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MONETARY AND FISCAL POLICY CONTROVERSIES: A POLISH PERSPECTIVE

Abstract

Objective: The objective of the article is to determine whether the policy of the National Bank of Poland (NBP) as conducted in recent years may be the basis for bringing the president of the NBP before the State Tribunal for violating the Constitution of the Republic of Poland.
Research Design & Methods: The independence of the central bank is of undoubted value in terms of controlling the price level (inflation), but the ban on supporting the government during periods of financial crisis, for example the COVID-19 pandemic crisis, cannot be inviolable. In the detailed analysis of the subject literature, the significance of the activities of other central banks, primarily the European Central Bank, in 2007, is included. An analysis of the NBP's activities during the COVID-19 pandemic was carried out, with particular emphasis on inflation, independence from the government, communication with the public, and financing the government's borrowing needs.
Findings: Analysis of allegations regarding the NBP policy, including the validity of criticism (inflation). However, there are a number of counter-arguments against taking such drastic steps against the president of the National Bank of Poland, whose actions resulted in government support (redemption launched on the secondary market) during the COVID-19 pandemic period, for violating the Constitution.
Implications/Recommendations: It is necessary to introduce a provision into the Constitution allowing the NBP to purchase treasury bonds on the secondary market during periods of extraordinary difficulties on financial markets. Consideration should be given to changing the method of appointing members of the Monetary Policy Council (MPC) in order to prevent a single political grouping exercising political power for more than one term.

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Contribution: The policies of many central banks in the world, including the ECB, the Fed, the Bank of England, and others, confirm the hypothesis that central banks cannot be (and are not) inactive during periods of crisis, in which the fiscal policy resources available to the government are insufficient. The paper draws particular attention to the need for a pragmatic approach in Poland in extreme/crisis conditions. It also points out the need for institutional coordination of fiscal and monetary policy at the Financial Stability Committee.

Keywords: monetary policy, fiscal policy, central bank, inflation, budget deficit, public debt.
JEL Classification: E02, E12, E58, H6.

1. Introduction

Issues related to the theory and implementation of monetary policy are presented in this journal (see for example: Shevchuk, 2020), including an article devoted to the problem of inflation (Czekaj, Oleksy & Bolisęga, 2024). In the process of political and economic transformation in most post-communist countries, reference was made to the achievements of economic theories and practical solutions in the field of the institutional models that constitute the basis of monetary and fiscal policy, and the possibilities for combining them. After the change of political power in Poland, i.e., parliamentary elections in 2023, criticism of the monetary policy pursued by the National Bank of Poland (NBP), its independence, relations with the government, and information (communication) policy have intensified. Furthermore, desires and plans to hold the Governor of the NBP constitutionally accountable (Constitution of the Republic of Poland of 2nd April, 1997, as published in Dziennik Ustaw No. 78, item 483, article 198), would constitute an unprecedented event in the history of the central bank, not only for Poland but also for the European Banking Authority, which is responsible for stability and effectiveness of the European financial system. Due to the broader context of this issue, i.e. the fact that Poland is a member of the European Union, as well the National Bank of Poland being a member of the European System of Central Banks, it is worth referring to and discussing these issues and addressing the allegations directed at the Governor of NBP. The intention to bring punitive actions against the Governor of the Central Bank (NBP), which might cause systemic consequences for the European Banking Authority cannot be underestimated.

