inflation shielding measures



Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.2 GDP (y/y, %)



Source: Statistics Poland (GUS) data, NBP calculations.

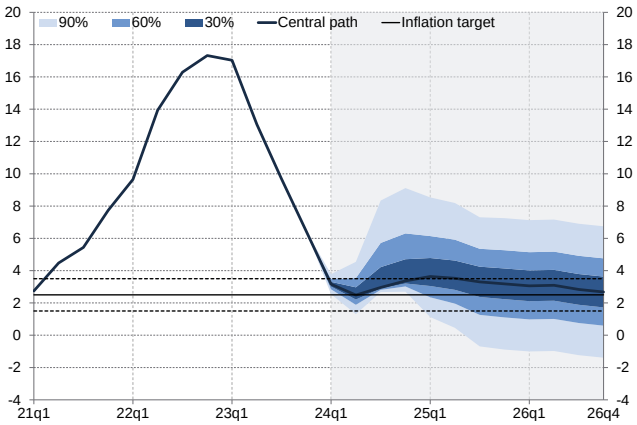
Fan fan charts depict the probability distribution of possible outcomes of GDP growth (Figure 4.2) and inflation rate (Figure 4.3). The part of the chart in the grey background illustrates forecast uncertainty of these variables over the projection horizon. It was assumed that the probability distribution of the possible outcomes of a variable at each forecast horizon belongs to the family of two-piece normal (TPN) distributions. This distribution is determined by three parameters: mode, variance and a measure of skewness. The mode of the distribution is the central path of the projection, while the variance is determined based on historical forecast errors for each of the horizons adjusted for the impact of the current uncertainty of exogenous variables. In determining the skewness of the distribution for CPI inflation, the scenario of withdrawal of shielding measures was used. On the chart, the distribution of the realisation of a given variable is illustrated by 30%, 60% and 90% probability intervals around the central projection path, which were constructed in such a way as to minimize the width of the bands (for more information see: Pońsko P., Rybaczyk B., 2016, Fan Chart – A Tool for NBP's Monetary Policy Making, Narodowy Bank Polski Working Paper, No 241).

supported by external demand only to a slight degree in the coming years due to expectations of only a moderate recovery in the euro area. The GDP growth forecast in Poland will be limited by the assumption made in the projection that interest rates will be kept unchanged, including the reference rate at 5.75. As a result, following a marked recovery in economic activity in the years 2024-2025, GDP growth will slow down in 2026.

The fading of the effects of the strong negative supply shock will simultaneously lead to a marked fall in CPI inflation compared to the years 2022-2023. The disinflation process is supported by low inflation in the environment of the Polish economy, the fading of the earlier global supply chain disruptions, and the current strengthening of the zloty exchange rate, which translates into a fall in import price growth. On the other hand, the scale of the fall in domestic inflation will be limited by the marked rebound of demand, supported by fiscal measures, which is reflected in the closing of the currently negative output gap over the projection horizon. Despite a marked deterioration of the domestic economic conditions in 2023, the situation in the labour market remained favourable, with a limited impact of the economic slowdown on the unemployment rate alongside high nominal wage growth. As a result of these conditions, under the assumption of NBP interest rates being kept unchanged (including the reference rate at 5.75%), in the scenario in which the shielding measures are maintained, CPI inflation will remain relatively stable over the projection horizon, running within the band of deviations from the NBP inflation target defined as 2.5% +/-1 p.p., or only slightly above this band.

Besides the scale and scope of the shielding measures, the future economic situation and CPI inflation path is also highly dependent on other fiscal measures. Apart from internal conditions, geopolitical risks and the scale of supply chain disruptions, as well as the shape of fiscal and monetary policy in the major developed economies

Figure 4.3 CPI inflation (y/y, %)



Source: Statistics Poland (GUS) data, NBP calculations.

The methodology of construction of fan charts is discussed in the note under Figure 4.2.

will be important sources of uncertainty in the projection. The balance of uncertainty factors indicates a higher probability of CPI inflation running above the central path over the projection horizon and a close to symmetric balance of risks for economic growth (Figure 4.2, Figure 4.3).

4.2 External environment

Economic growth

The economic situation in the euro area continues to be subdued, remaining under the influence of the earlier sharp rise in prices of many commodities, heightened uncertainty and monetary policy tightening by the European Central Bank. Signals from this economy, including the persistently low business sentiment, suggest that the recovery will proceed slower than assumed in the November projection (Table 4.1). In particular, this concerns Germany and France, where, apart from industry, the downturn has also affected the service sector. Along with the fading of the effects of the earlier negative supply shocks and the accompanying expected easing of monetary policy (Figure 4.4), the GDP growth rate in the euro area will pick up slightly in 2024-2026. The recovery in this economy will be additionally supported by the measures taken under the NextGenerationEU recovery programme.

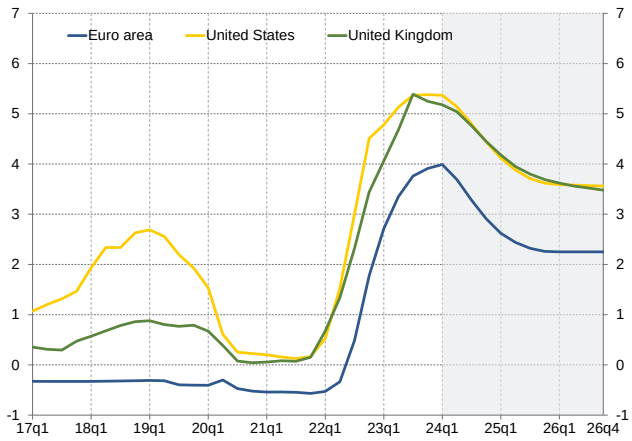
On the other hand, the economic situation in the United States is more favourable than previously expected, and in 2024-2026 GDP growth in this economy will be significantly stronger than in the euro area (see Chapter 1.1 *Economic activity abroad*). The moderate response of the real sphere of the US economy to the tightening of monetary policy is largely a result of the earlier significant easing of fiscal policy during the pandemic. The scale of the post-pandemic pent-up demand, stimulated by the fiscal expansion, as well as the effective reduction of tensions in the US banking system surprised to the upside. The relatively rapid curbing of inflation in this economy, alongside a favourable labour

Table 4.1 GDP abroad – March projection versus November projection

	2023	2024	2025
GDP in Euro Area (y/y, %)			
March 2024	0.5	0.7	1.3
November 2023	0.6	1.1	1.4
GDP in Germany (y/y, %)			
March 2024	-0.1	0.2	1.2
November 2023	-0.4	0.9	1.3
GDP in United States (y/y, %)			
March 2024	2.5	2.3	1.9
November 2023	2.2	1.3	1.8
GDP in United Kingdom (y/y, %)			
March 2024	0.1	0.3	1.1
November 2023	0.6	0.5	1.1

Source: NBP calculations.

Figure 4.4 Interest rates abroad (%)



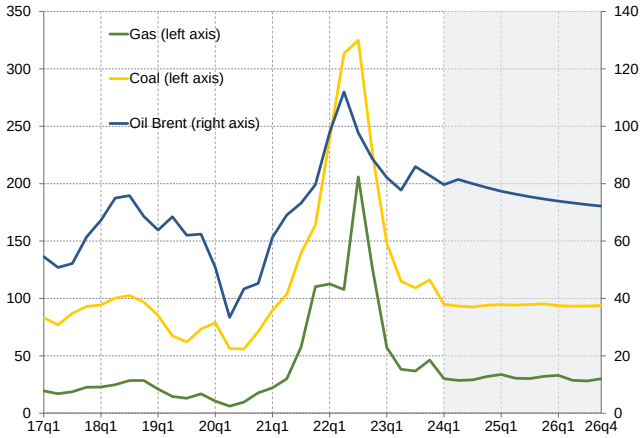
Source: Bloomberg data, NBP calculations.

market situation, translates into faster growth in real household income.

Inflation and commodity markets

In recent months, global prices of many energy commodities fell; however, they still exceed their pre-pandemic levels, remaining under the influence of the sanctions imposed on Russia and country's retaliatory actions against the West (see Chapter 1.3 *Global commodity markets*). Natural gas prices declined significantly at the turn of the year, due to the high level of storage levels in Europe and the slowdown in the global economy, as did the prices of coal – a substitute for gas in the generation of electricity. Fall in oil prices was also supported by lower demand due to the weakened global economic conditions; however, the OPEC+ countries' policy of limiting supply counteracts the sharp decline in the prices of this commodity.

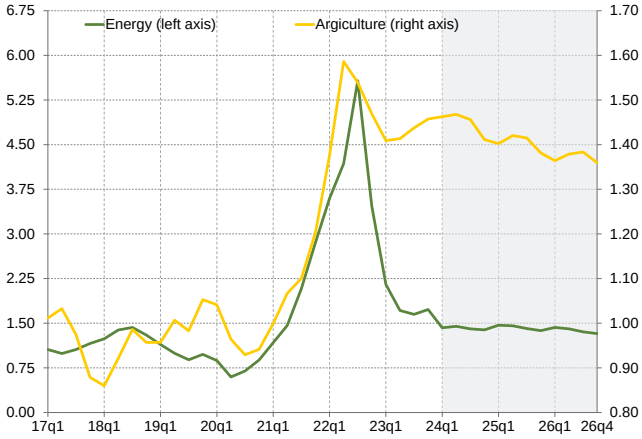
Figure 4.5 Brent oil prices (USD/b), natural gas (TTF, USD/MWh) and hard coal (Richards Bay, USD/t)



Source: Bloomberg data.

