

Information on the meeting of the Monetary Policy Council on May 29-30, 2001

The Monetary Policy Council held its meeting on May 29-30th, 2001. The Council was submitted the materials prepared by the Management Board and departments of the NBP and information and analytical materials prepared by GUS (Central Statistical Office), Ministry of Finance, IMF, research institutes and commercial banks. On this basis, before starting the decision-making part of the meeting, the Council discussed inflation processes, money supply, loans and interest rates; external conditions and tendencies in the real sector of the economy, and also the situation in public finance sector.

I. Inflation processes.

1. In April this year, the increase of consumer goods and services prices as compared to the previous month amounted to 0.8% (as compared to 0.5% in March this year and 0.4% in April 2000). The price increase mainly resulted from a considerable increase (by 1.5% as compared to March this year) of foodstuff prices (as compared to 0.5% in March this year and 0.8% in April 2000). As previously, the growth reducing factor of the consumer price index were fuel prices that, according to GUS, did not change as compared to March this year. As a result, the consumer price index (CPI) calculated at the twelve-month scale increased to the level of 6.6% from 6.2% in March this year.
2. In April 2001, the majority of base inflation indices calculated at the twelve-month scale increased as compared to March this year and amounted to 6.6%-7.2%. Only the amount of the index calculated as the so-called cut average did not change (6.8%). The majority of base inflation measures were above the consumer price index, only the base inflation index after excluding the controlled prices was equal to the CPI calculated at the twelve-month scale. In April, the growth of base inflation measures was slower than the growth of the consumer price index.
3. In April 2001, the sold industrial output prices as compared to the previous month rose by 0.2% (as in March this year) and the twelve-month producer price index (PPI) dropped to 3.4% from 3.8% in March this year. A relatively low growth of the twelve-month PPI resulted from a low dynamics of prices in industrial processing section (price increase by 1.5% since end of April last year). The majority of branches included into this section functioned in conditions of market competition. In sections that constitute the industry with the limited market mechanisms, the price growth was considerably bigger. It was mainly related to the section connected with production and supply of electricity, gas and water (a twelve-month price growth by 13.0%).
4. In May this year, the inflation expectations of individuals lowered again (the expected inflation rate on the twelve-month basis in the same month next year amounts to 6% now as compared to 6.5% a month ago). It should be remembered that expectations of individuals are inert by nature what means they are formulated mainly on the basis of the latest available data on inflation.

Inflation expectations of banks slightly increased both for April 2002 and December this year. The twelve-month inflation rate expected by banks for the end of December 2001 is slightly below the lower border of the inflation target for this year.

In the opinion of the Council, the increase of consumer price index in April does not indicate the beginning of a strong growth trend of inflation.

II. Money supply, loans, interest rates.

1. The nominal annual growth pace of money supply (M2) in April this year amounted to 14.0% what means that it is still maintained at the stable level observed since August 2000 (14-15%). The real growth pace of money supply decreased as compared to March this year (to 6.9%), however it is still decidedly bigger than in the second half of 2000.
2. A big growth pace of deposits in PLN placed by individuals is maintained (in April this year they increased by 21.4% annualized as compared to 16.6% in April 2000). Since January this year, however, a slow decrease of the dynamics on the twelve-month basis of PLN-denominated deposits placed by individuals is observed.
3. At the same time, there is a further decrease of lending dynamics. The total loan growth annualized amounted to 12.6% (as compared to 14.6% in March 2001 and 24.4% in April last year). The growth pace of loans to individuals dropped to approximately 25% annualized from 25.7% in March this year and 49.8% in April 2000, and loans to businesses □ to the level of 9.4% (as compared to 11.7% last month and 19.1% in April 2000).
4. In April this year, banks continued changing interest rates that resulted from the Monetary Policy Council's decisions on the NBP's basic interest rate cuts made twice. Since January this year the average interest rates on:
 - PLN-denominated deposits placed by individuals dropped by 2 percentage points (to 12.4% in April),
 - PLN-denominated deposits placed by businesses decreased by 1.2 percentage point (to 12.9%),
 - PLN-denominated loans to individuals decreased by 0.9 percentage point (to 22%),

- PLN-denominated loans to businesses dropped by 1.5 percentage point (to 19.5%).

There are maintained relatively favorable - for the price formation in future - tendencies in the area of monetary developments.

III. External conditions.

1. The latest data indicate the weakening of economic growth outlook in the United States. The GDP growth in the first quarter this year was lower than it was forecasted (increase by 1.3% instead of 2.0% forecasted at the end of April this year). Industrial output in the first quarter this year dropped by 5.6% (on the 12-month basis). According to the forecasts, in the second quarter it will be smaller by 2% than last year. The situation on labor market has also deteriorated (in April the rate of unemployment rose again up to 4.5% as compared to 4.3% in March).

Positive developments include mainly an accelerated turnover in retail businesses sector in April what may mean that despite the biggest since 1973 12-month drop of indices of the American stock exchange this year the consumer spending has not been reduced.

