NARODOWY BANK POLSKI

Monetary Policy Council

November 2024

Inflation Report

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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 28 October 2024, while the projection of inflation and GDP presented in Chapter 4 has been prepared taking into account data available until 22 October 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 *Inflation Report – July 2024*, economic conditions in the environment of the Polish economy have remained subdued. In 2024 Q2, annual GDP growth was low in the euro area, as well as in the economies of Central and Eastern Europe. In Germany, which is Poland's main trading partner, the economy was in stagnation. At the same time, in the United States GDP grew relatively fast. 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. Alongside that, the continued good situation in the labour markets and lower inflation, which was conducive to growth in real wages, supported higher economic activity growth.

Global inflation has significantly declined in the recent period. This was mainly due to a fall in inflation in the United States and the euro area to levels close to the inflation targets of their central banks, as well as weaker price growth in some emerging market economies. Factors contributing to lower global inflation included primarily a fall in energy price growth, and, to a lesser extent, a decline in core inflation, which, however, continued to be elevated in many economies. Against the background of the elevated nominal wage growth, services price growth continued to run above its long-term averages, although it eased slightly in some economies. Meanwhile, industrial goods price growth was weak owing to subdued demand and still limited cost pressure, as reflected in low annual industrial producer price growth.

In the recent period, energy commodity prices have been lower than the year before, and agricultural commodity prices instead have been marginally higher. At the same time, prices in both commodity groups were running above the average levels observed before the onset of the COVID-19 pandemic, supported by the persistent supply constraints in some markets, including those related to Russia's military aggression against Ukraine and geopolitical tensions in the Middle East.

Many central banks abroad have recently cut interest rates, as inflation has fallen to levels close to their inflation targets. The expectations of financial market participants implied from financial instruments point to a likely further decline in interest rates in most advanced economies over the horizon of a year, and their subsequent stabilisation above the levels observed before the onset of the pandemic.

Against this background, yields on government bonds in advanced economies were running close to their levels from the end of June 2024, yet remained higher than in the years preceding the COVID-19 pandemic, on average. At the same time, the exchange rate of the US dollar – compared to the level from the end of June 2024 – was weaker against the euro and the currencies of emerging market economies, and at a similar level against the currencies of the Central and Eastern European economies.

From February to June 2024, CPI inflation in Poland was running at a level consistent with the NBP inflation target (2.5% with a symmetric band for deviations of ±1 percentage point), and then picked up to 4.9% in September 2024 (compared to 2.6% in June 2024). The rise in inflation was mainly due to the partial unfreezing of electricity, natural gas and heating prices, and – albeit to a much lesser extent – an increase in the annual growth in the prices of food and non-alcoholic beverages. In September 2024, CPI inflation

excluding food and energy prices rose as well. As indicated by the data on retail sales in recent months – despite still high growth in nominal wages, including wage increases in the public sector – growth in consumer demand for goods declined, which constrained the rise in their prices, amid persistently elevated services inflation. At the same time, in recent months CPI growth was curbed by the relatively low cost pressure – connected with the consistently falling producer prices – and the stronger exchange rate of the zloty against major currencies than a year ago.

The first half of 2024 saw a recovery of economic activity in Poland. The incoming data for 2024 Q3 suggest in turn a likely slowdown in annual GDP growth, including consumption, in this period. In 2024 Q2, GDP growth accelerated to 3.2% y/y (from 2.0% y/y in 2024 Q1). As in 2024 Q1, growth in private consumption made the biggest positive contribution to GDP growth in 2024 Q2. Significantly positive was also public consumption's contribution to GDP growth. Following a decline in 2024 Q1, investment, in particular public investment, rose in annual terms in 2024 Q2. Alongside that, change in inventories had a curbing effect on GDP growth. In 2024 Q2, the contribution from net exports was negative for the first time in two years.

In the first half of 2024, the general government deficit (in ESA2010 terms) amounted to PLN 66.2 billion (3.9% of GDP) compared to a deficit of PLN 35.8 billion (2.2% of GDP) in the corresponding period of 2023. The marked surge in deficit was fuelled, among others, by changes in general government expenditure on social transfers in cash (mainly the increase in the amount of the "Family 500 plus" child benefit from PLN 500 to PLN 800) and on compensation of employees (wage rises for public sector employees and teachers, preschool teachers and academic teachers). Other factors which added to the deficit in the analysed period included higher than a year ago interest payments (an increase of 0.4 percentage points of GDP) and expenditure on gross fixed capital formation (an increase of 0.7 percentage points of GDP). In line with the autumn fiscal notification, the general government debt (in ESA2010 terms) in relation to GDP will reach 54.6% at the end of 2024 compared to 49.7% of GDP at the end of 2023.

In 2024 Q2, the financial situation in the non-financial enterprise sector improved compared to the preceding quarter, yet the aggregate gross financial result of the sector was still markedly lower than a year earlier. In quarter-on-quarter terms, the profitability of the sector improved, although remained lower than the year before, while its liquidity stayed relatively high.

The situation in the labour market has continued to be good in the recent period, including a low unemployment rate and high nominal wage growth. At the same time, the number of working persons was high and relatively stable, with mixed data on its dynamics. The annual growth in real wages in the national economy in 2024 Q2 was historically high, whereas the enterprise sector data for Q3 indicate a slower real wage growth due to higher inflation.

In late October, yields on Polish government bonds – similarly to bond yields in advanced economies – have run close to their end of June 2024 levels. At the same time, the zloty exchange rate against major currencies – following the earlier appreciation – in late October was close to the end of June 2024 level.

The growth rate of the broad money aggregate M3 amounted to 8.2% y/y in 2024 Q3 (compared to 8.5% y/y in 2024 Q2). Alongside that, loans of both households and corporates increased stronger than in 2024 Q2, in annual terms.

The current account balance as well as other external imbalance indicators evidence that the Polish economy is well balanced. In 2024 Q2, the current account surplus narrowed. This was mainly due to a deterioration in the balance of trade in goods. The balance of services also declined. The primary income balance, instead, increased but remained negative.

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 July and September 2024, together with the *Information from the meetings of the Monetary Policy Council* in October and November 2024. Chapter 5 presents the Monetary Policy Council voting records from the meetings held between May and September 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 22 October 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.6 – 3.7% in 2024 (against 3.1 – 4.3% in the July 2024 projection), 4.2 – 6.6% in 2025 (compared to 3.9 – 6.6%) and 1.4 – 4.1% in 2026 (compared to 1.3 – 4.1%). 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 – 3.1% in 2024 (against 2.3 – 3.7% in the July 2024 projection), 2.4 – 4.3% in 2025 (compared to 2.8 – 4.8%) and 1.7 – 4.0% in 2026 (compared to 1.9 – 4.3%). In the current round, inflation projection is associated with substantial uncertainty, related to price developments of energy carriers for households, which are to the significant extent determined by regulatory measures. The indicated probability intervals are spanned around the central path of a scenario assuming – in line with the currently applicable legal regulations – the further unfreezing of prices of energy carriers for households at the beginning of 2025. At the same time, the probability of inflation running below the central path in 2025 is higher than the probability of inflation running above it.

1. External developments

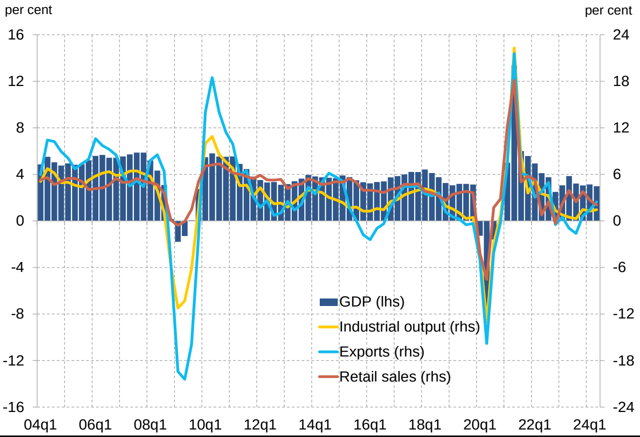
1.1 Economic activity abroad

Since the previous *Inflation Report*, economic conditions in the environment of the Polish economy have remained subdued (Figure 1.1). In 2024 Q2, annual GDP growth was low in the euro area as well as in the economies of Central and Eastern Europe. In Germany, which is Poland's main trading partner, the economy was in stagnation. At the same time, in the United States GDP grew relatively fast.

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. Alongside that, the continued good situation in the labour markets and lower inflation, which was conducive to growth in real wages, supported higher economic activity growth. This was accompanied by a gradual rise in the volume of global goods exports, following its earlier decline.[1] Activity growth in industry globally, and particularly in Europe, remained low and markedly weaker than in services.

In the euro area, GDP growth amounted to 0.6% y/y in 2024 Q2 (compared to 0.5% y/y in 2024 Q1;[2] Figure 1.2). The pickup in growth was driven by an improvement in the balance of foreign trade, as well as rising private and public

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

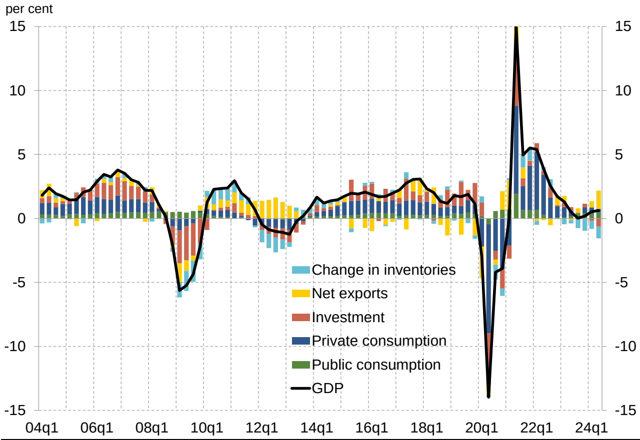


Source: LSEG Datastream, Centraal Planbureau, OECD, Eurostat, IMF and national statistical offices data, NBP calculations.
The growth in GDP, industrial output and retail sales are calculated using weights based on GDP expressed in purchasing power parity (PPP). The sample consists of 58 economies comprising 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, which is a result of, among others, rising geopolitical tensions and an increase in the tariffs between main economies. In recent months, the United States and Canada announced a significant increase in the tariffs on goods imported from China (including, among others, steel, aluminium and electric vehicles), and so did the European Union (on electric cars). China responded with retaliatory measures, including an increase in the tariffs on the imports of brandy from the EU and limits on exports of certain rare-earth elements to advanced economies. Moreover, both China and advanced economies are involved in a series of proceedings against each other concerning dumping and subsidising local producers.
[2] In quarterly terms, GDP in the euro area grew by 0.2% q/q in 2024 Q2 compared to growth of 0.3% q/q in 2024 Q1.

consumption, while investment and change in inventories dragged on GDP growth (Figure 1.2). In 2024 Q3, current economic activity indicators point to continued weak activity in industry and construction, accompanied by rising activity in the services sector. The labour market situation in the euro area remained good. Employment in 2024 Q2 rose by 0.9% y/y (compared to 1.1% y/y in 2024 Q1), and the unemployment rate in July and August 2024 reached again the lowest level in the euro area history (6.4%). The increase in nominal wages was still markedly higher than the historical average and amounted to 4.5% y/y in 2024 Q2. At the same time, economic conditions in the euro area varied across the largest economies. In particular, the German economy has remained close to stagnation since the end of 2022 (GDP growth in 2024 Q2 was 0.0% y/y), alongside a faster GDP growth in Spain (3.1% y/y in 2024 Q2), France (1.0% y/y) and Italy (0.6% y/y).

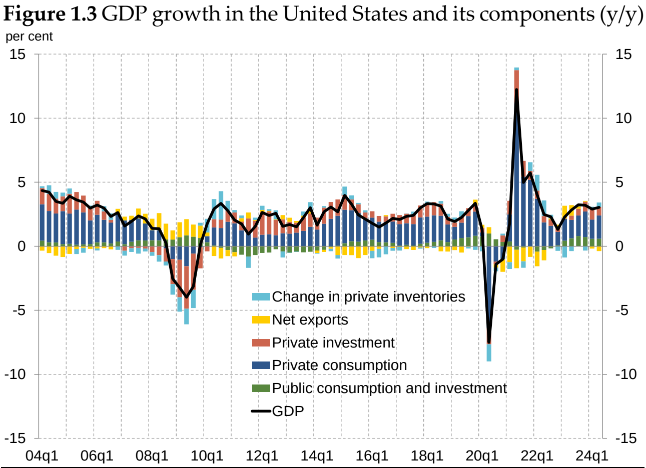
Figure 1.2 GDP growth in the euro area and its components (y/y)



Source: Eurostat data, NBP calculations.

In the United States, GDP growth amounted to 3.0% y/y in 2024 Q2 (compared to 2.9% y/y in 2024 Q1; Figure 1.3).[3] It was supported – similarly as in 2024 Q1 – by growth in domestic demand, mostly in private consumption. The labour market situation was favourable in 2024 Q3. Employment in non-agricultural sectors grew at a rate similar to that of 2024 Q2, and the unemployment rate – following a temporary rise – decreased to 4.1% in September, i.e. a level seen at the end of 2024 Q2. Meanwhile, nominal wage growth remained relatively high (4.0% y/y in September).

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



Source: Bureau of Economic Analysis data, NBP calculations.

In China, GDP slowed down to 4.7% y/y in 2024 Q2 (against 5.3% y/y in 2024 Q1). Compared to 2024 Q1, the positive contribution from consumption to economic growth declined, while the positive contribution from investment rose and the contribution from net exports continued at a high level. In 2024 Q3, GDP growth was 4.6% y/y.[4] Compared to 2024 Q2, the positive

[3] In quarterly terms, GDP in the United States grew by 3.0% q/q saar in 2024 Q2 compared to growth of 1.6% q/q saar in 2024 Q1.
[4] In quarterly terms, GDP in China reached 1.5% q/q in 2024 Q1, 0.5% q/q in 2024 Q2 and 0.9% q/q in 2024 Q3.

contribution from consumption to economic growth decreased, investment's contribution remained steady, while the positive contribution from net exports increased. Economic activity growth was further constrained by the persistent downturn in the real estate market.

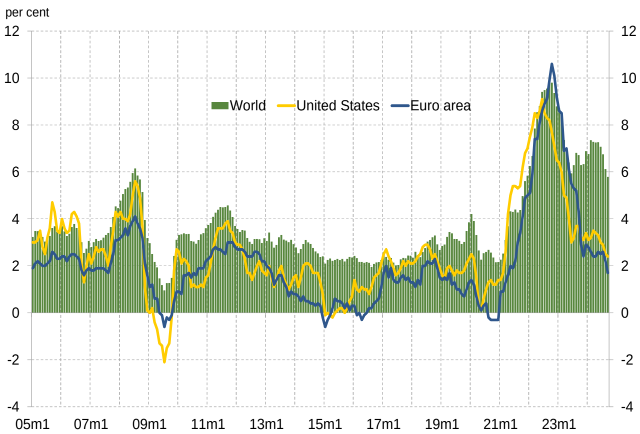
In the Central and Eastern European economies outside the euro area,[5] GDP growth slowed to 0.9% y/y in 2024 Q2 (against 1.3% y/y in 2024 Q1).[6] Economic growth in 2024 Q2 was mainly driven by private consumption and, to a lesser extent, by public consumption. In contrast, net exports were the primary element dragging on GDP growth, which reflected both a rebound in consumption demand and weak economic conditions among main trading partners, particularly in Germany. In 2024 Q2, the contributions to GDP growth from investment and changes in inventories were also negative. The labour market situation remained good. Employment in 2024 Q2 rose on average by 1.8% y/y (compared to 1.9% y/y in 2024 Q1), and the unemployment rate in July and August 2024 was running at a low level (4.4% on average, compared to 4.3% in 2024 Q2). Nominal wage growth remained high (10.9% y/y on average in 2024 Q2).

1.2 Inflation developments abroad

Since the previous *Report*, global inflation has declined significantly (Figure 1.4). This was mainly due to a fall in inflation in the United States and the euro area to levels close to the inflation targets of their central banks, as well as weaker price growth in some emerging market economies. In China, inflationary pressure remained low.

Factors contributing to lower global inflation included primarily a fall in energy price growth, and, to a lesser extent, a decline in core inflation,

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.

[5] The analysed group of countries includes the Czech Republic, Hungary and Romania.
[6] In quarterly terms, GDP growth in Central and Eastern European economies from outside the euro area rose to 0.2% q/q in 2024 Q2 compared to 0.1% q/q in 2024 Q1.

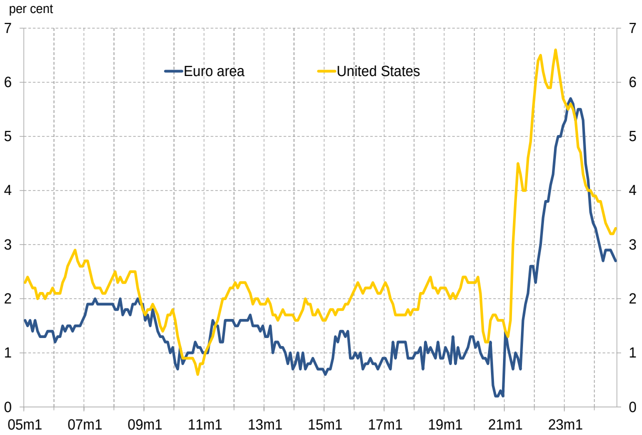
which, however, continued to be elevated in many economies (Figure 1.5). Against the background of the heightened nominal wage growth, services price growth continued to run above its long-term averages, although it eased slightly in some economies. Meanwhile, industrial goods price growth was weak owing to subdued demand and still limited cost pressure as reflected in low annual industrial producer price growth (Figure 1.6).

In the euro area, HICP inflation stood at 1.7% y/y in September 2024 (compared to 2.6% y/y in May 2024). The fall was mainly a result of a slowdown in energy price growth, which stood at -6.1% y/y (against 0.3% y/y in May 2024). Core inflation also declined slightly, although it remained higher than its long-term average (amounting to 2.7% y/y in September 2024 compared to 2.9% y/y in May 2024). The fall in core inflation was due to both softer industrial goods price growth and a slight decrease in services price growth, although the latter remained elevated (3.9% y/y in September 2024).

In the United States, CPI inflation declined to 2.4% y/y in September 2024 (compared to 3.3% y/y in May 2024), mainly on account of a fall in energy price growth in that period.[7] CPI core inflation amounted to 3.3% y/y in September 2024 (compared to 3.4% y/y in May 2024). Services price growth remained elevated (4.7% y/y), despite some moderation observed since May 2024. By contrast, annual goods price growth was still negative.

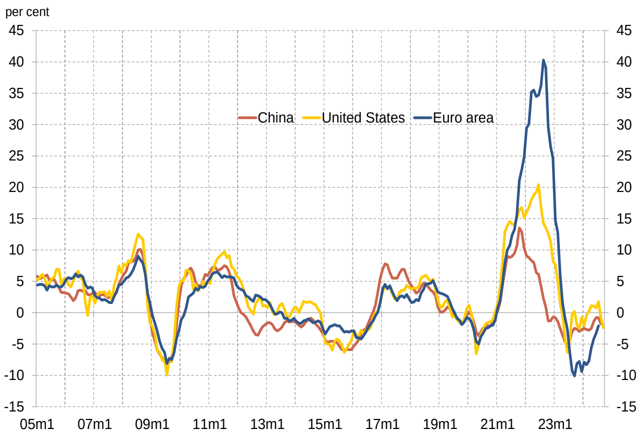
Among the Central and Eastern European countries outside the euro area, HICP inflation in September 2024 was lower than in May 2024 in Hungary (3.0% y/y compared to 3.9% y/y in May) and Romania (4.8% y/y compared to 5.8% y/y in May; Figure 1.7). In the Czech Republic, instead, HICP inflation was at the same level in

Figure 1.5 Core inflation rate in the United States and the euro area (y/y)



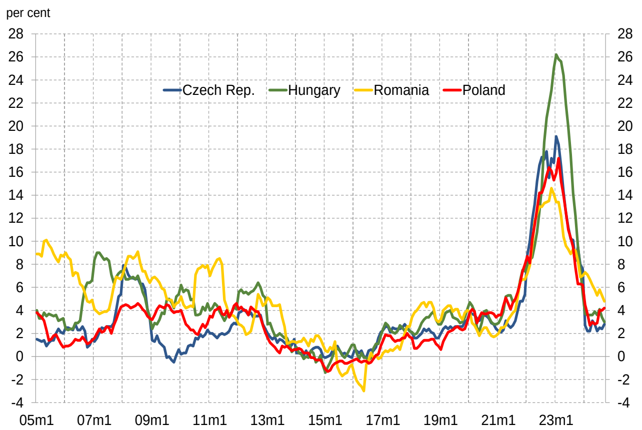
Source: Eurostat and Bureau of Labor Statistics data.
For the United States – CPI inflation excluding food and energy prices. For the euro area – HICP inflation excluding energy, food, alcohol and tobacco.

