NARODOWY
BANK POLSKI

Monetary Policy Council

July 2024

Inflation Report

July 2024

Inflation Report

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 24 June 2024, while the projection of inflation and GDP presented in Chapter 4 has been prepared taking into account data available until 14 June 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 despite a slight improvement in the recent period. In the euro area, annual GDP growth rose in 2024 Q1 compared to 2023 Q4, yet remained low. In Central and Eastern Europe, GDP growth in 2024 Q1 also picked up, although it was running below the long-term average. In the United States, in turn, annual GDP growth remained relatively high in 2024 Q1. Global economic conditions continued to be adversely affected by the effects of the earlier tightening of financial conditions and the supply shocks of the previous years. At the same time, lower inflation, amid the continued very good situation in the labour markets in most economies, supported growth in real wages and domestic demand.

After a marked decline in 2023, global inflation rose slightly between January and May 2024, reflecting higher price growth in – among others – the United States and some emerging market economies, including China. In the euro area, instead, inflation in May was lower than in January 2024. Among the Central and Eastern European countries outside the euro area, slightly higher CPI inflation was recently recorded in the Czech Republic and in Hungary, while in Romania it fell sharply. A key factor behind the rise in global inflation was stronger growth in energy prices. Alongside that, inflation was moderated by a decline in core inflation, which however remained higher than headline inflation in many economies due to the still elevated services price growth. Moreover, weaker cost pressures – as seen in the low annual growth of industrial producer prices, which remained negative in some economies – pulled down on inflation.

Prices of the majority of energy and agricultural commodities have risen in recent months, remaining significantly higher than before the onset of the COVID-19 pandemic owing to the persistent supply constraints in some markets.

Trends in monetary policy have recently been observed to diverge across the world. Some central banks have kept their interest rates unchanged, while others have cut them. Expectations of financial market participants implied from the quotations of financial instruments suggest likely interest rate cuts in the majority of advanced economies in the coming quarters.

Government bond yields in major economies – following their temporary rise – were close at the end of June 2024 to their levels from the beginning of March 2024. Also the exchange rate of the US dollar against many other currencies was similar at the end of June 2024 to that from the beginning of March 2024.

In recent months, CPI inflation in Poland has been running at a level consistent with the NBP inflation target. Annual CPI inflation was on the decline until March 2024, whereas in April and May it increased slightly. The decline in inflation in 2024 Q1 (from 3.7% y/y in January to 2.0% y/y in March 2024) was due to slower annual growth in the prices of food and non-alcoholic beverages and core inflation, amid faster annual growth in energy prices. In turn, the rise in CPI inflation in April 2024 (to 2.4% y/y) mainly resulted from reinstating the 5% VAT rate on staple food products (recently at 0%) and also – albeit to a lesser extent – from higher annual growth in fuel prices. This was accompanied by a further decline in CPI

inflation net of food and energy prices. In May 2024, inflation increased to 2.5% y/y, primarily on the back of higher annual growth in fuel prices. The decline in CPI inflation in recent months was supported by the fading cost pressure from the earlier external supply shocks, along with moderate – despite some acceleration – growth in economic activity. Moreover, price growth was constrained by intensified competition in the retail food market, and the appreciation of the exchange rate of the zloty against the major currencies. In recent months, the industrial producer prices have continued to fall considerably in annual terms, although the scale of the fall decreased gradually.

In 2024 Q1, economic activity growth picked up in Poland, yet remained below the long-term average (GDP growth amounted to 2.0% y/y compared to 1.0% y/y in 2023 Q4). GDP growth was driven by a rise in private and public consumption as well as a positive contribution from net exports, albeit lower than in previous quarters. Alongside that, a decline in investment and a negative contribution from change in inventories dragged on GDP growth.

In 2023, the general government deficit in ESA2010 terms was PLN 173.8 billion (5.1% of GDP), compared to a deficit of PLN 105.9 billion (3.4% of GDP) in 2022. The increase in the general government deficit in Poland in 2023 was largely a result of low economic activity growth, which limited the growth of tax revenue, along with a rise in expenditure on national defence and higher costs of public debt servicing. Importantly, 2023 saw an exceptionally high increase in public investment, which was mainly due to higher local government investment and military expenditure. The general government debt in ESA2010 terms was running at 49.6% of GDP in 2023, compared to 49.2% of GDP in 2022. According to the government forecast, the debt is to reach 53.4% of GDP at the end of 2024.

2024 Q1 saw the financial performance of the enterprise sector markedly deteriorated, and the aggregate gross financial result of the sector significantly lower than a year earlier. This was driven by a considerable decrease in the result from the sale of products, goods and materials, related to the sharper fall in revenue in this category. Under these conditions, the profitability of the enterprise sector declined. Despite this, liquidity of the sector stayed relatively high.

At the beginning of 2024, the situation in the labour market remained good, including a low unemployment rate. In 2024 Q1, the average nominal wage rose in the national economy (NE) by 14.4% y/y (compared to 12.0% in 2023 Q4) and in the enterprise sector (ES) by 12.5% y/y (compared to 11.5% in 2023 Q4). At the same time, due to markedly lower inflation than in previous quarters, annual real wage growth reached historical highs (11.1% y/y in the NE and 9.2% y/y in the ES).

Since the previous *Report*, the yields on Polish government bonds increased slightly. Meanwhile, the exchange rate of the zloty remained relatively stable against the major currencies, following its earlier appreciation.

In 2024 Q1, the growth rate of the M3 aggregate was somewhat lower than in 2023 Q4. At the same time, household loans grew in annual terms, while corporate loans declined.

The current account surplus, as well as the remaining external imbalance indicators evidence that the Polish economy is well balanced. In 2024 Q1, the current account surplus narrowed. Factors conducive to the narrower current account surplus included some decline in the secondary income balance and a slight reduction in the total surplus in the balance of trade in goods and services.

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 March and May 2024, together with the *Information from the meetings of the Monetary Policy Council* in June and July 2024. Chapter 5 presents the Monetary Policy Council voting records from the meetings held between February and May 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 14 June 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.1 – 4.3% in 2024 (against 2.8 – 4.3% in the March 2024 projection), 3.9 – 6.6% in 2025 (compared to 2.2 – 5.0%) and 1.3 – 4.1% in 2026 (compared to 1.5 – 4.3%). At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.3 – 3.7% in 2024 (against 2.7 – 4.3% in the March 2024 projection), 2.8 – 4.8% in 2025 (compared to 3.2 – 5.3%) and 1.9 – 4.3% in 2026 (compared to 2.0 – 4.5%).

1. External developments

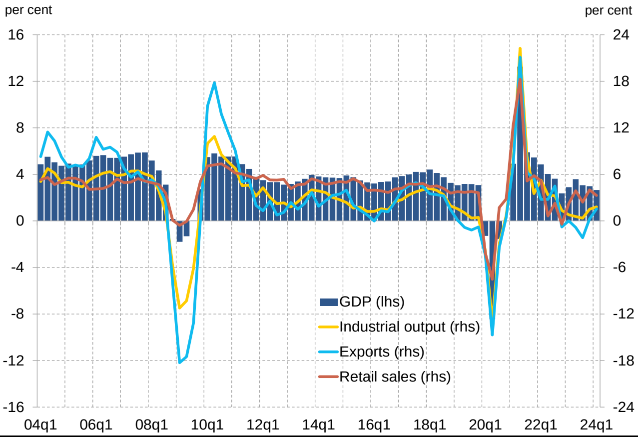
1.1 Economic activity abroad

Since the previous *Inflation Report*, economic conditions in the environment of the Polish economy have remained subdued despite a slight improvement in the recent period (Figure 1.1). In the euro area, annual GDP growth rose in 2024 Q1 compared to 2023 Q4, yet remained low. In Central and Eastern Europe, GDP growth in 2024 Q1 also picked up, although it was running below the long-term average. In the United States, in turn, annual GDP growth remained relatively high in 2024 Q1.

Global economic conditions continued to be adversely affected by the effects of the earlier tightening of financial conditions and the supply shocks of the previous years. At the same time, lower inflation, amid the continued very good situation in the labour markets in most economies, supported growth in real wages and domestic demand. The increase in activity growth was accompanied by a small rise in the volume of global trade.[1] An improvement in global economic conditions was seen both in the services sector and in manufacturing, although activity growth in industry remained markedly weaker than in services.

In the euro area, GDP growth increased to 0.4% y/y in 2024 Q1 (compared to 0.2% y/y in

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



Source: LSEG 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.

[1] A risk factor for global trade continues to be its further fragmentation. In May 2024, the United States announced a significant increase in the tariffs on a range of Chinese goods, including steel and aluminium, electric vehicles and semi-conductors for the years 2024-2026. The European Union is conducting a number of parallel investigations into dumping and subsidies by the Chinese government to domestic producers, including producers of electric cars, wind turbines and metal products. In June 2024, the European Commission announced the introduction of additional tariffs on imports of electric cars from China in 2024.

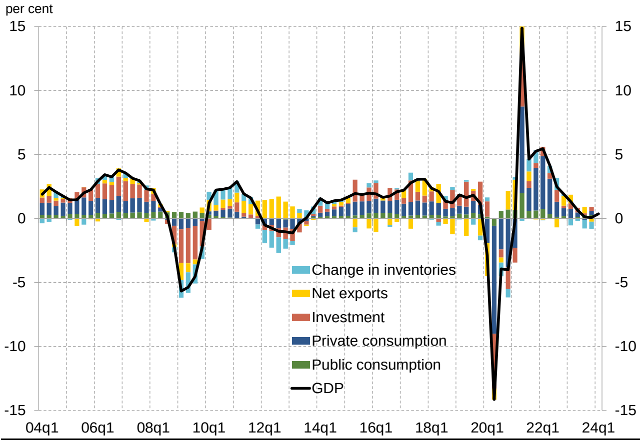
2023 Q3 and Q4).[2] In 2024 Q1, GDP growth was boosted by rising private and public consumption as well as an improvement in the balance of foreign trade, while investment and change in inventories dragged on GDP growth (Figure 1.2). The labour market situation in the euro area remained good. Employment in 2024 Q1 rose by 1.0% y/y, and the unemployment rate in April 2024 fell to 6.4% – the lowest level ever recorded (compared to 6.5% in 2024 Q1).

In the United States, GDP growth declined slightly to 2.9% y/y in 2024 Q1 (compared to 3.1% y/y in 2023 Q4; Figure 1.3).[3] It was supported – similarly as in 2023 Q4 – by growth in domestic demand, including in particular private consumption. The labour market situation in 2024 Q1 and at the beginning of 2024 Q2 was favourable. Employment growth was relatively strong, and the unemployment rate was low (4.0% in May 2024).

In China, GDP grew by 5.3% y/y in 2024 Q1 compared to 5.2% y/y in 2023 Q4. The relatively slow growth in private consumption continued. Economic conditions improved in manufacturing, including a noticeable rise in investment growth. Export growth also increased. Nevertheless, the persistent downturn in the real estate market continued to constrain economic activity growth.

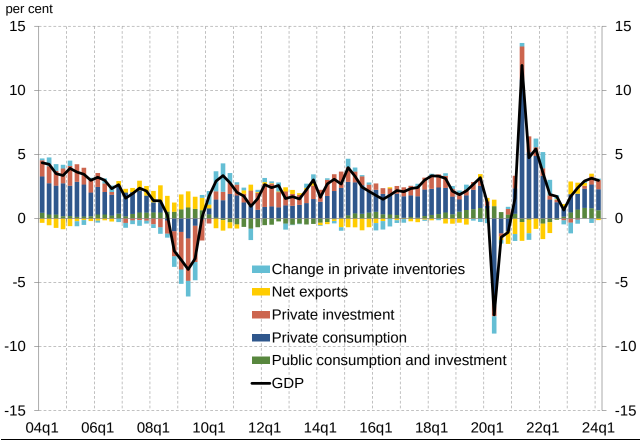
In the Central and Eastern European economies outside the euro area,[4] the aggregate GDP growth amounted to 1.2% y/y[5] in 2024 Q1 (compared to 0.6% y/y in 2023 Q4). Private consumption was the primary driver of economic growth in 2024 Q1. The contributions from net exports, public consumption and investment also remained positive in 2024 Q1. In contrast, change in inventories continued to drag on GDP growth. The labour market situation in the Central and

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



Source: Eurostat data, NBP calculations.

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



Source: Bureau of Economic Analysis data, NBP calculations.

[2] In quarterly terms, euro area GDP grew by 0.3% in 2024 Q1 following a contraction of 0.1% q/q in 2023 Q4 and a stagnation in 2023 Q3.
[3] In quarterly terms, GDP in the United States grew by 1.3% q/q saar in 2024 Q1 compared to growth of 3.4% q/q saar in 2023 Q4.
[4] The analysed group of countries includes the Czech Republic, Hungary and Romania.
[5] In quarterly terms, GDP growth also rose in 2024 Q1, to 0.5% y/y compared to -0.1% y/y in 2023 Q4.

Eastern European countries remained favourable. Employment in 2024 Q1 rose on average by 1.9% y/y, and the unemployment rate in April 2024 was running at a low and stable level (4.1% on average).

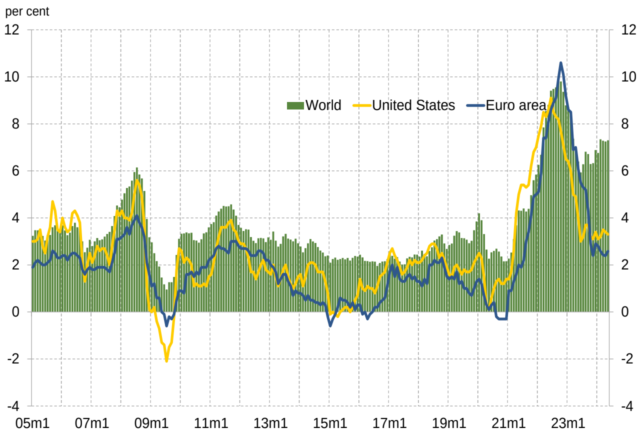
1.2 Inflation developments abroad

After a marked decline in 2023, global inflation picked up slightly between January and May 2024, driven by higher price growth in – among others – the United States and some emerging market economies, including China (Figure 1.4). In the euro area, instead, inflation in May was lower than in January 2024. A key factor behind the rise in global inflation was stronger growth in energy prices. Alongside that, inflation was moderated by a decline in core inflation, which however remained higher than headline inflation in many economies due to the still elevated services price growth (Figure 1.6). Moreover, weaker cost pressures – as seen in the low annual growth of industrial producer prices, which remained negative in some economies – pulled down on inflation (Figure 1.5).

In the euro area, HICP inflation amounted to 2.6% y/y in May 2024 (compared to 2.8% y/y in January 2024). The decline was mainly a result of slower food price growth. Core inflation also fell (to 2.9% y/y in May, compared to 3.3% y/y in January 2024) due to weaker growth in industrial goods prices. In contrast, services price growth remained elevated. Energy price growth rose to 0.3% y/y in May (compared to -6.1% y/y in January 2024), which was driven by base effects.

In the United States, CPI inflation stood at 3.3% y/y in May 2024 (against 3.1% y/y in January 2024), owing to an increase in energy prices in that period. Core CPI inflation has been decreasing in recent months, reaching 3.4% y/y in May 2024 (compared to 3.9% y/y in January 2024). Services price growth remained elevated, while goods

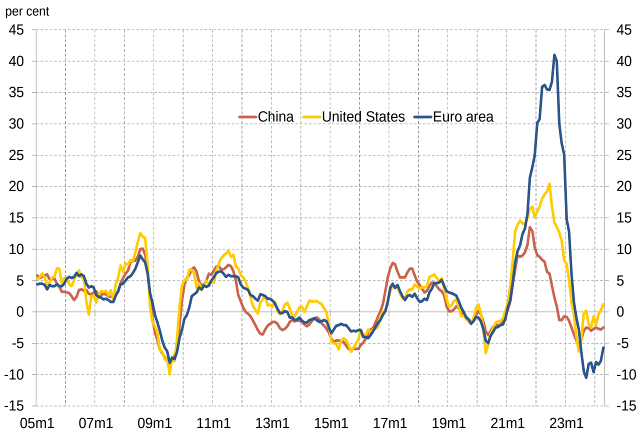
Figure 1.4 CPI inflation globally and in selected economies (y/y)



Source: LSEG Datastream and IMF data, NBP calculations.

World - average consumer price inflation weighted by GDP in purchasing power parity (PPP). Since 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.

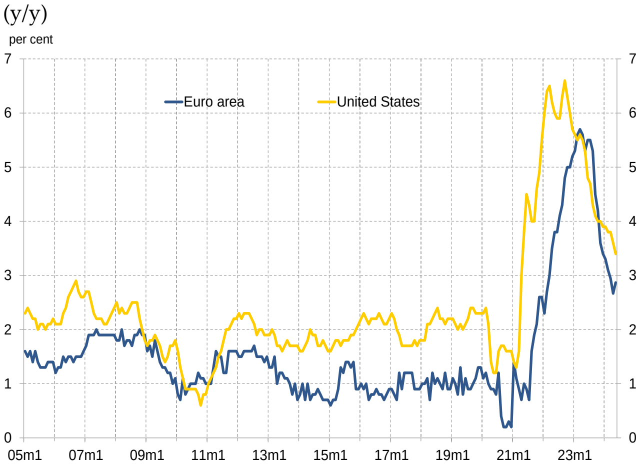
Figure 1.5 Producer price inflation index in selected economies (y/y)



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

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

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



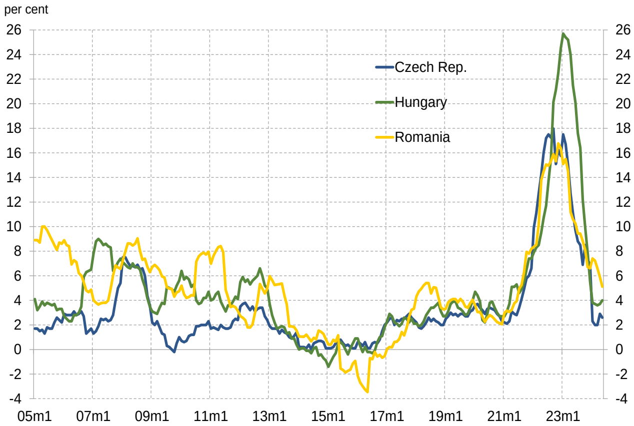
Source: Eurostat and Bureau of Labor Statistics data.

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

price growth was negative and continued to decline.

Among the Central and Eastern European countries outside the euro area, slightly higher CPI inflation in May 2024 than in January 2024 was recorded in the Czech Republic (2.6% y/y compared to 2.3% y/y in January) and Hungary (4.0% y/y compared to 3.8% y/y in January; Figure 1.7). In both economies, the increase in inflation was driven by higher energy price growth and, in the Czech Republic, also food price growth. At the same time, domestic measures of core inflation declined.[6] In Romania, CPI inflation fell sharply, reaching 5.1% y/y in May 2024 against 7.4% y/y in January 2024, on the back of slower food and energy price growth, along with a fall in core inflation.[7]

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



Source: national statistical offices.

1.3 Global commodity markets

Prices of the majority of energy and agricultural commodities[8] have risen in recent months, remaining significantly higher than before the onset of the COVID-19 pandemic due to the persistent supply constraints in some markets.[9]

In June 2024, the average price of Brent oil was close to that in February and 9% higher than a year earlier (Figure 1.8). In recent months, oil prices have been affected by geopolitical tensions in the Middle East and concerns about disruptions to oil supplies from the region. OPEC+ production restrictions, the maintenance of EU sanctions on

Figure 1.8 Brent oil barrel price

Source: Bloomberg data.

[6] Czech core inflation includes the CPI net of food, fuel and administered prices as well as the direct impact of changes in indirect tax rates. In Hungary, core inflation includes the CPI excluding unprocessed food, alcoholic beverages, tobacco, fuel, rents and administered prices.

[7] In Romania, core inflation according to the national methodology comprises the CPI excluding the prices of certain food products, alcoholic beverages, tobacco, fuel and administered prices.

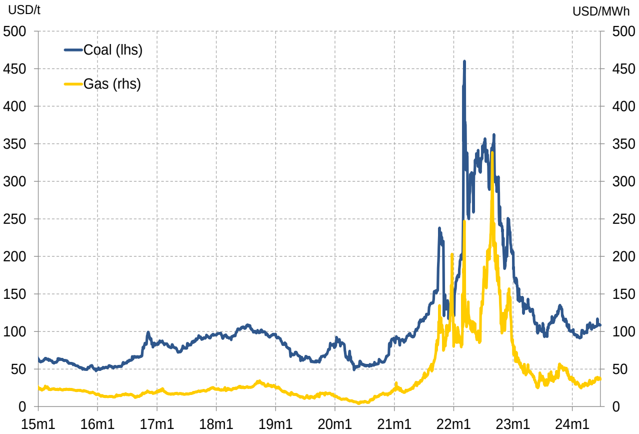
[8] Average energy commodity prices in June 2024 were calculated using daily data up to 21 June 2024. The NBP's agricultural price index in turn includes data up to 18 June 2024.

