

Information on the meeting of the Monetary Policy Council on February 27-28, 2001

On February 27-28th, 2001 the meeting of the Monetary Policy Council was held during which the following decisions were taken:

1. lombard rate was lowered from 23 to 22% (annualized),
2. rediscount rate was lowered from 21.5 to 20.5% (annualized),
3. the National Bank of Poland would perform 28-day open market operations the annualized minimum yield of which is 18%.

The resolutions adopted by the Monetary Policy Council become effective on March 1st, 2001.

The Council maintains its neutral position in the area of monetary policy.

Within the period since the previous meeting of the Monetary Policy Council that was held on January 22nd, 2001, the phenomena and signals have been noted that, according to the Council, make the achievement of the inflation target in 2001 more probable and in a way that enables the achievement of the mid-term target of the monetary policy below 4% in 2003.

The following tendencies, observed for several months, that are positive from the point of view of inflationary processes have been maintained:

1. A further essential decrease of the growth pace of consumer goods and services prices and also industrial output prices has been observed. A low dynamics of the latter creates positive circumstances for the forecasts of consumer goods and services prices. In December, the base inflation indices decreased again. These changes confirm the effectiveness of the monetary policy that is carried out.
2. The external imbalance in 2000 has been decreased considerably; the current account deficit decreased from the level of 7.4% of GDP in 1999 to about 6.2% of GDP.
3. The money supply growth pace remained moderate. The dynamics of loan growth, including loans to individuals, has been still decreasing gradually; at the same time, the deposit growth dynamics remains high, especially deposits denominated in PLN placed by individuals.
4. The current estimates of the domestic demand dynamics suggest that it halts the inflationary processes.

At the same time, new phenomena and signals of future developments indicating the inflation pressure weakening have been observed:

1. Inflation expectations of banks and households have decreased. Counteracting the inflation expectations growth was an essential circumstance of the latest interest rate increase in August last year.
2. The Government decision - consistent with the Council stipulation - on the introduction of the ceiling of duty-free import of 500 thousand tons of grain will contribute to the reduction of foodstuff prices growth pace. However, it is very probable that this quota may appear insufficient to complete the domestic supply. In order to halt the possible price pressure it is necessary to increase this amount.

The scale of the interest rate lowering performed by the Monetary Policy Council considers the necessity of further counteracting the inflation expectations and also the relationship between the dynamics of deposits and loans to individuals and changes of nominal interest rates level. Maintaining strong stimuli to increase savings of households is a necessary factor of restoring tendencies for a balanced growth of the economy.

While making the decision, the Council took into consideration the following phenomena that may take place in the following months this year and may adversely affect the achievement of the inflation target, especially in medium term. According to the Council's opinion, among these phenomena there should be enlisted:

- uncertainty about the future developments in public finance sector,
- uncertainty about getting the planned revenues from privatization that besides the increase of the cost of public debt servicing will decrease financing of the current account deficit through direct investments,
- risk of an accelerated price growth on the foodstuff market caused by the insufficient supply,
- risk of the excessive liquidity increase on money market as a result of the Government actions,
- possibility of a jump increase of expenses connected with the cumulating in a short time of the salary rising in the state budget sector, paying out the additional funds due to the valorization of pensions and disability benefits, compensations and reparations for the forced labor during world war II.

The Council wants to emphasize very strongly a considerable importance of structural reforms (further deregulation and privatization) that would improve the supply side of the economy. The biggest barriers in this area are on the labor, foodstuff and energy carriers markets, that is why the biggest effects should be expected after the firm actions on just these markets.

Such actions in the economic policy, which would trigger the insofar blocked supply potential and increase the pace of the productivity growth, would contribute to the production and employment increase without increasing the inflation pressure.

INFLATION

The increase of consumer goods and services prices in January 2001 amounted to 0.8% as compared to December last year. As a result, the consumer price index calculated at the twelve-month scale lowered in January this year to 7.4% - from the level of 8.5% a month before

In January, there was maintained - since November last year - the tendency to fuel prices dropping. They decreased by 2.9% during a month mainly due to the appreciation of the zloty in relation to the US dollar. After removing this component from the basket of consumer goods and services prices their growth in January would amount to 0.9%, so a bit more than the amount of growth of the general price index. After excluding fuel prices and also foodstuff and soft beverages prices that in January increased by 0.6%, the remaining consumer goods and services prices (so-called net inflation) exceeded the level of total inflation, rising by 1.0% last month. Annually, however, the net inflation index decreased to 7.2% - from 8.2% in December last year.

