

Information on the meeting of the Monetary Policy Council on December 18-19, 2001

The Monetary Policy Council held its meeting on December 18-19, 2001. The Council was submitted the materials prepared by the Management Board and departments of the NBP and information and analytical materials prepared by the Ministry of Finance, banks and research institutes. On this basis, the Council discussed inflation; tendencies in the area of money supply, lending and interest rates; external conditions and the situation in the balance of payments, real sector of the economy and in public finance sector.

I. Inflation, inflation expectations.

1. The consumer price index on the twelve-month scale lowered from 4.0% a month before to 3.6%. However, 58% of this drop are justified by the factors that may be temporary, i.e. changes of foodstuffs and fuel prices.
2. In November this year, the sold industrial output prices were lower by 0.4% than in October this year (a month before they lowered by 0.6%). The biggest price drop has been noted in the production of coke and the petroleum refining products (by 5.6%). As compared to November 2000, the industrial output prices lowered by 0.8%.
3. In the survey made at the beginning of December this year, the future inflation expectations of individuals worsened. The percentage of the most pessimistic individuals forecasting that the prices will grow faster than currently increased by 6.2 percentage points (to 20.0%). The remaining groups of the surveyed with more optimistic expectations decreased.

The inflation rate expected by bank analysts at the end of the year lowered from 4.2% a month before to 4.0%. The inflation expected in the 11-month horizon lowered by 0.1 percentage point and amounted to 4.7%.

In November this year, the growth pace of consumer goods and services prices decreased on the twelve-month scale. However, it mainly resulted from factors that may be temporary - changes of foodstuffs and fuel prices. The sold industrial output prices were lower than a month before and lower than a year before.

In December this year, the future inflation expectations of individuals worsened. The inflation expectations of bank analysts were subject to further decrease.

II. Money supply, loans, interest rates.

1. The nominal growth pace of total money supply (M2) on the twelve-month scale lowered from 13.1% in October to 11.9% in November this year.
2. In November this year, the total amount of household savings at banks decreased by PLN 1.8 billion as compared to October this year. PLN-denominated deposits placed by businesses increased by PLN 4.1 billion. The dynamics of PLN-denominated deposits placed by individuals on a twelve-month scale lowered from 19.0% in September and 16.8% in October to 13.4% in November this year.
3. In November this year, the annual dynamics of total lending lowered from 8.7% a month before to 8.1%. The drop of the dynamics has been noted in case of both the loans to households (from 16.4% to 15.9%) and to businesses (from 6.4% to 5.9%).

For the first time since 1997 a monthly drop of PLN-denominated deposits of individuals has been noted. First of all, it is a result of the introduction of bank placements income tax. In order to escape from the taxation, individuals transferred their resources to the other forms of saving (bonds and investment funds). As a result of banks' actions to counteract the money outflow from the banking system, the savings placed at banks have been shifted to long-term placements. In November this year, the total amount of funds held by businesses at banks increased.

The demand for loans is still at a low level. In November, the dynamics of total money supply decreased.

III. External conditions.

1. There are maintained the forecasts indicating that the boom in the world economy will probably take place in the second half of 2002. In the 4th quarter this year the GDP drop is possible for both the United States and the euro zone.
2. The forecasts for the petroleum prices on the world markets did not change.

There are maintained the forecasts indicating that the boom in the world economy will take place in the second half of 2002. It means worse outlooks for the Polish exports. At the same time, it is a factor that reduces the inflation pressure. Since the last meeting of the Council, stable are also forecasts for petroleum prices on the world markets.

IV. Balance of payments, exchange rate.

1. Within the period January-October this year, the current account deficit amounted to USD 6.0 billion and was lower by USD 2.7 billion than in the same period last year. Exports were bigger by 10.5% than within the period January- October 2000, while the dynamics of imports amounted to 2.6%.
2. In November this year, the exchange rate of the zloty strengthened against both the euro (the average exchange rate amounted to PLN 3.64 as compared to PLN 3.74 in October this year) and the dollar (PLN 4.09 as compared to PLN 4.13 a month before).

The improvement of the current account balance indicates the strengthening of the external balance of the Polish economy. The observed strengthening of the exchange rate of the zloty mainly results from the inflow of foreign capital invested in Treasury securities.