2. The European Union Is a Model of Institutional Solutions for Countries Undergoing Systemic Transformation

Historically, two models of relations can be distinguished between the central bank as an entity conducting monetary policy on one hand, and the government conducting fiscal policy on the other. As part of the traditional state financial policy, decisions made by these two entities were coordinated, facilitated by the state control of money, based on legal coercion and economic security (goods and services). Coordination of monetary and financial policies, depending on the status of the monetary and fiscal authorities in each country in a given period, does not exclude the dominance of monetary goals over fiscal goals (see for example, Moreira, Mendonça & Sachsida, 2021). The problem is that these goals may be difficult to achieve at a level that satisfies both policy actors. The point here is to maintain effective control over prices (inflation) using the basic tool at the central bank's disposal, especially interest rates. However, the interest rate policy is not indifferent to entities in the real economy, i.e. production, employment, investment, etc., a typical measure of which are changes in GDP. In simplified terms: the domination of financial policy by the government (fiscal dominance), which involves the forcing of "printing money" to finance expenses that are not covered by income (taxes), resulted in an increase in inflation with many negative effects on society and the economy (Mishkin, 2011, p. 4). In recent years, attention has been drawn to the risk of this phenomenon also occurring in developed economies (Calomiris, 2023). In turn, the situation referred to in the literature as monetary dominance means that monetary policy is active, while fiscal policy is the passive side of financial policy. Thus, the price level in the economy remains under the control of the monetary authority (ECB, 2021), but in crisis situations, the fiscal authorities may, due to the collapse of public finances, lose the ability to act effectively without support from the monetary authorities.

The formation of the European Union by 12 member states based on the pillars of the Maastricht Treaty in 1992–1993 marked a watershed moment that shaped the socio-economic and political transformations within Europe, including Poland. The Treaty established the bedrock and foundational mechanism that would influence and shape a resilient political and economic cohesion through the adoption of similar policies and solutions among member states. The consequence of this event was the gradual expansion of this economic, social and political grouping.

An important step was the admission of 10 new members, including Poland, in 2004. In the Polish context, what is striking was the determination of the political elites to quickly introduce the country to the European Union, at an early stage of economic transformation. This whole process occurred in the turbulent periods of the 1990s with a spontaneous, painful political and economic transformation taking place. The architects of the political and economic changes showed great imagination and determination in this respect.

This was expressed by the adoption of fundamental solutions bringing Polish tax system closer to the EU norms (1992/1993), especially when it came to the future harmonisation of indirect taxes (VAT, excise duty). A manifestation of Poland's determination to join the European Union were the institutional solutions in the adopted Constitution of the Republic of Poland (1997), which introduced the institutions of an independent central bank, collegiality in making monetary decisions, setting the term of office of monetary authorities, and in fiscal policy – a ban on financing government programmes through borrowing (budget expenditures) by the National Bank of Poland. Additionally, setting a limit on the state's debt, similar to the EU (60% of GDP), which also meant indirectly enforcing discipline on the government in terms of the scale of budget deficits, as these values are related. Further fiscal restrictions for the government appeared after joining the EU (2004), when Poland was subjected to the excessive deficit procedure (EDP) three times, in 2004, 2009, 2024, and then to the EU stabilising expenditure rule. Thus, over time, there was gradual institutional integration in the field of fiscal policy.

3. Verification of Model Institutional Arrangements

The model solutions adopted in the Maastricht Treaty were fundamental to the formation of the European Union, as well as to the creation of the eurozone and the European Central Bank (1999). For any further consideration and evaluation of the current situation in Poland, it is important to try to answer the question of whether, and to what extent the institutional solutions adopted with regard to monetary policy and fiscal policy and the relationship occurring between these two areas of state activity were implemented in practice. The analysis of empirical data leads to the conclusion that after the adoption of the Maastricht Treaty, which established formal (nominal) convergence criteria, a gradual disciplining of public finances of member states intending to join the euro area could be observed. This was reflected in the gradual improvement of the relationship between public debt and gross domestic product. When analysing the qualifying criteria or status of countries for the eurozone, a pragmatic approach was visible in that the debt criterion was not treated as absolute. The level of the ratio (debt/GDP) was not categorically adopted as the basis for fiscal adjustment, but a downward trend in this ratio could be observed in many countries. Otherwise, countries such as Italy, Belgium, and even Germany could not meet this requirement in such a short time. Therefore, the determination of governments to improve the fiscal situation and consolidate public finances, contributed towards pushing EU member states into achieving a common budgetary balance, as one of the pivotal conditions of ascension or entry for member states. An expression of pragmatism was the qualification of 11 out of 12 countries to the eurozone in 1997. Greece was not among these countries, as it joined the eurozone only in 2001, with various, most often negative, consequences.

