

**National Bank of Poland**

**Monetary Policy Council**

**Monetary Policy Guidelines  
for 2010**

**Warsaw, September 2009**



## 1. Monetary policy strategy

According to the Article 227 section 1 of the Constitution of the Republic of Poland “the National Bank of Poland shall be responsible for the value of Polish currency”. The Act on the National Bank of Poland of 29 August 1997 states in Art. 3 section 1 that “the basic objective of NBP activity shall be to maintain price stability, and it shall, at the same time, act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP”.

Nowadays central banks understand price stability in terms of inflation as low as not to negatively affect investment, savings and other important decisions taken by economic agents. Ensuring thus understood price stability is a fundamental way in which the central bank contributes, by means of its decisions, to high and sustainable economic growth. Central banks view price stability symmetrically, which means that they respond both to inflationary and deflationary threats.

The Monetary Policy Council, hereinafter “the MPC” or “the Council”, bases its monetary policy on inflation targeting (IT). Having brought inflation down to a low level, in 2004 the MPC adopted a permanent inflation target of 2.5% with a symmetrical tolerance band for deviations of  $\pm 1$  percentage point. The MPC pursues IT under a floating exchange rate regime. However, the floating exchange rate regime does not rule out foreign exchange interventions should they turn out necessary to ensure domestic macroeconomic and financial stability, which is conducive to meeting the inflation target in the medium term.

The experience of the National Bank of Poland, hereinafter “the NBP”, and other central banks shows that IT is an effective strategy to ensure price stability. Due to the global financial crisis and recession in the world economy since 2008, at present monetary policy is more than ever affected by factors related to financial system stability, crucial to ensure price stability in the longer term. IT enables monetary policy makers to take into account issues related to financial system stability. Therefore, while maintaining the core of its hitherto understanding of the inflation target and the way of its implementation, the Council supplements it in some respects:

- First, the notion of *permanent* inflation target means that it refers to inflation measured as a year-on-year change in prices of consumer goods and services in each month compared to the corresponding period of the preceding year. For a better understanding of inflation

processes the use of quarterly and annual inflation indices is justified, such as those applied in the NBP's inflation projection, in the state budget and in the statistics of the European Union, hereinafter "the EU". An important role in the assessment of inflationary pressure is also played by core inflation indices.

- Second, the adopted solution means that monetary policy is unequivocally focused on maintaining inflation as close as possible to the target of 2.5% and not only within the tolerance band. This anchors inflation expectations and thus facilitates the pursuit of monetary policy, which in the case of shocks requires smaller and less frequent interest rate changes. Firm anchoring of inflation expectations also fosters lower volatility of long-term interest rates in the face of shocks affecting current inflation.

- Third, the occurrence of shocks in the economy is inevitable. Depending on the strength of the shock and the degree of inertia of inflation expectations, the scale and the duration of inflation deviation from the adopted target may differ. The central bank normally does not respond to deviations from the inflation target which it deems temporary and which lie within the tolerance band. In countries with a permanently low inflation, the central bank does not have to respond even when inflation leaves the tolerance band temporarily. In the case of shocks viewed as leading to a permanent deviation from the inflation target, the central bank adjusts its monetary policy accordingly.

- Fourth, monetary policy reaction to shocks also depends on their causes and nature. The reaction to demand shocks is a relatively minor issue, since in this case inflation and output move in the same direction. An interest rate increase weakens economic activity and, consequently, inflationary pressure. Supply shocks pose a more complex problem for monetary policy, as in this case output and inflation move in opposite directions. Inappropriate monetary policy response to such a shock may have far-reaching negative consequences for the economy. An attempt to fully neutralise the impact of a supply shock on inflation using monetary policy instruments may lead to an unnecessary plunge in output, as the supply shock itself already has a negative effect on consumption and investment. On the other hand, an attempt to fully accommodate – by pursuing an expansive monetary policy – the real effects of a supply shock resulting in an increase in inflation and a decrease in output usually leads to persistently higher inflation. This, in turn, requires a far more restrictive monetary policy in subsequent periods, bringing about a stronger deceleration in economic growth. Reaction of the central bank should depend on the assessment of the durability of the shock's effects.

