



**Anna Szelągowska**

Institute of Corporate Finance and Investments  
Collegium of Business Administration  
Warsaw School of Economics, Poland  
anna.szelagowska@sgh.waw.pl

**Central banks *exit strategies* in theory and practice.  
The case of the Polish National Bank's policy**

**Abstract**

This paper makes an attempt in discussing the pros and cons of central banks exiting from unconventional monetary policy strategies. Having in mind the latest international economic research concerning the optimal entrance and *exit strategies* of the zero interest rate policy, it is worth discussing the results of the contemporary central banks in preserving the financial system and supporting the real economy. The main aim of this paper is the assessment of the Polish central bank's low rate interest rates policy effectiveness and to find out its influence on the economy. The following research problem is discussed: should central banks use the *exit strategy* from zero interest rates and if yes, why and when. This task requires to put forward the following research hypothesis: too late implementation of the cycle of low interest rates by the National Bank of Poland does not help improvement of the Polish economy situation.

**Keywords:** monetary policy, low interest rate policy, *exit strategy*.

**JEL Classification:** E42, E44, E50, E52, E58.

**Introduction**

Contemporary central banks facing deflation must conduct flexible monetary policy ensuring financial stability and long-term economic balance. Majority of central banks use interest rates as one of the most effective monetary policy instruments. The policy of lowering interest rates, when implemented at the right moment, can very effectively support the pursuit of the central bank functions and goals. However, lowering the interest rates to the level close to zero must be supported by quantity easing. For this reason this paper aims to assess

effectiveness of the central bank low interest rates and to determine its impact on domestic economy. The paper discusses the following research problem: should central banks use the *exit strategy* from zero interest rates and if yes, why and when. In view of the above said, the following research hypothesis is put forward in the paper: too late implementation of the cycle of low interest rates by the central bank of Poland does not help improvement of the Polish economy situation. In the paper the observation method and critical analysis were used.

## 1. Theoretical outline of the zero interest rate policy

The fight against the financial crisis which climaxed in 2008, abounded in numerous unconventional instruments which will go down in the history of economics. One of them was (in December 2008) the US Federal Reserve reduction of federal reserve funds rates from 5.25% (since 18 September 2007) to zero (till 18 March 2009). The FOMC (Fed Open Market Committee) adopted the policy of maintaining the main interest rate within the 0 to 0.25% range for an unspecified period of time<sup>1</sup>. It is commonly known as the Zero Interest Rate Policy (ZIRP).

Although the ZIRP was already introduced at the end of the 1990s by the Bank of Japan, it seemed to be an isolated incident. Meanwhile the Fed example was followed by many other central banks including, among others, the banks of Canada, Switzerland and Sweden. The Bank of England and European Central Bank were slightly more cautious when they brought the main interest rates down to 0.5 and 1%, respectively. From the historical point of view, starting in 1987 western central banks used lower interest rates as a preventive measure whenever a crisis which might have threatened economic prospects of the country occurred. However, when the threat was gone, the cost of money usually did not come back to the level noted before the cycle of reductions or was restored only for a short period of time. Consequently with every subsequent cycle of monetary policy relaxation, the interest rates had to be reduced more and more aggressively. Hence it was just a matter of time for them to reach zero. Taking above into consideration, central banks have to solve the following problem: should they use the *exit strategy* from zero interest rates and if yes, why and when. The *exit strategy* is the plan to decrease the size of the central bank's balance sheet by selling the assets that have been acquired via unconventional operations. From the theoretical side of view, the *exit strategy* from unconventional easing involves many seemingly straightforward central banks operations to maintain activity close to potential and ensure the price stability:

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<sup>1</sup> In practice, funds have mostly traded around 10 to 15 basis points ever since.

- halting extraordinary interventions,
- normalising and downsizing and the balance sheet of central banks,
- selling purchased assets,
- raising short-term interest rates [Yamaoka and Syed 2010, p. 6].

From the practical side of view, uncertainties about the economic activity, inflation, as well as the precise transmission mechanism of unconventional instruments of monetary policy are barriers to exit strategy's timing, pace and sequencing. What is more, due to return to a positive interest rate, central banks usually need to eliminate to excess bank reserves accumulated through by unconventional operations.

