

Monetary policy change of the Central bank of Poland

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The National Bank of Poland is an institution which, in conjunction with the government is responsible for the implementation of country's economic policy reinforces its democratic character. Provisions of its operation are governed by the Constitution of The Republic of Poland and by the Act on the National Bank of Poland. To this end, the objective of the present research is to analyse the proposed amendments in the Act on the NBP. The latter concerns the amendment procedures, term of office and the rotations and numbers of Monetary Policy Council. The remaining part of the analyses is dedicated to the issue of dismissal of a MPC's member in conjunction with the prohibition of occupying other positions, the adoption of the NBP's financial statements and the separation of instruments of monetary policy's instruments for stability of domestic financial system. Introduced changes in the proposed draft reduce the independence of the NBP while making it more subject to the Cabinet. Following the result of further consultations on the draft of Act on the NBP, provisions which reduce the independence of the NBP shall be partially removed.

Key words: central bank of a country, authorities of the National Bank of Poland, a systemic model of monetary policy

Národná Banka Poľskej republiky je inštitúcia, ktorá spolu v spojení s vládou je zodpovedná za realizáciu hospodárskej politiky krajiny. Môžem daný vzťah vnímať aj ako posilnenie demokratického charakteru krajiny. Národná Banka Poľskej republiky sa riadi podľa Ústavy Poľskej republiky a Zákona o Poľskej národnej banke. Cieľom predkladaného článku je analýza navrhovaných zmien zákona o NBP. Článok sa zameria na zmeny postupov, funkčné obdobia, či rotácie a počtu členov Rady pre menovú politiku. Ostatná časť analýzy je venovaná otázke odvolania člena Rady pre menovú politiku v súvislosti so zákazom výkonu inej štátnej (verejnej) funkcie, či prijímania účtovnej závierky NBP a separácii nástrojov menovej politiky od nástrojov stability domáceho finančného systému. Zmeny obsiahnuté v navrhovanom zákone by mali nielen znižovať nezávislosť NBP, ale by mala byť priamo-úmerne podriadená vláde. V nadväznosti na prebiehajúce konzultácie o návrhu o NBP, ustanovenie o znižujúcej sa nezávislosti NBP by malo byť odstránené.

Kľúčové slová: Centrálna banka krajiny, orgány Národnej banky Poľskej republiky, systematický model menovej politiky

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Introduction

Democratic character of Poland is reinforced by the National Bank of Poland, which is an independent entity along with the government, which is responsible for the implementation of economic policy. Thus, it counteracts the focus of decisions in the hands of one of the executives in the Cabinet². The latter is an institution with a significant influence on creating financial stability (Szczepańska 2008), which is crucial in the context of the euro zone crisis.

The amendment to the Act on the NBP is one of the most important conditions of internal financial security of Poland. The fact is that it will affect the formation of the security. It should provide the foundation with the aim of reinforce it. This may be the case if the proposed amendments to the Act on the NBP will not contravene the independence of the central bank in Poland. Further enhancements of NBP's independence should be taken into consideration when amending the Act, regardless of government's activities and its bodies towards the NBP. Independence provides a required freedom to form the monetary policy and achieve its stability. The last policy that central bank took was particularly significant as an important element of the exit strategy from the euro zone crisis. This may also become more vulnerable for the impact of political factors, which is particularly important in relation to the proposed changes.

Amendment to the Act on the NBP will concern not only the functioning of the central bank and its responsibility for the implementation of monetary policy of our country, but it will also have a profound impact on the formation of the relationship between the NBP and the government in the implementation of the fiscal policies in the country. However, it is not always properly formed and this may pose a threat to the safety. The subject of the amendment to the Act on the NBP should therefore be the subject of serious scientific debate and dissent, however, this is currently lacking.

The objective of my article will therefore be the analysis of the draft amendment to the Act on the NBP in terms of its independence. This article utilized research methods in order to perform the analysis. The institutional-legal method enabled to delimit the field of research on the proposed amendment to the Act on the NBP as well as an indication of alternative solutions. In contrast, the decision-making method has created the possibility of deliberations on the proposed amendments to the Act from the point of view of the National Bank of Poland and the Cabinet.

The current Act of 29th August 1997 on the National Bank of Poland (Ustawa z

2 Up to the moment when central banks got the constitutional independence, the decision considering country's economic policy was taken by the government. A similar situation occurred in Poland, where the Cabinet had a monopoly on decision making considering economy policy.

dnia 29 sierpnia 1997 r. o Narodowym ...) was only once amended in 2003 (Ustawa z dnia 18 grudnia 2003 r. o zmianie ustawy...). This was associated with the accession of Poland to the European Union (EU) and the membership of the NBP in the ESCB. The aim was to adapt the provisions connected with the status and responsibilities of the central bank of the country towards those regulated under EU law.

