

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 26-27 August 2008

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

- **reference rate 6.00% on an annual basis;**
 - **lombard rate 7.50% on an annual basis;**
 - **deposit rate 4.50% on an annual basis;**
 - **rediscount rate 6.25% on an annual basis.**
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The Polish economy is still in the period of growth encompassing most of its sectors. However, data released recently confirm earlier signals suggesting that the economic growth is gradually slowing down. At the same time, information on labour market developments points to a sustained high growth of wages and a continuously unfavourable relation between wage and labour productivity growth.

Both the national accounts data and other information concerning economic activity in the euro area indicate stronger than expected decline in GDP growth in that region. In the United States, despite favourable data for 2008 Q2, subsequent quarters are expected to see a decline in the economic activity. At the same time, many countries continue to record increased inflation. Recently, oil prices in the world markets have decreased markedly, albeit remaining at a relatively high level.

In July the annual growth of consumer prices in Poland rose to 4.8%, 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%. The rise in inflation primarily resulted from increased annual growth of prices of food, energy and some services. The Council maintains its assessment that in the coming months inflation will continue above the upper limit for deviations from the inflation target, which will, to a large extent, be the result of high annual growth of administered prices and food prices.

In the Council's assessment, in the coming quarters the pressure on wage increases will probably persist, though the gradually slowing economic growth, weakening labour demand and deteriorating financial results of enterprises should be easing the wage pressure and, consequently, also the inflationary pressure. Increased inflation in the coming quarters will, to a large extent, result from the growth of administered prices and also from the food and fuel price growth previously observed in the world economy and affecting the Polish market. Future inflation may also be increased by rising prices of some services, which to some extent may result from the growth of energy prices. Persistently increased inflation creates a risk of inflation expectations remaining at an elevated level and, consequently, feeds the risk of second-round effects.

In the medium term, easing of the inflationary pressure may be supported by the considerable slowdown in the global economy and, consequently, also by a decline in economic growth in Poland. The inflationary pressure may still be eased by the import of goods from low-cost

NBP

countries. The previous increases of the NBP's interest rates as well as the zloty appreciation observed in the previous period will also contribute to lowering inflation.

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. Therefore, the Council does not rule out that bringing inflation down to the target in the medium term would require monetary policy tightening. At the same time, due to the persistence of shocks observed in food and commodity markets, bringing inflation down to the target level may take somewhat longer time. In view of the persisting uncertainty as to the scale of a slowdown in the Polish economy, the Council assessed that a more comprehensive assessment of inflation outlook will be possible after analysing the data released in the near future.

The Council is striving to bring inflation down to the inflation target in the medium term. Considering the above, 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 and developments in the current account balance. 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.