

Warsaw, 25 July 2007

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 24-25 July 2007

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

- **reference rate 4.50% on an annual basis;**
- **lombard rate 6.00% on an annual basis;**
- **deposit rate 3.00% on an annual basis;**
- **rediscount rate 4.75% on an annual basis.**

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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, even though economic growth will be most probably slightly lower than in 2007 Q1. The continuation of fast economic growth in Poland will be supported by strong activity in the world economy and, particularly, the consolidating recovery in the euro area in the conditions of stable inflation. In June the annual growth rate of consumer prices in Poland amounted to 2.6%, 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 below its present level.

The Council got acquainted with the projection of inflation and GDP prepared by NBP staff and based on the ECMOD model, which is one of the inputs to the Council's decision-making process on NBP interest rates. According to the July inflation projection, in the horizon of eight quarters, the growth rate of consumer prices will be higher than in the April projection. Under constant interest rates, there is a 50-percent probability that inflation will remain within the range of 2.3-3.3% in 2007 Q4 (compared with 1.3-2.6% in the April projection), 2.1-4.1% in 2008 Q4 (compared with 1.6-3.8%) and 2.1-4.5% in 2009 Q4 (compared with 2.1-4.6%).

According to the July ECMOD-based projection, the annual GDP growth rate will remain with a 50-percent probability within the range of 6.2-6.8% in 2007 (compared with 6.0-7.0% in the April projection), 4.3-6.7% in 2008 (compared with 4.0-6.3%) and 4.0-7.2% in 2009 (compared with 4.0-7.0%).

The Council also got acquainted with other forecasts conducted at the NBP.

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 deterioration in the relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is possible. Nevertheless, the Council assessed that the mid-term inflation growth may be curbed by increase in productivity and a very good financial standing of

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enterprises. Inflation growth 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 process and the ensuing rise in competition in the market of internationally traded goods and services.

In the Council's assessment, in the medium term the probability of inflation running above the inflation target decreased to a certain degree due to the previously implemented monetary policy tightening, though it is still higher than the probability of inflation running below the target. A more comprehensive assessment of the scale of the risk of inflation overshooting the inflation target will only be possible after analysing the data released in the future.

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 and the impact of globalisation processes on the economy.