

Warsaw, 19 December 2007

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

**held on 18-19 December 2007**

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

- **reference rate 5.00% on an annual basis;**
- **lombard rate 6.50% on an annual basis;**
- **deposit rate 3.50% on an annual basis;**
- **rediscount rate 5.25% on an annual basis.**

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The Polish economy is still in the period of strong growth encompassing all its sectors. In 2007 Q3 the economic growth was higher than expected in the October projection. It may, however, be expected that GDP growth in 2008 will be probably lower than in 2007. Economic growth in Poland should be supported by still strong, even though weakening, activity in the world economy. Yet, uncertainty about the scale of the impact of problems in the financial markets on growth of the US and euro-area economies persists.

In November the annual growth of consumer prices in Poland was slightly higher than expected reaching 3.6%, thus remaining above the NBP's inflation target of 2.5% and breaching the upper limit for deviations from the target set at 3.5%. As in many other countries considerable increase in inflation has been largely driven by a strong growth in food and fuel prices. The Council maintains its assessment that the months to come will see inflation exceeding the level expected in the October projection.

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 points to a continuing strong wage growth and unfavourable relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is quite probable. The risk of continuing high inflation is also raised by the food price growth observed in the world economy and affecting the Polish market and also by prices of oil being higher than assumed in the projection. Moreover, the Budget Act conveyed to the Parliament points to a procyclical impact of fiscal policy on the economy next year. Amendments introduced to the Budget Act during parliamentary works do not change this assessment.

In the mid-term inflation may be curbed by the continuing very good financial results of enterprises and high investment growth conducive to productivity growth. Inflation may also be constrained by globalisation and the ensuing increased competition in the market of internationally traded goods and services as well as to the relative stability of the zloty exchange rate. The inflationary pressure may also be reduced by a slowdown of the global economy.

# NBP

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. A more comprehensive assessment of the inflation outlook will be possible after analysing the data released in the near future. The Council will strive to bring inflation down to the level consistent with the inflation target in the medium term.

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, developments of the current account balance and the impact of globalisation on the economy and on food prices.

The Council has adopted *The Financial Plan of the National Bank of Poland for 2008*.