

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 25-26 September 2007

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

- **reference rate 4.75% on an annual basis;**
- **lombard rate 6.25% on an annual basis;**
- **deposit rate 3.25% on an annual basis;**
- **rediscount rate 5.00% 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. The continuation of fast economic growth in Poland should be supported by the still strong activity in the world economy. Since August, however, there have been turbulences in the global financial markets. At the moment, though, it is difficult to assess the impact of these turbulences on growth of the American and euro area economies, and, consequently, on the Polish economy.

In August the annual growth of consumer prices in Poland amounted to 1.5%. The decline in inflation observed in 2007 Q3, although deeper than previously expected, is of temporary nature. The Council assesses that in 2007 Q4 inflation will be close to the inflation target of 2.5%.

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 deeper than previously estimated deterioration in the relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is possible. The recently made decisions leading to a decrease in revenues and an increase in expenditures of the public finance sector may lead to a deterioration of the public finance balance, which in the medium run may result in additional inflationary pressure.

The mid-term increase in inflation may be curbed by the continuing very good financial results of enterprises and high investment growth conducive to productivity growth. The increase in inflation may also be constrained by low growth of external prices related to the monetary policy pursued by major central banks as well as globalisation and the ensuing rise in competition in the market of internationally traded goods and services. The inflationary pressure may also be reduced by a possible slowdown of the global economy.

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.

The Council will be closely monitoring the growth and structure of domestic demand, including the degree of the expansionary fiscal policy stance, developments of the current account balance, the relation between wage and labour productivity growth, zloty exchange rate, the impact of globalisation on the economy and developments in international financial markets.

The Council has adopted a resolution on the *Monetary Policy Guidelines for the Year 2008*, and approved the *Forecast of the Balance of Payments of the Republic of Poland for the Year 2008* together with the *International Investment Position of Poland in 2006*.