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## **DILEMMAS OF MONETARY POLICY IN THE ASPECT OF POLISH INTEGRATION WITH THE EUROPEAN MONETARY UNION**

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**Summary:** The article tries to present a problem connected with the limitations of the effectiveness led by the monetary policy of the National Bank of Poland. They result above all from: issues concerning unfavourable shaping of chosen aspects of independence of the National Bank of Poland in connection with other European central banks; disturbances of the transmission impulses of the monetary policy to the domestic economic system; loss of sovereignty by the National Bank of Poland after the accession to the European Monetary Union. The presented problems have especially crucial meaning from the point of view of possibilities of interaction by the council of monetary policy on the macroeconomic stabilization in the next years, and also in the context of the future of Poland's membership in the euro zone.

**Key words:** monetary policy, European Monetary Union, European integration, inflation purpose.

### **1. Introduction**

Monetary policy in Poland constitutes a crucial instrument which has an impact on the economic situation in Poland. It causes the creation of the balance monetary market, above all direct and indirect inflation control during the realization of the direct strategy of the inflation purpose by the creation of quantity and the structure of basic monetary aggregates, especially M3 and the impact on the monetary demand, which is reported by economic entities. On the other hand the creation of the situation on services and goods market, labour market and foreign connections market concerns especially the situation of the foreign balance.

The issue of the independence loss by monetary and exchange policy after Polish accession to the European Monetary Union in the future is the crucial problem for the efficiency of functioning of economic system. The listed above problem is the object of the analysis of the article.

## 2. The quantity of monetary theory as the elementary theoretical basis in the membership countries of The Economic and Currency Union

The author of the school was Milton Friedman<sup>1</sup>. The school was created as the opposition to Keynesian and was based on the following presumptions<sup>2</sup>:

- the changes of financial resource are the main, but not only, feature, which can explain changes of the nominal income,
- the neutrality of money in short and medium period (money is neutral when it changes its demand concerning only proportional adjustment of the nominal quantity and does not have an impact on the realistic, economic variables such as production, unemployment or realistic foreign exchange rate),
- there is the lack of conversion between the inflation and unemployment in long term period,
- the economy is stable, but if the mechanism of its functioning was disturbed, there would be too much growth of the money quantity in circulation,
- the economic system comes back to the long term balance very quickly with the natural unemployment rate in case when there are some disturbances,
- there is a negative attitude to the stable macroeconomic policy of Keynesian type,
- the priority in range of the realized policy mix should be for monetary policy,
- the supply policy is more efficient in fight with the inflation than the counteracting the recession,
- the current macroeconomic policy should be directed at the maintenance of necessary liquidity level in economy,
- the floating exchange rates are better solution than fixed ones,
- the inflation and foreign balance are the monetary events,
- the authorities should observe some principle in the range of creation of monetary aggregates in economic policy for stable prices and the renewal of traditional role of fiscal policy in the interaction on the division of income, wealth and resources' allocation.

The monetary theory of the inflation refers to the contentions of the traditional, quantitative monetary policy for the composition equation of the goods' equation at the beginning of XX century by I. Fisher:

$$\mathbf{M} \times \mathbf{V} = \mathbf{P} \times \mathbf{T},$$

**M** – the quantity of money in the circulation (money supply),

**V** – the speed of money in the circulation (the quantity of goods' transactions provided by the entity of money in some period) – the stable quantity'

<sup>1</sup> M. Friedman, *The Quantity Theory of Money, A Restatement*, [in:] *Studies in the Quantity Theory of Money*, ed. M. Friedman, University of Chicago Press, Chicago 1956.

<sup>2</sup> B. Snowdon, H. Vane, P. Wynarczyk, *The Main Stream of the Microeconomics Theory*, PWN, Warszawa 1998, p. 148-181.

**P** – the general level of prices'

**Y** – the realistic national income.

The allegations of neoclassical theory are theoretical fundamentals for the above equation. The especially crucial issue is the thesis that the quantity of money in the circulation decides about the level of goods' prices on the market. The thesis also states that monetary features do not impact on the realistic economic values.