[9] In June 2024, oil, gas and coal prices were running 41%, 86% and 45% above their 2015-2019 average levels, respectively. Agricultural commodity prices in turn were 45% higher than the corresponding average.

Russia and a price cap on Russian oil continue to have an upward effect on prices.[10]

Since February this year, natural gas and coal prices have risen by 33% and 17%, respectively, and have been slightly higher than a year earlier (by 7%; Figure 1.9). Recent months' increases in natural gas prices have been mainly related to geopolitical tensions in the Middle East, which heightened concerns about the availability of this commodity and increased costs of transporting liquefied natural gas (LNG) due to the need to use alternative, significantly longer sea supply routes. Alongside that, the rise in gas prices was mitigated by high stocks and relatively low demand for this commodity in Europe, amid the relatively high temperatures during the heating season and significant electricity production from renewable sources. Developments in natural gas prices have largely affected price growth of both coal and greenhouse gas emission allowances.[11]

Figure 1.9 Hard coal and natural gas prices

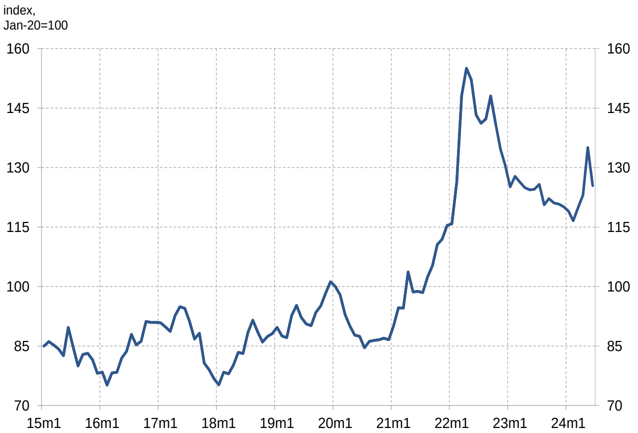


Source: Bloomberg data, NBP calculations.

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.

NBP's agricultural price index in June 2024 was 8% higher than in February, and 1% higher than a year before (Figure 1.10), mainly as a result of the deteriorating supply outlook in some markets. European wheat prices have risen markedly due to an expected decline in EU production in the next agricultural season (2024/25), combined with still tight global supply and demand conditions. European pork prices have also increased on account of the ongoing decline in production. Moreover, the prices of coffee and frozen orange juice were higher, primarily owing to unfavourable weather conditions in the major producer and exporter countries.

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. NBP's agricultural price index refers to a revised weight system.

[10] Under 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 Poland) has also banned the import of coal and other solid fuels from Russia.

[11] As natural gas prices rise, the cost-effectiveness of using coal for power generation increases, which also translates into higher demand for greenhouse gas emission allowances.

1.4 Monetary policy abroad

Trends in monetary policy have recently been observed to diverge across the world. Some central banks have kept their interest rates unchanged, while others have cut them (Figure 1.11; Figure 1.12). Expectations of financial market participants implied from the quotations of financial instruments suggest likely interest rate cuts in the majority of advanced economies in the coming quarters (Figure 1.13).

The European Central Bank (ECB) lowered interest rates in June by 0.25 percentage points, including the deposit rate to 3.75%. This was the first ECB's interest rate cut after keeping rates unchanged since September 2023. The expectations of financial market participants point to possible further ECB interest rate cuts in the quarters to come.

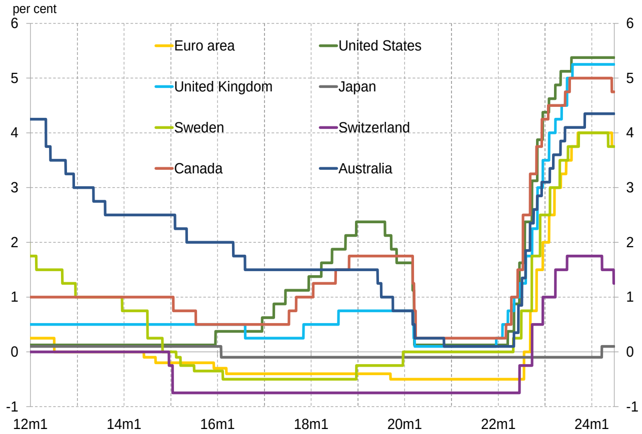
The US Federal Reserve (Fed) has been keeping interest rates unchanged since July 2023 – the target range for fed funds rate is 5.25%-5.50%. The median projection from June 2024 by Fed officials indicates a possible gradual interest rate reduction in 2024 and in the following years. Similarly, financial market participants expect an interest rate cut in the United States this year.

Since the previous Report, central banks in some other advanced economies (Canada, Switzerland and Sweden) have lowered interest rates. The Bank of Japan, in turn, has raised them for the first time since 2007. Alongside that, central banks in the remaining advanced economies, including Australia and the United Kingdom, have kept interest rates unchanged.

In the CEE region, the central banks of Hungary and the Czech Republic have lowered interest rates in recent months, while in Romania interest rates have been kept unchanged.

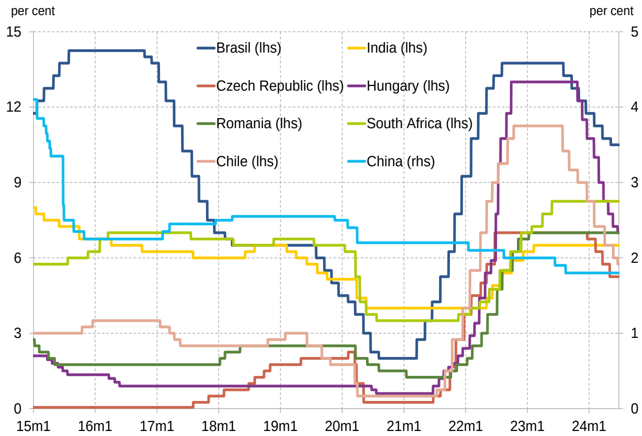
Some central banks in the largest emerging market economies, including China, India and Korea,

Figure 1.11 Central banks' interest rates in selected advanced economies



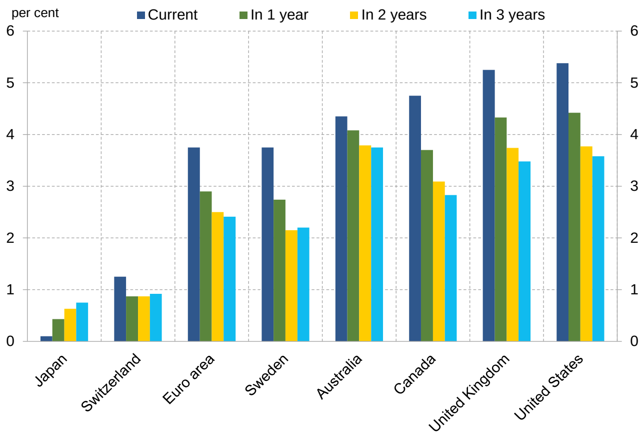
Source: Bloomberg data.
Central bank interest rate: for the United States – the midpoint of the fed funds range; for the euro area – the deposit facility; for Japan – the Complementary Deposit Facility; for Switzerland – the policy rate; for the United Kingdom – the Bank Rate; for Sweden – the policy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

Figure 1.12 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.

Figure 1.13 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.

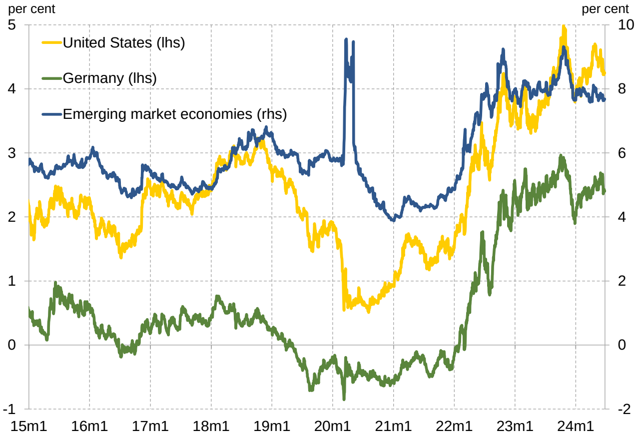
have kept interest rates unchanged in the recent past. In contrast, the central banks of Brazil, Chile and Mexico, among others, have reduced their interest rates.

1.5 International financial markets

Over the recent past, sentiment in the global financial markets has improved, supported by interest rate cuts in some economies, including the euro area, the expected easing of monetary policy by the Fed (see Chapter 1.4 *Monetary policy abroad*) and some improvement in global economic conditions (see Chapter 1.1 *Economic activity abroad*). Meanwhile, sentiment was negatively affected by geopolitical tensions, including in the Middle East, and by a slight rise in global inflation (see Chapter 1.2 *Inflation developments abroad*).

Against this background, government bond yields in major economies – following their temporary rise – at the end of June 2024 were close to their levels from the beginning of March 2024 (Figure 1.14). At the same time, stock indices around the world increased, while in many advanced economies, including the United States, equity prices were running close to their all-time highs (Figure 1.15). At the end of June 2024, the exchange rate of the US dollar against many other currencies was similar to that from the beginning of March 2024 (Figure 1.16).

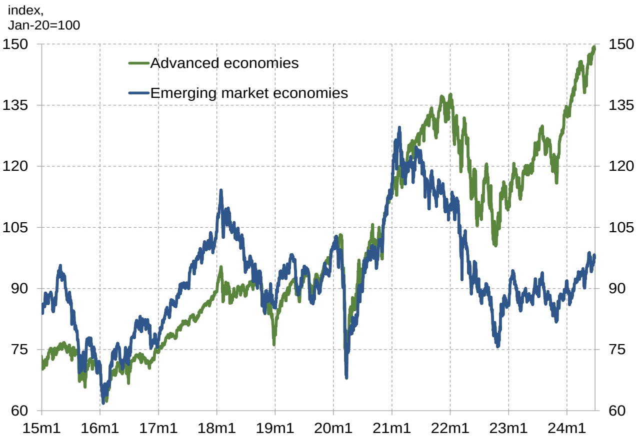
Figure 1.14 Yields on long-term government bonds



Source: Bloomberg data.

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

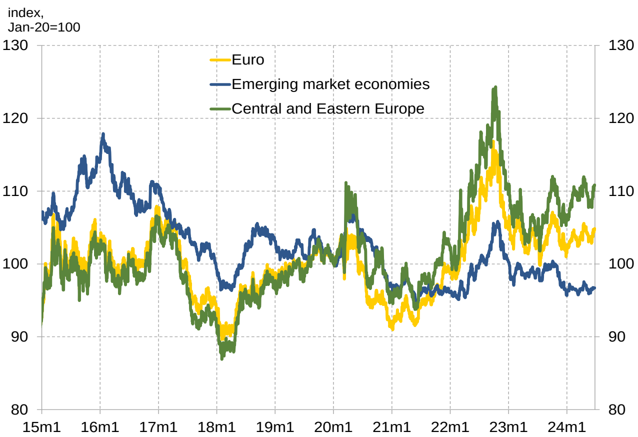
Figure 1.15 Equity prices



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 euro and the currencies of emerging market economies and the economies of the Central and Eastern Europe (rise indicates appreciation of the dollar)



Source: Bloomberg data, NBP calculations.

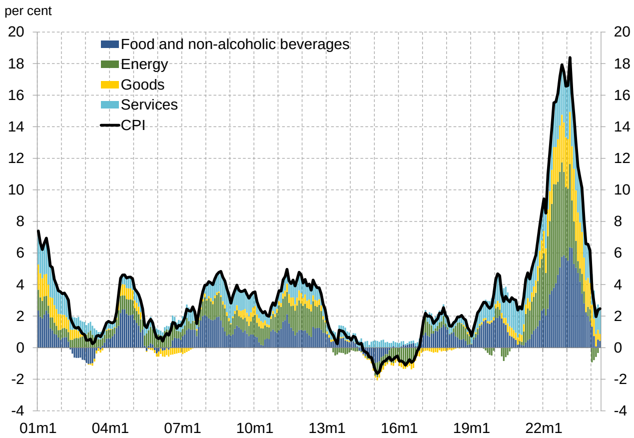
Emerging market economies – *MSCI Emerging Market Currency Index*; Central and Eastern Europe – GDP-weighted average of exchange rates of the Czech, Romanian and Hungarian currencies against the US dollar.

2. Domestic economy

2.1 Inflation developments

In recent months, CPI inflation in Poland has been running at a level consistent with the NBP inflation target (2.5% with a symmetric band for deviations of ±1 percentage point in the medium term). Annual CPI inflation was on the decline until March 2024, whereas in April and May it increased slightly (Figure 2.1). The decline in inflation in 2024 Q1 (from 3.7% y/y in January to 2.0% y/y in March 2024) was due to slower annual growth in the prices of food and non-alcoholic beverages and core inflation, amid faster annual growth in energy prices. In turn, the rise in CPI inflation in April 2024 (to 2.4% y/y) mainly resulted from reinstating the 5% VAT rate on staple food products (recently at 0%) and also – albeit to a lesser extent – from higher annual growth in fuel prices. This was accompanied by a further decline in CPI inflation net of food and energy prices. In May 2024, inflation increased to 2.5% y/y, primarily on the back of higher annual growth in fuel prices.

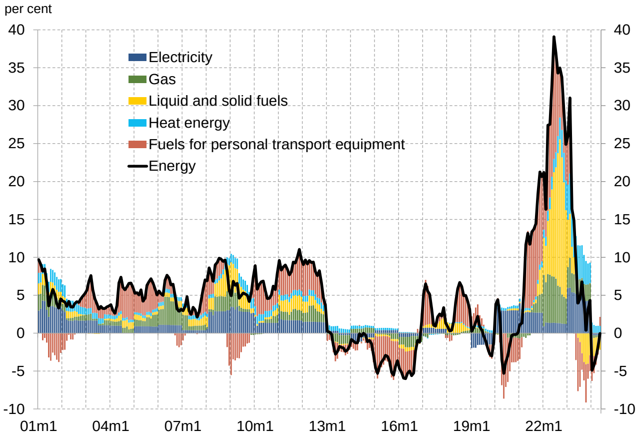
Figure 2.1 Composition of CPI inflation (y/y)



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

The decline in CPI inflation in recent months was supported by the fading cost pressure from the earlier external supply shocks, along with moderate – despite some acceleration – growth in economic activity (see Chapter 2.2 *Demand and output*). Moreover, price growth was constrained by intensified competition in the retail food market and the appreciation of the exchange rate of the zloty against the major currencies (see Chapter 2.6 *Financial markets and asset prices*).

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



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

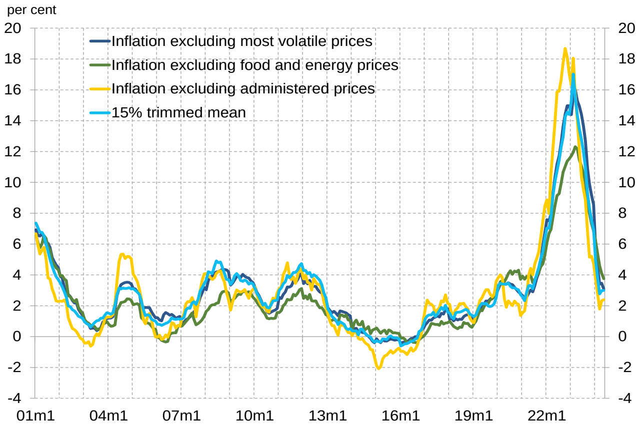
Food and non-alcoholic beverages price inflation dropped from 4.9% y/y in January 2024 to 0.3% y/y in March 2024, increased to 1.9% y/y in April 2024, and then dropped again to 1.6% y/y in May 2024. Weaker food price growth was backed by intensified price competition among the largest food retailers in Poland, the waning cost pressure and the base effect.[12] The rise in food price inflation in April 2024 was, in turn, attributed to the reinstatement of the 5% VAT rate on staple food products (recently at 0%).

Energy price inflation picked up from -4.9% y/y in January to 0.0% y/y in May 2024 (Figure 2.2), mainly as a result of rising annual growth in the prices of fuels for private means of transport, due to monthly changes in fuel prices at petrol stations and positive base effects. Base effects were also contributing to higher annual growth in the prices of heating fuel, while the annual growth in the prices of electricity and natural gas remained stable due to the statutory freeze on their prices.

Inflation excluding food and energy prices decreased from 6.2% y/y in January to 3.8% y/y in May 2024 (Figure 2.3). The fall in this core inflation measure reflected slower annual growth in the prices of a wide range of non-food products and market services. This was accounted for by the easing of cost pressure amid persistently moderate – despite some acceleration – growth in economic activity, as well as fading effects of the earlier global supply chain disruptions spread-over-time, and the appreciation of the zloty. The decline in services price inflation was additionally supported, albeit to a limited extent, by one-off factors (price promotions for communications services and lower growth in the prices of airplane tickets). The remaining measures of core inflation were also lower in May 2024 than in January 2024.[13]

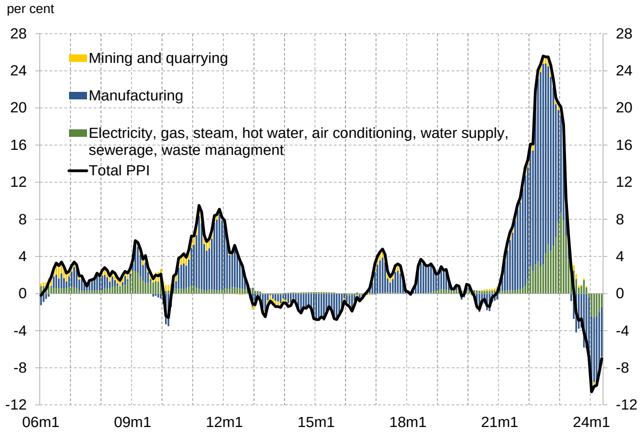
In recent months, the PPI has continued to fall considerably in annual terms, although the scale of the fall decreased gradually (to -7.0% y/y in May

Figure 2.3 Core inflation indices (y/y)



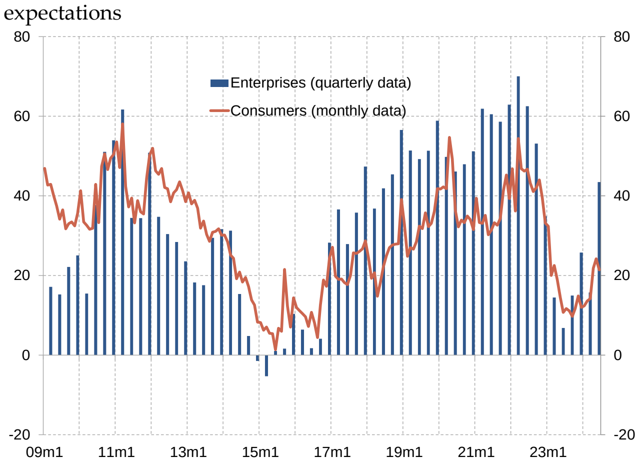
Source: Statistics Poland (GUS) data, NBP calculations.

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.

[12] The base effect was driven by a strong rise in vegetable prices in February and March 2023 as a result of the wave of cold weather in the Mediterranean.

[13] In May 2024, inflation net of administered prices stood at 2.4 y/y, inflation excluding the most volatile prices at 3.1% y/y and the 15% trimmed mean at 3.0% y/y.

2024 from -10.6% y/y in January 2024; Figure 2.4). The most rapid was still a decline in the prices of energy and intermediate goods, with a dampening effect on downstream producer price growth. The prices of consumer goods included in the PPI were also declining, albeit markedly slower.

Inflation expectations of consumers proxied by balance statistics continued to run below their long-term average, despite some rise in 2024 Q2 (Figure 2.5). At the same time, balance statistics of enterprises' inflation expectations increased. Due to the design of the survey questions posed to consumers and enterprises, in which the respondents relate their expectations to current inflation (enterprises) or perception of inflation (consumers), an increase in balance statistics amid inflation markedly lower than in previous quarters is not equivalent to a rise in inflation expectations.[14]

The results of the *NBP Survey of Professional Forecasters* from June 2024 point to the continued decline in inflation expectations of external experts in the short- (4-quarter ahead) and medium-term (8-quarter ahead) horizon (Table 2.1). Expectations of market analysts surveyed in May 2024 by Reuters also declined in the 4-quarter horizon, and remained stable in the 8-quarter horizon. Market analysts expect inflation to decline to 2.9% y/y in 2026 Q1 following a temporary rise in the second half of 2024 and in 2025 Q1 (Figure 2.6).

