Minutes of the Monetary Policy Council decision-making meeting held on 5 February 2025

During the discussion at the meeting of the Monetary Policy Council it was noted that economic activity growth in the euro area remained weak, although signs of a slight acceleration were visible in certain countries. In the euro area, GDP growth reached 0.9% y/y in 2024 Q4 and was therefore lower than the longer-term average. In Germany, which is Poland's main trading partner, annual GDP growth in 2024 Q4 remained slightly negative. It was pointed out that PMI index for the euro area and Germany in January indicated a certain improvement in economic conditions at the beginning of the year. It was noted that although a slow recovery in these economies was forecast for 2025, it was not certain, particularly due to the structural problems of the German economy. The Council members underlined that a more marked improvement in economic conditions in Poland's main trading partners would support exports and domestic industrial activity. In the United States, GDP growth reached 2.5% y/y in 2024 Q4, remaining relatively fast, despite a slight decline. Forecasts for this economy point to the continuation of relatively fast GDP growth in 2025. It was observed that uncertainty about the outlook for economic activity in the major economies persisted, among others, due to possible changes in global trade policies.

The Council members pointed out that inflation in the major advanced economies was running slightly above the central banks' inflation targets and had risen in recent months. At the same time, core inflation was still higher than headline inflation, and growth in services prices remained high. According to Eurostat preliminary data, HICP inflation in the euro area increased in January. In the countries of Central and Eastern Europe, i.e. in the Czech Republic, Romania and Hungary, inflation at the end of 2024 was still higher than in the euro area, with core inflation remaining elevated.

When discussing monetary policy abroad, it was pointed out that the differences in the macroeconomic situation in the major advanced economies were reflected in recent decisions of the central banks. In the United States, the Federal Reserve kept interest rates unchanged in January. In turn, economic activity in the euro area has long been weakened, and according to the projections of the European Central Bank, inflation was to return to the target in 2025. Therefore, the European Central Bank cut interest rates in January. In contrast, central banks in Central and Eastern Europe decided to keep interest rates unchanged in December 2024 and in January 2025.

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When discussing economic activity in Poland, it was noted that according to Statistics Poland preliminary estimate, GDP growth in 2024 had accelerated significantly compared to the previous year (reaching 2.9% in 2024 compared to 0.1% in 2023). Based on Statistics Poland preliminary data, it was estimated that in 2024 Q4 annual GDP growth had been higher than in 2024 Q3. It was judged that following a weaker third quarter, consumption growth was likely to have accelerated, due to significant pick up in annual retail sales growth in 2024 Q4. In turn, growth in industrial output was slower than in retail sales in 2024 Q4. However, in January the PMI index rose, which should signal an improvement in industrial sector as well.

The Council members underlined that available forecasts for the current year pointed to a continuation of the recovery in the domestic economy. According to the latest International Monetary Fund and OECD forecasts, GDP growth in Poland in 2025 should be close to the expectations of the NBP November projection. It was pointed out that according to these forecasts – as well as to the European Commission's autumn forecast – economic growth in Poland in 2025 should be one of the highest in the European Union.

When referring to the labour market, it was noted that low unemployment and the high number of working persons continued, although employment in the enterprise sector was lower in December 2024 than a year earlier. It was noted that in December 2024 annual average wage growth in the enterprise sector was still high, despite a slight drop. It was pointed out that the somewhat lower wage growth in December might have resulted from lower rewards and bonuses due to worse financial results of enterprises. It was also underlined that particularly changes in remuneration in mining and agriculture, contributed to the lower wage growth in December. Some Council members judged that in 2025 wage growth in the enterprise sector should be slowed down by, among others, the smaller increase in the minimum wage than in 2024 and by the developments in the return on equity indicators.

While analysing the situation in the credit market, the Council members pointed out that corporate and household debt continued to rise in annual terms. It was noted that annual growth was positive in all the main segments of the credit market, i.e. housing and consumer loans for households, as well as current and investment corporate loans.

During the discussion on inflation in Poland, it was noted that annual CPI growth remained at 4.7% in December 2024, i.e. markedly above the NBP target. Inflation net of food and energy prices was running at 4.0% in December, and although it was slightly

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lower than in November, it remained higher than in mid-2024. At the same time, annual growth in service prices continued to be high (running at 6.6% in December). At the same time, it was underlined that annual average CPI inflation in 2024 was significantly lower than in the previous year.

When discussing the inflation outlook, the Council members observed that according to available forecasts, inflation net of food and energy prices might remain at around 4% in 2025. In turn, in 2025 Q1, CPI inflation might rise and exceed 5% due to, among others, changes in distribution tariffs for natural gas from January, increases in excise tax on tobacco products as well as higher tariffs on water and sewerage services. It was underlined that the second half of 2025 might see further increases in energy prices, which would boost inflation. Under the current regulations, the capacity charge will be restored in July, and in October the maximum price mechanism for electricity is to expire, which, given the current level of tariffs, would mean a significant increase in prices. It was 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 run markedly above the NBP inflation target. It was underlined that the unfreezing of energy prices in the second half of the year might also add to CPI inflation in part of 2026.

The Council members pointed out that the current and forecast inflation was boosted significantly above the inflation target largely by regulatory factors. This is accompanied by an ongoing economic recovery, high wage growth amid record low unemployment, and still loose fiscal policy. It was judged that such a macroeconomic context posed a risk of an increase in inflation expectations and the persistence of high inflation. Attention was also drawn to other factors of uncertainty for the inflation outlook, including factors related to the level of regulated electricity tariffs, global commodity price developments, the geopolitical situation and possible changes in global trade policies.

During the meeting it was noted that the high general government sector deficit forecast for the current year and the absence of specific solutions aimed at tightening fiscal policy in 2026 did not support a decline in inflation. It was judged that the current shape of fiscal policy limited the space for potential monetary policy easing.

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. The 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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