Figure 1.6 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 1.7 Harmonised indices of consumer price inflation (HICP) in selected economies of the Central and Eastern European region (y/y)

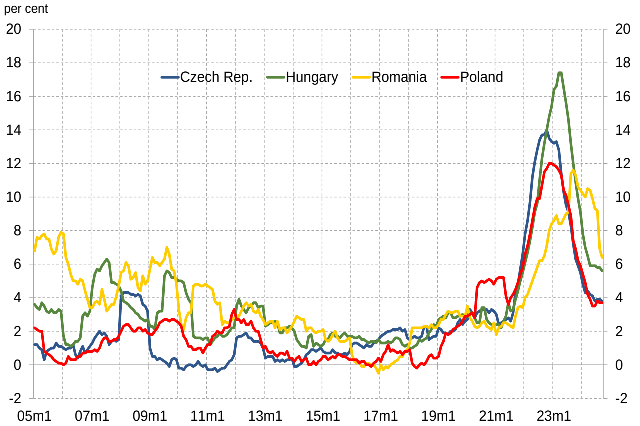


Source: Eurostat data.

[7] In turn, PCE inflation - to which the Federal Reserve's inflation target refers - amounted to 2.2% y/y in August 2024.

September as in May 2024 (2.8% y/y).[8] In each of these economies, energy price growth declined relative to May 2024. There was also a fall in inflation excluding the prices of energy, food, alcohol and tobacco (Figure 1.8), although it remained elevated amid continued services price growth above the long-term average (7.1% on average in September 2024). At the same time, food price growth increased.

Figure 1.8 Harmonised indices of consumer price inflation (HICP) excluding energy, food, alcohol and tobacco in selected economies of the Central and Eastern European region (y/y)



Source: Eurostat data.

1.3 Global commodity markets

In the recent period, energy commodity prices have been lower than the year before, and agricultural commodity prices[9] instead have been marginally higher. At the same time, prices in both commodity groups were running above the average levels observed before the onset of the COVID-19 pandemic,[10] supported by the persistent supply constraints in some markets, including those related to Russia's military aggression against Ukraine and geopolitical tensions in the Middle East.

The average price of Brent oil in October 2024 was 8% lower than in June and 14% lower than the year before (Figure 1.9). The decline in oil prices was driven by weaker demand for fuels associated with relatively slow activity growth in many economies across the world (see Chapter 1.1 *Economic activity abroad*), as well as – recently – the expectation of a gradual raising of production caps by OPEC+. At the beginning of October, oil prices temporarily rose sharply on the back of heightened geopolitical tensions in the Middle East and the related concerns about the continuity of oil supplies from the region. The supply of oil continues to be constrained by the production

Figure 1.9 Brent oil barrel price

Source: Bloomberg data.

[8] In this period, CPI inflation declined in Hungary (to 3.0% y/y in September compared to 4.0% y/y in May 2024) and Romania (4.6% y/y in September compared to 5.1% y/y in May 2024), while it remained unchanged in the Czech Republic (2.6% y/y).
[9] Average energy commodity prices in October 2024 were calculated using data up to 25 October 2024. In turn, the agricultural price index includes data up to 24 October 2024.
[10] In October 2024, oil, gas and coal prices were running 32%, 120% and 48% higher than the 2015-2019 average levels, respectively. Alongside that, agricultural commodity prices were 41% higher in October 2024 than the corresponding average.

limits used by OPEC+ as well as the maintenance of sanctions on Russia.

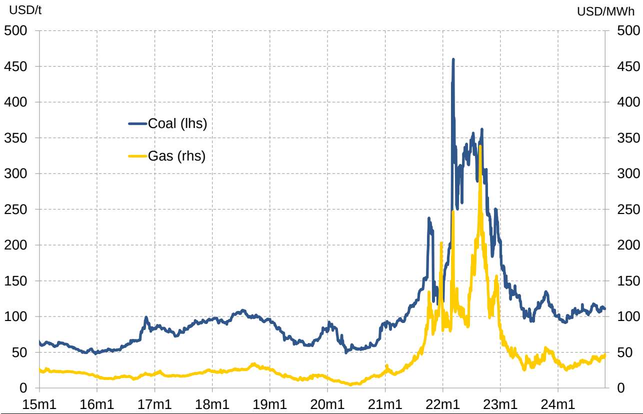
Since June 2024, natural gas and coal prices have increased by 18% and 3%, respectively, yet have remained lower than a year earlier (by 12% and 14% respectively; Figure 1.10). The rise in natural gas prices in recent months has been mainly related to geopolitical tensions in the Middle East, which have added to concerns about the availability of this commodity and led to higher costs of transporting liquefied natural gas (LNG) due to the need to use the significantly longer sea supply routes. Alongside that, the high oil stocks and the relatively weak demand in Europe, amid the large electricity production from renewable sources, had a downward effect on the price of this commodity. Developments in natural gas prices have also substantially affected the prices of coal and of greenhouse gas emission allowances.[11]

NBP's agricultural price index in October 2024 was 2% lower than in June, but 1% higher than a year before (Figure 1.11). The recent months have seen a rise, above all, in the prices of dairy products owing to higher demand and limited supply in Europe. At the same time, there was a fall in the prices of, primarily, EU pork, related to a gradual recovery in production and a weaker import demand.

1.4 Monetary policy abroad

Many central banks abroad have recently cut interest rates, as inflation has fallen to levels close to their inflation targets (see Chapter 1.2 *Inflation developments abroad*; Figure 1.12; Figure 1.13). The expectations of financial market participants implied from financial instruments quotations point to a likely further decline in interest rates in most advanced economies over the horizon of

Figure 1.10 Hard coal and natural gas prices

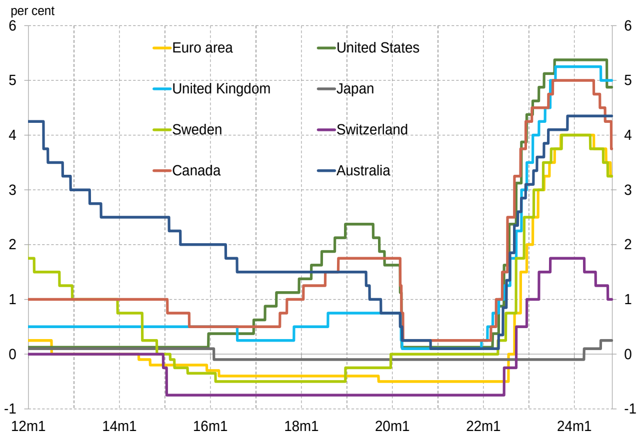


Source: Bloomberg data, NBP calculations.
Prices express prices of Dutch TTF Natural Gas Futures and Coal FOB Richards Bay Futures one-month-ahead contracts. USD/t – price expressed in US dollar per metric tonne. USD/MWh – price expressed in US dollar per megawatt hour.

Figure 1.11 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.

Figure 1.12 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.

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

a year, and their subsequent stabilisation above the pre-COVID-19 levels (Figure 1.14).

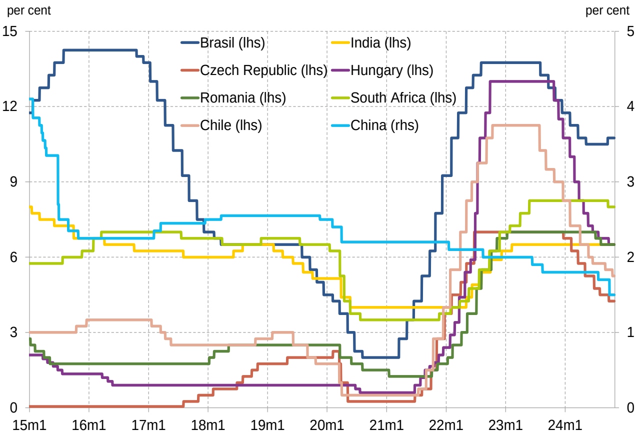
Since early June 2024, the European Central Bank (ECB) has decreased the deposit rate in three steps of 0.25 percentage points each – currently it amounts to 3.25% (previously, i.e. from September 2023 until June 2024, the ECB maintained the deposit rate at 4.00%). The expectations of financial market participants indicate likely further ECB interest rate cuts in the coming quarters.

In September, the United States Federal Reserve (the Fed) decreased the range for the fed funds rate by 0.50 percentage points – it now stands at 4.75-5.00%. This was the first Fed interest rate cut after it had kept the rates unchanged since July 2023. Financial market participants anticipate further interest rate cuts in the United States in the quarters to come.

Similarly, many central banks in other advanced economies have reduced interest rates in recent months, including the banks of Canada, New Zealand, Switzerland, Sweden and the United Kingdom. Meanwhile, the central banks of Australia and Norway have kept the rates unchanged. In contrast to that, the Bank of Japan has raised interest rates.

In the Central and Eastern European region, since the previous *Report*, central banks of the Czech Republic, Hungary and Romania reduced interest rates, however in Hungary and Romania they were kept unchanged in October. Alongside that, of the remaining emerging market economies, some central banks have cut interest rates (including in China and the Republic of South Africa), some have kept them unchanged (including in India and Turkey) and some have raised them (including in Brazil and Russia).

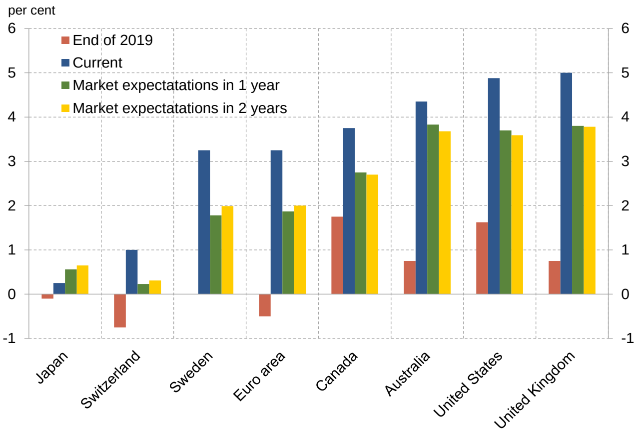
Figure 1.13 Central banks' interest rates in selected emerging market economies



Source: Bloomberg data.

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

Figure 1.14 Level of central banks' interest rates in selected advanced economies



Source: Bloomberg data.

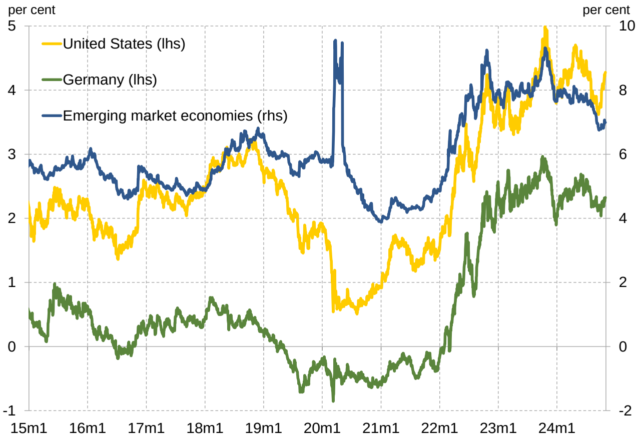
Central bank interest rate: for the United States – the midpoint of the fed funds range; for the euro area – the deposit facility; for Japan – the Complementary Deposit Facility; for Switzerland – the policy rate; for the United Kingdom – the Bank Rate; for Sweden – the policy rate; for Canada – the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

1.5 International financial markets

In recent months, sentiment in the global financial markets have been positively affected by, in particular, an easing of monetary policy in the major advanced economies on the back of falling inflation (see Chapter 1.4 *Monetary policy abroad*). Alongside that, geopolitical tensions and concerns about the economic outlook for the United States, temporarily boosting volatility in the global financial market at the beginning of August 2024, worked in the opposite direction.

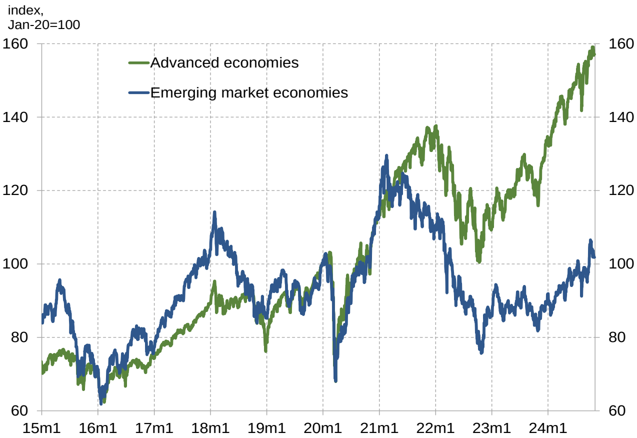
Against this background, yields on Treasury bonds in advanced economies were running close to their levels at the end of June 2024, yet remained higher than in the years preceding the COVID-19 pandemic, on average (Figure 1.15). At the same time, stock indices around the world rose and in many advanced economies they were close to their historical highs (Figure 1.16). In late October, the exchange rate of the US dollar – compared to the level from the end of June 2024 – was weaker against the euro and the currencies of emerging market economies, and at a similar level against the currencies of the Central and Eastern European economies (Figure 1.17).

Figure 1.15 Yields on long-term government bonds



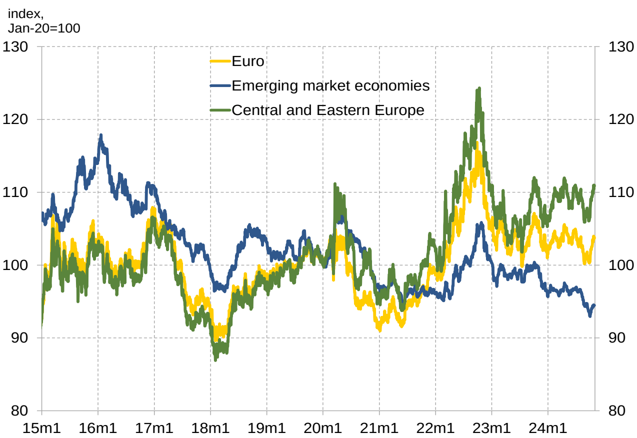
Source: Bloomberg data.
For the United States and Germany – 10 year government bond yield; emerging market economies – *Bloomberg Barclays Emerging Markets Sovereigns*.

Figure 1.16 Equity prices



Source: Bloomberg data.
Advanced economies – *MSCI World Equity Index*; emerging market economies – *MSCI Emerging Markets Equity Index*.

Figure 1.17 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.

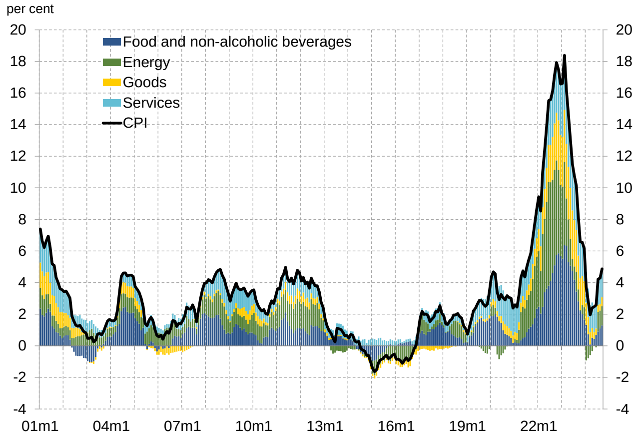
2. Domestic economy

2.1 Inflation developments

From February to June 2024, CPI inflation in Poland was running at a level consistent with the NBP inflation target (2.5% with a symmetric band for deviations of ±1 percentage point), and then picked up to 4.9% in September 2024 (compared to 2.6% in June 2024; Figure 2.1). The rise in inflation was mainly due to the partial unfreezing of electricity, natural gas and heating prices, and – albeit to a much lesser extent – an increase in the annual growth in the prices of food and non-alcoholic beverages. In September 2024, CPI inflation excluding food and energy prices rose as well. As indicated by the data on retail sales in recent months – despite still high growth in nominal wages, including wage increases in the public sector – growth in consumer demand for goods declined, which constrained the rise in their prices, amid persistently elevated services inflation (see Chapter 2.2 *Demand and output* and Chapter 2.5 *Labour market*). At the same time, in recent months CPI growth was curbed by the relatively low cost pressure – connected with the consistently falling producer prices – and the stronger exchange rate of the zloty against major currencies than a year ago (see Chapter 2.6 *Financial markets and asset prices*).

Food and non-alcoholic beverages prices increased from 2.5% y/y in June 2024 to 4.7% y/y in September 2024. The stronger food price growth in this period was driven by the reinstatement of the 5% VAT rate on staple food products since April 2024, the positive base effects resulting from intensified price competition in the domestic retail market since July 2023 and the markedly poorer

Figure 2.1 Composition of CPI inflation (y/y)



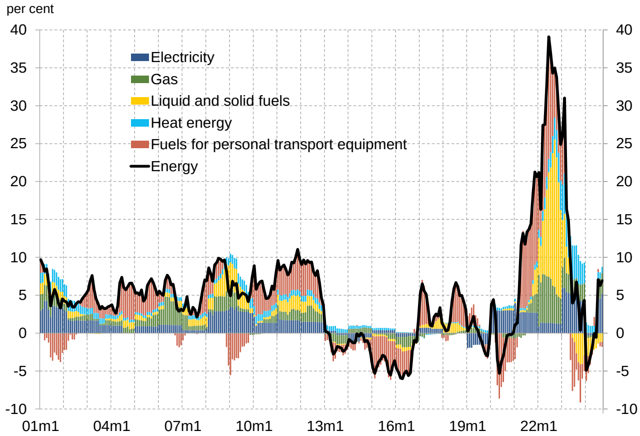
Source: Statistics Poland (GUS) data, NBP calculations.

domestic harvest of some vegetables and fruits this year.

Energy price inflation picked up from -0.6% y/y in June 2024 to 7.1% y/y in July 2024 (Figure 2.2), due to higher annual growth in the prices of energy carriers (a rise from -1.6% in June to 10.1% in July) fuelled by a rise in average bills for electricity (a rise of 19.9% m/m), gas (20.0% m/m) and heating (0.3% m/m) as a consequence of the partial unfreezing of prices in July 2024.[12] In August 2024, the annual energy price growth declined temporarily to 6.3%, mainly owing to a fall in the prices of fuels for private means of transport, to rise again (to 6.9%) in September 2024 on account of a base effect related to the introduction of a higher limit on electricity consumption in September 2023, that warranted bills payment as per the frozen rates.

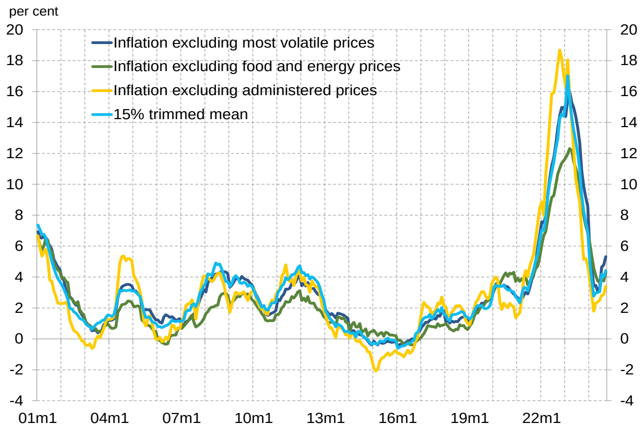
Inflation excluding food and energy prices increased from 3.6% y/y in June to 4.3% in September 2024 (Figure 2.3), which reflected higher annual price growth of both non-food goods (a rise from 1.4% in June to 2.0% in September) and services (a rise from 6.1% in June to 6.8% in September). A key factor behind the increase in non-food goods price inflation was a base effect related to the decline in the prices of medical and pharmaceutical products in September 2023, due to the extension of the free refundable medicines scheme. In turn, the rise in services price inflation was a result of higher annual growth of services prices in recreation and culture (the effect of a weaker than on average seasonal decline in the prices of package tourism and an increase in radio and television fees in September 2024 amid positive base effects), along with an increase in

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



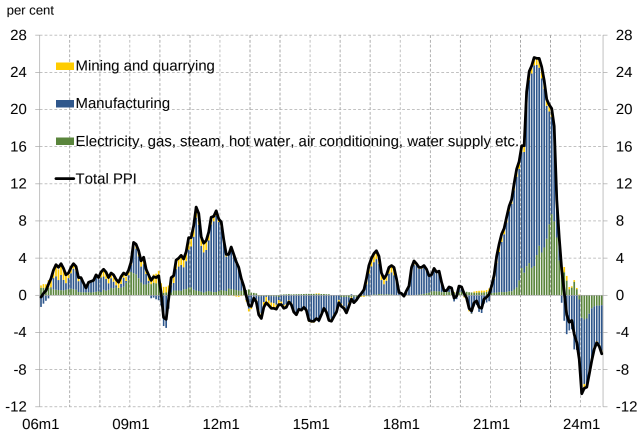
Source: Statistics Poland (GUS) data, NBP calculations.

