

## Inflation and the money market

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Monetary Policy Council warns of rising inflation

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At a meeting on May 27 and 28, the Monetary Policy Council kept the central bank interest rates unchanged, with the reference (intervention) rate at 5.75%. In a communiqué issued after the meeting, the Council warned of rising inflation.

NBP (Monetary Policy Council): The higher inflation rates expected in coming months will be largely due to an increase in regulated prices and the food and fuel price hikes which have been observed in the global economy and have affected the Polish market. This means the risk of high inflationary pressures and consequently the risk of second-round effects. Additionally, growth in energy and food prices may gradually affect other prices, especially prices of some services. In the medium term inflation may be kept in check by the continuing very good financial situation of enterprises and high investment growth conducive to productivity growth. Inflation may also be constrained by globalisation and the ensuing increased competition on the market of internationally traded goods and services, and by a slowdown of the global and Polish economy. Additionally, central bank interest rate increases implemented so far and the appreciation of the zloty in recent quarters should also reduce inflationary pressures. The Council believes that in the medium term the probability of inflation overshooting the inflation target is still higher than the probability of its running below the target. The Council does not rule out the need to further tighten the monetary policy in order to bring inflation down to the target in the medium term. In view of the increased uncertainty about prospects for global economic growth and for the Polish economy, the Council came to the conclusion that a fuller assessment of the inflation outlook would be possible after it has analysed data to be released in the near future and the June inflation projection. The Council will be trying 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 commercial sector, growth in wages in the public sector, the degree of the expansionary fiscal policy stance, the 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 be analysing changes in the external environment and their influence on prospects for economic growth and inflation in Poland. ("Report from the Monetary Policy Council Meeting on May 27-28, 2008"; www.nbp.pl)

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