2.2 Demand and output

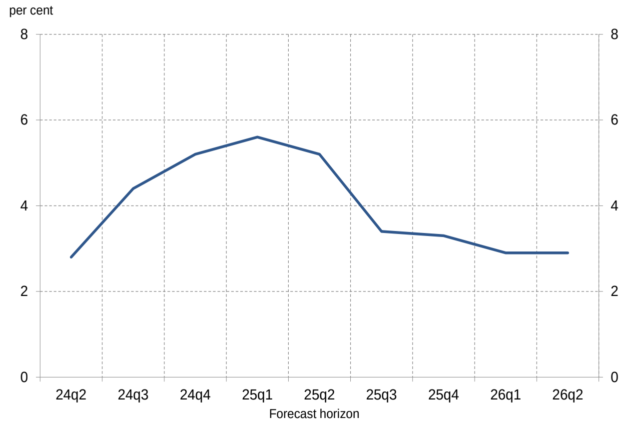
In 2024 Q1, economic activity growth picked up in Poland, yet remained below the long-term average (GDP growth amounted to 2.0% y/y compared to 1.0% y/y in 2023 Q4; Figure 2.7). GDP growth was driven by a rise in private and public consumption as well as a positive contribution from net exports,

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

	Survey conducted in:				
	23q2	**23q3**	**23q4**	**24q1**	**24q2**
Reuters Survey, inflation expected in 4 quarters	7.1	5.8	5.6	5.6	5.2
Reuters Survey, inflation expected in 8 quarters	4.1	4.0	3.7	2.9	2.9
NBP Survey, inflation expected in 4 quarters	7.1 (5.5-9.0)	6.1 (4.7-7.9)	5.7 (4.3-6.7)	5.1 (3.6-6.4)	4.5 (3.4-6.1)
NBP Survey, inflation expected in 8 quarters	4.6 (3.1-6.9)	4.6 (3.1-6.5)	3.8 (2.8-5.4)	3.3 (2.3-4.7)	3.0 (1.9-4.5)

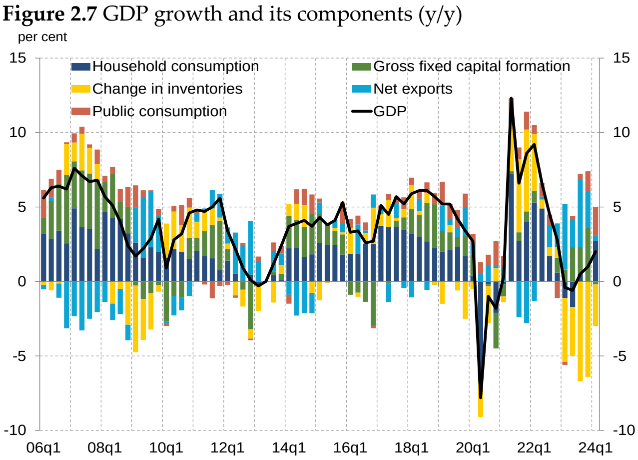
Source: NBP and LSEG Datastream data.
Inflation expectations of market analysts show the median forecast of the analysts surveyed by Refinitiv in the last month of a given quarter, except 2024 Q2, where the forecast of May 2024 is presented. Inflation expectations of the participants to the *NBP Survey 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 market analysts in May 2024



Source: LSEG Datastream data.
Median of forecasts of analysts surveyed by Reuters.

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



Source: Statistics Poland (GUS), NBP data.

[14] In June 2024, the largest share of enterprises (43.4%) expected inflation to accelerate within the next 12 months compared to the current inflation at 2.4% as stated in the survey question. In turn, 9.7% of the surveyed consumers expected inflation to increase (compared to the currently perceived inflation) within 12-month horizon. The largest group of the surveyed respondents (41.8%) expected prices to rise at a pace similar to that currently perceived within the next 12 months, whereas the second largest group of respondents (24.0%) expected prices to increase at a slower pace.

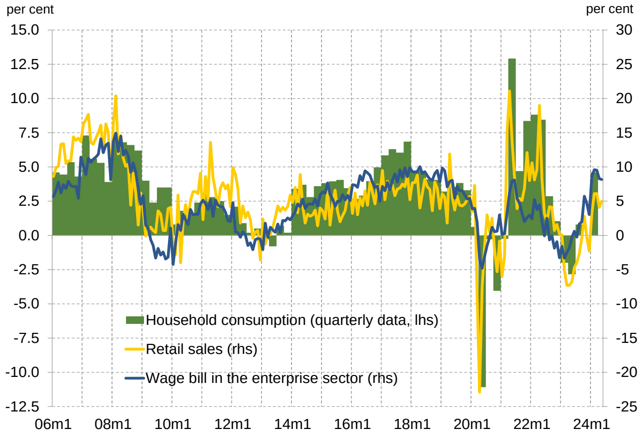
albeit lower than in previous quarters. Alongside that, a decline in investment and a negative contribution from change in inventories dragged on GDP growth.

Annual growth in household consumption, which was low in the past few quarters, increased markedly in 2024 Q1 (to 4.6% y/y compared to 0.0% in 2023 Q4; Figure 2.8). Consumer demand was supported by the favourable labour market situation, including low unemployment and high wage bill growth in real terms, amid a strong rise in nominal wages and lower inflation than in previous quarters (see Chapter 2.5 *Labour market*).[15] In 2024 Q1, consumer confidence was better than in previous quarters (Figure 2.9).

Annual growth in gross fixed capital formation dropped significantly (to -1.8% y/y from 15.8% y/y in 2023 Q4), owing to a considerable slowdown in the growth of public investment and a decline in corporate investment, amid weak growth in housing investment (Figure 2.10). Investment was negatively affected by the ending of the use of funds under the previous EU financial framework. Data from financial statements of enterprises show a marked decline in construction investment. Annual growth in investment in plant and machinery and means of transport also declined, yet remained positive. In sectoral terms, investment of services enterprises had a considerably positive contribution, whereas investment of enterprises operating in transportation, the energy sector and manufacturing had a negative one.

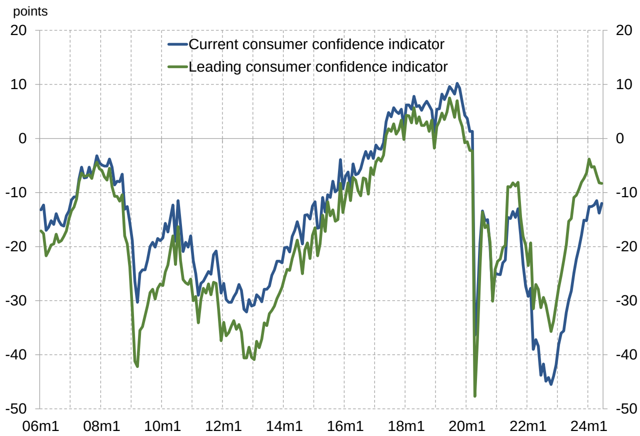
Net exports continued to have a positive contribution to annual GDP growth in 2024 Q1, albeit lower than in previous quarters (0.4 p.p. compared to 2.4 p.p. in 2023 Q4). Amid subdued economic conditions in Poland's main trading partners annual growth in exports decreased. At the same time, imports declined slightly. Data on

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



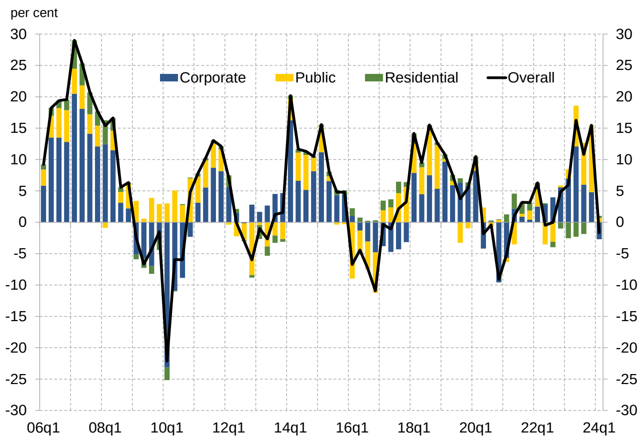
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 2.9 Consumer confidence indicators



Source: Statistics Poland (GUS) data.

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



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

[15] In 2024 Q1, consumption growth was considerably lower than real growth in the wage bill.

trade in goods in nominal terms[16] point to persistently negative, yet somewhat higher than in the previous quarter, annual growth in imports in 2024 Q1, mainly reflecting a fall in imports of intermediate goods and fuels (Figure 2.11). Meanwhile, nominal growth in exports declined for another quarter in a row, primarily on account of a fall in exports to the euro area amid the continuing subdued economic conditions in this economy.

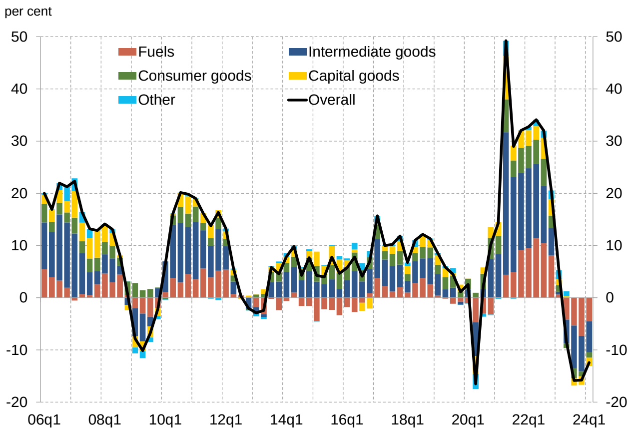
In 2024 Q1, gross value added (GVA) rose by 1.7% y/y (i.e. by the same percentage as in 2023 Q4; Figure 2.12). Compared to the previous quarter, annual growth in value added in services increased, while in industry it declined. GVA in construction, in turn, fell in annual terms.

Available data for 2024 Q2 point to the continuing gradual recovery in economic activity. In April and May 2024, retail sales increased by 4.1% y/y and 5.0% y/y respectively. Industrial output, in turn, fell by 1.7% y/y in May, following an increase by 7.8% in April, whereas growth in construction and assembly output remained negative and amounted to -2.0% y/y in April and -6.5% in May. Alongside that, leading consumer confidence indicator declined in 2024 Q2, while current confidence indicator remained relatively stable.

2.3 Public finance

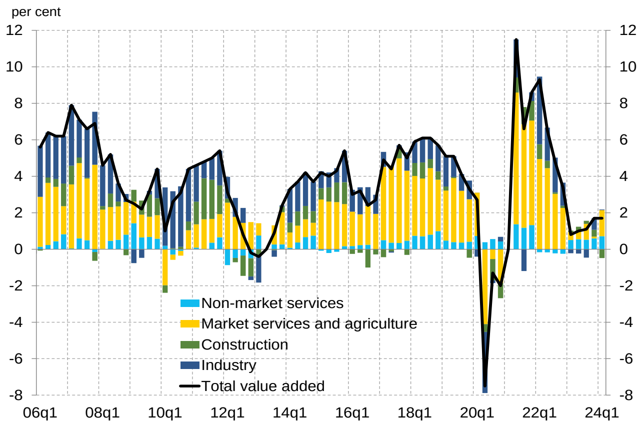
In 2023, the general government deficit in ESA2010 terms was PLN 173.8 billion (5.1% of GDP), compared to a deficit of PLN 105.9 billion (3.4% of GDP) in 2022 (Figure 2.13). The increase in the general government deficit in Poland in 2023 was largely a result of low economic activity growth, which limited the growth of tax revenue, along with a rise in expenditure on national defence and higher costs of public debt servicing. Importantly, 2023 saw an exceptionally high increase in public investment (of 45.6% y/y in nominal terms), which

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. The category *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.

[16] Nominal growth rates of imports and exports according to Statistics Poland (GUS) data.

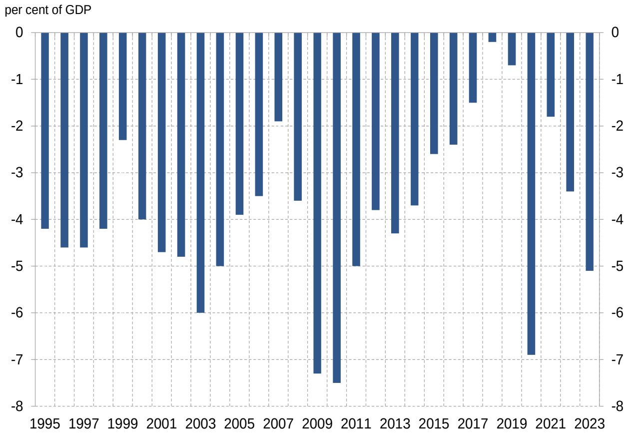
was mainly due to higher local government investment and military expenditure.

According to the Ministry of Finance preliminary data, after the first five months of 2024 the state budget deficit was running at PLN 53.1 billion compared to a deficit of PLN 20.9 billion in the same period of 2023. The much higher state budget deficit compared to the corresponding period of 2023 mainly reflected steep growth in expenditure coupled with relatively high growth in tax revenue of the state budget. Tax revenue growth was boosted by the earlier deadline for the annual CIT return compared to the previous year, among others. In turn, the high growth in expenditure was the result of wage increases for teachers and central government sector employees, the increase in child benefit, higher subsidies to the Social Insurance Fund due to the indexation of pensions in 2024, and also – starting from this year – the transfer of funding for the so-called 13th pension from the Solidarity Fund to the budget.

According to the government estimates presented in *the Multiannual Financial Plan of the State* (MFPS), the general government deficit is to amount to 5.1% of GDP in 2024.[17] The deficit is driven by the increased expenditure on funding social programmes ("Family 800 Plus", payment of the 14th pension) and on wage increases in the public sector. In the MFPS it was also pointed out that defence expenditure due to the tense geopolitical situation in Ukraine will be of key importance for the fiscal path. Defence expenditure and the implementation of projects from the National Recovery Plan are to be factors maintaining the high level of public investment, despite the ending in 2023 of the use of EU funds from the financial framework for 2014-2020.

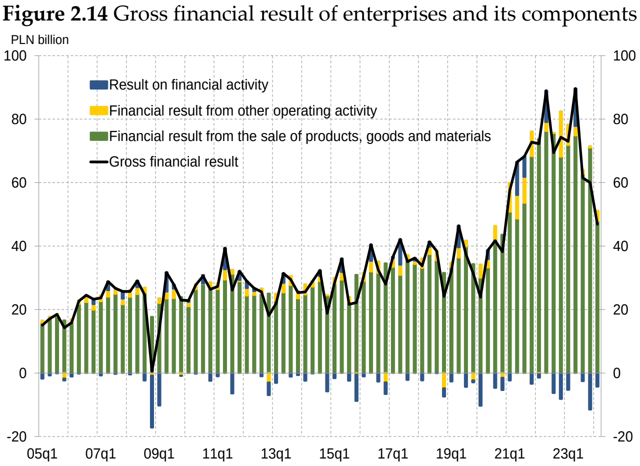
The general government debt in ESA2010 terms was running at 49.6% of GDP in 2023, compared to 49.2% of GDP in 2022. According to the

Figure 2.13 General government balance in ESA 2010 terms



Source: Eurostat data.

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).

[17] The description of the forecast included in the *Plan* does not take into account the costs of household energy support in the second half of 2024.

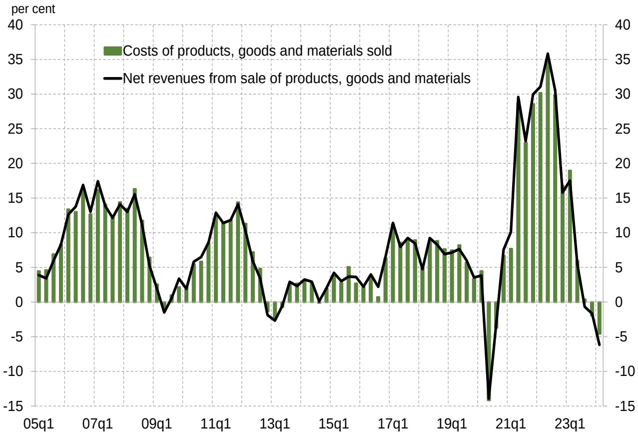
government forecast included in the MFPS, at the end of 2024 the debt is to reach 53.4% of GDP and – if no additional consolidation measures are taken – it is to follow a growing path, reaching 61.3% of GDP in 2027. Alongside that, the government has announced the presentation in autumn 2024 of a debt consolidation strategy under the medium-term fiscal structural plan.[18] As a result of the implementation of this strategy, the sector's debt should remain below the 60% of GDP reference value.

2.4 Financial situation of enterprises

In 2024 Q1, the financial performance of the enterprise sector deteriorated markedly, and the aggregate gross financial result of the sector was significantly lower than a year earlier (by 35.8%, Figure 2.14).[19] This was driven by a marked decrease in the result from the sale of products, goods and materials (by 33.4% y/y), related to the sharper fall in revenue in this category (to 6.2% y/y from 1.6% y/y in 2023 Q4; Figure 2.15). The latter reflected both the first fall in domestic sales since the pandemic (by 4.8% y/y, compared to the growth by 1.8% y/y in 2023 Q4) and a further significant fall in external sales (by 10.3% y/y, after a fall of 11.5% y/y in 2023 Q4). The decline in sales revenue was recorded in industry and construction, while sales rose in services. A marked drop in the result from other operating activity (by 48.9% y/y), among others due to a lower revenue from the sale of fixed assets, also added to the fall in the gross financial result, while a better result from financial activities compared to a year ago had a limiting effect on the fall.

The lower result from the sales in 2024 Q1 was accounted for by the deeper fall in the revenue from sales than in the corresponding costs of

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).

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

	average 2010-2019	average in 2020	average in 2021	average in 2022	2023 q1	2023 q2	2023 q3	2023 q4	2024 q1
Sales profitability indicator	4.7	4.8	5.8	6.1	5.5	5.9	5.1	5.4	3.9
Net turnover profitability indicator	4.0	3.7	5.7	5.0	4.4	5.7	4.0	3.2	2.8
Share of profitable enterprises	73.4	74.5	77.9	77.2	77.4	76.6	75.3	74.8	74.2
Share of enterprises with profitability above 5%	34.2	40.0	45.0	42.4	43.3	42.7	42.3	41.2	37.9
1st degree financial liquidity indicator	36.3	42.1	43.9	40.6	37.5	37.3	38.7	39.7	42.0
Return on assets indicator	1.2	1.0	1.7	1.7	1.5	1.9	1.2	1.0	0.9
Return on equity indicator	2.3	2.1	3.7	3.8	3.3	4.1	2.7	2.3	1.8
Share of bank credits and loans in the balance sheet total	15.2	15.5	14.5	14.3	14.1	14.2	13.8	13.4	13.9

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.

[18] According to the reform of economic governance in the EU, all member states are obliged to draw up their medium-term fiscal structural plans this autumn.
[19] In 2024 Q1, the gross financial result stood at PLN 46.9 billion compared to PLN 60.0 billion in 2023 Q4 and PLN 73.0 billion in 2023 Q1.

operating activity[20], which reflected high growth in both labour costs (13.0% y/y) and costs of external services (5.2% y/y). Alongside that, cost growth was lowered by the declining costs of commodities and materials used for production (by 17.8% y/y), lower costs of goods purchased for resale (by 6.0% y/y), as well as the fall in energy costs (by 18.1% y/y).

Under these conditions, the profitability of the enterprise sector declined (Table 2.2). In annual terms, the return on sales fell (by 1.6 p.p., to 3.9%) as did the return on net turnover (by 1.6 p.p., to 2.8%), the return on assets (by 0.6 p.p., to 0.9%) and the return on equity (by 1.5 p.p., to 1.8%). The share of profitable firms was also lower than a year ago, which is an evidence of unfavourable changes in the financial situation at the level of individual enterprises. The fall in profitability occurred in most sections of the economy, above all in the industrial sections and construction.

Despite the marked deterioration in the financial result in 2024 Q1, liquidity of the enterprise sector remained relatively high. Both liquidity ratios and the share of enterprises with a safe level of liquidity were running above their long-term averages.

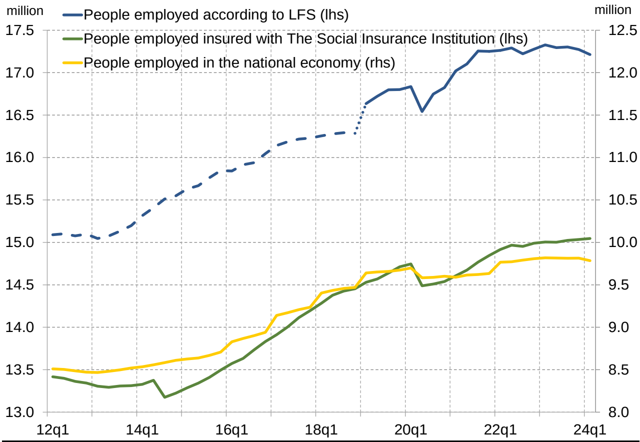
The results of the NBP survey point to a slight deterioration in the assessment of economic condition of enterprises in 2024 Q2 compared to the previous quarter in the majority of analysed sections of the economy and for the majority of classes of enterprises, while their expected situation in one year ahead continued to improve.

2.5 Labour market

At the beginning of 2024, the situation in the labour market remained good, with a low unemployment rate and high wage growth.