The neoquantity theory presented by Milton Friedman is a direct consequence of the criticism which met the classic thesis of Keynes. He alleged that money influences the realistic economic quantities by the interaction on the percentage rate. Friedman implemented four basic changes of the neoclassical theory.

1. He resigned from the assumption about the fixed speed of the money' circulation. Friedman noticed the connection of the volume with the demand on money (if there is a higher speed of money circulation, we need less money, so we have a smaller demand) and he also noticed that demand in long term period (in consequence **V**) rises only from the payment habits of society. The habits are stable enough, but they are not permanent, so we can say about the speed money circulation in economics.

2. The supply of money does not depend on the situation on the market and is under total control of the central bank. The outlook is highly controversial. The critics think that the demand depends on the behaviour of commercial banks.

3. Friedman reached the conclusion from the basic role of money demand changes on the changes of the nominal, national income ( $P * Y$ ) on the base of two previous assumptions and Fischer equation.

4. He modified a traditional assumption stating that money does not impact on the realistic quantities, acknowledging that it happened in long term period only. At the same time in short term changes of money demand influence the changes of realistic nominal income.

From these assumptions it is very difficult to come to some conclusions concerning a crucial role of central bank in the process of the prices' change on the market. The neoquantitative theory of inflation explains the existence of inflation by wrong policy of central bank.

The monetarists call for the announcement and maintenance by central bank the fixed rate of growth of money supply measured by chosen monetary aggregate as the indirect purpose of the policy agreed with the long term rate of the economic growth. The speed of the supply's growth should be fixed to the creation of the money demand.

The approach bases on the following arguments<sup>3</sup>:

- in case of the making the money demand by the monetary authorities wider according to the fixed speed of the growth, the economy will be presenting the

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<sup>3</sup> B. Snowdon, H. Vane, P. Wyncarczyk, *The Contemporary Stream of the Macroeconomics Theory*, PWN, Warszawa 1998, p. 173.

- tendency to the stabilization on the level of the natural unemployment rate with the occurrence of less or more fixed rate of inflation,
- the acceptance of the increasing money supply rule eliminates the most important source of macroeconomic instability, which is the irregular growth of money quantity in economic circulation,
  - the accepted money policy can happen to be the crucial factor of the destabilization of shaping economic situation because of long and changeable periodical delays in its influence,
  - not knowing the exact level of natural unemployment rate the government should not set a target of a given unemployment rate because in many cases it can cause the speed of the inflation rate.

### **3. Determination and the way of realization of inflation purpose by the Monetary Policy Council (MPC) and the European Central Bank (ECB)**

In accordance with the article 277 passage 1 of the Polish Constitution “The National Bank of Poland is responsible for the value of the Polish currency”<sup>4</sup>. The act about The National Bank of Poland dated on 29<sup>th</sup> August 1997 states(in article 3), that “the fundamental purpose of the NBP activity is the maintenance of stable price level with the simultaneous support of the economic policy of the government if it does not limit the basic purpose of the NBP”<sup>5</sup>. The stability of prices means such a low inflation rate, that it does not produce the negative impact on shaping the macroeconomic factors, especially investments and earnings, what would negatively influence the dynamic the economic growth. Regarding that The Monetary Policy Council (MPC) and The European Central Bank (ECB) use the direct inflation targeting in practice<sup>6</sup> based on the pointed continuous purpose, which base constitutes the inflation rate calculated month by month on Consumer Price Index (CPI). Moreover, The Monetary Policy Council (MPC) and The European Central Bank (ECB) by leading the monetary policy use alternative measurements of inflation such as quarterly and average annual rates. The quarterly rate allows to estimate probable deviations from the inflation target with the higher frequency and because of that it is very helpful in preparing inflation projects.

On the other hand using the average annual rate of price changes allows to eliminate short term, accidental deviations form the inflation target. The accepted solution means, that monetary policy is determinated on the achieving the inflation

<sup>4</sup> [www.sejm.gov.pl/prawo/konst/polski/kon.1.htm](http://www.sejm.gov.pl/prawo/konst/polski/kon.1.htm), 19.04.2008.

<sup>5</sup> [www.nbp.pl/aktyprawne/dwn/ustawa\\_nbp.pdf](http://www.nbp.pl/aktyprawne/dwn/ustawa_nbp.pdf), 19.04.2008.

