Minutes of the Monetary Policy Council decision-making meeting held on 12 March 2025

During the discussion at the meeting of the Monetary Policy Council it was noted that in 2024 Q4 annual GDP growth in the euro area had picked up, while in Germany it was slightly negative. It was pointed out that according to incoming information in the recent period, there was a greater likelihood of an increase in public expenditure in Germany, which could stimulate GDP growth in that economy and thus also boost exports and GDP growth in Poland. In turn, in the United States the pace of annual economic growth in 2024 Q4 was close to its longer-term average.

The Council members pointed out that inflation in the major advanced economies was running slightly above the central banks' inflation targets, mainly as a result of elevated core inflation, including services price growth. It was noted that in the Central and Eastern European countries, such as Romania and Hungary, inflation had been running close to 5% at the beginning of 2025. By contrast, in the Czech Republic inflation was within the tolerance band around the inflation target.

It was underlined that the outlook for economic activity and inflation around the world was fraught with uncertainty. In the context of uncertainty about the changes in trade policy, it was noted that increases in tariffs on goods could boost inflation around the world. Attention was also drawn to heightened geopolitical uncertainty, including that related to Russia's military aggression against Ukraine.

When discussing monetary policy abroad, it was pointed out that in the United States the Federal Reserve had kept interest rates unchanged in January 2025. On the other hand, the ECB had cut interest rates in March 2025. It was underlined that among the countries of Central and Eastern Europe, in Romania and Hungary interest rates had been kept unchanged for half a year and remained significantly higher than in Poland. Meanwhile, in the Czech Republic interest rates had recently been lowered. It was pointed out that in Poland inflation-adjusted central bank's interest rate had been among the lowest in the Central and Eastern Europe region and lower than in such advanced economies as the United States, the United Kingdom and Canada.

When discussing economic activity in Poland, it was noted that according to the Statistics Poland preliminary estimate, GDP growth had picked up to 3.2% in 2024 Q4 (compared to 2.7% y/y in 2024 Q3). It was observed that GDP growth in 2024 Q4 had been higher than

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forecasted in the NBP November 2024 projection. Consumption growth accelerated markedly (from 0.3% y/y to 3.5% y/y), and investment growth increased as well (from 0.1% y/y to 1.3% y/y). As a result, domestic demand rose by 4.8% y/y.

It was pointed out that the data for January 2025 indicated a further recovery in demand. Retail sales increased by 4.8% y/y in real terms, with the highest growth in sales of durable goods for almost three years. It was noted that construction and assembly production had also grown in January, suggesting a further recovery in investment. In turn, annual industrial output growth was negative in January, however, in February the PMI index exceeded 50 points for the first time in almost three years.

When discussing the economic activity outlook, it was observed that the economic recovery should continue in 2025 along with significant growth in domestic demand. According to the NBP March projection, GDP growth is set to accelerate to 3.7% in 2025, i.e. stronger compared to the previous projection. Investment growth is set to exceed 8% driven by the inflow of EU funds. Further robust growth in consumption is also forecasted. As a result, domestic demand should grow by 5.5%, well above the long-term average. Some Council members underlined that according to available forecasts, economic growth in Poland in 2025 should be among the highest in the European Union. Certain Council members judged that GDP growth in 2025, including investment, might prove somewhat slower than indicated by the projection, despite an acceleration compared to 2024.

When referring to the labour market, it was underlined that unemployment was still very low, and wages continued to grow rapidly. It was observed that in 2024 wage growth in the national economy had been the highest for over two decades, in both nominal terms (13.6%) and real terms (9.5%). In 2024 Q4, annual nominal wage growth in the economy was still high (amounting to 12.4%), which indicated the persistence of high wage pressure in the economy. At the same time, it was noted that data from the enterprise sector for January 2025 suggested a slowdown in wage growth, partly as a result of base effects related to robust wage growth a year earlier. As a result, some Council members judged that wage pressure was gradually weakening.

