

Warsaw, 27 February 2008

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 26-27 February 2008

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

- reference rate 5.50% on an annual basis;
- lombard rate 7.00% on an annual basis;
- deposit rate 4.00% on an annual basis;
- rediscount rate 5.75% on an annual basis.

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The Polish economy is still in the period of strong growth encompassing all its sectors. Preliminary data on national accounts indicate that economic growth in 2007 was consistent with the expectations of the October *Inflation Report*. Macroeconomic data released since the last meeting of the Council point at the continuation of strong economic growth in Poland at the beginning of 2008. Uncertainty persists as to the prospects of growth of the global and consequently Polish economy.

According to GUS preliminary data, in January the annual growth of consumer prices in Poland reached 4.3%, 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%. This rise in inflation was largely driven by growing prices of services connected with house maintenance and energy. As in many other countries, increased inflation has been largely sustained by strong annual growth of food and fuel prices. Another factor increasing inflation was the growth in the prices of some services. In the Council's assessment, in the near future inflation will remain above the upper limit for deviations from the inflation target, which may also, to a large extent, be the result of the expected further rise of regulated prices.

The Council got acquainted with the projection of inflation and GDP based on the ECMOD model, 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 February projection is significantly higher than expected in the October projection till mid-2009, while in the second half of 2009 it is close to that forecast in the October projection. Under constant interest rates, there is a 50-percent probability that projected inflation will remain within the range of 3.6-4.7% in 2008 (compared to 2.2-3.5% in the October projection), 2.6-4.9% in 2009 (compared to 2.5-4.6%) and 2.1-4.8% in 2010 (the October projection did not cover the year 2010).

According to the February ECMOD-based projection, the annual GDP growth will remain, with 50-percent probability, within the range of 4.4-5.8% in 2008 (compared to 4.4-6.2% in the October projection), 3.5-6.1% in 2009 (compared to 3.8-6.7%) and 3.6-6.9% in 2010.

# NBP

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 points to persistently high growth in wages and deteriorating relation between wage and labour productivity growth. It is quite probable that the wage pressure and, consequently, inflationary pressure will persist. The period of temporarily increased inflation results from the expected increased growth of regulated prices and the food and fuel price growth observed in the world economy and also 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. Moreover, based on preliminary information on 2007 central budget implementation and the 2008 Budget Act adopted by the Parliament, the budget deficit can be expected to be higher this year than in 2007.

In the medium 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 the relative stability of zloty exchange rate. The inflationary pressure may also be reduced by a slowdown of the global economy. 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 and taking into consideration the results of the February inflation projection, 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, including the degree of the expansionary fiscal policy stance, the relation between wage and labour productivity growth in the enterprise sector and wage growth in the public finance sector, 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 February 2008 *Inflation Report*.