Futures quotes suggest that global prices of energy commodities will run at a relatively stable level over the projection horizon, below the assumptions of the previous projection (Figure 4.5, Figure 4.6). The expected increase in production of oil in the non-OPEC+ countries, including the United States, will offset a rise in demand for this commodity resulting from the higher economic growth. The impact of the improving economic conditions on the price of natural gas in the European market will, in turn, be largely limited by the high storage level and measures aimed at reducing its consumption in Europe, while simultaneously increasing capabilities to import natural gas from other sources than Russia.

Figure 4.6 Energy commodities price index (USD, 2019=1) and index of agricultural prices (EUR, 2019=1) in global markets



Source: Bloomberg data, NBP calculations.

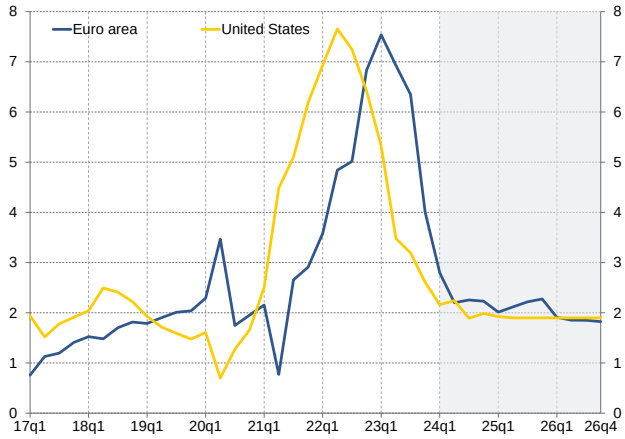
The index of the prices of energy commodities includes prices of crude oil, coal and natural gas, taking into account of the consumption structure of these commodities in Poland. The agricultural commodity price index includes prices of wheat, pork, skimmed milk powder, butter, sugar, cocoa, coffee, frozen concentrated orange juice, potatoes, oilseed, allowing for weights reflecting the consumption structure of Polish households.

The fall in global prices of key energy commodities observed in recent months also supports the lowering of agricultural commodity prices. The scale of this fall is currently limited by the imbalances of parts of the global markets triggered by unfavourable weather conditions. Futures quotes suggest a gradual, but slower than expected in the November projection, decline in agricultural commodity prices in the years 2024-2026, on the

back of fading impact of the disruptions resulting from the Russian aggression (Figure 4.6).

In 2023 Q4, global disinflation processes continued, supported by the spread-over-time effects of the fading of the disruptions in the commodity markets (Figure 4.6), the easing of supply chain tensions and the weak economic activity in some economies. Over the projection horizon, inflation in Poland's economic environment will continue to decline, under the impact of the fading of most supply shocks that boosted inflation in the past amid a moderate rebound of demand. At the same time, in the major developed economies the disinflation process will be limited by the high persistence of service price inflation (Figure 4.7). Headline inflation may even temporarily rise due to a slowdown in the fall in energy commodity prices.

Figure 4.7 Change in gross value added deflator (y/y, %)



Source: Bloomberg, Eurostat data, NBP calculations.

Uncertainty

Europe and the world continue to see heightened geopolitical risks related to the Russian aggression in Ukraine, the conflict in the Middle East, the disruptions to commercial shipping in the Red Sea and tensions in other regions of the world. These events constitute a significant risk factor for economic growth around the world, supply and prices of energy and agricultural commodities, and also for global supply chains. This is accompanied by uncertainty about the impact of the current and future monetary and fiscal policy on the major economies. The above risk factors are more extensively discussed in Chapter 4.5 *Forecast uncertainty sources*.

4.3 Polish economy in 2024-2026

Legislative changes affecting the projected paths of GDP and CPI inflation

In response to severe disruptions in the global markets of energy carriers, in the years 2022-2023 the government introduced measures to protect

households and firms from the impact of rising energy prices.

Statutory regulation of tariffs of selected energy carriers combined with compensation payments for energy providers and distributors has been extended to the end of June 2024. In particular, the level of electricity and natural gas bills for households has been frozen. In the case of district heating systems, the previously existing mechanism of curbing the growth in prices for eligible customers has been maintained. In addition, under the Anti-Inflation Shield, the government extended the zero VAT rate on staple food products until the end of March 2024 and the lower VAT rate on selected agricultural products until the end of 2024. In view of the high uncertainty about the future legislative changes affecting energy and food prices, the central scenario of the projection assumes that the above-mentioned shielding measures will be extended until the end of 2026.

The impact of additional social transfers was also accounted for in the projection. These include the introduction as of 1 January 2024 of a permanent 14th pension payment and an increase in the level of child benefit "Family 500 plus" to PLN 800 for each child. In addition, under the "Active parent" programme, benefits will be paid out to parents who want to return to or enter the labour market for the first time while leaving their child in childcare. Disability benefits and care allowances for carers of people with disabilities who take up employment or other paid work were also introduced in 2024. The total cost of these solutions is estimated at 1.2% of GDP in each of the years 2024-2026 (Table 4.2).

Table 4.2 The impact of additional social transfers – the costs for the general government (% of GDP)

	2024	2025	2026
Increase in child benefit ("Family 500 plus" programme)	0.7	0.6	0.6
Support and care allowances	0.1	0.2	0.2
14th pension (another additional annual cash benefit for pensioners)	0.4	0.4	0.4
Total increase in social transfers	**1.2**	**1.2**	**1.2**

Source: NBP calculations based on the government estimates.
Numbers are rounded to one decimal place.

Wage increases for selected groups of public sector workers will also have a positive effect on household income over the projection horizon. The wage increases for teachers is planned to amount to 30%-33% (also including nursery school teachers and university teachers) and 20% for civil servants

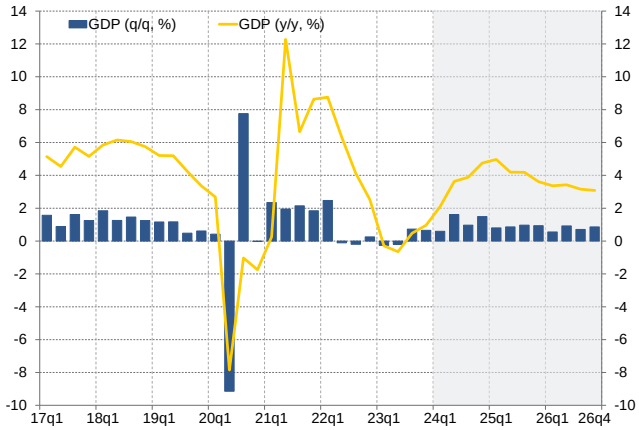
and uniformed services. These wage increases do not apply to local government employees (including employees in the education sector who are not teachers), nor to people occupying state management positions. The total cost of the wage increases announced by the government for these groups of employees in 2024 amounts to 1.2% of GDP.

Economic activity

After only slight domestic GDP growth in 2023, a marked acceleration is expected over the projection horizon (Figure 4.8, Figure 4.10). This will be caused by the further fading of the effects of the supply shocks in the global energy commodity markets. The growth of demand over the projection horizon will be supported by fiscal measures, increasing household disposable income and the assumed maintenance of measures shielding food and energy prices for these entities in 2024 and beyond (see *Legislative changes affecting the projected paths of GDP and CPI inflation*) In the years 2025-2026, the expected sharp increase in the inflow of EU funds under the new 2021-2027 framework will have a positive impact on GDP growth (Figure 4.9). Assuming a moderate recovery in the euro area, external demand will contribute to domestic economic growth only to a slight degree in the coming years. The GDP growth forecast in Poland is limited by the assumption made in the projection that interest rates will remain unchanged, including the reference rate at 5.75%.

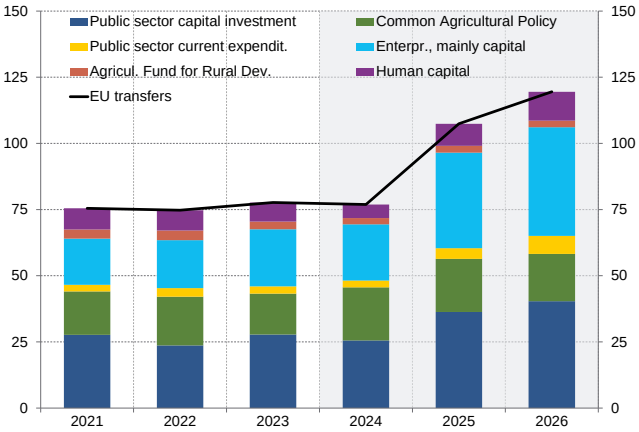
In 2023, amid the still high inflation curbing the growth of purchasing power of the population's income, private consumption declined by 1.0% (Figure 4.11). Consumption was also limited by the heightened propensity to save caused by households' desire to rebuild assets in real terms. In the years 2024-2026, real household disposable income growth will pick up, translating into a marked rebound in private consumption, which will become the main driver of economic growth. This will be the result of the rapidly growing nominal wages and the further rise in the value of

Figure 4.8 Economic growth



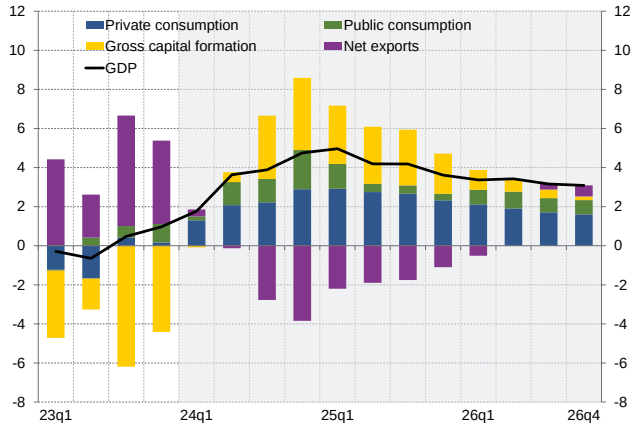
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.9 Expenditure financed by EU funds (in PLN billion) – breakdown



Source: NBP calculations.

