

Warsaw, 27 June 2007

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 26-27 June 2007

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

- **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.**

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 in the next quarters 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, which is taking place in the conditions of stable inflation. In May the annual growth of consumer prices in Poland amounted to 2.3%, and hence it was close to the NBP's inflation target of 2.5% for another consecutive month.

In the Council's assessment in 2007 Q3 inflation may temporarily fall below its present level.

In the Council's assessment, in the next quarters economic growth will most probably continue to exceed the growth of potential GDP. The latest information on labour market developments points to a continuation of high wage growth and a deterioration in the relation between wage and labour productivity growth. A further build-up of wage pressure and, consequently, inflationary pressure is possible. The Council assessed that in the medium term inflation increase may be constrained by a continuation of high productivity growth, very good financial results of enterprises and still low growth of external prices, related to globalisation and the ensuing intensified competition in the market of internationally traded goods and services. However, in the Council's assessment, the impact of those factors would be insufficient to keep inflation at the target level over the monetary policy transmission horizon. Therefore, the Council assessed the probability of inflation running above the inflation target in the medium term to be higher than the probability of inflation running below the target and decided to increase the NBP interest rates.

In the coming months, the Council will be closely monitoring the growth and the 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 on the economy.