The Statistics Poland (GUS) data for 2024 Q1, including the LFS data, point to a slight decline in

Figure 2.16 Number of people employed according to the LFS, the reporting data from the national economy (NE) and the Social Insurance Institution (ZUS) data, seasonally adjusted data



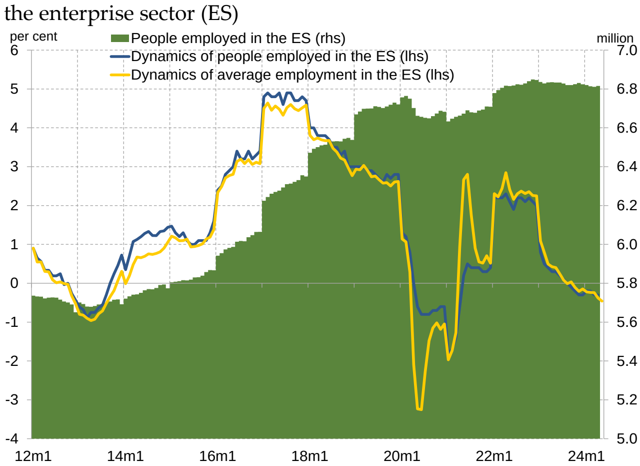
Source: Statistics Poland (GUS) and The Social Insurance Institution (ZUS) data, NBP calculations.

The number of employed people 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 people employed 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.

Additionally, 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 2019 Q1 to 2023 Q3, making periods before 2019 Q1 (dashed line) not comparable with later periods (solid line).

Figure 2.17 Growth rate (y/y) in the number of people employed and average employment, and the number of people 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 people 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.

[20] The fall in costs of operating activity stood at 4.6% y/y and was 1.6 p.p. smaller than the fall in sales revenue.

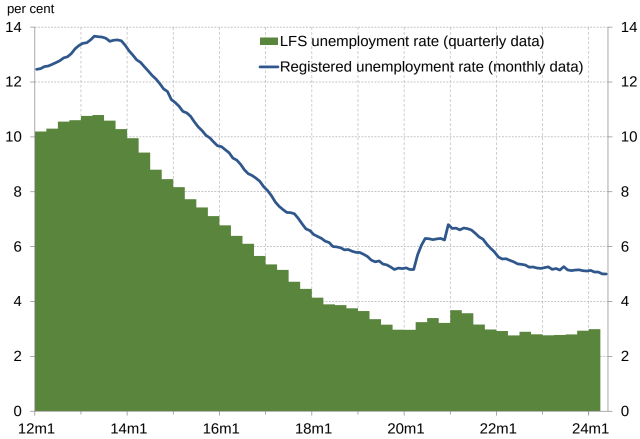
the number of people employed (Figure 2.16, Figure 2.17)[21], while the number of people employed estimated on the basis of the data from the Social Insurance Institution (ZUS) continued to grow somewhat in 2024 Q1, albeit at a slower pace than in 2023 Q4 (0.3% y/y compared to 0.4% y/y).

In the recent period, the unemployment rate remained at a very low level (Figure 2.18). In May 2024, the registered unemployment rate stood at 5.0%[22], and in 2024 Q1, the LFS unemployment rate amounted to 3.0% (seasonally adjusted data).

In 2024 Q1, the average nominal wage in the national economy (NE) rose by 14.4% y/y (compared to 12.0% in 2023 Q4) and in the enterprise sector (ES) by 12.5% y/y (compared to 11.5% in 2023 Q4; Figure 2.19).[23] The faster wage growth in 2024 Q1 reflected, in particular, the wage increases for teachers and central government sector employees, as well as the rise in the minimum wage as of 1 January 2024 (by 21.5% y/y). At the same time, due to markedly lower inflation than in previous quarters, annual real wage growth in the NE and in the ES reached historical highs.[24] The NBP survey data suggest only a slight rise in the percentage of companies planning wage increases in 2024 Q3 relative to 2024 Q2 as well as a reduction in their scale. Both the fraction of companies planning wage increases and the planned scale of these increases are lower than in 2024 Q1.

Growth in unit labour costs in the economy amounted to 11.4% y/y in 2024 Q1 (compared to 11.3% in 2023 Q4). Higher growth in unit labour costs was supported by accelerated growth in nominal wages in the NE. In the opposite direction

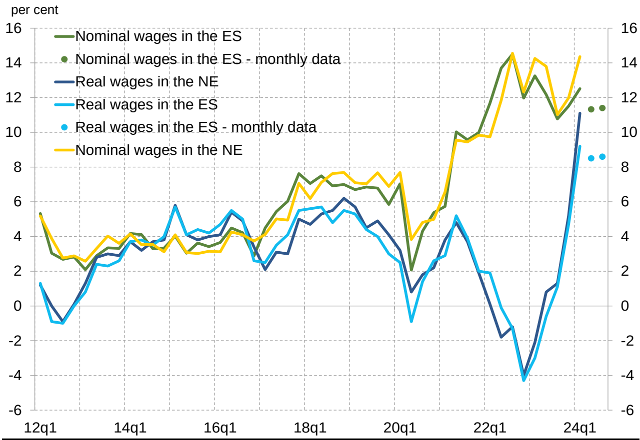
Figure 2.18 Unemployment rate, seasonally adjusted data



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) the 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).
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.
Data on the unemployment rate since December 2020 have taken into account the number of people 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 the Figure concerning the number of people employed according to the LFS.

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 April and May 2024 (dots).

[21] The annual growth in the number of people employed in the national economy (NE) fell from 0.1% y/y in 2023 Q4 to -0.4% y/y in 2024 Q1, while the annual rate of decline in the number of people employed in the enterprise sector (ES) was unchanged on the previous quarter's level, remaining at -0.3% y/y. Alongside that, the number of people employed according to the LFS decreased in 2024 Q1 by 0.8% y/y compared to a rise of 0.1% y/y in the previous quarter. In April 2024, the number of people employed in the ES declined by 0.3% y/y.

[22] The registered unemployment rate in May is given according to a preliminary estimate of the Ministry of Family, Labour and Social Policy.

[23] In April and May 2024, growth in average nominal wages in the ES amounted to 11.3% y/y and 11.4% y/y, respectively.

[24] In 2024 Q1, real wages in the NE increased by 11.1% y/y and in the ES by 9.2% y/y.

worked stronger growth in labour productivity than a quarter before, accounted for by weaker growth in the number of people employed according to the LFS and by accelerated GDP growth in annual terms.

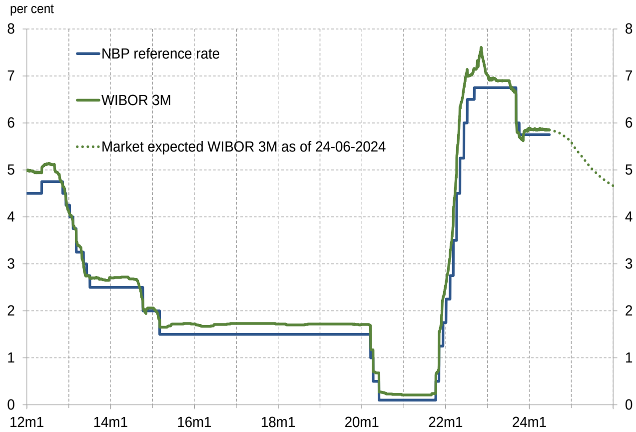
The situation in the domestic labour market continues to be affected by a large number of economically active immigrants. At the end of May 2024, according to the data from the Social Insurance Institution (ZUS), about 1.2 million foreigners were covered by retirement and disability insurance due to their employee status in Poland (an increase of 6.0% y/y). Among these, 765,600 people were Ukrainian citizens, of which approx. 240,000 were refugees with ZUS insurance coverage, and 134,000 were Belarussian citizens.[25]

2.6 Financial markets and asset prices

Prices of financial instruments in Poland have been shaped by better sentiment in global financial markets, some improvement in economic conditions in Poland and market participants' expectations about the level of NBP interest rates in the coming quarters (Figure 2.20). Under these conditions, the yields on Polish government bonds slightly increased (Figure 2.21). At the same time, the exchange rate of the zloty remained relatively stable against the major currencies, following its previous appreciation (Figure 2.22).

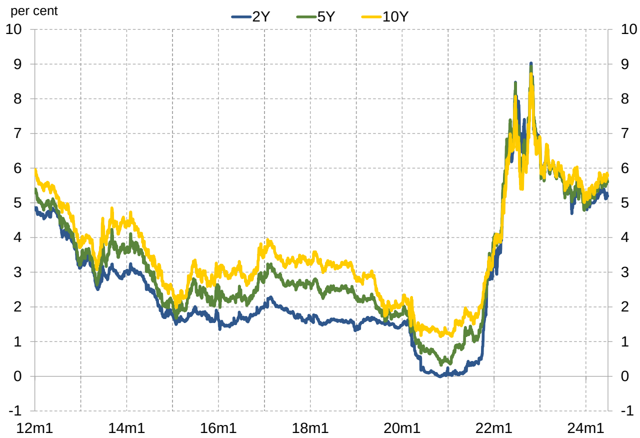
In the housing market, nominal transaction prices increased in 2024 Q1. The rise in real estate prices was supported by relatively low, despite some increase, housing supply and higher home construction costs, including higher land prices. Alongside that, the rise in home prices was curbed by subdued demand related to the suspension of new loan applications under the "Safe Mortgage"

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



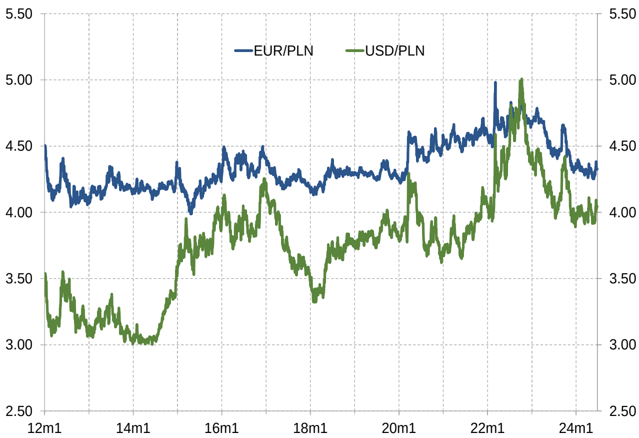
Source: NBP and Bloomberg data.

Figure 2.21 Yields on Polish government bonds



Source: Bloomberg data.

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



Source: Bloomberg data.

[25] The estimate of the number of working refugees from Ukraine covered by ZUS insurance relates to March 2024 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.

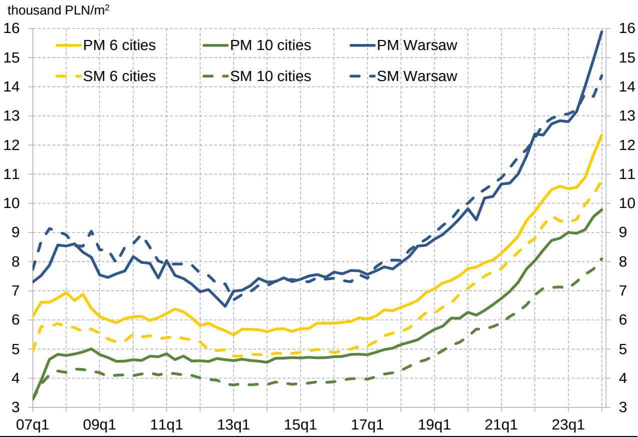
programme (see Chapter 2.7 *Money and credit*; Figure 2.23).[26] According to NBP data,[27] growth in average nominal housing transaction prices increased and stood at 14.8% y/y in 2024 Q1 (compared to 9.2% in 2023 Q4).[28]

2.7 Money and credit[29]

The annual growth rate of the M3 aggregate in 2024 Q1 amounted to 8.2% y/y (compared to 9.1% y/y in 2023 Q4; Figure 2.24). Growth in the M3 aggregate was mainly driven by an increase in household deposits, while the contribution from corporate deposits was markedly lower than in previous quarters.[30]

In 2024 Q1, household loans grew, in annual terms, for the first time since mid-2022 (its growth stood at 2.1% y/y compared to -0.7% y/y in 2023 Q4; Figure 2.25). Housing loan growth increased to 1.6% y/y in 2024 Q1 (compared to -2.1% y/y in 2023 Q4), which was related to the low statistical base effect, and the extended period of processing housing loan applications submitted in 2023 Q4 under the "Safe Mortgage" programme. At the same time, the decision of Bank Gospodarstwa Krajowego to suspend the acceptance of new applications effective from 2 January 2024[31] contributed to a drop in housing loan demand when compared to the previous quarter[32], which however did not substantially translate into the annual growth of loans. The decreasing stock of FX loans, stemming from, among others, settlements between banks and borrowers resulting in FX loan currency conversion into the zloty and partial

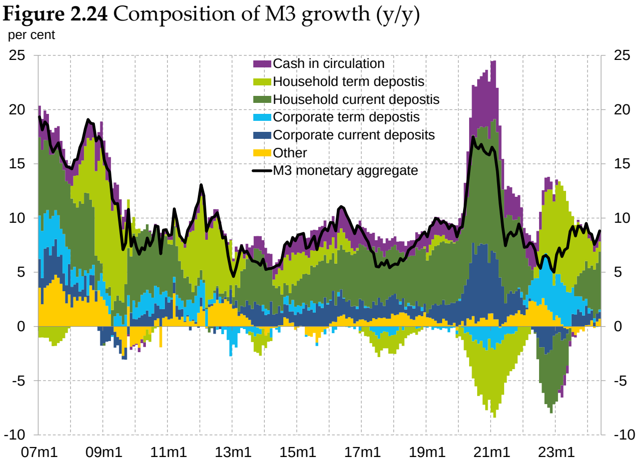
Figure 2.23 Nominal transaction prices of flats in major cities in Poland



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.

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.

[26] More information about the situation in the Polish housing market can be found in the cyclical NBP publications.
[27] The discussed data on prices do not fully correspond to the quarters of the calendar year. In particular, data referring to 2024 Q1 include transactions concluded between December 2023 and February 2024.
[28] 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 5.0% q/q in 2024 Q1 (against 3.9% q/q in 2023 Q4).
[29] In this chapter, growth in the broad money aggregate M3, deposits and loans is defined as nominal annual growth resulting from transactional changes, on average in a given quarter. The data refer to monetary financial institutions.
[30] In April and May 2024, M3 aggregate growth amounted to 8.1% y/y and 8.8% y/y respectively. Growth in cash in circulation was 5.1% y/y and 6.0% y/y, in household deposits 11.5% y/y and 12.0% y/y, whereas in corporate deposits 3.2% y/y and 3.9% y/y respectively.
[31] See *Bank Gospodarstwa Krajowego Announcement of 1 January 2024 on the suspension of acceptance of applications for 2% safe mortgages*.
[32] See *Senior loan officer opinion survey on bank lending practices and credit institutions – 2nd quarter 2024*, NBP, April 2024.

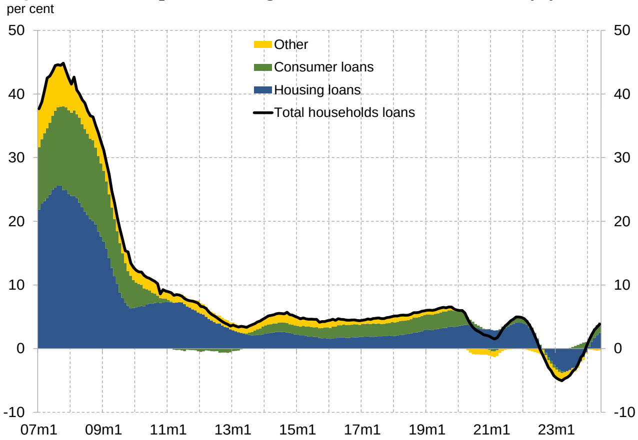
write-off, also curbed the growth of housing loans. In contrast, growth in consumer loans increased amid recovery in consumer demand (consumer loan growth was 5.1% y/y in 2024 Q1 compared to 3.7% y/y in 2023 Q4; see Chapter 2.2 *Demand and output*).[33]

Domestic corporate loans declined in annual terms (-0.3% y/y in 2024 Q1 compared to -1.3% y/y in 2023 Q4; Figure 2.26). The decrease was due to, among others, a fall in the stock of current loans (-3.6% y/y in 2024 Q1 compared to -5.0% y/y in 2023 Q4) and a rise in the stock of investment loans (by 3.7% y/y both in 2024 Q1 and 2023 Q4).[34]

2.8 Balance of payments[35]

The current account surplus, as well as other external imbalance indicators evidence that the Polish economy is well balanced. In 2024 Q1, the current account balance amounted to 1.2% of GDP (compared to 1.6% of GDP in 2023 Q4; Figure 2.27)[36]. Factors conducive to the lower current account balance included some decline in the secondary income balance (to -0.5% of GDP in 2024 Q1 from -0.3% of GDP in 2023 Q4) and a slight reduction in the total surplus in the balance of trade in goods and services (to 6.0% of GDP in 2024 Q1 from 6.1% of GDP in 2023 Q4)[37], amid subdued economic conditions across Poland's main trading partners (see Chapter 1.1 *Economic activity abroad* and Chapter 2.2 *Demand and output*). The primary income balance, in turn, remained negative in 2024 Q1 due to the income of foreign direct investors in Poland (it amounted to -4.2% of GDP, similarly to the previous quarter).

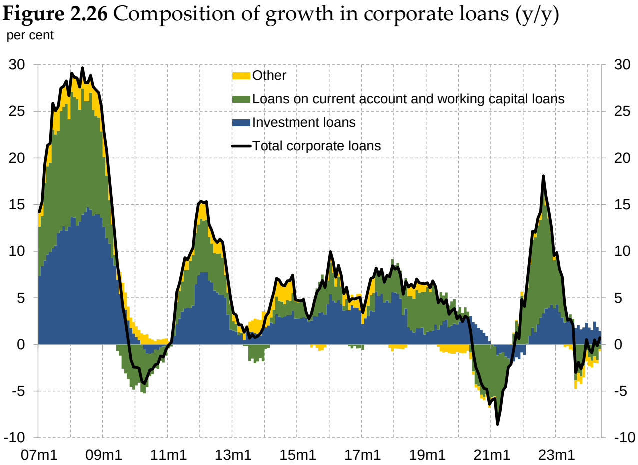
Figure 2.25 Composition of growth in household loans (y/y)



Source: NBP data.

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

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.

[33] In April and May 2024, growth in loans to households amounted to 3.4% y/y and 3.8% y/y respectively. Housing loan growth was 3.4% y/y and 4.0% y/y and consumer loan growth 6.3% y/y and 6.4% y/y respectively.

[34] In April and May 2024, corporate loan growth amounted to -0.1% y/y and 0.7% y/y respectively. Current loan growth was -4.0% y/y and -1.2% y/y, whereas investment loan growth was 3.6% y/y and 2.7% y/y respectively.

[35] In this chapter, data on the balance of payments in relation to GDP are presented in terms of a four-quarter rolling sum. For 2024 Q1, 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 3 June 2024.

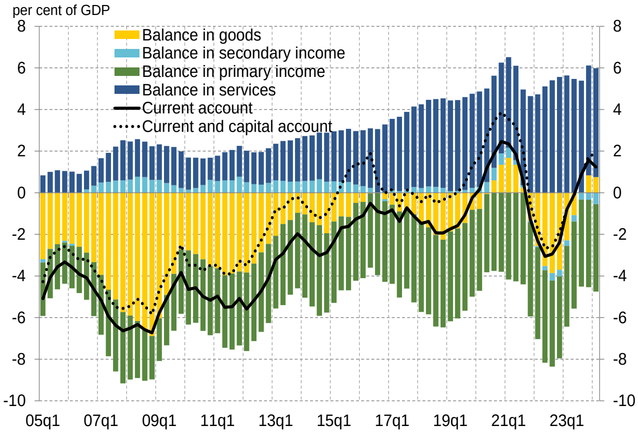
[36] In April 2024, the current account deficit was PLN 1.0 billion.

[37] In 2024 Q1, the balance of trade in goods amounted to 0.8% of GDP, and the balance of trade in services amounted to 5.2% of GDP.

The financial account balance was equal to 1.0% of GDP in 2024 Q1 (down from 1.3% of GDP in 2023 Q4)[38], accompanied by a decline in the portfolio investment balance and a higher increase in official reserve assets.

In 2023 Q4, Poland's net international investment position in relation to GDP amounted to -31% (Table 2.3). At the same time, the external debt to GDP ratio declined to 49%, i.e. to the lowest level since 2007.

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



Source: NBP data.

Data for 2024 Q1 are based on monthly estimates for January, February and March 2024 and the preliminary GDP estimate as of 3 June 2024.

