



NARODOWY
BANK POLSKI

Economic Analysis and Research Department

Inflation and economic growth projection of Narodowy Bank Polski based on the NECMOD model

Warsaw / 8th November 2024





Outline:

Projection 2024 – 2026

- Economic conditions abroad
- Economic perspectives for Poland
- Inflation

Uncertainty

Projection 2024-2026

Economic conditions abroad

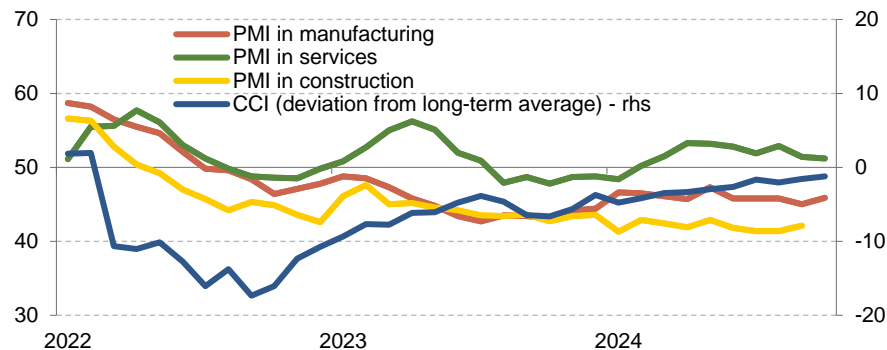
In European economies, a gradual acceleration of GDP growth is expected from the current low level, while in the United States, the continuation of the 'soft landing' scenario is anticipated

GDP growth in the main economies – NBP forecast (%)

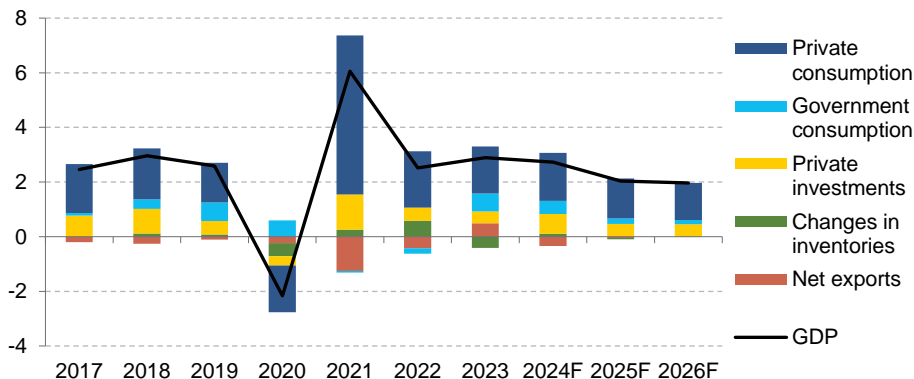
	2023	2024F	2025F	2026F
Euro Area	0.4	0.7 (0.8)	1.2 (1.3)	1.3 (1.3)
Germany	-0.3	0.0 (0.3)	0.9 (1.1)	1.1 (1.2)
UK	0.3	0.9 (0.9)	1.2 (1.2)	1.4 (1.4)
USA	2.9	2.7 (2.5)	2.0 (2.0)	2.0 (2.0)
China	5.2	4.8 (4.9)	4.5 (4.6)	4.2 (4.2)

Values from the July projection are given in brackets (seasonally adjusted). Indicators with values higher than in the July projection are marked green, and indicators with lower values are marked red.

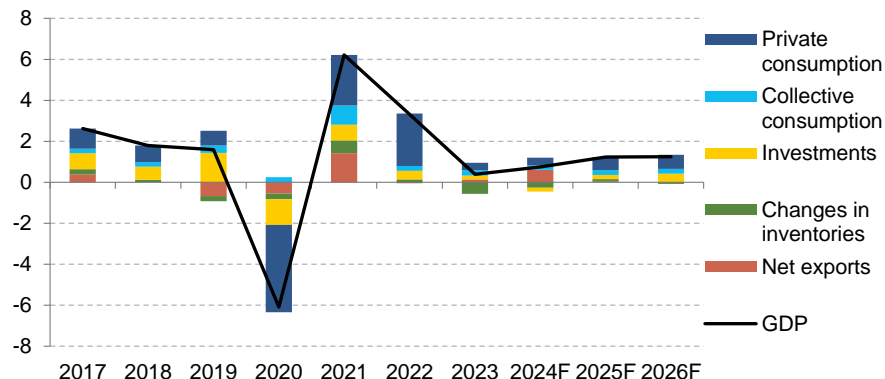
PMI and CCI Euro Area (points)



US real GDP growth decomposition (% , pp.)

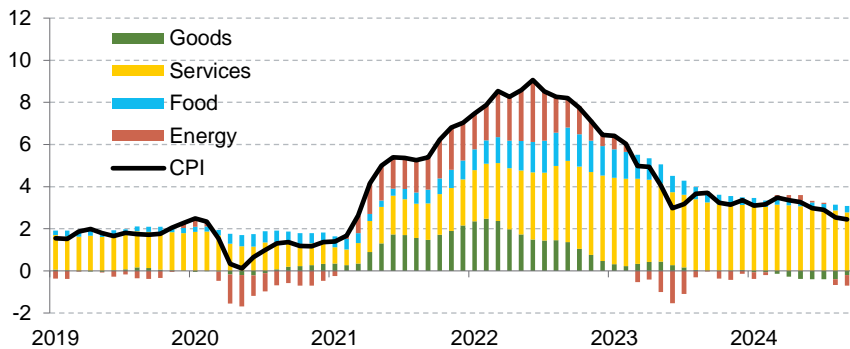


Euro area real GDP growth decomposition (% , pp.)

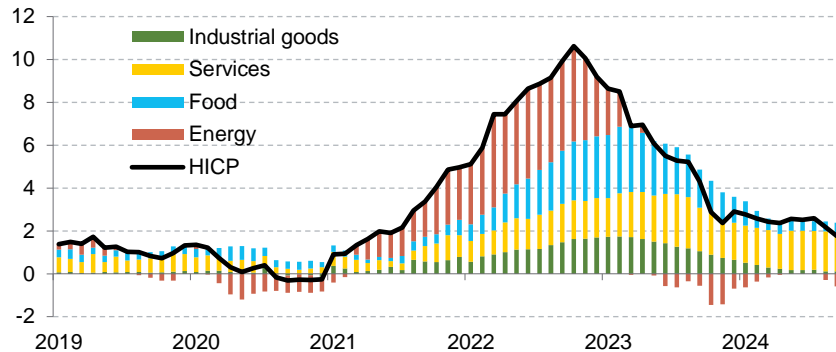


In 2024-2026 inflation will gradually decrease, although this process will be limited by the persistence of inflation in services prices

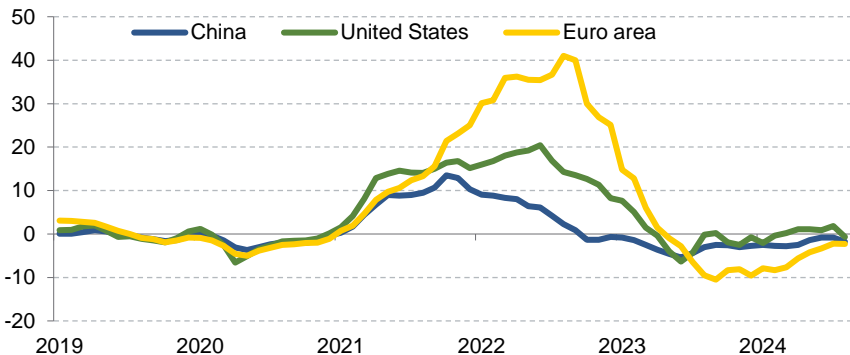
Decomposition of the CPI inflation in the USA (% , pp., y/y)



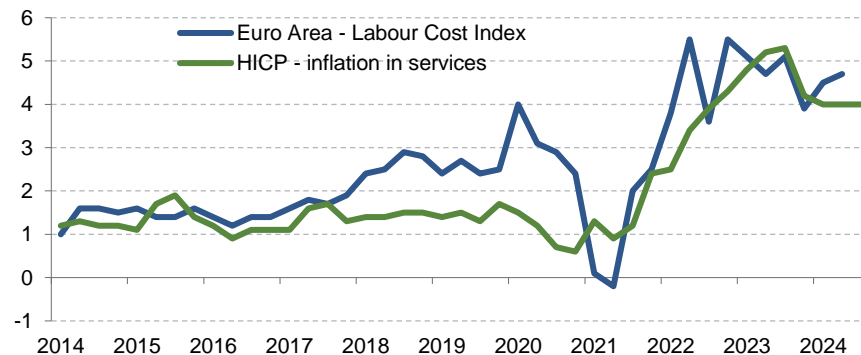
Decomposition of the HICP inflation in the Euro Area (% , pp., y/y)



Price dynamics of industrial goods in selected economies (% , y/y)



Nominal wages in the USA and inflation in services in the Euro Area (% , y/y)

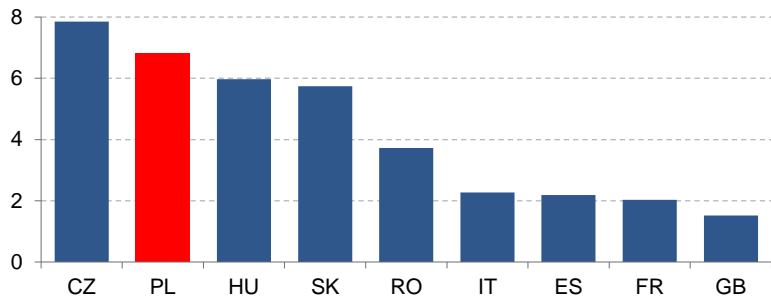


Note: Core inflation in the euro area means HICP inflation excluding food, alcohol, tobacco and energy prices; in the USA, it means CPI inflation excluding food and energy prices.

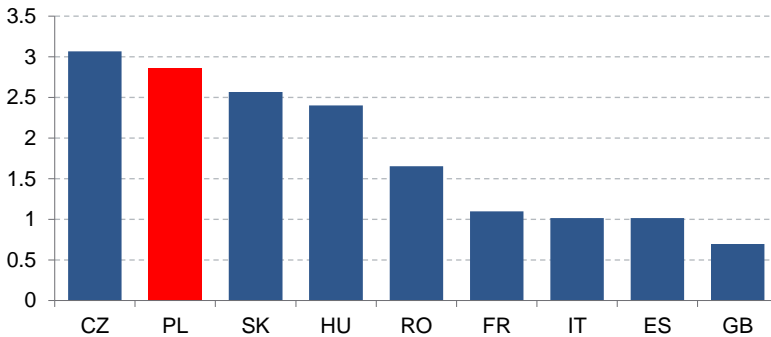
Source: BLS, Eurostat, LSEG.