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.

[12] Under *the Act of 23 May 2024 on energy voucher and amendment of certain acts aimed to reduce the prices of electricity, natural gas and district heating* as of 1 July 2024 the maximum net price of electricity as commodity for households increased to 500 PLN/MWh (compared to 412 PLN/MWh to the consumption limit of 1.5 MWh and 693 PLN/MWh above this limit), the electricity distribution tariffs were unfrozen and the capacity charge ceased to be collected as of December 2024. At the same time, the President of the Energy Regulatory Office (URE) approved new tariffs on the sale of electricity which are to be effective until the end of 2025. Gas distribution tariffs were unfrozen, the cap on gas prices lifted and the President of the URE approved new tariffs for the sale of natural gas which are to be effective until the end of June 2025. The Act also instituted new maximum prices for district heating and compensations for selected households in the form of energy voucher.

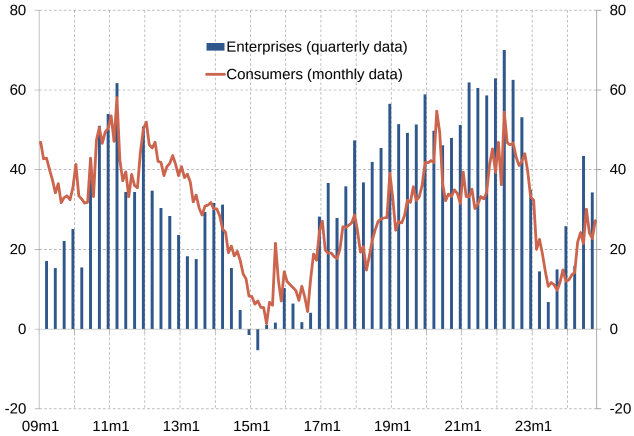
telecommunication fees (a rise in telephone services fees in September 2024 and the fading out of the effects of price promotions for Internet services in September 2023). Other core inflation measures were lower in September 2024 than in June 2024 as well.[13]

In recent months, the PPI has continued to decline in annual terms (-6.3% y/y in September 2024 compared to -7.0% y/y in May 2024; Figure 2.4), with price falls recorded in the majority of industrial branches. The most rapid was still a decline in the prices of energy 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.

In October 2024, the balance statistics of consumer inflation expectations was higher than in June 2024, (Figure 2.5), suggesting a shift in consumer expectations towards higher than currently perceived price growth.[14] Nonetheless, the balance statistics continued to be lower than the long-term average. Alongside that, the balance statistics of enterprises' inflation expectations in 2024 Q3 declined, indicating a shift in their expectations towards lower price growth than the current one.

According to the results of the *NBP Survey of Professional Forecasters* from September 2024, inflation expectations of external experts in the 4-quarter horizon fell markedly compared to the previous quarter, amid a slight improvement in forecasts in the 8-quarter horizon (Table 2.1). The forecasts by market analysts surveyed in October 2024 by Reuters, indicate in turn a decline in inflation expectations in both horizons. In accordance with these forecasts, CPI inflation – after a temporary rise in 2024 Q4 and 2025 Q1 – will decline to 2.7% y/y in 2026 Q4 (Figure 2.6).

Figure 2.5 Balance statistics of consumer and enterprise inflation expectations



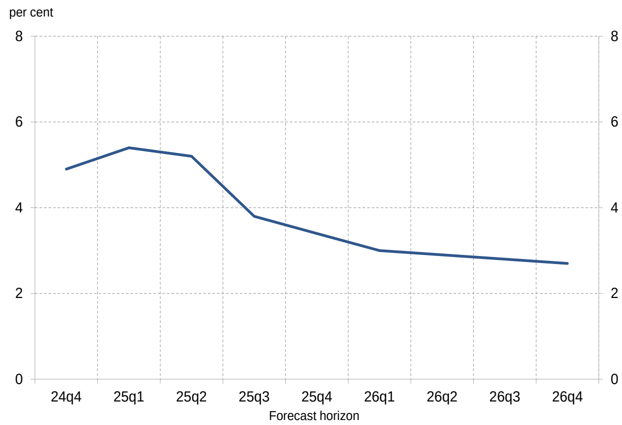
Source: Statistics Poland (GUS) and NBP data, NBP calculations.
Balance statistics is defined as a difference between the fraction of respondents expecting a faster rise in prices or at the same pace as at present (or as currently perceived) and the percentage of respondents expecting no change or a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

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

	Survey conducted in:				
	23q4	24q1	24q2	24q3	24q4
Reuters Survey, inflation expected in 4 quarters	5.6	5.6	5.2	3.7	3.4
Reuters Survey, inflation expected in 8 quarters	3.7	2.9	2.8	2.9	2.7
NBP Survey, inflation expected in 4 quarters	5.7 (4.3-6.7)	5.1 (3.6-6.4)	4.5 (3.4-6.1)	3.8 (3.1-4.9)	-
NBP Survey, inflation expected in 8 quarters	3.8 (2.8-5.4)	3.3 (2.3-4.7)	3.0 (1.9-4.5)	3.1 (2.3-4.1)	-

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 Q4, where the forecast of October 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 October 2024



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

[13] In September 2024, inflation excluding administered prices stood at 3.4% y/y, the 15% trimmed mean at 4.4% y/y and inflation excluding the most volatile prices at 5.3% y/y.
[14] The increase in balance statistics of consumer inflation expectations resulted markedly from views of respondents from voivodeships affected by the flood in September 2024.

2.2 Demand and output

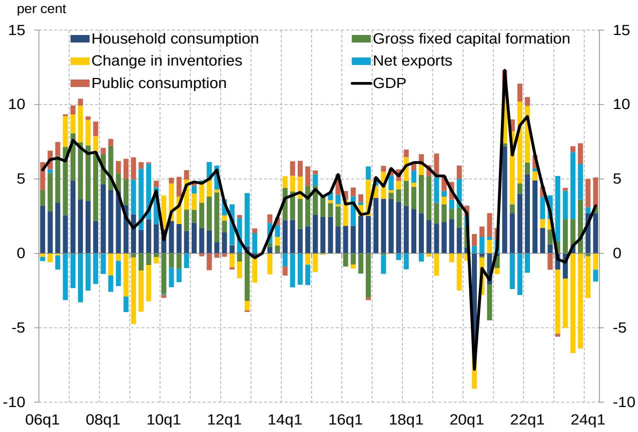
The first half of 2024 saw a recovery of economic activity in Poland. The incoming data for 2024 Q3 suggest in turn a likely slowdown in annual GDP growth, including consumption, in this period.

In 2024 Q2, GDP growth accelerated to 3.2% y/y (from 2.0% y/y in 2024 Q1; Figure 2.7). As in 2024 Q1, growth in private consumption made the biggest positive contribution to GDP growth in 2024 Q2. Significantly positive was also public consumption's contribution to GDP growth. Following a decline in 2024 Q1, investment, in particular public investment, rose in annual terms in 2024 Q2. Alongside that, change in inventories had a curbing effect on GDP growth. In 2024 Q2, the contribution from net exports was negative for the first time in two years.

Growth in household consumption in 2024 Q2 was similar to the previous quarter (4.7% y/y compared to 4.6% y/y in 2024 Q1; Figure 2.8). The relatively high consumption growth was supported by favourable labour market conditions, including low unemployment and robust growth in nominal wages which, amid lower inflation than in previous quarters, translated into record high real wage growth (see Chapter 2.5 *Labour market*). At the same time, consumption growth in 2024 Q2 was considerably lower than real growth in the wage bill. Meanwhile, 2024 Q2 saw consumer sentiment indicators decline compared to 2024 Q1, yet they were still higher than the average for the previous year (Figure 2.9).

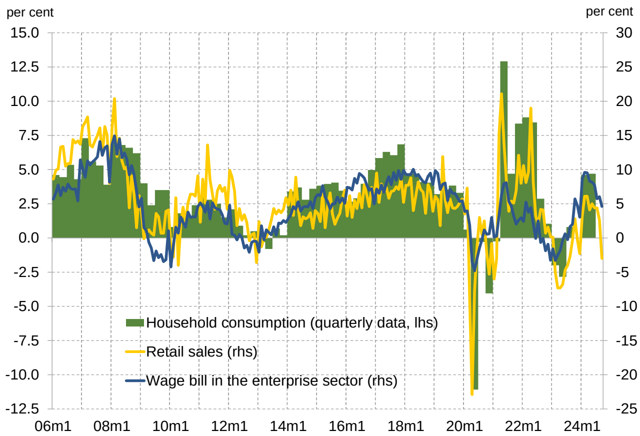
Gross fixed capital formation increased by 2.7% y/y in 2024 Q2 (compared to a fall of 1.8% y/y in 2024 Q1), reflecting a rise in both public investment and – to a much lesser extent – housing investment, amid lower corporate investment than a year earlier (Figure 2.10). According to NBP surveys,[15] the relatively low capacity utilisation,

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



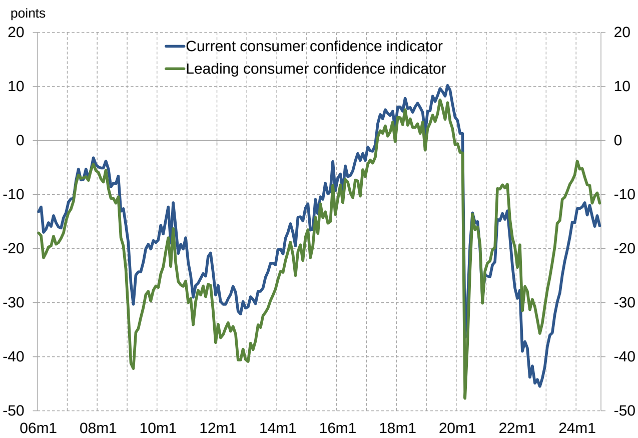
Source: Statistics Poland (GUS), NBP data.

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.

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

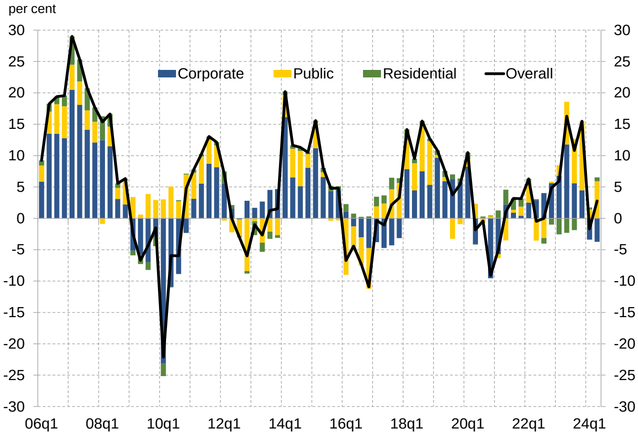
the persistence of surplus inventories and the reduction in forecast demand dragged on corporate investment. Data from financial statements of enterprises show a decline in expenditure in all the major categories, i.e. investment in machinery and equipment, means of transport, as well as construction investment. Low investment activity was observed in most major industries, including manufacturing and transport.

The contribution of net exports to annual GDP growth fell below zero in 2024 Q2 for the first time in two years (it amounted to -0.8 p.p. compared to 0.4 p.p. in 2024 Q1), amid a sharper increase in imports than exports. Despite a rise in 2024 Q2, export growth was still significantly lower than the long-term average owing to the subdued economic conditions in Poland's main trading partners, particularly in Germany. Higher import growth than in 2024 Q1 was supported by stronger growth in domestic demand. Data on the nominal value of trade in goods[16] indicate that in 2024 Q2 annual growth in exports was negative (albeit higher than in 2024 Q1; Figure 2.11), driven primarily by the decline in exports to the euro area. Similarly, the nominal value of imports of goods was lower than a year earlier, mainly as a result of the fall in imports of intermediate goods.

Growth in gross value added (GVA) in the Polish economy increased to 2.2% y/y in 2024 Q2 (compared to 1.7% y/y in 2024 Q1; Figure 2.12). As in the previous quarter, market services made the largest contribution to GVA growth. The contributions from non-market services and industry were also positive, albeit smaller, while a contribution from construction was negative.

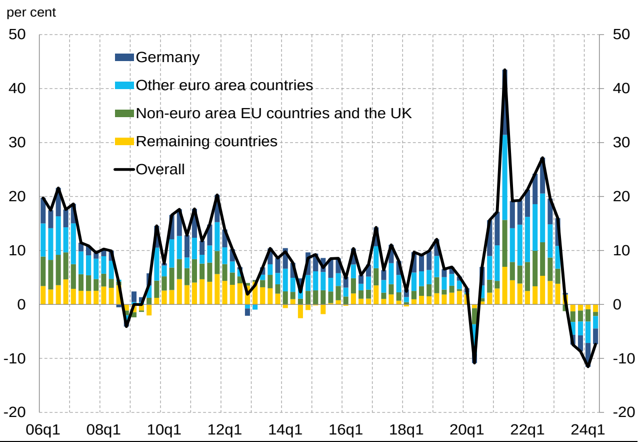
Incoming data suggest a likely slowing in economic activity growth in 2024 Q3. Annual growth in retail sales in 2024 Q3 decreased significantly and turned negative (it amounted to

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



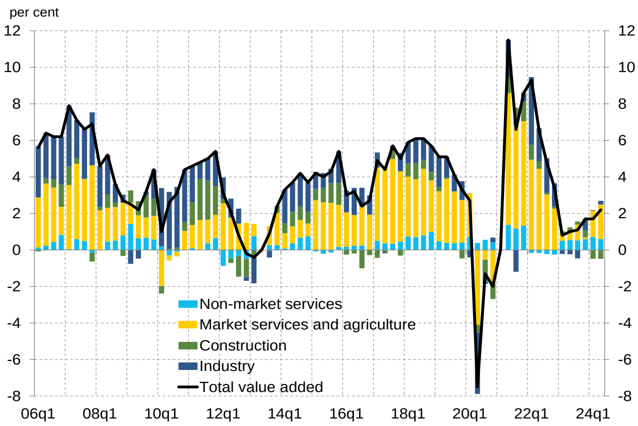
Source: Statistics Poland (GUS) data, NBP calculations.

Figure 2.11 Nominal growth in exports and its geographical structure (y/y)



Source: Statistics Poland (GUS) data, NBP calculations.
Nominal growth in Poland's exports of goods in Polish zloty.

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



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

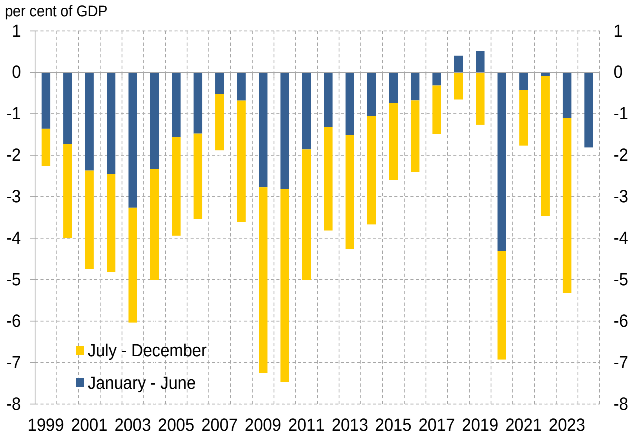
[16] Nominal growth in imports and exports of goods according to Statistics Poland (GUS).

-1.5% y/y compared to 4.8% y/y in 2024 Q2), amid some deterioration in consumer sentiment.[17] Industrial output growth, in turn, was weak and slightly lower than in Q2 (0.6% y/y in Q3 compared to 0.8% y/y in Q2). At the same time, a marked fall in construction and assembly output continued (-6.9% y/y in Q3 compared to -6.0% y/y in Q2 2024).[18]

2.3 Public finance

In the first half of 2024, the general government deficit (in ESA2010 terms) amounted to PLN 66.2 billion (3.9% of GDP) compared to a deficit of PLN 35.8 billion (2.2% of GDP) in the corresponding period of 2023 (Figure 2.13).[19] The marked surge in deficit was fuelled, among others, by changes in general government expenditure on social transfers in cash (mainly the increase in the amount of the "Family 500 plus" child benefit from PLN 500 to PLN 800) and on compensation of employees (wage rises for public sector employees and teachers, preschool teachers and academic teachers). Other factors which added to the deficit in the analysed period included higher than a year ago interest payments (an increase of 0.4 percentage points of GDP) and expenditure on gross fixed capital formation (an increase of 0.7 percentage points of GDP).

Figure 2.13 General government balance in ESA 2010 terms



Source: Eurostat data.

Half-year sector results in relation to the annual GDP. GDP for 2024 based on the autumn fiscal notification.

According to the Ministry of Finance data, in the period from January to September 2024 the state budget deficit was running at PLN 107.3 billion compared to a deficit of PLN 34.7 billion in the corresponding period of 2023. The deterioration of the result mainly reflected a large increase in expenditure amid lower than assumed growth in tax and non-tax revenue of the state budget (by 10.1% y/y compared to an increase of 18.9% y/y in the whole of 2024 as assumed in the Budget Act). In the period January – September 2024 VAT

[17] According to October data, the consumer confidence indicators by Statistics Poland (GUS) also deteriorated, under an evident impact from respondents from voivodeships affected by the September 2024 floods.
[18] The calculation of quarterly growth in construction and assembly output is based on monthly data.
[19] The sector result for the first half of 2024 in relation to GDP in the first half of the year, not seasonally adjusted data.

receipts were by 19.9% y/y higher. PIT receipts in the period January – September 2024 were higher by 22.0% y/y[20] due to a relatively strong wage growth, an increase in the effective PIT rate and a lower amount of tax refunds as part of the annual tax settlement. In turn, CIT receipts of the state budget declined by 16.6% y/y, mainly on account of lower than a year ago aggregate financial result of the non-financial enterprise sector and lower than a year ago magnitude of payments within the annual tax settlements (see Chapter 2.4 *Financial situation of enterprises*). In the period January – September 2024, the state budget expenditure increased by 25.4% y/y pushed up, among others, by higher total financing of local government units (by 22.7% y/y, mainly due to an increase in teacher wages), 20% wage increases in the state budget sector[21], higher costs of the "Family 800 Plus" programme (an increase of 57.1% y/y) and also, starting from 2024, the transfer of funding for the so-called 13th and 14th pensions from the Solidarity Fund to the state budget.

According to the government estimates presented in the autumn fiscal notification, the general government deficit (in ESA2010 terms) will amount to 5.7% of GDP in 2024 compared to 5.3% of GDP in 2023. The rise in the deficit is mainly driven by the above mentioned increase in expenditure on both social transfers in cash and wages in the public sector. The year 2024 also sees a further rise in defence spending and in local government investment financed with domestic funds. Alongside that, lower than in 2023 costs of shield measures undertaken, among others, in view of the earlier increases in commodity prices are conducive to lower deficit.

In line with the autumn fiscal notification, the general government debt (in ESA2010 terms) in relation to GDP will reach 54.6% at the end of 2024 compared to 49.7% of GDP at the end of 2023.

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[20] The combined revenue of the state budget and local government units on this account increased by 29.7% y/y.
[21] State budget current expenditure on compensation of employees in the period January – August 2024 was 23.1% y/y higher.