Figure 4.10 GDP growth (y/y,%) and its breakdown



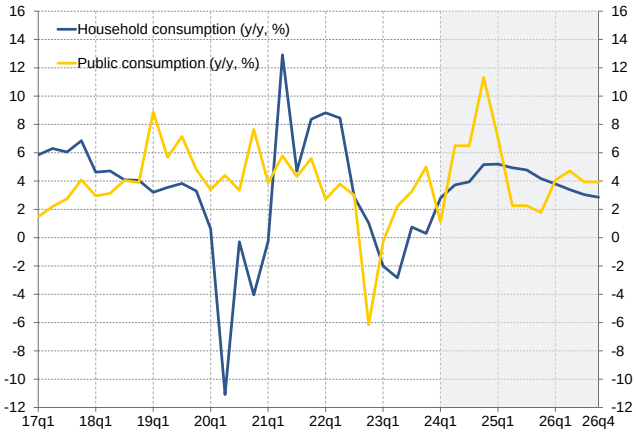
Source: Statistics Poland (GUS) data, NBP calculations.

social benefits alongside a significant decline in inflation in the scenario of an extension of the anti-inflation shielding measures (see section *Legislative changes affecting the projected paths of GDP and CPI inflation*). However, due to households' efforts to smooth out consumption over time, consumption growth will remain lower than household income growth in 2024, which will allow a further rebuilding of household savings. This scenario is confirmed in the results of Statistics Poland consumer surveys, which indicate both an improvement in the assessment of the capacity to spend on important purchases and to save. An increase in the real interest rate compared to 2023 due to the assumption of unchanged NBP interest rates amid a marked decline in average annual inflation will also be a factor supporting the rebuilding of savings over the projection horizon at the cost of consumption.

Gross fixed capital formation grew by 8.0% in 2023 (Figure 4.12), largely due to investment of large enterprises and expenditure of the public sector on defence as well as the expenditure of the local government sector. On the other hand, in 2023 households significantly reduced housing purchases, although in the second half of the year the pass-through of higher interest rates into housing investment was reduced by the government's "Safe Mortgage" programme.

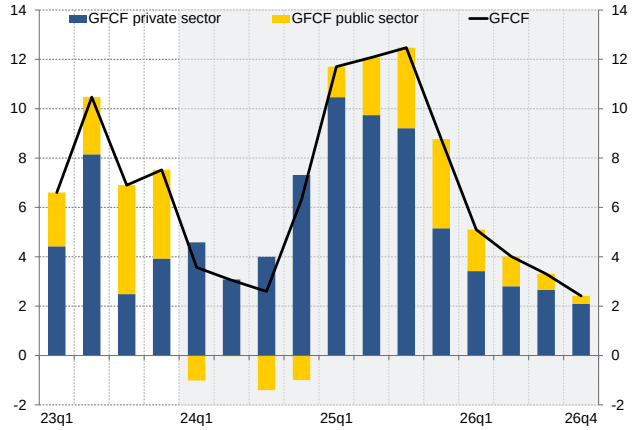
In 2024, total investment growth will slow down on the back of a fall in EU capital transfers as expenditure under the 2014-2020 EU financial framework comes to an end. However, this fall will be limited due to the release of funds under the Recovery and Resilience Facility (Figure 4.13). The absorption of EU funds is a factor determining to a large extent the forecast path of public investment and – to a lesser extent – of corporate investment. In 2024 – as in subsequent years of the projection horizon – capital expenditure of the public sector will be boosted by the planned increase in national defence spending. Despite the fall in expenditure financed by EU transfers, the outlook for

Figure 4.11 Household and public consumption



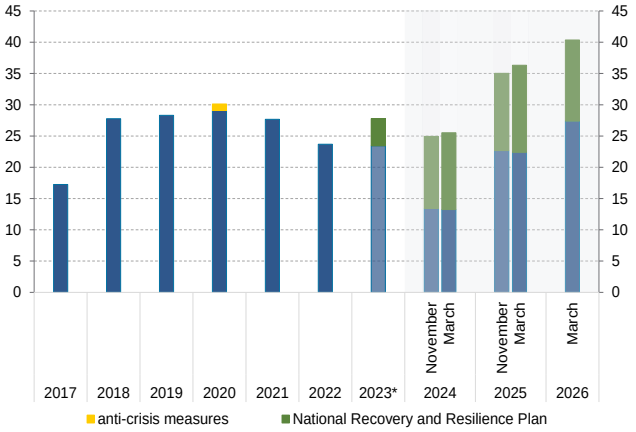
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.12 Gross fixed capital formation (y/y, %) – breakdown



Source: Statistics Poland (GUS) data, NBP calculations.
Private sector investment is defined as gross fixed capital formation according to the national accounts except for the general government sector. It covers gross fixed capital formation of non-financial enterprises, financial and insurance companies, households (both housing and non-housing investment) and non-profit institutions serving households.

Figure 4.13 Use of EU funds for public investment (PLN billion)



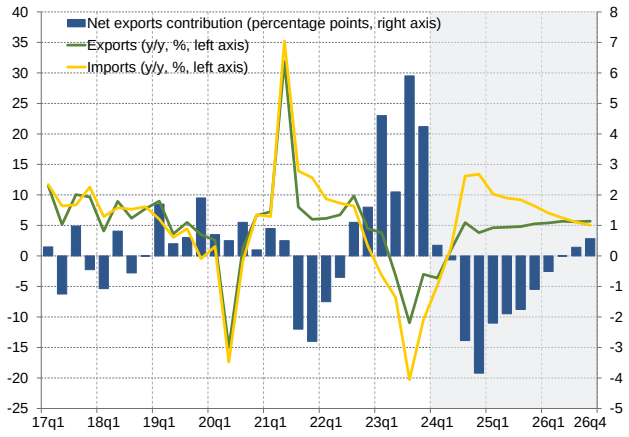
Source: MFiPR, Statistics Poland (GUS) data, NBP calculations.
* NBP estimates.

investment remains favourable. According to the results of the NBP Quick Monitoring,[43] investor confidence is growing among the surveyed enterprises, including their planned change in the scale of investments, both on a quarterly and yearly basis. At the same time, following falls in the years 2022-2023, in 2024 housing investment will partly rebound, which will be supported by an improvement in the financial situation of households, but will be limited by NBP interest rates remaining unchanged, as assumed in the projection.

In 2025, investment demand growth in the enterprise sector and the public sector will pick up again, and will be supported by increased absorption of EU funds under the new 2021-2027 framework. The need to increase the productive capital of enterprises due to underinvestment during the pandemic, low level of automation and robotisation of Polish industry, and rising labour costs, will work in the same direction. In 2026, as the effects of the high NBP interest rates are increasingly felt, growth in corporate and housing investment will decline, running at a level close to GDP growth.

Due to the slowdown in activity in the major developed economies, including in the German economy, demand for Polish goods and services declined in 2023 compared to previous years, resulting in a decline in exports (Figure 4.14). At the same time, on account of the high import intensity and significant decline in domestic demand and the stronger cyclical response of imports than exports, the contribution of net exports to GDP growth had a significantly positive value. In the coming years, on the back of an improvement in the domestic economic conditions, the contribution of net exports to GDP growth will decline, turning negative in the years 2024-2025. In 2026, amid

Figure 4.14 Foreign trade



Source: Statistics Poland (GUS) data, NBP calculations.

[43] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, January 2024.

lower growth in domestic demand, the increase in the trade balance will be close to zero.

Potential output and the output gap

In the current projection, potential output growth is expected to run at an average of 3.3% y/y in the years 2024-2026, and thus close to its long-term average (Figure 4.15).

In the years 2024-2026, the potential of the domestic economy will be positively affected by growth in the corporate investment rate, boosting growth in productive capital, as well as the activation of refugees from Ukraine[44] and the inflow of migrants from other countries raising the supply of labour.

However, demographic changes, reflected in a decline in the number of people of working age, reducing the number of economically active people, will have an unfavourable impact on potential GDP growth over the projection horizon.

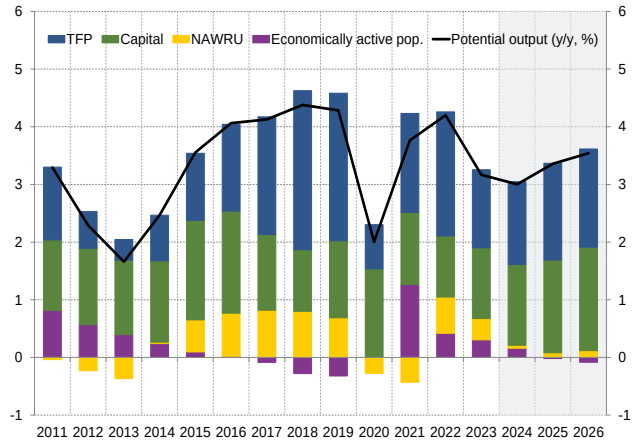
As a result of the slowdown in GDP growth in 2023, the output gap, which is a synthetic measure of demand pressure in the economy, declined sharply and was running at a negative level (Figure 4.17). Along with expectations of a marked economic recovery in the coming quarters and the assumption of the maintenance of the shielding measures on energy and gas prices for households, the output gap will return to positive values at the end of 2024 and will remain above zero until the end of 2026.

