

Information on the meeting of the Monetary Policy Council on January 22, 2001

At the meeting held on January 22nd, 2001 the Monetary Policy Council discussed the present situation in the area of inflationary processes formation.

1. Inflation

The rise of prices for consumer goods and services in December 2000 amounted to 0.2% as compared to November - as a result the 12-month price index at the end of last year decreased to 8.5% as compared to 9.8% in December 1999. The drop of non-foodstuffs prices by 0.6% mainly contributed to this situation and it mainly resulted from the drop of fuel prices by almost 7%. The services prices rose by 0.3% - a bit more than the general price index. The foodstuff prices in December rose by 1.0% as compared to November.

The industrial production prices decreased by 0.8% in December 2000. As a result, the index of these prices calculated in relation to December of the previous year amounted to 5.7% as compared to 7.2% in November and 7.9% in December 1999. The slight growth in the section of industrial processing mainly contributed to this situation (by 4.8% annually as compared to 7.5% in December 1999).

Such structure of the price growth is an evidence of decreasing dynamics of the domestic demand. The decrease of inflation since August 2000, however, is also the result of temporary factors the evidence of which is the slower pace of base inflation decrease than the decrease of the consumer price index. Since July to December 2000 the annual dynamics of the consumer price index decreased by 3.1 percentage points and the base inflation indices in the same period decreased by 1.2 percentage points to 2 percentage points.

2. Money

In 2000, both the absolute growth of the money supply and the pace of its growth were lower than in 1999. The total money supply in 2000 rose by PLN 30.9 billion, i.e. by 11.7% (2.9% in real terms) as compared to 19.3% (8.7% in real terms) in 1999.

In December last year the annual pace of growth of deposits denominated in PLN placed by individuals was still increasing and it amounted to 24.4% as compared to 22% in November last year. At the end of 1999 it was considerably smaller and amounted to only 13.2%. The dynamics of loan extension was still decreasing. The growth pace of loans extended to individuals dropped to 32% in December from 34.8% in November and 53% in December 1999. At the end of 2000, the growth pace of loans to businesses amounted to 13.4% while in November last year it amounted to 14% and at the end of 1999 21.6%. In three quarters of 2000 as compared to the same period of the previous year the Polish businesses received less by a half of funds coming from foreign loans.

3. Real sector

In December last year the industrial output dropped by 1.4% as compared to November, and by 2.2% as compared to December of the previous year. As a result of considering the smaller number of business days in December 2000 as compared to December 1999, it can be estimated, however, that the industrial output in the comparable number of working hours increased. It should be also noted that there was a very dynamic growth of the industrial output in December 1999 what established a very high basis for its growth pace calculation. These data confirmed the information given earlier by GUS (the Main Office of Statistics) on the economic situation in enterprises that did not indicate material changes of the real sector situation in December. According to the enterprises, the tendency of a gradual reduction of the industrial output growth pace will be maintained (although a considerable increase of the excessive finished products inventory was not noted); the output of the construction sector was still lower than a year before, and it was noted that the retail sales dynamics was not bigger than it would result from the seasonal increase in Christmas time.

The manufacturing enterprises a bit more optimistically than in November last year estimated the future economic situation what is connected with the forecasted improvement of consumer demand and -at a smaller scale -the investment demand, with the seasonal increase of expectations of the foreign demand worsening. However, there was also noted the increase of trade enterprises pessimism as far as the forecasted sales are concerned, what may be the evidence of the smaller than expected scale of sales growth in December and the maintained reduction of consumer demand growth.

Within the whole year 2000, the growth pace of industrial output that amounted to 7.1% was bigger than in the previous year when it reached 4.4%.

December was the next month that confirmed the tendency of the salaries dynamics decrease. Within the whole year 2000, an average gross salary in the sector of enterprises increased in nominal terms by 11.4% as compared to the previous year, what meant the increase by 1.2% in real terms.

4. Fiscal policy

In December last year, there was noted the increase of the budget sector net debt in the banking system, what contributed to the decrease of this sector debt reduction scale in the whole year 2000 from PLN 19.1 billion in November to PLN 13.7 billion in December. The decrease of the budget sector debt in the banking system at the scale of the whole year mainly resulted from financing the loan needs of the budget with funds coming from the outside of the banking system -mainly with revenues from privatization.