<sup>6</sup> J. Drop, A. Wojtyna, *Direct Inflation Targeting: The Theoretical Reasons and Experiences Chosen Countries*, NBP, Warszawa 2001; A. Wojtyna, *The Drafts of the Monetary Policy*, PWE, Warszawa 2004; T. Kozak-Lisiecka, *The advantages of the inflation purposes description*, “The National Economy” 1999, No. 7-8.

target on the level of 2.5% and not only on its maintenance in the range of the determined strip (+/-1% from the purpose). It allows for the better “anchoring” of the inflation expectations.

Additional problems which are connected with the realization of the direct strategy of the inflation target are first of all:

- the proper reaction of the monetary policy for the unexpected shocks coming from the demand and supply side,
- the delay of the price and production reactions for the changes in the policy and resulting from them high level of uncertainty in the range of its results,
- shaping of foreign exchange rate and the willingness of Poland to access the euro zone.

The European Central Bank accepts only one target of the monetary policy, which is the price’ stability. It is contradictory with the Maastricht Treaty stating that the European Central Bank should respect also other targets on condition that they do not influence on that stability.

P. De Grauwe notices agreeing with other scientists that: “The realization of the basic target which is the maintenance of inflation on the proper level, does not disturb in achieving other targets in the same time. Especially trying to achieve the level of proper inflation can at the same time make possible to achieve a proper level of production, if the reasons of shocks come from the demand side”.

The European Central Bank states that the basic source of money is aggregate M3, which shaping is for it the main factor of leading the monetary policy. It is connected with the realization of the strategy based on the money sources. It bases on setting basic factors such as inflation and production and indirect targets which are easier for the realization and condition achieving of the fundamental targets. The Managing Committee of the European Central Bank defines the stability of prices (consisting the base of the strategy definition) as: “the growth of harmonized consumer price index<sup>7</sup> on the euro area in year proportion below 2%<sup>8</sup>. In the practice it means that, the inflation rate in European Monetary Union countries should be in the range 0-2%. Otherwise the European Central Bank uses mechanisms restoring it to that range.

Practically realizing the discussed strategy the European Central Bank bases on the following formula coming from the quantity theory of money:

$$\Delta m = \Delta P + \Delta y - \Delta v,$$

where  $\Delta$  means annual changes. It is an equation describing the rate of the quantity growth of money ( $\Delta m$ ), which is fixed, with the defined level of gross domestic product ( $\Delta y$ ), concerning the inflation target ( $\Delta P$ ) and some speed of changes of money circulation( $\Delta v$ ).

<sup>7</sup> It is the index which is built on the base of some Euroland countries index.

<sup>8</sup> ECB, “Monthly Report” January 1999, p. 46.

In practice the realization of the formula bases on the preparation by the European Central Bank a forecast of the future trend of realistic growth of the gross domestic product and a forecast of the changes of speed of money circulation (these data are published in monthly reports of the European Central Bank). On that base the speed of the growth of money quantity in circulation is set which will ensure that the intended inflation target will be achieved.

The second pillar of the strategy concerning the European Central Bank monetary policy is relatively inexact and bases on using a lot of factors which have an impact on shaping the inflation rate (e.g. salaries, exchange rates, prices of bonds, the rate of profitability, measurements of realistic activity, measurements of the fiscal policy, prices, costs and satisfaction of consumers, and also measurements of conditions of economic situation).

The strategy realized by the European Central Bank shows a lot of defects, which include<sup>9</sup>:

- the inefficiency of monetary policy in case of appearing in the economies of membership states of euro zone asymmetrical shocks which source is near the supply side of economies (differently from supply shocks when monetary policy can stabilize both production and prices);
- the determination of too low inflation target. There exists a lot of theoretical arguments supporting a thesis that the optimal level of the inflation level oscillates between 2.5% and 3.5% in the annual scale. There should be included to them two crucial arguments:
  - nominal salaries rigidity “down” makes that with zero inflation rate it is not possible to level off negative results of shocks (especially microeconomic) by fitting the real salaries,
  - conventional measurements of inflation do not take into account the impact of quality improvement of products on their price, what makes the actual inflation rate in economy lower;
- excessive trust in control of money sources. As present empirical research show the policy based on the control of sources does not produce intentional results above all from the following reasons:
  - the problem with choosing a proper monetary aggregate which is under control,
  - difficulties connected with the proper estimation of the monetary circulation speed, resulting from the dynamic development of innovations on financial markets.

