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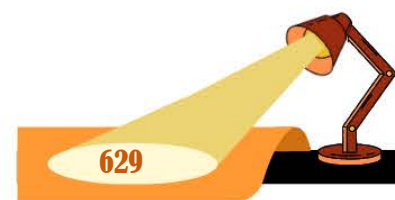
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### **THE MODERN SYSTEM OF INFLATION CONTROL BY THE NATIONAL BANK OF POLAND IN THE CONTEXT OF A DYNAMIC EXTERNAL ENVIRONMENT**

**Abstract.** The aim of the study is to comprehensively analyze the current inflation control system of the National Bank of Poland and assess how monetary policy instruments and communication work in a dynamic external environment. The object of the study is the monetary policy mechanism of the National Bank of Poland aimed at ensuring price stability through inflation targeting and the related institutional, instrumental and communication elements. The article describes the current system of inflation control by the National Bank of Poland in the context of a dynamic external environment, in which inflationary impulses are increasingly formed outside the national economy and transmitted through energy and food prices, changes in international trade conditions, capital movements, exchange rate fluctuations, as well as through the interaction of monetary cycles in leading countries. It is determined that the conceptual basis of the policy is the inflation targeting strategy, within which the goal is to maintain inflation, understood as the annual change in the consumer price index, at 2.5 percent with a symmetric deviation band of plus or minus one percentage point in the medium term. It is proven that in the presence of strong external shocks, the effectiveness of such a regime depends not only on timely decisions on interest rates, but also on the ability of the central bank to form inflation expectations through consistent communication and forecasting and analytical support. It is established that the instrumental part of the system is based on the management of short-term financial conditions, where the key role is played by key interest rates and operations that direct market rates to a level compatible with achieving the goal of price stability. It is justified that in conditions of high volatility of external factors, the central bank should maintain a balance between responding to short-term fluctuations in inflation and





maintaining a medium-term orientation in order to avoid excessive volatility of financial conditions and losses for the real sector.

**Keywords:** inflation, inflation targeting, monetary policy, interest rate, inflation expectations, exchange rate, external shocks, National Bank of Poland.

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## СУЧАСНА СИСТЕМА КОНТРОЛЮ ІНФЛЯЦІЇ НАЦІОНАЛЬНИМ БАНКОМ ПОЛЬЩІ В КОНТЕКСТІ ДИНАМІЧНОГО ЗОВНІШНЬОГО СЕРЕДОВИЩА

**Анотація.** Метою дослідження є комплексно проаналізувати чинну систему контролю інфляції Національного банку Польщі та оцінити, як інструменти монетарної політики й комунікація працюють у динамічному зовнішньому середовищі. Об'єктом дослідження є механізм монетарної політики Національного банку Польщі, спрямований на забезпечення цінової стабільності через інфляційне таргетування та пов'язані з ним інституційні, інструментальні й комунікаційні елементи. У статті описано чинну систему контролю інфляції Національним банком Польщі в контексті динамічного зовнішнього середовища, у якому інфляційні імпульси дедалі частіше формуються поза межами національної економіки та передаються через ціни на енергоносії й продовольство, зміни умов міжнародної торгівлі, рухи капіталу, коливання валютного курсу, а також через взаємодію монетарних циклів у провідних країнах. Визначено, що концептуальною основою політики є стратегія інфляційного таргетування, у межах якої ціль полягає в утриманні інфляції, що розуміється як річна зміна індексу споживчих цін, на рівні 2,5 відсотка із симетричним коридором відхилення плюс або мінус один відсотковий пункт у середньостроковій перспективі. Доведено, що за наявності сильних зовнішніх шоків ефективність такого режиму залежить не лише від своєчасних рішень щодо процентних ставок, а й від здатності центрального банку формувати інфляційні очікування через послідовну комунікацію, прогнозування та аналітичну підтримку. Установлено, що інструментальна частина системи базується на управлінні короткостроковими фінансовими умовами, де ключову роль відіграють основні процентні ставки та операції, які спрямовують ринкові ставки до рівня, сумісного з досягненням цілі цінової стабільності. Обґрунтовано, що в умовах високої волатильності зовнішніх чинників центральний банк має зберігати баланс між реагуванням на короткострокові коливання інфляції та





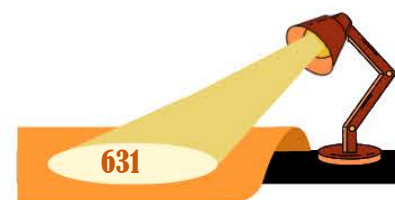
збереженням середньострокової орієнтації, щоб уникнути надмірної волатильності фінансових умов і втрат для реального сектору.

