



## THE ROLE OF THE NATIONAL BANK OF POLAND IN THE FINANCIAL STABILITY COMMITTEE

**Tomasz Knepka**

### **Abstract:**

Today, financial stability has been given the status of a public good. Ensuring this stability requires the design and efficient functioning of a financial safety net. In Poland, the role of such a network is played by the Financial Stability Committee, consisting of the National Bank of Poland (NBP), the Polish Financial Supervision Authority (KNF), the Bank Guarantee Fund (BFG), and the Ministry of Finance (MF). The activity of each network is directed at two areas. The first one is financial crisis prevention and the second is financial crisis management. In each of these areas, the institutions of the network have their objectives and tasks. In this paper, the author attempted to present the role of the National Central Bank in the Financial Stability Committee with particular emphasis on the objectives and tasks of the Polish "monetary ruler" in the area of macro-prudential supervision over the financial system.

**Keywords:** National Bank of Poland, Financial Stability Committee, macro-prudential supervision

**JEL Codes:** E02, G20

**DOI:** 10.19197/tbr.v19i2.330

### **1. Introduction**

In response to the financial crisis launched in 2008 in the US *subprime* credit market, the European Systemic Risk Board (ESRB) was launched three years later at the European Union level (Regulation (EU) No 1092/2010, 2010). Under European law, the Board shall conduct macro-prudential supervision of the financial system within the European Union. The aim is to contribute to preventing or reducing systemic risks to financial stability in the EU that arise from events within the financial system, taking into account macroeconomic developments, so as to prevent periods of widespread financial distress<sup>1</sup>. The ESRB contributes to the smooth functioning of the

---

<sup>1</sup> In the light of art. 2 letter. b of Regulation 1092/2010 the financial system means all financial institutions, markets, products and market infrastructures. The Polish legislator also uses this definition.

internal market and thus ensures a sustainable contribution of the financial sector to economic growth (Regulation 1092/2010, 2010, art. 3). In the light of the Regulation establishing the ESRB, systemic risk means the risk of disruption to the financial system with the potential to have serious negative consequences for the internal market and the real economy. All types of financial intermediaries, markets and infrastructures can have some potential systemic relevance (Regulation 1092/2010, 2010, art. 2 letter c). The previously used concept of the internal market under Article 26(2) of the Treaty on the Functioning of the European Union means the internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaties (Consolidated version of the Treaty on the functioning of the European Union, 2012).

In order to guarantee financial security in the future, the ESRB issued recommendations on 22 December 2011 recommending that EU Member States establish similar macro-prudential bodies within their jurisdictions and that these bodies be equipped with appropriate macro-prudential policy instruments (Recommendation of the ESRB, ESRB/2011/3, Recommendations of the ESRB, ESRB/2013/1). In the aftermath of the crisis and as a result of the recommendations issued, the basic regulatory weakness of the financial market became clear - there was no systemic supervision. It turned out that more than just supervision over individual institutions, i.e. micro-prudential supervision, was needed. What is needed is systemic supervision, the so-called macro-prudential supervision, which not only identifies and analyzes, but also actively reduces the risks to the stability of the financial system as a whole (Szpunar, 2012, p. 5). Macro-prudential supervision is now an important, if not the most important part of the financial safety net (Dobrzańska, 2014, p. 9).

A consequence of the document issued by the Board was the enactment and introduction in Poland of law on macro-prudential supervision of the financial system and crisis management in the financial system (hereinafter referred to as macro-prudential law), which established the Financial Stability Committee (hereinafter referred to as the FSC) with a special role of the National Central Bank in the area of macro-prudential supervision (Journal of Laws of 2015, item 1513).

The aim of the study is to show the role of the National Central Bank in the Financial Stability Committee (in the Polish financial safety net). As a result of the research, the author formulated a thesis that the National Bank of Poland plays a key role in the Financial Stability Committee.

During the research, a dogmatic and legal research method was used. Moreover, studies of literature on the subject by leading researchers of the financial market and financial market law turned out to be extremely valuable and helpful.

