

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 27-28 May 2008

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

- **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. Macroeconomic data released since the last meeting of the Council indicate that economic growth has continued at a high level, though it may slow down somewhat in the next quarters. The latest information on the US economy confirms earlier signals of a substantial economic slowdown in this country. Uncertainty also persists as to the scale of the deceleration of euro-area economic growth and of its impact on the Polish economy.

In April the annual growth of consumer prices in Poland decreased to 4.0%, yet 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 heightened inflation results, to a large extent, from factors that are beyond the influence of domestic monetary policy, particularly from strong increases in food and fuel prices in the world markets and from increases of administered prices. The Council maintains its assessment that these factors will contribute to inflation remaining above the upper limit for deviations from the inflation target in the nearest future.

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 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 the growth of administered prices and also from the food and fuel price growth observed in the world economy and affecting the Polish market. This creates a risk of inflation expectations remaining at an elevated level and, consequently, feeds the risk of the so-called second-round effects. Moreover, the rise in prices of energy and food may be gradually passing through to other prices, particularly to prices of some services.

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, as well as the slowdown in the global and, consequently, also in the Polish economy. The previous increases of the NBP's interest rates and the zloty appreciation observed over the past few quarters should also be conducive to lowering inflation.

NBP

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. The Council does not rule out that bringing inflation down to the target in the medium term would require further monetary policy tightening. In view of the persisting uncertainty as to the global growth outlook and the prospects of 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 and after considering the June inflation projection. The Council will strive to bring inflation down to the 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.

The Council approved the *Report on the Operations of the National Bank of Poland in 2007*.

At its meeting on 21 May 2008, the Council adopted the *Report on Monetary Policy Implementation in 2007*.