

Warsaw, 31 October 2007

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 30-31 October 2007

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

- **reference rate 4.75% on an annual basis;**
- **lombard rate 6.25% on an annual basis;**
- **deposit rate 3.25% on an annual basis;**
- **rediscount rate 5.00% on an annual basis.**

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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 previous assessments that strong, though slightly weaker than previously expected, economic activity should be sustained for at least next few quarters. The continuation of fast economic growth in Poland should be supported by the still strong activity in the world economy. In the period August-September, however, turbulences in the global financial markets occurred. These turbulences resulted in a slight lowering of growth forecasts of the US and euro-area economies.

In September the annual growth of consumer prices in Poland was higher than previously expected reaching 2.3%. Thus, inflation rate was close to the NBP's inflation target of 2.5%.

The Council got acquainted with the NBP staff projection of inflation and GDP based on the ECMOD model; the projection is one of the inputs into the Council's decision-making on NBP interest rates. The forecasted annual growth of consumer prices in the October projection is lower than expected in the July projection till the middle of 2008, while starting from the second half of 2008 onwards it is slightly higher than expected in July. Under constant interest rates, there is a 50-percent probability that inflation will remain within the range of 2.2-2.3% in 2007 (compared to 2.2-2.5% in the July projection), 2.2-3.5% in 2008 (compared to 2.1-3.8%) and 2.5-4.6% in 2009 (compared to 2.1-4.3%).

According to the October ECMOD-based projection, the annual GDP growth will remain, with 50-percent probability, within the range of 6.5-6.6% in 2007 (compared to 6.2-6.8% in the July projection), 4.4-6.2% in 2008 (compared to 4.3-6.7%) and 3.8-6.7% in 2009 (compared to 4.0-7.2%).

The Council also got acquainted with other forecasts conducted at the NBP.

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

# NBP

developments points to a continuation of a high wage growth and further deterioration in the relation between wage and labour productivity growth. A further build-up in wage pressure and, consequently, inflationary pressure is possible. The risk of inflation increase is also raised by food price growth observed in the world economy. Moreover, the recently made decisions leading to a decrease in revenues and an increase in expenditures of the public finance sector may lead to a deterioration of the public finance balance, which in the medium run may result in additional inflationary pressure.

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 possible slowdown of the global economy.

In the Council's assessment, in the medium term the probability of inflation running above the inflation target decreased to a certain degree due to the previously implemented monetary policy tightening, though it is still higher than the probability of inflation running below the target. A more comprehensive assessment of the scale of the risk of inflation overshooting the inflation target will only be possible after analysing the data released in the future.

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.

The Council adopted *Balance of Payments for 2007 Q2, Opinion of the Monetary Policy Council on the Draft of the Budget Act for the Year 2008 and Inflation Report – October 2007*.