In connection with the intensifying criticism of the European Central Bank strategy in leading the monetary policy, more and more moving to the direct inflation target strategy is called for. This strategy not only determines the stability of inflation rate on the defined level (lane of alternations) as the basic target of that policy, but it uses the forecasts of inflation in the character of indirect targets. It is also typical to make forecasts public. In this way defining the inflation target replaces the description

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<sup>9</sup> P. De Grauwe, *Unia walutowa*, PWE, Warszawa 2000, p. 206-210.

of money quantity in circulation. In both strategies the basic purpose is to achieve the determined inflation level, although we have a choice of different indirect purposes. In the concept based on quantitative monetary theory the indirect purpose is to maintain a proper level of monetary sources, whereas in the strategy of direct inflation the indirect purpose is a correct projection of inflation. As to the majority of economists the last strategy is better because it uses information concerning all variables (including also money sources), which may have an impact on shaping future inflation rate. On the other hand quantitative concept resigns from a lot of essential inflation determinants.

#### **4. Independence, credibility, clarity and democratic responsibility of central banks in EMU countries – basic aspects**

The aspects of independence have been officially defined by the European Monetary Institute during the creation of European System of Central Banks, which worked out the list of the independence elements of the central bank dividing the independence on five kinds<sup>10</sup>:

- 1) institutional,
- 2) personal,
- 3) functional,
- 4) financial,
- 5) so called the independence of purpose.

By institutional independence (1) there should be understood total autonomy of the central bank and its organs from third parties. It means legal prohibition of wielding influence on the decisions of the central bank by other organs. The central bank should cooperate with the government as an independent institution. Other important sign of the institutional independence of the central bank is investing it with legal entity.

Personal independence (2) shows itself first of all in a way of designing the members of central bank's executive organs, the length of their tenure and the guarantee that they will not be called back because of other reasons than chosen in the legal regulations. These elements of independence should make full supervision of the central bank's tasks without outside interference possible. Other elements of personal independence are the following: remuneration of members of executive organs and impossibility of working out of other professions and performing private or public functions.

The functional (operative) independence (3) refers to the independent making decisions in the range of instruments being for the disposal of the central bank and achieving its purposes by independent shaping and realization of monetary policy.

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<sup>10</sup> M. Kowalik, *The quality aspects of modern central bank policy*, "Bank and Credit" 2006, No. 3, p. 6-11.

The definition of financial independence (4) means the ability of national central banks for the independent raising of assets, which are necessary for correct fulfilling tasks. Otherwise there could be would be institutional, personal and functional threat of independence of central banks.

In theory it is distinguished the independence of purpose (5), crucial from the point of view the concept of democratic credibility, understood as freedom of the central bank to constitute the final purpose of monetary policy. The solution gives an opportunity to decide both about the choice of final purpose, the hierarchy of purposes and the way of their formation and the time of their realization. In practice the independence of purpose can have the form of different institutional solutions. However, these solutions are criticized during the discussion on the institutional bases of central bank policy.

The most important arguments in the debate come down to the statement that the independence of central bank:

- *ceteris paribus* leads to lower inflation (among others by the limitation of the problem of dynamic inconherence and inflation distortion),
- increases the credibility of monetary policy (among others by enabling central bank to concentrate on one purpose),
- limits variability of the inflation level (and increases the effectiveness of anti-inflation policy of central bank), it promotes the economics growth (among others limiting of the exchangeability: inflation – the economics growth, in long term). The arguments against the independence concern the problem of the excessive independence of the central bank, leading to among others the democracy deficit. The problem concerns above all the independence of purpose. The majority of the arguments refer to the maintenance of the possibility of setting of monetary policy target by the authorities chosen by society without negating the need of institutional solutions ensuring operational, personal, institutional and financial independence. In that context the attention is very often paid to the necessity of the increasing the coordination rate of the monetary policy with the fiscal policy. The evolution pattern of independence and responsibility of central banks in chosen countries are shown in table 1.