- Fifth, most supply shocks are transitory and limited in scale. Thus, they do not require an immediate response. However, in the case of strong shocks even a temporary acceleration in price growth may bring about a relatively permanent rise in inflation expectations and, in turn, an increase in inflation due to the emergence of wage demands. In such a situation, monetary policy has to prevent the secondary effects of the supply shock (the so-called second-round effects). The risk of such effects is substantial in countries with a short history of low inflation. Useful in analyzing supply shocks are core inflation indices, which help to distinguish, at least roughly, temporary effects from permanent changes in inflationary pressure.

- Sixth, because of the lags between the monetary policy actions and their effect on output and inflation, the impact of monetary policy on the current rate of inflation is limited. Current decisions of the monetary authorities affect price developments in the future just as present rate of inflation is influenced by interest rate changes made several quarters ago. However, the length of these lags is not constant and, to a large extent, depends on structural and institutional changes in the economy. Changes in the monetary transmission mechanism result in a situation in which central banks can only approximately determine the time lag between an interest rate decision and its strongest observed impact on real variables (output, employment) and then on inflation. Disturbances in the financial system may constitute an additional factor disrupting the monetary transmission mechanism.

- Seventh, monetary policy affects the economy not only by changing interest rates but also by keeping them unchanged for a certain period of time. The decision to keep interest rates unchanged for several periods (months or quarters) has substantial consequences for the economy as well, because it leads to a gradual widening or narrowing of the output gap.

- Eighth, monetary policy is pursued under uncertainty. High uncertainty is due, among other things, to the fact that inflation projection models used by central banks may start to less adequately describe economic processes owing to the ongoing structural changes in the economy. This means that:

- (a) while making decisions it is necessary to take into account all available information, rather than the inflation projection only;

- (b) it is not possible to adopt a simple policy rule which could be known *ex ante* to market participants; and

(c) forward-looking monetary policy has to be presented to the public as an attempt to achieve the inflation target under uncertainty, rather than an exercise of strict control over economic processes.

- Ninth, monetary policy should allow for the need to maintain financial stability which is indispensable to ensure price stability in the longer term and which enables effective operation of the monetary transmission mechanism. In this context, asset price developments are of importance. Excessive and long-term reduction in interest rates amidst low inflation and simultaneous fast economic growth may lead to rapid asset price growth, thus increasing the risk of so-called speculative bubbles. Rapid asset price growth is accompanied by the likelihood of asset price deviation from the levels justified by fundamentals, which increases the risk of an abrupt and significant decline in asset prices in the future. This poses a threat to financial system stability, and consequently, in the longer term, to sustainable economic growth and price stability. Monetary policy supporting financial system stability is thus consistent, in the longer term, with the achievement of the basic objective of the central bank's activity i.e. ensuring price stability, although it may occasionally pose a risk of temporary deviation of inflation from the target. In order to maintain consistency between attempting to keep inflation at the target and supporting financial system stability, it may be, in certain conditions, necessary to lengthen the inflation target horizon. In assessing the risk of turmoil in the financial system and the inflation outlook in the longer run, it is useful to analyse monetary and credit aggregates as well as exchange rate developments.

- Tenth, in assessing the degree of monetary policy restrictiveness not only should the level of real interest rates be considered but also the level of the real exchange rate. Thus understood restrictiveness of monetary policy impacts, along with the implemented fiscal policy, the total restrictiveness of macroeconomic policy. An overly expansive fiscal policy is the most common reason that necessitates keeping the interest rates at a higher level.

- Eleventh, an important input into the monetary policy decision-making process is the balance of factors affecting the probabilities of future inflation running above or below the target. This balance is based on the inflation projection, the assessment of the actual economic developments, which may deviate from the scenario presented in the projection, as well as the development of variables and information not accounted for directly in the projection. While assessing the factors affecting future inflation, central banks take into consideration the path of inflation in the past since it has a bearing on the anchoring of inflation expectations at the inflation target. In this context it is important to consider the length of the period in which

inflation remained close to the target and the length of the period in which it deviated from the target.

If a binding decision is taken on the scheduled date of Poland joining the euro area and the related entry into ERM II, the Council will make all necessary adjustments of the monetary policy strategy and – in consultation with the Council of Ministers – of the exchange rate policy to conditions ensuing from the necessity of meeting the convergence criteria required for the euro adoption. In the Council's opinion, Poland's accession to the euro area should take place at the earliest possible date i.e. after gaining the necessary political support for amendments in the Constitution of the Republic of Poland and defining the path of reducing the general government deficit to the level compliant with the Maastricht fiscal criterion.