In 2000 the fiscal policy was not more restrictive than in 1999. In 2000, the budget situation worsened and the economic deficit of public finance exceeded the originally forecasted 1.7% of GDP and was at the level similar to 1999: 2.7% of GDP. The planned in the government amendment to the draft of the act on the state budget for 2001 use of a considerable part of funds from the sale of the UMTS licenses for financing current expenses, with the correction of some income and expenses and the forecasted decrease of the local government sector deficit by 0.1% of GDP, will result in the increase of the forecasted economic deficit from 1.6% to 1.8% of GDP in the current year. Additionally, the planned transfers from the European Union at the amount of 0.5% of GDP (0.1% of GDP in 2000) should be taken into consideration. They should be also taken into account while evaluating the fiscal policy influence on domestic demand. Therefore, carrying out the budget assumptions means the lack of fiscal policy tightening in 2001. At the same time, the Monetary Policy Council still maintains its doubts concerning the budget draft that were expressed in the opinion of November 22nd, 2000. They were related to the better tax collection, the increase of ZUS income from the sale of debts, assumptions concerning the results of the remaining elements of the public finance sector and the possibility to increase the economic deficit with maintaining the forecasted level of the state budget deficit in case the planned funds are not transferred to the second tier of social insurance at the amount of 1.8% of GDP. In order to carry out the fiscal policy assumptions it is very important that the financial situation of ZUS in 2001 is better than in the previous year.

5. External imbalance and exchange rate

In November 2000, a considerable decrease of current account deficit took place and it was at the level of USD 0.3 billion. During eleven months of 2000 it amounted to USD 9.1 billion, so in nominal terms it was smaller than in the same period of 1999 when it reached USD 9.9 billion. The decrease of the current account deficit mainly resulted from bigger revenues from export of goods and services with the stabilization of growth pace of payments for imports. During eleven months of 2000 the exports growth dynamics was bigger than the dynamics of imports growth. The USD-denominated revenues from exports within the period January -November 2000 increased by 7.0% and the same revenues denominated in the euro rose by 24.7% as compared to the same period of the previous year. The USD-denominated payments for imports in this period rose by 3.2% and the same payments denominated in the euro by 19.7%.

In December 2000 the nominal appreciation of the zloty took place, both in relation to the US dollar (at the end of the month by 7.4%) and to the euro (by 0.7%). In the half of January the zloty appreciated in relation to the American currency by about 1% and it remained practically stable in relation to the euro.

In 2000, the monetary policy target set as the consumer price index within the range between 5.4% and 6.8% was not achieved. The main factors that contributed to the inflation deviation in relation to the target were the external shocks - mainly the increase of fuel prices and the situation on foodstuff market. A serious tightening of monetary policy was necessary the purpose of which was mainly halting inflation expectations and the reduction of secondary effects of price increase due to these shocks. Thanks to this effort it was possible, with the supporting factors, to reach the drop of price increase from 11.6% in July last year to 8.5% in December 2000.

At the end of 2000 a lot of phenomena that positively affected the conditions of reaching the inflation target in 2001 were noted:

1. both the growth pace of consumer goods and services and industrial output prices decreased considerably;
2. the loan dynamics weakens with the essential rise of deposit dynamics; the growth pace of money supply remains relatively low;
3. the reversal of tendencies to weaken macroeconomic bases for the economic development takes place; the improvement tendency in the area of current account deficit and inflation reduction is clearly visible.

Despite these positive phenomena that are mainly connected with a restrictive monetary policy in 2000, the Monetary Policy Council did not notice satisfactory factors to reduce interest rates. Before making such a decision, the Council has to be sure enough that regaining the economic balance and a visible since August 2000 decrease of inflation is a stable process that will ensure strengthening of macroeconomic bases for a long-term development. In this connection, the Council awaits the decisions on the final shape of the state budget for 2001 and the information on:

1. the distribution of the budget deficit and expenses in particular months of 2001 -especially in the first quarter this year,
2. the way of deficit financing, including information on the distribution of planned revenues from privatization,
3. the plans of the Government in the area of completing the domestic supply on the foodstuff market in order to counteract the rise of foodstuff prices.

The Council again emphasizes the basic importance of fast balancing of the public finance and structural reforms that improve the quality and competitiveness of markets -including mainly the labour, foodstuff and fuel markets -for ensuring the effectiveness of the process of inflation decreasing and reducing its short-term costs.

Moreover, structural reforms constitute an important factor of the long-term economic growth.

The Monetary Policy Council decided to maintain its neutral position in monetary policy.

The Monetary Policy Council informs that it will hold two-day meetings in future.

The next meeting will be held on February 27-28, 2001. The release from the meeting will be issued after the second day of the meeting.