4. The Independence of the ECB during the Period of Prosperity and during the Financial Crisis

It is interesting to observe the first years of the eurozone, in which the right to issue money was transferred from member countries to the ECB. The existing independence of the central bank and the ban on lending to governments for budget purposes worked almost perfectly. The inflation target set for the ECB at a continuous target of 2% was successfully implemented (ECB, 2003, p. 79) and there was no apparent pressure from the eurozone's constituent countries for the ECB to cover their governments' borrowing needs. This was fostered by a relatively strong economy affecting public finances favourably, and the potential borrowing needs of some member countries were met on the financial markets. Therefore, it can be concluded that the adopted model of independent monetary policy was validated, from the point of view of economic growth, low unemployment rate, fiscal discipline, and, more importantly, lower inflation.

The first major revision of the EU's institutional model in the sphere of monetary and fiscal policy occurred during the 2007/2008 financial crisis. The crisis affected almost all countries to a greater or lesser extent. However, its effects were felt most acutely in the countries of the eurozone, where national central banks had transferred the right of issue to the ECB (De Grauwe, 2011). The crisis caused a decline in the rate of economic growth, and in many member states the value of GDP fell in absolute terms in

2009 (the deepest crisis in the real sphere). In all the EU countries (with the exception of Poland) there was a decline in economic growth compared to previous years. Unsurprisingly, this phenomenon was accompanied by other negative phenomena such as an increase in unemployment and a decline in public revenues, with simultaneous pressure on public spending. The latter phenomenon was triggered by state spending needs of a social nature, bailouts of financial institutions (banks), and the implementation of fiscal stimulus packages (Staehr, 2010). As a result, the state of public finances in the eurozone countries, as well as in the European Union as a whole, collapsed, as evidenced by the fact that in 2009–2011 the excessive deficit procedure (EDP) was imposed on all member countries (except Estonia). This raised the urgent question of how to finance these additional spending needs of governments. The situation was so serious that some economists called for the disintegration of the eurozone (The Economist, 2011). The situation of governments in terms of their ability to borrow from banks and in the financial markets in general was also affected by the fact that many financial institutions had lost some of their assets, thereby creating a lack of stability and eroding investor confidence in the lending market. Issued securities (bonds) were not in high demand, despite the relatively high lending rates offered by some member states. A classic example was the Greek government bond issues, whose interest rates were many times higher than in countries such as Germany or France, and yet they did not attract sufficient buyers (Jenkins, Dobson & Meakin, 2011).

5. From Dogmatism to Pragmatism

In this situation, the behaviour of the authorities of the European Central Bank attracted a lot of attention, especially during the initial period of the crisis (GFC 2007/2008). Acting ECB President Jean-Claude Trichet (2003–2011) was a strong advocate of respecting the independence of the ECB and not lending to the governments of the eurozone countries[1]. There were sharp tensions between the governments of the eurozone countries, for example France (President N. Sarkozy) (Buiter, 2007) and the ECB authorities. This applied not only to the countries of Southern Europe and Ireland, but also, for example, France. Faced with the impossibility of borrowing on the financial markets and the ECB's refusal to finance

[1] It should be noted that during the presidency of J. C. Triche, the ECB decided to intervene in the debt market of euro area member states only as part of two rounds of the Securities Market Programme. As part of it, the ECB purchased bonds from countries such as: Greece, Italy, Portugal, Spain, and Ireland (Eser & Schwaab, 2013).