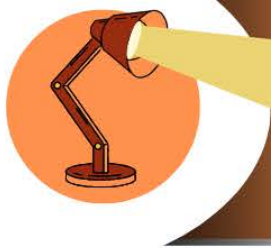
**Ключові слова:** інфляція, інфляційне таргетування, монетарна політика, процентна ставка, інфляційні очікування, валютний курс, зовнішні шоки, Національний банк Польщі.

**Introduction.** The relevance of the topic of the modern inflation control system of the National Bank of Poland in a dynamic external environment is determined by the fact that price stability is a basic prerequisite for the foreseeable decisions of households, businesses and the state, as well as confidence in the national currency and the financial system. The National Bank of Poland implements an inflation targeting strategy, within which since 2004 monetary policy has been aimed at maintaining inflation at 2.5 percent with a symmetric permissible deviation of plus or minus one percentage point in the medium term. The practical significance of this topic is especially noticeable against the background of the fact that actual inflation in Poland can quickly approach the target or deviate from it, for example, according to a quick estimate of the Central Statistical Office in November 2025, the annual growth of consumer prices was 2.4 percent. In such conditions, the role of central bank instruments, primarily interest rates and communication, increases, as they affect inflation expectations, the cost of credit and savings, as well as investment and consumption decisions, which directly determine the trajectory of inflation.

**Literature Review.** In the modern scientific literature, which forms the theoretical basis for the analysis of the modern system of inflation control by the central bank in a dynamic external environment, two interconnected lines are noticeable [1-10]. Thus, G. Karcheva and I. Karcheva [1] reveal the theoretical and practical aspects of managing the financial and economic security of banks, emphasizing that the security system should be integrated, not fragmentary, and should include risk assessment, internal policies and management response procedures. Ya. Zhovanetska [2] systematizes the factors of crisis phenomena in the banking sector, emphasizing the multifactorial nature of crises and the fact that risks can accumulate gradually and manifest themselves sharply due to triggers in the external environment. Y. Onyshchenko [3] reveals the essence of the bank's business model and its relationship with the development strategy, showing that the model determines the structure of income, expenses, risks, as well as the bank's behavior in the phases of the cycle. In the context of inflation control by the National Bank of Poland, this has practical significance, since the same monetary impulse can affect banks with different business models in different ways. The basic framework for understanding the functions of the central bank and monetary policy instruments is formed by the work of N. Matvijchuk [4], which reveals the role of the national bank and the content of monetary policy as a system of goals, principles and instruments aimed at ensuring macroeconomic stability.

**Aim and objects.** The aim of the study is to comprehensively analyze the current inflation control system of the National Bank of Poland and assess how monetary





policy instruments and communication work in a dynamic external environment. The object of the study is the monetary policy mechanism of the National Bank of Poland aimed at ensuring price stability through inflation targeting and the related institutional, instrumental and communication elements.

**Results.** The current inflation control system of the National Bank of Poland is one of the key topics for understanding the country's macroeconomic stability, as inflation directly affects real household incomes, business spending, lending conditions, investment decisions and confidence in the currency. In Poland, the basis of monetary policy is the inflation targeting strategy, within which since 2004 the goal has been to maintain inflation, defined as the annual change in the consumer price index, at 2.5 percent with a symmetric deviation band of plus or minus one percentage point in the medium term. It is important that in a dynamic external environment, inflation control ceases to be a purely internal task, because prices are quickly affected by external supply shocks, changes in energy and food prices, fluctuations in global financial markets, as well as decisions of leading central banks, which change financial conditions within the country through capital flows and exchange rate channels (Fig. 1).