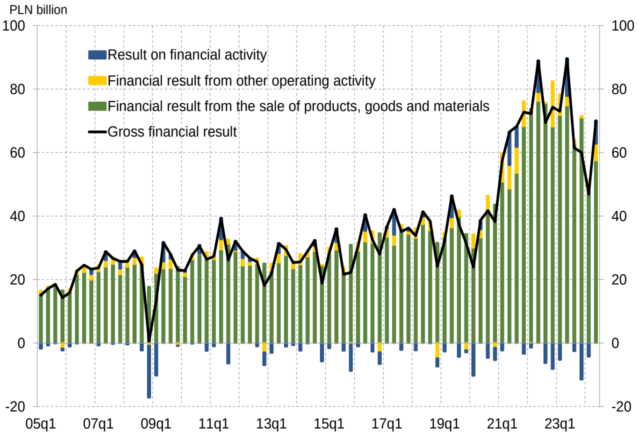
2.4 Financial situation of enterprises

In 2024 Q2, the financial situation in the non-financial enterprise sector improved[22] compared to the preceding quarter, yet the aggregate gross financial result of the sector was still markedly lower than a year earlier (its growth was -21.9% y/y in 2024 Q2 compared to -35.8% y/y in 2024 Q1; Figure 2.14).[23]

In 2024 Q2, the result from the sale of products, goods and materials also continued to fall – albeit less sharply than in 2024 Q1 (by -23.2% y/y compared to -33.4% y/y in 2024 Q1). The decline in the scale of the fall was driven by a more modest fall in sales revenue (by -4.4% y/y in 2024 Q2 compared to -6.2% y/y in 2024 Q1; Figure 2.15), both as regards domestic sales (-3.5% y/y compared to -4.8% y/y in 2024 Q1) and external sales (-7.1% y/y compared to -10.3% y/y in 2024 Q1). In terms of economic sectors, the scale of the fall in sales revenue diminished in industry and construction, which was accompanied by slower growth in revenue in services. At the same time, in 2024 Q2 the non-financial enterprise sector saw a slowdown in the decline in selling expenses (to -3.2% y/y from -4.6% y/y in 2024 Q1; Figure 2.15). This was due to a less marked decline than in the previous quarter in the costs of commodities and materials (by -9.2% y/y compared to -17.8% y/y in 2024 Q1), as well as in energy consumed (-13.3% y/y compared to -18.1% y/y in 2024 Q1). Alongside that, however, the fall in costs of goods for resale deepened (to -8.6% y/y in 2024 Q2 compared to -6.0% y/y in 2024 Q1) and the growth in labour costs slowed down (to 10.1% y/y from 13.0% y/y).

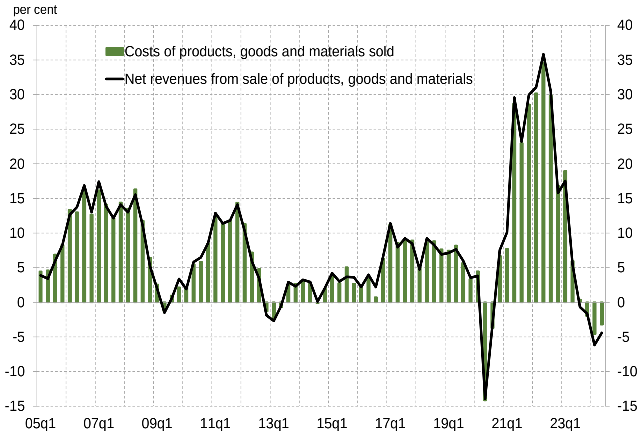
At the same time, the improvement in the gross financial result in 2024 Q2 was supported by an increase in the result on other operating activity

Figure 2.14 Gross financial result of nonfinancial enterprises and its components



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

Figure 2.15 Growth in net sales revenue and costs of sales in the nonfinancial 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).

[22] The data presented in this chapter concern enterprises employing 50 persons or more, obliged to file GUS F-01 reports.
[23] In 2024 Q2, the gross financial result stood at PLN 70.0 billion, compared to PLN 46.9 billion in 2024 Q1 and PLN 89.6 billion in 2023 Q2.

(by 77.1% y/y compared to a decline of 48.9% y/y in 2024 Q1), among other things, on account of higher revenue from subsidies. In turn, the deterioration in the result on financial activity compared to 2023 Q2 worked in the opposite direction.

Under these conditions, in 2024 Q2 the profitability of the enterprise sector improved on the previous quarter, although remained lower than the year before (Table 2.2). In quarter-on-quarter terms, an improvement was seen in the sales profitability indicator (to 4.8% from 3.9%) and the net turnover profitability indicator (to 4.8% from 2.8%). The shares of profitable enterprises and enterprises with profitability above 5% also increased. An improvement in profitability was observed in most sections of the economy, including the services sector.

Despite the lower financial result than a year ago, the liquidity of the enterprise sector remained relatively high in 2024 Q2. Both liquidity indicators and the share of enterprises with a safe level of liquidity were running above their long-term averages. In most sections of the economy liquidity indicators remained high, including in manufacturing, transport and construction.

The results of the NBP survey[24] indicate that in 2024 Q3 the economic condition of enterprises – against the backdrop of historical assessments – remained weak. Yet, enterprises expect their condition to improve both in 2024 Q4 and over the horizon of one year.

2.5 Labour market

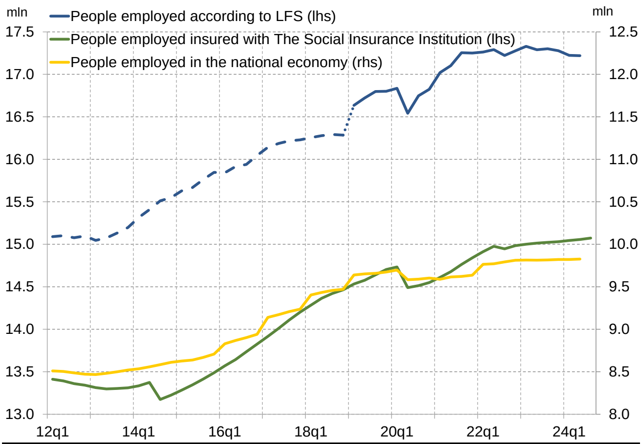
The situation in the labour market has continued to be good in the recent period, including a persistently low unemployment rate and high nominal wage growth. At the same time, the number of working persons was high and relatively stable, with mixed data on its dynamics.

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

	average				2023				2024	
	2010-2019	in 2020	in 2021	in 2022	q1	q2	q3	q4	q1	q2
Sales profitability indicator	4.7	4.8	5.8	6.1	5.5	5.9	5.1	5.4	3.9	4.8
Net turnover profitability indicator	4.0	3.7	5.7	5.0	4.4	5.7	4.0	3.2	2.8	4.8
Share of profitable enterprises	66.1	65.3	68.1	68.0	69.0	68.8	68.4	66.3	64.0	65.9
Share of enterprises with profitability above 5%	35.4	39.4	42.6	41.3	42.4	41.7	43.0	41.7	37.2	38.7
1st degree financial liquidity indicator	36.3	42.1	43.9	40.6	37.5	37.3	38.7	39.7	42.0	41.2
Return on assets indicator	1.2	1.0	1.7	1.7	1.5	1.9	1.2	1.0	0.9	1.5
Return on equity indicator	2.3	2.1	3.7	3.8	3.3	4.1	2.7	2.3	1.8	3.1
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	13.8

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

Figure 2.16 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).

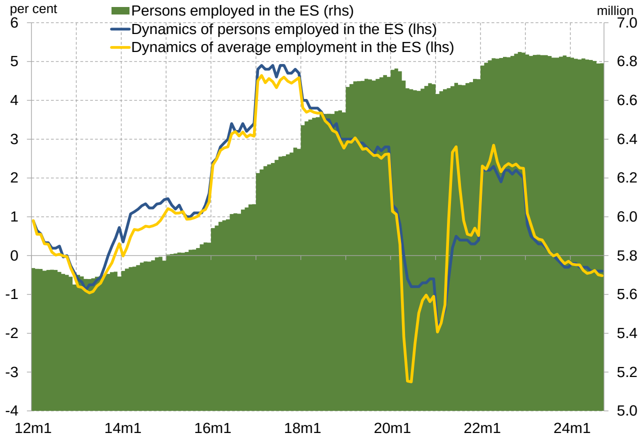
[24] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, October 2024.

Statistics Poland (GUS) data point to a further decline in the number of employed in LFS terms in 2024 Q2, and the falls in the enterprise sector (ES) in both Q2 and Q3 (Figure 2.16, Figure 2.17). In the national economy (NE),[25] the number of employed persons continued to rise somewhat in 2024 Q2, reflecting an increase in employment in the public sector. Also the data of the Social Insurance Institution (ZUS) point to a slight increase in the number of employed in 2024 Q2 and Q3, yet this was almost exclusively due to rising employment under arrangements other than a contract of employment.[26] At the same time, the short-term outlook for employment in enterprises has improved somewhat, both according to the *NBP Quick Monitoring Survey* and the GUS business climate survey.[27]

The unemployment rate has remained very low recently – the registered unemployment rate stood at 5.1% in September 2024 and the unemployment rate according to the LFS was 2.9% in 2024 Q2 (seasonally adjusted data; Figure 2.18).

The average nominal wage in the NE rose by 14.7% y/y in 2024 Q2 (compared to 14.4% y/y in 2024 Q1), further boosted by an increase in the wages of teachers and central government sector employees, as well as the higher minimum wage taking effect on 1 January 2024 (by 21.5% y/y), which had a particularly marked impact on wage growth in micro-enterprises.[28] Alongside that, wage growth in the ES has slowed down somewhat (to 10.9% y/y in 2024 Q2 and 10.8% in 2024 Q3, from 12.5% y/y in 2024 Q1; Figure 2.19). The annual growth in real wages in the NE in 2024 Q2 was

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)

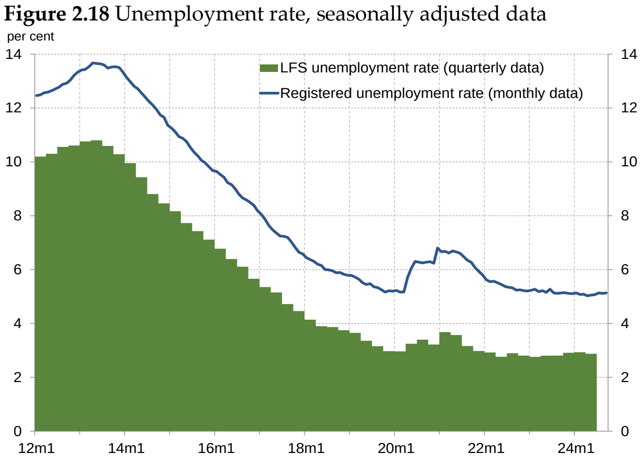


Source: Statistics Poland (GUS) data.

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.

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.

[25] Annual growth in the number of persons working in the NE was the same in 2024 Q2 as in Q1, i.e. 0.1% y/y. Also growth in the number of persons working in the ES in 2024 Q2 remained at the previous quarter's level, i.e. -0.3% y/y, whereas in Q3 it stood at -0.4% y/y. In turn, the number of employed according to the LFS decreased by 0.5% y/y in 2024 Q2, against a fall of 0.8% y/y in 2024 Q1.

[26] The number of employed according to ZUS data rose in 2024 Q2 and Q3 by 0.3% y/y (i.e. at the same rate as in 2024 Q1). This was the result of a 0.5% y/y decrease in the number of people employed under employment contracts in Q2 and Q3, with a relatively rapid increase in the number of those working under civil law contracts (by 4.6% y/y in 2024 Q2 and 4.7% y/y in Q3), as well as the self-employed (by 2.0% y/y in Q2 and by 2.1% y/y in Q3).

[27] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, October 2024, and *Business tendency in manufacturing, construction, trade and services 2000-2024 (October 2024)*, GUS, October 2024.

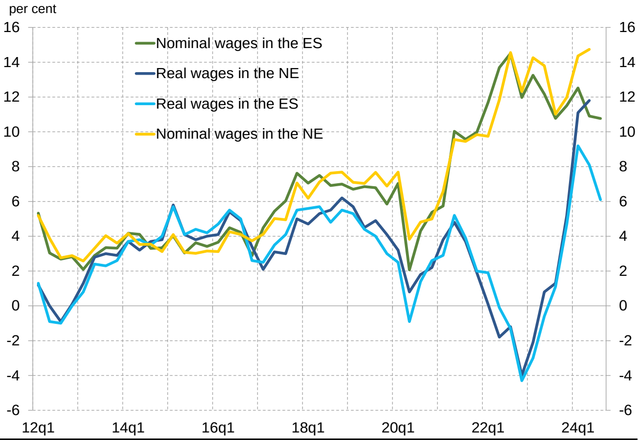
[28] The average nominal wage in the public sector of the NE increased by 19.6% y/y in 2024 Q2, compared to 12.5% y/y in the private sector.

historically high, whereas the ES data for Q3 indicate a slower real wage growth due to higher inflation (see Chapter 2.1 *Inflation developments*).[29] The results of the *NBP Quick Monitoring Survey* suggest a slight decline in the percentage of firms planning to increase their employees' wages in 2024 Q4, with the degree of the planned increases unchanged.

Unit labour cost growth in the economy amounted to 10.9% y/y in 2024 Q2 (compared to 11.4% y/y in 2024 Q1), pulled down by a further increase in labour productivity resulting from a stronger annual GDP growth, despite a somewhat flatter decline in the number of employed according to the LFS than the quarter before. At the same time, slightly higher nominal wage growth in the NE than in 2024 Q1 worked in the opposite direction.

According to ZUS data, at the end of September 2024, almost 1.2 million foreigners were covered by old age and disability pension insurance on account of their work in Poland (an increase of 5.9% y/y).[30] Among these, 779.3 thousand were Ukrainian citizens, of which approximately 240 thousand were refugees with ZUS insurance coverage,[31] and 134.6 thousand were Belarusian citizens.

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.

2.6 Financial markets and asset prices

In recent months, the prices of financial instruments in Poland have been affected, in particular, by sentiment in the international financial markets and by market participants' expectations concerning the level of NBP interest rates in the coming quarters (Figure 2.20). In late October, yields on Polish government bonds

[29] Real wages in the NE rose by 11.8% y/y in 2024 Q2 (compared to 11.1% y/y in 2024 Q1) and in the ES by 8.1% y/y in 2024 Q2 and 6.1% y/y in 2024 Q3 (compared to 9.2% y/y in 2024 Q1).

[30] By comparison, according to ZUS, the annual growth in the number of employed persons excluding foreigners was -0.1% y/y in September 2024.

[31] The estimate of the number of working refugees from Ukraine covered by ZUS insurance relates to August 2024 and includes individuals who declared Ukrainian citizenship in their pension and disability insurance application and were assigned a "UKR" personal identification number (UKR PESEL). The above estimate does not include people working but not subject to compulsory ZUS insurance, e.g. pupils and students up to 26 years of age employed on the basis of a mandate contract or people working in the grey economy.

– similarly to bond yields in the advanced economies – have run close to the end of June 2024 levels (Figure 2.21; see Chapter 1.5 *International financial markets*). At the same time, the zloty exchange rate against major currencies, which had strengthened earlier, in late October was close to the end of June 2024 level (Figure 2.22).

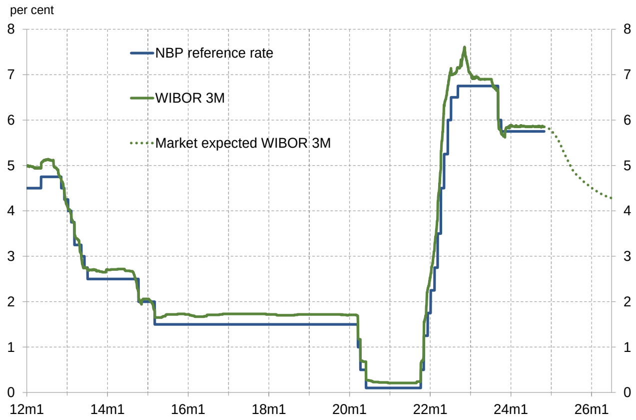
According to NBP data,[32] growth in average nominal housing transaction prices increased and stood at 18.0% y/y in 2024 Q2 (compared to 15.5% in 2024 Q1;[33] Figure 2.23).[34] Compared to the level seen a year earlier, real estate prices were driven up especially by increased demand – particularly in connection with the "Safe Mortgage" programme, under which loan applications were accepted in the second half of 2023 (see Chapter 2.7 *Money and credit*) – together with still limited, in spite of an increase, housing supply and some rise in construction costs, including land prices.

2.7 Money and credit[35]

The growth rate of the broad money aggregate M3 amounted to 8.2% y/y in 2024 Q3 (compared to 8.5% y/y in 2024 Q2; Figure 2.24), and was mainly driven by an increase in household deposits, with a substantially lower contribution from corporate deposits.[36] The M3 aggregate growth was also positively affected by a rise in cash in circulation.[37]

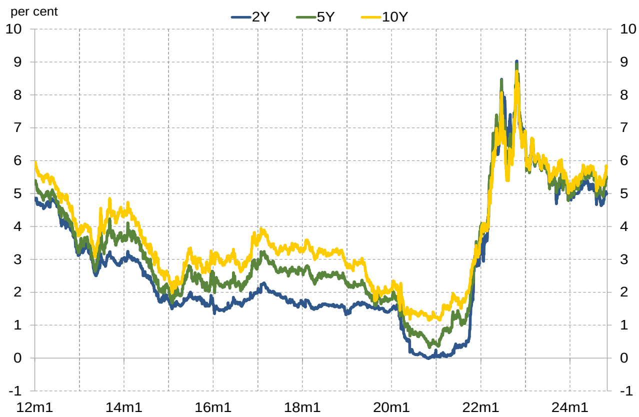
The pace of growth in household loans stood at 4.8% y/y in 2024 Q3 (compared to 3.8% y/y in 2024 Q2; Figure 2.25). Housing loan debt was higher in 2024 Q3 than a year earlier by 5.2% (in 2024 Q2, housing loans grew by 3.9% y/y),

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



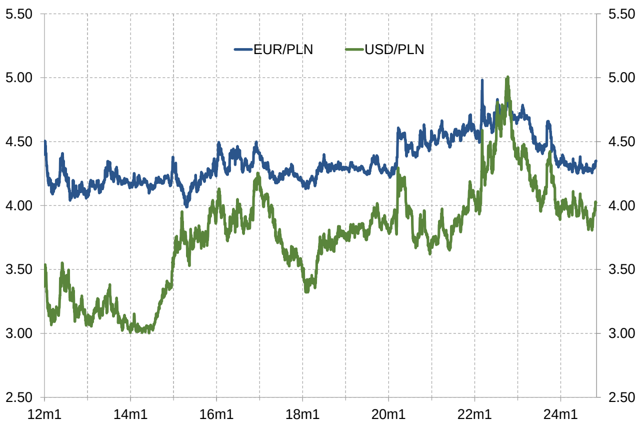
Source: NBP and Bloomberg data.

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.

[32] The discussed data on prices do not fully correspond to the quarters of the calendar year. In particular, data referring to 2024 Q2 include transactions concluded between March and May 2024.
[33] These data apply to the average housing transaction prices (PLN/m^2) 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 3.5% q/q in 2024 Q2 (against 5.2% q/q in 2024 Q1).
[34] More information about the situation in the Polish housing market can be found in the cyclical NBP publications: *Information on home prices and the situation in the residential and commercial real estate market in Poland*.
[35] 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.
[36] In 2024 Q3, household deposit growth was 11.0% y/y, and corporate deposit growth amounted to 1.1% y/y.
[37] In 2024 Q3, growth in cash in circulation was 7.9% y/y.

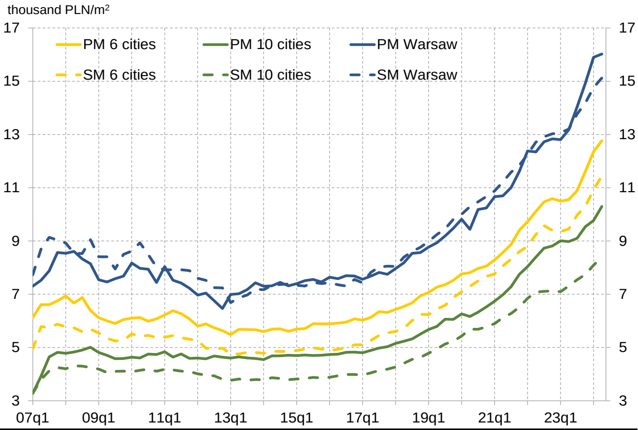
supported by the government "Safe Mortgage" programme, under which loan applications were accepted in the second half of 2023, as well as an increase in zloty-denominated loans in recent months amid high household wages growth (see Chapter 2.5 *Labour market*). Alongside that, housing loan growth was moderated by the decreasing stock of FX loans, stemming, among others, from settlements between banks and borrowers, resulting in FX loans currency conversion into the zloty and partial write-offs. In 2024 Q3, consumer loan debt was higher than a year earlier by 6.9% (in 2024 Q2, consumer loans grew by 6.4% y/y), backed by rising consumer demand (see Chapter 2.2 *Demand and output*).