them, most countries decided to pursue a policy of tight and restrictive fiscal policy (austerity), with severe social and economic consequences. For incomprehensible reasons, the UK led the way in austerity policies, which can only partly be justified by the need to bail out banks and financial institutions (Hoddinott, Fright & Pope, 2022). With Britain not being a member of the eurozone, but as a member of the European Union at the time, it was obliged to comply with the treaty obligations, but the tradition of monetary policy in the country was so strong that the objectives of monetary policy were set by the government, and the task of the Bank of England authorities was to select the tools to achieve these goals. This fact enabled the British government under the G. Brown's administration to pursue austerity policies while actively bailing out financial sector institutions. The situation was different in the United States, where the crisis began and was the deepest, but in this country the independence of the central bank (Fed) was not limited by treaty arrangements. This allowed the Fed to be involved in the bailout and stimulus activities of the federal government, while the consequence of this was an increase in public debt to levels comparable to the World War II period. A change in the European Central Bank's approach to the financial crisis became apparent with the change in the position of ECB President Mario Draghi (2011–2019). The appointment of M. Draghi as president of ECB coincided with increasing turbulence within the financial markets, a liquidity crisis, which negatively affected the position of governments in raising loan funds. The years 2011–2012 posed the greatest threat to the existence of the eurozone. This threat was primarily of a fiscal nature due to governments' lack of access to loans, especially in countries such as Portugal, Ireland, Italy, Greece, and Spain (PIIGS). The ECB's monetary policy decisions are made, as stipulated by the Maastricht Treaty and the Statute of the ECB – collegially. However, the position of the president, his scientific status, and his professionalism were undoubtedly of great importance in these decisions. M. Draghi persuaded the ECB authorities to make the central bank of the eurozone more involved in its rescue. The phrase used by M. Draghi in July 2012, when he stated that the ECB would take any action to save the eurozone, "the ECB is ready to do whatever it takes to preserve the euro" (ECB, 2012), is very telling. The result of such a declaration was the announcement by the ECB's Governing Council in September 2012 of an instrument called outright monetary transactions (OMT). Under it, the eurozone central bank was to buy government bonds of eurozone member states on the secondary market – under certain conditions. It should be clearly emphasised that any indirect support for governments provided by the ECB under the OMT was to be conditional on specific (jointly with the European Commission) recovery programmes disciplining the public finances of these countries. In the end, the ECB only decided on this kind of action in the early months of 2015. At that time the repurchase of government bonds took place within the framework of the public sector purchase programme[2], but unlike the OMT programme, the central bank's intervention in the debt market was not conditional on the implementation of public finance reform programmes by the member country in question. It is also worth noting that in view of the lack of liquidity in the financial markets, the ECB in March 2016 decided to buy corporate (company) bonds[3]. Such actions of the central bank are referred to as credit policy by Borio and Disyatat (2009). As studies by De Santis *et al*. (2008) show, the corporate sector purchase programme has contributed significantly to reducing the problems of eurozone companies in accessing financing. At the same time, it should be noted that there is a great deal of controversy associated with this type of central bank action.

The ECB's activities in directly related to the eurozone and indirectly to the European Union should be evaluated positively, as a manifestation of pragmatism rather than any legislative doctrine. There are several arguments in favour of such an assessment. Thanks to such policies, almost all member countries have managed to return to the path of economic growth, rebuilding production, employment, investment, etc., compared to the period before the financial crisis. The recovery processes in the real sphere have been accompanied by inflation kept under control. Another argument in favour of a positive assessment of such an attitude and the actions of the ECB to manage the crisis is the fact that assistance to governments was made conditional on, and in cooperation with the authorities of the European Union (Commission) and the instruments it used. This is especially true of the excessive deficit procedure. This instrument proved so effective that after 4–5 years, its application resulted in the removal of EDP from almost all countries. The lessons learned from the 2007/2008 financial crisis and beyond provided a valuable lesson for the COVID-19 pandemic, which challenged both public finances and monetary policy authorities.

[2] This programme was part of the asset purchase programme.

[3] ECB adds corporate sector purchase programme (CSPP) to the asset purchase programme (APP) and announces changes to APP (ECB Press Release, 10 March 2016).