## **2. Origin of the Financial Stability Committee**

The first attempts to establish the FSC in Poland emerged in response to the financial crisis of 2008-2009. The Financial Stability Committee Act was passed, the aim of which was to ensure effective cooperation in supporting and maintaining the stability of the national financial system through the exchange of information, opinions and assessments of the situation in the financial system at home and abroad and to coordinate activities in this regard (Journal of Laws of 2008, No. 209, item 1317). In accordance with the provisions of this act, the tasks of the FSC included in particular: assessing the situation in the national financial system and on international markets and ensuring proper circulation of information between members of the Committee on important events and trends that may pose a threat to the stability of the national financial system, developing and adopting procedures for cooperation in the event of a threat to the stability of the national financial system, coordinating the activities of Committee members in the event of an immediate threat to the stability of the national financial system. The first FSC was composed of the Minister of Finance, President of the National Bank of Poland, Chairman of the Polish Financial Supervision Authority, President of the Management Board of the Bank Guarantee Fund.

As indicated earlier, the impulse for the establishment of the current FSC was the recommendation issued in 2011 by the ESRB on the macro-prudential mandate of national authorities<sup>2</sup>. In this document, the Board identified five groups of recommendations for the establishment of a macro-prudential authority in the European Union Member States, these were<sup>3</sup>:

- determination of the target,
- indication of institutional solutions,
- definition of tasks, competences, instruments
- ensuring transparency and accountability
- independence

The effect of the ESRB document was the adoption and implementation in Poland in 2015 of the Act on macro-prudential supervision of the financial system and crisis management in the financial system, under which the currently functioning Financial Stability Committee, which is also the Polish financial safety net, began its activity (Journal of Laws of 2015, item 1513). Thus, Article 95 of the same law made a derogation from the earlier law on the Financial Stability Committee.

As the title of the "macro-prudential law" indicates, its standards regulate the functioning of macro-prudential supervision and possible crisis management in the financial system. Such an approach indicates that the entities that are members of the Financial Stability Committee are active both at the stage of financial crisis prevention and at the stage of crisis management in the Polish financial system. Moreover, the above results directly from Article 3(1) of the "macro-prudential law", which states that the

<sup>2</sup>. The current list of national macroprudential authorities in the European Union is available on the ESRB website: <https://www.esrb.europa.eu/about/orga/list/html/index.en.html> (access: 08/10/20).

<sup>3</sup> Section 1 Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3).

Committee is competent for macro-prudential supervision and crisis management.

### **3. Financial Stability Committee as the Polish financial safety net**

In the literature, the financial safety net is presented in two ways. In a broad sense (*sensu largo*), the financial safety net covers all institutions and regulations that serve to protect the stability of the financial system from the consequences of the insolvency of financial institutions, including in particular banks as major financial intermediaries (Jurkowska-Zeidler, 2008, p. 193). On the other hand, the financial safety net in a narrower sense (*sensu stricto*) is limited to the activities and principles of cooperation between the institutions forming the banking system security network, i.e. between: the central bank, supervisory institutions, deposit guarantee schemes (Alińska, 2012, p. 93). An important complement to these institutions is the government, which in the financial safety net is most often represented by the Ministry of Finance (in some countries, the Ministry of Treasury). The Ministry of Finance plays a special role in crisis situations and when introducing changes in legal regulations (Iwanicz-Drozdowska, 2018, p. 9).

As indicated earlier, in the light of the applicable law, the Polish financial safety net is formed by the Committee, the members of which are: The Minister of Finance, President of the National Bank of Poland, President of the Polish Financial Supervision Authority, President of the Management Board of the Bank Guarantee Fund (Journal of Laws of 2015, item 151, art. 7 par. 1). The membership of the NBP in the financial safety net also results from Article 22a of the Act on the National Bank of Poland, which states that the President of the NBP is a member of the Financial Stability Committee (Journal of Laws of 2019, item 1810). Each of these entities has different objectives and tasks in the area of preventing and managing a potential financial crisis. It is worth noting that central banks traditionally act as lenders of last resort (LOLR) and in a crisis situation they can use non-standard monetary policy instruments and apply emergency liquidity assistance (ELA).

The collegial formula of the macro-prudential authority results from the fact that in Poland the tasks and competences to maintain the stability of the financial system are statutorily assigned to the above four financial safety net institutions. However, none of the institutions has a mandate or sufficient tools to effectively and independently counteract systemic risk. At the same time, each of the institutions represented on the Committee makes an important contribution to the analysis of systemic risk and can take actions to limit the accumulation of this risk as well as its effects. Hence, the collegial formula of the Financial Stability Committee allows for a synergy effect in the process of analysis, assessment and prevention of systemic risk (NBP, 2016, p. 8). Moreover, each of the financial safety net institutions

performs tasks to ensure financial stability on the basis of specific laws regulating the supervisory, guarantee and liquidity area.

