

**INFORMATION FROM THE MEETING OF THE MONETARY POLICY  
COUNCIL****held on 28-29 October 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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Data that have been released recently indicate that economic growth in Poland will decrease in the coming quarters. Stronger than previously expected economic slowdown will be driven by a significant decline in economic growth abroad, increased uncertainty as to the economic outlook as well as limited credit availability and its increased costs resulting from higher risk premium incorporated in market interest rates. 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.

Since the Council's meeting in September, turmoil in the financial markets has intensified and the situation in housing markets has continued to worsen, which results in a marked deterioration of the outlook for economic growth in the external environment of the Polish economy. At the same time, inflationary pressure in many countries is expected to ease, which will be driven by decreasing food and commodity prices in the world markets and the anticipated considerable slowdown of economic growth. The weakening of inflationary pressure and inflation expectations along with the intensified turmoil in the financial markets have urged major central banks to decrease their policy interest rates. The turmoil in the global financial markets has led to increased risk aversion, as a result of which exchange rates of many economies, including those of some Central and Eastern European countries, have depreciated considerably.

In September the annual growth of consumer prices in Poland decreased to 4.5%, remaining above the NBP inflation target of 2.5% and also above the upper limit for deviations from the target set at 3.5%. Contributing to inflation persisting at an elevated level was the increased growth of prices of services, including primarily services related to flat maintenance, and of energy prices. The annual growth of food and fuel prices declined, yet remaining at a relatively high level. 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, albeit declining, annual growth of food prices as well as high growth of administered prices, including energy prices.

The Council got acquainted with the projection of inflation and GDP based on the NECMOD model, prepared by the Economic Institute of the NBP, which is one of the inputs into the Council's decision-making on the NBP interest rates. The macroeconomic projection which will be presented in the *Inflation Report* has been prepared based on data released until 26 September

2008. The annual growth of consumer prices forecast in the October projection is in 2009 higher and at the end of 2010 lower than expected in the June projection. Under constant interest rates, there is a 50-percent probability that projected inflation will lie within the range of 4.2–4.4% in 2008 (compared to 3.8–4.7% in the June projection), 3.9–5.7% in 2009 (compared to 2.5–5.8%) and 1.9–4.5% in 2010 (compared to 0.1–5.7%). According to the October projection, the annual GDP growth will remain, with a 50-percent probability, within the range of 5.0–5.3% in 2008 (compared to 4.3–5.5% in the June projection), 1.9–3.7% in 2009 (compared to 3.4–6.2%) and 2.7–4.5% in 2010 (compared to 3.8–6.8%).

Due to considerable deterioration of global economic growth outlook and the ensuing lowering of forecasts for commodity prices and inflation across the world observed after 26 September 2008, the impact of those changes on inflation and GDP outlook throughout the projection horizon was assessed with the use of the NECMOD model. This assessment, based on data released until 16 October 2008, indicates that under constant interest rates, there is a 50-percent probability that projected inflation may lie within the range of 4.2–4.4% in 2008 (compared to 3.8–4.7% in the June projection), 3.1–5.3% in 2009 (compared to 2.5–5.8%) and 1.5–4.3% in 2010 (compared to 0.1–5.7%). In turn, the annual GDP growth may lie, with a 50-percent probability, within the range of 4.9–5.2% in 2008 (compared to 4.3–5.5% in the June projection), 1.7–3.5% in 2009 (compared to 3.4–6.2%) and 2.4–4.3% in 2010 (compared to 3.8–6.8%). This assessment does not take into account data released after 16 October 2008.

In the Council's assessment, in the coming period the pressure on wage increases will probably persist, although the economic growth declining below potential output growth, weakening labour demand and deteriorating financial results of enterprises will be easing the wage pressure and, consequently, also the inflationary pressure. Increased inflation in the coming period will, to a large extent, result from the growth of administered prices. Future inflation may also be increased by rising prices of some services, which may, to some extent, result from the growth of energy prices, and by the recent considerable depreciation of the zloty exchange rate. Persistently increased inflation creates a risk of inflation expectations remaining at an elevated level.

In the medium term, easing of the inflationary pressure will 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 continue to be eased by the import of goods from low-cost countries. The previous increases of the NBP's interest rates as well as the currently observed and expected further tightening of banks' lending conditions will also contribute to lowering inflation.

The Council assessed the probability of inflation running above or below the target in the medium term to be roughly equal. The Council's decisions in the coming months will depend on the incoming information on the outlook for economic growth and inflation in Poland and abroad.

The Council will analyse the impact of developments in the domestic interbank market on the monetary policy transmission mechanism in Poland.

The Council maintains its view that Poland should join the euro area at the earliest possible date, after achieving the necessary political support for amendments in the Constitution of the Republic of Poland and other legal acts necessary for the euro adoption in Poland.

The Council has adopted the *Inflation Report - October 2008*, *Balance of Payments of the Republic of Poland in 2008 Q2*, and *Opinion of the Monetary Policy Council on the Draft Budget Act for the Year 2009*.