V. Supply, demand, situation on labor market and income.

1. In the 3rd quarter this year, the Gross Domestic Product was lower by 0.8% than in the 3rd quarter last year. In real terms, the domestic demand was lower by 2% than a year before what was mainly caused by the drop of gross investments in fixed assets by 13.6%. Faster than in the 2nd quarter was the growth of individual consumption (2.1% as compared to 1.6%). The negative net export decreased to PLN 4.8 billion from PLN 7.7 billion in the 2nd quarter and PLN 10.1 billion a year before.
2. In November this year, the sold industrial output was lower by 0.8% than a year before. The construction and assembling production was lower by 9.8% than a year before.
3. The employment in the enterprise sector lowered in November this year by 0.5% as compared to October this year and it was lower by 4.3% than a year before.
4. Within the period January-November this year, average wages in the enterprise sector were bigger by 7.3% in nominal terms and by 1.6% in real terms than within the same period last year.

A low level of economic activity has been maintained. Within latest months, due to the drop of inflation, the growth pace of wages in real terms in the enterprise sector accelerated.

VI. Situation in public finance sector.

The economic deficit of public finance sector in 2001 will be bigger than it was forecasted before and it will amount to approximately 5.2% GDP.

Since the last meeting of the Monetary Policy Council, the evaluation of the situation in public finance sector in 2002 has not been changed: the project of the budget for 2002 raises concern about its impact on a future economic growth and the possibility of the improvement of fiscal and monetary policies scheme.

Some legal solutions contained in the budget-related acts which decide on the final shape of the budget for 2002 constitute a step in the right direction. However, their scale is not sufficient for a permanent solution of public finance sector problems.

The enactment of budget-related acts by the Sejm should be treated as a confirmation of earlier information on the shape of the state budget for 2002.

VII. Decision of the Monetary Policy Council.

1. The Monetary Policy Council wishes to remind that in 2001 it cut the interest rates by 7.5 percentage points in total. The full results of cuts, especially these made in October and November by 3 percentage points in total, have not been revealed yet.
2. At the same time, there are maintained sources of uncertainty:
 - Situation in public finance sector in 2002 and 2003. The enactment of some budget-related acts by the Sejm increases the probability that the budget for 2002 will be consistent with the project of the government. However, this information has already been taken into consideration by the Monetary Policy Council.
 - Savings income tax impact on the tendency to save. The introduction of tax on bank placements income will put the level of deposit interest closer to the level of inflation what may lead to a drop of tendency to save.
 - The scale of necessary structural reforms that will be made.

3. The new data that appeared since the last meeting of the Monetary Policy Council are of different nature. On one hand:

- Consumer price index lowered to 3.6%, however, a considerable part of this drop is justified by factors that may be temporary, i.e. changes of foodstuffs and fuel prices;
- Sold industrial output prices were lower than a month before and lower than a year before;
- The dynamics of money supply and lending decreased;
- The forecasts of economic situation worldwide and petroleum prices did not change;
- A low level of economic activity is maintained.

4. On the other hand:

- Future inflation expectations of individuals worsened;
- For the first time since 1997, a monthly drop of PLN-denominated deposits of individuals took place that mainly resulted from the enactment of the act introducing bank placements income tax; the decline of deposits was not prevented by banks offering long-term placements;
- The economic deficit of public finance sector in 2001 will be bigger than it was expected earlier.

Considering the 3 mentioned above reasons, the Monetary Policy Council decided to maintain the parameters of monetary policy at the actual level, i.e. maintain the basic interest rates of the NBP and the neutral position in monetary policy.

VIII.

According to the *Guidelines of Monetary Policy for 2002*, the Monetary Policy Council made a decision to lower the obligatory reserve ratio from the level of 5% to 4.5%. This decision will not result in the increase of banking sector liquidity as very soon the Management Board of the NBP will make a decision on the liquidation of possibility to hold the obligatory reserve in vault cash by banks. This decision constitutes an element of adjustment to the standards of the European System of Central Banks.

At the same time, the Council adopted the *Financial Plan of the National Bank of Poland for 2002* that provides for the exchange of NBP bonds issued due to the cut of obligatory reserve ratio in 1999 into market interest bonds.

IX.

The next meeting of the Monetary Policy Council will be held on January 29-30, 2002.