Pursuant to Article 5 of the "macro-prudential law", the Committee's tasks in the area of macro-prudential supervision include: applying macro-prudential instruments, including making positions and making recommendations, identifying financial institutions posing significant risks to the financial system; cooperating with the European Systemic Risk Board, other European Union bodies, macro-prudential supervisory authorities from the Member States or third countries, as well as international institutions; ensuring an appropriate flow of information between the members of the Committee to fulfill its tasks. The Committee is chaired by the President of the National Bank of Poland (Journal of Laws of 2015, item 1513, art. 7 par. 2 pt. 1). On the other hand, on the basis of Article 6(1) of the above-mentioned law, it was indicated that the Committee's tasks in the field of crisis management include: developing and adopting procedures for cooperation in the event of an immediate threat to the stability of the financial system, coordinating the actions of the Committee members in the event of an immediate threat to the stability of the financial system or identifying a financial institution whose current or forecasted financial situation may pose a threat to the further functioning of that institution; ensuring the proper circulation of information between the Committee members for the implementation of its tasks. The Committee in the area of crisis management is chaired by the Minister of Finance (Journal of Laws of 2015, item 1513, art. 7 par. 2 pt. 2).

Moreover, members of the Committee participate in its meetings in person. In case it is not possible to attend the meeting in person by the Chairman or another member of the Committee, they shall appoint their representatives who represent them at the meeting. The meetings may also be attended, in an advisory capacity, by persons having appropriate knowledge or experience of the issues covered by the Committee's tasks, invited by the Committee Chairman on his or her own initiative or indicated by individual Committee members (Journal of Laws of 2015, item 1513, art. 7 par. 3,4). In September 2019, Professor Edyta Rutkowska-Tomaszewska proposed the extension of the KSF, stating that "due to the scale of inappropriate market practices towards consumers in the financial services market, and thus generating systemic risk, the composition of the Financial Stability Committee should be extended to include, at least, a Financial Ombudsman and the President of the Office of Competition and Consumer Protection"<sup>4</sup>.

Professor Małgorzata Iwanicz-Drozdowska rightly points out that the financial safety net plays the role of a "guardian angel" and not a manager of financial institutions that take risks themselves, manage them and should bear full responsibility for the consequences of their decisions. The activities of financial safety net institutions are to limit the possibility of financial

---

<sup>4</sup> [https://rf.gov.pl/pdf/konferencja\\_24.09.2019/2\\_Rutkowska\\_Tomaszewska\\_Naduzycia.pdf](https://rf.gov.pl/pdf/konferencja_24.09.2019/2_Rutkowska_Tomaszewska_Naduzycia.pdf) (access: 11/10/20).

problems in individual regulated financial institutions, as well as the occurrence of systemic phenomena (i.e. affecting most financial institutions) (Iwanicz-Drozdowska, 2018, p. 7-8).

#### **4. Objectives of the National Central Bank in the Financial Stability Committee**

In light of the macro-prudential law, the National Bank of Poland became the competent authority in the area of macro-prudential supervision. According to the provisions of the same act, macro-prudential supervision over the financial system includes the identification, assessment and monitoring of systemic risk arising in the financial system or its environment and action to eliminate or reduce that risk using macro-prudential instruments. More importantly, the objective of this macro-prudential supervision is, in particular, to strengthen the resilience of the financial system to the materialization of systemic risk and thus support the long-term, sustainable economic growth of the country (Journal of Laws of 2015, item 1513, art. 1 par. 1 and 2). The Polish legislator uses the legal definition of the notion of systemic risk to indicate that systemic risk is understood as a disturbance in the functioning of the financial system which, if it materializes, disrupts the operation of the financial system and the national economy as a whole, which may be caused, in particular, by trends related to excessive credit or debt dynamics and related asset price imbalances, unstable financing models, risk distribution within the financial system, links between financial institutions or macroeconomic and sectoral imbalances (Journal of Laws of 2015, item 1513, art. 4 pt. 15). In other words, macro-prudential supervision is aimed at preventing and mitigating systemic risk, the realization of which may cause destabilization of the financial system and transfer of its negative effects to the real sphere (NBP, 2016, p. 7). The consequence of the materialization of systemic risk may be financial crises that are very costly for society (NBP, 2016, p. 7).