The current amendment to the Act on the NBP is with the aim of establishing mechanisms to stabilize the financial system in Poland. And it is the most pertinent idea. However, to complete all due diligence the changes made on this occasion shall not infringe the independence of the NBP.

The hypothesis of the research is as follow: the current amendment to the Act on the NBP tends to restrict certain independence of the NBP at the cost of increase the influence of the Cabinet because:

- The Cabinet should not have the right of initiative for the amendment of the Act on the NBP;
- attempts were made to introduce the term of office and retrieve the adoption of the NBP financial statements by the MPC;
- changes of the number and rotation in the MPC can cause greater dependence on the political factor;
- interest rates stability will be determined by the Board of the NBP, and not by the MPC;
- lack of decisions regarding the amount of funds that can be allocated for transactions in securities beyond the open market operations.

The questions raised on the verification of these hypothesis: Is there an alternative way for an entity having a right of initiative? What were the attempts made to reduce the independence of the NBP? What are the changes taking place as to the number and rotation in the MPC? How did the modification on the previous proposal relate to the securities transactions beyond the open market operations?

The procedure for amendment of the Act on the NBP

The original draft amendment to the Act on the NBP was prepared by the NBP and submitted to the Minister of Finance (MF) on 18th March 2013. According to the provisions in the Constitution of The Republic of Poland the right of initiative is available to members of the Parliament, the upper house, the President of the Republic of Poland, the Cabinet and a group of at least 100,000 citizens who are having the right to vote for the lower house (Konstytucja RP, art. 118, ust. 1 i 2).

The NBP is excluded as seen from the record. Perhaps the list of authorized entities

should be extended in the case of revision of the Constitution of the Republic of Poland, in order to have the right of initiative on the NBP. This would create the central bank in Poland the opportunity to submit their bills in the parliament. The inclusion of such a change will reinforce the transparency of the NBP. At the outset of the process the draft amendment to the Act on the NBP lays in the hands of the Cabinet, namely the Minister of Finance and this may raise some queries.

This is due to the fact that the executive namely the Cabinet is not advisable to lead the amendment to the Act on the central bank of the country. The queries may appear that the project will become prejudiced and will not entirely serve the purpose of reinforcing the independence of the NBP. It is essential to seek to exclude the impact of the Cabinet on the activities of the NBP. As for the time being, it would be best to hand over the right of initiative to the President of the Republic of Poland, an entity that is not directly involved in either the implementation of monetary policies or fiscal policies. The striking fact is that this amendment did not land on the feet of the President but the MF. The President of the Republic of Poland should take the utmost care of the independence of the NBP as the appointment of the President of the NBP for a period of 6 years was through the lower house by the President of the Republic of Poland. This appointment does not require the countersignature of the Prime Minister (Konstytucja RP, art. 14, ust. 3, pkt. 24).

Members of the Parliament follow the same procedure for the appointment of the President of the NBP without the influence of the Cabinet. This is why we do not understand the reason why the draft amendment to the Act on the NBP is in the hands of the MF. It significantly reinforces the position of the MF in relation to the NBP. The President of the Republic of Poland could become an objective arbiter, who takes into account the proposals of reinforcing the independence of the NBP. Institutions with different expertise should support the President of the Republic of Poland in drafting the Act on the NBP. These institutions should consist of the Cabinet, the NBP, the Financial Supervision Authority and the Bank Guarantee Fund. The concern of reinforcing the democracy of Poland would be visible through the actions of the President of the Republic of Poland. Conversely, the situation remains unchanged as the involvement of the Cabinet in the amendment process has been going on since 18th March 2013. And there were no strong voices in favour of a change in the situation at that time.

The introduction of the term of office in the MPC

A draft amendment to the Act on the NBP composed by the NBP³ was submitted to the Minister of Finance. The possibility of term of office for a member of the Monetary Policy Council (MPC) for two terms was excluded. Currently, each member of the MPC is restricted to one term of office (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym..., art. 13, ust. 2.) for a period of 6 years (Konstytucja RP, art. 227, ust. 5).