The Council expresses its conviction that in the coming years economic policy in Poland should be conducted in such a way as to – by implementing structural reforms – enable the sustainable fulfillment of the Maastricht criteria, and in this way, maximise the benefits resulting from the euro area membership.

## 2. Monetary policy in 2010

In 2009 the economic situation in Poland has been to a large extent determined by the developments in the world economy. The crisis in the international financial markets dating back to 2008 Q4 and the global recession led to a significant slowdown in economic activity in Poland. The decline in external demand, related to the recession in Poland's main trade partners, brought about a strong decline in Polish exports. At the same time, due to a marked deterioration in economic climate in Poland, a drop in domestic demand and imports occurred in the first half of 2009. This was the joint effect of a slowdown in consumption growth and a fall in investment, amid a considerable decline in inventories. The slowdown in economic activity was accompanied by a diminishing demand for labour, bringing about a drop in employment and a rise in unemployment. This led to a significant deceleration in the growth of wages and unit labour costs. The economic slowdown also resulted in raising general government sector imbalance.

One of the upshots of the financial crisis was an increased risk aversion in international financial markets and a radical deterioration of investors' sentiment towards Central and Eastern Europe, which led to the depreciation of the currencies of the region, including the zloty, lasting until February 2009. The weakening of the zloty – by increasing the price competitiveness of Polish products – partially cushioned the negative impact of lower external demand on Poland's GDP growth and had a positive influence on the sales receipts of exporters. The decline in exports was not as deep as the fall of imports, which contributed to an improvement in the trade balance and a reduction in the current account deficit. At the same time the zloty exchange rate depreciation had a negative impact on the zloty-denominated foreign debt of Poland and the zloty value of domestic liabilities denominated in foreign currencies. Moreover, the depreciation was conducive to higher inflation. Starting from February 2009 the exchange rate of the zloty appreciated significantly, though the scale of the appreciation was smaller than the earlier depreciation of the Polish currency.

The crisis in the world financial markets also found a reflection in the situation of the Polish banking sector. The drop in confidence in the interbank market led to fewer transactions and translated into a rise of the risk premium included in market interest rates. Moreover, due to the increased risk connected with a deteriorated quality of the credit portfolio, banks tightened their credit conditions, which was an additional factor conducive to curbing economic growth in Poland.

In the first half of 2009, despite some easing of the demand pressure in the economy – inflation was running close to the upper limit for deviations from the NBP's inflation target, set at 3.5%. This was primarily the result of a significant increase in administered prices, including energy prices, and a rise in excise tax rates as well as rising prices of food<sup>1</sup> and some non-food goods whose prices largely depend on the exchange rate of the zloty. The inflationary effect of those factors was not fully offset by the reduction of the demand pressure connected with the economic slowdown.

At the turn of 2008 and 2009 there was a strong deterioration of economic climate, which inclined the Council to significantly ease its monetary policy despite elevated annual inflation. Since October 2008 the NBP interest rates have been cut by a total of 2.5 percentage points (the NBP's reference rate to 3.5%), and the reserve requirement rate by 0.5 percentage points (to 3.0%). The monetary policy easing was justified by the deceleration of economic growth markedly below the potential growth path and the ensuing probability of inflation falling below the target in the medium term.

In 2009 the NBP also carried on with its activities (initiated in October 2008) to support the stability of the financial sector, while simultaneously preventing an excessive reduction in lending and, consequently, the curbing of domestic demand. In 2009 these activities included, among others, buying back its own bonds before their maturity, further broadening of the range of assets acceptable as collateral for the NBP refinancing operations and the extension of the maturity of repo operations to 6 months.

The basic objective of the monetary policy in 2010 will be to maintain inflation at 2.5% in the medium term. At the same time, monetary policy will continue to be pursued in such a way as to support sustainable economic growth. Similarly as in previous years, monetary policy parameters, including the level of NBP interest rates, will be adjusted to the changing economic conditions and the resulting assessment of the probability of inflation running above or below the inflation target of 2.5% in the medium term. In its decisions, the Council will also take into consideration the situation in the financial sector, whose stability is a necessary condition for maintaining price stability in the longer term.