As John B. Taylor indicates, in 2008 the biggest problem of banks was not the lack of liquidity, but, the erosion of their mutual trust [Taylor 2010, p. 53-59]. It resulted from the growing counter-party risk related to the banks' lack of knowledge what is in the balance sheets of their business partners. In such a situation, central banks should have focused on clearing these balance sheets from assets which were difficult to valuate and not on increasing capital availability by lowering interest rates. According to Taylor the latter led to dollar depreciation in the US, which in turn caused a rise of raw-material prices expressed in this currency and consequently deterioration of global economy. Taylor claims that the biggest mistake made at the time of crisis was incorrect identification of the source of the crisis. Central banks decided that recession was a result of the lack of liquidity and consequently they started to pump great amounts of money into economy. Unfortunately, such a reaction did not bring about many benefits because the main source of the crisis was the lack of financial market transparency and credit risk. According to D. Rosati the probable cause why this first rescue plan turned into a fiasco was the fact that it was created too late, the financial crisis had already manifested itself in economy, banks limited their lending and this led the US economy to recession [Rosati 2010, p. 109-110]. As J. Czekaj shows, from the macroeconomic point of view economies of both well developed and emerging economies felt the effects of the crisis in the form of a deteriorating economic situation for two basic reasons [Czekaj 2010, p. 196]:

- a drop in demand, especially in the markets of well-developed countries, which resulted in a worldwide collapse of exports;
- shocks in the financial and foreign currency markets which caused rapid changes in exchange rates, especially in emerging economies and capital withdrawal by institutions functioning in the international market to make up for losses or a higher investment risk in these markets.

In view of the above mentioned events the institution of central bank in the modern world of finance is becoming particularly important. The instruments

and policy which have been implemented so far very often turn out to be insufficient for direct stimulation of economy [Przybylska-Kapuścińska 2012, p. 35]. Hence a discussion on the effectiveness of central bank monetary policy in times of turbulence in the global financial markets has been held. Central banks, as O.E. Williamson indicates, fulfill the function of an element integrating economic entities operating on the market [Williamson 1981, p. 1537]. For this reason, their actions have a bearing on the condition of national economies. Analysis of the events which in the last dozen years or so have occurred in the world of finance proves that the direct inflation target strategy implemented by many central banks has turned out ineffective because it has not provided financial stability which is indispensable at the time of the financial crisis. Apart from the anti-inflation policy, also the policy of *quantitative easing* of interest rates applied at the moment in many well-developed countries does not bring about the desired effects in the form of improved liquidity in the inter-bank market and thus increased lending by commercial banks. Analysis of changes in basic interest rates of the main central banks worldwide allows us to say that decreasing or increasing interest rates does not bring about effects in short-time perspective. In modern monetary policy the very reduction of interest rates to zero solves nothing and additional actions are necessary, for example quantitative easing. This makes us aware of the scale of dependencies of the banking systems from the creation of money through bank credits.

The problem of *zero bound interest rates* is inseparable from the monetary policy implemented by the central bank. World literature gives a lot of place to this issue owing to the experiences of the Bank of Japan which at the end of the 1990s introduced the lowest in the world basic interest rates. When in February 1999 Japan adopted an unprecedented in the three hundred long history of world's central banks resolution to introduce zero interest rates, it was not assumed that the policy of such low rates would be applied for a long-time. The zero interest rate policy in connection with pumping public money into the bank sector and large-scale public works was to contribute to recovery of Japanese economy which was mired in structural crisis. The first symptoms of economic revival appeared in Japan in April 2000 when for the first time in several years enterprises reported increased profits, and higher investment and increased values of stock market indices were noted. It seemed that ZIRP brought about expected results in accordance with the "dam theory" 2 (according to this theory, an increase in corporate earnings will lead to higher wages for workers, just like water in a dam must eventually be released to go downstream), the genuine character of which was emphasized by the representatives of the Bank of Japan [Mishkin 2004]. The decision of 11 August 2000 suspending ZIRP, was moti-

vated by a conviction that the threat of deflation had been moved away from Japanese economy. However, it coincided with the financial crisis caused by the “dot-com bubble” burst in the United States and the real threat of global economic crisis. As a result, almost immediately after raising the interest rates, Japanese economy found itself in a recession again. The period in which the Bank of Japan carried out ZIRP is one of the most bitterly criticized episodes of Japanese stagnation [Fujiki, Okina and Shiratsuka 2002, p. 3]: not only because it started too late but also because it finished too early.