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

	2022				2023				2024
	q1	q2	q3	q4	q1	q2	q3	q4	q1
Current account balance/GDP	-2.3	-3.1	-2.9	-2.4	-0.8	-0.1	0.9	1.6	1.2
Current and capital account balance/GDP	-1.7	-2.7	-2.6	-1.9	-0.8	-0.1	0.9	1.8	1.9
Trade balance/GDP	2.2	1.6	1.6	1.9	3.3	4.4	5.4	6.1	6.0
Official reserve assets (in monthly imports of goods and services)	5.1	5.0	5.0	4.7	4.6	4.7	5.2	5.2	5.6
Foreign debt/GDP	56	56	56	53	52	51	52	49	-
Net international investment position/GDP	-39	-36	-34	-33	-32	-33	-30	-31	-
Official reserve assets/short-term foreign debt minus forecasted current account balance	110	115	123	140	130	135	128	129	-
Official reserve assets/short-term foreign debt	115	116	118	127	121	122	121	126	-

Source: NBP data.

The two last indicators include external debt and the level of reserve assets at the end of the period. Data for 2024 Q1 are based on monthly estimates for January, February and March 2024 and the preliminary GDP estimate as of 3 June 2024.

[38] In April 2024, the financial account showed a deficit of PLN 2.3 billion.

3. Monetary policy in March – July 2024

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

Minutes of the Monetary Policy Council decision-making meeting held on 6 March 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that economic conditions in the euro area remained weakened, although some of the indicators signalled that the coming quarters might see a slow recovery in activity. At the same time, incoming data suggested that GDP in Germany might decline again in 2024 Q1 and was forecast to grow only slightly over 2024. It was judged that the weakened economic conditions in Germany, Poland's main trading partner, would continue to have an adverse impact on Polish exports growth.

When discussing inflation developments abroad, the Council members noted that following the earlier sharp fall, annual price growth in the United States and the euro area was running above the inflation targets of the central banks of these economies. At the same time, core inflation in these economies remained higher than headline inflation, although it was also slowly declining. It was pointed out that the fall in core inflation in the environment of the Polish economy was being slowed down by the persistence of elevated growth in service prices in view of the relatively robust growth in nominal wages. Under these circumstances, the central banks of the advanced economies were keeping interest rates unchanged.

When discussing economic activity in Poland, the Council members judged that an economic recovery was under way, although GDP growth remained relatively low. According to the Statistics Poland preliminary estimate, annual GDP growth increased to 1% in 2023 Q4. GDP growth was positively affected by the contribution of net exports and investment. At the same time, consumption growth declined. Incoming data on the economic conditions at the beginning of 2024 indicate that in January both retail sales and industrial output grew. In the opinion of the Council members, these data signal a pickup in activity growth, including a recovery in consumption. At the same time, it was pointed out that annual construction and assembly production growth was negative in January 2024.

When referring to the labour market conditions, it was noted that – in line with predictions – in January 2024 wage growth in the enterprise sector had picked up, largely a result of the increase in the minimum wage. It was underlined that the significant fall in inflation and higher nominal wage growth had translated into a marked real wage growth. On the other hand, annual employment growth in this sector was still negative. At the same time, the registered unemployment rate remained close to the historical lows.

According to the majority of the Council members, the effects of NBP earlier monetary policy tightening could still be seen in the credit market. At the same time, it was pointed out that the previous months had seen clear signs of a recovery in lending, including in particular mortgages to households, which was attributable to the so-called "Safe Mortgage" programme. As regards mortgages, some Council members noted the uncertainty related to the possible reintroduction of the so-called repayment holidays.

When discussing the outlook for economic activity, the Council members noted that according to the March projection, GDP growth would pick up and exceed 3% in 2024 (compared to 0.2% growth in 2023). It was emphasised that, according to the projection, following a marked fall last year, domestic demand would grow significantly in 2024. The results of the projection point, in particular, to a robust recovery of consumption, supported by high wage growth, including significant wage rises in the public sector and growth in the minimum wage, as well as by higher social benefits. Continued growth in investment is also forecast.

It was pointed out that GDP forecasts were subject to uncertainty related to external factors, including the geopolitical situation and economic conditions in Europe, as well as domestic fiscal policy and the developments in food and energy prices. The Council members also pointed to persisting uncertainty regarding the degree to which higher household income would translate into growth in consumer spending, and to which it would result in growth in savings. Certain Council members pointed out that according to the March projection, GDP growth might be somewhat higher in 2024-2025 than that indicated in the November projection.

At the meeting it was noted that according to Statistics Poland preliminary data, annual consumer price growth declined significantly in January 2024 and was lower than the median of the forecasts of market analysts. It was pointed out that in less than a year since reaching its peak, CPI inflation had fallen by over 14 percentage points. It was estimated that core inflation had also declined markedly, although it remained higher than headline CPI inflation and like in many other economies, it was declining more slowly. At the same time, in January 2024 the fall in producer prices had deepened, confirming the fading of the majority of external supply shocks and reduced cost pressure. Along with the relatively low economic activity growth, this had been contributing to a fall in inflation. 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. Certain Council members pointed out that the effect of high statistical base from the previous year had contributed to a fall in the annual inflation rate in January 2024. They also judged that – despite its decline – core inflation remained high.

The Council members judged that in February 2024 inflation had likely declined again and had returned to a level consistent with the NBP inflation target of 2.5% +/-1 percentage point. It was noted that according to available forecasts, CPI inflation would probably also fall in March 2024.

When discussing the inflation outlook, it was underlined that according to the March projection, price growth might rise again in the coming quarters. However, high uncertainty persisted about the scale of this rise, which was particularly due to the future form of the fiscal and regulatory measures impacting on food and energy prices in the CPI basket. It was noted that in the scenario assuming no increase in the VAT rate on food and unchanged energy prices until the end of 2024, inflation – according to the March projection – would grow slightly in the coming quarters and would run close to the upper band for deviations from the NBP inflation target. However, should the VAT rate on food products be restored from zero to 5% and should subsidies to energy prices be fully or partially removed, in the second half of 2024 inflation would rise significantly, exceeding the inflation target. Certain Council members expressed the opinion that the impact of the shielding measures on food and energy prices on the medium-term inflation outlook was limited.

During the discussion it was pointed out that in the recent period inflation had fallen below the level of the NBP reference rate. The marked fall in inflation amid unchanged NBP interest rates had an upward effect on real interest rates *ex post*, which should be a factor curbing core inflation in the coming quarters.

The Council members underlined that the medium-term inflation outlook, which was also subject to uncertainty, was of significant importance for monetary policy. The majority of Council members drew attention to the fact that according to the March projection – prepared with the assumption of unchanged NBP interest rates – from the second half of 2025, and also in 2026, i.e. over the monetary policy horizon, CPI inflation should be consistent with the NBP inflation target. Alongside that, the Council members noted that average annual core inflation – which in accordance with the projection should continue to gradually decline – would remain higher than headline CPI inflation over the projection horizon. It was also noted that according to the March projection, in 2025 core inflation would be higher than that forecast in November, which was largely due to the greater than expected scale of wage rises in the public sector in 2024. It was also pointed out that in recent quarters inflation, including core inflation, had fallen somewhat faster than indicated in earlier forecasts.

Some Council members underlined that wage growth represented a risk for the outlook of core inflation, including service prices. In the opinion of certain Council members, elevated wage growth over the projection horizon might hamper a sustainable return of CPI inflation to the target. At the same time, in the opinion of certain Council members, the likelihood of inflation running at a level consistent with the NBP inflation target at the end of the projection horizon was too low.

It was judged that demand pressure, and thus core inflation in the coming years, might be additionally boosted by the implementation of other proposed fiscal measures, including the increase in the amount of social benefits or introduction of new ones, as well as the possible increase in the tax-free allowance, although it is currently unclear whether and to what extent these measures will be implemented. The Council members also drew attention to other risk factors for inflation, including those related to the geopolitical situation, which might be of significance for commodity prices and the functioning of international trade.

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 weakened economic conditions and falling inflation pressure abroad supported lower domestic inflation. As a result, annual CPI growth is expected to run at the level consistent with the NBP inflation target in the coming months, while core inflation will remain above CPI inflation. However, inflation developments in subsequent quarters are subject to substantial uncertainty related, in particular, to the impact of fiscal and regulatory policies on price developments, as well as to the pace of economic recovery in Poland and labour market conditions. It was emphasized that should the higher VAT rate on food products be restored and energy prices raised, inflation might rise 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 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 elevated core inflation, as well as amid the expected further recovery in demand and high wage growth, the level of the NBP interest rates was too low to ensure the sustainable return of inflation to the target in the medium term.

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.

Minutes of the Monetary Policy Council decision-making meeting held on 4 April 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that signs of recovery were visible in the global economy, although economic activity remained weakened in the euro area – Poland's main trading partner – where GDP growth was probably only slightly positive in 2024 Q1. In Germany, economic activity may have further declined in 2024 Q1, with particularly weak business conditions in the country's industrial sector. It was underlined that the growth forecast for Germany had recently been revised downwards and currently indicated a more marked recovery in the German economy only in 2025.

When discussing inflation developments abroad, the Council members noted that despite a sharp fall in annual price growth in many countries in recent quarters, in some of them inflation was still above inflation targets. At the same time, core inflation in a range of advanced economies, as well as in the economies of the Central and Eastern Europe region, remained higher than headline inflation. The Council members pointed out that in many countries the fall in core inflation was hampered by the still high growth in service prices, which was declining only slowly due to the continued elevated nominal wage growth.

When discussing economic activity in Poland, the Council members judged that incoming data indicated an economic recovery. It was pointed out that in January and February 2024 retail sales and industrial output had risen significantly in annual terms, following falls throughout most of 2023. At the same time, at the beginning of 2024 construction and assembly output had declined in annual terms.

When referring to the labour market conditions, it was noticed that nominal wage growth in the enterprise sector had remained high in February 2024. The Council members underlined that amid a further fall in inflation in February 2024, real wage growth in the enterprise sector was running at its highest level in many years. It was, however, also pointed out that a further slight fall in employment had taken place in the enterprise sector.

During the discussion it was noted that growth in zloty-denominated loans to households was increasing. In the opinion of the Council members, this continued to be underpinned by the so-called "Safe Mortgage" programme. At the same time, it was stressed that annual growth in corporate loans remained negative, mainly due to a fall in the stock of current loans.

When discussing the economic outlook, the Council members judged that activity growth would probably pick up in the coming quarters. The Council members indicated that, in particular, this would be driven by the favourable prospects for domestic demand in view of the elevated wage growth, including due to the increase in the minimum wage and wage rises in the public sector. At the same time, the scale of the economic recovery was subject to uncertainty, while one of the risk factors for the outlook was further development of the economic situation in Poland's main trading partners.

At the meeting it was noted that in February and March 2024 annual consumer price growth was running at a level consistent with the NBP inflation target. In February CPI inflation had declined to 2.8%, and in March, according to the Statistics Poland flash estimate, it had fallen to 1.9% – therefore, within thirteen months since reaching its peak, inflation had fallen by over 16 p.p. The Council members noticed that in a relatively short time price growth had declined significantly, while the social and economic costs of disinflation had been limited. Certain Council members drew attention to the fact that in February 2024 annual price growth of a significant proportion of goods and services included in the CPI basket still exceeded 3.5%.

The Council members pointed out that the fall in CPI inflation had been accompanied by a significant decline in the measures of core inflation, which – according to available estimates – had probably also taken place in March 2024. However, it was noted that inflation excluding food and energy prices remained elevated, and, in particular, it was higher than headline CPI inflation. Certain Council stressed the continuously high – albeit gradually declining – annual growth in service prices. At the same time – although certain Council members noticed that the monthly change in industrial producer prices had been slightly positive in February 2024 – producer prices had continued to fall sharply in annual terms, confirming the fading of most of the external supply shocks and the limited cost pressure. Together with the relatively low – despite some acceleration – economic activity growth it was conducive to a decline in inflation. It was judged that the decrease in inflation was supported also by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy. Some Council members pointed out that the observed fall in inflation – under unchanged interest rates – was contributing to a rise in real interest rates, which should limit inflationary pressure also in the medium term.

When discussing the inflation outlook, Council members pointed out that according to available forecasts, in the first half of 2024 CPI inflation would run at a level consistent with the NBP inflation target of 2.5% ± 1 p.p., although it would most likely rise in the coming months. The increase in inflation in the near future would be attributable to the restoration of the VAT rate on food from zero to 5%. At the same time, the Council members noted that developments in energy prices in the subsequent quarters were subject to high uncertainty. Should subsidies to energy prices be fully or partially removed, inflation would rise significantly in the second half of 2024, exceeding the NBP inflation target. In turn, should energy prices be kept unchanged, inflation in the second half of 2024 would rise much weaker, running close to the upper limit of deviations from the inflation target.

When referring to the medium-term outlook, it was pointed out that the potential increase of inflation in the second half of 2024 might also influence inflation expectations. Attention was drawn to the fact that the observed economic recovery and expected growth in demand pressure, in particular due to high wage growth, including in the public sector, would contribute to higher prices. Some Council members noted that the further development of wage growth was the main risk factor for the medium-term inflation outlook, and the persistence of elevated wage growth may delay a sustainable return of CPI inflation to the target. At the same time, certain Council members pointed out that the transmission of higher wages to prices might depend on many factors, including the speed of the recovery in domestic economic activity, changes in corporate profitability, and also the households' propensity to save.

In addition, the Council members indicated that the possible implementation of proposed fiscal measures, such as the increase in the amount of social benefits or introduction of new ones, might also boost demand growth, and as a result, lead to higher inflation, including core inflation. However, certain Council members argued that the room for increasing the expansiveness of fiscal policy was limited, especially in view of the need for increased public expenditure for military purposes. The persistence of other significant sources of uncertainty was also underlined, including, among others, the tense geopolitical situation, commodity price developments and the economic conditions in the environment of the Polish economy.

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 weakened economic conditions and falling inflation pressure abroad supported lower domestic inflation. As a result, it was expected that in the coming months annual CPI growth would run at the level consistent with the NBP inflation target, however, restoring higher VAT on food products would act toward the rise in inflation. This will be accompanied by a gradual decline in core inflation, although core inflation will stay 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. It was emphasised that should energy prices be raised, inflation might rise 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 judged that the current level of the NBP interest rates was conducive to meeting the NBP inflation target in the medium term.

A view was expressed that given the elevated core inflation, as well as the expected further recovery in demand and high wage growth, the current level of NBP interest rates was too low to ensure the sustainable return of inflation to the target in the medium term.

When referring to the possible future decisions, some Council members assessed that, considering current macroeconomic conditions, it can be justified to keep the NBP interest rates unchanged at subsequent meetings. In turn, certain Council members expressed the opinion that should risks contributing to higher inflation in the medium term materialise in the coming quarters, the need of increasing the interest rates in the future cannot be excluded.

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.

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

During the discussion at the meeting of the Monetary Policy Council it was noted that in 2024 Q1 GDP had grown in the euro area in annual terms, following a fall in the second half of 2023. However, it was underlined that despite a slight recovery, activity in this economy was still weakened, with a better economic situation in those euro area countries with whom Poland has less economic ties. In Germany – Poland’s main trading partner – annual GDP growth remained negative in 2024 Q1, although signs of recovery had also appeared there. Meanwhile, in the United States annual GDP growth was still relatively high in 2024 Q1, despite being somewhat lower than market expectations.

When discussing inflation developments abroad, the Council members noted that in April 2024 HICP inflation in the euro area stood at 2.4% (like in March), amid a further fall in core inflation. At the same time, it was pointed out that in the United States price growth in the recent period had been higher than expected, and in March CPI inflation had stood at 3.5% (compared to 3.2% in February 2024), amid a stabilisation of core inflation. Due to diverging disinflation processes in the two largest developed economies, it was noted that expectations of financial market participants indicated the possibility of an interest rate cut by the European Central Bank at the next meeting and interest rates kept unchanged by the Federal Reserve of the United States in the coming months.

When discussing economic activity in Poland, the Council members judged that the incoming data indicated a gradual economic recovery, although certain monthly data from March 2024 were below expectations. It was pointed out that the annual GDP growth in 2024 Q1 had most probably been higher than in the previous quarter. Attention was drawn to the fact that data on retail sales in 2024 Q1 suggested a gradual growth in household demand, while data on industrial and on construction and assembly output might signal a decline in investment growth.

When referring to the labour market conditions, it was noted that annual nominal wage growth in the enterprise sector had remained high in March 2024. The Council members underlined that amid inflation running at the level consistent with the NBP inflation target, in recent months real wage growth in the enterprise sector had been running at its highest level in many years. It was stressed that business surveys indicated slower wage growth in 2024 Q2. The Council members also pointed to a further slight fall in employment in the enterprise sector.

During the discussion it was noted that annual growth in zloty-denominated loans to households continued to increase and that growth in corporate investment loans had picked up, although annual growth in current corporate loans had remained negative.

At the meeting it was pointed out that – according to the Statistics Poland flash estimate – in April 2024 annual consumer price growth amounted to 2.4% (compared to 2.0% in March 2024), i.e. it had remained at a level consistent with the NBP inflation target. The Council members underlined that the increase in annual growth compared to the previous month was mainly the result of an increase in food prices caused by the restoration of the VAT rate from zero to 5% and by an increase in fuel prices. At the same time, the Council members indicated that in April 2024 inflation net of food and energy prices had probably declined again, although it was still higher than the headline CPI inflation. It was noted that especially growth in services prices remained elevated, particularly due to strong wage growth amidst the relatively high share of wages in the costs of this sector. Certain Council members drew attention to the fact that in March 2024 annual price growth of a significant proportion of goods and services included in the CPI basket still exceeded 3.5%.

The Council members pointed out that recently the sharp fall in industrial producer prices in annual terms had continued, confirming the fading of most of external supply shocks and limited cost pressure. Together with the relatively low – despite some acceleration – economic activity growth this had been conducive to limiting inflation. It was judged that inflation was also curbed by the appreciation of the zloty exchange rate, which was consistent with the fundamentals of the Polish economy. Some Council members indicated that the current level of interest rates was a factor that should limit inflationary pressure also in the medium term. These Council members underlined that inflation expectations were running at low levels.

When discussing the inflation outlook, Council members pointed out that according to the available forecasts, in 2024 Q2 CPI inflation would remain at a level consistent with the NBP inflation target of 2.5% ± 1 p.p., although it would most likely continue to rise in the coming months, due to higher food and energy price growth. At the same time, the Council members noted that developments in energy prices in the subsequent quarters were still subject to high uncertainty. Should subsidies to energy prices be fully or partially removed, inflation would rise significantly in the second half of 2024, exceeding the NBP inflation target. In turn, should energy prices be kept unchanged, inflation in the second half of 2024 would rise much weaker, running close to the upper limit of deviations from the inflation target.

When referring to the medium-term outlook, it was pointed out that the growth in food prices driven by the increase in the VAT rate, and the expected increase in energy prices in the second half of 2024, might also influence inflation expectations. However, it was indicated that although higher food and energy prices might raise wage demands and upward pressure on social benefits, at the same time they would reduce growth in household disposable income, contributing towards lower demand pressure. The Council members noted that the further development of wage growth was the main risk factor for the medium-term inflation outlook. It was pointed out that the transmission of higher wages to prices might depend on many factors, including the speed of the recovery in domestic economic activity, changes in corporate profitability, and households' propensity to save.

The Council members noted that fiscal policy remained a risk factor for the inflation outlook. It was stressed that so far some of the declared fiscal measures had still not been implemented, such as the increase in the amount of social benefits or the introduction of new ones. The persistence of other significant sources of uncertainty was also underlined, including, among others, the tense geopolitical situation, commodity price developments and the economic conditions in the environment of the Polish economy.

The majority of Council members assessed that despite the observed economic recovery, demand and cost pressures in the Polish economy remained low, which, amidst weakened economic conditions and falling inflation pressure abroad, supported lower domestic inflation. As a result, it is expected that in 2024 Q2 annual CPI growth will run at the level consistent with the NBP inflation target. This will be accompanied by lower than in the previous quarters inflation net of food and energy prices, although – due to elevated growth in services prices – it will stay above the CPI inflation. In subsequent quarters, inflation developments are, however, associated with substantial uncertainty related i.a. to the impact of fiscal and regulatory policies on price developments, including on inflationary expectations, as well as the pace of economic recovery in Poland and labour market conditions. It was emphasised that should energy prices be raised, inflation might rise significantly in the second half of 2024. Alongside that, over the medium term demand pressure in the economy will be stimulated by significant wage growth, stemming, among others, from wage increases in the public sector. Against this background, 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.

A view was expressed that given the elevated core inflation, as well as the expected further recovery in demand and high wage growth, the current level of NBP interest rates was too low to ensure the sustainable return of inflation to the target in the medium term.

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 4-5 June 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 economic conditions in the environment of the Polish economy remain weakened, despite some recent improvement. In 2024 Q1, the annual GDP growth in the euro area was low, while in the United States it remained relatively high. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies – after a marked decline in 2023 – was still running slightly above the central banks inflation targets in recent months. Inflation was driven down by the reduction of cost pressures reflected in low producer price growth, and by the weak activity growth in many economies. At the same time, core inflation remains above headline inflation amid elevated growth in services prices.

In Poland, a gradual economic recovery continues. According to Statistics Poland preliminary estimate, GDP grew by 2.0% y/y in 2024 Q1 (compared to 1.0% y/y in 2023 Q4). The GDP growth was positively affected primarily by a rebound in consumption demand. By contrast, annual investment growth declined markedly. In April 2024, industrial production and retail sales were higher, while construction and assembly output was lower than a year ago.

