

Warsaw, 26 March 2008

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 25-26 March 2008

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

- reference rate 5.75% on an annual basis;
- lombard rate 7.25 % on an annual basis;
- deposit rate 4.25% on an annual basis;
- rediscount rate 6.00% on an annual basis.

The Polish economy is still in the period of strong growth encompassing all its sectors. Data on national accounts for 2007 Q4 and macroeconomic data for the first two months of 2008 indicate that strong economic growth has continued, which is consistent with the expectations of the February *Inflation Report*. In the euro area economic growth forecasts have been revised downwards. At the same time, signals of considerable economic slowdown in the United States have intensified. Uncertainty persists as to the future growth of the global economy and its impact on the Polish economy.

In February the annual growth of consumer prices in Poland reached 4.2% (as compared to 4.0% in January after a downward revision), thus 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%. A factor that increased inflation was further rise in prices of services connected with house maintenance and of energy. Increased year-on-year inflation was largely sustained due to the still strong annual growth of food and fuel prices. The Council maintains its assessment that in the near future inflation will remain above the upper limit for deviations from the inflation target, which will be, to a large extent, the result of a considerable rise of regulated prices.

In the Council's assessment the latest macroeconomic data signal that in the first half of 2008 economic growth will most probably continue to exceed the growth of potential GDP. The latest information on labour market developments points to a sustained very high growth of employment and wages and to an unfavourable relation between wage and labour productivity growth. It is quite probable that the wage pressure and, consequently, inflationary pressure will persist. Increased inflation in the months to come will, to a large extent, result from increased growth of regulated prices and may also be a result of the food and fuel price growth observed in the world economy and affecting the Polish market. This creates a risk of inflation expectations staying high and, consequently, feeds the risk of the so-called second-round effects.

In the medium term inflationary pressure may be curbed by still good financial results of enterprises and high investment growth conducive to productivity growth. Inflationary pressure may also be constrained by globalisation and the ensuing increased competition in the market of internationally traded goods and services, amidst the relative stability of zloty exchange rate. Inflationary pressure may also be reduced by a slowdown of the global economy. The previous

NBP

increases of the NBP's interest rates should also be conducive to lowering inflation. Nevertheless, the Council assessed that the impact of those factors may prove insufficient to bring inflation down to the target over the monetary policy transmission horizon.

Considering the above factors, 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 and decided to raise the NBP's interest rates. 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, 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.