In contrast, the draft amendment to the Act presented by the Cabinet on 14th August 2013 included the possibility of term of office for two terms. According to the applicants, this proposal was aimed to maintain the stability of the composition of the MPC, it will also enhance their stability of assessment on the decisions influencing the conduct of the Polish monetary policy. A ban on the re-election as a member of the MPC will encourage objective decisions according to economic logic, and consequently independence from political pressures. The decisions taken in accordance with economic logic are particularly appreciated by the economy. In this way, the MPC emphasizes its political neutrality. On the other hand two terms in office may be beneficial for MF, whose concerns are the low interest rates and inflation.

The possibility of re-election of the MPC members influences decision making related to the conduct of monetary policy. This would create a risk of pressurizing its members, and thus an infringement of their independence. The decisions taken would be a political choice which they would buy the MF a favour in return for a re-election. That would create a situation in which the MPC members are promised re-election by MF. Following the critical comments submitted by the National Bank of Poland, the Ministry of Economy, The Polish Bank Association and The Independent and Self-Governing Trade Union Solidarność, MF refrained from the proposal of two terms of office for the MPC members. According to the NBP the possibility of exercising two terms of office as a member of the MPC is not advisable as it may raise queries regarding the independence of the NBP. This undermines the credibility of monetary policy (Polański 1998, s. 48) which adversely affects the goal of the NBP which is the price stability (Departament Rozwoju Rynku Finansowego 2013). The MF considered it to be appropriate by taking into account the remarks from the aforementioned entities. The attempts to further advance the change would evidently look as subordinating the decisions from the Council to political factors.

3 From the chronology concerning the draft of the assumptions to the draft of the Act about the amendment to the Act on the National Bank of Poland and the Act - Law on Higher Education initial version was submitted on 18th March 2013.

Rotations and numbers of the MPC

MF resigned from the proposal of two terms of office. The new draft Act on the NBP presented by the MF contained the proposal of rotations of the MPC members. It should be regarded as appropriate and beneficial for conducting monetary policy. The rotation of the Council members will contribute to maintaining the stability in the composition of the Council. Such a solution was proposed by The Ministry of Economy, The Polish Bank Association and The Independent and Self-Governing Trade Union Solidarność. They also act in accordance with the solutions proposed by the OECD. Conversely, simultaneous replacement of the entire composition of the Council will increase uncertainty in the monetary policy.

Consequently, there is also a risk of inconsistent decisions in successive terms, which may result in the loss of intellectual capital, know-how and institutional memory. These elements cannot be easily passed on to all the new members of the Council (Departament Rozwoju Rynku Finansowego 2013). Replacement of the whole Council at the beginning of its operations makes the decisions taken with great caution, and this is associated with the implementation process of the new realities. They may also carry themselves in a stringent manner. This leads to inconsistency in the implementation of monetary policy.

Restrictions of the Council decision were seen at the beginning of the second term of 2004 - 2010, when the interest rates were raised due to the convergence of the price after the accession of Poland to the European Union. The introduction of rotation was supported by the fact that it is an international solution. Countries like Austria, Czech Republic, Sweden, Norway and The Great Britain reached unanimous decisions to impose a term of office for the members of the decision-making bodies. This will shorten the "learning" time to conduct monetary policy by the members of the Council.

The proposed amendment to the Act on the NBP would allow overlapping of the offices of the members of the Council. This is in accordance with the provisions in the Constitution. The concept of term of office of each MPC members as grammatically interpreted by a legislator, has determined that the appointment of each member shall be for a period of 6 years (Konstytucja RP, art. 227, ust. 5.) and not the Council as a whole. This was also confirmed by the Constitutional Court in 2003, in which the fixed term concept of individual introduced by the Constitution of the Republic of Poland (Wyrok TK z dnia 24 listopada 2003 r. konstytucyjność ...) was confirmed. Currently, the principle of term of office for individuals has not been completely implemented. This was due to the fact that the whole composition of the Council was appointed at the same time. There was an exception when a member of the Council passed away. Jan Czekaj who was re-elected to the Council for the term of office 2004 - 2010 replaced the late Janusz Krzyżewski who passed away in 2003 (Kraś 2013, s. 96). It seems that

the term of office for individuals will be retained, for instance Prof. Jerzy Osiatyński as a successor of Prof. Zyta Gilowska who resigned from the membership of the Council in 2013. His term of office will have ended in 2019.

In connection with the proposal of rotation in the composition of the MPC, the numbers of its members should be taken into consideration. Initially, the presumed draft Act on the NBP on the composition of the Council was the same as currently existing, 1/3 of the composition will be changed every 2 years. There will be 12 people during the transitional period instead of 9. In both cases, the composition included the Chairman of the Council namely the President of the NBP. However, the draft amendment to the Act on the NBP⁴ includes a proposal to reduce the composition of the Council down to 6 people.