Such a development of the output gap means that alongside the rebound of economic activity, demand pressure will grow, limiting the scale of the fall in CPI inflation.

Labour market

Total employment and the unemployment rate are expected to remain relatively stable in 2024-2026

Figure 4.15 Potential product (y/y, %) – breakdown



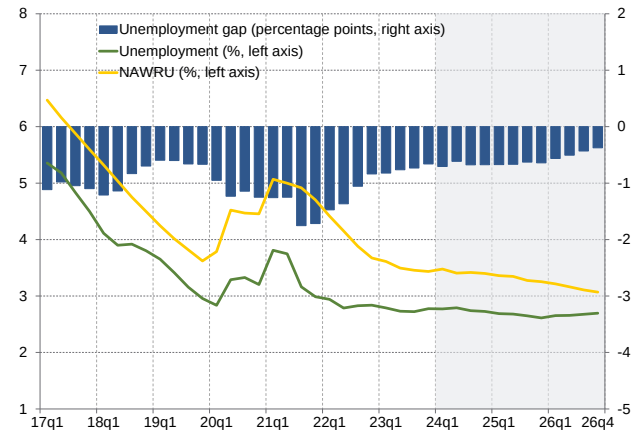
Source: NBP calculations.

Potential output growth is defined as the economic growth rate that does not cause the accumulation of inflationary pressure. It may originate from the growth of labour supply, productive capital or total factor productivity. In the NECMOD model it is estimated on the following Cobb-Douglas production function:

$$PKB_t^{pot} = TFP_t^{trend} \cdot \left[LF_t^{trend} \cdot (1 - NAWRU_t)\right]^{0.67} \cdot K_t^{1-0.67},$$

where PKB_t^{pot} is the level of potential output, TFP_t^{trend} – total factor productivity, smoothed by the Hodrick-Prescott (HP) filter extended with an index of capacity utilisation, LF_t^{trend} – the number of economically active people smoothed by a HP filter, $NAWRU_t$ – non-accelerating wage rate of unemployment in the equilibrium, K_t – productive capital. The output elasticity with respect to labour was set at the level of 0.67.

Figure 4.16 Unemployment



Source: Statistics Poland (GUS) data, NBP calculations.

$NAWRU_t$ – non-accelerating wage rate of unemployment in the equilibrium.

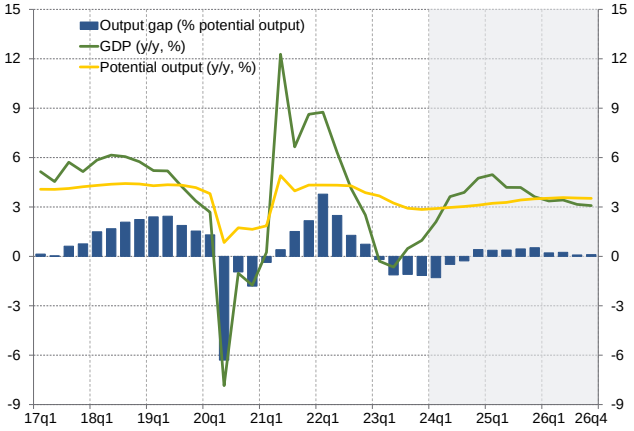
[44] The inflow of immigrants is only partially reflected in LFS statistics, due to the methodology of the survey. Consequently, the projection assumes that it will be manifested in the rise in total factor productivity (TFP).

(Figure 4.18). The moderate level of demand for labour in the coming quarters is confirmed by the predominance of companies reducing the number of employees over companies increasing their number in NBP surveys,[45] as well as the readings of the PMI employment sub-index in the Markit Group survey. The lack of a marked fall in the unemployment rate in 2024 in response to the recovery in economic activity is related to the phenomenon of labour hoarding observed in recent quarters, which has been indicated by the downward trend of the average number of hours worked in LFS data. This phenomenon results from the desire to reduce the costs associated with finding and onboarding new employees if they need to be re-employed. The possibility that unemployment rate will adjust to increased economic activity is at the same time limited by the record low share of unemployed people in the labour supply and thus the low availability of free labour resources. In addition, some of the demand for labour is met by the growing presence of migrants in the domestic labour market, which is only slightly reflected in the results of the LFS survey (Figure 4.16, Figure 4.19).

Nominal wage growth will decline only slightly in 2024 compared to 2023 (Figure 4.20), which means that in real terms – amid the fall in inflation – wage growth will accelerate significantly. This will be due to the wage increases for public sector workers introduced by the government, including for teachers and university lecturers, as well as the increase in the minimum wage on two occasions, amounting to an annual average of 20.5% y/y.

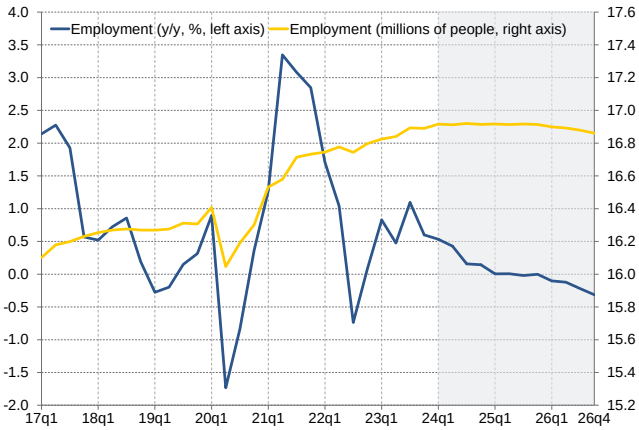
Nominal wage growth will decline in the years 2025-2026 in the wake of the fall in inflation. Wage growth will also be curbed by the expected growing share of migrants in the labour force. Wage growth will also be limited over the projection horizon by the assumed significantly lower minimum wage increases than in previous

Figure 4.17 Output gap



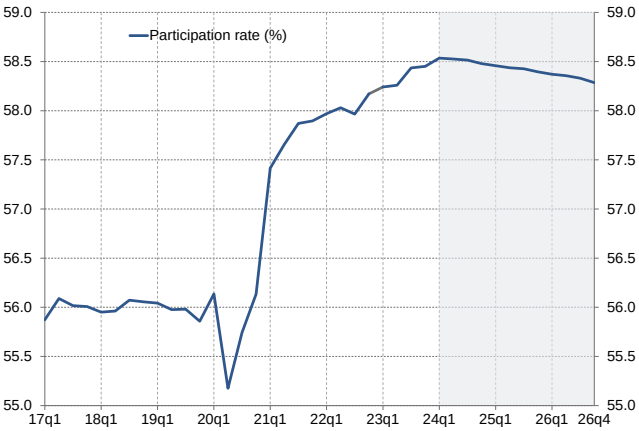
Source: Statistics Poland (GUS) data, NBP calculations.
The output gap is a synthetic measure of demand pressure in the economy. It is expressed as a percentage of the deviation of the actual real level of GDP from the level of potential output.

Figure 4.18 Employment



Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.19 Labour force participation



Source: Statistics Poland (GUS) data, NBP calculations.

[45] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, January 2024.

years. The staff shortages experienced by some companies will act in the opposite direction. As a result of the above-mentioned conditions, real wage growth will approach the rate of labour productivity growth in the years 2025-2026, but will still exceed it in 2024.

CPI inflation

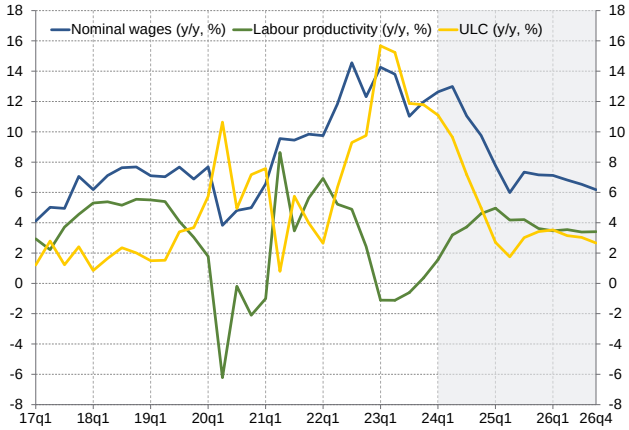
In 2024, CPI inflation will run significantly lower than the high readings of 2023 and will remain at a lowered level until the end of 2026. The impact of a significant reduction in cost pressure in the economy due to a marked decline in global prices of energy commodities following their sharp rise in the years 2021-2022 will contribute to a fall in consumer price growth compared to 2023. The disinflation process is supported by low inflation in the environment of the Polish economy, the easing of the earlier supply chain disruptions, and the current strengthening of the zloty exchange rate, which translates into a fall in import price growth (Figure 4.23).

At the same time, the path of CPI inflation in the years 2024-2026 is highly dependent on the assumed legislative changes impacting on energy and food prices. The assumption that the zero VAT rate on staple food products and freezing of electricity and gas prices for households will be maintained lowers the path of food and energy prices (Figure 4.24; see section *Legislative changes affecting the projected paths of GDP and CPI inflation*).

On the other hand, the disinflation process in the Polish economy will be limited by the marked rebound of demand, supported by fiscal measures and higher social transfers and wages, which is reflected in the closing of the currently negative output gap over the projection horizon. At the same time, a period of the highest inflation in many years has increased its persistence, stemming from elevated wage pressure.

