Poland Fails To Meet Targets For Inflation

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WARSAW — Although Poland boasts one of Central Europe's most vibrant and fastest-growing economies, its government consistently has failed to meet its inflation targets — and it's unlikely to meet its 13% target this year, economists say.

Year-to-year inflation clocked in at 15.5% in December, higher than the Finance Ministry's forecast of 17%, the Main Statistical Office said Wednesday. The announcement immediately prompted Hanna Gronkiewicz-Waltz, president of the National Bank of Poland, to warn in an interview with newspaper Gazeta Wyborcza that the government's 13% target is "unrealistic."

"Many independent economists agree. I would be surprised if inflation falls to 15%," said Ben Slay, an economist at the Open Media Research Institute in Prague.

Poland's inflation remains stubbornly high, compared with its neighbors; the Czech Republic, for instance, had a 1996 inflation rate of 10.6%, while Slovakia's inflation rate was 5.4%.

Economists cite a number of factors for the high inflation rate. These include a high budget deficit, indexation of wages and prices and rapid expansion of credit to households and corporations.

High inflation is the legacy of Poland's last Communist government, which desperately tried to cling to power by doing whatever it took to boost wages while stripping Soli-
darity workers, even though store shelves were empty.

When Poland embarked on market reforms and freed prices in 1990, this so-called monetary overhang exploded into hyperinflation of close to 800%. Inflation has declined steadily since then.

A second major factor, said economist Stanislaw Gomulka of the London School of Economics, has been Warsaw's effort to build up depleted foreign-exchange reserves to help pay off Poland's huge foreign debt. That prompted Poland to devalue its currency. Expensive, imported, goods drove up domestic prices, and government reserves added to the money supply.

In 1995, reserves grew by an astonishing $8.94 billion to a total $14.96 billion. That rate of growth slowed in 1996 as the trade deficit widened, but reserves still grew by $2.9 billion to $17.86 billion in the first 11 months of the year.

Now, central-bank officials are worrying about another factor: the rapid growth of bank loans to households and corporations. Ms. Gronkiewicz-Waltz said Wednesday that the central bank may have to impose administrative measures, such as an increase in reserve requirements, to slow the growth of lending.