The significant impact of the slowdown in Germany for the Polish economy

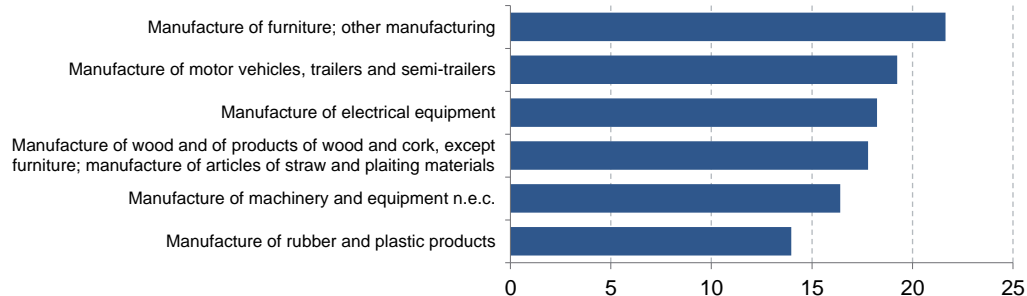
Share of German final demand in the absorption of value added in selected countries (2022, % of value added)



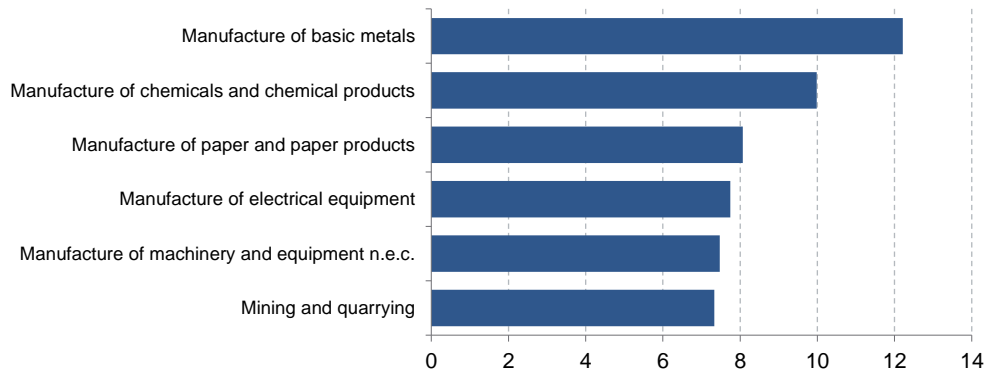
Share of value added of selected economies exported by Germany (2022, % of value added)



Sectors of the Polish economy with the largest share of German final demand in the absorption of their value added (2022, % of value added)

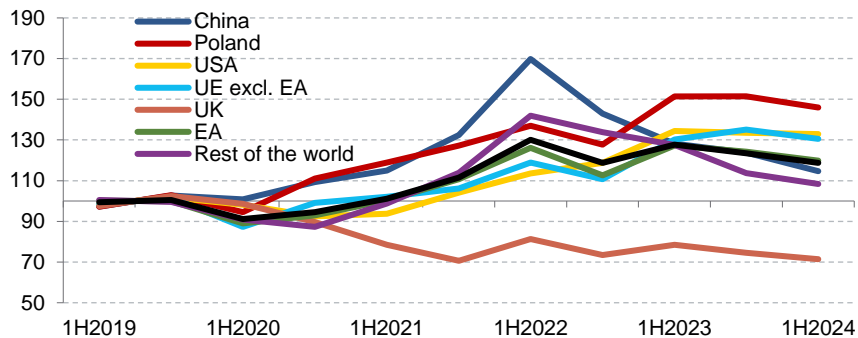


Share of added value of Polish sectors exported by Germany (2022, sectors with the highest share of German exports; % of value added)

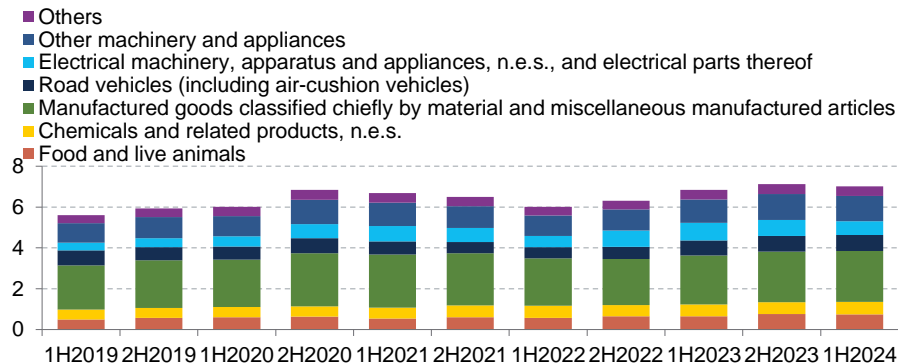


In 2019-2024, Poland increased its share in Germany's imports. At the same time, the continued weak economic conditions in Germany limit demand from this market

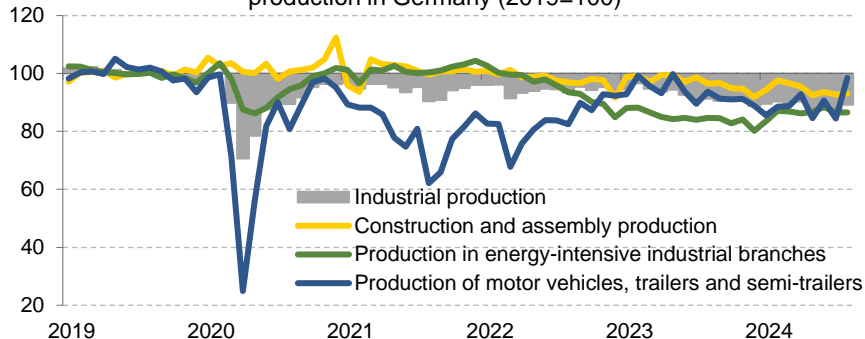
German imports from selected destinations (2019 = 100)



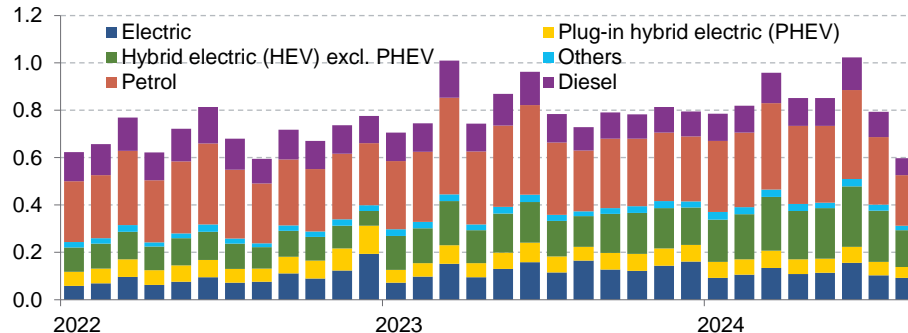
Poland's share in German imports by major product categories (%)



Industrial production in selected branches, and construction and assembly production in Germany (2019=100)

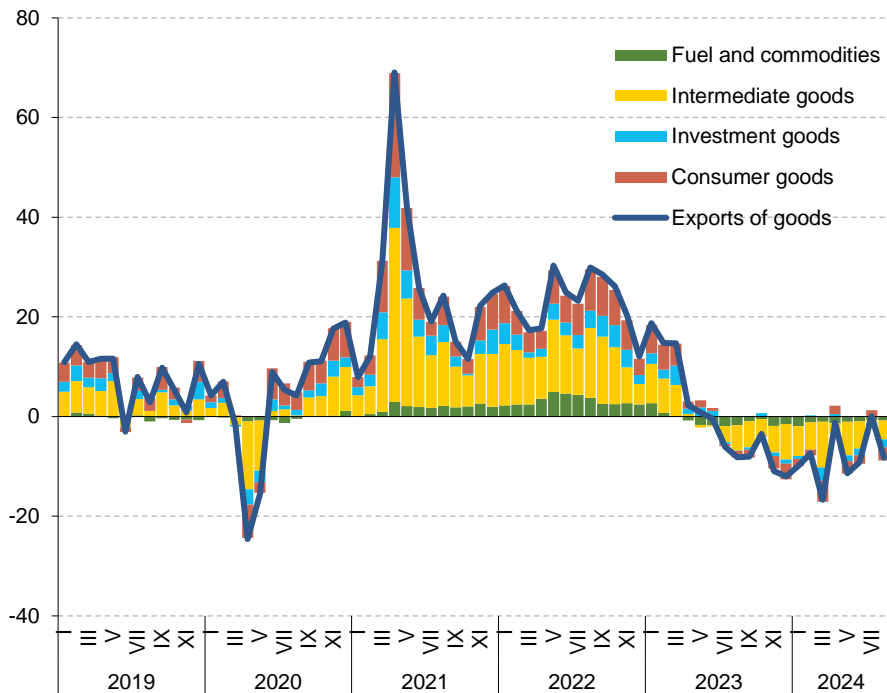


New passenger car registrations in the EU (millions)

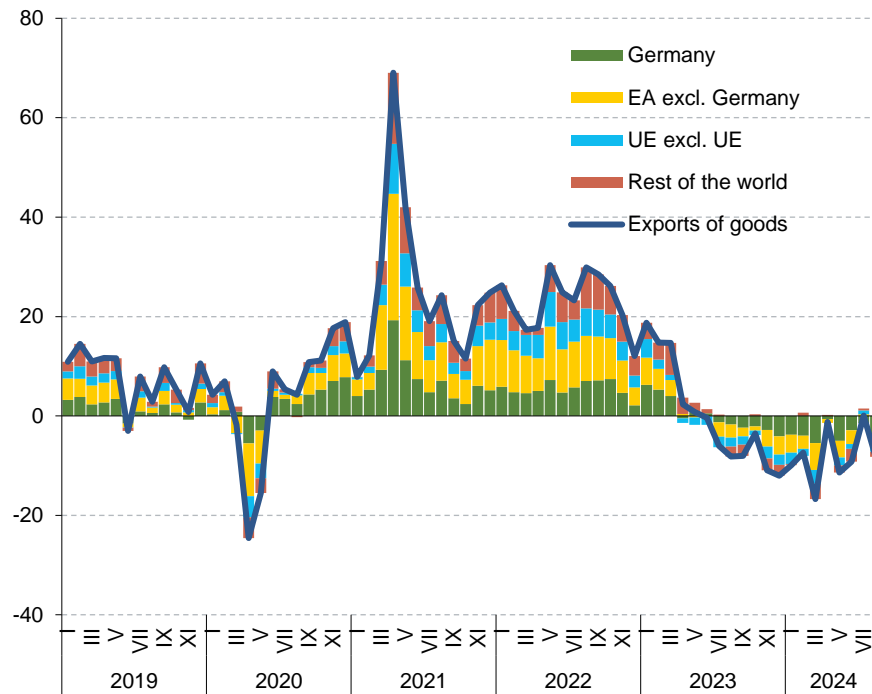


Weak results in goods exports due to the ongoing economic slowdown among Poland's main trading partners - particularly in Germany - amid decline in exports of consumer goods

