

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 24-25 June 2008

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

- **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 strong growth encompassing all its sectors. However, data released recently indicate that the economic growth is gradually slowing down, which is consistent with previous expectations. At the same time, information on labour market developments points to a sustained high growth of employment and wages and to an unfavourable relation between wage and labour productivity growth.

The latest information on the US economy signal that the slowdown of activity in this economy may be less deep than previously expected, though it may last longer. Uncertainty also persists as to the scale of the decrease of euro-area economic growth and of its impact on the Polish economy. In the past few months oil prices in the world markets have strongly increased. At the same time, many countries have recorded a rise in both the current and the forecast inflation.

In May the annual growth of consumer prices in Poland rose to 4.4%, 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 increase in inflation primarily resulted from a strong rise in administered prices (prices of gas and electricity) and from food and fuel price growth. The Council maintains its assessment that in the coming months inflation will remain above the upper limit for deviations from the inflation target, which, to a large extent, will be driven by increases of administered prices and high annual growth of food and fuel prices.

The Council got acquainted with the projection of inflation and GDP based on the new version of the ECMOD model (NECMOD), which has been prepared by the Economic Institute of the NBP. The projection is one of the inputs into the Council's decision-making on the NBP interest rates. The annual growth of consumer prices forecast in the June projection is higher than expected in the February projection till the end of 2009, while in 2010 it is lower than forecast in the February projection. Under constant interest rates, there is a 50-percent probability that projected inflation will remain within the range of 3.8-4.7% in 2008 (compared to 3.6-4.7% in the February projection), 2.5-5.8% in 2009 (compared to 2.6-4.9%) and 0.1-5.7% in 2010 (compared to 2.1-4.8%).

According to the June NECMOD-based projection, the annual GDP growth will remain, with a 50-percent probability, within the range of 4.3-5.5% in 2008 (compared to 4.4-5.8% in the February projection), 3.4-6.2% in 2009 (compared to 3.5-6.1%) and 3.8-6.8% in 2010 (compared to 3.6-6.9%).

In the Council's assessment in the coming quarters the wage pressure and, consequently, the inflationary pressure will probably persist despite the expected slowdown in the economic growth. Increased inflation 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 so-called second-round effects. Moreover, the rise in prices of energy and food may be gradually passing through to other prices, particularly to prices of some 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. Inflationary pressure may also be constrained by the slowdown in the global economy and, consequently, also in the Polish economy. The inflationary pressure may additionally be eased by globalisation, though its overall impact will probably be weaker than before. The previous increases of the NBP's interest rates and the zloty appreciation observed over the past few quarters will also be conducive to lowering inflation.

Considering the above factors and taking into consideration the results of the June inflation projection, striving to bring inflation down to the inflation target in the medium term, the Council decided to raise the NBP's interest rates.

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 has adopted the June 2008 *Inflation Report*.