As a result of these factors, under the assumption of unchanged NBP interest rates (including the

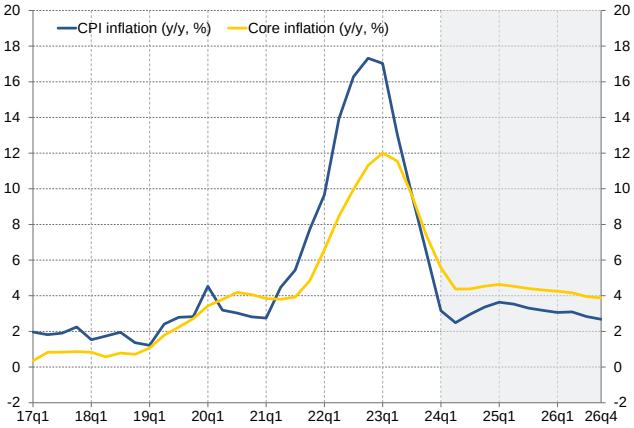
Figure 4.20 Unit labour cost



Source: Statistics Poland (GUS) data, NBP calculations.

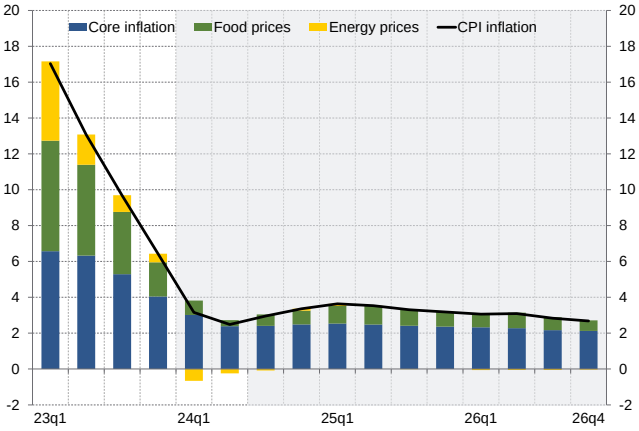
Unit labour cost is defined as the average cost of labour per unit of output produced. They are calculated by dividing the product of average wages and the number of employed persons in the economy by the total GDP. Alternatively, they can be expressed as the quotient of the average wage and labour productivity, in other words, the relation of GDP to the number of the employed persons. Unit labor cost (ULC) presented in the chart include employers' social security contributions.

Figure 4.21 CPI and core inflation



Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.22 CPI inflation (y/y, %) – breakdown



Source: Statistics Poland (GUS) data, NBP calculations.

reference rate at 5.75%), in the scenario of maintaining the anti-inflation measures, CPI inflation will remain relatively stable over the projection horizon, staying within the band for deviations from the NBP inflation target defined as 2.5% +/-1 p.p., or slightly above this band (Figure 4.21, Figure 4.22).

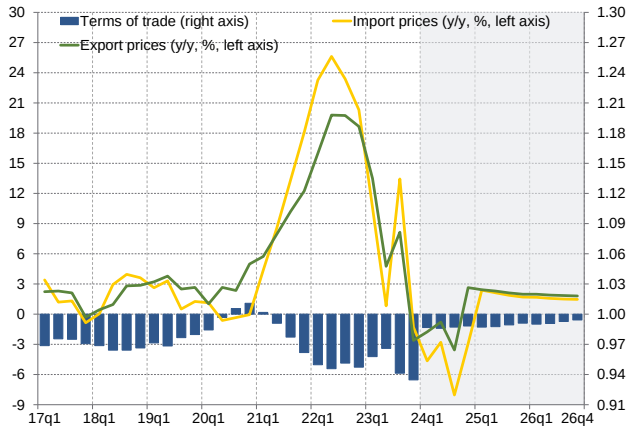
4.4 Current versus previous projection

Data and information released after the cut-off date of the November projection have contributed to an upward revision of the economic growth forecast for 2024-2025. In the case of CPI inflation, there was a downward revision for the years 2024-2025 (Table 4.3, Figure 4.25, Figure 4.26, Figure 4.27, Figure 4.28).

Legislative changes introduced after the closure of the previous forecasting round have contributed to the upward revision of the GDP forecast for the years 2024-2025. Higher wage increases for public sector workers than assumed in the November projection, boosting nominal public consumption, will most likely partly translate into a higher level of this category in real terms. Indirectly, through an increase in household disposable income, these wage increases will also have a positive effect on private consumption growth. Household consumption will also be supported by increased social transfers: new "Active parent" benefit and a shielding allowance against energy price increases. The assumed continuation of electricity and natural gas price freeze over the whole projection horizon will impact consumption in the same direction by rising consumer purchasing power.

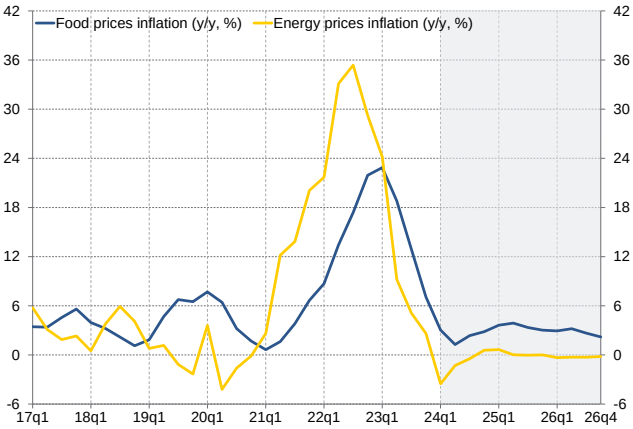
The upward revision of the GDP path is driven also by faster than expected in the November projection fading out of the cost pressure resulting from recent years' supply shocks. The easing cost pressure is reflected in a downward shift of the path of energy commodity prices and lower than expected readings of producer price growth in 2023 Q4. Reduced production costs will support the improvement in the situation of the enterprise

Figure 4.23 Export and import prices



Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.24 Food and energy price inflation



Source: Statistics Poland (GUS) data, NBP calculations.

Table 4.3 March projection versus November projection

	2023	2024	2025
GDP (y/y, %)			
March 2024	0.2	3.5	4.2
November 2023	0.3	2.9	3.5
CPI inflation (y/y, %)			
March 2024	11.4	3.0	3.4
November 2023	11.4	4.6	3.7

Source: NBP calculations.

sector and will contribute to a faster growth in investment and a rebound of inventories.

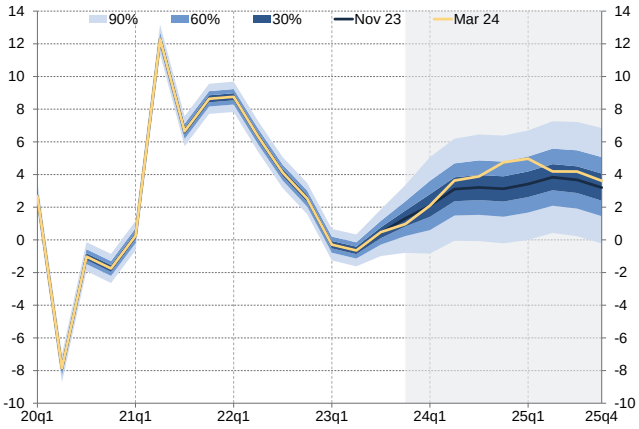
The main factor behind a significantly higher than in the November projection contribution of inventories to the GDP growth in 2024 is however a different than expected structure of economic growth in 2023 (simultaneously bringing about the downward revision of the 2024 net exports contribution of a similar magnitude).

In 2025, the dynamics of gross fixed capital formation will be positively affected additionally by a higher value of EU transfers than in the previous projection round. This is a result of the assumed reallocation of the unused non-reimbursable Recovery and Resilience Facility (RRF) funds from 2023 to the years 2025-2026, as well as the inclusion of the new *REPowerEU* fund in the March projection.

The contribution of net exports to GDP growth in the years 2024-2025 is expected to be lower than forecast in the November projection, limiting the scale of improvement in economic activity in Poland. This is a consequence of more favourable domestic demand dynamics over this period alongside slightly weaker forecast economic conditions abroad and an appreciation of the zloty in 2023 Q4.

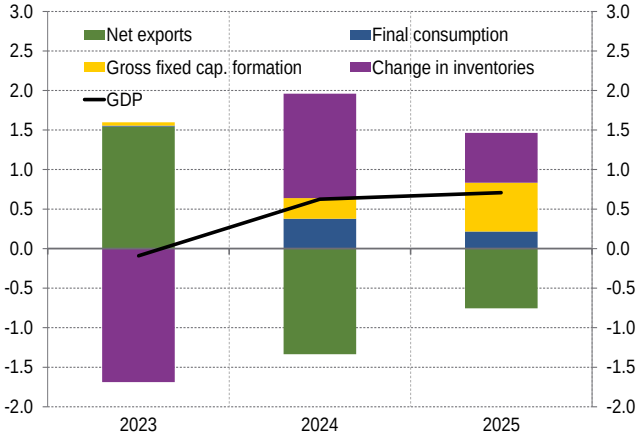
Taking into account the statutory extension of the freeze of electricity and natural gas prices for households adopted by the Sejm at the beginning of December 2023 as well as the continuation of the mechanism curbing the growth in prices of heating for eligible customers are factors lowering the path of CPI inflation in 2024 compared to the November projection. The assumption made in the central projection scenario of extending the above-mentioned shielding measures until the end of the projection horizon contributes to a downward revision of inflation also in 2025. Consumer price growth will be curbed additionally by weaker cost pressure in the wake of the fading impact of supply shocks on energy commodity prices and a

Figure 4.25 March projection versus November projection: GDP growth (y/y, %)



Source: Statistics Poland (GUS) data, NBP calculations.