6. Independence of the National Bank of Poland during the Financial Crisis

The case of Poland is interesting in that the country is the only one in the European Union that did not record a negative economic growth rate in 2009. It is noted that less developed countries have benefitted from the deferred annuity created by the underdevelopment of the financial sector and the relevant toxic financial instruments (derivatives) on a wider scale. Nevertheless, the Polish economy also felt the effects of the crisis, symptomatic of which was a decline in economic growth (from 5.1% in 2008 to 1.6% in 2009) (Statistics Poland, 2012, p. 684). Consequently, there was an increase in the deficit and in public debt. An EDP (2009) was imposed on Poland (Council Decision of 7 July 2009 on the existence of an excessive deficit in Poland, Official Journal of the European Union, 2009/589/EC). Toward the end of that year, difficulties in financing state budget expenditures (budget liquidity) appeared on the horizon. Possible assistance from the NBP was under consideration, although it was not specified what it would consist of (the form of assistance was in question). In any case, such a solution would violate the constitutional prohibition on lending to the government. In September 2009, the Government of Poland negotiated with the European Commission for the EU to transfer funds due to Poland for ongoing projects in advance. In this way the liquidity of the state budget was maintained. In any case, unlike in the case of eurozone countries, where indirect or direct intervention (bailout activity) for governments by the ECB was necessary, in the case of Poland the prohibition on the financing of borrowing needs by the NBP has not been violated since the Constitution of 1997. It should be noted, however, that during the period of the global financial crisis, the structural open market operations that the NBP decided to use took the form of early redemption of NBP bonds (National Bank of Poland, 2010, p. 40).

7. Do Tenure and Collegiality of Decision-making Monetary Authorities Always Work?

One of the assumptions of the independent monetary policy model is the collegiality of the decision-making authorities that carry out this policy. The essence of this assumption is that different views, assessments, different interpretations of analyses, research results, etc. clash during the decision--making process. It is no secret that among the economists who sit on the collegiate bodies of the central bank are adherents of different economic schools and different streams of economic thought, especially monetary economics and Keynesian economics. This should be conducive to optimising decision-making. However, an important issue is to answer the question of who nominates members to collegiate bodies. While, at the ECB level the formation of decision--making bodies is, as far as possible, distanced from politics, the case is different for the central banks of EU countries that are not part of the eurozone. An attempt to neutralise (limit) the influence of state authorities on monetary policy was made by varying the term of office of state authorities and the term of appointment of members of decision-making bodies in the central bank. In the case of Poland, according to the Constitution, the term of office of members of collegiate bodies is 6 years, while the term of office of the Sejm and Senate is 4 years, and that of the president is 5 years. All these bodies have the right and obligation to designate 3 members each to the Monetary Policy Council. These solutions are intended to guarantee the independence of the central bank, and thus, as Rogoff (1985) noted, reduce the problems that can arise from dynamic inconsistencies in monetary policy implementation. The mode of appointment of board members, including the president, is different, but undoubtedly influenced by political authorities, meaning that the body (council) on monetary policy matters is dominated by the ruling party, which may make decisions that are more favourable to the government and less in line with the central bank's mission of maintaining price controls and fighting inflation. Such a situation can be dangerous if the council includes members designated by the grouping in power for two terms of parliament. Such a situation has occurred in the last 8 years in Poland. Among central bank authorities, the role of the president of NBP, who chairs the Monetary Policy Council, is special. A confluence of political circumstances (the political cycle) in Poland resulted in the fact that, due to the calendar, the president of the NBP for the next term was designated by a political faction, which, although lost power on October 15, 2023, managed, with the help of the president of Poland, to appoint the current president for a second 6-year term.