The Chairman of the Council together with half of the composition are to be replaced every 3 years. In the explanatory memorandum to the Act on the NBP, the applicant encourages a consideration on cost-effectiveness. It should be acknowledged that the members of the MPC are among the highest earning officers of the country and that would bring savings. During the period of transition, which would last for three years, there will be an increment in the number of members to 12 members and for that reason the cost of operation of the Council will be higher. Ultimately, the Council will have comprised of 6 members by 2022. According to the latest proposed amendment to the Act on the NBP on 22nd December 2014, every two members of the Council elected by the Parliament, the upper house and the President, whose term of office ends in 2022, and subsequently there will be no appointment of new. From the result of the draft, it shows that no one will be appointed to the Council after the expiry of the term of office in 2022. Therefore, there are some queries whether this will be in accordance with the Constitution of the Republic of Poland, whereas the appointment of a member of the Council will only take place as often as once in 6 years (Konstytucja RP, art. 227, ust. 5) by authorized entities namely the lower house, the upper house and the President.

In spite of this, there was no issue concern about number of MPC members, according to the provisions contained in the Constitution, the appointment of an equal number of members is done by the President of the Republic of Poland, the lower house and the upper house. Each of these authorized entities will appoint 3 people to the Council in 2016. The prerequisite condition of an equal number of appointed people to the Council will also be met in 2019. Out of the 12 Council members, 3 members will be appointed by the aforementioned authorized entities. It seems that each of the authorized entities should appoint one new member of the Council in 2022, and thereby the condition of replacing half of the composition of the Council every 3

4 These proposals were included in the draft amendment to the Act on the NBP of 22nd December 2014.

years will be met. That has not been mentioned in the draft amendment. It has only mentioned not appointing 2 places for the members of the Council. The proposed composition of the 7-member Council will lead to certain reduction in the power of the MPC Chairman. There will not be a deciding vote by the MPC Chairman in the case of no majority at the adoption of resolutions by the MPC (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym ..., art. 16, ust. 3).

The introduction of three additional people to the Council to a total number of 12 may cause a change of the proportion to be in favour of the government. The choice will be more political (Gliniecka 2004, s. 183). Furthermore, the enlargement of the Council for three years may pose a threat on divergent opinions on the conduct of monetary policy and the manipulation of the majority. Generally the idea of rotation is beneficial even though the temporary enlargement of the composition of the Council is less favourable. In contrast, the reduction of members in the Council to 6 people will pressurize them in making the decisions in accordance with the political logic. Contrariwise, it can shorten the time of reconciliation and decision-making in the MPC. The greater the dispersion of the current composition of the Council (9 people in addition to the Chairman) the more preferable that will be to take impartial decisions in accordance with the economic logic and to some extent it will limit the possibility of exerting pressure on making decisions. Political neutrality will be enhanced through a larger composition of the Council, and consequently reducing the risk of politicization.

The appeal of an MPC member concerning the prohibition of occupying other positions

The MPC members are forbidden to take up any positions, or being involved in public or gainful employment other than academic work, namely teaching or writing. The activities of an MPC member in the international organizations currently requires the consent of the Council, expressed in a resolution. The provisions appeared to be lacked of any sanctions for a breach of obligations. The amendment proposes the introduction of dismissal from the Council as a sanction for the breach of the provisions. The absence of such sanctions fosters moral hazard and a breach of the prohibition. The introduction of strict discipline will result in a stringent adaptation to the provisions among the Council members. Dismissal from the Council in fact is a very severe punishment particularly in the financial and prestigious aspect. The emergence of the sanctions will reduce the temptation of a possible breach of the provisions.

The power in determining the interest rates on loans granted by the NBP with the purpose of stability.

Another limitation in relation to the MPC is to entrust NBP Board the power to determine the interest rates, fees and commissions from the loans granted for the purpose of Stability. Such an action in terms of the MF is supposed to clarify and separate the monetary policy instruments from the actions of the NBP towards the stability of the domestic financial system.