Economic processes observed in Japan at the beginning of the 21st century resulted from a series of negative, domestic as well as foreign, factors [Hirakata, Sudo and Ueda 2011, p. 4]. They included: growing deflation expectations, declining GDP dynamics, banking crisis and global effects of the dot-com bubble burst. Deepening recession caused that monetary authorities started to consider the previously rejected recommendations regarding broadening of the expansion scale by using unconventional tools [Mishkin 2004, p. 15]. In March 2001 implementation of the quantitative easing (QE) phase of monetary policy was officially announced in Japan. As Harrigan and Kuttner noted: “after a three-year delay, a false start and a reversal to the originally adopted programme, the Bank of Japan was on a path towards »unconventional« monetary policy” [Harrigan and Kuttner 2005, p. 99]. Basing on the above described Japanese experiences, the Fed became their main beneficiary (of these experiences) in the field of fund balance policy and unconventional tools [Chung, Laforte, Reifschneider and Williams 2011, p. 3].

*Quantitative easing* was used after 2007, among others by the Fed, Bank of England and ECB. Quantitative easing was accompanied by interest rates at the level close to zero. Observation of effects of such central bank policy was reflected in numerous academic studies. The zero interest rate policy was studied, among others, by A.L. Wolman [1998], who argued that the zero interest rate policy enables price stabilisation even at growing inflation expectations. The studies by L.E.O. Svensson indicate that the optimum solution is ensuring that the interest rates will be kept at the level close to zero until recession and deflation are defeated [Svensson 2003, p. 150]. An intense discussion on the topic gained momentum at the end of the previous decade following the 2008 financial crisis eruption. In the United States, euro zone, Great Britain and other countries nominal interest rates oscillated around the zero lower bound. Research into the impact of the zero interest rate policy on public expenditure was conducted, among others by Christiano, Eichenbaum and Rebelo [2009], Eggertsson (2009), Woodford [2010] or Mertens and Morten [2010]. The problem of zero interest rate policy became the mainstream research trend also in the

works of Romer and Bernstein [2009]. Blanchard, Dell and Mauro [2010] also dealt with ZIRT-related issues with a special focus on interactions between monetary and fiscal policy. One cannot ignore here numerous works regarding the impact of zero interest rates on policy mix implemented by the Bank of Japan in the last ten or fifteen years. Many publications are also dedicated to low interest rates in the United States in the period 2003-2004. For example, Eggertsson and Woodford [2003, p. 212-219; 2004a] show how monetary policy should be adjusted to reduce the costs of decreasing interest rates. In particular they propose the policy strategy which will keep zero interest rates for a long period of time in order to generate inflation. Their results prove that an ineffective government policy which manifests itself in wasted public expenditure leads to undesired inflation. A more general view on the zero interest rate policy is presented by Correia, Nicolini and Teles [2002; 2008] which demonstrates that fiscal policy can be used to neutralize the price-stickiness effect. Their studies are based on the Ramsey taxation model, Lucas and Stokey's model [1983, p. 55-93] and Chari, Christiano and Kehoe's model [1991, p. 519-539]. They show that allocations under rigid prices can be the same as under flexible prices. Since nominal zero interest rates turn out to be optimum policy under flexible prices, then they cannot be a constraint under rigid prices. Concentrating on the zero bound interest rates, in their investigations Eggertsson and Woodford [2004b, p. 76-79] consider both monetary and fiscal policies but with the use of taxes on consumption. Recapitulating, most economists believe that the zero interest rate policy is of extraordinary nature and it should not shape the situation in the financial market for too long. In practice, however, concern about stable economic growth is the paramount goal of many central banks which have been pursuing the policy of zero interest rates for years. It cannot be denied, however, that affecting the interest rate level is the chief monetary policy tool although not always an effective one from the point of view of the real sphere of economy. The policy of maintaining extremely low interest rates instead of encouraging loan granting has an opposite effect in the case of the biggest banks (taking care of the interests of their owners), which is caused not so much by a prolonged economic stagnation but by changes in the banking market.