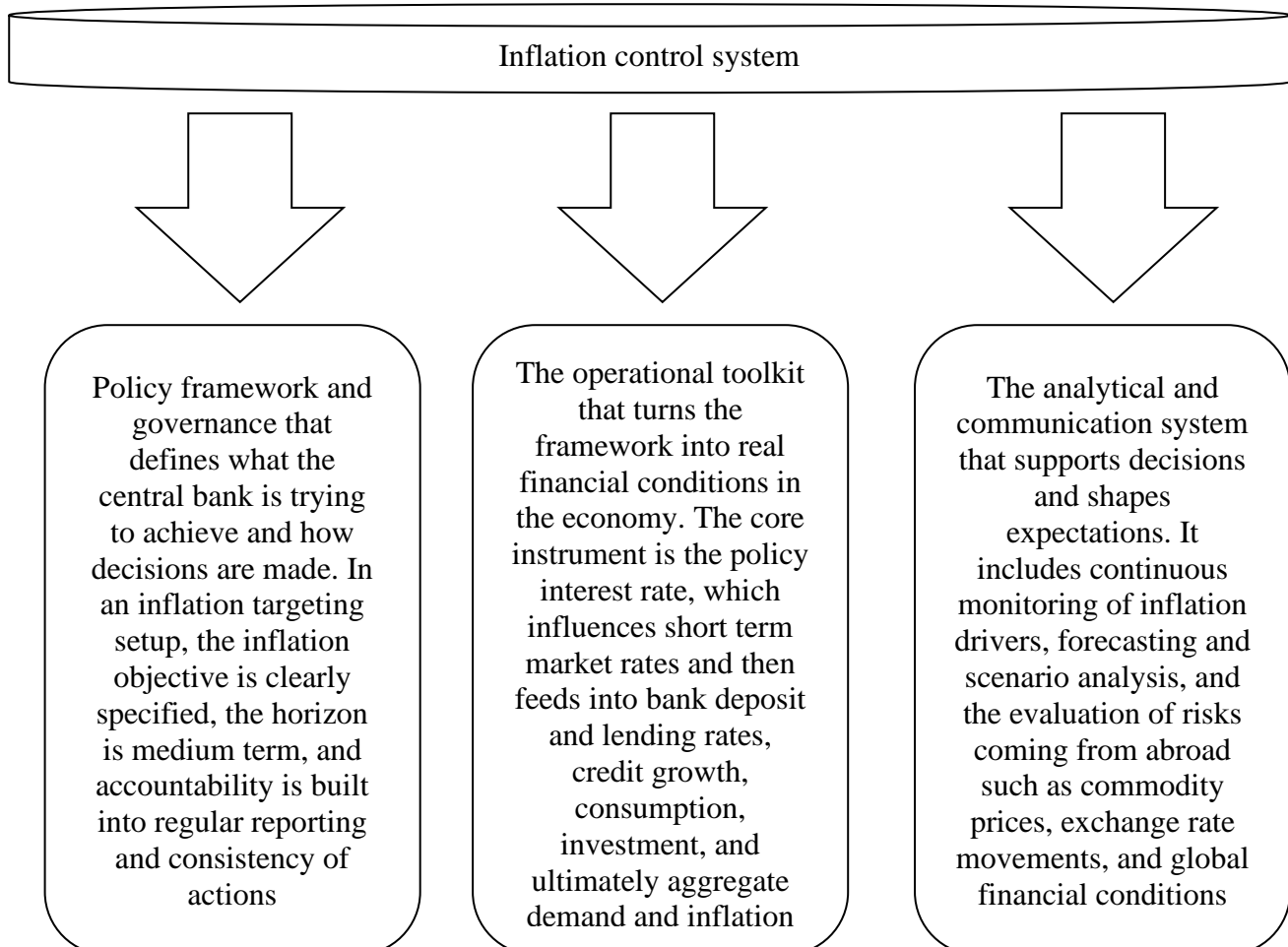


Fig.1. Inflation control system

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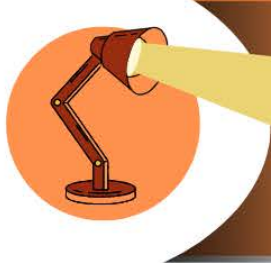
Institutionally, the policy is implemented by the Monetary Policy Council of the National Bank of Poland, which decides on key interest rates and determines the parameters of monetary instruments. The annual monetary policy guidelines emphasize that interest rates remain the key instrument, and the reference rate sets the yield on key open market operations and affects short-term market rates, while the Lombard rate and the deposit rate form a corridor for rate fluctuations on the money market and determine the conditions for banks' access to credit or placement of funds with the central bank (Table 1).