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 April 2024 was lower than a year ago. At the same time, the wage growth continues to be high.

According to the Statistics Poland flash estimate, annual CPI inflation in May 2024 was 2.5% (against 2.4% in April 2024). In May 2024, annual energy price growth, including fuels, increased. In turn, annual growth in prices of food and non-alcoholic beverages declined slightly. Considering the Statistics Poland data, it can be estimated that inflation net of food and energy prices decreased again in May 2024. In April 2024, the annual fall in producer prices remained significant, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the relatively low – despite some acceleration – economic activity growth, it limits the growth in consumer prices. The Council judges that inflation is also curbed by the appreciation of the zloty exchange rate, which is consistent with the fundamentals of the Polish economy.

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 lower inflation pressure abroad curbs domestic inflation. As a result, in 2024 Q2 annual CPI growth will run at the level consistent with the NBP inflation target. This will be accompanied by lower than in the previous quarters inflation net of food and energy prices, although – due to elevated growth in services prices – it will stay above the CPI inflation.

In subsequent quarters, inflation developments are, however, associated with substantial uncertainty, related i.a. to the impact of fiscal and regulatory policies on price developments, including on inflation expectations, as well as to the pace of economic recovery in Poland and labour market conditions. Should energy prices be raised, inflation will increase in the second half of 2024. Alongside that, over the medium term, demand pressure in the economy will be stimulated by a marked 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.

Information from the meeting of the Monetary Policy Council held on 2-3 July 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 economic conditions in the environment of the Polish economy are still weakened, despite some recent improvement. In the first half of 2024, the annual GDP growth in the euro area was probably low, while in the United States it remained relatively high. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies – after a marked decline in 2023 – was still running slightly above the central banks inflation targets in recent months. Inflation was driven down by the reduction of cost pressures reflected in low producer price growth, and by the weak activity growth in many economies. At the same time, core inflation remains above headline inflation amid elevated growth in services prices.

In Poland, a gradual economic recovery continues, as indicated by the retail sales growth, while activity in the industry and construction sectors is still weakened. In the labour market unemployment remains low and the number of working persons continues to be high, although employment in the enterprise sector in May 2024 was lower than a year ago. At the same time, the wage growth is still running on the high level.

According to the Statistics Poland flash estimate, annual CPI inflation in June 2024 was 2.6% (against 2.5% in May 2024). In June, annual growth in prices of food and non-alcoholic beverages increased, while annual energy price growth declined. Considering the Statistics Poland data, it can be estimated that inflation net of food and energy prices in June was lower than in the previous month. In May 2024, the annual fall in producer prices remained significant, which confirms the fading of most external supply shocks and a reduction of cost pressures. Together with the relatively low – despite some acceleration – economic activity growth, it limits the growth in consumer prices. The Council judges that inflation is also curbed 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 July 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 14 June 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.1 – 4.3% in 2024 (against 2.8 – 4.3% in the March 2024 projection), 3.9 – 6.6% in 2025 (compared to 2.2 – 5.0%) and 1.3 – 4.1% in 2026 (compared to 1.5 – 4.3%). At the same time, the annual GDP growth – according to the projection – will be with a 50-percent probability in the range of 2.3 – 3.7% in 2024 (against 2.7 – 4.3% in the

March 2024 projection), 2.8 – 4.8% in 2025 (compared to 3.2 – 5.3%) and 1.9 – 4.3% in 2026 (compared to 2.0 – 4.5%).

In the Council's assessment, incoming data indicate that despite the observed economic recovery, demand and cost pressures in the Polish economy remain relatively low, which amidst weakened economic conditions and lower inflation pressure abroad curbs domestic inflation pressure. However, demand pressure in the domestic economy is stimulated by a marked wage growth, stemming i.a. from wage increases in the public sector.

In the coming quarters, the consumer price growth is likely to increase and will be running above the NBP inflation target, which will be driven by the raised energy prices. When the effects of the energy price increase fade – amid the current NBP interest rates level – inflation should return to the medium-term NBP target, although the impact of higher energy prices on the inflation expectations is an uncertainty factor. The inflation developments over the medium term will be also affected by the further fiscal and regulatory policy measures, the pace of economic recovery in Poland and the labour market conditions.

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 July projection based on the NECMOD model covers the period from 2024 Q2 to 2026 Q4. The starting point for the projection is 2024 Q1.

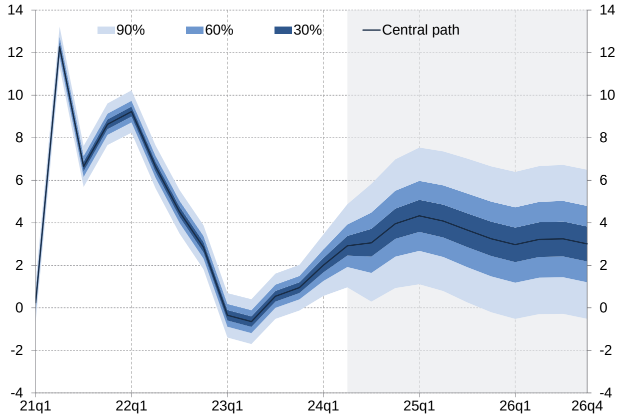
The projection was prepared under the assumption of unchanged NBP interest rates, including a reference rate of 5.75%. The cut-off date for the data used in this projection is 14 June 2024.

4.1 Summary

In 2024 Q1, Poland's GDP was running 2.0% higher than a year earlier, which means an acceleration of economic growth from 1.0% y/y recorded in 2023 Q4. At the same time, the scale of the recovery is somewhat smaller than expected in the March projection. Along with the further fading of the effects of the earlier supply shocks in the global commodity markets, in the coming quarters the domestic economic recovery can be expected to continue. Initially, in 2024, the main driver of the recovery will be growth in private consumption, since household disposable income is supported by fiscal measures and high wage growth. In 2025, investment will join consumption as the important source of growth, along with an expected sharp increase in the inflow of EU funds under the new 2021-2027 framework. However, the domestic economic conditions will be supported by external demand only to a slight degree due to the assumption 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%, and by the lower scale of shielding measures on food and energy prices for households. In April 2024 the VAT rate on staple food products rose to 5%, while the *Act of 23 May 2024 on the energy voucher and on amending certain laws to reduce the prices of electricity, natural gas and system heating* introduced the principles for the gradual abandonment of the current method of energy tariff regulation for households. As a result, following a recovery in economic activity in the years 2024-2025, GDP growth will slow down again in 2026.

In the first half of 2024, CPI inflation declined significantly compared to the high readings in 2023 and reached a level consistent with the medium-term NBP inflation target of 2.5% +/-1 percentage point. In the coming quarters price growth will

Figure 4.1 GDP (y/y, %)



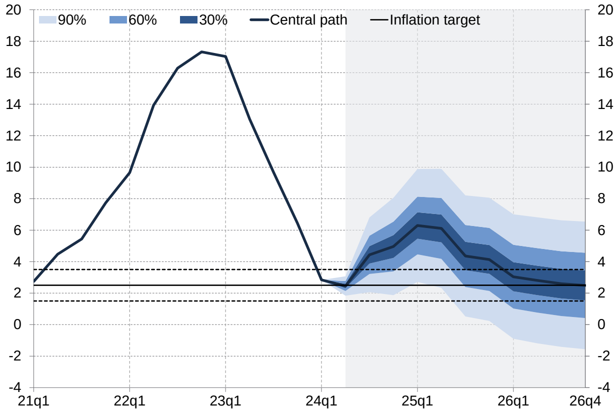
Source: Statistics Poland (GUS) data, NBP calculations.

Fan charts depict the probability distribution of possible outcomes of GDP growth (Figure 4.1) and inflation rate (Figure 4.2). 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. The skewness of the distribution is obtained from the analysis of several alternative scenarios together with the assigned probabilities of their realisation. 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: Buński P., Rybaczyk B., 2016, Fan Chart – A Tool for NBP's Monetary Policy Making, Narodowy Bank Polski Working Paper, No 241).

temporarily rise, reaching its peak in 2025 Q1. This will be mainly driven by the reduction of the previous measures shielding households and firms from the effects of the earlier rise in global commodity prices, with the strongest effect on energy prices. In the coming quarters, domestic food price inflation will additionally be boosted by unfavourable weather conditions affecting fruit harvests and by another increase in global agricultural commodity prices. At the same time, the downward trend of core inflation will slow down due to the rebound of consumer demand and growing costs of enterprises, in particular payroll expenses. Over the further projection horizon, the factors boosting energy and food price growth will fade and the slowdown in GDP growth will translate into a decline in demand pressure. As a result, in 2026 the CPI inflation rate will return to the 2.5% +/-1 p.p. band of deviations from the NBP inflation target, which will also be supported by slower growth in labour costs and limited growth in import prices due to low inflation in the environment of the Polish economy.

The course of the war in Ukraine as a result of the Russian aggression, the conflict in the Middle East and the trade tensions between the United States and the European Union on the one hand and China on the other, are the most important sources of risk to future global commodity prices, global economic growth and the global supply chains. In the case of domestic factors, significant uncertainty is related to the impact of energy price growth on household inflation expectations and future wage growth, the extent to which the current wage increase will translate into private consumption and demand pressure as well as the persistence of services price inflation. The balance of uncertainty factors indicates a symmetric distribution of risks for CPI inflation and economic growth running around the central path over the projection horizon (Figure 4.1, Figure 4.2).

Figure 4.2 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 4.1.

4.2 External environment

Economic growth

Incoming data and information from the euro area indicate that the recovery in this economy will proceed gradually, at a rate close to the expectations of the March projection (Table 4.1). However, the rebound in the services sector is accompanied by the persistence of the downturn in industry. The recovery in the euro area will be supported by the expected easing of monetary policy (Figure 4.3) and by measures taken under the NextGenerationEU recovery programme.

The economic situation in the United States is more favourable, as a result of which, in the years 2024-2026, GDP growth in this economy will be much 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 monetary policy tightening is largely a result of the earlier significant easing of fiscal policy during the pandemic. The curbing of inflation in this economy, alongside a favourable labour market situation, supports growth in real household income. At the same time, in view of the continuing influx of immigrants, labour supply in the United States will most likely grow at a faster rate than previously estimated.

Inflation and commodity markets

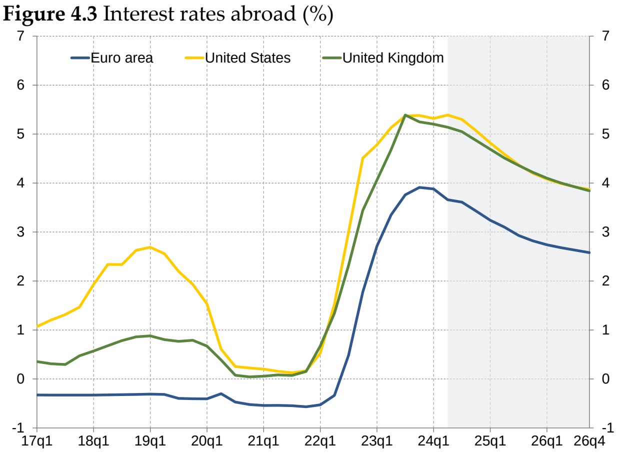
Global energy commodity prices are running significantly below the peak of 2022, but still exceed their pre-pandemic levels. Their prices are affected by persistent supply constraints in some markets, including those related to geopolitical tensions in the Middle East (see Chapter 1.3 *Global commodity markets*). Compared to the previous projection, natural gas prices have risen significantly in view of a marked increase in transport costs of this commodity to Europe and of coal, which is used as a substitute for gas in the generation of electricity. The weakened global economic conditions limit demand for oil, but the

Table 4.1 GDP abroad – July projection versus March projection

	2024	2025	2026
GDP in Euro Area (y/y, %)			
July 2024	0.8	1.3	1.3
March 2024	0.7	1.3	1.2
GDP in Germany (y/y, %)			
July 2024	0.3	1.1	1.2
March 2024	0.2	1.2	1.0
GDP in United States (y/y, %)			
July 2024	2.5	2.0	2.0
March 2024	2.3	1.9	1.9
GDP in United Kingdom (y/y, %)			
July 2024	0.9	1.2	1.4
March 2024	0.3	1.1	1.4

Source: NBP calculations.

Figure 4.3 Interest rates abroad (%)



Source: Bloomberg data, NBP calculations.

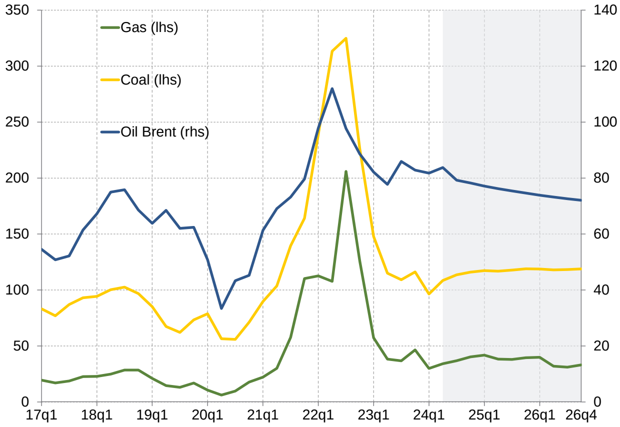
policies conducted by the OPEC+ countries counteract the decline in the prices of this commodity.

Futures quotes suggest that global prices of energy commodities will run at a relatively stable level over the projection horizon, somewhat above the assumptions of the previous projection (Figure 4.4, Figure 4.5). The expected increase in oil production in the non-OPEC countries, including the United States, will offset a rise in demand for this commodity driven by the global economic recovery. The rise in prices of natural gas in the European market will, in turn, be limited by the high level of supplies of this commodity, and measures aimed at reducing its consumption in Europe and increasing the capabilities to import natural gas from other sources than Russia.

Recent weeks have also seen an increase in some global agricultural commodity prices. In particular, this concerned wheat due to the expected global supply deficit of this commodity in the current and future farming season. Increased uncertainty about the future level of production and export due to unfavourable weather conditions, in turn, contributes to higher prices for other agricultural commodities. Futures quotes suggest a gradual fall in agricultural commodity prices in the years 2025-2026 along with a normalisation of supply conditions and reduced impact of disruptions resulting from the Russian aggression (Figure 4.5).

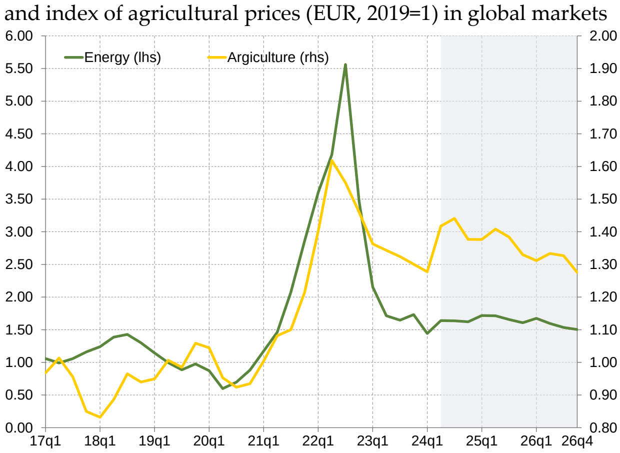
The fall in inflation in the environment of the Polish economy, supported by the fading of the earlier tensions in commodity markets and in supply chains as well as low activity growth in some economies, slowed down in recent months (Figure 4.5). Disinflation processes in the global economy were curbed by the stabilisation of energy commodity prices following a period of sharps falls. Nevertheless, price growth in Poland's main trading partners will persist over the projection horizon at a subdued level, supported by a merely moderate rebound of demand and the fading of most of the supply shocks boosting inflation in the

Figure 4.4 Brent oil prices (USD/b), natural gas (TTF, USD/MWh) and hard coal (Richards Bay, USD/t)



Source: Bloomberg data.

Figure 4.5 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, and oilseed, allowing for weights reflecting the consumption structure of Polish households.

past (Figure 4.6). At the same time, in the major developed economies the disinflation process will be limited by the high persistence of service price inflation.

Uncertainty

Europe and the world continue to see heightened geopolitical risks related to the Russian aggression in Ukraine, the conflict in the Middle East and trade tensions between the United States and the European Union on the one hand, and China on the other. 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 monetary and fiscal policy on the major economies. The above risk factors are more extensively discussed in Chapter 4.5 *Forecast uncertainty sources*.

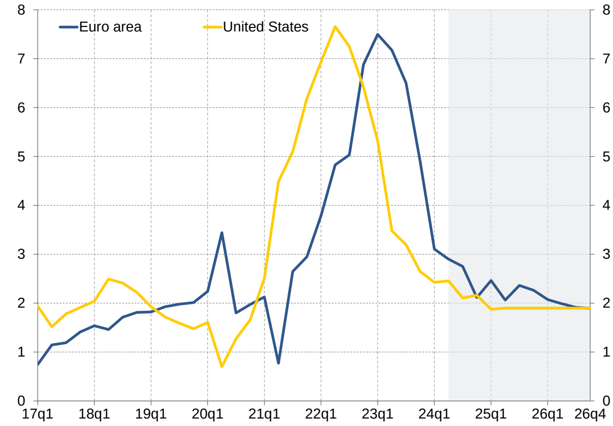
4.3 Polish economy in 2024-2026

Legislative changes affecting the projected paths of GDP and CPI inflation

In response to severe disruptions in global commodity markets, since 2022 shielding measures have been in place to protect households and businesses from the impact of rising commodity prices. As these prices started to fall in 2023, these measures have been gradually scaled back. Some recent changes include the reinstatement of the 5% VAT rate on staple foods as of April 2024. Furthermore, the scale of subsidies to energy bills for households and some other entities as defined by *Act of 23 May 2024 on the energy voucher and on amending certain laws to reduce the prices of electricity, natural gas and system heating* has been reduced since July 2024. These changes have a significant impact on developments in food and energy prices in the coming quarters.

In particular, the statutory price caps on natural gas prices for households expired at the beginning of

Figure 4.6 Change in gross value added deflator (y/y, %)



Source: Bloomberg, Eurostat data, NBP calculations.

the second half of 2024. At the same time, the ceiling for electricity and system heat prices has been raised as of July 2024. These prices are to remain in place until the end of 2024 for electricity, and mid-2025 for thermal energy. As of July 2024, the freeze on the distribution charges for electricity and gas has been lifted. However, at the same time, the collection of the capacity charge has been suspended from 1 July to 31 December 2024 in order to reduce the scale of growth in electricity bills for households. Overall, the above changes will translate into a temporary, yet significant rise in energy price inflation between 2024 Q3 and 2025 Q4. On the other hand, the energy voucher, i.e. a one-off cash benefit targeted at lower-income households, will be introduced.

Like in the March round, the July projection includes a range of legislative changes which significantly increase household disposable income. At the beginning of this year, significant wage increases were introduced for teachers (a 30-33% increase) as well as public servants and uniformed service employees (a 20% increase). The overall cost of these rises in 2024 is estimated at 1.2% of GDP. Furthermore, as of 1 January 2024, the amount of the “Family 500 plus” child benefit was increased to PLN 800 per child. Additional benefits for the disabled were introduced, along with new rules regarding care benefits for carers of disabled people who take up employment or other remunerated work. As of 1 October 2024, the “Active Parent” programme is to come into effect, increasing childcare subsidies for children up to the age of three compared to the Family Care Capital paid to date. The total cost of the above changes to social transfers is estimated at 0.8% of GDP in 2024 and 0.9% of GDP in 2025-2026 (see Table 4.2).

Economic activity

According to the Statistics Poland (GUS) preliminary estimate, Poland’s economic growth accelerated to 2.0% y/y in 2024 Q1, from 1.0% y/y recorded in 2023 Q4. As the effects of supply shocks in the global energy commodity markets recede

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

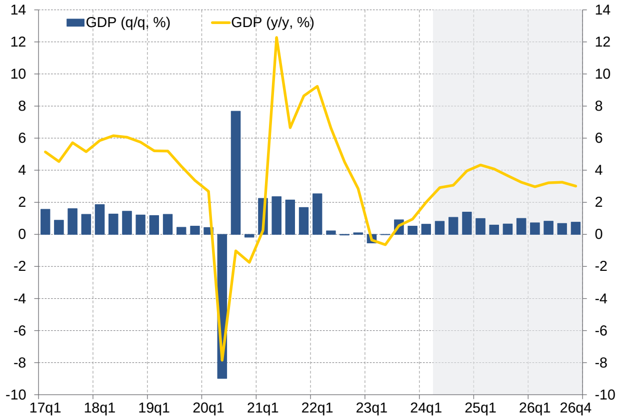
	2024	2025	2026
Increase in child benefit ("Family 500 plus" programme)	0.7	0.6	0.6
Support and care allowances	0.1	0.1	0.1
“Active Parent” programme*	0.0	0.2	0.1
Total increase in social transfers	**0.8**	**0.9**	**0.9**

Source: NBP calculations based on the government estimates.
Numbers are rounded to one decimal place.
* The cost of introducing the "Active Parent" programme while withdrawing the "Family Care Capital" programme.

further, the recovery in the domestic economy can be expected to continue in the coming quarters (Figure 4.7, Figure 4.9). Initially, in 2024, it will be driven chiefly by rising private consumption, supported by the fiscal measures aimed at increasing household disposable income (see *Legislative changes affecting the projected paths of GDP and CPI inflation)* and robust wage growth. In 2025, with the expected surge in the inflow of EU funds under the 2021-2027 financial framework, investment will start acting as a key growth driver alongside consumption (Figure 4.8). In contrast, given the merely moderate scale of recovery in the euro area, external demand will only be a minor factor in the recovery in the domestic economy. The forecast GDP growth in Poland is constrained by the projection's assumption of interest rates remaining unchanged, including the reference rate of 5.75%, and a reduction in the scale of shielding measures on food and energy prices for households.

