

# Unemployment level and the non-linear effects of monetary policy in Poland

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## Abstract

We investigate whether the transmission of monetary shocks in Poland depends on the level of economic slack. To this end, we estimate smooth transition panel local projections using Poland's regional data and analyze how monetary shocks affect unemployment and prices in regimes of high and low unemployment. Our key finding aligns with economic intuition: the response of unemployment to monetary policy shocks is stronger when economic slack is high, compared to when it is low. Conversely, the adjustment of prices to monetary innovations is more pronounced when idle resources in the economy are scarce, compared to when they are abundant. Our main conclusion is further supported by evidence showing that the difference in the strength of the employment response to monetary shocks, depending on the unemployment level, is more pronounced in sectors producing non-tradable goods than in those manufacturing tradable goods. Moreover, comparing our model with its linear counterpart confirms that monetary transmission in Poland indeed exhibits state dependence, while the analysis of monetary shock distributions under low and high unemployment shows that our results are not driven by the presence of a regime-dependent pattern in monetary disturbances.

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