Exports of goods (contributions by products, current prices, %, y/y)



Exports of goods (contributions by direction, current prices, %, y/y)





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Projection 2024-2026

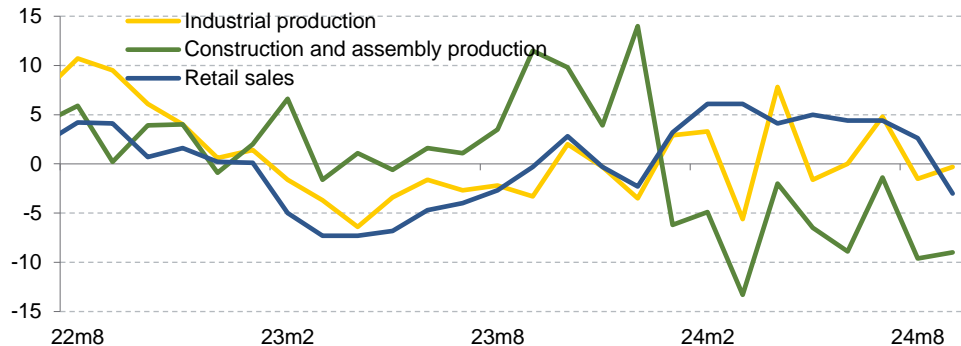
Economic perspectives for Poland

Weakening of economic activity in 2024 Q3

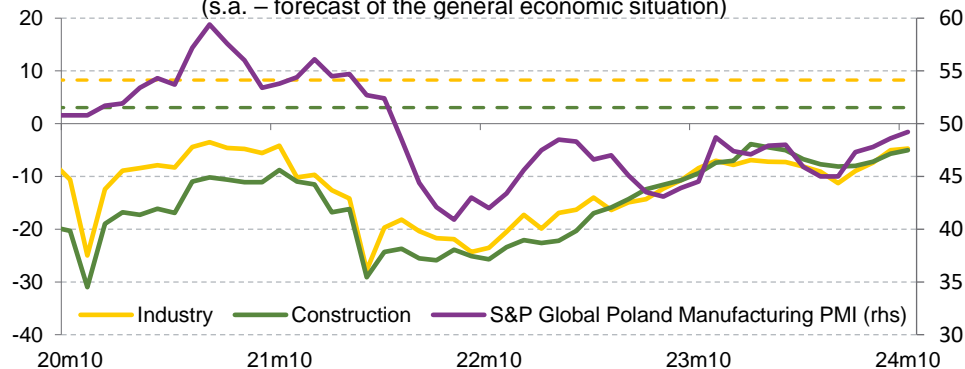
	24q2		24q3	
GDP (y/y, %)	3.2	(2.9)	2.6	(3.1)
Domestic demand (y/y, %)	4.8	(3.3)	6.6	(7.2)
Household consumption (y/y, %)	4.6	(4.6)	2.8	(4.4)
Public consumption (y/y, %)	11.5	(10.4)	9.2	(9.3)
Gross fixed capital form. (y/y, %)	3.2	(-0.2)	-0.4	(1.7)
Change in inventories contrib. (y/y, pp)	-0.8	(-1.6)	2.9	(2.0)
Net exports contribution (y/y, pp)	-1.3	(-0.1)	-3.7	(-3.5)
Exports (y/y, %)	2.9	(2.0)	0.1	(-1.0)
Imports (y/y, %)	5.7	(2.5)	7.5	(5.7)

Values from the July projection are given in brackets (seasonally adjusted). Indicators with values higher than in the July projection are marked green, and indicators with lower values are marked red.

Growth rates of industrial production, construction and assembly production, and retail sales (constant prices, y/y, %)



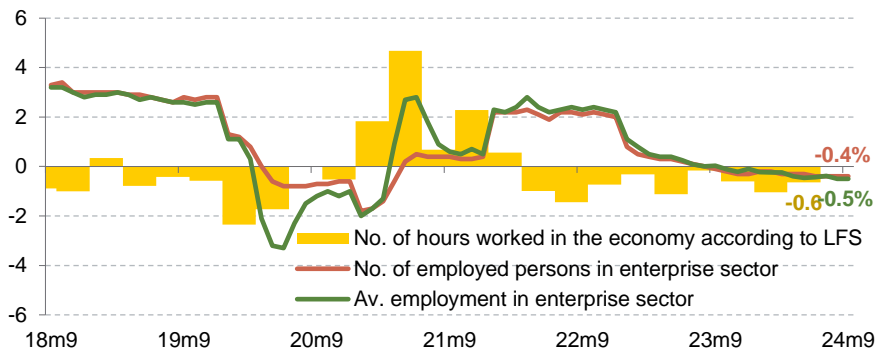
Business climate indicators in industry and construction (s.a. – forecast of the general economic situation)



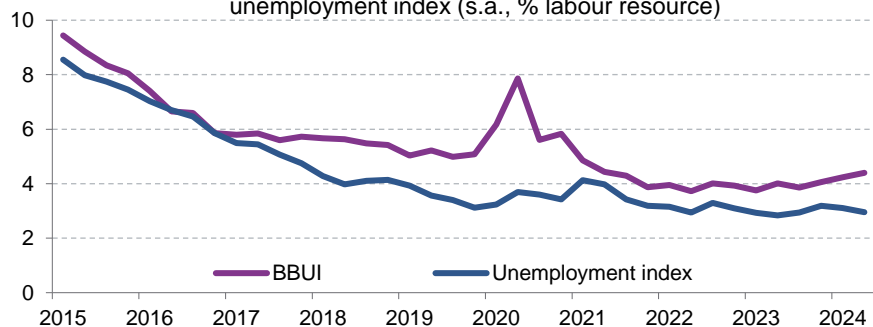
Note: dashed lines mark long-term averages of business climate indicators in industry (yellow) and construction (green).

The labor market remains affected by the slowdown in economic activity in 2023

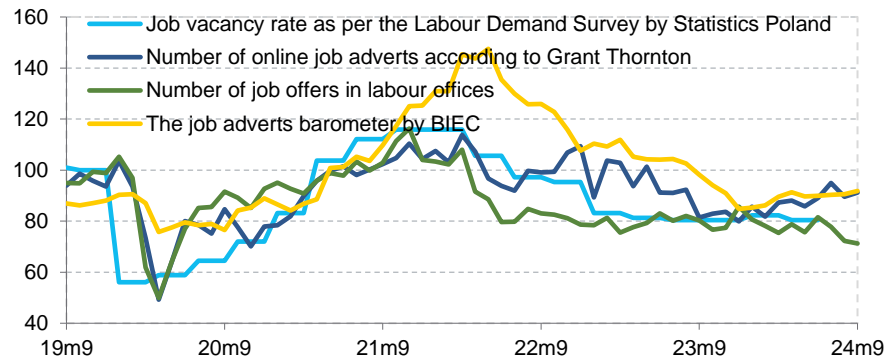
Average number of working hours, average employment in enterprise sector and hours worked in the economy according to LFS (y/y, %)



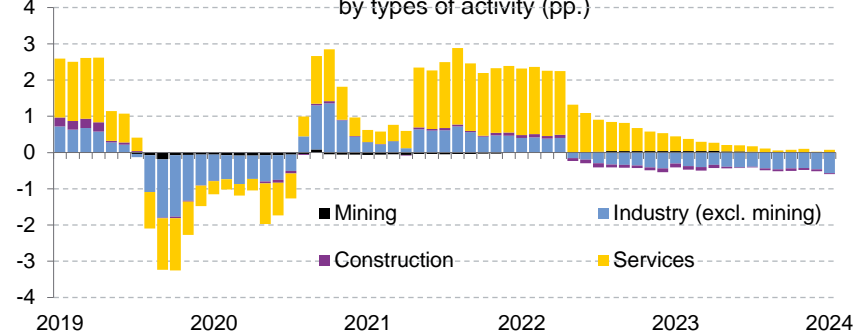
Bell & Blanchflower Underemployment Index (BBUI) and unemployment index (s.a., % labour resource)



Labour demand measures (index 04.2019=100, s.a.)



Contribution to the dynamics of the number of positions in the enterprise sector by types of activity (pp.)

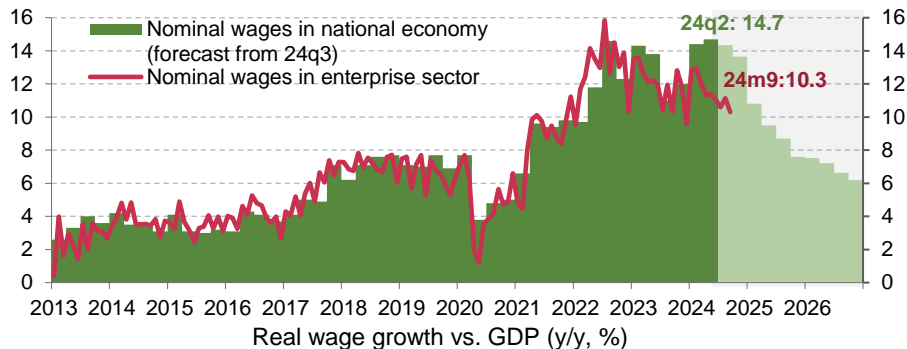


Note: Methodological discontinuity due to the change in the LFS survey methodology introduced in Q1 2021.