The non-overlapping periods of the political cycle and the monetary authority election cycle is desirable, but, in the real-world, various situations arise that can have a significant impact on the degree of independence of the central bank from the government. If, for example, a party (political grouping) is in power for two consecutive 4-year terms, this means that the composition of the board of directors and the decision-making body (council) on monetary policy matters is dominated by the ruling party, which can lead to decisions more favourable to the government. Despite the harsh criticism of the NBP for its actions in the previous term, this new situation poses a challenge after the opposition's election victory[4]. However, regardless of the outcome of the current ruling coalition's attempt to bring the NBP president before the Tribunal of State, which would prevent him from performing his current functions, let's try to consider the arguments raised, and which of them can be considered valid. A key issue is the question of fighting inflation, which in Poland, after slight deflation in 2015–2016, has increased by leaps and bounds in 2022–2023, when the average annual rate reached 14.4% and 11.4% respectively (Statistics Poland, 2022), with a set current inflation target of 2.5% (+/– 1%). This resulted not only in a loss of the real value of the current income (wages, pensions, benefits), but also in a dramatic decline in the real value of household cash savings. This was caused, on the one hand, by high inflation, and on the other by almost zero interest for savings deposits in banks. Such a situation seriously damaged the reputation of the NBP, which is responsible for anti-inflationary policy, and maintaining confidence in the state. Thus, these are serious charges, since, according to many economists, including the author of this text, the NBP's decisions on the issue of countering price growth were too late and too weak. It cannot be ruled out that these decisions were influenced by the government, for which high inflation meant the realisation of an inflationary bonus (higher revenues for the public finance sector) and greater opportunities to "buy" voters with various social programmes before the upcoming parliamentary elections. Chaos and inconsistencies have been noticeable in the NBP's activities in recent years. A surprise, for example, was the radical reduction of interest rates in September 2023 from 6.75% to 6.0%, just before the parliamentary elections in October 2023. Although the CPI Index was on a downward trend from its record high of 18.4% in February 2022, inflation was still high relative to the target in September 2023, as the CPI was at 8.2% (National Bank of Poland, 2023, p. 17). This step was described as incomprehensible and motivated by political considerations (winning the votes of voters repaying loans) (Gera, 2023). Despite the undoubtedly controversial behaviour and decisions of the NBP on inflation issues, proving the president's guilt will be difficult for several reasons. First and foremost, because decisions were made collegially, and the fact that the decision-making body (with a majority) and with the special role of the president in the voting system ("golden share"), is formally beyond question. The collegial system of voting on monetary decisions blunts the cutting edge of criticism and dilutes accountability.

[4] Even before the elections, the opposition announced that it would bring charges against the president of the NBP (Hancock, 2023).

Another accusation relates to information activities (communication, justification of decisions) to stakeholders. In this area, much can be blamed on the NBP, including the president, especially the form and nature of this communication. However, it cannot be overlooked that the NBP's projections are only forecasts, as there is a lag effect in the conduct of monetary policy, which makes it difficult to make decisions on interest rates. Unfortunately, monetary policy itself is, on the whole, conducted by trial and error, and not only in Poland.

The next allegation against the NBP relates to the manipulation of profit, the amount of which (less 5% allocated to the reserve fund of the NBP) paid to the state budget in accordance with the Law on the National Bank of Poland[5]. It should be noted that in the relationship between the NBP and the government (the state budget) in the context under consideration, there is a temporal discrepancy in that the payment to the state budget is made after the approval of the financial statements, which means that the payment made this year is based on NBP's profits of the previous year. Hence, the president of the NBP is obliged to inform the government of the expected payments. This issue requires more elaboration, which is beyond the scope of this paper. In any case, in addition to the issue of the timing and the anticipated payment to the government, there is the question of the factors shaping this result. Without elaborating on this topic, it is worth noting that the year 2023, in which a negative result (loss) occurred, was by no means the first such case. Losses, and consequently a lack of payments to the state budget, occurred in 2007 and 2008. Among the many factors affecting the NBP's profit, a special role is played by foreign exchange reserves, which the NBP is obliged to accumulate. There are differences in the valuation of foreign currency reserves according to the rate of acquisition of PLN at the rates adopted for the balance sheet at the end of the year. The appreciation of currencies causes – in accounting terms – a loss, while the depreciation of the zloty to foreign currencies causes the opposite (profit). According to the NBP's announcement, the main reason for the loss in 2023 was the appreciation of the zloty (National Bank of Poland, 2024). From a formal point of view, it should be noted that the NBP's financial statements are audited by a reputable auditing firm. This, of course, does not exclude irregularities in the financial management of the NBP, such as with regard to income and expenses, affecting the financial result, in addition to the appreciation (depreciation) of the currency. The NBP's official reports and statements are subject to examination by the Supreme Audit Office (NIK). For those less familiar with the topic (e.g., politicians), the central bank's loss may appear to be a paradox (curiosity), especially when previous years have