In 2010 one of the main factors affecting economic activity in Poland will still be the developments in the external environment, particularly the scale and sustainability of the

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<sup>1</sup> Food price growth was mainly the result of limited domestic supply of some agricultural and food products and the fact that imports of food products were getting more expensive due to the earlier zloty depreciation.

possible recovery in the world economy. According to current forecasts, following a period of global GDP contraction in 2009, 2010 is expected to see GDP growth connected with a gradual recovery in most economies, though GDP growth abroad will probably be low. There is a risk that, due to the financial crisis-related deceleration of potential output growth, economic growth in the countries most severely affected by the crisis may be markedly lower than before the crisis also in the years to come.

Other significant elements of the external conditions in 2010 may be the inflation abroad and commodity price developments in the world markets. In the first half of 2009, most of the economies recorded very low inflation or even deflation, which was related to the earlier decrease in commodity prices and the global recession. At the same time, core inflation remained positive, though it was also subject to some decline. However, the renewed increase in commodity prices starting from the beginning of 2009 will be conducive to rising inflation in most economies in the coming quarters. Also the expected upturn in the world economy will probably stimulate a rise in inflation in the medium term, though in 2010 inflation may still be low, mostly due to the unfavourable situation in the labour market in major developed economies.

The most important domestic monetary policy factors in 2010 will include: domestic economic activity, performance of public finances, labour market developments and the functioning of the financial system in general and the banking system in particular. Those factors may have a significant bearing on inflationary processes both in 2010 and in the years to come.

In 2010 a slight acceleration of GDP growth in Poland may be expected, which should be driven by the anticipated global recovery. Additionally, it will be supported by the monetary policy easing in 2008 Q4 and the first half of 2009. Despite a gradual improvement in the outlook for economic growth in Poland and abroad, corporate investment activity will probably remain low, while private consumption should continue to be the most important factor of GDP growth (even though its growth rate will probably be lower than in 2009, mainly due to a lack of improvement in the labour market situation). Net exports may continue to have a positive contribution to GDP growth, which should be the result of a rise in Polish exports related to the improving economic situation in Poland's main trade partners, coupled with a slower growth in imports connected with a recovery in domestic activity. In this context it should be emphasised that a considerable uncertainty surrounding the outlook

for economic activity abroad also translates into a significant uncertainty about the future economic growth in Poland.

An important factor affecting macroeconomic developments is the performance of the general government sector. In line with the draft Budget Act presented by the government, the state budget deficit is to grow to PLN 52.2 billion in 2010 from PLN 22.5 billion in 2009, which will be accompanied by a rise in both the deficit of the entire general government sector and the public debt. Despite the fact that deficit growth will, to a large extent, be the effect of automatic stabilisers, this creates the risk of public debt exceeding subsequent prudential thresholds as defined in the Public Finance Act and the limit set out in the Constitution of the Republic of Poland. In this context it is of crucial importance to undertake measures aimed at reducing the deficit of the general government sector in subsequent years.

Labour market developments will also be a significant determinant of inflation processes in Poland in 2010. They will be largely dependent on the economic growth rate and its translating into the situation in the labour market. Despite an anticipated slight recovery in economic activity in 2010 the demand for labour is expected to remain low due to, among other things, delayed response of the labour market to changes in output. A factor limiting the decline in employment may be legal regulations implemented in 2009 Q3 which should, by the end of 2011, allow for more flexible working time arrangements and guarantee financial support to enterprises most affected by the crisis. Despite low demand for labour, the upward trend in the number of the economically active is likely to continue also in 2010. This will be driven mainly by the persistent growth in the number of working-age persons and the diminishing scale of economic migration of Poles<sup>2</sup>. Additionally, the 2009 reduction in the number of professions eligible for early retirement and regulations which allow for receiving pension benefits while remaining employed will probably lead to further growth in labour participation of the elderly. Low demand for labour, combined with growth in economic activity, should be conducive to limiting wage growth, and, as a result, inflationary pressure.

Another key factor affecting monetary policy in 2010 will be the situation in the financial sector, including developments in market interest rates and credit and deposit interest rates in relation to the NBP interest rates as well as restrictiveness of banks' credit policies which, together with the level of interest rates, affect the availability and cost of this source of

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<sup>2</sup> The scale of economic emigration will probably be curbed, among others, by the return of some Polish economic emigrants and a further reduction in outward migration due to the relatively favourable economic condition of Poland in comparison to other EU countries.

finance for economic agents. Thus, the situation in the interbank market, changes in the credit portfolio quality driven by the current economic slowdown, capital situation of banks and the condition of the financial sector abroad will be of considerable importance.

