

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 27-28 November 2007

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

- **reference rate 5.00% on an annual basis;**
- **lombard rate 6.50% on an annual basis;**
- **deposit rate 3.50% on an annual basis;**
- **rediscount rate 5.25% 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 that economic growth in Poland is gradually decelerating, which is consistent with the results of the October projection. Economic growth in Poland should be supported by still strong, even though weakening, activity in the world economy. At the same time, there has been an increase in uncertainty about the scale of the impact of problems in the financial markets on growth of the US and euro-area economies.

In October the annual growth of consumer prices in Poland was slightly higher than expected reaching 3.0%, thus exceeding the NBP's inflation target of 2.5%. In the Council's assessment the months to come will see inflation running above the central path of the October projection.

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 a stronger wage growth and a further deterioration in the relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is quite probable. The risk of inflation increase is also raised by the food price growth observed in the world economy and affecting the Polish market and also by prices of oil being higher than assumed in the projection. Moreover, the Budget Act conveyed to the Parliament points to a procyclical impact of fiscal policy on the economy next year.

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 globalisation and the ensuing increased competition in the market of internationally traded goods and services. The inflationary pressure may also be reduced by a slowdown of the global economy. However, the Council assessed that the impact of those factors may be insufficient to keep inflation at the target level over the monetary policy transmission horizon. Considering the above factors and the risk of second-round effects of an increase in the current 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 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.

NBP

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 on food prices.