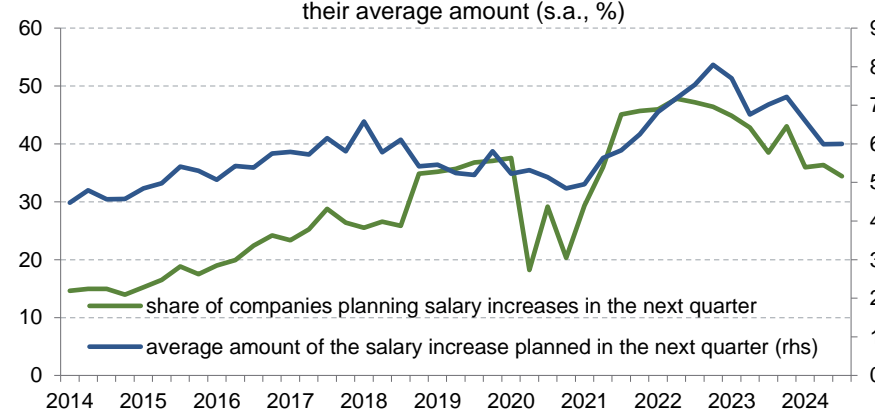
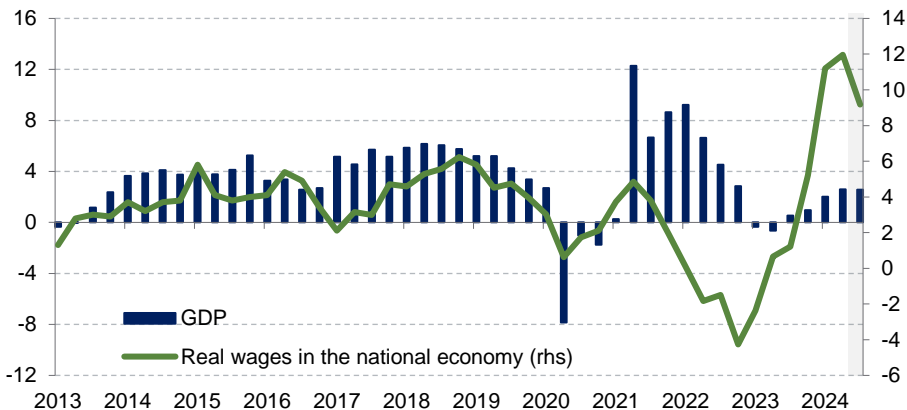
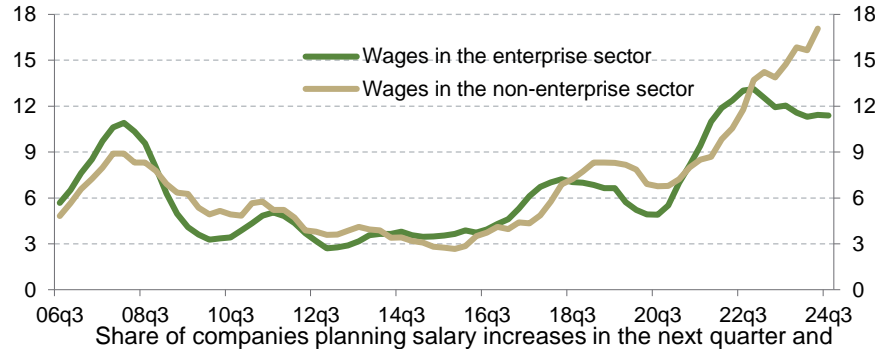
Source: Statistics Poland, NBP Quick Monitoring Survey, BIEC, Grant Thornton, NBP calculations.

The public sector and micro-enterprises contributed to a further increase in the nominal wages growth rate in 2024 Q2

Nominal wage growth (% y/y, national economy data as of 24q2, data from enterprise sector as of September 2024)

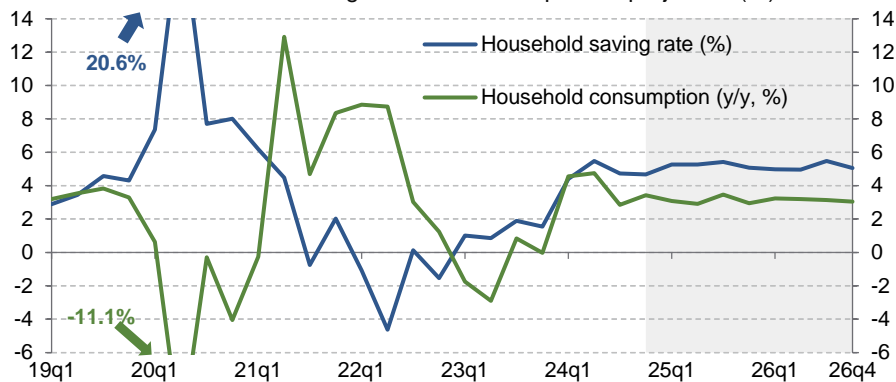


Annual growth rate of wages in the enterprise and non-enterprise sector (% moving average 5-quarters)

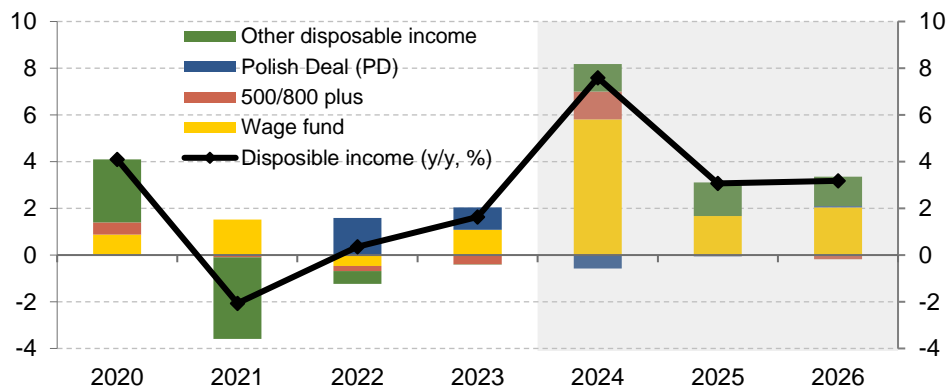


After a 3.8% increase in 2024, the growth rate of household consumption will remain at a lowered level in 2025-2026

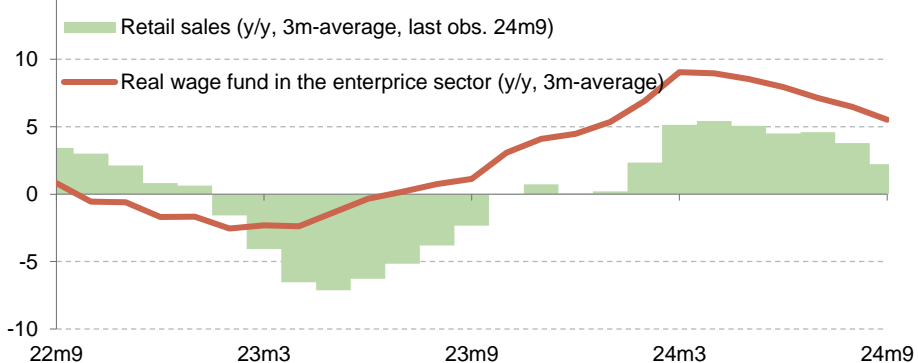
Household saving rate and consumption in projection (%)



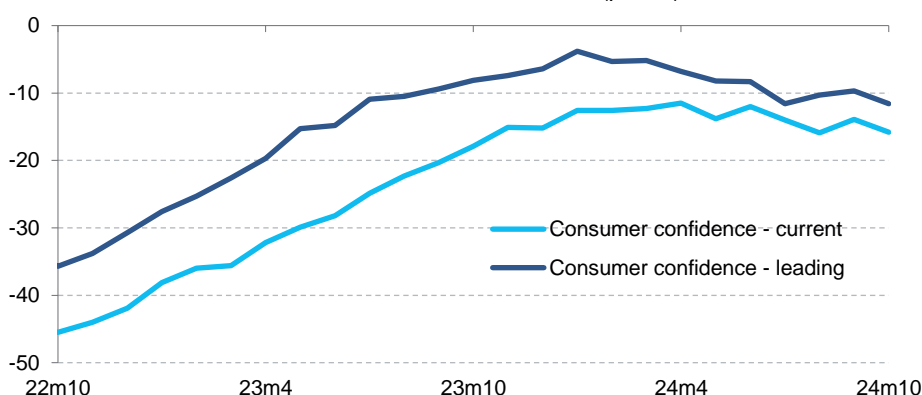
Decomposition of disposable income (constant prices, y/y, %)



Retail sales and real wage fund in the enterprise sector (constant prices, 3m-average, %, y/y)

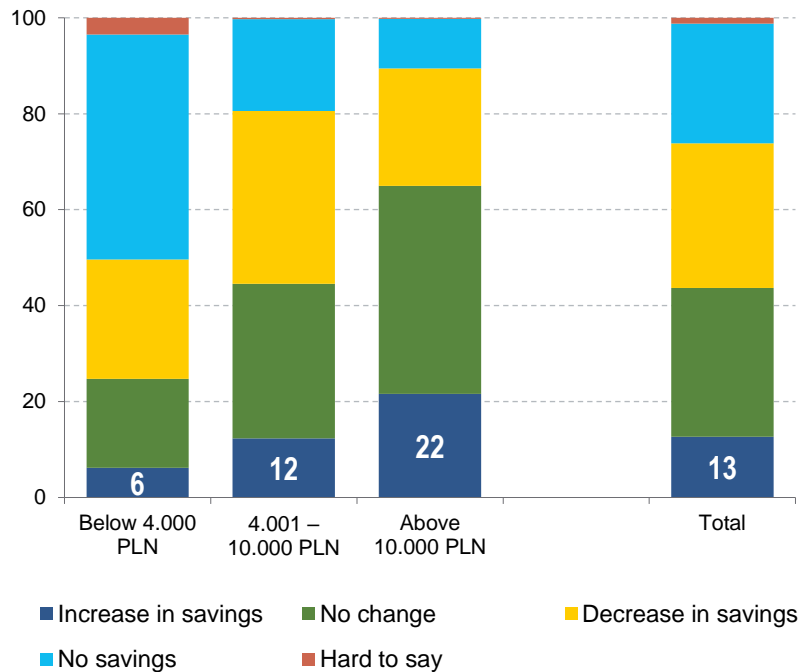


Consumer sentiment indicators (points)

