Minutes of the Monetary Policy Council decision-making meeting held on 16 January 2025

During the discussion at the meeting of the Monetary Policy Council it was noted that economic activity growth in the euro area was picking up gradually, but remained moderate and uneven between countries. In particular, in Germany – which is Poland's main trading partner – in 2024 GDP again declined slightly. The pace of the recovery in the euro area was held back by the prolonged downturn in industry. It was pointed out that in 2025 the recovery in the euro area was expected to strengthen, supported by real wage growth and strong economic conditions in services. At the same time, forecasts indicated that the economic situation in Germany would improve only marginally. In turn, in the United States relatively fast GDP growth continued.

The Council members noted that in recent months inflation in the external environment of the Polish economy had risen. It was pointed out that in many countries higher inflation had mainly been driven by higher energy price growth. This was accompanied by the persistently elevated level of core inflation. These data show that in many economies bringing inflation sustainably back to the inflation targets will take place gradually.

While analysing monetary policy abroad, it was noted that in December 2024 both the European Central Bank and the Federal Reserve of the United States had cut interest rates. It was pointed out that the central banks of the Central and Eastern European countries outside the euro area had kept interest rates unchanged at their last meetings of 2024.

While discussing economic activity in Poland, it was pointed out that incoming data signalled an increase in GDP growth in 2024 Q4. Attention was drawn to the fact that in November 2024 annual retail sales growth had accelerated to 3.1%. At the same time, construction and assembly output as well as industrial production had declined in annual terms in November 2024. However, it was underlined that the fall in industrial output was largely due to calendar effects. The Council members noted that in line with available forecasts, the coming quarters most likely would see a further strengthening of economic activity.

When referring to labour market, it was observed that in November 2024 employment in the enterprise sector had declined in annual terms. This was accompanied by the still very low unemployment. At the same time, the Council members pointed out that annual wage growth in the enterprise sector remained high. It was also noted that at the beginning of

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2025, a further rise in minimum wage had entered into force. In this context, the Council members underlined that although the scale of the minimum wage rise was smaller than in 2024, the share of surveyed enterprises expecting wage increases in 2025 Q1 had risen and exceeded 40%.

While analysing situation in the credit market, the Council members pointed out that annual corporate debt growth continued to rise, both in the form of current loans and investment loans. It was noted that household bank debt was also rising gradually. At the same time, the Council members underlined that the value of bank loans to the private non-financial sector in relation to GDP was relatively low in Poland.

At the meeting, it was noted that in December 2024 the annual CPI inflation rate was at 4.7%, i.e. unchanged compared to the November reading, running clearly above the NBP target. It was underlined that inflation excluding food and energy prices – despite a slight decline in December – had also remained elevated and was higher than the long-term average as well as higher than the levels recorded in mid-2024. It was pointed out that particularly rapid growth continued in service prices, which was related to high wage growth fuelled by low unemployment and public sector wage rises of 2024.

When discussing the inflation outlook, the Council members observed that according to available forecasts, in the first half of 2025 inflation may exceed 5%. The CPI inflation rate will be still boosted by the previous increases in energy prices as well as other regulatory and tax measures implemented in 2024 and expected in 2025, including the increase in distribution tariffs for natural gas, the further rise in excise tax on cigarettes and alcohol, and higher tariffs for the water supply and sewage collection. The Council members pointed out that the second half of 2025 might see further increases in energy prices, which would once again boost inflation. In line with the current regulations, in July 2025 the so-called capacity charge will be restored, while in October 2025 the price cap for electricity is set to expire, which – assuming the present level of tariffs – would mean a significant increase in electricity prices. It was noted that a reduction in tariffs was possible, but that it was uncertain whether it would take place and to what extent.

The Council members pointed out that under these conditions, CPI inflation – following a temporary decline in 2025 Q3 due to base effects – might rise again at the end of the year. At the same time, forecasts indicated that annual average inflation in 2025 would significantly exceed the NBP inflation target. Moreover, it was underlined that in 2025 inflation excluding food and energy prices might persist at an elevated level, close to 4%.

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The Council members pointed out that the unfreezing of energy prices in the second half of 2025 might also add to CPI inflation for part of 2026.

During the discussion it was noted that other macroeconomic conditions so far had not been conducive to a fast decline in inflation. In this context, attention was drawn in particular to the persistently high wage growth and economic growth, which according to forecasts was to accelerate in 2025. The Council members also pointed to the high general government deficit forecast for 2025 and the fact that no specific solutions for the signalled fiscal tightening in 2026 had been announced.

It was pointed out that a prolonged period of elevated inflation would increase the risk of higher inflation expectations, which might boost wage pressure and as a result consolidate high price growth. This risk might be important especially amid an economic recovery and low unemployment. At the same time, uncertainty about the outlook for economic activity in the largest economies was underlined, as well as geopolitical uncertainty, including that related to the Russian military aggression against Ukraine.

The majority of the Council members judged that in the coming quarters inflation would remain markedly above the NBP inflation target, driven by the effects of the already introduced increases in energy prices, as well as rises in excise duties and administered services prices. At the same time, core inflation would probably also continue to be elevated. Unfreezing of energy prices in the second half of 2025 may contribute to extending the period of inflation staying above the target. In the medium term – under the current NBP interest rates level and amid the expected gradual decline in wage growth – inflation should return to the NBP target. The impact of elevated inflation on inflation expectations and wage pressure – especially against the anticipated economic recovery and low unemployment – remains an uncertainty factor. Inflation developments over the medium term will be also affected by the further fiscal and regulatory policy measures. 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, 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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