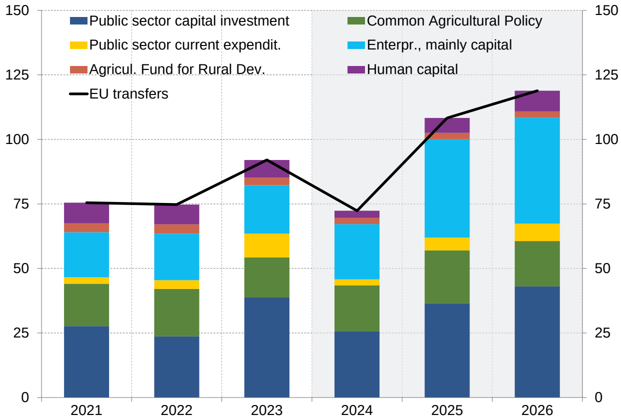
In 2024 Q1, households increased their consumption by 4.6% y/y (Figure 4.10). The process of consumption recovery from the 2023 decline will continue in the coming quarters, supported by high growth in real disposable income in this sector. This results from the rapidly rising nominal wages and higher social benefits, amid a significant fall in inflation relative to 2023. Given that households seek to smooth the consumption path over time, consumption growth in 2024 will remain slower than income growth. This will allow households to replenish savings, depleted during the period of high inflation. At the same time, the propensity to save is boosted over the entire projection horizon by the relatively high real interest rate due to the assumption that NBP interest rates will remain stable, while average annual inflation is significantly lower than in 2023. The findings of the GUS consumer sentiment survey indicate that respondents' assessments of their ability to save are close to their all-time highs. Between 2025 and 2026, consumption growth will subside in tandem with slower growth in their disposable income. In

Figure 4.7 Economic growth



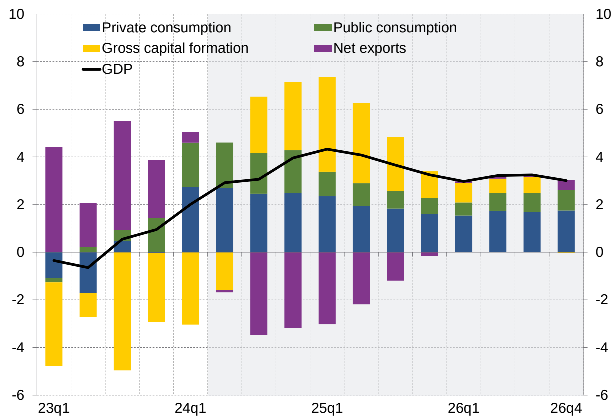
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.8 Expenditure financed by EU funds (in PLN billion) – breakdown



Source: NBP calculations.

Figure 4.9 GDP growth (y/y,%) – breakdown



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

addition to the gradually slackening wage growth, which is expected to return to a rate close to labour productivity growth, this will be supported by the stabilisation in the level of social benefits as assumed in the projection.

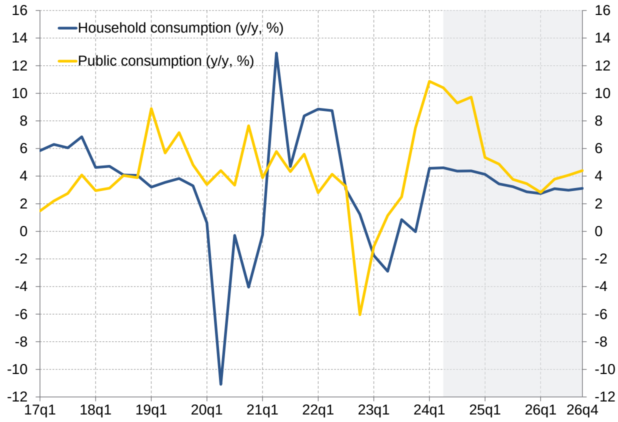
In 2024, gross fixed capital formation growth falls to 1.7% against a 13.1% increase in 2023. This is mainly driven by slower growth in public sector investment (Figure 4.11), due to a fall in capital transfers from the EU as spending under the 2014-2020 financial framework comes to an end (Figure 4.12). On the other hand, the increase in spending in 2024 is boosted by the recovery in housing investment supported by the 2% Safe Mortgage programme and the improvement in the financial situation of households.

In 2025, investment demand growth will pick up again, fuelled by higher absorption of EU funds under the 2021-2027 financial framework. The need to increase the stock of productive capital resulting from the reduced investment rate during the pandemic, the low degree of automation and robotisation of Polish industry and rising labour costs will also act in the same direction. This scenario is supported by the findings of the NBP Quick Monitoring Survey[39] indicating that the planned change in the scale of investment over a one-year horizon has increased, with a stabilisation in this indicator over a quarterly horizon.

In 2026, on the back of the increasingly tangible effects of higher NBP interest rates and slower growth in EU fund inflows, investment growth will slow down again.

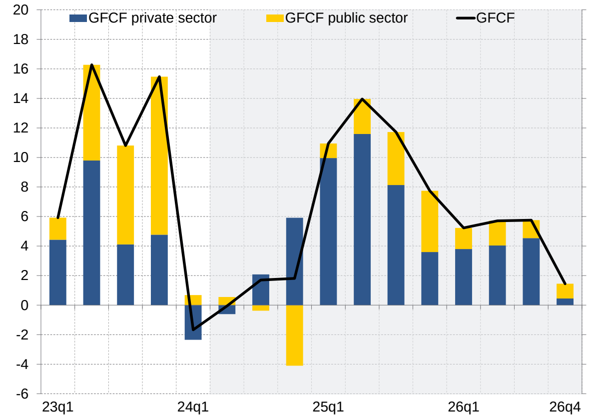
Between 2024 and 2025, the contribution of net exports to GDP growth will decline and become firmly negative. The decline in the trade balance can be attributed to the markedly weaker export growth largely related to the downturn in Poland's main trading partners and a slowdown in world trade, with a simultaneous improvement in the

Figure 4.10 Household and public consumption



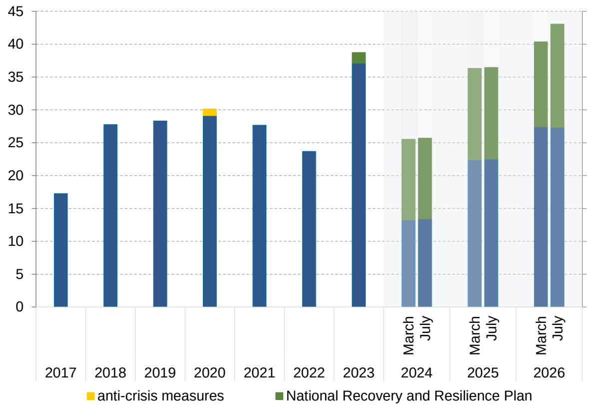
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.11 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 4.12 Use of EU funds for public investment (PLN billion)

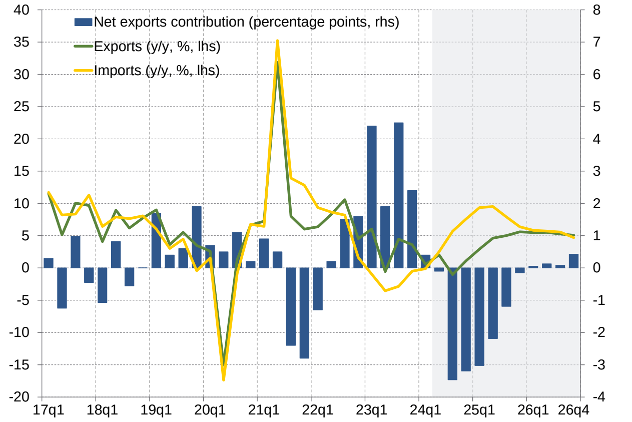


Source: MFiPR, Statistics Poland (GUS) data, NBP calculations.

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

pace of import growth associated with the recovery at home. In 2026, the trade balance will improve again in line with slowing domestic demand growth.

Figure 4.13 Foreign trade



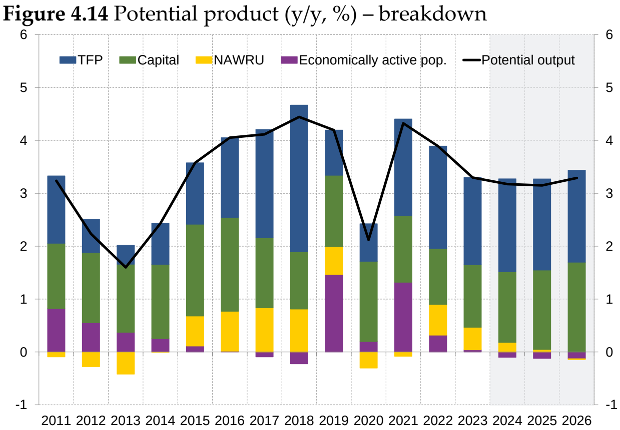
Source: Statistics Poland (GUS) data, NBP calculations.

Potential output and the output gap

In the current projection, potential output growth is expected to average 3.2% y/y over the years 2024-2026, i.e. close to its long-term average (Figure 4.14).

The potential of the domestic economy in the projection horizon will be positively affected by the higher corporate investment rate, boosting productive capital growth, as well as activation of refugees from Ukraine[40] and the inflow of migrants from other countries increasing labour supply. On the other hand, potential GDP growth in 2024-2026 will be adversely affected by demographic changes in the Polish population, reflected in a fall in the number of people of working age, which reduces the number of economically active and employed people.

Figure 4.14 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.

As a result of the sharp decline in GDP growth in 2023, the output gap – a synthetic measure of demand pressure in the economy – has narrowed significantly and turned negative (Figure 4.16). As domestic economic activity improves in the coming quarters, the negative gap will gradually close. The slowdown in GDP in 2026 will contribute to a new easing of demand pressure, supporting the disinflation process in the Polish economy.

Labour market

In 2024 Q1, the number of working persons, which has a lagged response to economic fluctuations, fell by 0.8% y/y following the slowdown in GDP growth in the previous year (Figure 4.17). Consequently, the unemployment rate adjusted for seasonal factors grew to 3.0%. Along with the acceleration of GDP growth in the coming quarters,

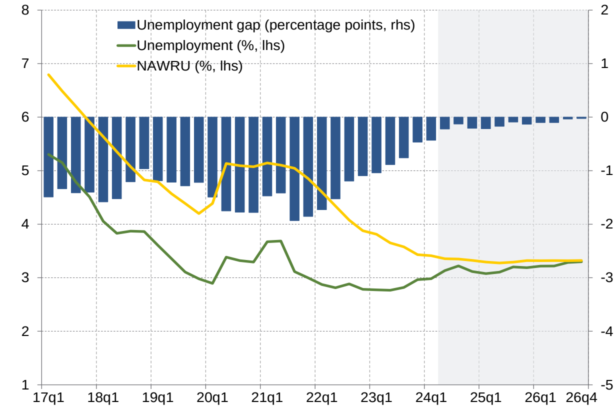
[40] The inflow of immigrants is only partially reflected in LFS statistics due to the methodology of the survey. Consequently, the projection assumed that this will be manifested in total factor productivity (TFP) growth.

the unemployment rate will decrease somewhat, hitting a low point in 2025 Q1. The possibility of its more marked adjustment to the increased level of economic activity is limited by the still low share of the unemployed in labour supply – despite an increase in recent quarters – and hence small availability of a free labour pool. In addition, some labour demand is satisfied by the growing presence of migrants in the domestic labour market, which is reflected in the LFS survey findings only to a minor extent (Figure 4.15, Figure 4.17, Figure 4.18). In 2026, as economic growth slows down, the unemployment rate will again pick up slightly.

Wage growth in 2024 Q1 accelerated to 14.3% y/y on the back of wage rises for employees of the public sector, including teachers and university lecturers, introduced by the government as well as the increase in the minimum wage (Figure 4.19). In the following quarters of 2024, nominal wage growth will decline, as indicated in the findings of the NBP Quick Monitoring Survey[41], pointing to companies' lower propensity to raise wages and the smaller scale of planned pay rises. However, wage growth will decline only moderately over the year, due to another increase in the minimum wage from July 2024 and accelerating economic activity.

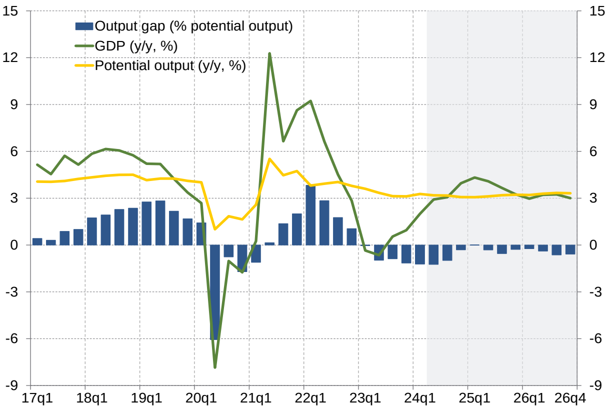
In the years 2025-2026, nominal wage growth will decline markedly following the significantly slower price growth than in recent years. This is because the disinflationary process is factored into the wage-setting mechanism with some delay. Slower wage growth will also be supported by the anticipated increase in the share of migrants in the labour force, the assumed significantly lower minimum wage rises than in previous years and, in 2026, a slowdown in GDP growth. Given the above circumstances, real wage growth in the years 2025-2026 will converge to labour productivity growth.

Figure 4.15 Unemployment



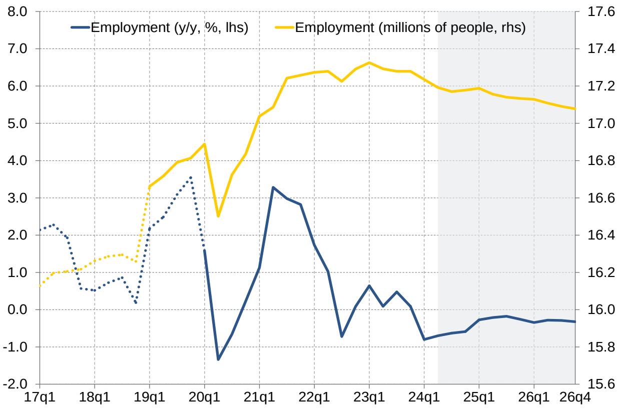
Source: Statistics Poland (GUS) data, NBP calculations.
$NAWRU_t$ – non-accelerating wage rate of unemployment in the equilibrium. The LFS unemployment data before 2019 and from 2019 are not fully comparable – see note to Figure 4.17.

Figure 4.16 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 4.17 Employment



Source: Statistics Poland (GUS) data, NBP calculations.
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 2019 Q1 to 2023 Q3, making periods before 2019 Q1 not comparable with later periods, which also leads to a distortion of growth rates in the y/y terms for employment in 2019.

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

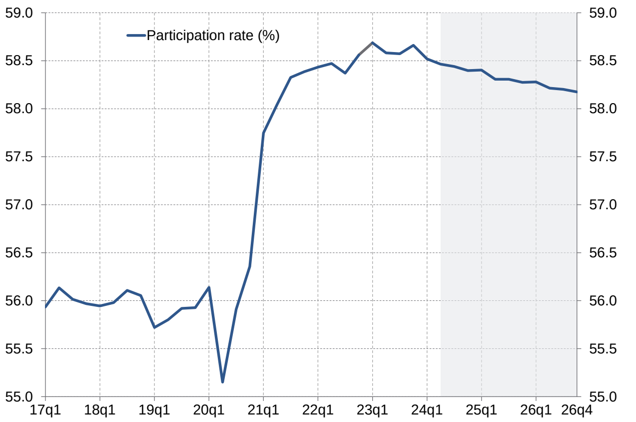
CPI inflation

In the first half of 2024, CPI inflation declined significantly compared to the high 2023 readings, reaching a level consistent with the medium-term inflation target of 2.5% +/- 1 percentage point. In the coming quarters, price growth will rise again temporarily, peaking in 2025 Q1 (6.3% y/y).

The key driver of CPI inflation will be the rise in energy prices associated with the scaling back of the regulation of energy carrier prices previously introduced as part of the government's anti-inflationary measures (see section *Legislative changes affecting the projected paths of GDP and CPI inflation*). As a result of the regulatory changes higher electricity, gas and system heat charges for households have been effective since July this year. Under the current legislation, the next significant increase in these prices will occur in January 2025, when price caps on electricity prices for households are to expire, the capacity charge will be reinstated and regulated system heat prices will increase. Energy price inflation will embark on a downward trend in 2025 Q3 due to the base effect related to the tariff rises introduced in the corresponding period of 2024.

Accelerated consumer price growth in the coming months will also be driven by higher food price inflation, stemming from a range of overlapping factors. The rapidly rising wages are boosting corporate costs. Moreover, the restoration of the 5% VAT rate on staple foods adds to the increase in their prices. Factors acting to accelerate food price growth will also include the anticipated decline in fruit crops in the 2024/2025 season, caused by unfavourable weather conditions in the spring, and high agricultural commodity prices in the global markets. In 2024 Q3, food price growth in annual terms is further influenced by base effects related to the mounting price competition between the largest retailers in the Polish food market observed since July 2023.

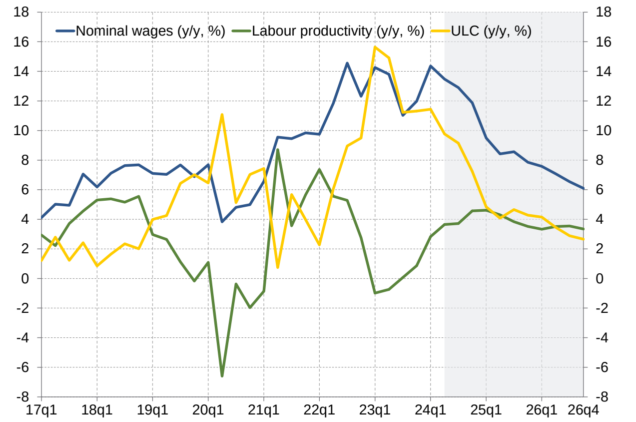
Figure 4.18 Labour force participation



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

The data before 2019 and from 2019 are not fully comparable – see note to Figure 4.17.

Figure 4.19 Unit labour cost

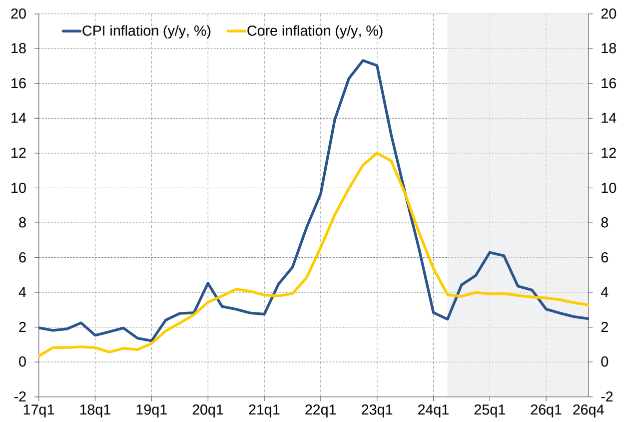


Source: Statistics Poland (GUS) data, NBP calculations.

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.

With regard to the data on growth rates in the y/y terms for unit labour cost (ULC) and labour productivity before 2020 - see note to Figure 4.17.

Figure 4.20 CPI and core inflation



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

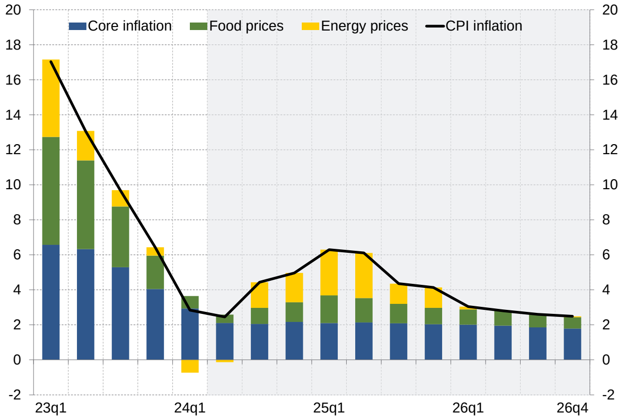
The increase in energy and food price inflation in the coming quarters will be accompanied by a slower decline in core inflation. Besides the rapidly rising labour costs, this will be driven by the rebound in consumer demand, supported by fiscal measures boosting household disposable income (see section *Legislative affecting the projected paths of GDP and CPI inflation*). In addition, in the second half of 2024, core inflation is increased by the base effect related to the expansion of the list of eligible persons for free medicine in 2023.