During the transitional period, the decisions on interest rates will be entrusted to the MPC. It seems that the MPC should be responsible for conducting the monetary policy and financial stability policy, whereas the Board should be responsible for their implementation. The NBP Board reinforces the position of the President of the NBP during the transfer of power concerning the possibility of determining the interest rates in connection with the loans for the purpose of stability. This is the result of the appointment of the Board members of the NBP. They are appointed and dismissed by the President of the Republic of Poland at the request of the President of the NBP (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym ..., art. 17, ust. 2a). The President of the NBP as the Chairman of the Council would have very limited influence if these decisions were taken by the MPC. A clear argument in favour of the Board could be that it can respond more quickly to the changes during the crisis situation. The MPC also has the continuously debating ability.

Adoption of the financial statements of the NBP

Other than the two-term of office, another way of enhancing the independence of the NBP from the Cabinet was to reclaim the authority to approve the annual financial statements of the NBP. The financial statements shall be prepared by the NBP Board and to be accepted by the MPC (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym ..., art. 12, ust 2, pkt. 5).

Subsequently, it shall be subject to examination by an auditor appointed by the MPC. The final decision concerning the approval shall be taken by the Cabinet. The applicant considered that the formula of adopting the financial statements by the MPC is unclear as to the consequences of a possible refusal of accepting the statements. It is more difficult to reject the statement, which has already been adopted by a group of people who are distinguished by their knowledge in the field of finance. The NBP is directly subjected to the Cabinet in the case of refusal of the statement by the MPC. It shall not be forgotten that the crucial part of the statement is to transfer part of the NBP profit to the budget of the country. It was one of the arguments of the applicants indicating that this is an issue related to the approval of financial statement by the Cabinet, and not with the adoption by the MPC.

The separation of the monetary policy instruments from the stability of the domestic financial system instruments

Remortgage granted (Kazimierczak 2003, s. 95-96) on the basis of the Act on the NBP is one of the instruments of the monetary policy (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym..., art. 42, ust. 1 i 2). In contrast, loans granted to banks for the implementation of rehabilitation program is an instrument for the stability of the domestic financial system (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym..., art. 42, ust. 3). and will be subjected to regulations concerning loans stability. According to the new provisions, loans will be granted not only to banks, but also to other entities that are subjected to the supervision of the financial market. Additional instrument for the stability of the domestic financial system will be loan granted by the NBP to the entities which are subjected to the supervision of the financial market and participating in the payment systems operated by the NBP.

An important issue of the efficiency of the operation of monetary policy instruments and the instruments for the stability of the domestic financial system will be the coordination between them. In fact the monetary policy and the stability policy are interrelated. In the case of low interest rates set by the NBP, entities operating in the financial market are more prone to the risks and consequently the financial stability will decrease. The reduction in interest rates on loans is intended for the stability of the financial system that affects the overall demand in the economy. In case of negative effects of one of the policies, the other would be able to even them out.

Purchase and sale of securities by the NBP beyond the open market operations

Amendment to the Act on the NBP also implies the possibility of the NBP to buy and sell debt securities beyond the open market operations. However, these transactions will only be possible with the Bank Guarantee Fund, the National Depository for Securities or its subsidiary. These institutions are important from the point of view of stability of the domestic financial system. In the event of insolvency of a company, the company is subjected to the deposit guarantee scheme by the BFG as a solution. This involves the necessity of payment by the BFG guaranteed funds on a large scale to the National Depository for Securities and its subsidiary, in the event of failure in the settlement of transactions by the participants.

The proposed amendment does not specify the limit for this operation. It seems sensible that this limit is determined by the MPC. The Council could alternatively authorize the decision made by the Board of the NBP. By entrusting the decision on the purchase and sale of securities, which are the issues related to financial stability, the position of the President of the NBP is reinforced by the NBP Board. In contrast

it weakens the position of the MPC members. The Council should make decisions regarding the transaction, as a collective body it will be more resistant to the pressure of the political factor. It may result in asymmetric information between the President of the MPC and its members, and subsequently become a source of tension when making decisions.

The advantage of the proposals for the purchase and sale of securities beyond the open market operations is a clarification of the entities to show what can be done by them. The applicant also specified those entities and under what circumstances can they perform the transaction. Previous proposals for amendments to the Act on the NBP did not include clarification about the entities and the situation in which the transaction could take place. That created a risk of political engagement of the NBP in indirect support of the budget deficit. The Constitution of the Republic of Poland prohibits the action of covering a budget deficit by incurring liabilities from the central bank of Poland (Konstytucja RP, art. 220, ust. 2).

The purchase or sale of securities on the secondary market is possible through the open market operations (Ustawa z dnia 29 sierpnia 1997 r. o Narodowym ..., art. 48, ust. 2).

