

Polish financial system - Narodowy Bank Polski



Safeguarding the national currency

As Poland's central bank, Narodowy Bank Polski (NBP) has a legal monopoly on issuing the Polish currency and is responsible for its value. But the bank's role in the Polish economy is much broader. Thanks in large part to its policies, the Polish banking system emerged unscathed from the global financial crisis.

During the turbulence on the financial markets in 2008 and 2009, the Polish banking sector remained stable. No bank in Poland was threatened with bankruptcy or needed support from the public coffers. This was largely due to Narodowy Bank Polski working closely together with the Polish Financial Supervision Authority (KNF) and the Ministry of Finance. The KNF in association with the central bank strengthened banks' capital by, for example, recommending that banks retain their profits. In addition, in October 2008 NBP unveiled a "confidence package" designed to counteract any disturbance in the functioning of the financial market and restore trust in the interbank market. As part of the package, NBP took action to make it easier for banks to obtain funds in both domestic and foreign currency from the central bank for periods longer than one day. The decisions made at the time saved the Polish economy and financial system from the fallout of the global economic crisis. Narodowy Bank Polski is one of the bodies responsible for the stability and development of the country's financial system. The central bank governor is one of the four members of the Financial Stability Committee, alongside the finance minister, the chairman of the Polish Financial Supervision Authority, and the chairman of the Bank Guarantee Fund. NBP takes an active part in building a financial safety net in Poland and helps the Financial Stability Committee develop principles governing the cooperation of state bodies in the event of emergencies. From the point of view of the stability of the financial system, of special importance is the security of the banking sector, which has a dominant position in the Polish financial system and plays a leading role in financing the economy. The stability of the banking system is a prerequisite for the smooth functioning of the country's financial settlement systems.

Ensuring the stability of the financial system is an important task of the Polish central bank, though not the only one. The primary objective is to maintain price stability. The bank achieves this task through a direct inflation targeting strategy with the inflation target at 2.5 percent with a permissible fluctuation band of +/- 1 percentage point. Monetary policy, issuing activity, the development of the payment system, the management of Poland's currency reserves, services for the State Treasury, and statistical, educational and informational initiatives constitute the main activities of the Polish central bank. NBP undertakes activities aimed at educating the public about economic issues, for example by providing information on its website, www.nbp.pl, and through the operations of its Economic Education Portal (www.nbportal.pl).

The bank of banks

As the central bank of Poland, NBP performs the tasks defined by the Polish constitution, the law on Narodowy Bank Polski, and the banking law. These laws guarantee the independence of NBP from other institutions of the state. NBP performs three basic functions – that of an issuing bank, a “bank of banks,” and a central bank. NBP has the exclusive right to issue notes and coins that are Poland’s legal tender. NBP decides on the issue size and the time when the money is put into circulation. It is responsible for ensuring liquidity. Additionally, it organizes the circulation of money and regulates the amount of money in circulation. NBP has no direct impact on inflation, but influences it indirectly through the so-called monetary transmission mechanism. The first element of this mechanism is the system of interest rates at which banks lend money to one another. Since NBP has a monopoly on the issuance of money, it is able to influence these rates. NBP tries to make sure that short-term interest rates on the interbank market are close to the reference rate set by the Monetary Policy Council, which is part of NBP.

NBP organizes the monetary clearing system, clears interbank payments and takes an active part in the interbank money market. The central bank manages the Polish currency reserves in order to guarantee the financial security of the state. The reserves are invested in securities across the world in a way designed to ensure not only their security and liquidity, but also maximum returns. Having considerable means, the central bank is able to influence the exchange rate of the Polish currency.

NBP also handles national budget accounts, running the bank accounts and processing the payment orders of the government and central state institutions as well as of special-purpose state funds and public sector units. Additionally, the central bank collects and publishes statistical data on Poland’s balance of payments and money supply.

Financial stability reports

Acknowledging the importance of financial stability, leading central banks, among them NBP, conduct regular research in this area and publish financial stability reports. The aim is to strengthen the security of the financial system by providing information about risk factors and the assessment of the capacity of the financial system to withstand negative shocks. The dissemination of this knowledge is designed to support financial stability through, for example, better understanding of the scale of risk in the financial system. This increases the probability of a spontaneous adjustment in the behavior of those market players that take on excessive risks, without the need for public entities to intervene in market mechanisms.

According to the latest Financial Stability Report, released by NBP in July 2015, the Polish financial system is stable. The key issue is the resilience of the banking sector on account of its size and role in financing the economy. “The results of stress tests and loss absorption capacity simulation show that banks’ resilience to shocks is high. The majority of banks would be able to operate safely and absorb the effects of the materialization of the restrictive scenario of a substantial slowdown in economic growth,” the report says. This is good news for the Polish economy and proof that the policy pursued by banking supervision authorities and the central bank is producing results.

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