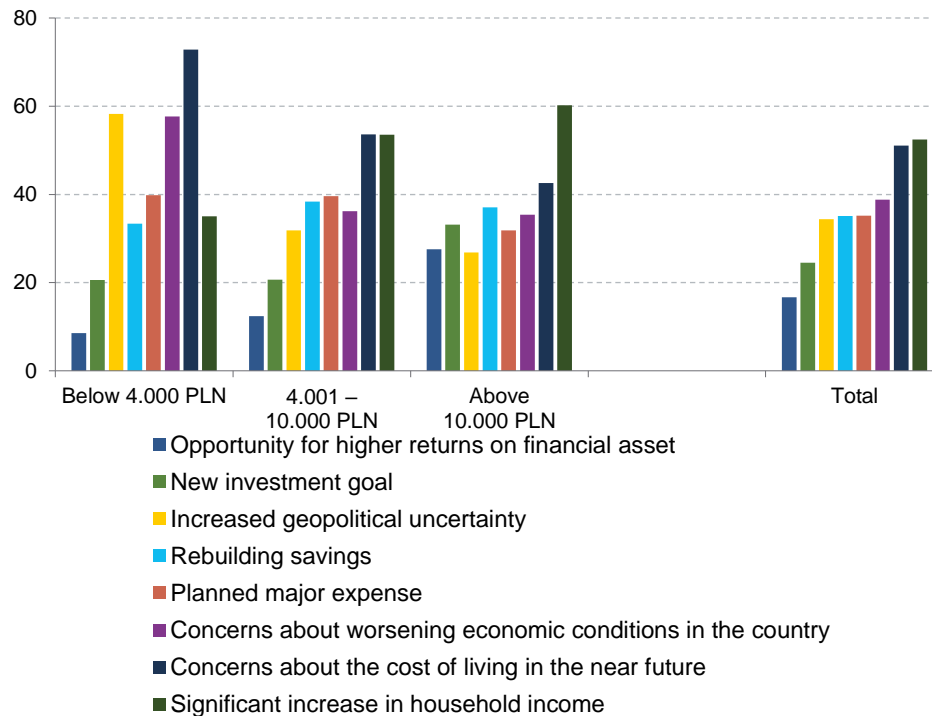


An increase in savings mainly among wealthier households building financial buffer, often larger than before

Changes in household savings over the past 12 months by income level (% of respondents in each income group)



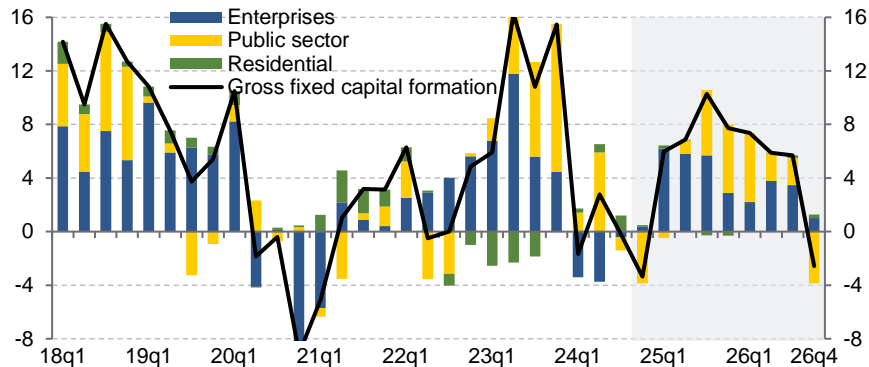
Reasons for increased savings by household income groups (% of respondents in each income group)



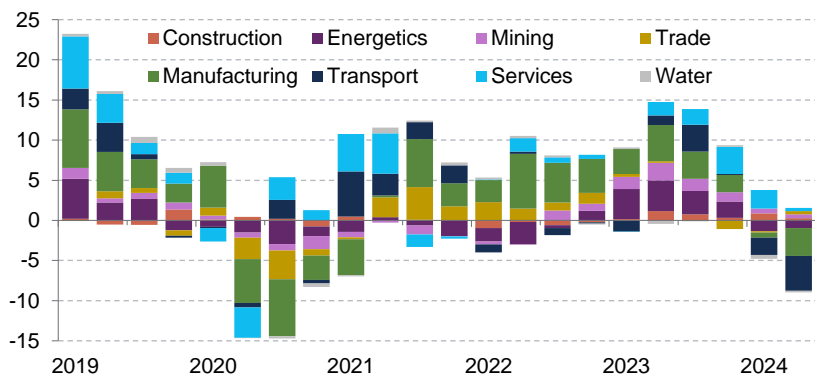
Note: The question regarding reasons for increased savings applies only to households that reported saving a significantly larger or somewhat larger portion of their income compared to 2023.

Increase in gross fixed capital formation in 2024 Q2, despite a decline in investments by large enterprises and in the public finance sector

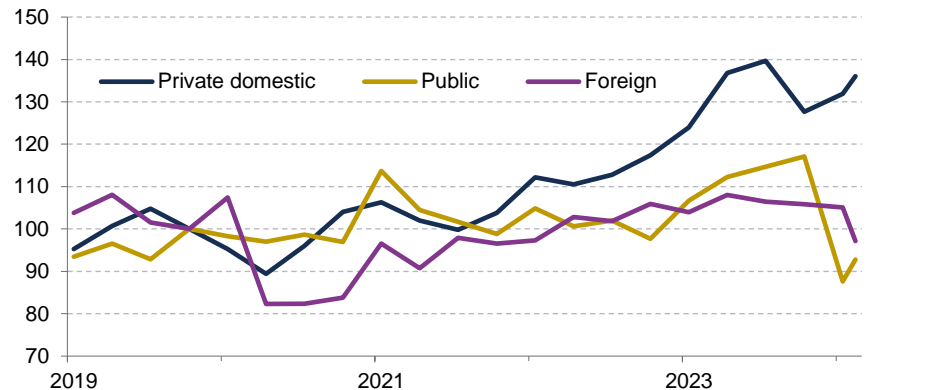
Decomposition of gross fixed capital formation (y/y, %)



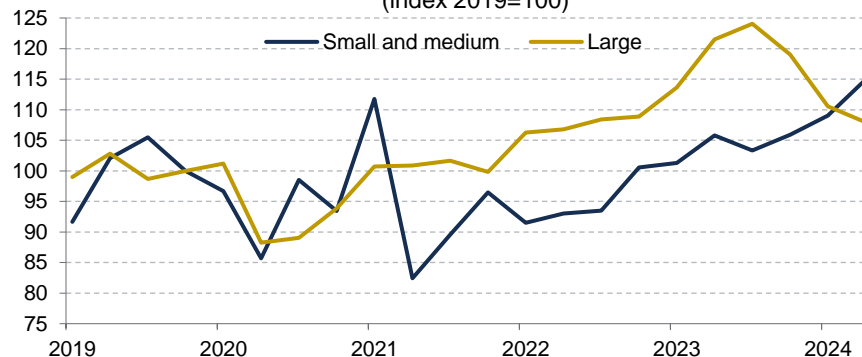
Contribution to real investment growth by NACE (y/y, pp)



Real value of the enterprise investments by the form of ownership (index 2019=100)

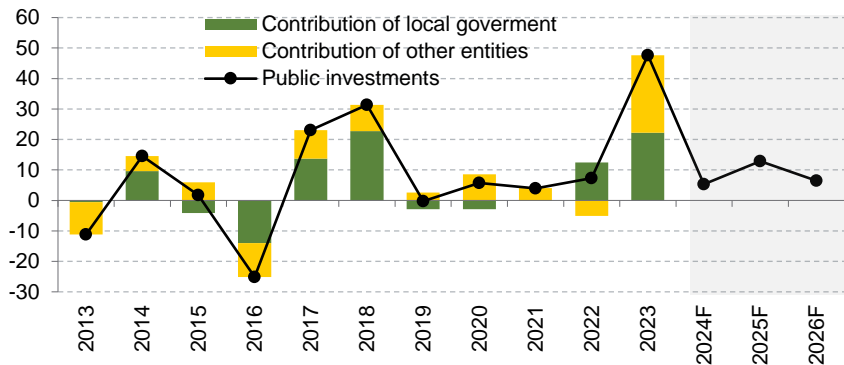


Real value of the investments in small, medium and large enterprises (index 2019=100)

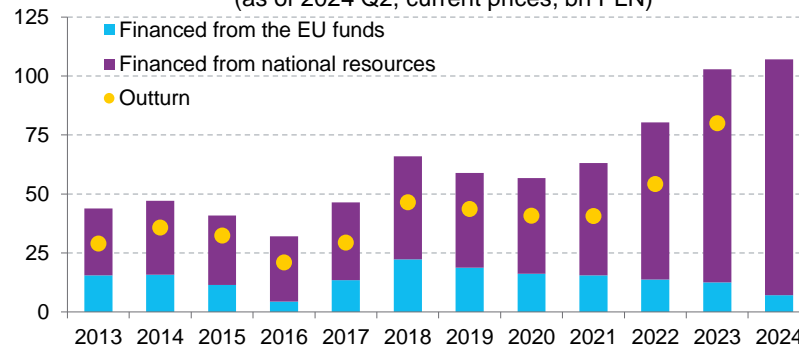


Over the projection horizon the level of public investments is elevated due to the high defence expenditures. In 2026 a slowdown in the growth rate of EU fund inflows.

