

Warsaw, 29 August 2007

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 28-29 August 2007

The Council decided to increase the NBP interest rates by 0.25 percentage point to the level:

- **reference rate 4.75 % on an annual basis;**
- **lombard rate 6.25 % on an annual basis;**
- **deposit rate 3.25 % on an annual basis;**
- **rediscount rate 5.00 % on an annual basis.**

The Polish economy is still in the period of strong growth encompassing all its sectors. The data released since the last meeting of the Council confirm previous assessments that strong economic activity should be sustained for at least next few quarters. The continuation of fast economic growth in Poland should be supported by the still strong activity in the world economy, including the euro area. Since the last meeting of the Council, however, there have been turbulences in the international financial markets and a rise in the risk of a stronger than earlier expected weakening in the economic activity in the United States and, consequently, also in the euro area.

In July the annual growth of consumer prices in Poland amounted to 2.3%, and hence it was close to the NBP's inflation target of 2.5% for another consecutive month. The Council expects that in 2007 Q3 inflation may temporarily fall in relation to 2007 Q2.

In the Council's assessment, in the coming quarters economic growth will most probably continue to exceed the growth of potential GDP. The latest information on labour market developments point to a continuation of a high wage growth and a deeper than previously estimated deterioration in the relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is possible. The recently made decisions leading to a decrease in revenues and an increase in expenditures of the public finance sector may lead to a deterioration of the public finance balance, which in the medium run may result in additional inflationary pressure.

The mid-term increase in inflation may be curbed by the continuing very good financial results of enterprises and a high investment growth conducive to productivity growth. Increase in inflation in the medium term may also be constrained by low growth of external prices, related to the monetary policy pursued by major central banks as well as the globalisation and the ensuing rise in competition in the market of internationally traded goods and services. However, in the Council's assessment, the impact of those factors would be insufficient to keep inflation at the target level over the monetary policy transmission horizon. Therefore, the Council assessed the probability of inflation running above the inflation target in the medium term to be higher than the probability of inflation running below the target and decided to increase the NBP interest rates.

NBP

In the months to come, the Council will be closely monitoring the growth and structure of domestic demand, including the degree of the expansionary fiscal policy stance, the relation between wage and labour productivity growth, zloty exchange rate, the impact of globalisation on the economy and developments in international financial markets.