Conclusion

The presented hypothesis in the introduction which addresses the current amendment to the Act on the NBP tends to increase the influence of the Cabinet at the expense of reducing the independence of the NBP has been positively verified. There is a number of arguments that are in favour of the presented hypothesis. The right of initiative on amendment to the Act on the NBP should be transfer to the President of the Republic of Poland. This would help to reinforce the independence of the NBP considering that the President is not directly involved in the implementation of the economic policies of the country. He would then become an arbitrator between the two competing parties in conducting the economic policies. It would also be a welcome step to grant the NBP the right of initiative as the Cabinet has. The actions behind these can be justified by the expansion of the role of the NBP in the conduct of the economic policies of the country.

Attempts to introduce the term of office and to retrieve the adoption of the financial statements of the NBP by the MPC intend to reduce considerably the independence of the NBP. The possibility of re-election of the Council members could affect the property of the decision-making process. In order to be re-elected, the decisions taken would be in favour of the politicians. Those decisions in favour of the MF will not serve the long-term economic growth. The Council would fit in the implementation of the political business cycle, which is reflected in the conduct of economic policy during the pre-election period. Following the critical comments submitted by the National

Bank of Poland, The Ministry of Economy, The Polish Bank Association and The Independent and Self-Governing Trade Union Solidarność, withdrawal of the proposal of amendment to the Act on the NBP should be legitimately considered. Further reinforcement of the two-term of office by the MF would look as an obvious desire to infringe the independence of the NBP. By appointing the Council the right to adopt the financial statements of the NBP, it manifests reducing the independence of the NBP. In case of adopting the changes, accepting the statements would depend on the MF.

The preferred solution to the amendment to the Act on the NBP is the introduction of rotation in the composition of the MPC. This would allow overlapping of the term of office between the members of the Council, however, it has not been fulfilled despite the provisions contained in the Constitution. This is because the legislator anticipated the term of office of individual members of the MPC. The uncertainty in the monetary policy would be intensified following the replacement of the whole Council. Furthermore, there is a risk of intellectual capital and institutional memory loss.

The amendment also proposes a reduction of the composition of MPC to 6 people. During the period of transition, which would last for three years, there will be an increment in the number of members to 12. This proposal has weakened the proposed solution of rotation in the composition of the MPC. Consideration should be given to the Council up to whether nine people should remain in the composition. It seems that this is the optimal size of the Council. Apart from rotation, reducing the number of the Council down to 6 people reveals the potential in manipulation within the Council in order to suit the political logic. Faster in making decisions is one of the positive aspects of a scaled-down composition of the Council. A scaled-down composition can be translated into savings. Considering higher costs of the salary, wouldn't that be better to sustain the number of members (9 members) in the Council in order to ensure objectivity in making decisions. A greater dispersion of the Council would limit the possibility of exerting pressure on decision making to some extent, and consequently encourage decision in accordance with economic and not political logic. The reduction in the composition of the MPC may result in politicization.

The determination of interest rates stability by the NBP Board and not by the MPC is debatable; especially that there is a correlation between the monetary policy and the political stability. It may politicize the decision to some extent. And this is strictly due to the way of the members of the NBP Board being appointed. They are appointed and dismissed at the request of the President of the NBP through the President of the Republic of Poland. The President of the NBP selects the colleagues on his own. There is an absence of the constitutional regulation about the knowledge in the field of finance in relation to a candidate for the President of the NBP. Then again such a requirement does apply to the members of the MPC. The lack of such a regulation about the professional knowledge of the President of the NBP, makes this post to be a very

political one. The introduction of such a requirement would depoliticize the position to some extent and reduce the temptation to appoint this position with a political benefit.

Amendment to the Act on the NBP enables the purchase and sale of debt securities beyond the open market operations. The applicant indicated what entities and under what circumstances they may carry out those transactions. The limit of those transactions has not been specified. The limit should be determined by the MPC due to the greater resistance to political pressure. Eventually the Council could authorize the NBP Board's decision as to determine the limit. It should be noted that the previous proposal for those transactions allowed in the secondary market without appointing the entities and specifying the circumstances in which they may be completed. According to the provisions in the Constitution of the Republic of Poland, the central bank is prohibited from funding the country.

Despite some appropriate modifications in the proposed amendment to the Act on the NBP, there are some which should be eliminated in order to sustain the independence of the NBP. The introduced changes in the proposed draft reduce the independence of the NBP making it more subject to the Cabinet. Taking into account the history of previous amendment presented in the article and following the result of further consultations on the draft Act on the NBP, the provisions reducing the independence of the NBP shall be partially removed.

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