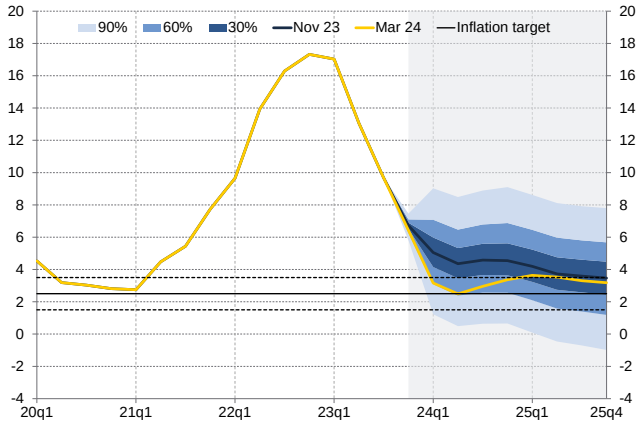
Figure 4.26 Decomposition of deviations between March and November projection: GDP growth (percentage points)



Source: NBP calculations.

The data presented in the chart may vary slightly from those in Table 4.3, due to rounding of numbers to one decimal place.

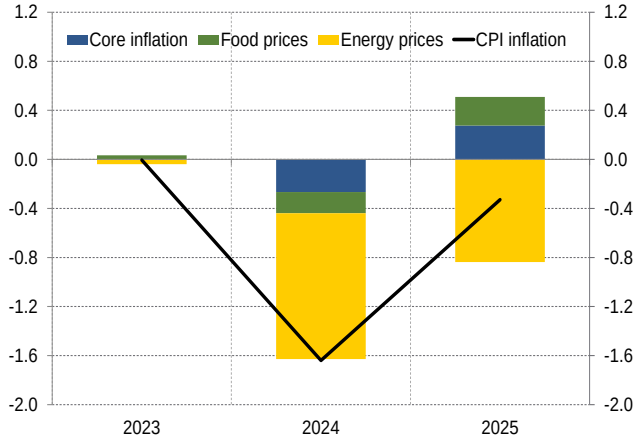
Figure 4.27 March projection versus November projection: CPI inflation (y/y, %)



Source: Statistics Poland (GUS) data, NBP calculations.

strengthening of the zloty in 2023 Q4 reducing the prices of imported goods. However, in the longer-term of the projection horizon the impact of this factor will be gradually fading. At the same time, the disinflation process will be weakened by stronger demand pressures in the years 2024-2025 than in the previous forecasting round, resulting from both the above-mentioned higher wage rises in the public sector and the assumption of the extension of shielding measures on energy and food prices boosting household disposable income. Higher agricultural commodity prices will contribute also to an upward revision of the path of food prices in 2025. This is largely due to a marked increase in the prices of some food products, including coffee and cocoa, over the projection horizon, as a result of stronger contraction in global supply of these commodities than expected in the previous forecasting round. These factors will contribute towards a significant reduction in the scale of the downward revision of CPI inflation in the next year compared to the November projection.

Figure 4.28 Decomposition of deviations between March and November projection: CPI inflation (percentage points)



Source: NBP calculations.

The data presented in the chart may vary slightly from those in Table 4.3, due to rounding of numbers to one decimal place.

4.5 Forecast uncertainty sources

The central scenario of the projection, presenting the most likely macroeconomic developments in Poland, is subject to uncertainty reflected in the fan charts (Figure 4.2, Figure 4.3). The future economic situation and the path of CPI inflation in Poland are highly dependent on the current and future fiscal measures in Poland, including the scale and scope of the anti-inflation shielding measures. Apart from domestic conditions, an important source of risk in the projection is the scale of military operations around the world and disruptions in supply chains impacting on the degree of fragmentation of international trade. Another external source of uncertainty in the current forecasting round is the shape of fiscal and monetary policy in the major developed economies. The balance of uncertainty factors indicates a higher probability of CPI inflation running above the central path over the projection

Table 4.4 Probability of inflation running:

	Below 1.50%	Below 2.50%	Below 3.50%	Below the central projection	In the range (1.5-3.5%)
24q1	0.00	0.04	0.81	0.50	0.81
24q2	0.06	0.37	0.73	0.36	0.67
24q3	0.00	0.00	0.18	0.05	0.18
24q4	0.00	0.00	0.13	0.10	0.13
25q1	0.05	0.15	0.31	0.34	0.26
25q2	0.11	0.23	0.39	0.40	0.28
25q3	0.23	0.37	0.53	0.50	0.30
25q4	0.25	0.39	0.55	0.50	0.30
26q1	0.26	0.41	0.57	0.50	0.31
26q2	0.26	0.41	0.57	0.50	0.31
26q3	0.29	0.45	0.61	0.50	0.31
26q4	0.32	0.47	0.63	0.50	0.31

Source: NBP calculations.

horizon (Table 4.4) and a close to symmetric balance of risks for GDP growth.

Government fiscal policy

The impact of the current and future fiscal measures is the main risk factor in the projection. This is related to the possible entry into force of legislative changes announced in the Prime Minister's exposé or announced by other members of the Council of Ministers. They include an increase in public spending, among others, a rise in the social pension, the introduction of survivors' pension for widows and a voucher scheme financing long-term care for the elderly, as well as a new housing programme "Flat for a Start". The announcements also include an increase in the tax-free amount for individuals, a reduction in the taxation of profits from savings and a so-called one-month holiday from paying social contributions for microenterprises. The implementation of the new fiscal measures would contribute to a stronger the demand growth in Poland. In such a scenario, one could expect core inflation to be more persistent over the projection horizon. On the other hand, should Poland be subject to the excessive deficit procedure in 2024, the government might be inclined to pursue a more restrictive fiscal policy in the longer-term of the projection horizon. Under these conditions, a lower GDP path than the one in the central scenario could be expected, which would support a faster fall in core inflation in Poland.

The disinflation process in Poland over the projection horizon is at the same time highly dependent on the government's decisions regarding the duration of the reduced VAT rate on staple food products and the cap on electricity and gas prices for households. In the central scenario, it was assumed that these measures would be maintained throughout the projection horizon, but other scenarios are possible, and in the extreme case, the complete withdrawal of the measures in 2024. The macroeconomic consequences of such a scenario are described in Box 1.

Box 1 Scenario of a complete withdrawal of the shielding measures reducing energy and food prices

The central scenario of the March projection assumes that the zero VAT rate on staple food products and the cap on electricity and gas prices for households will remain in force until the end of the projection horizon (see section *Legislative changes affecting the projected paths of GDP and CPI inflation*). However, other scenarios regarding these measures are possible. Statements by government representatives suggest that the shielding measures regarding both the VAT rate on food and electricity and gas prices might be continued, although their duration has not been specified. The option of a gradual unfreezing of electricity prices is being considered, among other things, and the proposed legislative solutions are also designed to take into account the income criterion so that state aid would target the lowest-income households affected by energy poverty.

Given that various government proposals appear, the consequences of the extreme scenario, that is, the complete withdrawal of the shielding measures reducing energy and food prices in accordance with the current legal situation, are presented. It was assumed that as of April 2024, the 5% VAT rate on staple food products will be restored, and from 2024 Q3 electricity and gas prices for households will increase to the level of the Energy Regulatory Office (URE) tariffs for 2024. Under these assumptions, the turn of 2024 and 2025 will see a sharp increase in CPI inflation compared to the central projection scenario (Table 4.5). Energy price growth might temporarily exceed 20% y/y, while food prices will grow by 6% y/y in 2024 Q4. The complete withdrawal of the shielding measures reducing energy and food prices would therefore cause household purchasing power to weaken compared to the central scenario, which would reduce GDP growth over the horizon projection. Consequently, the output gap would remain negative until the end of 2026. At the same time, nominal wage growth would be at a higher level driven by the desire to compensate workers for faster price increases with higher wages. Following a temporary spike in food and energy prices, lower demand pressure will reinforce the disinflation process in the Polish economy, leading to a downward shift in core inflation and food prices in 2026 below the path of the central projection scenario. On the other hand, higher unit labour cost growth than assumed in the central scenario curbs the impact of lower demand pressure on prices, limiting the magnitude of CPI inflation adjustment in 2026.

Table 4.5 Selected variables in the scenario of an extension and a complete withdrawal of the shielding measures (unchanged NBP interest rates)

		2024	2025	2026
GDP (y/y, %)	Scenario of an extension of the shielding measures	3.5	4.2	3.3
	Scenario of a withdrawal of the shielding measures	3.2	3.6	3.2
CPI inflation (y/y, %)	Scenario of an extension of the shielding measures	3.0	3.4	2.9
	Scenario of a withdrawal of the shielding measures	5.7	3.5	2.7
Core inflation (y/y, %)	Scenario of an extension of the shielding measures	4.7	4.5	4.1
	Scenario of a withdrawal of the shielding measures	4.7	4.5	3.8
Energy price inflation (y/y, %)	Scenario of an extension of the shielding measures	-1.2	0.2	-0.3
	Scenario of a withdrawal of the shielding measures	10.5	-0.9	-0.3
Food price inflation (y/y, %)	Scenario of an extension of the shielding measures	2.4	3.5	2.7
	Scenario of a withdrawal of the shielding measures	4.7	4.0	2.4

Source: NBP calculations.

Military operations and global supply chain disruptions

Significant risk factors in the environment of the Polish economy are related to military operations around the world, in particular the Russian aggression against Ukraine, and global supply chain disruptions. Should Russia's aggression against Ukraine intensify and the scope of economic sanctions imposed by Western countries on Russia increase, global uncertainty can be expected to rise again. Given Poland's close geographic proximity to both sides of the conflict, this might result in an outflow of foreign capital from the domestic economy and a weakening of the zloty exchange rate. At the same time, the global prices of energy and agricultural commodities would be above the level assumed in the central projection scenario. An escalation of attacks on merchant ships in the Red Sea would in turn lead to higher freight prices and disruption of global supply chains, exacerbating the scale of fragmentation of international trade.