**Table 1.** Features of the policy of countering inflationary processes

Feature of anti inflation policy	How it works in practice	Why it matters in a dynamic external environment
Clear inflation objective and a medium term horizon	The central bank commits to a quantified inflation objective and treats policy as a process that aims to bring inflation back to the objective over time, not overnight. Decisions are guided by a structured reaction function that compares forecast inflation with the objective and weighs the costs for output and employment. This reduces ad hoc moves and makes policy more predictable for households, firms, and financial markets	External shocks such as energy price jumps or supply disruptions can push inflation temporarily above the desired path. A medium term horizon helps distinguish one off price level shifts from persistent inflation pressure. This lowers the risk of over tightening after a shock that would fade on its own, while keeping the option to respond firmly if second round effects appear in wages and pricing
Interest rate policy supported by liquidity operations	The policy interest rate influences short term market rates and then transmits to bank deposit and lending rates, credit demand, and aggregate spending. Liquidity operations keep money market rates close to the intended policy level so that the signal is not distorted by temporary funding stress. The operational setup is designed to make the stance of policy visible in the day to day pricing of money	Global financial conditions can change quickly, for example through shifts in risk appetite, capital flows, and term premia. A reliable operational framework prevents external volatility from breaking domestic transmission and creating unwanted swings in money market rates. This helps the central bank maintain control over financial conditions even when external markets are unsettled
Communication and expectations management	The central bank explains its decisions, describes the balance of risks, and clarifies what kinds of data would justify future moves. Forward looking communication helps shape inflation expectations, which feed into wage bargaining, price setting, and contract indexation. Consistency between words, forecasts, and actions strengthens credibility and makes policy more effective	In a fast changing external environment, uncertainty rises and narratives can move markets and expectations as much as data do. Clear communication reduces the chance that firms and households extrapolate a temporary shock into a long lasting inflation spiral. When expectations stay anchored, inflation can return toward the objective with smaller and less disruptive adjustments in interest rates

*Formed by the authors*





In order for decisions to be proactive rather than reactive, the inflation control system relies on a forecasting and analytical unit and on expectations management, since inflation largely depends on how households and businesses imagine the future dynamics of prices, wages and interest rates. The National Bank of Poland regularly publishes the Inflation Report, which provides an assessment of macroeconomic processes affecting inflation, and also publishes inflation and gross domestic product projections (Table 2).

**Table 2.** The role of the National Bank in the system of responding to inflationary processes

<b>Role of the National Bank of Poland in the inflation response system</b>	<b>What it does and why it matters</b>
Sets the overall monetary stance to stabilise prices	The National Bank of Poland steers monetary conditions so that inflation converges toward the desired path over the medium term. It uses policy decisions to influence the cost of credit and the reward for saving, which affects spending and investment across the economy. This role is central because it provides a coherent anchor for pricing behaviour and for inflation expectations
Ensures operational transmission through financial markets and banks	The National Bank of Poland implements policy in a way that keeps short term market rates aligned with the intended stance, so the signal reaches banks and borrowers without distortions. It monitors money market functioning, liquidity conditions, and the sensitivity of bank lending rates to policy moves. This matters because weak transmission can make inflation control slower and can amplify instability during external shocks
Produces analysis and communicates in a way that anchors expectations	The National Bank of Poland monitors inflation drivers, builds forecasts and alternative scenarios, and explains the risks to the public and to markets. It clarifies the logic behind decisions and the conditions under which policy could change, which reduces uncertainty and improves predictability. This is crucial because expectations influence current inflation through wage dynamics, pricing decisions, and the formation of longer term contracts

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The dynamic external environment makes inflation control a task of constant risk management, as shocks can have both inflationary and disinflationary effects, and the channels of influence often operate in parallel through interest rates, credit, the exchange rate and expectations. For Poland, an important feature of such volatility is that inflation can fluctuate quite quickly around the target, and according to a flash estimate by the Central Statistical Office, annual consumer price growth in November 2025 was 2.4 percent. This is below the target of 2.5 percent, although within the





acceptable range, and this situation changes the logic of the discussion about the tightness or looseness of monetary conditions, in particular, it increases attention to the risks of a slowdown in demand, credit activity and investment. At the same time, the monetary policy guidelines themselves explicitly state that price stability is the primary legislative objective, but that policy should also support sustainable economic development and financial stability to the extent that this does not limit the achievement of the primary objective. It is precisely this combination of central bank independence, a system of instruments, a forecasting framework and constant adaptation to external changes that constitutes the essence of the modern inflation control system in Poland, which is critically important for the stability of the economy and for the predictability of decisions.

**Conclusions.** In summary, the modern inflation control system of the National Bank of Poland is based on inflation targeting, interest rates as the main instrument, a forecasting and analytical basis and transparent communication, which together form trust in the policy and influence inflation expectations, credit activity and the behavior of consumers and businesses, and in a dynamic external environment, its effectiveness is determined by the ability to quickly assess external shocks, adjust monetary parameters without losing predictability and at the same time maintain price stability and the resilience of the financial system.

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