Minutes of the Monetary Policy Council decision-making meeting held on 2 April 2025

During the discussion at the meeting of the Monetary Policy Council it was noted that GDP growth may have slowed down somewhat in the United States in 2025 Q1. At the same time, the gradual recovery continued in the euro area, albeit with lower economic activity growth than in the United States. In particular, it was pointed out that signs of an improvement in economic conditions were visible in Germany, although a more marked acceleration in activity in this economy is expected only in 2026. The Council members underlined that outlook for economic growth in the coming years in the external environment of the Polish economy remained subject to very significant uncertainty. On the one hand, the tightening of trade policy by the United States might adversely affect activity in the euro area, including in Germany. On the other hand, the announced easing of fiscal policy in Germany might support economic growth in Poland's main trading partner and in the whole of Europe.

The Council members pointed out that inflation around the world was gradually declining and that in some economies – including in the euro area – it was already close to the central banks' inflation targets, while in the United States inflation remained slightly above the central bank's target. Meanwhile, in Central and Eastern Europe, inflation markedly exceeded the central banks' inflation targets in Hungary and Romania, while in the Czech Republic inflation was running within the tolerance band from the inflation target. Under these conditions, the European Central Bank cut interest rates in March, while the Federal Reserve of the United States kept interest rates unchanged. In turn, in Central and Eastern Europe the central banks kept interest rates unchanged following the earlier cuts.

While discussing economic activity in Poland, it was pointed out that data for the first months of 2025 signalled that GDP growth in 2025 Q1 was likely to be lower than forecast in the March projection and close to that observed in 2024 Q4. It was stressed that – following robust growth in January – February 2025 saw a fall in retail sales in annual terms. In turn, annual industrial output growth was yet again negative, while total construction and assembly output remained unchanged compared to February 2024. Certain Council members drew attention to the deteriorating financial situation of firms, while noting that despite this, the financial condition of enterprises was sound. At the same time, the Council members judged that in the coming quarters the economic recovery was expected to continue, although its pace would largely depend on the

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absorption of European funds and on economic situation in the euro area, including particularly in Germany. In this context, certain Council members expressed concerns about the possibility to make full use of EU funds and about the strength of the economic recovery in Poland's main trading partners.

When referring to the labour market situation, it was noted that for a long time unemployment had been running at a very low level. At the same time, data from the enterprise sector pointed to a slight fall in employment, which was accompanied by a further slowdown in wage growth. The Council members indicated that February saw a decline of annual wage growth in enterprises to 7.9%, which signalled a slowdown in wage growth, which – nevertheless – was still high. Certain Council members noted that due to the annual change in the sample by Statistics Poland, an assessment of the situation in the enterprise sector would be possible only after considering data for the coming months. At the same time, they underlined that firms' willingness to raise wages – as indicated in surveys – had risen in the recent period. However, other Council members drew attention to the fact that the percentage of firms reporting wage pressure was declining.

While analysing the situation in the credit market, certain Council members argued that in 2024 the average monthly value of new loans for households, adjusted for the change in consumer prices (both in the housing loans and consumer loans segments), was higher than in the years before the pandemic, while in the case of new loans for firms it was only slightly lower. However, certain Council members pointed to a still limited scale of private sector debt growth. In particular, they observed that the rise of zloty-denominated housing loans was declining in monthly terms, no major recovery of consumer loans was visible, and enterprises' bank debt remained affected by significant uncertainty of firms about the economic outlook.

During the discussion on inflation, it was noted that after taking into account Statistics Poland revised weights in the consumption basket used to calculate the CPI, inflation in January, February and – according to the Statistics Poland flash estimate – in March 2025 was 4.9%. This means that in 2025 Q1 the CPI inflation rate was almost double the NBP inflation target, but at the same time, it was markedly lower than forecasted in the March projection. Moreover, some Council members noted that a marked slowdown had been observed in inflation excluding energy and food prices, which probably fell to around 3.5% compared to 4.1% in 2024 Q4. In the opinion of the Council members, although core inflation was still elevated – which was in particular driven by still rapidly increasing services prices – in recent months it had declined faster than expected.

When discussing the inflation outlook, some Council members stressed that the lower than expected inflation data along with the fall in global oil prices suggested that inflation over the whole of 2025 might run below the path of the March projection. It was pointed out that according to the latest available forecasts, inflation might decline to 4.5% in 2025 Q2 and to 3.5% in 2025 Q3, while in 2025 Q4 – according to current legislation and taking into account the current level of electricity tariffs – it might rise to 4.2%. The Council members noted that at the end of 2025 – according to current forecasts – inflation would be below earlier expectations and lower than in 2025 Q1, therefore it was possible that it had already reached its peak. In the opinion of certain Council members, lower inflation should be supported by the still negative PPI growth as well as the earlier strengthening of the zloty exchange rate. Certain Council members noted that the update of the inflation basket did not change the outlook for inflation processes in the coming years.

The Council members pointed to many uncertainty factors regarding inflation developments in Poland in the medium term. Among others, attention was drawn to the uncertainty about future regulatory measures in relation to energy prices. Certain Council members judged that although no decisions had been taken on electricity tariffs, which were to be set for the second half of 2025, there are signs suggesting that the tariffs might prove to be close to the current maximum price. High uncertainty was also underlined concerning the level of global inflation and economic conditions abroad, including in relation to the geopolitical situation and changes in trade policy, as well as concerning the commodity price developments.

During the meeting it was observed that fiscal policy, which was not conducive to reducing inflation at the moment, was an important determinant of inflation processes. It was pointed out that – according to preliminary information from Statistics Poland – in 2024 the general government deficit in relation to GDP amounted to 6.6%. It was underlined that the deficit to GDP ratio in 2024 was higher than expected and was among the highest in recent decades. Some Council members noted that this might mean that the deficit in 2025 would also turn out to be higher than preannounced, although already according to the autumn forecasts of the European Commission, the Polish general government deficit to GDP was set to be one of the highest in the European Union in 2025. It was stressed that so far no specific measures had been put forward to reduce the deficit, while signals had appeared of a possible reduction in some taxes. However, certain

Council members noted that room for expansionary fiscal policy might be limited and that the general government deficit in subsequent years should be lower than in 2024. At the same time, it was pointed out that there was a clear change of attitude towards fiscal discipline in Europe, which might also reduce incentives for fiscal tightening in Poland.

The majority of Council members judged that in the coming months inflation would remain above the NBP inflation target, driven by the effects of the already introduced increases in energy prices, as well as by the rises in excise duties and administered services prices. Core inflation would probably also continue to be elevated. In the second half of 2025 – in line with the present legal arrangements and accounting for the current level of tariffs for electricity – there will be a further rise in regulated energy prices. At the same time, incoming information, including lower than expected Statistics Poland data on inflation in the first months of 2025, signal that inflation in subsequent quarters might be lower than previously expected. 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 affected by the further fiscal and regulatory policy measures. Uncertainty stems also from inflation developments abroad, following, among others, from changes in trade policies of major economies. 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.

In the opinion of the majority of Council members, should incoming information confirm an improvement in the prospects of inflation returning to the inflation target, then room might appear for a cut in interest rates.

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 the 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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