Following a sharp rise in the CPI index, further on in the projection horizon the disinflation process in the Polish economy will continue. Apart from the expiry of the factors pushing energy and food price growth up, the process will be supported by a decline in labour costs and easing of demand pressure. This is reflected in the evolution of the output gap, which, assuming unchanged NBP interest rates (including the reference rate at 5.75%), will drop markedly below zero in 2026. Modest growth in import prices, stemming from low inflation in the external environment of the Polish economy, will be yet another factor contributing to slower consumer prices growth (Figure 4.20). As a consequence, in 2026 the CPI index will return to the tolerance band around the NBP inflation target, set as 2.5% +/- 1 percentage points. (Figure 4.20, Figure 4.21).

4.4 Current versus previous projection

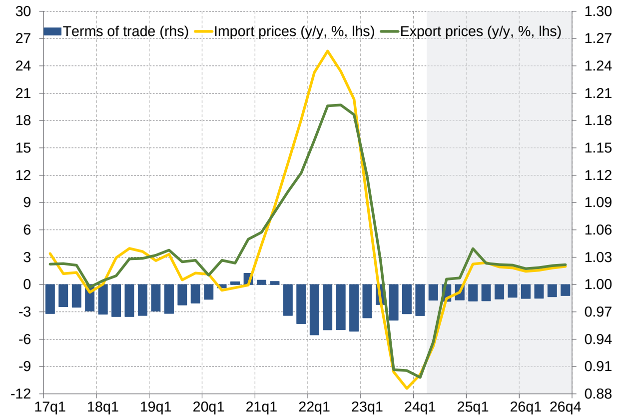
Data and information released after the cut-off date of the March projection have contributed to a downward revision of the economic growth forecast and an upward revision of the CPI inflation forecast for the years 2024-2025. At the same time, the expectations for these variables in 2026 have not changed significantly (Table 4.3, Figure 4.24, Figure 4.25, Figure 4.26, Figure 4.27). The comparison concerns the March projection variant prepared with the assumption of the maintenance of shielding measures on food and energy prices over the whole projection horizon,

Figure 4.21 CPI inflation (y/y, %) – breakdown



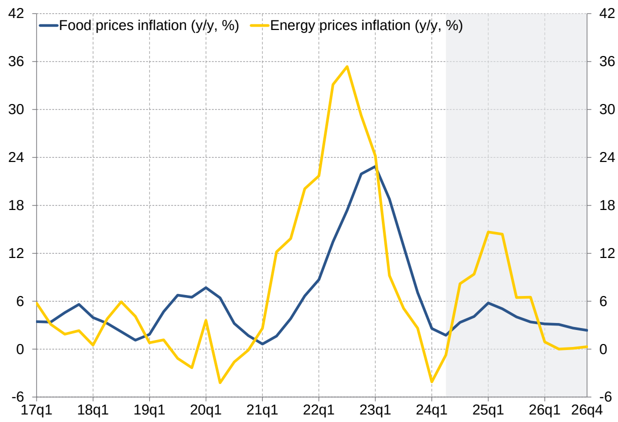
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 4.22 Export and import prices



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

Figure 4.23 Food and energy price inflation



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

which in the previous forecasting round played the role of the central scenario.

The most important factor shifting the CPI inflation path upwards in 2024-2025 compared to the March projection is the legislative changes that were introduced after the closure of the previous projection, which boost energy and food price growth. The *Act of 23 May 2024 on the energy voucher and on amending certain laws to reduce the prices of electricity, natural gas and system heating* introduces the principles for gradually moving away from the current way of regulating energy tariffs for households. As a result, growth in prices of electricity, natural gas and system heating will be higher in 2024-2025 than in the previous forecasting round. At the same time, food prices will be boosted by the 5% VAT rate on staple food products, which was restored on 1 April 2024 (These legal changes are more extensively discussed in the section L*egislative changes affecting the projected paths of GDP and CPI inflation*).

Higher global energy and agricultural commodity prices than in the previous forecasting round also contributed to the upward revision of the path of energy and food prices. In the coming quarters, food prices will also be boosted by unfavourable weather conditions in spring 2024, impacting on domestic fruit prices.

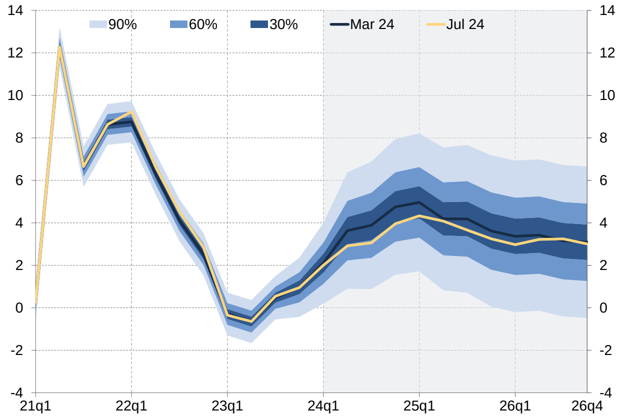
However, the scale of the upward revision of consumer price growth in the central scenario is limited by the weakening demand pressure reflected in the narrowing output gap compared to the March projection. This is a result of the worse-than-expected data on economic activity in the first half of 2024, indicating a significant spillover of the downturn abroad, including in the German economy, into the economic situation in Poland. Domestic GDP growth over the projection horizon is also negatively affected by the assumption of a significant reduction in energy and food price shielding measures. At the same time, however, a reduction in the scope of these measures, in view of the higher path of energy prices, may contribute to

Table 4.3 July projection versus March projection

	2023	2024	2025
GDP (y/y, %)			
July 2024	3.0	3.8	3.1
March 2024	3.5	4.2	3.3
CPI inflation (y/y, %)			
July 2024	3.7	5.2	2.7
March 2024	3.0	3.4	2.9

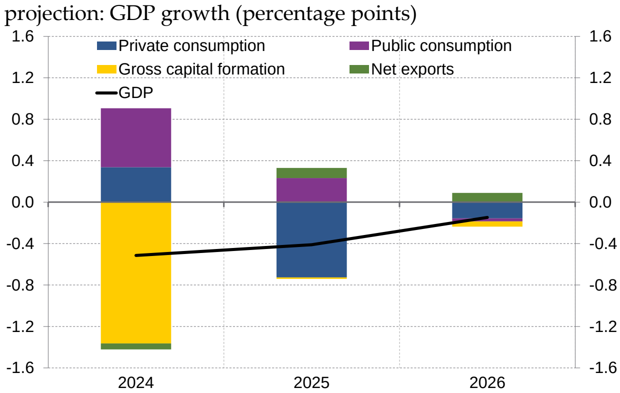
Source: NBP calculations.

Figure 4.24 July projection versus March projection: GDP growth (y/y, %)



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

Figure 4.25 Decomposition of deviations between July and March projection: GDP growth (percentage points)



Source: NBP calculations.

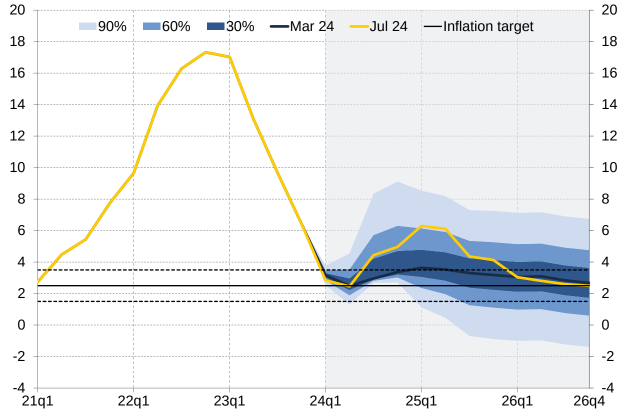
The data presented in the chart may vary slightly from those in Table 4.3, due to rounding of numbers to one decimal place.

an increase in inflation expectations and nominal wage growth, thus weakening the pass-through to prices of lower demand pressures. The downward revision of GDP growth compared to the March projection is also influenced by the upward revision of the path of energy commodity prices, impacting on the operating costs of enterprises and additionally lowering household income in real terms.

4.5 Forecast uncertainty sources

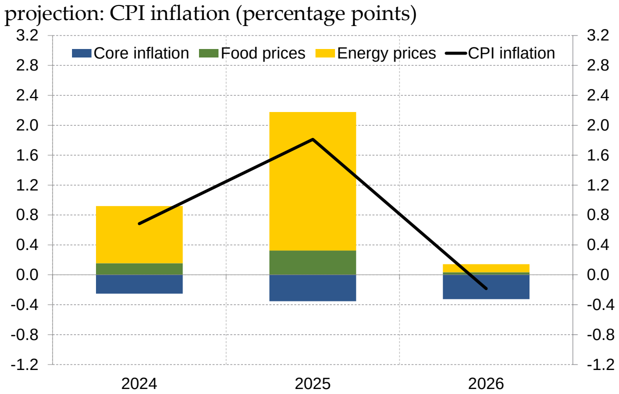
The central scenario of the projection, presenting the most likely macroeconomic developments in Poland, is subject to uncertainty reflected in the fan charts (Figure 4.1, Figure 4.2). The future economic situation and the path of CPI inflation in Poland is dependent on the shape of the country's fiscal policy. Among the domestic factors, significant uncertainty is also related to the impact of energy price growth on household inflation expectations and wage growth in the future, the extent to which the current wage increases translate into private consumption and demand pressure, as well as the persistence of service price inflation. Apart from domestic conditions, an important source of risk in the projection is the further course of military conflicts around the world and the development of future trade relations between the United States and the European Union on the one hand, and China on the other. Another external source of uncertainty in the current forecasting round is the fiscal and monetary policy in the major developed economies. The balance of uncertainty factors indicates a close to symmetric distribution of risks for GDP growth and CPI inflation (Table 4.4).

Figure 4.26 July projection versus March projection: CPI inflation (y/y, %)



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

Figure 4.27 Decomposition of deviations between July and March 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.

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%)
24q3	0.02	0.09	0.26	0.50	0.24
24q4	0.03	0.09	0.22	0.50	0.19
25q1	0.01	0.04	0.10	0.50	0.09
25q2	0.02	0.06	0.13	0.50	0.11
25q3	0.11	0.21	0.36	0.50	0.25
25q4	0.13	0.24	0.39	0.50	0.26
26q1	0.26	0.41	0.57	0.50	0.32
26q2	0.29	0.45	0.61	0.50	0.32
26q3	0.33	0.48	0.64	0.50	0.32
26q4	0.34	0.50	0.66	0.50	0.32

Source: NBP calculations.

Domestic risks

An important risk factor in the projection is the future shape of fiscal policy. This uncertainty is related, firstly, to the possible entry into force of pending and announced legislation, which to a large extent adds to expansionary fiscal policy. It includes a rise in the social pension, the introduction of survivor's pension for widows and a voucher scheme financing long-term care for the elderly, an increase in the funeral allowance, and a new housing programme "Flat for a Start". Possible changes also include an increase in the tax-free amount for individuals, and a reduction in the taxation of profits from savings. The implementation of the new fiscal measures would contribute to stronger 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, the probable inclusion of Poland in the excessive deficit procedure in 2024, might incline the government to pursue a more restrictive fiscal policy in the longer-term projection horizon. Under these conditions, a lower GDP path than the one in the central scenario could be expected, which would support a more rapid fall in core inflation in Poland.

Besides fiscal measures, the GDP growth and CPI inflation paths over the projection horizon will remain sensitive to future regulatory conditions in the electricity and natural gas market in Poland. Uncertainty is related not only to the future level of energy prices, but also their impact on household inflation expectations and, subsequently, wage growth. The scale of pass-through of the currently elevated wage growth into private consumption and the level of demand pressure is also an important internal source of uncertainty. In view of the persistence of service price inflation, the pace at which the impact of past supply shocks on the level of these prices expires is also a significant risk factor for the future core inflation path.

Armed conflicts around the world

Significant risk factors in the environment of the Polish economy are related to ongoing armed conflicts around the world, including, in particular, the Russian aggression against Ukraine. Given its close geographical proximity to both sides of the conflict, Poland remains sensitive to its future course. Uncertainty is most pronounced regarding the scale and direction of foreign capital flows in the domestic economy and the developments in the zloty exchange rate. A significant change in the dynamics of the Russian aggression against Ukraine and in response to it, a tightening or easing of the scope of the economic sanctions imposed by Western countries on Russia, may translate into a different level of global energy and agricultural commodity prices than assumed in the projection. The further course of the armed conflicts in other regions of the world, including in the Middle East, is another risk factor for the future path of energy and agricultural commodity prices.

Monetary and fiscal policy in major developed economies

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 the 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 the 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 fiscal measures in euro area countries and the United States is another risk factor significantly influencing the future path of GDP and the disinflationary process in both economies. In particular, this concerns the future level of public expenditure connected with the transformation and modernisation of energy infrastructure. In the European Union, uncertainty is also related to the future path of expenditure on army expansion in light of the reinstatement of fiscal rules. Additional uncertainty regarding the economic outlook in this economy is associated with a possible change in EU policies following the European Parliament elections in June this year.

Trade policy of the largest economies

The trade tensions between the largest economies are another risk factor for the development of the economic situation around the world and in Poland. In particular, this concerns the shape of future relations between the United States and the European Union on the one hand, and China on the other. In the case of an escalation of protectionist measures in the form of increasing or imposing new tariffs on goods from China by the United States and the European Union, alongside retaliatory action by China, global trade growth will most likely be curbed. At the same time, growing uncertainty regarding the conditions for doing business in China in the future, might result in a shift of FDI flows in the most sensitive sectors towards other regions of the world, including Poland.

Table 4.5 Central path of inflation and GDP projection

	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	2.8	2.5	4.4	5.0	6.3	6.1	4.4	4.1	3.0	2.8	2.6	2.5	11.4	3.7	5.2	2.7
Core inflation (CPI net of food and energy prices, %, y/y)	12.0	11.6	9.7	7.4	5.4	3.9	3.8	4.0	3.9	3.9	3.8	3.7	3.7	3.6	3.4	3.3	10.1	4.2	3.8	3.5
Food prices (%, y/y)	22.9	18.8	12.9	7.1	2.6	1.7	3.3	4.1	5.8	5.1	4.0	3.4	3.2	3.1	2.6	2.4	15.1	2.9	4.6	2.8
Energy prices (%, y/y)	24.2	9.2	5.1	2.6	-4.1	-0.7	8.2	9.4	14.7	14.4	6.5	6.5	0.9	0.0	0.1	0.3	9.8	3.1	10.3	0.3
GDP (%, y/y)	-0.4	-0.6	0.5	1.0	2.0	2.9	3.1	4.0	4.3	4.1	3.7	3.3	3.0	3.2	3.2	3.0	0.2	3.0	3.8	3.1
Domestic demand (%, y/y)	-4.8	-2.6	-4.1	-1.5	1.7	3.3	7.2	7.8	7.9	6.7	5.2	3.6	3.0	3.2	3.3	2.7	-3.2	5.1	5.8	3.1
Household consumption (%, y/y)	-1.8	-2.9	0.8	0.0	4.6	4.6	4.4	4.4	4.1	3.4	3.2	2.9	2.7	3.1	3.0	3.1	-1.0	4.4	3.4	3.0
Public consumption (%, y/y)	-1.1	1.1	2.5	7.5	10.9	10.4	9.3	9.7	5.3	4.9	3.8	3.5	2.8	3.8	4.1	4.4	2.8	9.4	4.3	3.8
Gross fixed capital formation (%, y/y)	6.0	16.5	11.3	15.8	-1.8	-0.2	1.7	1.8	10.9	14.0	11.7	7.7	5.2	5.7	5.8	1.5	13.1	1.7	11.0	4.5
Contribution of net exports (percentage points, y/y)	4.4	1.9	4.5	2.4	0.4	-0.1	-3.5	-3.2	-3.0	-2.2	-1.2	-0.1	0.1	0.1	0.1	0.4	3.3	-1.7	-1.6	0.2
Exports (%, y/y)	6.0	-0.6	4.5	3.6	0.5	2.0	-1.0	1.1	2.9	4.6	5.0	5.6	5.5	5.5	5.3	5.1	3.4	0.8	4.5	5.3
Imports (%, y/y)	-1.0	-3.5	-2.9	-0.5	-0.1	2.5	5.7	7.6	9.3	9.5	7.9	6.4	5.8	5.7	5.6	4.7	-2.0	4.2	8.3	5.4
Gross wages (%, y/y)	14.3	13.8	11.0	12.0	14.4	13.5	12.9	11.9	9.5	8.4	8.6	7.9	7.6	7.1	6.5	6.1	12.8	12.9	8.6	6.8
Total employment (%, y/y)	0.6	0.1	0.5	0.1	-0.8	-0.7	-0.6	-0.6	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	0.3	-0.6	-0.2	-0.3
Unemployment rate (%)	2.8	2.8	2.8	3.0	3.0	3.1	3.2	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.3	2.8	3.1	3.1	3.3
NAWRU (%)	3.8	3.7	3.6	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.6	3.4	3.3	3.3
Labour force participation rate (%, y/y)	58.7	58.6	58.6	58.7	58.5	58.5	58.4	58.4	58.4	58.3	58.3	58.3	58.3	58.2	58.2	58.2	58.6	58.5	58.3	58.2
Labour productivity (%, y/y)	-1.0	-0.7	0.1	0.9	2.8	3.6	3.7	4.6	4.6	4.3	3.8	3.5	3.3	3.5	3.5	3.3	-0.2	3.6	4.1	3.4
Unit labour cost (%, y/y)	15.6	14.9	11.2	11.3	11.4	9.8	9.1	7.2	4.8	4.1	4.7	4.3	4.2	3.5	2.9	2.7	13.2	9.3	4.5	3.3
Potential output (%, y/y)	3.6	3.3	3.1	3.1	3.3	3.2	3.2	3.1	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.2	3.1	3.3
Output gap (% potential GDP)	0.0	-1.0	-0.9	-1.2	-1.2	-1.2	-1.0	-0.3	0.0	-0.3	-0.5	-0.3	-0.2	-0.4	-0.6	-0.6	-0.8	-0.9	-0.3	-0.5
Index of agricultural commodity prices (EUR; 2019=1.0)	1.36	1.34	1.32	1.30	1.28	1.42	1.44	1.38	1.38	1.41	1.38	1.33	1.31	1.33	1.33	1.28	1.33	1.38	1.37	1.31
Index of energy commodity prices (USD; 2019=1.0)	2.15	1.71	1.65	1.73	1.44	1.64	1.64	1.62	1.72	1.71	1.66	1.61	1.68	1.60	1.54	1.50	1.81	1.58	1.67	1.58
Gross value added deflator abroad (%, y/y)	6.3	5.7	5.1	3.7	2.5	2.6	2.5	2.2	2.4	2.0	2.2	2.1	2.0	2.0	1.9	1.9	5.2	2.4	2.2	2.0
GDP abroad (%, y/y)	1.0	0.7	0.4	0.4	0.5	0.7	0.9	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	0.6	0.9	1.4	1.3
Current account balance (% GDP)	-0.8	-0.1	0.9	1.6	1.2	1.6	1.0	0.4	0.1	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7	-0.5	1.6	0.4	-0.7	-0.5
WIBOR 3M (%)	6.93	6.90	6.50	5.76	5.86	5.86	5.86	5.86	5.86	5.86	5.86	5.86	5.86	5.86	5.86	5.86	6.52	5.86	5.86	5.86

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

For the majority of variables, the values up to 2024Q1 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 February – May 2024[42]

Date: 7 February 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:	Against:
J.B. Tyrowicz	A. Glapiński I.K. Dąbrowski I. Duda W.S. Janczyk C. Kochalski L. Kotecki P. Litwiniuk G. Masłowska H.J. Wnorowski

Date: 6 March 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:	Against:
J.B. Tyrowicz	A. Glapiński I.K. Dąbrowski I. Duda W.S. Janczyk C. Kochalski L. Kotecki P. Litwiniuk G. Masłowska H.J. Wnorowski

[42] This chapter does not include voting on resolution no. 2/2024, 3/2024 and 4/2024 of 8 May 2024, which will be published in the Court and Commercial Gazette (*Monitor Sądowy i Gospodarczy*) within the statutory period of time i.e. by 7 August 2024. Voting on these resolutions will be included in the next *Inflation Report* – November 2024.

■ Date: 6 March 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

■ Date: 3 April 2024

Subject matter of motion or resolution:
Resolution no. 1/2024 on approving the annual financial report of Narodowy Bank Polski prepared as of 31 December 2023.

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 April 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 May 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

nbp.pl