The arguments for monetary policy tightening refer to the economic situation in a given country. Firstly, stable economic growth should be noted in the long run. Secondly, with zero bound interest rates central banks have limited possibilities of affecting monetary policy. Thirdly, increased interest rates should contribute to more rigor in the field of public expenditure as well as to higher effectiveness of the economic management process.

## 2. Policy of zero interest rates as a financial stimulus to *exit strategy*

In the last several years considerable differentiation of basic interest rates has been observed worldwide which, to a large extent, was a result of the central banks' reaction to slowed down economic growth in the years 2001-2002 and the financial crisis which started in 2008. In the BRIC and emerging countries undergoing the process of transformation, monetary policy was tightened up. On the other hand, central banks in the United States, Great Britain and Japan kept interest rates at a very low level attaching more attention to stimulation of economic growth and employment rather than easing inflationary pressure.

Limited effectiveness of the low interest rate policy is well visible in the case of the United States where, at the end of 2012, the ratio of bank-granted loans to deposits reached ca. 70%, whereas in 2007, i.e. before the crisis, this indicator fluctuated around 90%. The investigations conducted by American economists show that for 12 out of the 16 biggest banks (including 4 biggest US banks which have a 49% share in the credit markets) low Fed interest rates raise the costs of lending and they are not profitable for them [Fernández-Villaverde, Guerrón-Quintana and Rubio-Ramírez 2011]. More intense lending in these banks can take place only when the Fed interest rates rise. However, in the nearest future it will not be possible owing to B. Bernanke's communiqué of 12 December 2012 who announced that the Fed is going to follow the policy of zero interest rates and money printing until unemployment falls below 6.5 %, provided that inflation forecast does not exceed 2.5%, i.e. half a percentage point more than the hitherto adopted target [www3]. In the current economic situation many economists, bankers and politicians in the countries which implement the *zero lower bound* will ask themselves if the economic situation has improved enough to give up this specific financial stimulus which the zero interest rate policy is.

Almost 6 years after the zero interest rate regime was implemented, the Federal Reserve published an outline of the monetary policy normalisation plan. In this way Fed administrators want to make the financial markets get used to the inevitable although deferred in time turning off the cheap money tap. For years economists have been racking their brains over the issue how the Fed will undo the Gordian knot of finance it tied. The problem is the so called *exit strategy* from zero interest rate policy and quantitative easing of monetary policy within the framework of which the Federal Reserve buys financial assets for which it pays with newly created money. Due to the three QE rounds, the Fed's balance account grew from 800 billion to 4.4 trillion dollars. In this way the supply of money grew by the same amount.

The document entitled “Policy Normalization Principles and Plans” [www1] is a fairly general outline of exit from the extraordinary programmes of support for the financial sector. As the Fed itself admits policy normalization should be understood as a return to “more normal” interest rates (i.e. 4%-5%) and reduction of the Fed’s reserve balance. The US central bank makes a reservation, however, that the below presented “time-schedule” does not mean its immediate commencement.

According to the press release dated on September 17, 2014, “when economic conditions and the economic outlook warrant a less accommodative monetary policy, the FOMC will raise its target range for the federal funds rate”. What is more, during normalisation, the Federal Reserve intends to move the federal funds rate into the target range set by the FOMC primarily by adjusting the interest rate it pays on excess reserve balances (which currently amount to 2.7 trillion dollars). This is the money which commercial banks keep in their accounts at the Federal Reserve, but which (at least theoretically) could be immediately allocated to new loans. The second key instrument of policy normalisation and increase of interest rates is to be reverse-repo operations (an overnight reverse repurchase agreement facility and other supplementary tools).

The next step will be reduction of the Federal Reserve's securities holdings in a gradual and predictable manner primarily by ceasing to reinvest repayments of principal on securities held in the SOMA. The timing of the process coordination will be depended on the evolution of the economic and financial conditions and the economic outlook. Such phrasing is one of numerous loopholes enabling American monetary authorities to change their plans.