While analysing the situation in the credit market, it was pointed out that annual growth in corporate and household debt 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. At the same time, certain Council members pointed to a slight slowdown in housing loan growth and to somewhat higher growth in current loans than in investment loans over the recent period. At the same time, it was observed that the M3 aggregate in Poland – unlike in many other European economies – was growing faster than before the pandemic.

During the discussion on inflation, it was noted that CPI inflation had risen sharply in recent quarters and was around twice as high as the NBP inflation target, while as recently as 2024 Q2 it had stood at 2.5%. It was underlined that although the robust growth in inflation was largely the result of regulatory and tax factors, at the same time core inflation was also elevated. In particular, amid high wage growth, annual growth in services prices remained above 6%. Certain Council members expressed the opinion that the significant impact of regulatory and tax factors on the current CPI inflation might make it more difficult to assess inflationary pressures in the economy.

When discussing the inflation outlook, the Council members pointed out that in line with the March projection, inflation would remain high in the coming quarters. In the first half of 2025, it will remain close to 5%. In 2025 Q3, inflation should decline, mainly due to base effects related to the increases in energy prices and the VAT rates for staple food products in 2024. On the other hand, the planned reinstatement of the so-called capacity charge in July 2025, resulting in higher electricity prices, will have the opposite effect on the CPI rate. It was underlined that under the present legal arrangements, the cap on electricity prices will expire at the end of 2025 Q3, which, with the current tariffs, would translate into a renewed increase in CPI inflation in 2025 Q4. As a result, according to the projection, inflation at the end of 2025 might be similar to that at the end of 2024.

It was judged that core inflation in the coming quarters would likely remain elevated, driven by high wage growth, accelerating economic growth and loose fiscal policy. However, certain Council members pointed out that the expected slowdown in wage growth, reduced demand pressure and low import price growth would contribute to slower price growth in the economy in the medium term.

It was observed that, in line with the March projection, annual average inflation in 2025 would be significantly higher than in 2024. According to the central projection scenario – with the assumption of unchanged NBP interest rates – CPI growth was set to remain above 2.5% not only in 2025, but also for most of 2026, whereas in 2027 annual average inflation was expected to run at 2.5%.

At the same time, the Council members noted many factors of uncertainty regarding inflation developments in the medium term. In this context, attention was drawn to the uncertainty about future regulatory measures in relation to energy prices. High uncertainty around the world was also mentioned, including the geopolitical situation and trade policy, as well as commodity price developments. Certain Council members expressed the opinion that given the persistence of risk factors and structural changes in the economy, uncertainty about a sustainable return of inflation to the NBP target in the medium term was heightened.

During the discussion, it was also pointed out that the European Union's climate policy was a significant uncertainty factor for medium-term inflation developments. It was noted that according to current plans, in 2027 a carbon levy was to be imposed on carbon dioxide emissions related to the heating of buildings and road transport under the so-called ETS2 system. It was estimated that if emission costs under this system reached the maximum level, inflation could be 2 percentage points higher than the central scenario in the March projection for 2027.

During the meeting it was observed that fiscal policy is not conductive to reducing inflation. It was pointed out that the budget deficit in 2024 in relation to GDP had been the highest since the early 1990s. According to forecasts of the European Commission, in 2025 the Polish general government deficit in relation to GDP was set to be one of the highest in the European Union. It was observed that despite this, no specific steps towards reducing the deficit had been presented, and in the recent period there had been signals of a possible cuts in some taxes.

The majority of the Council members judged that in 2025 inflation would be markedly above the NBP inflation target, driven by the effects of the already introduced increases in energy prices, increases in excise duties and administered services prices, as well as the further unfreezing of energy prices in the second half of 2025. In the coming quarters, core inflation would probably also remain elevated, amid further economic recovery with a marked increase in domestic demand. 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 amid rising demand 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, including core inflation, as well as the high wage growth and the present developments in inflation expectations, 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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