It should be stressed that macro-prudential policy is preventive, i.e. it prevents the emergence of risks rather than dealing with the management and resolution of crisis situations. To this end, macro-prudential policy activities focus on identifying, analyzing, monitoring and counteracting systemic risks (Dobrzańska, 2014, p. 7).

As regards the objectives of the NBP in the area of macro-prudential supervision, it is impossible not to refer to the objectives of the central bank in the Act on the National Bank of Poland. In the light of Article 3 Section 1 of the Act, the primary objective of the NBP's activity is to maintain a stable price level while supporting the Government's economic policy, provided that this does not limit the primary objective of the NBP (Journal of Laws of 2019, item 1810, art. 3.1). In both of these normative acts, we find a reference to the economy. In the first case, it is about supporting the long-term and sustainable economic growth of the country and in the second one

about supporting the economic policy of the Government. It follows from the above that the objective of macro-prudential policy is broad and goes beyond the support of the financial system, including the economic policy of the state.

The monetary policy (price stability) ensures a stable price level, while the macro-prudential policy tries to keep the financial system stable. The effectiveness of monetary policy is greater when the financial system is stable because then the transmission channels of monetary policy work properly. In the case of financial instability, it is difficult to ensure a stable price level. This dependence also works in the other side. Financial stability cannot be achieved in an environment of rapidly changing prices. Therefore, the two policies interact with each other (Dobrzańska, 2014, p. 26).

## **5. The tasks of the National Bank of Poland in the Financial Stability Committee**

The tasks of the National Bank of Poland in the Stability Committee are set out in Article 5 of the "macro-prudential law", as mentioned earlier. It follows from the above provision that the tasks of the KSF in the area of macro-prudential supervision can be divided into three groups. The first group of tasks of the Financial Stability Committee serves to identify, assess and monitor systemic risk arising in the financial system or its environment. The second group of tasks consists of initiating actions aimed at reducing the identified threats to financial stability. To this end, the Committee may issue recommendations to specific recipients or present its position. The third task group is to ensure proper cooperation in the field of macro-prudential supervision, both at the national and international level and in particular at the European level (NBP, 2016, p. 7).

The relations between the NBP and FSC are also defined in the Act on the National Bank of Poland. In Chapter 4a, entitled the "NBP and the Financial Stability Committee", the legislator indicated the tasks of the central bank in the above-mentioned Committee, indicating that the NBP makes available to the Financial Stability Committee (Journal of Laws of 2019, item 1810, art. 30a):

- information and data, including those protected under separate laws, necessary for the assessment of systemic risk;
- information and data, including those protected under separate laws, necessary for the assessment of systemic risk; analyses, studies and opinions on the assessment of systemic risk, financial stability and macroeconomic imbalances, including the NBP cyclical reports on financial system stability and reports on macroeconomic imbalances;
- information on actions taken by relevant entities referred to in Article 4 point 22 of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system, related to the

implementation of recommendations of the Financial Stability Committee;

- information about consultations with the European Commission, the European Systemic Risk Board, the European Banking Authority and macro-prudential supervisory authorities from other interested Member States, referred to in Article 4 point 9 of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system, and opinions issued by those entities on the activities of the Financial Stability Committee.

In addition, the NBP provides services to the Financial Stability Committee with respect to the tasks set out in Article 5 of the act on macro-prudential supervision, in particular: it organizes meetings of the Financial Stability Committee and runs its secretariat; prepares draft resolutions of the Financial Stability Committee (Journal of Laws of 2019, item 1810, art. 30b).

In addition to the tasks characteristic for modern central banks, such as organizing monetary settlements, managing foreign exchange reserves, providing banking services to the state budget, regulating the liquidity of banks and their refinancing, shaping the conditions necessary for the development of the banking system, developing monetary and banking statistics, balance of payments and international investment position, the provisions of the NBP Act also refer to the involvement of the Polish monetary ruler in ensuring financial stability. The above is indicated by the provisions of Article 3, section 2, points 6a and 6b of the aforementioned Act. Point 6a indicates that the tasks of the NBP include acting for the stability of the financial system with regard to a financial institution within the meaning of Article 4, point 4 of the Act on macro-prudential supervision. Point 6b, on the other hand, refers to the central bank's actions aimed at eliminating or reducing the systemic risk referred to above.