According to FOMC, selling agency mortgage-backed securities as part of the normalisation process is not anticipated, although limited sales might be warranted in the longer run to reduce or eliminate residual holdings. It is worth noting that the Fed did not mention here treasury securities constituting majority of its balance sheet. Since October 2014 the Fed has been purchasing treasury securities for 5 billion dollars a month instead of 10 billion USD as it was earlier. Intervention in the market of mortgage-based securities is going to be curbed from 15 billion to 10 billion USD a month.

In conclusion, FOMC intends that the Fed will, in the longer run, hold no more securities than necessary to implement monetary policy efficiently and effectively, and that it will hold primarily Treasury securities, thereby minimizing the effect of Fed holdings on the allocation of credit across sectors of the economy. However, FOMC does not precise the Fed balance target.



### 3. Consequences of zero interest rates policy in practice

For a long time interest rates of central banks in the biggest well-developed countries have been close to zero or revealed even negative values as it is the case with interest on deposits which the European Central Bank (ECB) accepts from the euro zone banks. In September 2014, the ECB lowered the benchmark interest rate on the re-financed credit to the level of  $-0.05\%$ . The interest rate on deposits was also reduced and following the reduction it stands at minus  $0.2\%$ . The interest rate on loans was also decreased and at present it is  $0.3\%$ .

According to the MoneyRates.com estimates in the years 2009-2013 Americans lost on the zero interest rate policy over 100 billion dollars a year. At the end of 2013, the total cost of Fed's low interest rate policy expressed as a decline in purchasing power of savings caused by inflation amounted to 757.9 billion dollars [Halbert 2014].

The hitherto activities of the ECB, that is interest rate reduction (in June 2014), introduction of the negative deposit interest rate and the preferential loan programme (TLTRO) should contribute to resuscitation of economic growth in the euro zone. With such interest rate policy the euroland member countries should limit fiscal belt tightening to foster economic growth. Long-term cohesion (pursuit of a balanced development of the social and economic community by elimination of developmental disproportions) of the euro zone depends on achieving by each country a durable high employment rate. On the other hand, the Federal Reserve is prepared to tighten up its policy if the need arises. American labour market still needs support in the form of moderate monetary policy, but the economic situation in the USA approaches the targets set by the Fed, hence it is natural that discussions about increasing interest rates and using the *exit strategy* are initiated.

Since the ECB is planning to apply quantitative easing (QE), in other words, using created money to purchase government bonds, their prices went up and interest reached its historic low. At the end of July 2014 interest on German 10-year government bonds fell to  $1.12\%$  – the lowest rate since 1800.

In the Netherlands interest on government bonds is at its lowest in 500 years and in France – in 250 years. The situation looks similar in many other countries including those which note the highest public debt in their history, exceeding even  $100\%$  GDP.

Assuming that in a certain country interest on 10-year government bonds falls to zero, it will mean that the government of such a country can borrow any amount of money free of charge and for 10 years it will pay absolutely nothing in the form of interest, and only after 10 years it will have to repay the value of

the loan. Thus the government can borrow any sums of money without paying any interest on it. What will a typical government do in such a situation, especially if its economy is in stagnation or recession? It will start reckless borrowing to finance different programmes which can improve its image and rating, for instance, housing subsidies, generous allowances, public investments, taking on new white-collar workers, and many others. Zero interest rates result in an increasingly bigger government and public administration as well as in an increasingly bigger public debt. Even if QE does not bring about direct effects, the ECB determination can restore the trust of investors, entrepreneurs and consumers in the euroland economy. The only way of debt handling will be either the Greek-style method, i.e. controlled bankruptcy or the Cypriot-style method, that is confiscating citizens' money from bank deposits. Thus another research question arises: who buys securities bearing zero- or one-percent interest and what kind of profit do they see in it? These are two types of investors. The first ones are those who are not interested in the return on investment. They just want to invest their money in a safe way and not to lose it. The others are those who hope that interest on government securities will fall even further and their prices are inversely related to their interest. In other words, they expect to earn. As a result, such policy can lead to a new debt paradigm, which in future can reveal itself in such a way that interest on 10-year bonds of the German or any other government will be negative and the behaviour of the government who will be subsidised according to the rule "the more you borrow, the more you get", will be crucial in resolving the problem. In conclusion, the major central banks may have no interest in an *exit strategy*, but the *exit strategy* is interested in them.