## 5. Disturbances of the transmission mechanism

There are four basic mechanisms of monetary policy impulses transmissions:

- traditional,
- exchange rate,
- credit,
- stock exchange and material.

It should be noticed that in practice it is very difficult to define borders among them.

**Table 1.** The evolution pattern of the independence and responsibility of central banks in chosen countries

Lp.	Country	Independence				Responsibility			
		Personal	Political	Economics and financial	Total	Final purposes	Clarity	Final	Total
1	ARG	1.25	1.83	1.00	4.08	1	1	2	4
2	AUS	0.50	2.16	0.00	2.66	1	1	5	7
3	AUST	1.66	2.16	1.00	4.82	2	2	1	5
4	BEL	1.75	1.50	0.00	3.25	0	0	4	4
5	CAN	0.50	1.83	0.00	2.33	1	2	4	7
6	CHI	2.00	1.83	1.00	4.83	1	1	3	5
7	CZE	2.75	2.16	1.00	5.91	3	1	2	6
8	DEN	2.16	1.83	0.00	3.99	1	1	2	4
9	EBC	2.50	2.66	1.00	6.16	3	1	1	5
10	ENG	1.00	2.66	0.00	3.66	4	3	4	11
11	FIN	2.50	2.66	1.00	6.16	2	1	2	5
12	FRA	1.50	2.16	1.00	4.66	3	1	2	6
13	GER	1.25	1.83	1.00	4.08	2	0	1	3
14	GRE	1.58	2.16	1.00	4.74	2	1	2	5
15	HUN	1.58	1.83	0.00	3.41	1	1	2	4
16	ISL	1.75	2.33	0.00	4.08	1	1	4	6
17	IRL	1.00	2.16	1.00	4.16	2	1	2	5
18	ITA	2.16	2.16	1.00	5.32	0	1	1	2
19	JAP	1.00	1.83	0.00	2.83	1	2	3	6
20	KOR	0.75	2.16	0.00	2.91	3	2	4	9
21	LUX	1.25	2.16	1.00	4.41	2	0	2	4
22	MEX	1.83	1.33	0.00	3.16	1	1	2	4
23	NED	1.75	2.16	0.00	3.91	2	1	2	5
24	NZE	1.83	2.16	1.00	4.99	4	2	4	10
25	NOR	1.58	1.83	0.00	3.41	1	1	5	7
26	<b>POL</b>	<b>1.25</b>	<b>2.16</b>	<b>0.00</b>	<b>3.41</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>8</b>
27	POR	0.50	2.16	1.00	3.66	2	1	2	5
28	SPA	0.75	2.16	1.00	3.91	2	2	2	6
29	SWE	2.75	2.16	1.00	5.91	2	1	1	4
30	SWI	2.08	2.33	1.00	5.41	1	1	2	4
31	TUR	1.66	1.83	0.00	3.49	2	1	3	6
32	USA	2.00	1.83	0.00	3.83	1	3	2	6

ARG – Argentina, AUS – Australia, AUST – Austria, BEL – Belgium, CAN – Canada, CHI – Chile, CZE – Czech Republic, DEN – Denmark, EBC – The European Central Bank, ENG – England, FIN – Finland, FRA – France, GER – Germany, GRE – Greece, HUN – Hungary, ISL – Island, IRL – Ireland, ITA – Italy, JAP – Japan, KOR – South Korea, LUX – Luxemburg, MEX – Mexico, NED – Netherlands, NZE – New Zealand, NOR – Norway, POL – Poland, POR – Portugal, SPA – Spain, SWE – Sweden, SWI – Switzerland, TUR – Turkey, USA – The United States of America.

Source: [www.eiop.or.at/eiop/texte/2001-2009t.html](http://www.eiop.or.at/eiop/texte/2001-2009t.html).