The growth in loans of non-financial corporations amounted to 2.2% y/y in 2024 Q3 (compared to 0.5% y/y in 2024 Q2; Figure 2.26). This reflected a rise in the stock of both investment loans by 3.7% y/y (compared to 3.1% y/y in 2024 Q2) and current loans by 0.3% y/y (compared to a 2.2% y/y drop in 2024 Q2).

2.8 Balance of payments[38]

The current account balance, as well as other external imbalance indicators evidence that the Polish economy is well balanced. In 2024 Q2, the current account surplus narrowed to 1.3% of GDP (from 1.6% of GDP in 2024 Q1; Figure 2.27).[39] This was mainly due to a deterioration in the balance of trade in goods (to 0.1% of GDP in 2024 Q2 from 0.6% of GDP in 2024 Q1) resulting from a greater fall in exports than imports 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 balance of services also declined (to 4.9% of GDP from 5.1% of GDP in 2024 Q1). The primary income balance, instead, increased in 2024 Q2 (it amounted to -3.3%

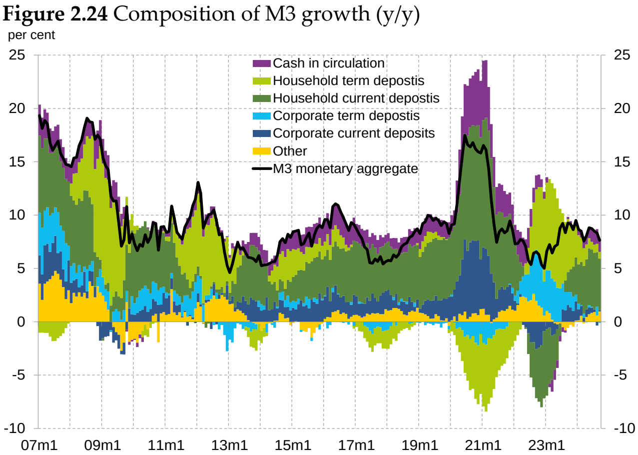
Figure 2.23 Nominal transaction prices of flats in major cities in Poland



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.

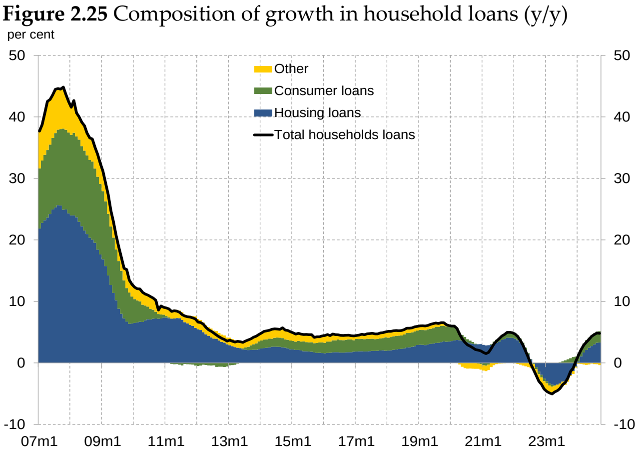
Figure 2.24 Composition of M3 growth (y/y)



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.

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.

[38] 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.

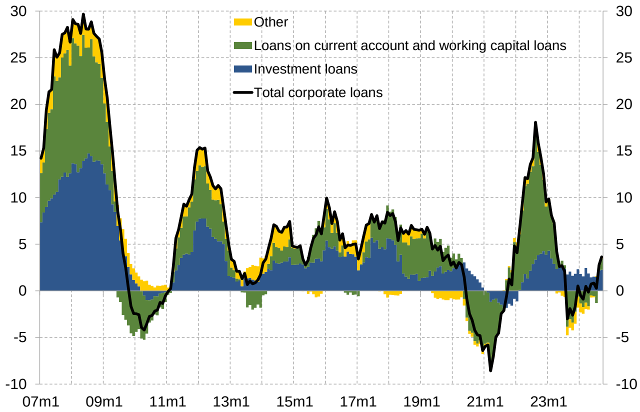
[39] In July and August 2024, the current account balance stood at PLN -4.8 billion and -12.1 billion, respectively.

of GDP against -3.6% of GDP in the previous quarter), but remained negative owing to the income of foreign direct investors in Poland.

In 2024 Q2, the financial account balance stood at 0.9% of GDP (compared to 1.2% of GDP in 2024 Q1),[40] accompanied by a smaller increase in official reserve assets coupled with an improved portfolio investment balance.

In 2024 Q2, Poland's net international investment position in relation to GDP amounted to -32%, which meant an improvement on 2024 Q1 (Table 2.3). The gross external debt to GDP ratio stood at 50% and remained unchanged on 2024 Q1.

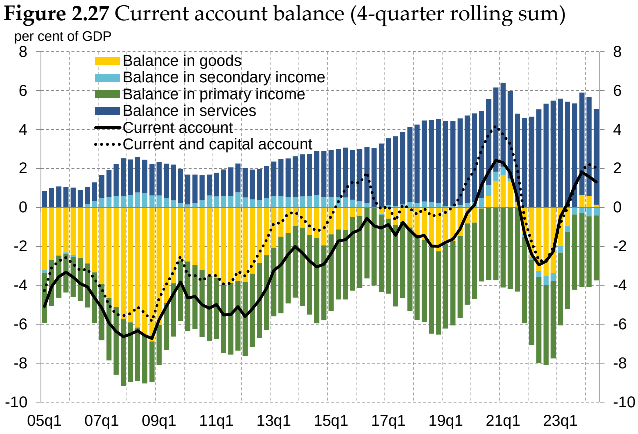
Figure 2.26 Composition of growth in corporate loans (y/y)



Source: NBP data.

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

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



Source: NBP data.

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	q2
Current account balance/GDP	-2.4	-2.9	-2.8	-2.3	-0.5	0.2	1.1	1.8	1.6	1.3
Current and capital account balance/GDP	-1.8	-2.7	-2.7	-2.1	-0.8	0.0	1.0	1.9	2.2	2.0
Trade balance/GDP	2.1	1.8	1.8	2.1	3.6	4.5	5.3	5.9	5.7	5.1
Official reserve assets (in monthly imports of goods and services)	5.1	5.0	5.0	4.7	4.6	4.7	5.1	5.1	5.6	5.9
Gross foreign debt/GDP	56	56	57	54	53	51	52	49	50	50
Net international investment position/GDP	-40	-38	-35	-35	-33	-34	-31	-32	-33	-32
Official reserve assets/short-term foreign debt minus forecasted current account balance	111	115	123	139	131	130	123	124	124	127
Official reserve assets/short-term foreign debt	114	114	116	124	119	121	120	126	129	134

Source: NBP data.

The two last indicators include external debt and the level of reserve assets at the end of the period.

[40] In July and August 2024, the financial account balance stood at PLN -2.9 billion and -10.5 billion, respectively.

3. Monetary policy in July – November 2024

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

Minutes of the Monetary Policy Council decision-making meeting held on 3 July 2024

During the discussion at the meeting of the Monetary Policy Council it was noted that the economic conditions in Poland's main trading partners was gradually improving, but remained markedly weakened. It was pointed out that in 2024 Q1 consumption growth in the euro area had been lower than households' real disposable income growth, which indicated that households may have used part of their income to increase savings. In 2024 Q2 GDP growth in this economy was probably low again, and, in particular, in Germany annual GDP growth may have been close to zero. It was underlined that activity in Europe's industrial sector was particularly weakened, while in services the situation is relatively better. It was mentioned that forecasts for the next quarters indicated a rather gradual economic recovery in the euro area. In turn, the economic situation in the United States was still markedly better than in the euro area and, according to available forecasts, it would remain so in the coming periods.

When discussing inflation processes abroad, the Council members noted that in many economies price growth continued to run slightly above the inflation targets of the central banks. At the same time, it was stressed that in the largest advanced economies core inflation was higher than headline inflation. This is due to the still elevated service price growth amid a strong disinflation of goods prices.

The Council members drew attention to the fact that the European Central Bank had cut interest rates in June 2024. Meanwhile, the Federal Reserve of the United States continued to keep interest rates unchanged.

While discussing economic activity in Poland, the Council members assessed that a gradual economic recovery was continuing, although recent data were mixed. It was pointed out that annual GDP growth in 2024 Q2 had probably been higher than in 2024 Q1. When analysing monthly data, it was observed that retail sales had risen by 5% in annual terms in May 2024. In turn, industrial as well as construction and assembly output in May were lower than a year ago. It was underlined that the poor condition of the industrial sector was also evidenced by sentiment indicators, including the PMI index, which was probably partly connected with the ongoing downturn in the German industry.

With regard to the labour market conditions, it was noted that in May wage growth in the enterprise sector was slightly higher than in April, which amid only slightly higher inflation meant that real wage growth remained high. At the same time, employment in this sector declined once again, particularly in industrial enterprises.

During the discussion, attention was drawn to the rise in value of household consumption loans in the recent period, while noting that in the case of housing loans their monthly increases were declining. The weakening of lending in the housing loans segment was probably related to the closure of the applications acceptance for the "Safe Mortgage" programme. It was also pointed out that the so-called repayment holidays boosted disposable income of some households. While discussing the financial situation of consumers, certain Council members indicated that in recent years households' bank debt had fallen, particularly in real terms. The Council members highlighted that annual corporate credit growth remained low.

Referring to the economic activity outlook, the Council members pointed out that according to the July projection the economic recovery should continue in the coming quarters. Therefore, GDP growth would probably be higher in 2025 than in 2024 whereas, according to the projection, in the following year it may slow down slightly.

At the meeting it was noted that according to the Statistics Poland flash estimate, CPI inflation was 2.6% y/y in June 2024 (compared to 2.5% in May). It was underlined that for a second consecutive quarter price growth was in line with the NBP medium-term inflation target (2.5% +/- 1 p.p.). Annual growth in prices of food and non-alcoholic beverages rose in June 2024, while annual growth in energy prices declined. It was estimated that in June inflation net of food and energy prices had once again decreased, although it remained higher than the CPI inflation. This was a result, in particular, of the still elevated growth in services prices due to high wage growth, amid the relatively high share of wages in the costs of the service sector.

The Council members pointed out that the sharp annual fall in producer prices had continued recently, confirming the fading of most external supply shocks and cost pressure reduction. Together with the relatively low – despite some acceleration – economic activity growth, this was 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. The majority of the Council members indicated that the current level of interest rates was a factor which should limit inflationary pressure also in the medium term. Certain Council members were of the opinion that given the anticipated increase in inflation in the coming quarters and the related possible rise in inflation expectations, real interest rates would decrease.

When discussing the inflation outlook, the Council members noted that according to the July projection, inflation would probably increase in the subsequent quarters, running at a level markedly above the NBP inflation target. It was emphasised that this would take place amid the ongoing economic recovery and the strong rise in wages. It was pointed out that, in these circumstances, what mattered for the medium-term outlook was how the expected increase in inflation would affect inflation expectations and wage growth, and how households' propensity to consume and save would evolve. It was underlined that the acceleration of energy prices in the second half of 2024 should be seen as a supply shock which temporarily boosts inflation but also reduces households' disposable income. Certain Council members highlighted the fact that the July projection signalled also higher food price growth in the subsequent quarters stemming from the lagged effects of the VAT rate increase and the higher agricultural commodity prices. In this context, the Council members pointed out that in line with the *Monetary Policy Guidelines*, the medium-term nature of the inflation target means that due to macroeconomic and financial shocks, inflation may temporarily deviate from the target and even run outside the band for deviations from the target. It was emphasised that the response of monetary policy to shocks is flexible and depends on their causes and the assessment of persistence of their consequences, including the impact on inflation developments. At the same time, it was observed that according to the latest projection, prepared under the assumption of unchanged NBP interest rates, inflation would return to the NBP target in 2026. This suggests that there is no need for an interest rate rise in response to the anticipated increase in inflation in the coming quarters.

The Council members noted that fiscal policy remained a risk factor for the inflation outlook. It was stressed that so far some of the proposed fiscal measures had still not been implemented, such as the increase in the amount of social benefits or the introduction of new ones. At the same time, attention was drawn to the fact that Poland might become subject to the excessive deficit procedure, although at this stage it was difficult to assess what impact it would have on fiscal policy in the coming years. The persistence of other significant sources of uncertainty was also underlined, including the tense geopolitical situation, commodity price developments and the economic conditions in Poland's main trading partners.

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. 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, consumer price growth is likely to increase and will be running above the NBP inflation target, which will be driven by higher energy prices. When the impact of 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 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 forecast rise in inflation, as well as the recovery in consumer 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.

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 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.

Information from the meeting of the Monetary Policy Council held on 1-2 October 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. In 2024 Q3, the annual GDP growth in the euro area, including in Germany, presumably continued to be low. Meanwhile, in the United States the annual economic activity growth remains relatively high, despite some deterioration in labour market conditions. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies is running close to the central banks' inflation targets. Inflation is driven down by the reduction of cost pressures reflected in low producer price growth, and by the weak activity growth in some economies. At the same time, core inflation is running above headline inflation amid elevated growth in services prices.

In Poland, a gradual economic recovery continues. In August 2024 retail sales was higher, while industrial production and construction and assembly output were lower than a year ago. In the labour market unemployment remains low and the number of working persons continues to be high, although employment in the enterprise sector in August 2024 was lower than a year ago. At the same time, the wage growth is still running at the high level.

According to the Statistics Poland flash estimate, annual CPI inflation in September 2024 was 4.9% (against 4.3% in August). The rise in inflation in recent months has been 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. Considering the preliminary Statistics Poland data, it can be estimated that inflation net of food and energy prices also rose, but remained lower than CPI inflation. In August 2024, the annual fall in producer prices remained significant.

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. The Council judges that 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 i.a. 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 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 5-6 November 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. In 2024 Q3, the annual GDP growth in the euro area – despite some acceleration – was moderate, and in Germany negative. Meanwhile, in the United States the annual economic activity growth remained relatively high. Uncertainty about the activity outlook in the largest economies persists.

Inflation in the major advanced economies is running close to the central banks' inflation targets. Inflation is driven down by the reduction of cost pressures reflected in low producer price growth, as well as by the weak activity growth in some economies and a fall in energy prices. At the same time, core inflation is still higher than headline inflation amid elevated growth in services prices.

In Poland incoming data suggest that in 2024 Q3 annual GDP growth could have been somewhat lower than in 2024 Q2. In particular, in September 2024 retail sales as well as industrial production and construction and assembly output were lower than a year ago. In the labour market unemployment remains low and the number of working persons continues to be high, although employment in the enterprise sector in September 2024 was lower than a year ago. At the same time, the wage growth is still running at the high level.

According to the Statistics Poland flash estimate, annual CPI inflation in October 2024 was 5.0% (against 4.9% in September). The rise in inflation since mid-2024 has been 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. Considering the preliminary Statistics Poland data, it can be estimated that in October inflation net of food and energy prices did not visibly change, and in particular that growth in services prices probably remained elevated. The significant fall in producer prices in annual terms persists.

The Council became acquainted with the results of the November 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 22 October 2024, there is a 50-percent probability that the annual price growth will be in the range of 3.6 – 3.7% in 2024 (against 3.1 – 4.3% in the July 2024 projection), 4.2 – 6.6% in 2025 (compared to 3.9 – 6.6%) and 1.4 – 4.1% in 2026 (compared to 1.3 – 4.1%). 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 – 3.1% in 2024 (against 2.3 – 3.7% in the July 2024 projection), 2.4 – 4.3% in 2025 (compared to 2.8 – 4.8%) and 1.7 – 4.0% in 2026 (compared to 1.9 – 4.3%). In the current round, inflation projection is associated with substantial uncertainty, related to price developments of energy carriers for households, which are to the significant extent determined by regulatory measures. The indicated probability intervals are spanned around the central path of a scenario assuming – in line with the currently applicable legal regulations – the further unfreezing of prices of energy carriers for households at the beginning of 2025. At the same time, the probability of inflation running below the central path in 2025 is higher than the probability of inflation running above it.

In the Council's assessment, inflation is currently significantly boosted by rising energy carriers' prices and by other regulatory factors. The price pressure in the domestic economy is also stimulated by the marked wage growth, stemming i.a. from wage increases in the public sector. At the same time, 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. The earlier appreciation of the zloty exchange rate acts in the same direction.

In the coming quarters inflation will remain elevated, and in the case of a further increase in energy prices at the beginning of 2025, it will rise. When the effects of the energy price increase fade and amidst the expected slower wage growth – under 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 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 November projection based on the NECMOD model covers the period from 2024 Q4 to 2026 Q4. The starting point for the projection is 2024 Q3.

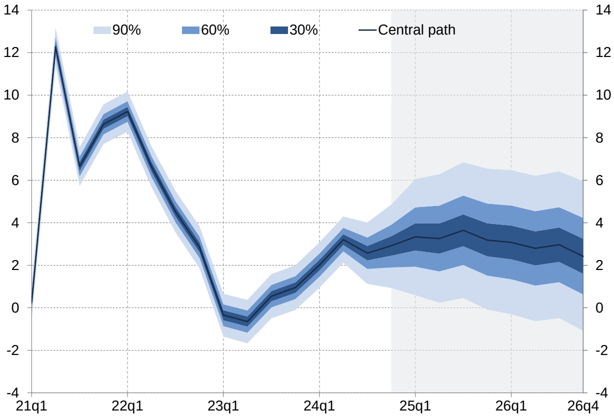
The projection was prepared under the assumption of unchanged NBP interest rates, including a reference rate of 5.75%. The cut-off date for the data used in this projection is 22 October 2024.

4.1 Summary

An important factor shaping CPI inflation path over the projection horizon is the development in the prices of energy carriers for households, which largely depend on government regulatory measures. In line with current regulations, specifically the *Act of 23 May 2024 on energy voucher and on amending certain laws to reduce the prices of electricity, natural gas and system heating*, 2025 is set to see a further phasing out of the mechanisms regulating those prices. However, media statements of government representatives point to the possibility of extending the shielding measures limiting energy price growth for households. In accordance with the 2025 draft Budget Act some of the funds earmarked for these measures have already been secured. For this reason, the November projection was prepared under two scenarios. The first scenario – the baseline scenario – assumes that in line with current regulations, prices of energy carriers for households will be unfrozen further in January 2025. The second scenario assumes these prices will remain frozen at the current level.

Economic developments in Poland presented in the projection are affected by subdued economic activity in the euro area, especially in the German economy. The forecasted scale of its recovery in subsequent years is limited, which negatively impacts GDP growth in Poland due to Poland's strong economic ties with euro area economies. High level of real interest rate also hampers the pace of the rebound in domestic economy. As a result, in the second half of 2024, GDP growth in Poland will likely not reach 3% y/y, and consumption growth will slow compared to the first half of 2024. Despite a strong rise in disposable income of households, retail sales dropped in September 2024 and the domestic manufacturing sector remains stagnant.

Figure 4.1 GDP (y/y, %)

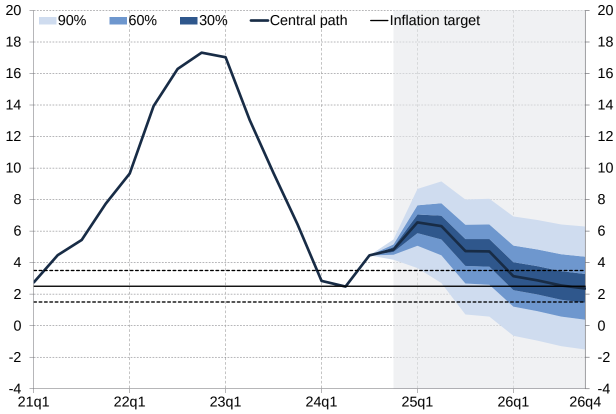


Source: Statistics Poland (GUS) data, NBP calculations.