In turn, if the conflict in Gaza escalates, including the engagement of other oil-producing countries in the Middle East, this could instead lead to a reduction in the supply of oil and an increase in its price on world markets. Under these conditions a slower economic recovery and a higher inflation path in Poland than assumed in the central scenario could be expected.

On the other hand, assuming the optimistic scenario of a swift and beneficial for Ukraine end to the Russian aggression, the negative effects of the supply shocks related to the conflict would be less severe for the Polish economy. Similarly, should attacks on commercial shipping on the Red Sea end, it will lead to a fall in freight prices and a reduction in global supply chain disruptions, fostering a revival in international trade. Such a scenario would result in a stronger recovery in the domestic economy along with a faster pace of disinflation.

Economic policy in the developed economies of the world

A significant risk factor for the future path of economic activity and inflation developments in Poland is economic policy in the major developed economies. In particular, a more restrictive monetary policy by the Fed and the ECB in response to a slower pace of disinflation than assumed in the central scenario would have a negative impact on GDP growth in the euro area and United States, and indirectly in Poland. On the other hand, an easing of monetary policy by the Fed and the ECB in response to a faster fall in core inflation would support higher GDP growth in the euro area and United States than assumed in the central scenario. Such a scenario would then boost economic growth in Poland over the projection horizon.

The scale and scope of government's fiscal measures in the euro area and the United States is another risk factor significantly impacting on the future path of GDP and the disinflation process in both economies. In particular, this concerns the future level of public expenditure connected with the transformation and modernisation of energy infrastructure and the expansion of the army in euro area countries.

Table 4.6 Inflation and GDP projection path – the scenario of extended shielding measures

	2023				2024				2025				2026				2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Consumer Price Index CPI (%, y/y)	17.0	13.1	9.7	6.4	3.2	2.5	3.0	3.4	3.6	3.5	3.3	3.2	3.1	3.1	2.8	2.7	11.4	3.0	3.4	2.9
Core inflation (CPI net of food and energy prices, %, y/y)	12.0	11.6	9.7	7.4	5.6	4.4	4.4	4.5	4.6	4.5	4.4	4.3	4.3	4.2	4.0	3.9	10.1	4.7	4.5	4.1
Food prices (%, y/y)	22.9	18.8	12.9	7.1	3.0	1.3	2.4	2.8	3.6	3.9	3.3	3.0	2.9	3.2	2.7	2.2	15.1	2.4	3.5	2.7
Energy prices (%, y/y)	24.2	9.2	5.1	2.6	-3.5	-1.3	-0.5	0.6	0.7	0.0	0.0	0.0	-0.3	-0.3	-0.3	-0.2	9.8	-1.2	0.2	-0.3
GDP (%, y/y)	-0.3	-0.6	0.5	1.0	2.1	3.6	3.9	4.7	5.0	4.2	4.2	3.6	3.4	3.4	3.2	3.1	0.2	3.5	4.2	3.3
Domestic demand (%, y/y)	-4.8	-2.9	-5.2	-3.3	1.5	4.1	7.4	9.5	7.7	6.5	6.3	5.0	4.1	3.6	3.0	2.6	-4.1	5.6	6.4	3.3
Household consumption (%, y/y)	-2.0	-2.8	0.8	0.3	2.8	3.7	3.9	5.2	5.2	4.9	4.8	4.2	3.8	3.4	3.0	2.9	-1.0	3.8	4.8	3.3
Public consumption (%, y/y)	-0.3	2.2	3.3	5.0	1.1	6.5	6.5	11.3	7.1	2.3	2.3	1.8	4.1	4.7	3.9	3.9	2.7	6.3	3.3	4.2
Gross fixed capital formation (%, y/y)	6.8	10.5	7.2	7.7	1.6	3.0	2.6	6.3	11.7	12.1	12.5	8.8	5.1	4.0	3.3	2.4	8.0	3.9	11.2	3.7
Contribution of net exports (percentage points, y/y)	4.6	2.1	5.9	4.2	0.4	-0.1	-2.8	-3.8	-2.2	-1.9	-1.8	-1.1	-0.5	0.0	0.3	0.6	4.2	-1.6	-1.7	0.1
Exports (%, y/y)	3.8	-3.2	-11.0	-3.0	-3.6	1.1	5.5	3.8	4.6	4.7	4.8	5.3	5.4	5.7	5.6	5.7	-3.3	1.6	4.9	5.6
Imports (%, y/y)	-3.2	-6.8	-20.3	-10.5	-4.9	1.5	13.1	13.4	10.2	9.5	9.2	8.2	7.0	6.2	5.5	5.1	-10.3	5.4	9.2	5.9
Gross wages (%, y/y)	14.3	13.8	11.0	12.0	12.6	13.0	11.0	9.8	7.8	6.0	7.3	7.2	7.1	6.8	6.5	6.2	12.8	11.5	7.1	6.7
Total employment (%, y/y)	0.8	0.5	1.1	0.6	0.5	0.4	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3	0.7	0.3	0.0	-0.2
Unemployment rate (%)	2.8	2.7	2.7	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.6	2.6	2.7	2.7	2.7	2.7	2.8	2.8	2.7	2.7
NAWRU (%)	3.6	3.5	3.5	3.4	3.5	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.2	3.2	3.1	3.1	3.5	3.4	3.3	3.1
Labour force participation rate (%, y/y)	58.2	58.3	58.4	58.5	58.5	58.5	58.5	58.5	58.5	58.4	58.4	58.4	58.4	58.4	58.3	58.3	58.3	58.5	58.4	58.3
Labour productivity (%, y/y)	-1.1	-1.1	-0.6	0.4	1.6	3.2	3.7	4.6	5.0	4.2	4.2	3.6	3.5	3.5	3.4	3.4	-0.6	3.2	4.2	3.5
Unit labour cost (%, y/y)	15.7	15.2	11.9	11.8	11.1	9.6	7.2	5.0	2.7	1.7	3.0	3.4	3.5	3.1	3.0	2.7	13.6	8.2	2.7	3.1
Potential output (%, y/y)	3.7	3.2	2.9	2.9	2.9	3.0	3.0	3.1	3.2	3.3	3.4	3.5	3.5	3.6	3.5	3.5	3.2	3.0	3.4	3.5
Output gap (% potential GDP)	-0.2	-1.1	-1.1	-1.2	-1.3	-0.5	-0.3	0.4	0.4	0.4	0.5	0.5	0.2	0.2	0.1	0.1	-0.9	-0.4	0.4	0.2
Index of agricultural commodity prices (EUR; 2019=1.0)	1.41	1.41	1.44	1.46	1.46	1.47	1.46	1.41	1.40	1.42	1.42	1.38	1.36	1.38	1.38	1.36	1.43	1.45	1.40	1.37
Index of energy commodity prices (USD; 2019=1.0)	2.15	1.71	1.65	1.73	1.42	1.45	1.40	1.39	1.47	1.46	1.41	1.38	1.43	1.40	1.35	1.33	1.81	1.42	1.43	1.38
Gross value added deflator abroad (%, y/y)	6.4	5.5	5.0	3.2	2.4	2.1	2.2	2.3	2.0	2.1	2.1	2.1	1.9	1.9	1.9	1.9	5.0	2.3	2.1	1.9
GDP abroad (%, y/y)	1.0	0.7	0.3	0.3	0.4	0.5	0.8	1.1	1.3	1.4	1.4	1.3	1.3	1.2	1.2	1.2	0.6	0.7	1.3	1.2
Current account balance (% GDP)	-0.7	0.0	1.0	1.6	1.8	2.2	1.8	1.4	0.7	0.1	-0.3	-0.5	-0.7	-0.7	-0.6	-0.4	1.6	1.4	-0.5	-0.4
WIBOR 3M (%)	6.93	6.90	6.50	5.76	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	6.52	5.95	5.95	5.95

Source: Bloomberg, Eurostat, Statistics Poland (GUS), NBP calculations.

For the majority of variables, the values up to 2023Q4 are determined on the basis of raw quantities, while in the projection horizon are presented seasonally adjusted data. In the case of the unemployment rate, the NAWRU rate, the labour force participation rate, potential output growth, the output gap, the agricultural commodity price index, the energy commodity price index, inflation abroad and GDP growth abroad only seasonally adjusted data are presented, while the WIBOR 3M rate and import price growth are not seasonally adjusted series.

LFS data on total employment, labour force participation rate and unemployment rate. The agricultural commodity price index includes prices of wheat, pork, skimmed milk powder, butter, sugar, cocoa, coffee, frozen concentrated orange juice, potatoes, oilseed, allowing for weights reflecting the consumption structure of Polish households. The energy commodity price index covers prices of crude oil, coal and natural gas, taking into account the structures of consumption of these commodities in Poland.