The traditional mechanism is the transmission mechanism of interest rates based on the impact of their changes on the quantity of the global demand (consumption and investment) and production. It should be noticed that it concerns in particular the real interest rates interaction (it means nominal interest rates decreased by the expected inflation rate) in long term. The short term changes of central bank's interest rates have influence on the rate of return from bonds (short and long term). The expansive monetary policy decreases both nominal and real interest rates because of the sticky prices (low flexibility) in short time, what makes an impact on the growth of all kinds of investment expenditure of the investment enterprises and consumer expenditure of households. Then it motivates the growth of global and production demand. It could be mentioned that long term interest rates constitute the average of the expected short term interest rates<sup>11</sup>. The exchange rate mechanism constitutes the fastest interaction channel. Its interaction may be separated into two stages<sup>12</sup>:

- the first one – is seen through the impacts of the interest rate changes on the exchange rate level. The higher interest rates make the increase of the attractiveness of domestic bonds, what makes an intensive influx of foreign capital to the economy and the appreciation of the domestic currency, what worsens the balance on the current turnovers on the account of current foreign balance. The opposite situation has place in case of the decrease of interest rates. It concerns also the real interest rates, but the process of “the realignment” is based on their defining based on the expected exchange rates changes. They are connected with the basic problems:
  - first in practice the connection between exchange rate and interest rates is disturbed by many economic processes (financial flows between a country and abroad, expectations etc.),
  - second the growth of the domestic interest rates by one percentage point does not need to mean higher profit for foreign investors when during the realization of the investment project we will have to deal with depreciation tendency of the domestic currency.

The occurrence of these disturbances makes the significant increase of the scale's unpredictability rate and sometimes even the influence directions of the monetary policy impulses.

On the other hand the second stage of interaction of the exchange rate is connected with its influence on the inflation rate, which may have direct or indirect impact, thanks to support net export.

The direct connection is based on the impact of the appreciation or depreciation of domestic currency on imported goods. For example, the appreciation of domestic

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<sup>11</sup> E. Kwella, *The transmission mechanisms of the monetary policy, it means the channels of the monetary policy interaction on gross domestic product*, The lecture published on the website:wision.tcz.pl/ug/nowe/3.doc, p. 1.

<sup>12</sup> www.akson.sgh.waw.pl, p. 14-16.

currency influences the lower prices transported goods converted into Polish zlotys. The goods come into “the basket”, based on which the value of consumer price index of goods and services is established. In connection with it there is an inflation decrease in the domestic economy. However, the result connected with non-consuming foreign goods’ prices which makes venture capital of a production process has an effect in the form of a longer delay. Some time has to pass before the exchange rate translates into the prices of final goods.

The impact of the exchange rate on the inflation rate exerted through net export is much more complicated and spread in time. The interaction mechanism of this result is similar to the one described above, but additionally we have to take into consideration the impact of the model of Polish zloty appreciation on the increase of prices of Polish goods which are exported abroad. Because of that the domestic currency more influences the worsening of the balance of trade.

The reasons of the occurrence of credit mechanism of transmission can be divided in two kinds:

- the decrease of the credits’ accessibility by commercial banks because of tightening the monetary policy by central bank, resulting from fear before the increase of share of so called bad credits in credit portfolio,
- the decrease of credit supply resulting from the limited opportunities of achieving relatively cheap financial assets for the continuation of credit action (the restriction monetary policy leads to the decrease of the deposit base, especially small banks, which have lower credit credibility than big banks. Moreover small banks do not have proper quantity liquid financial assets, which could be sold for the maintenance of the credit action)<sup>13</sup>.

It is possible to explain the above reasons first of all based on the analysis of event impact, so called the asymmetry of information on credit markets. The problems connected with asymmetric flow of information on the credit markets lead to the arising of four additional kinds of monetary transmission, influencing money loans or enterprise and households balance:

- mediation to grant credits is in case of imperfect substituting of bank deposits with other sources of funds raising and concerns small business, which financial activity is mainly based on credits. They do not have access to other financial sources of the activity such as shares or bonds. In such a situation the expansive monetary policy leads to the decrease of the interest rates and the increase of the investment expenditure. Therefore, it is possible to come to some conclusion that the monetary policy is an effective mechanism to motivate business situation by influencing the sector of small and alternatively medium enterprises which share is dominant in the majority of the European Union economies.