Fan fan charts depict the probability distribution of possible outcomes of GDP growth (Figure 4.1) 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: Pońsko P., Rybaczyk B., 2016, Fan Chart – A Tool for NBP's Monetary Policy Making, Narodowy Bank Polski Working Paper, No 241).

GDP growth in Poland is expected to pick up in 2025, supported by a sharp rise in the inflow of EU funds under the 2021-2027 financial framework and from the National Recovery and Resilience Plan, that will in particular support investments. However, the impact of the expansionary fiscal policy – that increases household disposable income – on the growth rate of consumer spending will gradually fade out. With foreign demand only modestly supporting domestic economic conditions and assuming unchanged NBP interest rates over the projection horizon, the acceleration of economic growth in 2025 will be limited. In 2026, GDP growth is expected to fall again below 3%.

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.

In the coming quarters CPI inflation will run below the band of deviations from the NBP inflation target, reaching the peak in 2025 Q1 (at 6.6% y/y). This will be driven by the elevated energy and food prices. Year-on-year inflation is affected by the unfreezing of the prices of energy carriers for households and unfavourable agrometeorological conditions observed in Poland in spring 2024, increasing prices of fruit and vegetables. CPI inflation is also boosted by the spread-over-time impact of rapid wage growth in 2024, having a particularly pronounced effect on services prices. Core inflation will also be boosted by increased tariffs for water supply and waste water disposal, and a marked increase in the excise tax on tobacco products in March 2025.

However, the shape of economic activity in Poland and abroad forecasted for the coming quarters, indicates that the impact of the factors currently boosting CPI inflation will fade in the longer term horizon of the projection. Disinflation will be supported by reduced demand pressure, slower labour costs growth and low inflation in the external environment of the Polish economy. Under the assumption of unchanged NBP interest rates, inflation will return to the band of deviations from the target in 2026.

Apart from government regulatory measures on energy prices, the future economic outlook and CPI inflation path in Poland is largely dependent on economic activity developments in the euro area, in particular in the German economy. An uncertainty factor for the projection is also the degree of utilisation of EU funds under the National Recovery and Resilience Plan. The balance of uncertainty factors for GDP growth is roughly symmetric, while there is a higher probability of CPI inflation running below the central path in the short-term horizon of the projection (Figure 4.1, Figure 4.2).

4.2 External environment

Economic growth

Incoming data and information from the euro area indicate that recovery in this economy will proceed gradually, at a pace slower than assumed in the July projection (Table 4.1). The anticipated scale of recovery in the euro area in the coming quarters will be constrained by the observed unfavourable trends in the German economy, including further downturn in industrial sector and the subdued investment demand. Over the projection horizon, economic growth in the euro area will be primarily supported by a rebound in household consumption, underpinned by rising real disposable income of households amid the consistently favourable labour market conditions. At the same time, the currently low private investment growth will be supported, over the projection horizon, by the fading impact of the earlier monetary tightening (Figure 4.3). On the other hand, government investment in the euro area is boosted by defence spending.

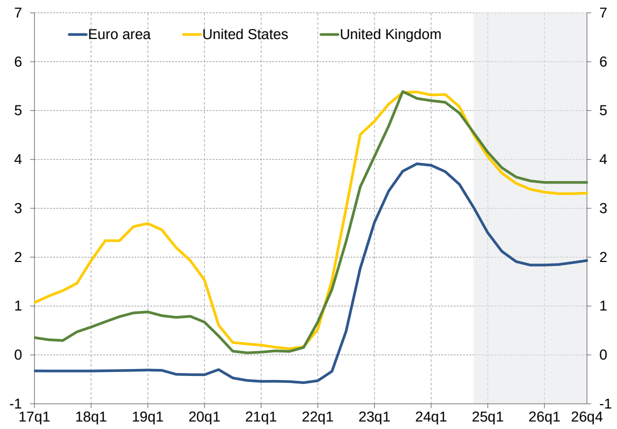
Economic conditions are by comparison more favourable in the United States; similarly, in the period 2025-2026, GDP growth in that economy will exceed the rate of growth in the euro area (see Chapter 1.1 *Economic activity abroad*). Thus, it is assumed that a soft landing scenario will unfold in the US economy, in which the disinflation process will proceed amid moderate economic slowdown

Table 4.1 GDP abroad – November projection versus July projection

	2024	2025	2026
GDP in Euro Area (y/y, %)			
November 2024	0.7	1.2	1.3
July 2024	0.8	1.3	1.3
GDP in Germany (y/y, %)			
November 2024	0.0	0.9	1.1
July 2024	0.3	1.1	1.2
GDP in United States (y/y, %)			
November 2024	2.7	2.0	2.0
July 2024	2.5	2.0	2.0
GDP in United Kingdom (y/y, %)			
November 2024	0.9	1.2	1.4
July 2024	0.9	1.2	1.4

Source: NBP calculations.

Figure 4.3 Interest rates abroad (%)



Source: Bloomberg data, NBP calculations.

and the persistently favourable labour market conditions.

Inflation and commodity markets

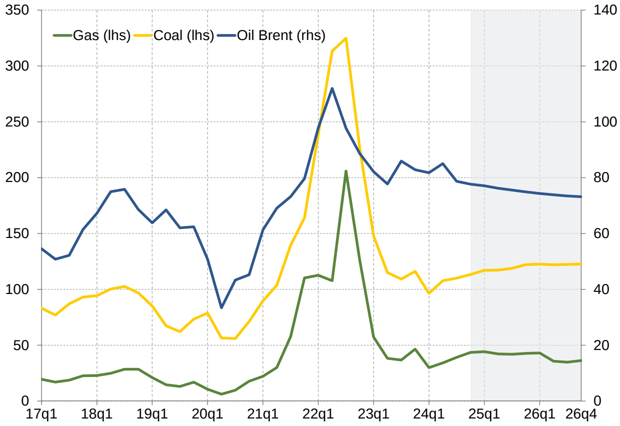
Global prices of energy commodities are running well below their 2022 highs, while still exceeding the pre-pandemic level. Their quotations are being influenced by the persistent supply constraints in some markets, including those related to geopolitical tensions in the Middle East (see Chapter 1.3 *Global commodity markets*).

Futures quotations imply that global prices of energy commodities will remain relatively stable over the projection horizon, close to the assumptions of the previous projection (Figure 4.4, Figure 4.5). As regards crude oil, the rise in demand for this commodity related to the improvement in global economic conditions is expected to be offset by the rising oil production in the countries outside OPEC+, including in the United States. The forecast level of natural gas prices in the European market is on the other hand curbed by high stocks of this commodity and measures to limit its consumption in Europe and to expand imports from markets other than Russia. The stabilisation in the gas market is conducive to a stabilisation in hard coal prices, as these commodities are substitutes in electrical energy generation.

It is expected that the index of global agricultural commodity prices in the coming quarters will run below the assumptions of the previous projection. This applies in particular to wheat, given the stronger-than-expected increase in the global harvest of this commodity in the 2024/2025 farming season. Futures quotations suggest that as supply conditions normalise and the impact of the disruptions resulting from the Russian invasion diminishes, agricultural commodity prices over the projection horizon will remain at a stable level (Figure 4.5).

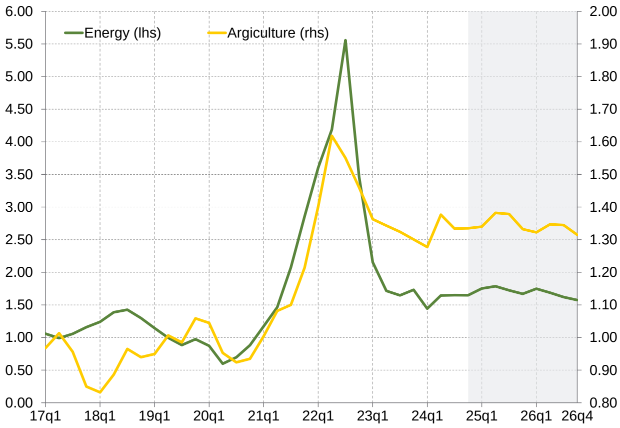
The decline in inflation in Poland's external economic environment, supported by the fading of

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

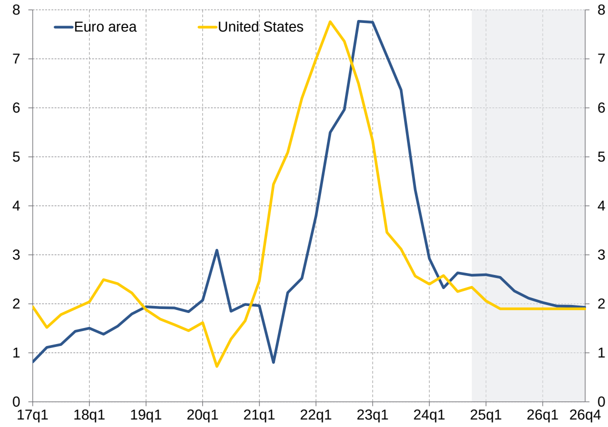


Source: Bloomberg data, NBP calculations.

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

earlier tensions in commodity markets and supply chains as well as slow activity growth in many economies, flattened over 2024 (Figure 4.5). Disinflation processes in the global economy were hampered by the stabilisation in energy commodity prices following a period of their marked declines. In the projection horizon, price growth in Poland's main trading partners will remain depressed amid the merely moderate demand recovery and the expiry of most supply shocks which boosted inflation in the past (Figure 4.6). At the same time, the disinflation process in major developed economies will be curbed by the high persistence of service price inflation.

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



Source: Bloomberg, Eurostat data, NBP calculations.

Uncertainty

Europe and the world continue to see heightened geopolitical risks related to Russian aggression against Ukraine, the conflict in the Middle East and strains in trade relations. These events constitute an important factor of risk to the global economic growth momentum, supply and prices of energy and agricultural commodities as well as the continuity of the global supply chains. This is associated with 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

Following a further normalisation in the global commodity markets, the scale of subsidies on energy bills for households and certain other entities was considerably reduced in July 2024. According to the current legal environment governed by 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, 2025 is to mark a further stage in the roll-back of the mechanisms that regulate energy prices.

Table 4.2 Fiscal costs of measures resulting in higher disposable income of households in 2024-2026 (% of GDP)

	2024	2025	2026
Salary increases for teachers, uniformed services and central public administration	0.7	0.6	0.6
Increase in the „Family 500 plus" child benefit	0.7	0.6	0.6
Supplementary benefits addressed to persons with disabilities, lifting restrictions in case of care allowances for guardians of disabled persons	0.1	0.1	0.2
„Active parent" programme*	0.0	0.1	0.0
Increases in social rents for persons incapable of independent existence	-	0.1	0.1
New survivors' pension rules for widow/widowers	-	0.1	0.2
Total	**1.5**	**1.7**	**1.7**

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 Welfare Capital" programme excluding covering costs of a child's stay in a nursery, which does not have direct impact on disposable income of households.

In particular, the cap on energy prices for households is to be lifted in January 2025 and the capacity charge reinstated, which will mean a significant increase in the average electricity bill for households. Also, the cap on the system heating price is to increase at the beginning of 2025. In consequence, energy price inflation in y/y terms will grow markedly in the first half of 2025. In the second half of 2025, energy price growth will decrease again under the influence of the base effect associated with the partial unfreezing of energy prices in July 2024, but will remain elevated until the end of 2025.

However, media statements by government officials imply that the shielding measures that limit price growth for households might be prolonged and some funds were earmarked for this purpose during the legislative work on the 2025 budget bill. As a result, a second scenario of the projection has been prepared, as discussed more extensively in Box 1.

At the same time, further systemic changes are being implemented, which – coupled with the increase in salaries in the public sector since the beginning of 2024 and the increase in child benefit from PLN 500 to PLN 800 – will improve the financial standing of households. In October 2024, the "Active Parent" programme was launched, increasing the carer allowance for children up to 3 years of age. In January 2025, an increase in social rents for persons incapable of independent existence will be introduced, followed by the so-called survivors' pension (meaning the right for widows and widowers to be paid their deceased spouse's pension in addition to their own retirement benefit) in July 2025. The total cost of these changes, which will take effect either in late 2024 or in 2025, is estimated at 0.2% of GDP in 2025 and 0.3% of GDP in 2026 (see Table 4.2).

The projected inflation path in 2025-2026 is also affected by marked increases in excise tax on tobacco products and their substitutes. According to the excise tax act amended in October 2024, in

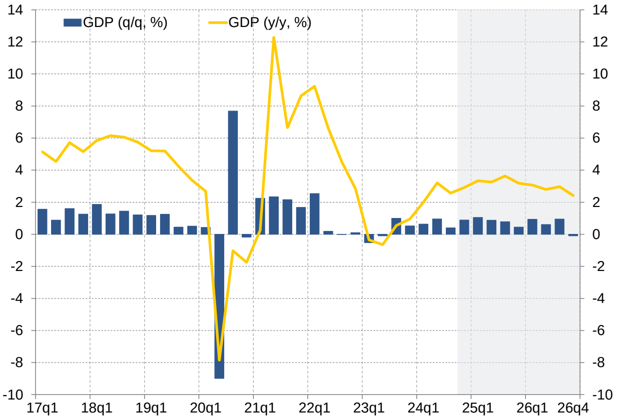
March 2025 the initial increase in excise tax will range from 25% to 75%, depending on the product, while the second phase of the increase, by 20-50%, is scheduled for the beginning of 2026. This is a significant revision to the earlier schedule, which allows for annual 10% increases in the tax rate.

The November projection also takes into account measures to support and rebuild the areas of Poland affected by flooding in September 2024. According to NBP's preliminary estimates, the state will bear the costs of restoration after the catastrophe in 2024, which are estimated to reach approx. 0.1% of GDP, an amount lower than that incurred in 1997 and 2010 (0.2% of GDP). Such costs include direct financial aid for the affected households and businesses, and expenses associated with the work of the emergency services in the flooded areas. The restoration of the destroyed or damaged infrastructure (among others, water infrastructure, transport infrastructure and municipal infrastructure) in the coming years is to be financed by reallocating EUR 5bn of EU funds from the 2021-2027 financial framework.

Economic activity

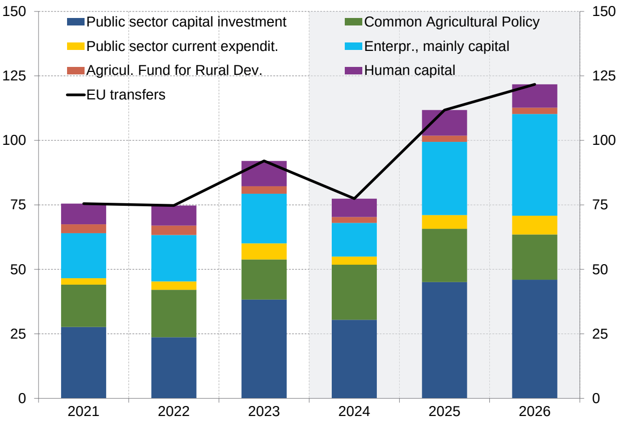
According to the assumptions underlying the current projection, Polish economy will grow at a rate slightly below 3% y/y in the second half of 2024. Economic growth will continue to be driven by consumption, both private and public, but partial data available for 2024 Q3 imply that the annual growth in household consumption will decrease compared to the first half of this year (Figure 4.7, Figure 4.9). In 2025, with the expected surge in the inflow of EU funds, economic activity will pick up slightly, while investments will also become an important growth driver (Figure 4.8). 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

Figure 4.7 Economic growth



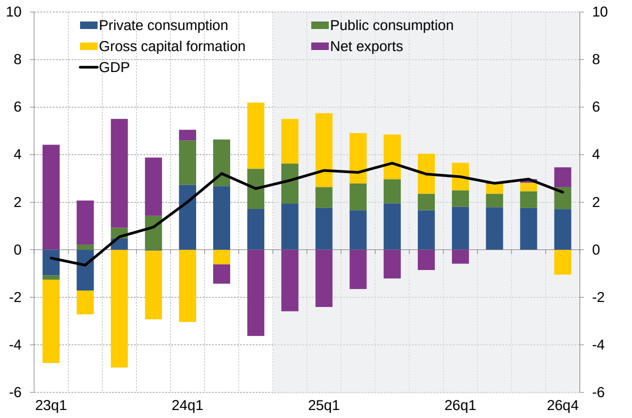
Source: Statistics Poland (GUS) data, NBP calculations.

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.

of 5.75%. Influenced by relatively high real interest rates, domestic demand will slow down again in 2026, which, with growth in exports remaining low, will translate into a deceleration of the average annual economic growth rate below 3%.

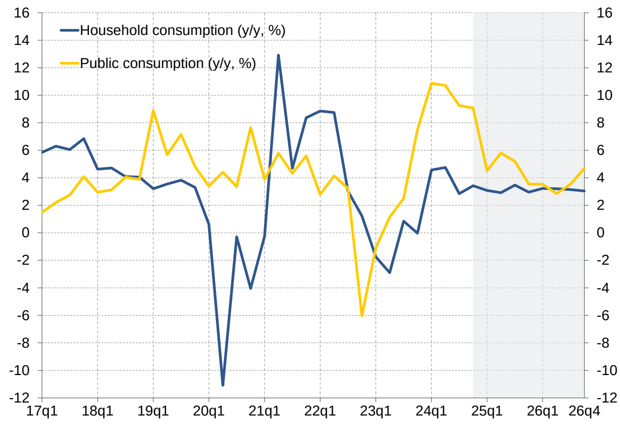
After increasing by 3.8% in 2024, household consumption in 2025-2026 will expand at a slower pace, affected by relatively high real interest rates and a slowdown in real growth in household disposable income (Figure 4.10).

The currently high household savings rate is assumed to remain elevated over the entire projection horizon. The propensity to save is boosted by the relatively high real interest rate resulting from the assumption that NBP interest rates will remain stable, meaning above the projected inflation path on average. The need to replenish household savings, depleted during the period of high inflation, will have a similar effect.

Slower growth in disposable income affected by the return of the currently elevated real wage growth to a rate close to labour productivity growth, is another factor stifling household consumption growth in 2025-2026. The legislative changes taken into account in the projection will drive the wage bill growth at a much slower extent than in 2024 (see *Legislative changes affecting the projected paths of GDP and CPI inflation*). However, given the fact that households seek to smooth the consumption path over time, consumption growth will remain relatively stable over the entire projection horizon.

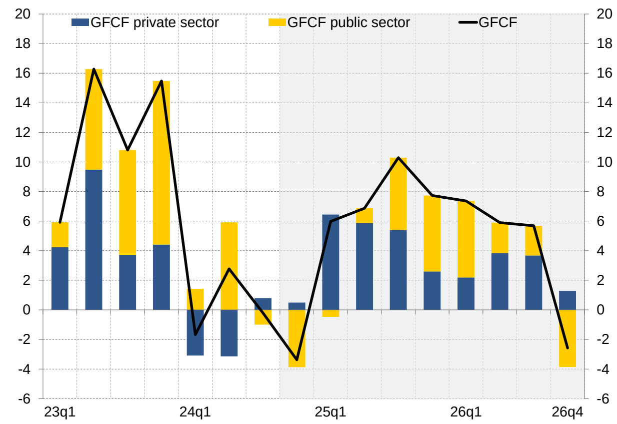
The current projection assumes a marked recovery in investment demand in 2025, following a stagnation in 2024 (Figure 4.11). Such a scenario is supported by declarations by businesses concerning planned growth in the scale of investment over a one-year horizon, with a stabilisation of this indicator over a one-quarter horizon (*NBP Quick Monitoring Survey*[41]). The

Figure 4.10 Household and public consumption



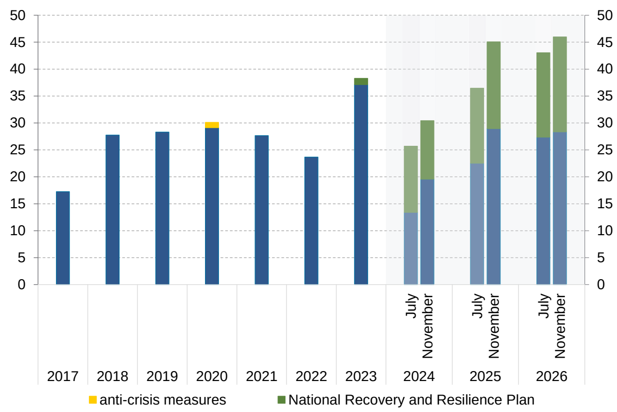
Source: Statistics Poland (GUS) data, NBP calculations.

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.