[5] The Act on Narodowy Bank Polski of 29 August 1997 (Journal of Laws of 2022, item 2025).

seen profits and significant payments to the state budget (e.g., 2022). The fact that there is no payment to the state budget in 2024, when a different party is in power, may also be perceived in this way. In any case, the supposedly intentional behaviour of the NBP in this matter provides a weak basis for charges, unless the NIK were to demonstrate, beyond any reasonable doubt, significant irregularities in this regard.

While the issues discussed above seem dubious (fraudulent and criminal conduct) reasons to summon the central bank (NBP) governor by bringing him before the Tribunal of State due to the politicisation of his activities, which would imply violations of the independence of the central bank, there is a problem with the last argument that is not only formal. It is about the relationship between the government and the central bank in terms of loans to the government for the government's financial needs. The fact is that, during the COVID-19 pandemic and after the outbreak of war in Ukraine, there were difficulties in financing budget expenditures. These were due, in part, to the decline in the rate of economic growth (in 2020, the value of GDP fell by –2.5% in real terms compared to the previous year) (Statistics Poland, 2021, p. 693), which negatively affected the size of government revenues, the need for the government to subtract bailout activities for businesses and shielding activities for households. In view of the financial difficulties, not only of the government (state budget), during the COVID-19 pandemic period the National Bank of Poland undertook actions to buy government bonds guaranteed by the Treasury. It was this activity of the NBP during the COVID-19 pandemic and the outbreak of war in Ukraine that were most controversial. They are related to the asset purchase programme which, in the terminology of the NBP, was referred to as Structural Open Market Operations[6]. Ultimately, in 2020–2021, it purchased State Treasury bonds, as well as bonds of the COVID-19 Countermeasure Fund (Fundusz Przeciwdziałania COVID-19) guaranteed by the State Treasury and issued by Bank Gospodarstwa Krajowego and also bonds of the Polish Development Fund[7]. The total nominal value of bonds purchased by the NBP amounted to more than PLN 140 billion (National Bank of Poland, 2022, p. 14).

[6] In this context, it is worth recalling that the NBP decided to conduct a structural operation in response to the global financial crisis, but at that time the subject of the central bank's unconditional transactions were its own bonds.

[7] Not regardless of the type of bank balance sheet policy, which was used by Borio and Disyatat (2009, p. 7) with the term quasi-management of public enterprises

It should be noted that, in the face of the COVID-19 pandemic, a number of central banks decided to do the same. Research by Fratto *et al.* (2011) showed that such a situation affected nearly thirty developing economies (including some for the first time in their history). At the same time, in the context of the actions of the NBP, important questions arise about the purpose that the above actions were intended to serve. To what extent was it consistent with the central bank's mandate as described in the Polish Constitution and the National Bank Act. The problem of the division of powers between the constitutional bodies of the NBP regarding the conduct of structural open market operations and the nature of the market in which the outright operations were carried out are also key issues. This is largely a dispute of a legal nature. However, one must ask what other option – besides purchasing Treasury bonds in the secondary market – the central bank had when faced with the challenges caused by the COVID-19 pandemic. The Chilean central bank's experience is some answer to this question. As economists at the Committee on the Global Financial System note, this bank was not allowed (due to existing constitutional legal arrangements) to purchase government bonds under any circumstances, including in the secondary market, during the initial phase of the pandemic (BIS, 2023, pp. 29–30). In the end, the bank's policy was limited only to the early purchase of its own bonds and bonds issued by commercial banks[8].