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<sup>13</sup> E. Kwella, *op. cit.*, p. 1-2.

## 6. The loss of the sovereignty – the problem of asymmetric shocks

The reaction of monetary policy on unexpected shocks depends on their strength, character and the level of inactivity of inflation expectations<sup>14</sup>. The reaction for the demand shocks constitutes a smaller problem because in such a situation inflation and production change in the same direction. The raise of interest rates with inactive character of inflation expectations makes the economic activity and, in the next place, inflation pressure weaker. The difficulties result mainly from that in that situation production and inflation change in opposite directions how it was during strong oil shocks in the 70s. They triggered high inflation and simultaneously production decrease in many countries. The improper reaction of monetary policy may have far reaching unfavorable results for the economy. The trial of monetary policy to totally neutralize the impact of supply shock on inflation may unnecessarily lead to a substantial decrease of production, because the demand shock itself unfavorably influences demand and investments. On the other hand the trial of full depreciation of demand shocks triggering the growth of prices and the decrease of production –by leading to too lenient monetary policy – preserves higher inflation and requires to take much more restrictive monetary policy in the next periods which slows down the economic growth pace in a relatively strong way.

The crucial part of supply shocks has a temporary character and a small scale and due to this it is not necessary to react immediately to them . With bigger shocks even temporary acceleration of prices growth may trigger relatively constant growth of inflation expectations and consequently inflation growth because of pay demands. Therefore the task of monetary policy in such a situation is the prevention of the appearance the secondary results of supply shocks (so called the results of second round). The risk of having this kind of effects is substantial in countries which have short history of low inflation. The base inflation measure, which at least partially lets differentiate temporary results from permanent changes of inflation pressure, becomes very useful when analyzing supply shocks.

- The effective impact of that policy on the balance creation of listed markets in the dynamic shot is limited by few features, especially: disturbance in the transmission mechanism of that policy impulses for the realistic zone of the economy,
- perturbations connected with the direct and indirect impact of the policy on the balance of monetary market and also inflation rate,
- political and economic emphasis on the Council of Monetary Policy/National Bank of Poland,
- limited level of sensitivity of finance sector on changes in the range of monetary policy,

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<sup>14</sup> The presumptions of the National Bank of Poland monetary policy for 2005 year, [www.nbp.pl](http://www.nbp.pl), 17 April 2008.

- increasing level of connection of Polish economy with the international financial markets
- level of independence and credibility of NBP.

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## DYLEMATY POLITYKI PIENIĘŻNEJ W ASPEKCIE INTEGRACJI POLSKI Z EUROPEJSKĄ UNIĄ WALUTOWĄ

**Streszczenie:** W artykule została podjęta próba prezentacji problemów związanych z ograniczeniami skuteczności polityki monetarnej prowadzonej przez Narodowy Bank Polski. Wynikają one przede wszystkim z kwestii związanych z praktyczną realizacją strategii bezpośredniego celu inflacyjnego przez Radę Polityki Pieniężnej; zagadnień związanych z niekorzystnym kształtowaniem się wybranych aspektów niezależności Narodowego Banku Polskiego w porównaniu z innymi europejskimi bankami centralnymi; zakłóceń w transmisji impulsów polityki pieniężnej do narodowych systemów gospodarczych; utratą suwerenności przez Naro-

dowy Bank Polski w momencie wejścia Polski do europejskiego systemu walutowego. Rozważania zostały oparte na konkluzjach zaczerpniętych z ilościowej teorii pieniądza M. Friedmana oraz na dostępnych analizach dotyczących praktycznych aspektów funkcjonowania pieniężnej polityki w europejskiej unii walutowej. Zaprezentowane problemy mają szczególne znaczenie w związku z możliwościami wzajemnego oddziaływania w następnych latach przez Radę Polityki Pieniężnej w Polsce na stabilizację makroekonomiczną i w związku z przewidywanym członkostwem Polski w europejskiej unii monetarnej, co będzie równoznaczne z utratą autonomii w zakresie polityki monetarnej i kursowej przez polskie władze monetarne na rzecz Europejskiego Banku Centralnego.