The confirmation of these conclusions was also the formation of sold industrial output prices that in January dropped by 0.2% as compared to the previous month. It was mainly caused by the drop, by 0.5%, of prices in the industrial processing sector that was mainly connected with the lowering of prices of the production of coke, oil processing products and derivatives. An annual growth pace of the sold industrial output prices in January decreased again - to 4.8% as compared to 5.7% in December. A slow growth pace of the sold industrial output prices creates favorable conditions for further decrease of the consumer goods and services prices dynamics.

MONEY

In January this year, the annual growth pace of the total money supply amounted to 14.5%, i.e. was maintained at a moderately low level that was close to the level noted during last year. There was also maintained the tendency to decrease the lending activity dynamics; an annual growth pace of loans to enterprises dropped to 11.8% as compared to 13.4% in December last year, and the growth pace of loans to individuals decreased to 31.3% as compared to 32% in December last year.

The growth pace of PLN-denominated deposits placed by individuals in January was still high and amounted to 22.7% as compared to 24.1% in December.

REMUNERATIONS

In January, an average gross salary in the enterprise sector (calculated for the period since January last year) increased by 9.9% in nominal terms and by 2.3% in real terms, while during the whole year 2000 these indices amounted to: 11.4% and 1.2%, respectively. Therefore, the growth pace of salaries in nominal terms in January remained relatively low. However, due to the inflation drop, the dynamics of salaries in real terms increased.

OUTPUT, EMPLOYMENT, UNEMPLOYMENT

In January this year, the sold industrial output was bigger by 10.1% than in January last year, what, after considering differences in working hours, means the increase by about 5.1%. The output of the processing industry increased by 11.1% in this period. The construction and assembling output in January dropped by 9.8% as compared to January last year.

The tendencies towards the decrease of employment and increase of the unemployment rate that were observed last year also took place in January this year. An average employment in the enterprise sector in January decreased by 0.3% as compared to December last year and by 2.5% as compared to January last year. The rate of unemployment at the end of January amounted to 15.6% as compared to 15% at the end of December last year and 13.7% at the end of January last year.

In January, the surveyed enterprises evaluated their current economic situation more pessimistically than a month before or at the similar level. However, their forecasts for the nearest months were better than in December. The evaluations made in January are of a strongly seasonal nature. The most pessimistic evaluations of the current economic activity were made by construction enterprises, although they also evaluated their future situation more

optimistically than a month before. Therefore, assuming the forecasts of the surveyed enterprises were right, the survey by GUS suggests the possibility of the economic situation improvement in the nearest months.

EXTERNAL IMBALANCE AND EXCHANGE RATE

In December 2000 the situation in the area of current account of the balance of payments was still favorable. The current account deficit amounted to USD 0.7 billion and was lower by almost USD 1 billion as compared to December 1999. The amount of current account deficit within the whole year 2000 was USD 9.9 billion (as compared to USD 11.6 billion in 1999), what constituted about 6.2% of GDP. Such decrease of the external imbalance in 2000 was affected by the decrease of the trade deficit and the increase of unclassified current transactions surplus - with the stabilization of the remaining items of current account. Since May 2000, the annual growth pace of export revenues started to exceed the growth pace of import expenses, which was relatively stable during the whole year. As compared to 1999, the export revenues denominated in USD increased by 7.3% and denominated in the euro increased by 24.6%. Import expenses denominated in USD increased by 1.7% and denominated in the euro increased by 17.5%.

In January 2001, similarly to December last year, the exchange rate of the Polish currency appreciated in both nominal and real terms. Against the US dollar the mid-month appreciation of the zloty rose by 4.7% as compared to December 2000, and against the euro - by 0.4%.

The next meeting of the Monetary Policy Council will be held on March 27-28th, 2001.