



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

During the discussion at the meeting of the Monetary Policy Council it was noted that the economic conditions in the environment of the Polish economy remained weakened. GDP growth in the euro area is accelerating, but is still moderate. At the same time, in Germany, Poland's main trading partner, annual GDP growth remained slightly negative for the fifth consecutive quarter, whereas real GDP is close to the level observed at the end of 2019. It was also pointed out that Germany was expected to see economic recovery in 2025, yet its scale was uncertain.

The Council members noted that inflation in the largest economies had been running close to their central banks' targets in recent months. It was highlighted that, unlike in Poland, in many economies the negative annual growth in energy prices was curbing inflation. It was pointed out that core inflation, which continued to be affected by high growth in services prices and fast wage growth, remained elevated in many economies, including in the Central and Eastern European region.

While discussing monetary policy abroad it was pointed out that – after interest rate cuts implemented in recent months in the largest developed economies – the interest rate path in the United States expected by market participants had shifted upwards recently, which was accompanied by an appreciation of the US dollar against many currencies. It was noted that as regards the Central and Eastern European region, in November 2024 the central banks of Hungary and Romania had decided to keep the main interest rates unchanged for the second consecutive time whereas in the Czech Republic interest rates had been cut. At the same time it was emphasised that in the countries of the Central and Eastern European region the scale of interest rate cuts seen to date had been correlated with fiscal policy. In Hungary and in the Czech Republic fiscal policy was significantly tightened in 2024, which enabled their central banks to reduce interest rates more markedly. By contrast, in Romania, similarly to Poland, fiscal policy was eased in 2024, and consequently the Romanian central bank has been keeping its main interest rate only slightly below the 2023 peak.

While discussing economic activity in Poland, it was pointed out that, according to the Statistics Poland preliminary estimate, GDP in 2024 Q3 increased by 2.7% y/y. It was emphasized that GDP growth in 2024 Q3 had been close to the results of the NBP



November projection. It was noted that consumption growth had slowed down, which might have been driven by the hike in energy prices, taxes and regulated prices as well as concerns about further price increases. Investment growth was also close to zero. Exports fell in year-on-year terms amid weakened external demand, including protracted stagnation in Germany. It was emphasized that monthly data on economic activity in October 2024 had been better than the September data. Industrial output and retail sales increased in year-on-year terms and exceeded market forecasts. It was pointed out that although retail sales had remained subdued, their growth in October supported the forecast of a rebound in consumer demand in 2024 Q4. As a result, economic recovery, including faster GDP growth in 2025 than in 2024, continued to be the baseline scenario. Certain Council members noted that the PMI index, following a rise in October 2024, decreased in November.

During the discussion it was pointed out that in 2024 Q3 the financial result of the sector of non-financial medium and large enterprises had decreased compared to last year's figure. In the opinion of the majority of the Council members, enterprises were now facing, or might face in the future, increasing difficulties with absorbing cost increases, including payroll expenses and, should demand allow it, would increase prices.

When referring to the labour market situation, it was observed that in October 2024 employment in the enterprise sector had declined, yet continued to be high, and the unemployment rate remained low. The annual wage growth had declined compared to the beginning of 2024 but was still at a two-digit level. Wages in the national economy increased by 13.4% y/y in 2024 Q3. Some Council members emphasised that wage pressure was driven by the 2024 wage increases in the public sector.

While discussing the situation in the credit market the Council members pointed to the rising credit debt of households and enterprises. Attention was drawn to the record value of new consumer loans granted in October 2024. At the same time the value of new PLN-denominated housing loan contracts increased again. It was noted that the number of housing loan applications in October was the highest in 2024.

During the discussion it was emphasized that inflation in recent months had been about twice as high as the NBP inflation target, which was largely driven by a number of regulatory and tax factors, including rising prices of energy carriers as well as increases in VAT on food, higher excise tax on cigarettes and alcohol, a rise in prices of cold water



supply and sewage collection. Certain Council members emphasised that regulatory and tax factors were beyond the control of domestic monetary policy.

