

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

The Monetary Policy Council held its meeting on March 27-28th, 2001. The Council discussed the inflation developments at the background of general economic situation of the country. The Council took the following decisions:

1. lombard rate was lowered from 22% to 21% (annualized),
2. rediscount rate was lowered from 20.5% to 19.5% (annualized),
3. the National Bank of Poland would perform 28-day open market operations the annualized yield of which is not lower than 17%.

At the same time, the Council decided to maintain its neutral position in the area of monetary policy.

The resolutions adopted by the Monetary Policy Council become effective on March 29th, 2001.

JUSTIFICATION

In March, a further improvement was noted in the area of inflation. The observed inflation tendencies were weakened and, at the same time, the factors supporting the further inflation lowering were strengthened. The probability of achieving the inflation target for 2001 increased (6%-8% in December), close to the lower border of its range, and the mid-term target (inflation below 4% in 2003).

The Council observes the following positive tendencies within the area of inflationary processes formation:

I. Inflation indices

1. The increase of consumer goods and services prices in February this year amounted to 0.1%. As a result, the consumer price index (CPI) calculated at the twelve-month scale clearly lowered - to the level of 6.6% from 7.4% in January. The low inflation level in February mainly resulted from the drop of foodstuff and soft beverages prices - by 0.2%, and fuel prices - by 1.0%. The inflation-lowering tendency has been maintained continuously since August last year - the CPI in this period lowered by 5 percentage points.
2. The base inflation indices also dropped - a bit slower, however, what confirms the stability of the lowering tendency of inflation. Their level in February was in the range 6.8-7.3% annualized.
3. The industrial output prices rose by 0.1% in February this year. The twelve-month producer price index (PPI), as a result, lowered to the level of 4.2% in February this year from 4.8% in January 2001. It should be emphasized that both CPI and PPI dropped in February more rapidly than expected.

II. Inflation expectations

1. In March, the decrease of inflation expectations of households was observed again. They forecast the inflation at the end of this year within the range of the inflation target. A probable further drop of inflation should strengthen this tendency.
2. The expectations of banks clearly decreased - the average expectation at the end of 2001 is now below the lower border of the inflation target (6%).
3. The inflation expectations of industry processing entities were clearly lower in February 2001 than in February 2000 and in January 2001.

III. Money supply and loans

There are maintained favorable - for the prices in future - tendencies within the area of monetary phenomena:

1. The growth pace of money supply is maintained at the stable level of 14-15% annualized. At the same time, there is maintained a big growth pace of deposits placed by individuals at banks, at the level of 22-23% annualized. As a result, the share of deposits within the monetary aggregate M2 increases.
2. At the same time, the growth pace of lending decreased. The dynamics of receivables from individuals and businesses lowered in February to 15.5% as compared to 16.1% in January this year and 17.7% in December 2000. This tendency will rather not be subject to material changes in the nearest months due to the observed weakening of the pace of economic activity and domestic demand.

IV. Output, domestic demand, labor market

1. The situation in the real sector indicates the lack of possibilities for the formation of inflation impulses connected with a bigger increase of demand than the output. The domestic demand dynamics in the 4th quarter last year was slower than the dynamics of GDP. The insofar information does not indicate the reverse of this tendency in the first half this year.
2. The increase of unemployment in February was bigger than expected. A high level of unemployment decreases potential inflation pressures connected with the increase of income and expenses of the population. The same direction of influence is observed in case of a very moderate growth pace of salaries in real terms: real salaries in the enterprise sector within the period January-February 2001 increased by 1.7% annualized, i.e. at the pace close to the one registered in the year 2000. With the absolute drop of employment and increase of output it means a further increase of productivity in the enterprise sector.
3. On the basis of the available forecasts, there should not be expected, in the nearest months, the price increase of foreign basic imported raw materials, including oil, and even with the output reduction by OPEC.

At the same time, the Monetary Policy Council still observes threats to the process of inflation reduction:

1. A serious threat is still the situation in the budget sector. The advancement of the state budget deficit within the period January-February 2001 amounted to 58% of the plan for the whole year. It is the evidence for the accumulation of serious difficulties in financing the public sector expenses. The Council observes a real threat of exceeding the level of economic deficit planned for this year (1.8% of GDP). An increase of economic deficit would negatively affect inflation.
2. There is still the risk of the failure to get the forecasted revenues from privatization, what would mean the necessity to increase the lending needs of the public finance sector, pressure for the increase of market interest rates and the increase of the cost of public debt servicing.
3. There are still concerns related to the timing of funds transfers to pension funds (OFE). The delays in this area mean, in fact, the increase of the economic deficit.
4. A source of inflation pressures at the demand side can be the planned paying out of compensations, reparations for the forced labor in III Reich and within the framework of valorization of pensions and disability benefits. However, the risk connected with this threat got decreased due to the extension of the payoffs in a longer period.
5. The agricultural products and foodstuffs market remains a potential source of inflation pressures. A risk of negative phenomena will be lowered due to an effective introduction of a quota for the consumer grain imports.

The Monetary Policy Council strongly states that in the formation of monetary policy in the next months this year it would pay a special attention to the pace of strengthening of positive developments observed so far. Especially, the Council emphasizes a key importance of maintaining the insofar tendencies related to a gradual lowering of inflation, formation of money variables in proportions that ensure the achievement of the mid-term inflation target, and Government actions in order to restore the budget balance and relaxation of inflation pressures on markets subject to administration intervention, including mainly on the agricultural market.

The next meeting of the Monetary Policy Council will be held on April 25-26th, 2001.