

Warsaw, 24 September 2008

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 23-24 September 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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Data released recently suggest that – despite better than expected data on GDP in 2008 Q2 - economic growth may markedly decline in the coming quarters. At the same time, information on labour market developments points to a sustained high growth of wages and a continuously unfavourable relation between wage and labour productivity growth.

Information concerning economic activity in the euro area indicates a continuing marked decline in GDP growth in that region. In the United States subsequent quarters are still expected to see further slowdown in economic activity. Additionally, intensified turmoil in the financial markets observed recently is likely to deepen the economic slowdown in the external environment of the Polish economy. At the same time, many countries continue to record increased, yet falling, inflation. Recently, oil prices in the world markets have continued to decrease.

In August the annual growth of consumer prices in Poland was below expectations and stayed at 4.8%, 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%. Inflation remaining at an elevated level resulted primarily from high, albeit declining, annual growth of food and fuel prices and increasing growth of prices of energy 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 will, to a large extent, be the result of high annual growth of food prices and administered prices including energy prices.

In the Council's assessment, in the coming quarters the pressure on wage increases will probably persist, although the gradually declining economic growth, probably below potential output growth, weakening labour demand and deteriorating financial results of enterprises 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 from the growth of food and fuel prices previously observed in the world economy and affecting the Polish market. Future inflation may also be increased by rising prices of some services, which, to some extent, may result from the growth of energy prices. Persistently increased inflation creates a risk of inflation expectations remaining at an elevated level and, consequently, feeds the risk of second-round effects.

NBP

In the medium term, easing of the inflationary pressure will be supported by the considerable slowdown in the global economy and, consequently, also by a decline in economic growth in Poland. The inflationary pressure may continue to be eased by the import of goods from low-cost countries. The previous increases of the NBP's interest rates as well as the earlier zloty appreciation will also contribute to lowering inflation.

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 will require monetary policy tightening. In view of the persisting uncertainty as to the scale of the slowdown in the Polish economy, the Council assessed that a more comprehensive assessment of the inflation outlook would be possible after analysing the data released in the near future and the October projection of inflation and GDP.

The Council is striving to bring inflation down to the inflation target in the medium term. Considering the above, 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, the zloty exchange rate and developments in the current account balance. 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 has adopted a resolution on the *Monetary Policy Guidelines for 2009* which took account of the results of the Monetary Policy Council meeting with the Prime Minister and the Government representatives held on 16 September 2008 devoted to the possibility of Poland joining the euro area. Moreover, The Council has approved the *Forecast of the Balance of Payments of the Republic of Poland for 2009* together with the *International Investment Position of Poland in 2007*.