2. The forecasts indicate that the economic growth within the euro zone (and mainly in Germany) will be smaller than it was expected earlier. It is forecasted now that the Gross Domestic Product within the euro zone will rise by 2.2% in 2001 as compared to 2.4% forecasted a month before. It is probable that the demand for imported products in Germany will be reduced what may adversely affect the growth potential of the Polish exports.
3. The analysts' forecasts concerning Russia's economy growth have been deteriorated. Since the third quarter 2000 the growth pace of industrial output has decreased. The GDP growth pace this year is estimated at approximately 3% (as compared to 7.3% in 2000).
4. Since the second half of March 2001 on the world markets there is observed a systematic increase of the dynamics of gasoline prices as compared to petroleum as a result of a considerable increase of the demand for gasoline in the United States. An additional increase of demand for gasoline in the USA (connected with the vacation season) may trigger further increase of the world prices for gasoline. Probably also the demand for petroleum will slightly increase, however, it should not cause a significant increase of its price.
5. Considering the mechanism of setting prices in Polish refineries that is almost entirely based on the price of imported gasoline, in summer months a systematic rise of gasoline prices that is not justified by the changes of petroleum prices should be expected. It may adversely affect inflation, as so far the fuel prices were the main factor reducing the increase of the CPI.

Lately, the outlook for economic growth in the United States and the euro zone has deteriorated what may adversely affect the growth potential of the Polish exports.

As far as the external price formation is concerned, according to the latest forecasts, unlike in the years 1999 and 2000 prices on the world markets rather do not threaten the achievement of the inflation target.

IV. Output, domestic demand, labor market.

1. In April this year, the sold industrial output was bigger by 3.6% than in April 2000.
2. In the first quarter this year, the financial data of enterprises deteriorated as compared to the same period of 2000. Net earnings that amounted to PLN 1.5 billion a year ago, in the first quarter this year amounted to PLN minus 15.8 million.
3. In April this year, the unemployment rate dropped as compared to March by 0.1 percentage point, i.e. to 15.8%, and the number of the unemployed decreased by 20.7 thousand people. One of the reasons for the decrease of the number of the unemployed was the increase of the number of the employed at seasonal jobs (in March 8.8 thousand, in April 12.5 thousand people). Employment at seasonal jobs may still increase in May and June.
4. Less favorable are the data on the employment in enterprise sector. In April this year, an average employment dropped by 0.3% as compared to March, and by 2.7% as compared to April 2000. Within the period January - April this year, the decrease of employment in enterprise sector amounted to 2.4% as compared to the same period last year.
5. A further deterioration was noted in case of the growth pace of salaries. In April this year, the average salaries in enterprise sector as compared to March rose by 1.2% in nominal terms and by 0.4% in real terms, while a year before by 3.8% and 3.4% respectively.

Both the dynamics of production and the structure of demand do not cause inflation threats. Also the situation on labor market reduces the pressure for the rise of salaries what reduces the inflation pressure connected with both the increase of production costs and expenses. However, there is still the possibility of the accelerated

growth of consumer demand as a result of payoffs of different compensations and reparations for the forced labor in III Reich.

The Council indicated many times that in the present demographic situation and with the growing labor market problems it is necessary to take firm actions in the area of both fiscal (lowering the fiscal charges of the labor costs, for example by cutting the income tax for natural persons and different type contributions) and structural policies (labor market reform, liquidation of administrative barriers to undertake and run businesses). The lack of these actions will lead to the increase of unemployment.

V. Situation in public finance sector.

1. In April this year, the deficit increased by PLN 3.4 billion as compared to March this year. After four months the budget deficit amounted to PLN 18.4 billion (89.7% of the plan for the year).
2. In April this year, approximately PLN 0.2 billion was gained from privatization, and since the beginning of this year the revenues from privatization amounted to PLN 1.3 billion, i.e. 7.2% of the forecasted amount for the year.
3. There is a risk that the level of restrictiveness of fiscal policy this year may be lower than projected in the act on the state budget.
4. Any Sejm decisions increasing the state expenses on the certain tasks irrespective of their justification (e.g. increasing a portion of taxes transferred to Healthcare Funds, allocating a significant amount of money for afforesting agricultural land) without indicating their safe financing at the same time threaten with the increase of imbalance in public finance sector in the nearest years.

The Monetary Policy Council indicated many times that a high deficit of public finance impedes running of monetary policy and causes an improper macroeconomic policy scheme (so-called policy mix) that, inter alia, reduces the economic growth pace (investment demand is forced out by the demand of public finance sector).

VI. Decision of the Monetary Policy Council.

1. In the Council's opinion, the increase of the consumer price index in April cannot be interpreted as the beginning of the strong growth trend of inflation.
2. However, the attention should be paid to the increase of the majority of base inflation indices that again were above the consumer price index.
3. The situation in public finance sector indicates the threat of exceeding the projected level of economic deficit.
4. In the opinion of the Monetary Policy Council members, in April this year there did not appear any signs for a more visible improvement of forces affecting future inflation as compared to March this year.
5. In this connection, the Monetary Policy Council decided not to change the monetary policy parameters, it means hold the NBP's interest rates at the current level and maintain its neutral position in the area of monetary policy.
6. The Council wishes to emphasize that it is necessary to strengthen efforts (especially in the area of fiscal and structural policies) in order to form the forces that influence the future inflation in such a way that ensures the achievement of the mid-term inflation target.
7. In the light of the latest information on the producers' attempts to make arrangements in order to increase the prices of their products and on the entities' taking advantage of their dominant position on the market (e.g. the increase by 40% in May this year of the phone subscription fee by Telekomunikacja Polska S.A.), it is necessary to take definitive actions preventing such practices and make the entities that in such a way attempt to increase their profits responsible with all severity.

The next meeting of the Monetary Policy Council will be held on June 26-27th, 2001.