The year 2010 is expected to bring a decline in inflation due to persisting low demand pressure, limited wage increase and fading out of inflationary effects of the growth in administered prices and the depreciation of the zloty observed in the second half of 2008 and at the beginning of 2009. The delayed effects of rising commodity prices in the world markets in 2009 and possible increases of some taxes and administered prices (mainly, municipal services regulated by local administration authorities) related to the unfavorable condition of public finances continue to be the upside risks to inflation.

Considering the scale, extent and duration of the current crisis, expectations about future economic developments are unusually uncertain.

The major uncertainty factors include the condition of the financial sector in the countries most affected by the crisis which continues to be a significant source of risk for the macroeconomic stability and expected recovery in those economies. Considerable uncertainty about the sustainability of recovery in the global economy is also connected with the fading out of stimulus packages which, at present, contribute considerably to easing recession in major economies. A strong rise in unemployment in the United States and the euro area, limiting the possibility of consumption growth as well as unfavourable outlook for corporate investment activity, related, among other things, to falling profitability and restricted availability of external financing are of importance in this respect. Key factors affecting global economic growth also include GDP growth developments in major emerging economies, including China, and, in particular, the pace of the currently observed recovery of domestic demand in those countries.

A significant risk factor for inflation abroad is the uncertainty about long-term consequences of fiscal and monetary stimulus packages implemented in many countries in response to the global crisis. The appropriate moment, pace and method of tightening fiscal and monetary policy amidst the expected economic recovery will be of importance in this respect.

In the coming years, an important factor affecting economic policy, including monetary policy will be prospects of Poland's joining the euro area and the ensuing necessity to comply with the Maastricht convergence criteria. If a binding decision is taken on the scheduled date of Poland joining the euro area, the Council will adjust the monetary policy strategy to the necessity to fulfil the Maastricht criteria, and then will pursue monetary policy that will facilitate meeting the convergence criteria, and thus allow Poland's adoption of the euro at a scheduled date.

A significant factor facilitating the sustainable fulfilment of the Maastricht criteria, and thus ensuring macroeconomic stability in the longer run, is the implementation of structural reforms, including reform of the general government sector which would accelerate the long-term economic growth and, at the same time, curb the inflationary pressure. In the opinion of the Council, those reforms are necessary to take full advantage of the opportunities offered by euro adoption.

In achieving the inflation target the communication of the central bank with the public is of key importance. As part of this communication, the Council presents its assessment of the current and future economic developments. *Monetary Policy Council Press Releases* and press conferences held after the MPC meetings as well as the *Minutes of the Monetary Policy Council Decision-Making Meetings* and *Inflation Reports* will continue to be the major communication instruments in 2010.

If a binding decision is taken on the scheduled date of Poland joining the euro area, the Council will present a document describing the monetary policy strategy aimed at sustainable fulfilment of the convergence criteria in the period preceding euro adoption. This document will be an update of the *Monetary Policy Strategy beyond 2003*.

### 3. Monetary policy instruments

#### Banking sector liquidity in 2010

It is expected that till the end of 2009, similarly as in 2010, liquidity surplus will persist in the Polish banking sector.

In 2010 the short-term liquidity of the banking sector<sup>3</sup> will reach the average level of PLN 33.4 billion with the rise in relation to the preceding year at PLN 15.2 billion.

The most important factor responsible for liquidity surplus increase will be the inflow of EU funds to Poland and their exchange at the NBP. The expected increase in currency in circulation will be limiting the increase in banking sector liquidity.

Large significance for the liquidity of the banking sector will have the source of funds for servicing the foreign debt of the State Treasury. The fact that the Ministry of Finance will be obtaining currency funds for foreign debt servicing in the form of foreign currency purchases from the NBP will be reflected in limiting banking sector liquidity.

#### Interest rate

The principal instrument of monetary policy are short-term interest rates. Changes in the NBP's reference rate result from the direction of the monetary policy. The levels of NBP deposit and lombard rates set the corridor for the overnight interbank market interest rate fluctuations.

**The NBP's reference rate** determines the yield obtainable on the main open market operations, influencing, at the same time, the level of the short-term market interest rates.