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

increase in investment activity in 2025 will be fuelled by higher absorption of EU funds under the 2021-2027 financial framework and the National Recovery and Resilience Plan (Figure 4.12). In part, the higher absorption of EU funds is to finance the reconstruction of the infrastructure and buildings in the areas affected by flooding (see *Legislative changes affecting the projected paths of GDP and CPI inflation*).

Over the entire projection horizon, public investment will be driven up by high expenditure on the purchase of military equipment. In turn, recovery in the corporate investment is supported by 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. On the other hand, private investment demand will be adversely affected by the increasingly materialising effects of high NBP interest rates over the projection horizon. As a result, in 2026, when the EU fund inflows slow down, gross fixed capital formation growth will slacken.

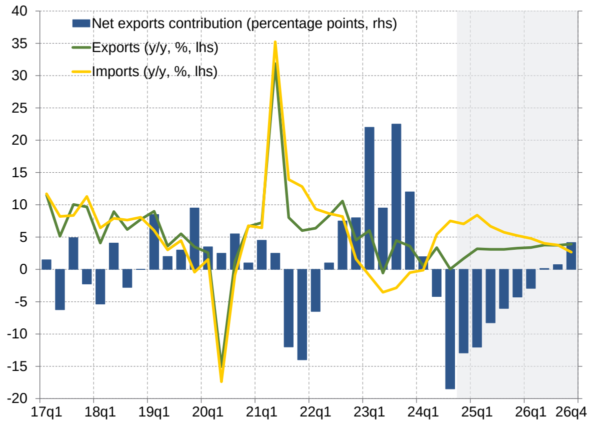
In 2024 Q3, the contribution of net exports to GDP growth decreased and will remain markedly negative until the end of 2025. The decline in the trade balance can be attributed to growing imports accompanying the domestic recovery. Weak economic activity experienced by Poland's main trading partners, especially Germany, has a similar effect, adversely affecting the export path (Figure 4.13).

Potential output and the output gap

According to the current projection, potential output growth in 2024-2026 will reach the average of 3.0% y/y, slightly below its long-term average (Figure 4.14).

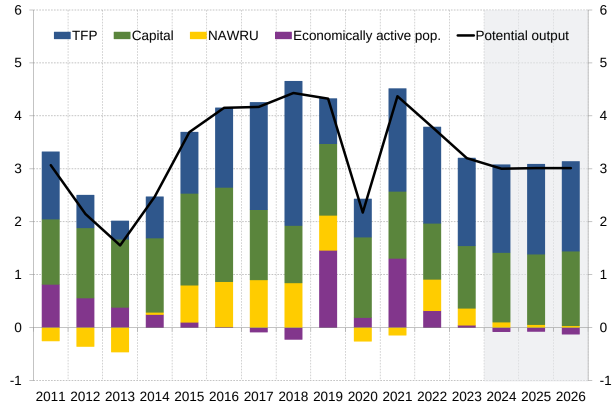
The potential of the domestic economy in the projection horizon will be positively influenced by the higher corporate investment rate in 2025-2026,

Figure 4.13 Foreign trade



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

Figure 4.14 Potential product (y/y, %) – breakdown



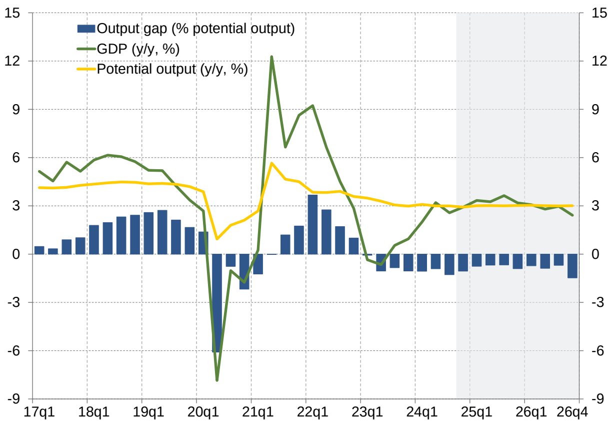
Source: NBP calculations.

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.

Figure 4.15 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.

boosting productive capital growth, as well as the inflow of migrants, 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.

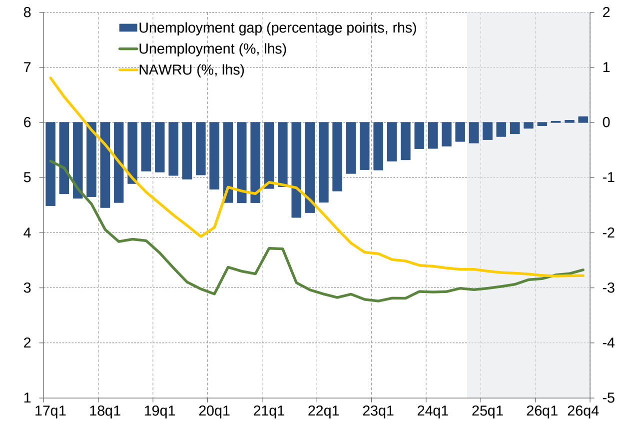
Economic recovery in the coming quarters will lead to the narrowing of the currently negative output gap (Figure 4.15). However, demand pressure will ease again in 2026 as GDP growth slows down, strengthening the disinflation process in the Polish economy.

Labour market

Since the beginning of 2024 the number of working persons has been declining, lagging behind the slowdown in GDP growth from the previous year (Figure 4.17). Consequently, the unemployment rate increased with respect to 2023, although the scale of this increase was dampened by demographic trends reducing the working age population. In the next year, the unemployment rate will stabilize in the wake of the expected economic activity growth, yet the number of working persons will decline slightly. This scenario is reflected in the employment forecasts of enterprises within a one-year horizon, which have been below average and declining since 2024 Q2[42] (Figure 4.16, Figure 4.18). In 2026, the slowdown in economic activity will contribute to another, although limited, surge in the unemployment rate amid a persistent decline in the domestic labour pool.

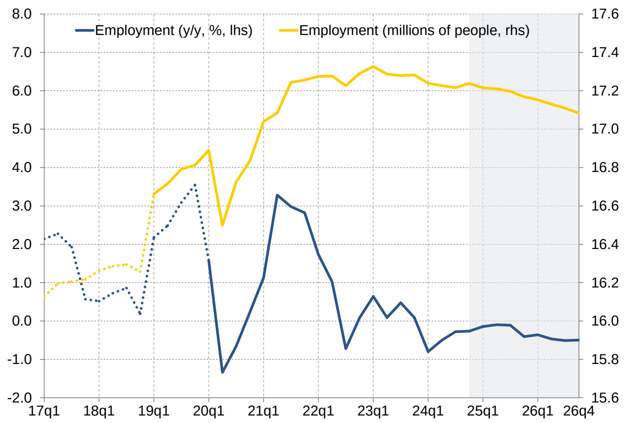
In the projection horizon, the nominal wage growth will slow down from the present high rate, which has been driven by the wage rises for employees of the public sector and the increase in the minimum wage, and in 2025 it will drop to single-digit figures (Figure 4.19). Such a scenario is

Figure 4.16 Unemployment



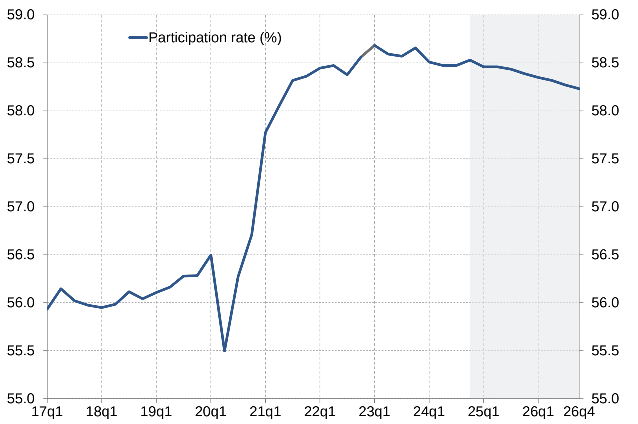
Source: Statistics Poland (GUS) data, NBP calculations.
$NAWRU_t$ – non-accelerating wage rate of unemployment in the equilibrium.
The LFS unemployment data before 2019 and from 2019 are not fully comparable – see note to the Figure 4.17.

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.

Figure 4.18 Labour force participation

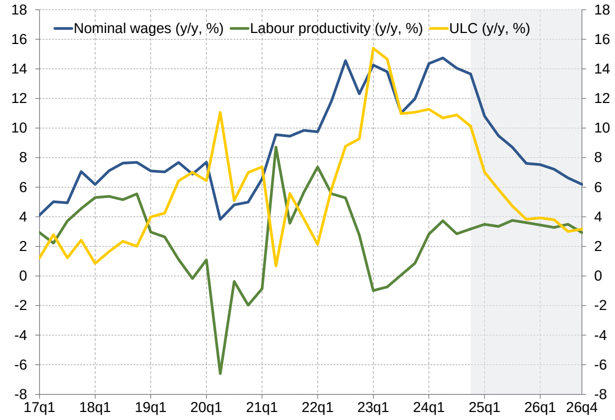


Source: Statistics Poland (GUS) data, NBP calculations.
The data before 2019 and from 2019 are not fully comparable – see note to the Figure 4.17.

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

corroborated by the results of the *NBP Quick Monitoring Survey*[43] indicating that the vast majority of the surveyed companies declaring wage rises in a one-year horizon are planning an increase of less than 10 per cent. The nominal wage growth will be slower on account of much lower inflation than in 2022-2023, the level of which is factored into the wage-setting mechanism with some delay. This development will also be supported by the anticipated increase in the share of migrants in the labour force, the significantly lower minimum wage rises than in 2023-2024 and, in 2026, a slowdown in GDP growth. Given the above circumstances, real wage growth in 2025-2026 will converge to labour productivity growth.

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.

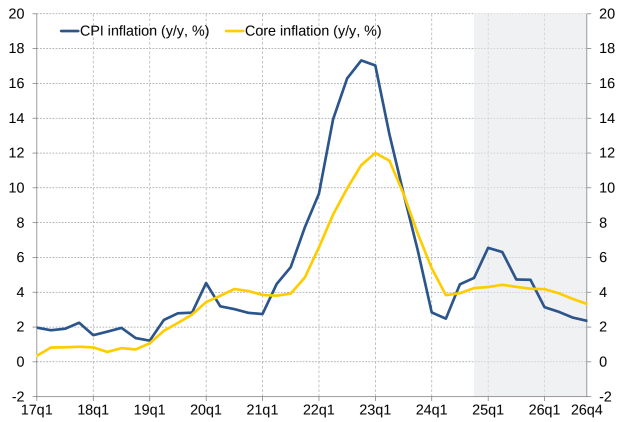
With regard to the data on growth rates in the y/y terms for unit labour cost (ULC) and labour productivity before 2020 - see note to the Figure 4.17.

CPI inflation

The scenario, which takes into account current legal stance, i.e. further unfreezing of the of energy carrier prices for households, will imply that starting from January 2025 CPI inflation will run above the band of deviations from the NBP inflation target defined as 2.5% +/-1 p.p., reaching its peak of 6.6% y/y in 2025 Q1.

Until 2025 Q4, consumer price inflation in annual terms will be driven by the scaling back of the regulation of energy carrier prices for households taking place in two rounds, i.e. in July 2024 and in January 2025, with the biggest impact being felt in 2025 Q1 (see *Legislative changes affecting the projected paths of GDP and CPI inflation*).

Figure 4.20 CPI and core inflation



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

The increase in energy prices is accompanied by accelerating food price growth (Figure 4.23). Prices in this category will be pushed up until the first half of 2025 by lower crops of fruit and selected types of vegetables in 2024 caused by unfavourable conditions in the spring. At the same time, until 2025 Q1, accelerated food price growth in annual terms will be triggered by the base effect related to the mounting price competition between the largest retailers in the Polish food market, which

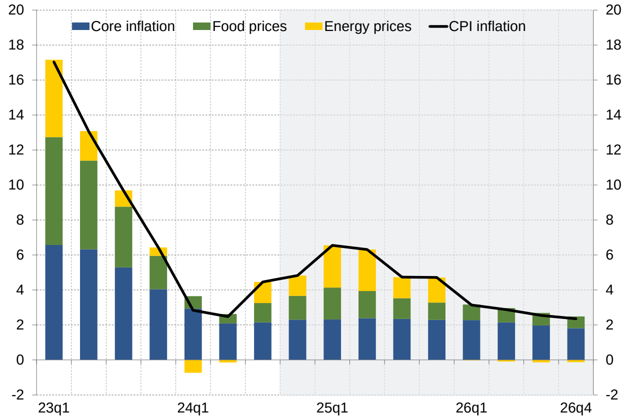
[43] *NBP Quick Monitoring Survey. Economic climate in the enterprise sector*, NBP, October 2024.

has been observed since July 2023. The annual rate of food price growth at the beginning of 2025 will also continue to be influenced by the rapid wage increases of 2024. This influence will be spread over time.

At the same time, the coming quarters will see a slight, temporary increase in core inflation. In 2024 Q4 this increase will be compounded by a positive base effect related to the expansion of the list of persons eligible for free medicine in September 2023, as well as price promotions offered in the communications services and by the tourism industry in November 2024. At the turn of 2024/2025, core inflation will be raised by higher fees charged to consumers for the supply of water and the disposal of sewage by enterprises or municipal companies, as approved by the State Water Holding Polish Waters (Państwowe Gospodarstwo Wodne Wody Polskie). The growth of non-food goods in the coming year will in turn be accelerated by a marked increase in excise on tobacco products in March 2025 (see section *Legislative changes affecting the projected paths of GDP and CPI inflation*). Similarly to the food price inflation, core inflation at the beginning of 2025 will also continue to be influenced by the rapid rise in labour costs in 2024, reflecting accelerated price growth of services, which are relatively labour intensive on average.

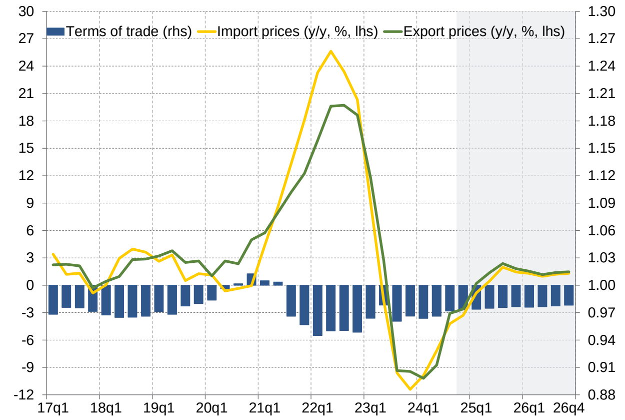
According to the current projection, CPI inflation will return to the downward trend over the course of 2025. The disinflation process will be supported by a gradual decrease in labour costs over the projection horizon and low demand pressure reflected in the negative output gap (see Potential output and the output gap). 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 price growth (Figure 4.22). Moreover, 2026 will see a reduced impact on energy price growth in annual terms of the two rounds of scaling back the regulation of energy carrier prices

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



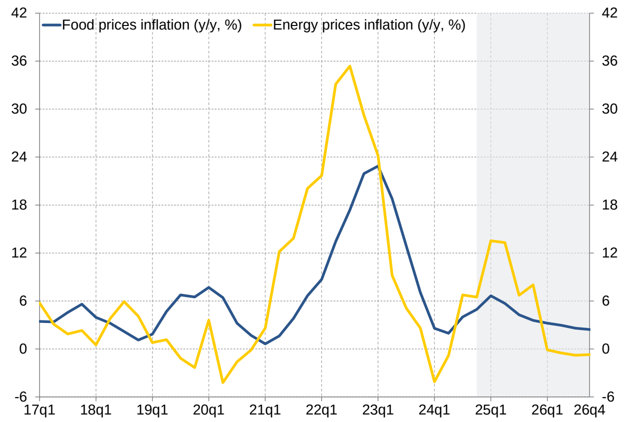
Source: Statistics Poland (GUS) data, NBP calculations.

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.

for households effected in July 2024 and January 2025, which will translate into the rate of this growth falling slightly below 0%. 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 July projection have contributed to a downward revision of the economic growth forecast, amid a slightly higher path of the CPI inflation forecast than in the previous forecasting round (Table 4.3, Figure 4.24, Figure 4.25, Figure 4.26, Figure 4.27).

Lower path of the economic growth forecast than in the previous projection results from weaker-than-expected readings of economic indicators in Poland and its external environment published after the cut-off date of the July projection.

Available data for 2024 Q3 indicate that GDP growth in that period could have stood below the 2024 Q2 result. In particular, retail sales and industrial production in July, August and September 2024 proved lower than the median of market expectations. As a result, in 2024 Q3 growth in industrial production and retail sales – despite a robust rise in household real disposable income – was close to zero. At the same time, the PMI index, despite some improvement in 2024 Q3, has been running below the neutral threshold of 50.0 points for over two years, indicating a persistently pessimistic sentiment in the manufacturing sector. An additional negative sign from the Polish economy is a marked decline in investment of medium-sized and large enterprises in 2024 Q2.

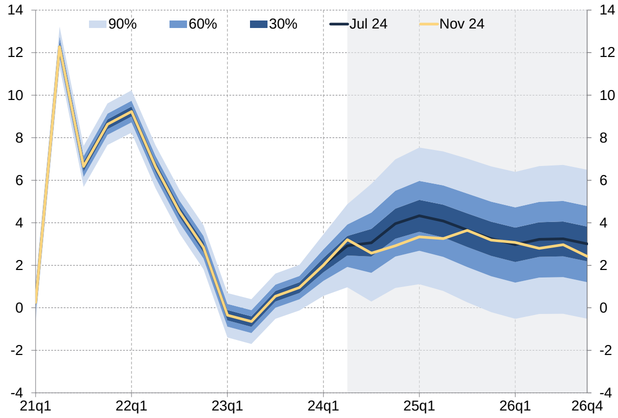
Domestic economic activity is linked to the situation in the German economy, Poland's main trading partner, which is now in stagnation amid a deteriorating situation in industry. This is reflected in the fall of industrial production in Germany on

Table 4.3 November projection versus July projection

	2024	2025	2026
GDP (y/y, %)			
November 2024	3.7	5.6	2.7
July 2024	3.7	5.2	2.7
CPI inflation (y/y, %)			
November 2024	2.7	3.4	2.8
July 2024	3.0	3.8	3.1

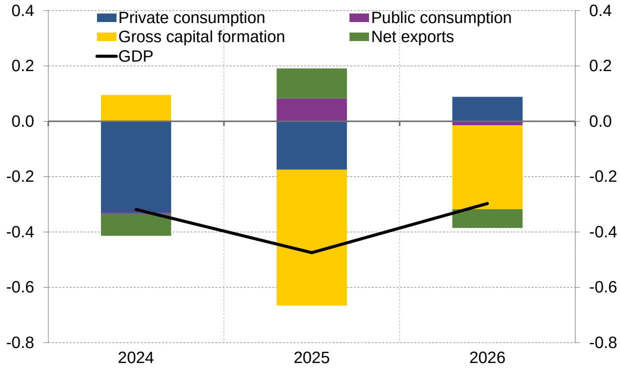
Source: NBP calculations.

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



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

Figure 4.25 Decomposition of deviations between November and July 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.

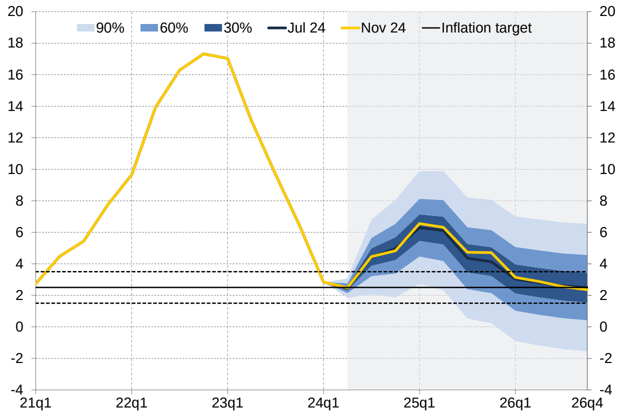
average during July-August 2024 – both in annual terms and as compared with 2024 Q2 – as well as in the decline in the PMI in the manufacturing sector in September to 40.6 points and the deepest drop in new orders since October 2023, including export orders.