Table 4.7 Inflation and GDP projection path – the scenario of withdrawal of shielding measures

	2023				2024				2025				2026				2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Consumer Price Index CPI (%, y/y)	17.0	13.1	9.7	6.4	3.2	3.4	8.0	8.4	6.0	5.1	1.7	1.6	2.9	2.9	2.6	2.4	11.4	5.7	3.5	2.7
Core inflation (CPI net of food and energy prices, %, y/y)	12.0	11.6	9.7	7.4	5.6	4.4	4.4	4.5	4.7	4.6	4.5	4.4	4.1	3.9	3.7	3.5	10.1	4.7	4.5	3.8
Food prices (%, y/y)	22.9	18.8	12.9	7.1	3.0	4.4	5.5	6.0	6.5	3.8	3.2	2.8	2.6	2.9	2.4	1.9	15.1	4.7	4.0	2.4
Energy prices (%, y/y)	24.2	9.2	5.1	2.6	-3.5	-1.3	23.0	24.1	9.1	8.4	-8.7	-8.6	-0.3	-0.3	-0.3	-0.2	9.8	10.5	-0.9	-0.3
GDP (%, y/y)	-0.3	-0.6	0.5	1.0	2.1	3.7	3.4	4.0	4.1	3.1	3.7	3.7	3.3	3.6	3.1	2.9	0.2	3.2	3.6	3.2
Domestic demand (%, y/y)	-4.8	-2.9	-5.2	-3.3	1.6	4.1	6.7	8.5	6.6	4.8	5.4	4.9	3.9	3.8	3.1	2.5	-4.1	5.2	5.4	3.3
Household consumption (%, y/y)	-2.0	-2.8	0.8	0.3	2.8	3.7	3.6	4.5	4.2	3.5	3.7	3.9	3.7	3.7	3.3	2.8	-1.0	3.6	3.8	3.4
Public consumption (%, y/y)	-0.3	2.2	3.3	5.0	1.5	6.1	4.2	7.8	4.4	0.4	3.4	4.2	4.7	4.9	3.5	3.4	2.7	4.9	3.1	4.1
Gross fixed capital formation (%, y/y)	6.8	10.5	7.2	7.7	1.6	3.6	2.1	6.3	11.6	9.6	10.6	7.0	3.8	4.3	3.5	2.4	8.0	3.9	9.7	3.5
Contribution of net exports (percentage points, y/y)	4.6	2.1	5.9	4.2	0.4	-0.2	-2.7	-3.7	-2.0	-1.4	-1.4	-0.9	-0.4	-0.1	0.2	0.5	4.2	-1.5	-1.4	0.1
Exports (%, y/y)	3.8	-3.2	-11.0	-3.0	-3.6	1.1	5.5	3.9	4.7	4.7	4.7	5.1	5.1	5.3	5.1	5.3	-3.3	1.6	4.8	5.2
Imports (%, y/y)	-3.2	-6.8	-20.3	-10.5	-4.9	1.6	12.9	13.1	9.7	8.5	8.3	7.6	6.5	6.0	5.3	4.7	-10.3	5.3	8.5	5.6
Gross wages (%, y/y)	14.3	13.8	11.0	12.0	12.6	13.2	12.9	12.8	10.2	7.7	7.5	6.2	6.6	6.6	6.3	5.9	12.8	12.8	7.8	6.3
Total employment (%, y/y)	0.8	0.5	1.1	0.6	0.5	0.4	0.0	-0.1	-0.4	-0.6	-0.6	-0.5	-0.5	-0.3	-0.3	-0.2	0.7	0.2	-0.5	-0.3
Unemployment rate (%)	2.8	2.7	2.7	2.8	2.8	2.8	2.8	2.9	3.0	3.1	3.2	3.1	3.2	3.2	3.2	3.2	2.8	2.8	3.1	3.2
NAWRU (%)	3.6	3.5	3.5	3.4	3.5	3.4	3.4	3.3	3.3	3.4	3.3	3.4	3.4	3.3	3.3	3.3	3.5	3.4	3.4	3.3
Labour force participation rate (%, y/y)	58.2	58.3	58.4	58.5	58.5	58.5	58.5	58.4	58.4	58.4	58.3	58.3	58.3	58.3	58.2	58.2	58.3	58.5	58.3	58.2
Labour productivity (%, y/y)	-1.1	-1.1	-0.6	0.4	1.6	3.2	3.4	4.1	4.5	3.7	4.3	4.1	3.8	3.8	3.4	3.1	-0.6	3.0	4.2	3.5
Unit labour cost (%, y/y)	15.7	15.2	11.9	11.8	11.1	9.8	9.3	8.4	5.4	3.9	3.1	2.0	2.7	2.6	2.8	2.7	13.6	9.7	3.6	2.7
Potential output (%, y/y)	3.7	3.2	2.9	2.8	2.9	3.0	3.1	3.1	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.0	3.2	3.3
Output gap (% potential GDP)	-0.2	-1.1	-1.1	-1.2	-1.2	-0.4	-0.8	-0.4	-0.3	-0.6	-0.4	0.0	-0.4	-0.4	-0.6	-0.4	-0.9	-0.7	-0.3	-0.5
Index of agricultural commodity prices (EUR; 2019=1.0)	1.41	1.41	1.44	1.46	1.46	1.47	1.46	1.41	1.40	1.42	1.42	1.38	1.36	1.38	1.38	1.36	1.43	1.45	1.40	1.37
Index of energy commodity prices (USD; 2019=1.0)	2.15	1.71	1.65	1.73	1.42	1.45	1.40	1.39	1.47	1.46	1.41	1.38	1.43	1.40	1.35	1.33	1.81	1.42	1.43	1.38
Gross value added deflator abroad (%, y/y)	6.4	5.5	5.0	3.2	2.4	2.1	2.2	2.3	2.0	2.1	2.1	2.1	1.9	1.9	1.9	1.9	5.0	2.3	2.1	1.9
GDP abroad (%, y/y)	1.0	0.7	0.3	0.3	0.4	0.5	0.8	1.1	1.3	1.4	1.4	1.3	1.3	1.2	1.2	1.2	0.6	0.7	1.3	1.2
Current account balance (% GDP)	-0.7	0.0	1.0	1.6	1.8	2.2	1.9	1.4	0.8	0.4	0.1	-0.1	-0.2	-0.3	-0.2	0.0	1.6	1.4	-0.1	0.0
WIBOR 3M (%)	6.93	6.90	6.50	5.76	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95	6.52	5.95	5.95	5.95

Source: Bloomberg, Eurostat, Statistics Poland (GUS), NBP calculations.

For the majority of variables, the values up to 2023Q4 are determined on the basis of raw quantities, while in the projection horizon are presented seasonally adjusted data. In the case of the unemployment rate, the NAWRU rate, the labour force participation rate, potential output growth, the output gap, the agricultural commodity price index, the energy commodity price index, inflation abroad and GDP growth abroad only seasonally adjusted data are presented, while the WIBOR 3M rate and import price growth are not seasonally adjusted series.

LFS data on total employment, labour force participation rate and unemployment rate. The agricultural commodity price index includes prices of wheat, pork, skimmed milk powder, butter, sugar, cocoa, coffee, frozen concentrated orange juice, potatoes, oilseed, allowing for weights reflecting the consumption structure of Polish households. The energy commodity price index covers prices of crude oil, coal and natural gas, taking into account the structures of consumption of these commodities in Poland.

5. The voting of the Monetary Policy Council members in October 2023 – January 2024

■ Date: 4 October 2023

Subject matter of motion or resolution:
Motion to raise the NBP interest rates by 1.75 p.p.

MPC decision:
The motion did not receive majority vote.

Voting of the MPC members:

For: J.B. Tyrowicz

Against: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
L. Kotecki
P. Litwiniuk
G. Masłowska
H.J. Wnorowski

■ Date: 4 October 2023

Subject matter of motion or resolution:
Motion to cut the NBP interest rates by 0.25 p.p.

MPC decision:
The motion was passed.

Voting of the MPC members:

For: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
G. Masłowska
H.J. Wnorowski

Against: L. Kotecki
P. Litwiniuk
J.B. Tyrowicz

■ Date: 4 October 2023

Subject matter of motion or resolution:
Resolution no. 7/2023 on the reference rate, refinancing credit rate, fixed-term deposit rate, rediscount rate and discount rate at Narodowy Bank Polski.

Voting of the MPC members:

For: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
G. Masłowska
H.J. Wnorowski

Against: L. Kotecki
P. Litwiniuk
J.B. Tyrowicz

■ Date: 8 November 2023

Subject matter of motion or resolution:
Motion to raise the NBP interest rates by 2.00 p.p.

MPC decision:
The motion did not receive majority vote.

Voting of the MPC members:

For: J.B. Tyrowicz

Against: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
L. Kotecki
P. Litwiniuk
G. Masłowska
H.J. Wnorowski

■ Date: 5 December 2023

Subject matter of motion or resolution:
Resolution no. 8/2023 on approving the financial plan of NBP for 2024.

Voting of the MPC members:

For: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
G. Masłowska
H.J. Wnorowski

Against: L. Kotecki
P. Litwiniuk
J.B. Tyrowicz

■ Date: 6 December 2023

Subject matter of motion or resolution:
Motion to raise the NBP interest rates by 2.00 p.p.

MPC decision:
The motion did not receive majority vote.

Voting of the MPC members:

For: J.B. Tyrowicz

Against: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
L. Kotecki
P. Litwiniuk
G. Masłowska
H.J. Wnorowski

■ Date: 9 January 2024

Subject matter of motion or resolution:
Motion to raise the NBP interest rates by 2.00 p.p.

MPC decision:
The motion did not receive majority vote.

Voting of the MPC members:

For: J.B. Tyrowicz

Against: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
L. Kotecki
P. Litwiniuk
G. Masłowska
H.J. Wnorowski

■ Date: 9 January 2024

Subject matter of motion or resolution:
Motion to raise the NBP interest rates by 0.25 p.p.

MPC decision:
The motion did not receive majority vote.

Voting of the MPC members:

For: P. Litwiniuk
J.B. Tyrowicz

Against: A. Glapiński
I.K. Dąbrowski
I. Duda
W.S. Janczyk
C. Kochalski
L. Kotecki
G. Masłowska
H.J. Wnorowski

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