

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 29-30 July 2008

The Council decided to keep the NBP interest rates unchanged, i.e.

- **reference rate 6.00% on an annual basis;**
 - **lombard rate 7.50% on an annual basis;**
 - **deposit rate 4.50% on an annual basis;**
 - **rediscount rate 6.25% on an annual basis.**
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The Polish economy is still in the period of growth encompassing most of its sectors. However, data released recently confirm earlier signals suggesting that the economic growth is gradually slowing down. At the same time, information on labour market developments points to a sustained high growth of wages and to an unfavourable relation between wage and labour productivity growth.

The latest data on the United States and the euro area point to further deterioration of the outlook for growth in these economies. At the same time, many countries have recorded a rise in both the current and the forecast inflation. In the past few months oil prices in the world markets have increased strongly, while displaying high volatility. Uncertainty persists as to the scale in which the decline in activity in the external environment may affect the Polish economy.

In June the annual growth of consumer prices in Poland rose to 4.6%, remaining above the NBP's inflation target of 2.5% and also above the upper limit for deviations from the target set at 3.5%. The rise in inflation primarily resulted from increased annual growth of prices of food, transport (which was connected with strong growth of fuel prices) and some services. The Council maintains its assessment that in the coming months inflation will continue above the upper limit for deviations from the inflation target, which to a large extent will be the result of high annual growth of administered prices and also food and fuel prices.

In the Council's assessment, in the coming quarters the pressure on wage increases will probably persist, though the gradually slowing economic growth should be easing the wage pressure and, consequently, also the inflationary pressure. Increased inflation in the coming quarters will, to a large extent, result from the growth of administered prices and also from the food and fuel price growth observed in the world economy and affecting the Polish market. Persistently increased inflation creates a risk of inflation expectations remaining at an elevated level and, consequently, feeds the risk of the second-round effects. Moreover, the rise in prices of energy may be gradually passing through to prices of other goods and services.

In the medium term inflationary pressure may be curbed by still good financial results of enterprises and continuously high investment growth conducive to productivity growth. This pressure may also be constrained by the slowdown in the global economy and, consequently, also in the Polish economy. The inflationary pressure may still be eased by the import of goods from countries with low production costs. The previous increases of NBP's interest rates will also have

the same effect, as well as the rapid zloty appreciation observed over the past quarters, which in the recent period has most probably outpaced the appreciation of the equilibrium exchange rate.

The Council assessed the probability of inflation overshooting the inflation target in the medium term to be higher than the probability of inflation running below the target. Therefore, the Council does not rule out that bringing inflation down to the target in the medium term would require further monetary policy tightening. At the same time, due to the persistence of shocks observed in food and commodity markets, bringing inflation down to the target level may take somewhat longer time. In view of the persisting uncertainty as to the global growth outlook and the prospects of the Polish economy, the Council assessed that a more comprehensive assessment of inflation outlook will be possible after analysing the data released in the near future.

The Council is striving to bring inflation down to the inflation target in the medium term. The Council will be closely monitoring the growth and structure of domestic demand, the relation between wage and labour productivity growth in the enterprise sector and wage growth in the public finance sector, the degree of the expansionary fiscal policy stance, zloty exchange rate, developments of the current account balance and the impact of globalisation on the economy and on food prices. The Council will also analyse changes in the external factors affecting the Polish economy and their impact on the outlook for economic growth and inflation in Poland.

The Council approved *The Balance of Payments of the Republic of Poland in 2008 Q1*.