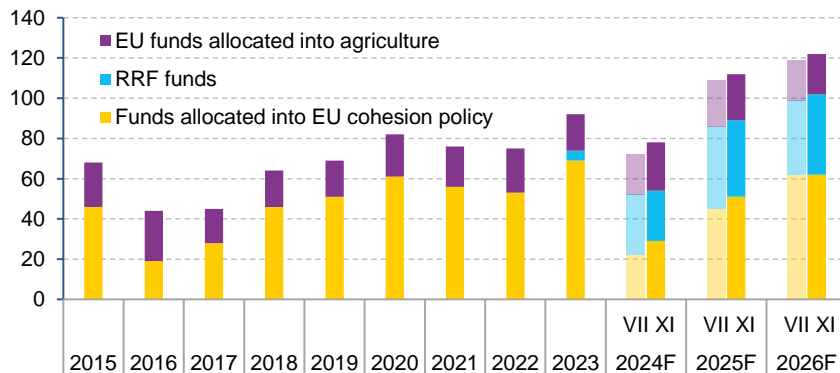
Nominal growth rate of public investment and contribution of its main components (current prices, y/y and pp)



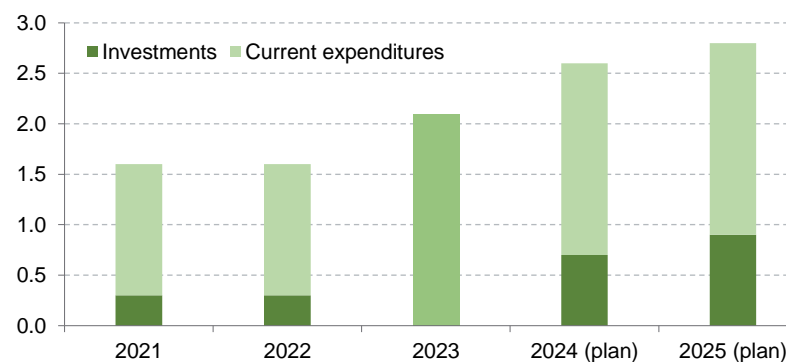
Planned local governments investment spending (as of 2024 Q2, current prices, bn PLN)



Total absorption of EU funds (current prices, bn PLN)

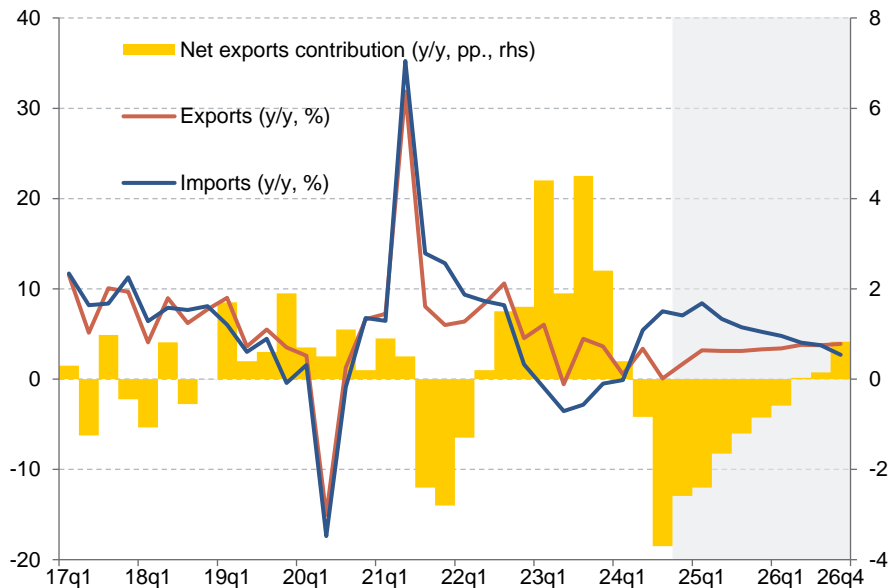


National defense expenditures (% GDP, ESA)

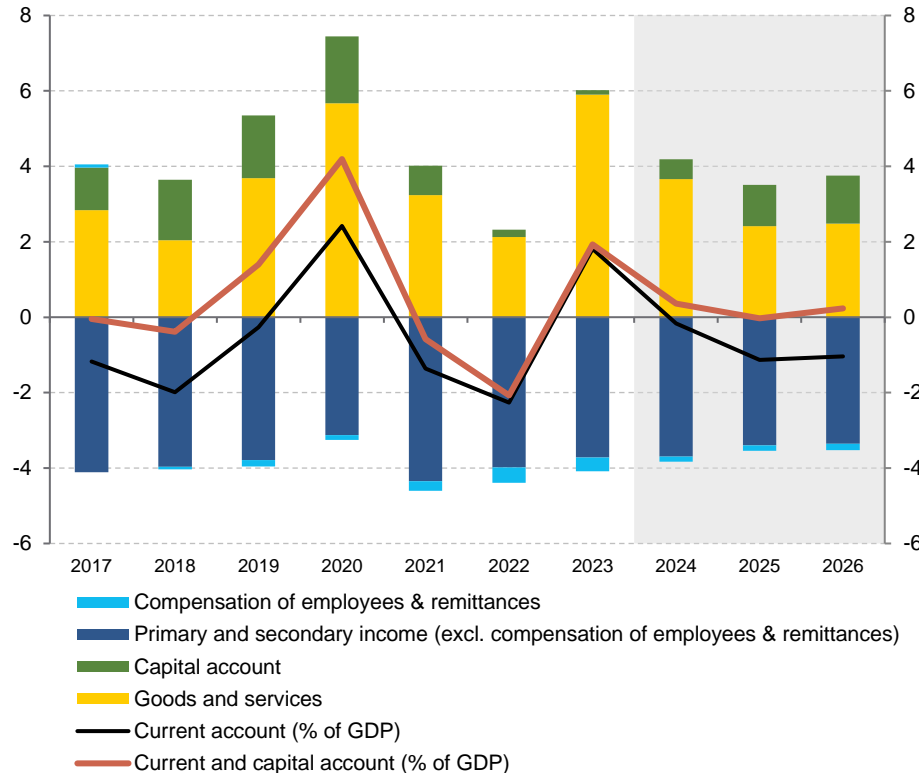


A markedly negative contribution of net exports to GDP growth until 2025, with improvement in 2026 following a slowdown in domestic demand growth

Net exports contribution to GDP growth rate

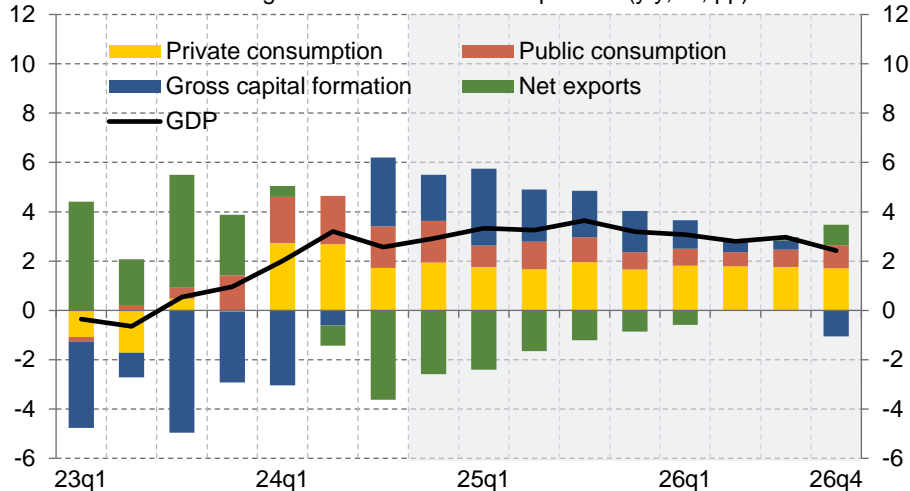


Current and capital account balance (% of GDP)

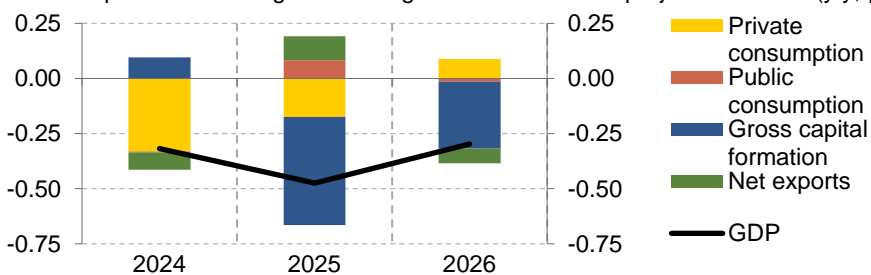


An economic activity rebound expected in 2025, though weaker than anticipated in the July round

GDP growth rate and its decomposition (y/y, %, pp)



Decomposition of changes in GDP growth rate between projection rounds (y/y, pp)



Factors determining domestic activity over the projection horizon:

- ↑ **high wage growth and fiscal measures** that increase households' disposable income
- ↑ **sharp influx of UE funds** in 2025 under the new financial perspective 2021-2027
- ↑ **limited recovery in Poland's external economic environment**
- ↓ **restrictive monetary policy**, assuming rates remain unchanged
- ↓ **increase in propensity to save**

GDP, y/y, %	2022	2023	2024	2025	2026
November 2024	5.6	0.2	2.7	3.4	2.8
July 2024	5.6	0.2	3.0	3.8	3.1



Outline:

Projection 2024 – 2026

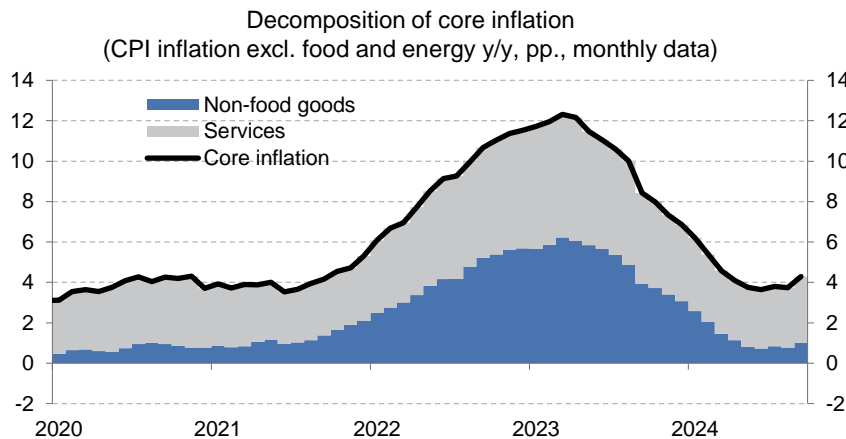
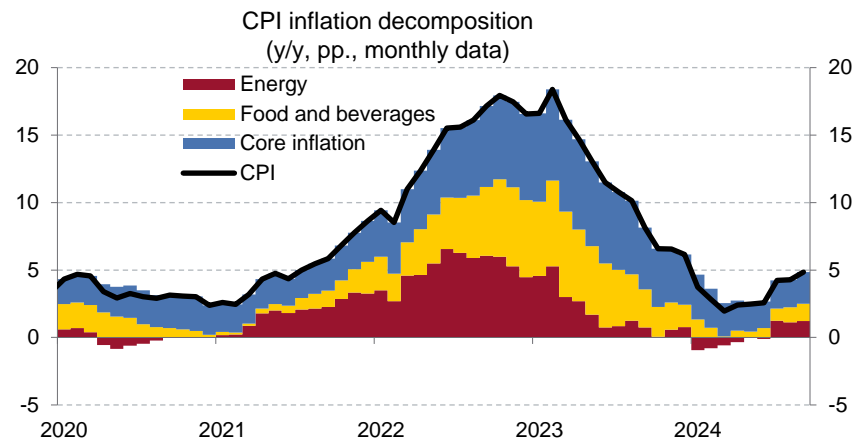
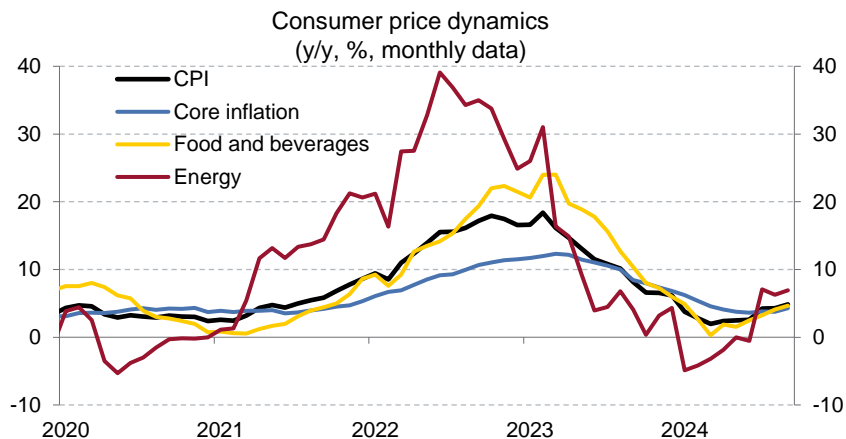
- Economic conditions abroad
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Projection 2024-2026