The fact is that the government's activities in the sphere of public finances during the COVID-19 pandemic and the war in Ukraine were not very transparent. In addition, much of the public finances were out of parliamentary control and oversight. This is evidenced by the differences between the Polish government's approach to the General Government (GG) balance sheet and Eurostat's (EU) approach. These differences include the Bank Gospodarstwa Krajowego, where the COVID-19 Prevention Fund was held. There are many justifiable reservations with regard to the transparency of public finances during the period of the previous government's rule. The annual reports on the implementation of the state budget for annual periods, an important document for assessing the state of public finances, the balance sheet of the public finance sector, was discontinued from 2021. One is free to believe that this was not an intentional act. However, in support of transparency in the relationship between the government and the National Bank of Poland, is the fact that in the official documents of the Council of Ministers, i.e. in the annual reports on the implementation

[8] It should be emphasised here, however, that such a possibility has been very severely limited in terms of the required circumstances and the duration of such interference (BIS, 2023, p. 30).

of the state budget, the amount of obligations (debts) of the budget to the NBP was given, starting from 2021 (for the year 2020). In other words, the possibility of the NBP violating the Constitution was known as early as 2021, but the political set-up at the time precluded the possibility of bringing the NBP president before the Tribunal of State.

8. Conclusions

Referring to the activities of the NBP in assisting the government during the period of the pandemic crisis and the war in Ukraine, it should be noted that these activities were broadly similar to those of other central banks such as the ECB, Fed, Bank of England, and the Bank of Chile. Thus, without denying the necessity for full political independence of the central bank from government, which is imposed by treaty (legal) obligations and the Constitution of the Republic of Poland, one cannot help but ask a question like this: in conditions of economic and financial crisis, social crises, pandemics, natural disasters, etc., should central banks remain passive, since the fiscal tools available to governments are insufficient. Life has refuted this approach, as evidenced by the actions of central banks. Failure to recognise this fact would be an example of hypocrisy and could be dangerous for society and the economy. What is overlooked in the criticism of central banks, is the fact that central banks have generally cooperated with governments in the bailouts they have undertaken, which has manifested itself in, among other things, setting robust conditions on which aid can be provided. A classic example is the case of Greece.

As for Polish solutions, the relationship of the NBP with the government in the Constitution of the Republic of Poland is too loosely defined, hence it would be necessary to clarify, for example, whether it concerns loans on the primary market or on the secondary market. As a proponent of the classical model of financial policy, I would rule out a complete ban on assisting the government in emergency, crisis situations. It would be worth considering solutions that minimise the possibility of such a balance of power in the Monetary Policy Council, which should not be dominated by a single political party, further strengthened by the special position of the NBP president in the monetary decision-making process. This could probably be made possible by changing the mode of appointment of MPC members (e.g., rotating a proportion of the members every two years). Since possible changes will not be possible in the foreseeable future (amendment of the Constitution), at least a partial return to classical coordinated monetary and financial policy is necessary. The forum for such coordination can, and should, be the Financial Stability Committee, established in November 2008 in response to the 2007/2008 financial crisis (Act of November 7, 2008 on the Financial Stability Committee, Journal of Laws of 2008, No. 209, item 1317), in which responsibility for inflation targets would also be shared by the government, whose decisions are, without doubt, influential. Similarly, monetary policy cannot ignore the government's priorities, namely economic growth, employment (unemployment), investment, balance of trade, sources of financing of budget deficits, and maintaining control over the level of public debt. There are fundamental issues for society and the economy that should be analysed by both monetary and fiscal authorities.

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