#### **4. The Polish National Bank's policy of interest rates and its effect on Polish economy**

Experiences of central banks using interest rates to stimulate economic processes are diversified. However, we can try to state that the hitherto applied monetary policy instruments have proved limited effectiveness as far as affecting money supply is concerned since central banks make independent decisions regarding interest rates which they use and the size of lending. Thus the role of central banks is limited to banking sector stimulation and undertaking specific actions which are to serve economy by means of available monetary policy instruments. Lowering basic interest rates by central banks when the forecasts for the economic situation development are optimistic, translates into more new loans for enterprises, on average after 1 or 1.5 years [Oplustil and Porzycki

2010, p. 237]. It is particularly clear in Poland where the central bank's reduction of basic interest rates by just few basis points almost immediately causes that commercial banks reduce interest on deposits, but not on loans.

Since the first reductions of interest rates by the central bank which translate into increased lending are seen after ten or fifteen months at the earliest, the Monetary Policy Council should have decided about much larger reductions already at the beginning of 2010. At that time Polish economy very strongly felt a drop in demand and therefore it was necessary to reduce the price of money. The time after the financial crisis was the best period to ease Polish monetary policy and foster economic growth.

Unlike in other countries, in Poland the most important task of the National Bank of Poland is to fight inflation and not to stimulate economic growth. While analysing monetary policy implemented by the Monetary Policy Council, one can put forward a thesis that the decisions made by it in the last few years were delayed. The author is of the opinion that one of the Monetary Policy Council's biggest mistakes was raising interest rates when the economy was slowing down in 2012, which was accounted for by the fear of inflation growth. Unfortunately, in the Polish banking system even a continuous interest rate reduction does not result in more lending and increased deposit money supply accelerating economy. Without a sufficient level of deposits, banks are not willing to grant credits with a lower interest rate on them. Without borrowers' sufficient creditworthiness to contract obligations and without relaxed credit policy regulations we cannot talk about improvement in the economic situation of the country.

The Monetary Policy Council is partly responsible for the condition of Polish economy because it initiated the cycle of interest rate reductions too late. The Monetary Policy Council's decisions have a bearing, first of all, on availability of money and credit costs. The higher the interest rates are, the more difficult the access to financing and the more expensive credits are, but yet the higher the interest on deposits is. Falling interest rates make the price of money lower and cause that credits are less expensive and more accessible. This, in turn, stimulates consumption and corporate investment. If the low interest rate policy had been implemented in Poland earlier, it would have been more profitable for all borrowers, households and economic entities from the SME sector seeking capital, alike. The decision to reduce the basic interest rate by 0.50 percentage point was made at the Monetary Policy Council's meeting on 8 October 2014 and in this way led to the lowest level in the history of Polish monetary policy, i.e. to 2.0%. It was the right step although much delayed. The interest rate reduction which was initiated in May 2012 and in total amounted to 2.75 percentage points was too much stretched in time and, in the author's opinion, inadequate to infla-

tion expectations. Low inflation in 2013 and 3 quarters of 2014 gave room for manoeuvre in the form of further interest rate reductions, however, the events which took place in Cyprus in mid-March 2013, persistent recession in the euro zone and low worldwide economic activity dynamics threatened the falling trend in interest rates. It could have had an unfavourable impact on the economic growth rate. The information presented during the Monetary Policy Council's meeting in July 2013 indicated that the decision on the NBP interest rate reduction was to finish the cycle of monetary policy relaxation [www2].