Inflation

An increase in CPI inflation since July 2024, mainly due to higher administered prices of energy



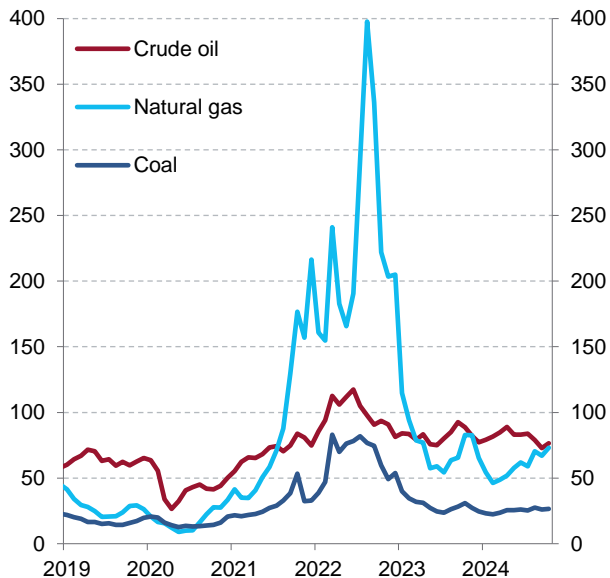
Inflation in 2024 Q2 and Q3 compared to the July projection (y/y, %)

y/y, %	24q2		24q3	
CPI inflation	2.5	(2.5)	4.5	(4.4)
Core inflation	3.8	(3.9)	3.9	(3.8)
Food prices inflation	2.0	(1.7)	4.0	(3.3)
Energy prices inflation	-0.8	(-0.7)	6.8	(8.2)

Values from the July projection are given in brackets (seasonally adjusted data). Indicators with values higher than in the July projection are marked **green**, whereas indicators with lower values are marked **red**.

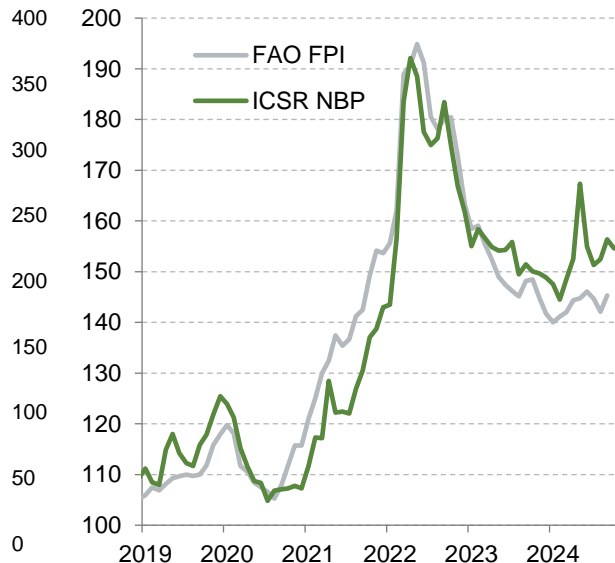
Increase in the prices of most commodities in recent months due to supply constraints

Oil, gas and coal prices (USD/boe, monthly data)



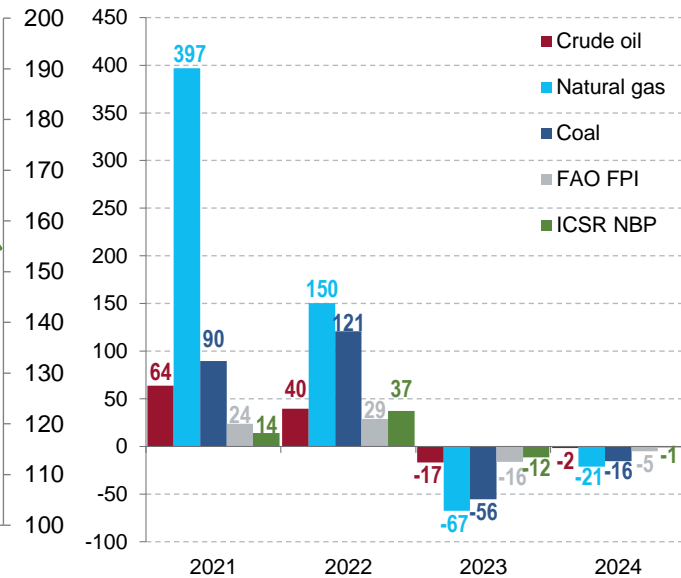
Note: boe - barrel of oil equivalent.
Last observation: 14/10/2024

FAO FPI and NBP ICSR (indices May 2010=100, EUR, monthly data)



Note: Last observation: ICSR NBP – 16/10/2024
FAO FPI – 30/09/2024

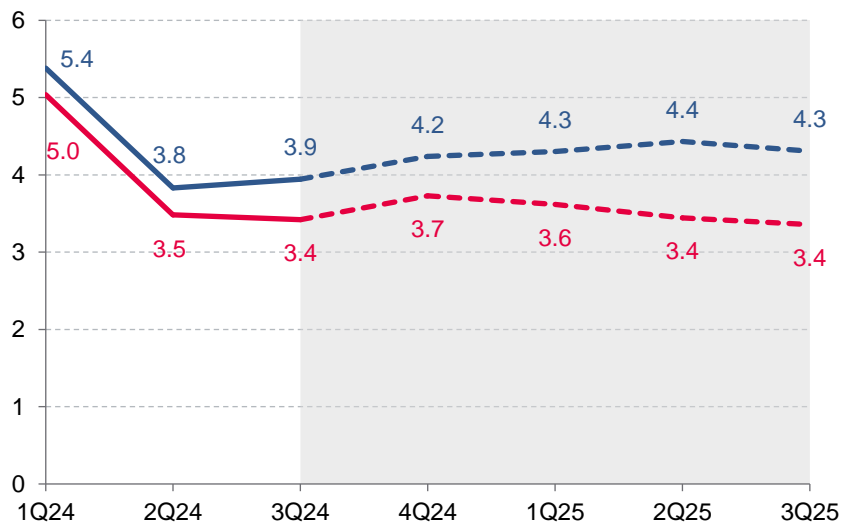
Average annual price dynamics of energy and agricultural commodities between 2021 and 2024 (%)



Note: Average annual dynamics in 2021-2023. For 2024 and energy commodities, the average from January-October on an annual basis, in the case of agricultural commodities, the January-September average.

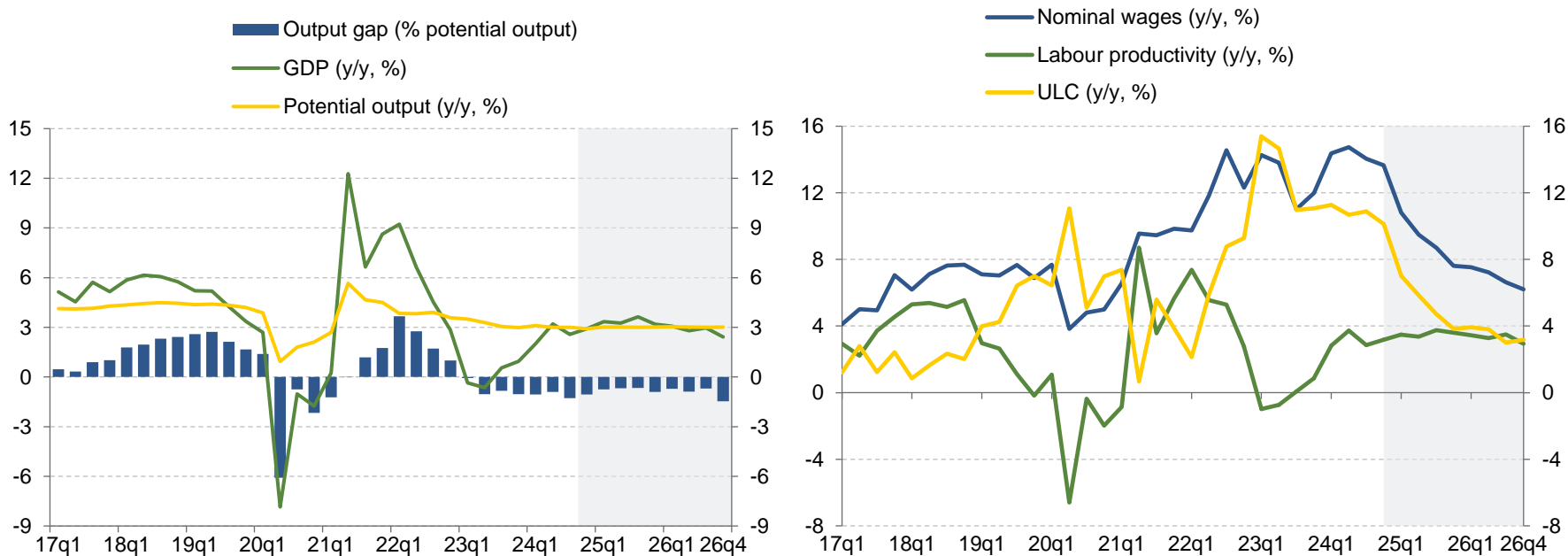
Significant impact of regulatory factors on core inflation

Core inflation and market price of non-food goods and services inflation (y/y, %, quarterly data)