## **6. Conclusion**

In Poland, the macro-prudential policy has not been developed in many scientific studies. However, the analysis of those that we encounter and the interpretation of the acts in question give rise to several conclusions.

The substantive and technical background available to the NBP with respect to the analysis of the financial system confirms the rightness of assigning macro-prudential supervision activities to the central bank. Although the primary goal of the NBP, resulting from Art. 227, section 1 of the Constitution of the Republic of Poland, is the responsibility for the value of Polish money and the mandate resulting from the NBP Act to maintain a stable price level, the mandate to maintain financial stability seems to be equally strong. Due to the fact that financial stability has been given the status of a public good (common good), this stability should be guarded by an independent institution, which bears democratic responsibility for its actions.



In the context of assigning tasks in the area of macro-prudential supervision to the Polish central bank, it should be noted that the primary objective of central banks was to ensure the stability of the financial system, so entrusting the NBP with tasks in this area is an appropriate solution. The current position of the Polish "monetary ruler" places it in the role of a key institution of the national financial security network.

In conclusion, one should also agree with Professor Magdalena Fedorowicz, who points out that macro-prudential supervision is the result of a process of supervisory network convergence, a specific process of regulatory convergence in the EU financial market that takes into account the functional links of this supervision with the other links of the European Financial Stability Network [Fedorowicz, 2019, p. 293].

With regard to the future activities of the FSC, it is appropriate to refer to the document issued by the Committee in 2019 which contains long-term priorities for the development of macro-prudential policy. The FSC defined the following areas requiring attention: increasing the Committee's ability to identify, measure and assess systemic risk, increasing its ability to effectively mitigate systemic risk, developing methods of analysis to assess the impact of structural changes in the financial system and its environment on systemic risk, developing the Committee's approach to the interaction and relationship of macro-prudential policy with other economic policies, developing new ways of communication of the Committee with the environment [NBP, 2019, p. 25].

## References

- Alińska A. (2012). Sieć bezpieczeństwa finansowego jako element funkcjonowania stabilności sektora bankowego, *[Kwartalnik Kolegium Ekonomiczno-Społecznego Studia i Prace, Szkoła Główna Handlowa](#)*, 4/2011.
- Dobrzańska A. (2014). Polityka makroostrożnościowa – zagadnienia instytucjonalne, Teoria i dotychczasowe doświadczenia w Unii Europejskiej, *Materiały i Studia* nr 307, Narodowy Bank Polski.
- Fedorowicz M. (2019). *Nadzór makroostrożnościowy w Polsce*, Poznań.
- Iwanicz-Drozdowska M. (2018). Europejska sieć bezpieczeństwa finansowego. Rozwiązania pokryzysowe, *Studia Biura Analiz Sejmowych*, 1.
- Jurkowska-Zeidler A. (2008). *Bezpieczeństwo rynku finansowego w świetle prawa Unii Europejskiej*, Warszawa.
- Szpunar P. J. (2012). Rola polityki makroostrożnościowej w zapobieganiu kryzysom finansowym, *Materiały i Studia*, zeszyt nr 278, NBP, Warszawa.
- Komitet Stabilności Finansowej. (2016). *Nadzór makroostrożnościowy w Polsce ramy instytucjonalno-funkcjonalne*, NBP, Warszawa.
- Komitet Stabilności Finansowej. (2019). *Strategia polityki makroostrożnościowej*, NBP, Warszawa.
- Consolidated version of the Treaty on the functioning of the European Union, Journal of the European Union, 26.10.2012, C 326.

Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, Official Journal of the European Union, 15.12.2010, L 331.

Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3), Recommendations of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

The Constitution of the Republic of Poland 2 April 1997, Journal of Laws 1997, No. 78, item 483.

The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system, Journal of Laws of 2015, item 1513.

The Act of 7 November 2008 on the Financial Stability Committee, Journal of Laws of 2008, No. 209, item 1317.

The Act of 29 August 1997 on about the National Bank of Poland, [Journal of Laws of 2019, item 1810.](#)