Inflation developments in 2024 proved largely in line with the results of the July projection. The current projection for subsequent years has thus seen only minor revisions compared with the previous forecasting round. Its higher 2025 path results from the delayed impact of higher labour costs in 2024 due to stronger wage growth than assumed in the July projection. The CPI inflation path is also shifted upwards by a higher-than-expected increase of excise tax on tobacco products, as assumed in the draft Budget Act (see *Legislative changes affecting the projected paths of GDP and CPI inflation*).

4.5 Forecast uncertainty sources

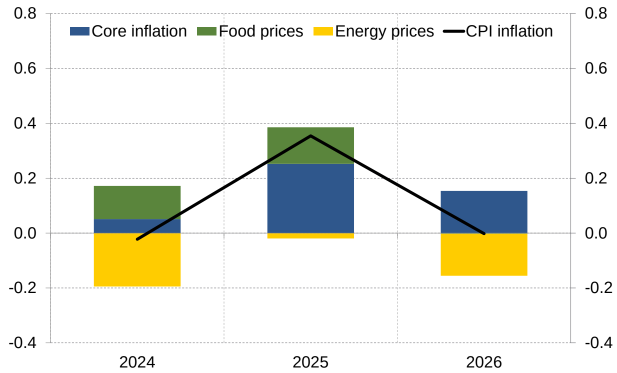
The central scenario of the projection, presenting the most likely macroeconomic developments in Poland, is subject to uncertainty reflected in the fan charts (Figure 4.1, Figure 4.2). The future economic situation and the path of CPI inflation in Poland is largely dependent on the scale of government regulatory measures as regards prices of electricity, natural gas and heating. The scale of utilisation of EU funds under the National Recovery and Resilience Plan is also an uncertainty factor. Apart from domestic conditions, an important source of risk in the current forecasting round is the future economic developments in the euro area, in particular in the German economy. A major source of uncertainty in the external environment of the Polish economy is also the future course of the armed conflicts in Ukraine and in the Middle East and the shape of trade relations between the United States and the European Union and China. The balance of uncertainty factors indicates a close to symmetric distribution of risks for the forecast GDP growth and a higher probability of CPI

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



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

Figure 4.27 Decomposition of deviations between November and July 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%)
25q1	0.00	0.01	0.05	0.58	0.05
25q2	0.02	0.05	0.11	0.56	0.10
25q3	0.10	0.20	0.34	0.55	0.24
25q4	0.11	0.21	0.35	0.55	0.24
26q1	0.24	0.39	0.56	0.50	0.32
26q2	0.28	0.44	0.61	0.50	0.33
26q3	0.33	0.49	0.66	0.50	0.33
26q4	0.35	0.52	0.68	0.50	0.33

Source: NBP calculations.

inflation running below the central path in the short-term horizon of the projection (Table 4.4).

Domestic risks

Government regulatory measures concerning prices of electricity, natural gas and heating are a source of one of the major risk factors in the current projection. The central scenario assumes that these measures will be maintained only until the end of 2024, in accordance with the current legislation. Yet, other scenarios are also possible, in particular the scenario under which the regulations concerning the prices of energy carriers will be kept in force in their present form throughout the projection horizon. The macroeconomic consequences of such a scenario are presented in Box 1.

Another source of uncertainty is the pace and scale of utilisation of funds under the National Recovery and Resilience Plan since in its many components no agreements with beneficiaries have been signed yet or even no calls for projects have been launched. Meanwhile, all the milestones and target values for investment projects as defined in the National Recovery and Resilience Plan must be achieved by August 2026. A lower use of EU funds than assumed in the central scenario would result in the downward revision of GDP growth in the Polish economy, in particular the investment path.

Economic conditions in the euro area

The most important risk factor for the projection in the environment of the Polish economy is the development of future economic conditions in the euro area, in particular in the German economy. As regards the euro area, uncertainty concerns activity in manufacturing sectors amid the current fiscal tightening, the weaker competitive position of this economy than before 2022, and risks of a regulatory nature. There also persist risks associated with high levels of public debt and public deficit in many euro area countries. These conditions are of particular importance for the outlook for investments and exports, and, to a lesser extent, for consumption in the euro area. Should the German economy remFain in stagnation for a longer period and should the pace of recovery in other euro area countries be slower, the future path of domestic GDP, including the path of exports and investments, will also be revised downward.

Global trade conflicts

The outlook for the global economy as a whole is also subject to high uncertainty, with the risk of slower growth prevailing. In particular, risks associated with the further fragmentation of global trade and production should be highlighted. The pace of growth of global trade may also be hampered by advanced economies stepping up protection of their own markets against subsidised products from China and by the risk of potential retaliatory measures by China. Higher customs duties and non-tariff barriers between the United States and European Union would work in the same direction, negatively affecting economic activity in Poland over the projection horizon.

Armed conflicts around the world

Another source of risk in the environment of the Polish economy is related to the Russian aggression against Ukraine and the tensions in the Middle East. This uncertainty mostly concerns the future path of the prices of energy and agricultural commodities in the global markets. This also impacts the number of refugees from countries affected by war hostilities and inflows of foreign capital on an international scale, including to the region of Central and Eastern Europe. In the event of an escalation of the armed conflicts, the path of commodity prices would run above the level assumed in the central scenario of the projection. A further escalation of the Russian aggression against Ukraine might increase the inflow of refugees to Poland, and lead to an outflow of foreign capital and a depreciation of the exchange rate of the zloty. Should this scenario materialise, the path of CPI inflation in Poland would run higher than assumed in the scenario, amid lower GDP growth. Should the conflict in the Middle East de-escalate or the Russian aggression against Ukraine come to an end, we would expect the materialisation of risks resulting in a faster fall in inflation and an improvement in the outlook for domestic economic activity.

Box 1 Scenario of freezing prices of energy carriers for households

The central scenario assumes, in line with the current legislation, that 2025 will see another stage of the fading of mechanisms regulating energy prices (see *Legislative changes affecting the projected paths of GDP and CPI inflation*). However, media statements from government representatives suggest the possibility of extending shielding measures that limit price growth for households. In the course of works on the draft Budget Act for 2025 some of the funds earmarked for this purpose have already been secured. At the conference held on 28 August 2024, Minister of Finance, Andrzej Domański announced that: "*In the draft Budget Act for 2025 adopted today, the government has secured funds earmarked to freeze energy prices in the amount of PLN 2 billion; however, it is not excluded that this amount will be substantially increased.*" At the same time, on 16 October 2024, Minister of Climate and Environment, Paulina Hennig-Kloska, confirmed that there was still ongoing work on the solutions regulating energy prices in 2025: "*I am waiting for the discussion at the Economic Committee of the Council of Ministers to finally set the budget for energy price shielding measures to be able to draw up the final act with specific solutions and submit it to the Council of Ministers for approval (…) This is our aim, we want to extend the maximum price, and whether this price will stay at the current level it will depend on the programme budget (…) Freezing prices for all households for the whole of 2025 at the 2024 level (PLN 500/MWh) would require PLN 4.4 billion according to our calculations.*"

For this reason, an alternative scenario has been developed under which the current rates for electricity, natural gas, and heating for households will remain unchanged in 2025-2026. In this scenario energy price inflation in y/y terms, which increased markedly in 2024 Q2, remains unchanged until mid-2025, subsequently decreasing close to zero later in the projection horizon.

Under these assumptions, the growth rate of nominal wages would be lower than in the baseline scenario, due to adjustment to lower growth in energy prices. The decline in the growth of labour costs will accelerate the disinflation process in the Polish economy. Yet, due to the higher path of real disposable income and household spending, economic growth path would run higher over the projection horizon. As a result, stronger demand pressure would largely limit the impact of lower growth in labour costs on core inflation and food prices in 2026.

Table 4.5 Inflation and GDP projection path in scenario of withdrawal of shielding measures with regard to prices of energy carriers for households

	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	4.5	4.8	6.6	6.3	4.7	4.7	3.1	2.9	2.5	2.4	11.4	3.7	5.6	2.7
Core inflation (CPI net of food and energy prices, %, y/y)	12.0	11.6	9.7	7.4	5.4	3.8	3.9	4.2	4.3	4.4	4.3	4.2	4.2	3.9	3.6	3.3	10.1	4.3	4.3	3.8
Food prices (%, y/y)	22.9	18.8	12.9	7.1	2.6	2.0	4.0	4.9	6.6	5.7	4.3	3.6	3.2	3.0	2.6	2.4	15.1	3.4	5.0	2.8
Energy prices (%, y/y)	24.2	9.2	5.1	2.6	-4.1	-0.8	6.8	6.5	13.5	13.3	6.7	8.0	-0.1	-0.5	-0.8	-0.7	9.8	2.0	10.3	-0.5
GDP (%, y/y)	-0.4	-0.6	0.5	1.0	2.0	3.2	2.6	2.9	3.3	3.3	3.6	3.2	3.1	2.8	3.0	2.4	0.2	2.7	3.4	2.8
Domestic demand (%, y/y)	-4.8	-2.6	-4.1	-1.5	1.7	4.3	6.6	6.0	6.2	5.2	5.1	4.3	3.8	2.9	2.9	1.7	-3.2	4.8	5.2	2.8
Household consumption (%, y/y)	-1.8	-2.9	0.8	0.0	4.6	4.7	2.8	3.4	3.1	2.9	3.5	3.0	3.2	3.2	3.1	3.0	-1.0	3.8	3.1	3.2
Public consumption (%, y/y)	-1.1	1.1	2.5	7.5	10.9	10.7	9.2	9.1	4.5	5.8	5.2	3.5	3.5	2.9	3.5	4.7	2.8	9.5	4.8	3.7
Gross fixed capital formation (%, y/y)	6.0	16.5	11.3	15.8	-1.8	2.7	-0.4	-3.4	6.0	6.9	10.3	7.7	7.4	5.9	5.7	-2.6	13.1	0.2	7.7	4.0
Contribution of net exports (percentage points, y/y)	4.4	1.9	4.5	2.4	0.4	-0.8	-3.7	-2.6	-2.4	-1.7	-1.2	-0.9	-0.6	0.0	0.1	0.8	3.3	-1.7	-1.5	0.1
Exports (%, y/y)	6.0	-0.6	4.5	3.6	0.5	3.4	0.1	1.7	3.2	3.1	3.1	3.3	3.4	3.8	3.7	3.9	3.4	1.4	3.2	3.7
Imports (%, y/y)	-1.0	-3.5	-2.9	-0.5	-0.1	5.4	7.5	7.0	8.4	6.7	5.7	5.2	4.8	4.0	3.8	2.7	-2.0	5.0	6.5	3.8
Gross wages (%, y/y)	14.3	13.8	11.0	12.0	14.4	14.7	14.0	13.7	10.8	9.5	8.7	7.6	7.5	7.2	6.6	6.2	12.8	14.2	9.1	6.9
Total employment (%, y/y)	0.6	0.1	0.5	0.1	-0.8	-0.5	-0.3	-0.3	-0.1	-0.1	-0.1	-0.4	-0.4	-0.5	-0.5	-0.5	0.3	-0.5	-0.2	-0.5
Unemployment rate (%)	2.8	2.8	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.3	3.3	2.8	3.0	3.1	3.2
NAWRU (%)	3.6	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.5	3.4	3.3	3.2
Labour force participation rate (%, y/y)	58.7	58.6	58.6	58.7	58.5	58.5	58.5	58.5	58.5	58.5	58.4	58.4	58.3	58.3	58.3	58.2	58.6	58.5	58.4	58.3
Labour productivity (%, y/y)	-1.0	-0.7	0.1	0.9	2.8	3.7	2.9	3.2	3.5	3.4	3.8	3.6	3.4	3.3	3.5	2.9	-0.2	3.0	3.5	3.3
Unit labour cost (%, y/y)	15.4	14.7	11.0	11.1	11.3	10.7	10.9	10.1	7.0	5.9	4.7	3.8	3.9	3.8	3.0	3.2	12.9	10.7	5.3	3.5
Potential output (%, y/y)	3.5	3.3	3.1	3.0	3.1	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.2	3.0	3.0	3.0
Output gap (% potential GDP)	-0.1	-1.0	-0.8	-1.0	-1.1	-0.9	-1.3	-1.1	-0.7	-0.7	-0.7	-0.9	-0.7	-0.9	-0.7	-1.5	-0.8	-1.1	-0.7	-0.9
Index of agricultural commodity prices (EUR; 2019=1.0)	1.36	1.34	1.32	1.30	1.28	1.38	1.33	1.33	1.34	1.38	1.38	1.33	1.32	1.35	1.34	1.31	1.33	1.33	1.36	1.33
Index of energy commodity prices (USD; 2019=1.0)	2.15	1.72	1.65	1.73	1.44	1.64	1.65	1.65	1.75	1.79	1.72	1.67	1.75	1.69	1.62	1.57	1.81	1.60	1.73	1.66
Gross value added deflator abroad (%, y/y)	6.6	5.6	5.0	3.4	2.4	2.1	2.5	2.5	2.5	2.4	2.1	2.0	2.0	1.9	1.9	1.9	5.1	2.4	2.3	1.9
GDP abroad (%, y/y)	1.2	0.7	0.3	0.4	0.6	0.8	0.8	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	0.6	0.8	1.2	1.3
Current account balance (% GDP)	-0.5	0.2	1.1	1.8	1.6	1.3	0.4	-0.2	-0.7	-0.9	-1.1	-1.1	-1.2	-1.3	-1.1	-1.0	1.8	-0.2	-1.1	-1.0
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 2024Q3 are determined on the basis of raw quantities, while in the projection horizon are presented seasonally adjusted data. In the case of the unemployment rate, the NAWRU rate, the labour force participation rate, potential output growth, the output gap, the agricultural commodity price index, the energy commodity price index, inflation abroad and GDP growth abroad only seasonally adjusted data are presented, while the WIBOR 3M rate and import price growth are not seasonally adjusted series.

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

Table 4.6 Inflation and GDP projection path in scenario of freezing prices of energy carriers for households

	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	4.5	4.8	5.3	5.1	3.5	3.4	3.2	2.9	2.6	2.5	11.4	3.7	4.3	2.8
Core inflation (CPI net of food and energy prices, %, y/y)	12.0	11.6	9.7	7.4	5.4	3.8	3.9	4.2	4.3	4.4	4.3	4.1	4.0	3.8	3.5	3.3	10.1	4.3	4.3	3.7
Food prices (%, y/y)	22.9	18.8	12.9	7.1	2.6	2.0	4.0	4.9	6.6	5.7	4.3	3.5	3.0	2.8	2.5	2.4	15.1	3.4	5.0	2.7
Energy prices (%, y/y)	24.2	9.2	5.1	2.6	-4.1	-0.8	6.8	6.5	6.4	6.2	0.1	1.3	0.9	0.5	0.2	0.3	9.8	2.0	3.4	0.5
GDP (%, y/y)	-0.4	-0.6	0.5	1.0	2.0	3.2	2.6	2.9	3.4	3.4	3.8	3.4	3.2	2.8	3.0	2.5	0.2	2.7	3.5	2.9
Domestic demand (%, y/y)	-4.8	-2.6	-4.1	-1.5	1.7	4.3	6.6	6.0	6.3	5.3	5.3	4.5	3.9	3.0	3.0	1.8	-3.2	4.8	5.3	2.9
Household consumption (%, y/y)	-1.8	-2.9	0.8	0.0	4.6	4.7	2.8	3.4	3.2	3.1	3.7	3.3	3.3	3.3	3.2	3.0	-1.0	3.8	3.4	3.2
Public consumption (%, y/y)	-1.1	1.1	2.5	7.5	10.9	10.7	9.2	9.1	4.6	5.9	5.4	3.7	3.6	3.0	3.6	4.9	2.8	9.5	4.9	3.8
Gross fixed capital formation (%, y/y)	6.0	16.5	11.3	15.8	-1.8	2.7	-0.4	-3.4	5.9	6.9	10.3	7.6	7.3	5.8	5.6	-2.5	13.1	0.2	7.6	4.0
Contribution of net exports (percentage points, y/y)	4.4	1.9	4.5	2.4	0.4	-0.8	-3.7	-2.6	-2.4	-1.6	-1.2	-0.9	-0.6	0.0	0.2	0.8	3.3	-1.7	-1.5	0.1
Exports (%, y/y)	6.0	-0.6	4.5	3.6	0.5	3.4	0.1	1.7	3.2	3.1	3.1	3.3	3.4	3.8	3.8	3.9	3.4	1.4	3.2	3.7
Imports (%, y/y)	-1.0	-3.5	-2.9	-0.5	-0.1	5.4	7.5	7.0	8.4	6.6	5.7	5.2	4.8	4.1	3.8	2.7	-2.0	5.0	6.5	3.8
Gross wages (%, y/y)	14.3	13.8	11.0	12.0	14.4	14.7	14.0	13.7	10.7	9.3	8.4	7.2	7.2	6.8	6.4	6.1	12.8	14.2	8.9	6.6
Total employment (%, y/y)	0.6	0.1	0.5	0.1	-0.8	-0.5	-0.3	-0.3	-0.1	-0.1	-0.1	-0.4	-0.3	-0.4	-0.5	-0.5	0.3	-0.5	-0.2	-0.4
Unemployment rate (%)	2.8	2.8	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.3	2.8	3.0	3.0	3.2
NAWRU (%)	3.6	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.5	3.4	3.3	3.2
Labour force participation rate (%, y/y)	58.7	58.6	58.6	58.7	58.5	58.5	58.5	58.5	58.5	58.5	58.4	58.4	58.4	58.3	58.3	58.2	58.6	58.5	58.4	58.3
Labour productivity (%, y/y)	-1.0	-0.7	0.1	0.9	2.8	3.7	2.9	3.2	3.6	3.5	3.9	3.8	3.5	3.3	3.5	3.0	-0.2	3.0	3.7	3.3
Unit labour cost (%, y/y)	15.4	14.7	11.0	11.1	11.3	10.7	10.9	10.1	6.9	5.6	4.3	3.3	3.5	3.4	2.8	3.0	12.9	10.7	5.0	3.2
Potential output (%, y/y)	3.5	3.3	3.1	3.0	3.1	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.2	3.0	3.0	3.0
Output gap (% potential GDP)	-0.1	-1.0	-0.8	-1.0	-1.1	-0.9	-1.3	-1.1	-0.7	-0.5	-0.5	-0.7	-0.6	-0.7	-0.5	-1.2	-0.8	-1.1	-0.6	-0.8
Index of agricultural commodity prices (EUR; 2019=1.0)	1.36	1.34	1.32	1.30	1.28	1.38	1.33	1.33	1.34	1.38	1.38	1.33	1.32	1.35	1.34	1.31	1.33	1.33	1.36	1.33
Index of energy commodity prices (USD; 2019=1.0)	2.15	1.72	1.65	1.73	1.44	1.64	1.65	1.65	1.75	1.79	1.72	1.67	1.75	1.69	1.62	1.57	1.81	1.60	1.73	1.66
Gross value added deflator abroad (%, y/y)	6.6	5.6	5.0	3.4	2.4	2.1	2.5	2.5	2.5	2.4	2.1	2.0	2.0	1.9	1.9	1.9	5.1	2.4	2.3	1.9
GDP abroad (%, y/y)	1.2	0.7	0.3	0.4	0.6	0.8	0.8	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	0.6	0.8	1.2	1.3
Current account balance (% GDP)	-0.5	0.2	1.1	1.8	1.6	1.3	0.4	-0.2	-0.7	-0.9	-1.1	-1.2	-1.3	-1.3	-1.2	-1.1	1.8	-0.2	-1.2	-1.1
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 2024Q3 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 May – September 2024[44]

■ Date: 8 May 2024

Subject matter of motion or resolution:
Resolution no. 2/2024 on approving the Report on monetary policy in 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: 8 May 2024

Subject matter of motion or resolution:
Resolution no. 3/2024 on evaluation of the activities of the NBP Management Board as regards the implementation of monetary policy guidelines for 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 was absent.

[44] This chapter does not include voting on motion of 9 May 2024, which was included in the *Inflation Report – July 2024*.

■ Date: 8 May 2024

Subject matter of motion or resolution:
Resolution no. 4/2024 on approving the report on the operations of Narodowy Bank Polski in 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 was absent.

■ Date: 5 June 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: 3 July 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: 3 September 2024

Subject matter of motion or resolution:

Resolution no. 5/2024 on adopting monetary policy guidelines for 2025.

Voting of the MPC members:

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

I. Duda was absent.

■ Date: 4 September 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
			W.S. Janczyk
			C. Kochalski
			L. Kotecki
			P. Litwiniuk
			G. Masłowska
			H.J. Wnorowski

I. Duda was absent.

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