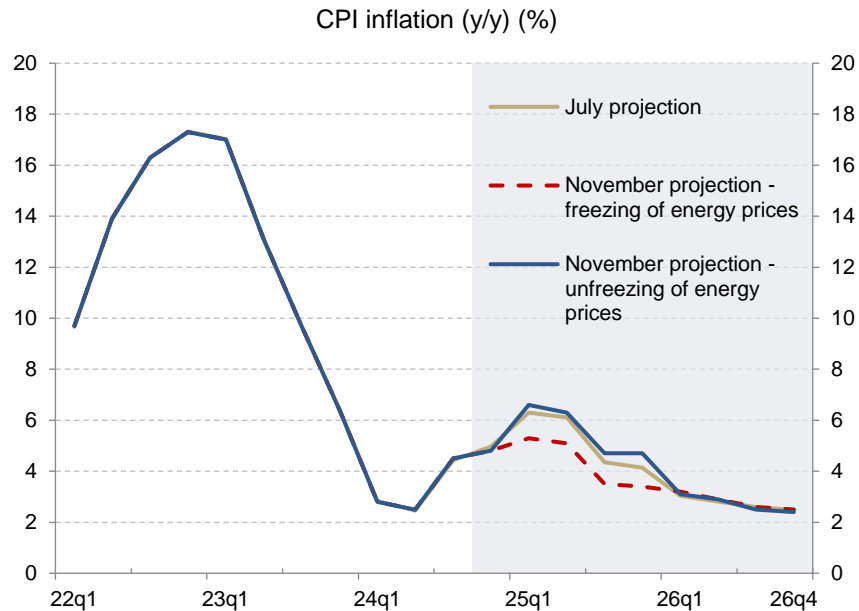


- Forecast horizon
- Core inflation (CPI excl. food and energy prices)
- Market price of non-food goods and services inflation

Over the projection horizon, the scale of the expected recovery is limited, with the output gap remaining at a negative level



Minor revisions to the CPI inflation forecasts relative to results of the July projection, with uncertainty related to the scale of government’s regulatory measures on electricity, natural gas and heat prices



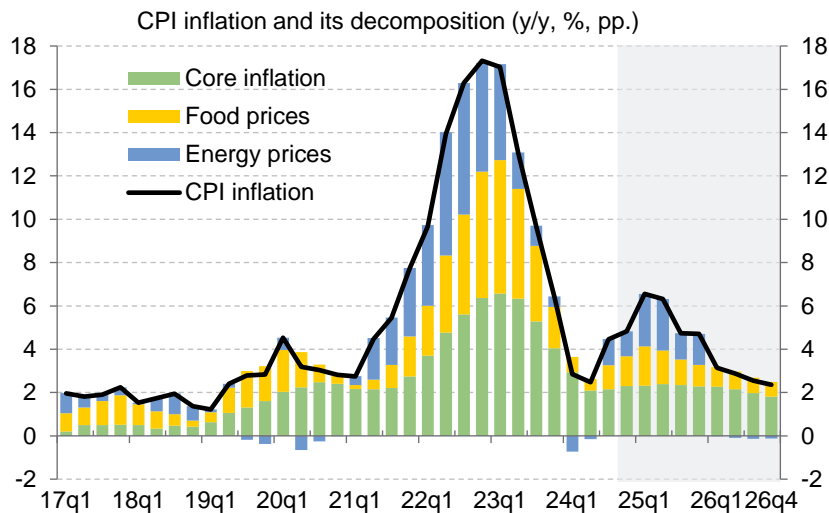
November projection (base scenario) – energy prices – further unfreezing of energy prices, in accordance with the Act of 23 May 2024.

November projection (alternative scenario) – energy prices – freezing of the current rates and charges for electricity, gas, and heat at the present level in 2025-2026

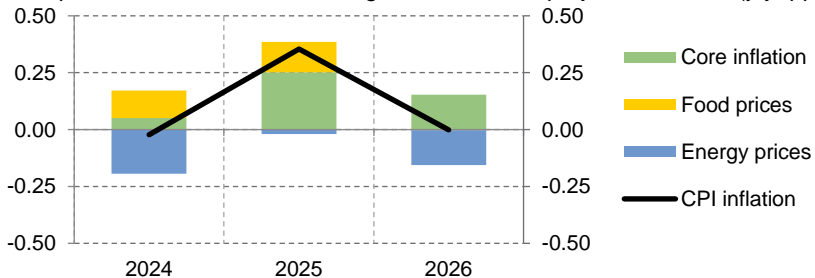
July projection (base scenario) – energy prices – further unfreezing of energy prices, in accordance with the Act of 23 May 2024.

CPI, y/y, %	2024	2025	2026
November projection – base scenario	3.7	5.6	2.7
November projection – alternative scenario	3.7	4.3	2.8
July projection – base scenario	3.7	5.2	2.7

Increase in CPI inflation due to transitory factors, return to the band of deviations from the NBP inflation target in 2026



Decomposition of CPI forecast changes between the projection rounds (y/y, pp.)



The inflation path over the projection horizon will be affected by:

to 2025 Q1:

- ↑ **increasing food inflation** Impact of the unfreezing of energy prices for households in July 2024 and January 2025
- ↑ lower harvests of fruits and selected vegetables
- ↑ base effect related to intensified price competition between the largest retailers on the food market in 2023
- ↑ **increase in core inflation**
 - ↑ Base effect related to the expansion of the list of people eligible for free medicines in September of last year
 - ↑ increases in regulated tariffs for water supply and waste water disposal
 - ↑ increase in excise duty on tobacco products in March 2025

from 2025 Q2 to 2026 Q4:

- ↓ **decrease in labour costs dynamics**
- ↓ **low demand pressure**
- ↓ **limited inflation in external environment of the Polish economy**
- ↓ **in 2026, the impact of withdrawal of mechanisms regulating energy prices for households will subside**

CPI, y/y, %	2022	2023	2024	2025	2026
November 2024	14.4	11.4	3.7	5.6	2.7
July 2024	14.4	11.4	3.7	5.2	2.7



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- Risks
- Fancharts

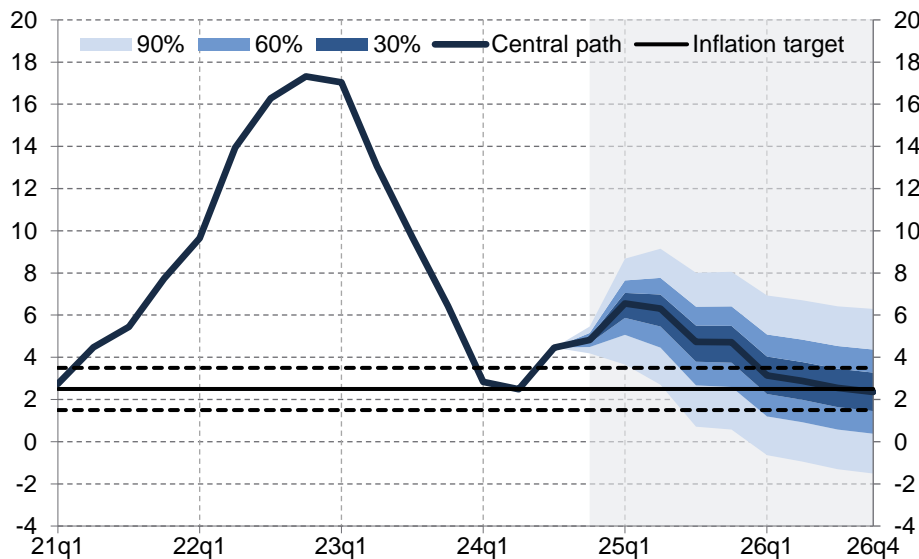
Risks

- **Future shape of regulatory measures in Poland**
- **The pace and scale of the realisation of the projects under National Recovery and Resilience Plan**
- **Economic situation among Poland's trading partners, in particular Germany**
- **Trade policies of the largest economies, including the scale of fragmentation in global trade and production**
- **Development of the geopolitical situation and the scale of armed crises in the context of their impact on the future path of commodity prices, migration flows as well as economic activity globally and in Poland**

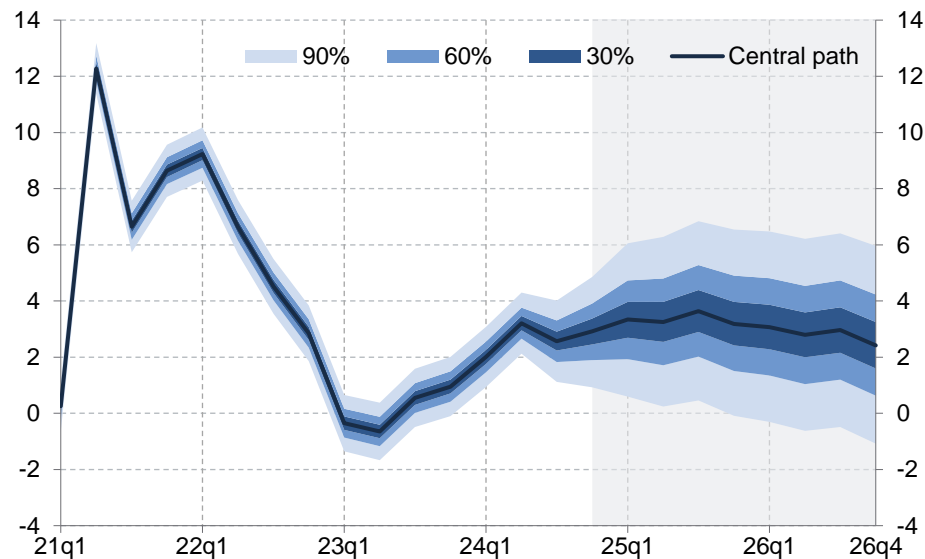
In the November projection horizon there is:

- ↑ **A higher probability of CPI inflation running below the projection's central path in short horizon**
- ↔ **A close to symmetric distribution of risks to GDP growth**

CPI Inflation (y/y, %)



GDP (y/y, %)



CPI y/y, %	below 1.5%	below 2.5%	below 3.5%	below centr. path	within 1.5-3.5% range
2025	3%	7%	17%	56%	15%
2026	27%	45%	65%	50%	37%

CPI y/y, %	central path	50% probability interval	
2025	5.6	4.2	6.6
2026	2.7	1.4	4.1

GDP y/y, %	central path	50% probability interval	
2025	3.4	2.4	4.3
2026	2.8	1.7	4.0



**NARODOWY
BANK POLSKI**