

Warsaw, 30 January 2008

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 29-30 January 2008

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

- reference rate 5.25% on an annual basis;
- lombard rate 6.75% on an annual basis;
- deposit rate 3.75% on an annual basis;
- rediscount rate 5.50% 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 in 2007 Q4 was higher than expected in the October projection and close to that observed in 2007 Q3. It may, however, be expected that GDP growth in 2008 will be lower than in 2007. Since the last meeting of the Council the risk of a substantial slowdown in the world economy increased, though it is currently difficult to assess this risk or its impact on economic growth in Poland. An additional factor increasing the uncertainty as to the prospects of the global and consequently Polish economy growth is the increased volatility in the financial markets that has been observed over the recent period.

In December, in line with expectations, the annual growth of consumer prices in Poland reached 4.0% thus 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%. As in many other countries, increased inflation has been largely sustained by strong annual growth in food and fuel prices. In the Council's assessment, in the near future inflation will remain above the upper limit for deviations from the inflation target, which may also, to a large extent, be the result of the expected increased growth of regulated prices.

In the Council's assessment, in the coming quarters economic growth will most probably continue to exceed the growth of potential GDP. The information on labour market developments in December 2007 points to a decline in the strong wage growth and an improvement in unfavourable relation between wage and labour productivity growth. However, a further build-up in wage pressure, particularly in the public finance sector and, consequently, inflationary pressure is quite probable. The risk of continuing high inflation 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 October projection. Moreover, in line with the 2008 Budget Act passed by the Parliament, a procyclical impact of fiscal policy on the economy can be expected this year.

NBP

In the mid-term inflation may be curbed by the continuing very good financial results of enterprises and high investment growth conducive to productivity growth. Inflation may also be constrained by globalisation and the ensuing increased competition in the market of internationally traded goods and services as well as to the relative stability of the zloty exchange rate. The inflationary pressure may also be reduced by a slowdown of the global economy. Nevertheless, the Council assessed that the impact of those factors may prove insufficient to keep inflation at the target over the monetary policy transmission horizon. Considering the above factors and the risk of second-round effects of the increase in 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.

The Council will be closely monitoring the growth and structure of domestic demand, including the degree of the expansionary fiscal policy stance, the relation between wage and labour productivity growth in the enterprise sector and wage growth in the public finance sector, 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 the direct and indirect implications of turbulences in international financial markets for the Polish economy.