**The NBP's lombard rate** determines the maximum cost of liquidity obtainable at the NBP. It sets the ceiling for the growth of the overnight market rate.

**The NBP's deposit rate** determines the interest on deposits made with the NBP. It determines the lower limit for fluctuations of the overnight market rate.

**The discount rate** determines the interest charged on the bill discount credit offered by the NBP.

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<sup>3</sup> The short-term liquidity of the banking sector construed as the balance of open market operations, foreign exchange swaps, credit and deposit operations.

## **Open market operations**

Open market operations are the main instrument for maintaining short-term market interest rates at a level consistent with the MPC-established level of the NBP's reference rate.

The central bank will use open market operations to influence the liquidity conditions in the banking sector in such a way as to enable the POLONIA rate to run close to the NBP's reference rate.

**Main operations**, typically with 7-day maturity, will as a rule be conducted on a regular weekly basis. During the tenders, a fixed rate at the level of the NBP's reference rate will be binding. Due to the expected persistence of liquidity surplus in the banking sector in 2010, these operations will be conducted in the form of the issuance of the NBP bills. Should a liquidity shortage occur, the NBP will provide liquidity to the banking sector in the form of repo transactions. They will be collateralised with securities accepted by the NBP.

**Fine-tuning operations** may be conducted in order to limit the impact of movements in the liquidity conditions in the banking sector on the level of short-term market interest rates. These operations may be both liquidity-absorbing (issuance of the NBP bills, reverse repo transactions) and liquidity-providing (redemption of NBP bills before their maturity, repo transactions). Maturity, yield and the manner in which the operations are conducted will be dependent on the situation in the banking sector.

The provision of liquidity to the banking sector by fine-tuning repo operations will be continued until a lasting improvement of the functioning of the domestic unsecured interbank deposit market achieved.

**Structural operations** can be conducted in order to change the level of banking sector liquidity in the long term. Should the need arise, the central bank may execute the structural operations by issuing bonds, buying back its own bonds before maturity, purchasing and selling securities in the secondary market.

## **Reserve requirement**

The basic function of the reserve requirement is to stabilise the current liquidity conditions in the banking sector. The possibility of maintaining required reserves in the averaged system limits the volatility of shortest market interest rates.

Any possible changes in the required reserve ratio will depend on liquidity developments in the banking sector.

### **Deposit and credit operations**

Standing facilities are meant to limit the scale of fluctuations of the overnight market rate. Banks participate in these operations on their own initiative.

**Standing deposit facility** enables banks to deposit their liquidity surplus on an overnight basis with the central bank. The interest on the facility constitutes the lower limit for the market rate quoted for this particular period.

**Standing credit facility (lombard credit)** enables commercial banks to obtain credit from the central bank on an overnight basis. Lombard credit is collateralised with securities accepted by the central bank. The interest on this facility indicates the marginal cost of obtaining funds from the central bank, which constitutes the upper limit for the overnight market rate.

**Intraday credit facility**, both zloty and euro non-interest bearing loans offered by the NBP, are an important element of the clearing system as the source of funds obtained during the operating day. These loans are collateralised with securities accepted by the central bank.

**Bill discount credit** is designed for financing new loans granted by banks to economic entities. Under this instrument, the NBP accepts for discount promissory notes issued by economic entities to banks.

### **Foreign exchange swaps**

In order to manage banking sector liquidity the NBP may execute foreign exchange swaps. The foreign exchange swap consists in that the NBP purchases (or sells) the zloty for foreign currencies in the spot market and, at the same time, it resells (or repurchases) it on a forward transaction basis on a specified date.

Foreign exchange swaps will be used for providing the banking sector with foreign currency liquidity until a permanent improvement of the situation in the financial markets is achieved, including the foreign exchange swap market. The provision of Swiss francs to banks will be dependent on the extension of the appropriate agreement with the Swiss National Bank.

**Foreign exchange interventions**

Foreign exchange interventions are another monetary policy instrument which may be used by the NBP. Exchange rate fluctuations exert a considerable impact on the macroeconomic and financial stability of the economy. Thus, there may arise circumstances in which the MPC will decide that the pursuit of the country's macroeconomic and financial stability favouring the achievement of the inflation target requires intervention to be effected in the foreign exchange market.

Should Poland join ERM II, interventions in the foreign exchange market may also be used for stabilising the zloty exchange rate for the exchange rate stability criterion to be met.