



## **Minutes of the Monetary Policy Council decision-making meeting held on 2 October 2024**

During the discussion at the meeting of the Monetary Policy Council, it was noted that economic conditions in the immediate environment of the Polish economy remained weakened. The Council members emphasised that incoming data suggested that in 2024 Q3, annual GDP growth in the euro area, including Germany – the Poland’s main trading partner – probably continued to be low. It was highlighted that in Germany, available data for 2024 Q3 signalled that the country had seen a further industrial output decline, which, coupled with other information from this economy, led to forecasts of economic recovery in Germany being repeatedly put off. The Council members expressed the view that the problems of the German economy might largely be of structural nature. It was noted that the weak economic conditions in Germany have an unfavourable impact on activity of Polish industrial enterprises, particularly exporters. Alongside that, it was emphasised that GDP growth in the United States probably remained high, although unemployment in this economy was somewhat higher in recent months than at the beginning of 2024.

When discussing inflation developments abroad, the Council members observed that price growth in the largest advanced economies had declined in recent months to levels close to their central banks’ inflation targets. At the same time, core inflation – both in the euro area and the United States – remains higher than headline inflation. The Council members underlined that core inflation continued to be elevated also in the countries of Central and Eastern Europe, which was related to high services price growth and a fast nominal wage growth.

During the discussion it was pointed out that in September 2024, the European Central Bank had cut interest rates once again. It was observed that the US Federal Reserve had also decided to cut interest rates in September, and the scale of the reduction, which was the first cut after a period of keeping interest rates unchanged, was larger than expected by most analysts.

While discussing economic activity in Poland, it was noted that a gradual economic recovery was under way in the first half of 2024, with recently incoming data being mixed. It was underscored that a rise in consumer demand, pushed up by real income growth, was likely to be the primary driver of GDP growth. Yet, it was observed that in July and August 2024, retail sales growth was slower than in 2024 Q2 and real retail sales were



running at a level close to that seen two years ago. In turn, consumer confidence improved somewhat in September 2024. The Council members emphasised that available data pointed to the still low activity in the manufacturing sector. In August 2024, industrial output declined by 1.5% y/y, with output growth being still significantly higher in the sections more domestic oriented than export oriented, due to weak demand from Poland's main trading partners.

When referring to the labour market situation, it was observed that annual wage growth in the enterprise sector was weaker than at the beginning of the year, but its decline was slow and, in effect, wage growth remained double-digit. Certain Council members pointed out that monthly wage growth in the enterprise sector also remained relatively high. At the same time, employment in the enterprise sector continues to decrease, and in August even somewhat more deeply.

During the discussion, attention was drawn to the gradually increasing annual growth in the value of bank loans, both to households and enterprises. However, it was emphasised that annual growth in housing loans continued to be boosted by the effects of the terminated "Safe Mortgage" programme.

At the meeting, it was observed that according to the Statistics Poland flash estimate, in September 2024 CPI inflation stood at 4.9% y/y (compared with 4.3% in August 2024). The Council members noted that the rise in inflation in recent months resulted mainly from increases in the administered prices of energy carriers and – though to a lesser extent – an increase in annual growth in the prices of food and non-alcoholic beverages. At the same time, attention was drawn to the fact that core inflation had probably also risen in September, due to, on the one hand, base effects, in particular related to the prices of medical and pharmaceutical products, and on the other – persistently high estimated growth in services prices, attributed to the still elevated wage growth. Nevertheless, it was emphasised that inflation net of food and energy prices remained lower than CPI inflation. The Council members observed that the increase in inflation in 2024 Q3 was in line with earlier predictions, in particular with the July projection of inflation and GDP. In August 2024 the marked fall in industrial producer prices in annual terms continued. The majority of the Council members emphasised that the increase in administered prices of energy carriers was a supply shock remaining beyond the impact of the domestic monetary policy.



While discussing the inflation outlook, the Council members pointed out that in 2024 Q4 price growth, including inflation net of food and energy prices, might remain at a similar level as in September 2024. It was emphasised that in 2025 Q1 headline inflation might increase further, yet the scale of this rise was subject to uncertainty related to decisions on administered prices of energy carriers. Certain Council members indicated in this context that no pass-through of energy carriers price growth to wage growth and inflation expectations had so far been observed, yet it was too early to assess whether this situation would continue. It was also emphasised that – apart from possible changes in the prices of energy carriers – higher CPI growth in 2025 would additionally be driven by the increases in the excise tax on alcohol and tobacco products assumed in the draft Budget Act. As regards core inflation, certain Council members also pointed out that – according to the current forecasts – core inflation would remain elevated in the subsequent quarters.

It was noted that fiscal policy is one of the risk factors for the medium-term inflation outlook. It was assessed that – despite the fact that the excessive deficit procedure had formally been launched – the draft Budget Act for 2025 did not indicate a tightening of fiscal policy, which would be conducive to limiting inflationary pressures. Certain Council members pointed out that not only the size of the expenditure but also its structure was important for assessing the impact of fiscal policy on inflation developments.

The Council members indicated that also the strength of economic recovery and further developments in the labour market were important risk factors for future inflation developments. Those Council members also highlighted uncertainty about commodity prices, in particular amid mounted tensions in the Middle East. Moreover, certain Council members pointed out the risks related to food prices.

The majority of the 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 pressures in the domestic economy are 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 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 – particularly amid high wage growth, the current level of NBP interest rates, amid the current developments in inflation expectations, was too low to ensure a 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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