At the meeting it was noted that in November the annual CPI inflation had fallen slightly compared to the 5.0% seen in October 2024. The decline in price growth in November was driven by the statistical base effect on fuel prices. At the same time it was estimated that inflation net of food and energy prices had probably increased as a result of the likely higher annual growth in prices of services, especially market services. At the same time, the marked fall in industrial producer prices in annual terms continued. It was noted that according to the November projection core inflation should increase further in the coming quarters and continue to exceed 4% in 2025 Q4.

During the discussion, the majority of the Council members observed that energy price regulations would have a significant effect on the outlook for CPI inflation. It was pointed out that in accordance with the new law in this regard, adopted by the Sejm in November, the capacity charge was to be reinstated as of July 2025, and the electricity price cap mechanism abolished from October 2025. It was pointed out that according to the forecasts, which take into account the solutions provided for in the new law and assuming that the current level of electricity tariffs would be kept in place, inflation would run above 5% in the first half of 2025, decreasing slightly in 2025 Q3 due to base effects, but at the same time being boosted by the reinstatement of the capacity charge. From October 2025, inflation would pick up again as a result of further unfreezing of energy prices. Thus, according to forecasts, inflation one year ahead may run at a similar level as currently or even higher. It was pointed out that the assumed unfreezing of energy prices from the second half of 2025 would also act to boost the inflation index in the first half of 2026, which, in turn, would delay the projected return of inflation to the NBP target in comparison with the results of the November projection. Certain Council members assessed that factors other than energy price regulations might have a greater impact on the medium-term inflation outlook. In the opinion of certain Council members, an increase in regulated energy prices might, besides boosting the annual inflation index, act to weaken demand pressure on other goods and services due to its dampening impact on households disposable income.

The Council members noted that an important determining factor for the inflation outlook was the shape of fiscal policy. It was pointed out that fiscal policy had been eased in 2024, and the deficit of the public finance sector was high. The government and the European Commission anticipate even a slight rise in the structural deficit in 2025, so that fiscal



policy will not provide a disinflationary impulse. It was judged that the planned shape of fiscal policy limited the room for a potential monetary easing. It was pointed out that although the government had announced a fiscal tightening from 2026, no specific measures in this regard had been put forward. At the same time, the path of the public debt-to-GDP ratio envisaged by the government was steeply upward for the first time in a long time.

When discussing the key factors of uncertainty for the inflation outlook it was emphasised that uncertainty persisted about the impact that the elevated inflation had on inflation expectations and wage pressure, particularly given the expected economic recovery and the persistently low unemployment. At the same time, there is uncertainty about the prospects for activity in major economies as well as geopolitical uncertainty, primarily related to the Russian military aggression against Ukraine. Some Council members also highlighted the uncertainty about energy prices in the longer term, including the level of the regulated electricity tariffs in the second half of 2025.

The majority of the Council members judged that inflation was currently significantly boosted by the rising prices of energy carriers as well as by other regulatory factors. The price pressure in the domestic economy is also stimulated by the substantial wage growth, stemming i.a. from wage increases in the public sector. The easing of fiscal policy is pro-inflationary. Core inflation remains considerably elevated; this includes high service price growth. 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 markedly above the NBP inflation target, driven by the effects of earlier increase in energy prices, as well as planned increase in excise duties and administered services prices. At the same time, core inflation is expected to remain elevated, amid the projected economic recovery and the still loose fiscal policy. In the medium term – under the current NBP interest rates level and the expected gradual decline in wage growth – inflation should return to the NBP target. However, developments in energy prices, due to their probable unfreezing in the second half of 2025, as well as the impact of elevated energy price growth on inflation expectations, remain an uncertainty factor for the expected horizon for the return of inflation to the target. In particular, the likely unfreezing of energy prices in the second half of 2025 may, according to current forecasts, lead to a new rise in inflation in late 2025, thus delaying the return of inflation to the target. Inflation developments over



the medium term will also be affected by the further fiscal and regulatory policy measures, the pace of the expected 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 as well as the strong increase in the price level in previous years, the current level of NBP interest rates was too low to ensure a sustainable return of inflation to the target in the medium term.

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

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

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