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

During the discussion at the meeting of the Monetary Policy Council it was noted that the economic conditions in the immediate environment of the Polish economy remained weakened. In 2024 Q2 annual GDP growth in the euro area remained low. It was emphasised that particularly weak economic conditions persisted in Germany, where in 2024 Q2 annual, seasonally adjusted GDP growth was 0%. Incoming data for 2024 Q3 in this economy also remained weak, indicating that the prospect of recovery has again receded. It was pointed out that the weak economic conditions in Germany might have an unfavourable impact on economic activity in Polish industry, particularly in the export sector. On the other hand, it was underlined that in the United States GDP growth remained high (slightly exceeding 3% y/y in 2024 Q2), although the unemployment rate was gradually rising.

When discussing inflation processes abroad, the Council members noted that in the largest economies price growth continued to run slightly above the inflation targets, although it had declined slightly in recent months. According to Eurostat flash estimate, inflation in the euro area fell to 2.2% in August. In the United States CPI inflation declined to 2.9% in July. It was pointed out that the process of lowering inflation in the major economies was slow as core inflation remained elevated, particularly due to the persistence of high service price growth amid fast wage growth.

The Council members pointed out that, following an earlier interest rates cut in June 2024, the European Central Bank decided to keep interest rates unchanged in July 2024. At the same time, the Federal Reserve of the United States had continued to stabilise interest rates in the recent period. It was pointed out that, amid a gradual decline in inflation in the major economies alongside the persistence of weak economic conditions in the euro area and growing unemployment in the United States, most financial market participants expected interest rates cuts in these economies in the coming months. At the same time, it was emphasised that interest rates in the environment of the Polish economy were significantly higher than the average for the years preceding the COVID-19 pandemic.

While discussing economic activity in Poland, it was noted that a gradual economic recovery was under way, although incoming data were mixed. According to Statistics Poland preliminary estimate, annual GDP growth stood at 3.2% in 2024 Q2 and was

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slightly higher than indicated by the July projection. A positive impact on GDP growth was primarily from growth in consumer demand, driven by strong growth in real incomes. Certain Council members drew attention to the positive annual growth in gross fixed capital formation in 2024 Q2, which was difficult to forecast, particularly taking into account the fall in investment in the sector of large and medium-sized enterprises. On the other hand, net exports had a negative contribution to GDP growth. Monthly data also point to a weakening of exports. It was pointed out that in July 2024 retail sales and industrial output posted positive annual growth; however, these increases were weaker than expected and growth in industrial output was mainly the result of the greater number of working days. The PMI index also did not show an improvement in the business conditions in manufacturing sector. It was assessed that the weakness of demand in Poland's main trading partners had a negative impact on economic conditions in industry, particularly in the export sector. Some Council members pointed out that – following a previous marked decline – profitability ratios in the non-financial enterprise sector had improved in 2024 Q2.

When referring to the labour market situation, it was noted that wage growth remained at an elevated, double-digit level. Wage growth in the national economy in 2024 Q2 proved to be faster than expected, which, however, was partly the result of the postponed effects of wage increases for teachers and some other public sector employees. It was indicated that a gradual decline in wage growth could be seen in the enterprise sector. Alongside that, it was noted that in July 2024 nominal wage growth in annual terms had slowed down, although it was mainly the effect of a sharp fall in wages in mining. It was underlined that the decline in wage growth – along with higher inflation – had translated into a slowdown in real wage growth in July 2024. At the same time, employment in the enterprise sector, primarily in industry, remained lower than a year earlier. Certain Council members underlined that dynamic wage growth was seen in many sectors of the economy and in surveys companies still often declared their willingness to increase wages over the next quarter, while the average scale of these planned increases was – in the assessment of these Council members – relatively high.

During the discussion, attention was drawn to the rising value of household loans in annual terms amid still low growth in corporate loans. It was pointed out that the annual growth in housing loans continued to be boosted by the effects of the now terminated "Safe Mortgage" programme. At the same time, monthly increases in housing loans denominated in PLN were positive in recent months, although lower than at the beginning of the year. Consumer credit is also on a steady rise. Certain Council members pointed out that the so-called loan repayment holidays were contributing to an increase in disposable income of some households.

At the meeting it was noted that in the first half of 2024 average inflation amounted to 2.7%, and was thus consistent with the inflation target. According to the Statistics Poland flash estimate, annual CPI inflation was 4.3% in August 2024 (compared to 4.2% in July 2024 and 2.6% in June 2024). The rise in inflation against June was mainly a result of increases in administered prices of energy carriers, as well as – albeit to a lesser extent – an increase in annual growth in prices of food and non-alcoholic beverages. At the same time, inflation net of food and energy prices was relatively stable in recent months following an earlier decline. It was assessed that service price growth was relatively high. In July 2024 the marked fall in industrial producer prices in annual terms continued. The majority of the Council members assessed that the rise in administered prices of energy carriers was a supply shock beyond the control of domestic monetary policy. Some members of the Council emphasised that current inflation was below the level of the NBP reference rate. Certain Council members noted that elevated price growth was observed in a large group of consumer goods and services.

While discussing the inflation outlook, the Council members pointed out that CPI inflation, including inflation net of food and energy prices, would probably rise somewhat in the coming period. Attention was drawn to the fact that in 2025 Q1 price growth might rise further, whereas the scale of this growth was fraught with uncertainty connected with decisions concerning administered prices of energy carriers. It was also emphasized that the increase in excise tax on alcohol assumed in the preliminary draft Budget Act, and much stronger increase in excise tax on tobacco products than planned in the so-called road map, would contribute to higher CPI growth in 2025. Certain Council members noted that according to the forecasts, core inflation would remain elevated in the coming quarters.

It was noted that the fiscal policy was one of the risk factors for the inflation outlook in the medium term. According to the preliminary draft Budget Act, the government is planning the 2025 public finance sector deficit in ESA2010 terms at the level of 5.5% of GDP, considerably above the level announced by the government in April 2024. It was assessed that – although the excessive deficit procedure had officially been initiated – the preliminary draft Budget Act for 2025 did not indicate fiscal policy tightening which would favour a reduction in inflationary pressure. Some Council members also indicated that not only the size of expenditure, but also its type structure were of considerable importance for inflation developments.

The majority of Council members assessed that despite the observed economic recovery, demand and cost pressures in the Polish economy remained relatively low, which, amid weakened economic conditions and lower inflation pressure abroad, curbed domestic inflation pressure. Consumer price growth is also constrained by the appreciation of the zloty exchange rate, which is consistent with the fundamentals of the Polish economy. However, price pressure in the domestic economy is stimulated by a marked wage growth, stemming, among others, from wage increases in the public sector. Alongside that, the rise in prices of energy carriers increases inflation significantly. This factor will continue to affect the annual inflation rate in the coming quarters. 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 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 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 inflation – including inflation net of food and energy prices – as well as the recovery in consumer demand and high wage growth, the current level of NBP interest rates, amid the current developments in inflation expectations, 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.

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