Minutes of the Monetary Policy Council decision-making meeting held on 6 November 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, particularly in Germany, Poland's main trading partner. The Council members underlined that although annual GDP growth in the euro area had picked up, in Germany it remained negative. It was pointed out that available forecasts signalled some recovery in activity in Germany in 2025, however, these forecasts were subject to high uncertainty in view of the structural problems of the German industrial sector. At the same time, it was stressed that in the United States GDP growth was again relatively high in 2024 Q3, which confirmed the strong fundamentals of the US economy.

When discussing inflation processes abroad, the Council members noted that in the euro area and the United States – amid highly negative growth in energy prices – inflation had recently been running close to the targets of the central banks. At the same time, it was highlighted that core inflation in the largest developed economies remain elevated as a result of high growth in services prices amid fast nominal wage growth. During the discussion it was noted that in October 2024 the European Central Bank had again cut interest rates.

While discussing economic activity in Poland, it was pointed out that in September 2024 retail sales as well as industrial and construction and assembly output had recorded negative annual growth. The Council members noted that the fall in retail sales in September along with the relatively slow growth in this category in August were evidence of weakened consumer demand for goods in 2024 Q3. It was also underlined that low growth of industrial output in Poland was related to the stagnation in German industry. As a result, according to Statistics Poland data, in September 2024 the indices for real retail sales and real industrial output were lower than two years ago. However, certain Council members drew attention to the fact that the PMI index had risen significantly in recent months, which might signal an improvement in economic conditions. Moreover, it was pointed out that the fall in construction and assembly output in September 2024 had been somewhat shallower than market expectations, and the decline in output of this sector was the result, among others, of the temporary gap between the disbursement of funds from successive financial frameworks of the European Union. On the basis of the available data, it was judged that GDP growth in 2024 Q3 might have been lower than in 2024 Q2.

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When referring to the labour market situation, it was observed that unemployment remained low and employment in the economy remained high, but there had also been a further gradual fall in employment in the enterprise sector. Certain Council members judged that the employment data reflected changing branch structure of labour demand and demographic factors, however – in their opinion – aggregate labour demand in the economy continued to be strong. When analysing wage pressures, the Council members underlined that wage growth in the enterprise sector had slowed down somewhat in September 2024, but remained in double digits.

During the discussion attention was drawn to the gradual increase in annual growth in the value of corporate loans and household consumer loans. At the same time, it was stressed that monthly growth in złoty-denominated housing loans had been slower in recent months than at the beginning of the year.

When discussing the economic activity outlook, the Council members pointed out that according to the November projection GDP growth was most likely to increase gradually in the coming quarters. In particular, growth in fixed capital formation in 2025 should be higher than in 2024, among others, due to the inflow of EU funds under the new financial framework and the National Recovery Plan. At the same time, household consumption growth might remain moderate, and the contribution of net exports to GDP growth in 2025 was likely to stay negative. When taking into account all these factors, GDP growth in 2025 should be higher than in 2024. Certain Council members underlined that according to the November projection the output gap was to remain negative until the end of the projection horizon. Certain Council members judged that possible changes in US economic policy, including trade policy, might have an impact on the economic conditions in Europe, and consequently also in Poland.

At the meeting it was noted that according to the Statistics Poland flash estimate, CPI inflation was 5.0% y/y in October 2024 (compared to 4.9% in September 2024). It was indicated that core inflation might then decline slightly. It was highlighted that services price growth remained elevated. The Council members noted that in recent months inflation had been strongly boosted by regulatory factors. In this context, attention was drawn above all to the partial unfreezing of energy prices for households in mid-2024, but also to the fast growth, among others, in prices of tobacco products, on which excise tax had been increased in 2024, as well as of the water supply and sewage collection. It was observed that the annual inflation rate was still being driven upwards by the effects of the increase of VAT on food in April 2024, and the relatively poor domestic harvest of certain vegetables and fruits, as well as the base effects on refundable medicines. At the same time, the Council members underlined that growth in prices of non-food goods was relatively slow, which was in line with retail sales data. Certain Council members judged that despite consumption data being weaker than expected, price pressure remained strong, as evidenced in particular by the elevated core inflation. Other Council members highlighted that, while core inflation in Poland remained elevated, taking into account comparable data on the HICP index excluding prices of energy, food, alcohol and tobacco products, it was lower than in most Central and Eastern European countries.

While discussing the inflation outlook, the Council members emphasised high uncertainty regarding regulatory decisions related to energy prices, which was the reason why the November inflation projection had been drawn up in two variants – a scenario of a full unfreezing of energy prices from January 2025 (as per current legislation) and a scenario of a further freeze on energy prices. At the same time, the Council members pointed out that intermediate scenarios were also possible.

The Council members indicated that regardless of the scenario, the projection expected inflation to rise in 2025 Q1. It was stressed that in 2025 Q2, inflation was anticipated to be only marginally lower than at the beginning of the year, mainly due to the higher excise tax on tobacco products and their substitutes. Attention was drawn to the fact that the increase in excise tax, along with other factors related to regulatory decisions – such as the increase in the prices of water supply or sewage collection – would also drive up inflation net of food and energy prices. Core inflation in the coming quarters will remain elevated also as a consequence of high service price growth occurring amid fast wage growth. And although, according to the projection, wage growth is expected to slow down gradually, some Council members warned against a possible persistence of core inflation. At the same time, it was emphasised that according to the projection – drawn up under the assumption of unchanged NBP interest rates – inflation was expected to decline to NBP's medium-term target only in 2026.

The Council members observed that the shape of fiscal policy is a significant factor influencing medium-term inflation outlook. It was pointed out that fiscal policy had been eased in the current year. It was underlined that a marked reduction in the deficit of the general government sector, including the structural deficit, would be conducive to curbing inflationary pressures. Meanwhile, it was assessed that the *2025 Draft Budget Act* envisaged the sector's deficit in 2025, including the structural deficit, to remain very high, which means that the planned shape of fiscal policy limits the space for potential monetary policy easing.

When discussing the main factors of uncertainty for the medium-term inflation outlook, the Council members underlined that it is difficult to assess the extent to which the previous and possible future increase in energy prices and other regulated prices would translate into inflation expectations, and – through wage demands – also into wage growth. Certain Council members highlighted the fact that consumer inflation expectations had risen somewhat in October. It was also pointed out that in the case of a stronger than currently expected recovery, rapid wage growth may prove more persistent. At the same time, the Council members emphasised that should the weak economic conditions in Germany continue or absorption of funds under the National Recovery Plan fall short of current expectations, demand pressures might be weaker, and consequently, price growth might be lower. The Council members observed that very high uncertainty related to the tense geopolitical situation persisted.

The majority of the Council members assessed that inflation was currently significantly boosted by the rising energy carriers' prices and by other regulatory factors. The price pressure in the domestic economy is also stimulated by a 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 the 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 rate level – inflation should return to the medium-term NBP target, although the impact of higher energy prices on inflation expectations is an uncertainty factor. 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 – particularly amid high wage growth, the current level of NBP interest rates, amid the current developments in inflation expectations, was too low to ensure a sustainable return of inflation to the target in the medium term.

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

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

Publication date: 6 December 2024