However, owing to the low dynamics of economic activity in the euro zone in 2014 and a decrease in prices of many agricultural and energy products, which together with moderate economic growth rate worldwide favours maintaining low inflation in many countries, the Monetary Policy Council again made the decision to lower basic interest rates. The data regarding economic activity in Poland in the last quarters of 2014 reveal further slowdown of economic growth. It is indicated by slower dynamics of industrial production, construction and assembly business and retail sales in the first three quarters of 2014. Slower economic activity dynamics is also proved by lower indices of economic situation. On the other hand, however, despite lower economic activity dynamics, employment in the enterprise sector is still growing. Growing employment entails lower unemployment. Yet, the unemployment rate is still high which, in turn, restricts remuneration pressure. As a result remuneration dynamics in enterprises is kept at a moderate level. Core inflation, which in Poland is maintained at a very low level, confirms lack of demand pressure in economy. On the other hand, lack of cost pressure is indicated by the persistent decline in prices of the industrial production sold. This is accompanied by low inflation expectations of enterprises and households. All these elements together generate a higher risk of inflation kept below the target in the mid-term. For this reason, in October 2014, the Monetary Policy Council decided to reduce the NBP interest rates to the lowest level in history, with the exception of the deposit interest rate which was not changed and in this way narrowed down the difference between the lombard rate (3.0%) and deposit rate (1%) from 3 to 2 percentage points. If inflation in Poland remains below the target level, we must expect further intervention in the field of monetary policy.

The situation was similar in majority of EU countries. In the third quarter of 2014, in the euro zone and the countries of Central and Eastern Europe – inflation stood at the level close to zero. The main central banks of the world still carry out expansionary monetary policy. At the same time, in view of the diversified economic situation we can observe monetary policy divergence in main economies. The Federal Reserve restrains the scale of quantitative easing, whereas the European Central Bank increases the scale of monetary expansion [Constancio 2015].

The author's pessimism revealed in the statement that the Monetary Policy Council's decision about systematic interest rate reductions was too late was dictated by the forecasts regarding the future of Polish economy. Taking into account lack of a long-term savings system of Poles, higher taxes, lower pensions at a higher retirement age, uncertain fate of pension contributions paid, growing debt of the country, aging society, a fall in the number of people paying taxes and one of the lowest in the EU income *per capita*, it seems justified to conduct the low interest rate policy aiming at a positive impact on the real sphere and prosperity of the people.

## **Conclusions**

In the current situation Polish economy should not abandon the policy of low interest rates. The *exit strategy* should be motivated by the benefit of the entire national economy and maintaining long-term economic growth. The low (zero) interest rate policy should have been implemented in Poland already at the beginning of 2010. The Monetary Policy Council's decision to reduce the basic interest rates to the lowest level ever was needed from the point of view of the deteriorating economic situation and declining demand in Polish economy. In Poland there is still room for safe reduction of interest rates by the Monetary Policy Council. Considering low activity in global economy, economic growth slowdown in the USA, persistent recession in the euro zone, National Bank of Poland should aim at long-term economic growth of our country, which should be stimulated by the low interest policy on the one hand, and quantitative easing on the other. Continuation of the low NBP interest rate policy should be accompanied by other monetary policy instruments of the central bank, which would more effectively and efficiently affect credit availability to small and medium-size enterprises. Restrictive credit policy of commercial banks and delayed loosening of the NBP monetary policy do not foster economic growth of our country. If commercial banks adjust in a more flexible way to the existing environment of the central bank low interest rates and increase their lending, they can count on accelerated growth in the periods to come. In current circumstances one can expect in the nearest two years (considering delay in adjusting the banks' policy to market interest rates) acceleration in the number of new loans for households resulting from the record low interest rates, gradual recovery of economic situation and changes in regulations.

Recapitulating, the strategy of exit from zero interest rates undertaken by the central bank depends on further changes in macroeconomic parameters. It

must be kept in mind that the growth rate of Polish economy and other EU economies is still lower than in the last decade years of boom. What is more the forecasts concerning inflation, anticipated changes in basic interest rates, further economic growth rate continue to be surrounded by uncertainty resulting, among others, from a difficulty to predict the permanence of economic revival in the euro-zone, effects of the Fed restrictions of a strongly expansionary monetary policy, slower growth of the main emerging economies or difficult to estimate consequences of the crisis in Ukraine. For this reason, in Poland as well as all over the world, the decision on the exit from the low interest rate policy will be determined by many factors of macroeconomic nature.

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