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Warsaw, 6<sup>th</sup> of July 2023

## FOR Communication 14/2023: National Political Bank - guarding the party rather than the currency

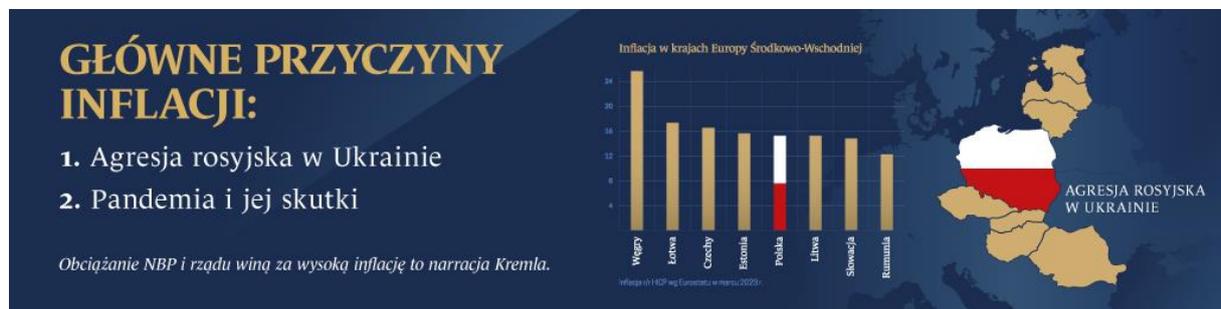
*It is enough to look into the provisions of the constitution concerning the National Bank [NBP]. There is [...] very clearly stated that the task of the bank is to safeguard the Złoty, and therefore, printing more money is nothing but a blow to the Złoty. It is also written that the President of the National Bank cannot get involved in politics.*

Jarosław Kaczyński during the Sejm session on July 9, 2014<sup>1</sup>

According to the constitution, the National Bank of Poland is responsible for the value of the Polish currency, and according to the law, its primary objective is to maintain a stable price level.

However, during Adam Glapiński's presidency (since June 2016), the accumulated inflation until May 2023 reached 47.6%, which means an average increase of the price level of about 5.7% per annum, while the inflation target is 2.5% with a deviation range of  $\pm 1$  percentage point. In February this year, inflation reached 18.4% y/y, marking the highest rate in over 26 years.

In response to numerous criticisms, the National Bank of Poland (NBP) has launched an "informational" campaign under the catchphrase "blaming the NBP and the government for high inflation is the Kremlin's narrative." In this campaign, the NBP points out that the main causes of inflation are not populist decisions of the government and loose monetary policy of the central bank, which facilitated cheap borrowing for the state. Instead, the NBP attributes the high inflation to the Russian aggression on Ukraine and the pandemic and its effects. **This campaign represents another example of the NBP's political involvement and unlawful use of state resources for election purposes.**



Source: National Bank of Poland (NBP)

<sup>1</sup> Sejm of the Republic of Poland, Speeches during the Sejm sessions. Session number 71 on July 9, 2014 (1st day of proceedings). [https://www.sejm.gov.pl/sejm7.nsf/wypowiedz.xsp?posiedzenie=71&dzien=1&wyp=3&symbol=RWYSTAPIENIA\\_WYP&id=152](https://www.sejm.gov.pl/sejm7.nsf/wypowiedz.xsp?posiedzenie=71&dzien=1&wyp=3&symbol=RWYSTAPIENIA_WYP&id=152).

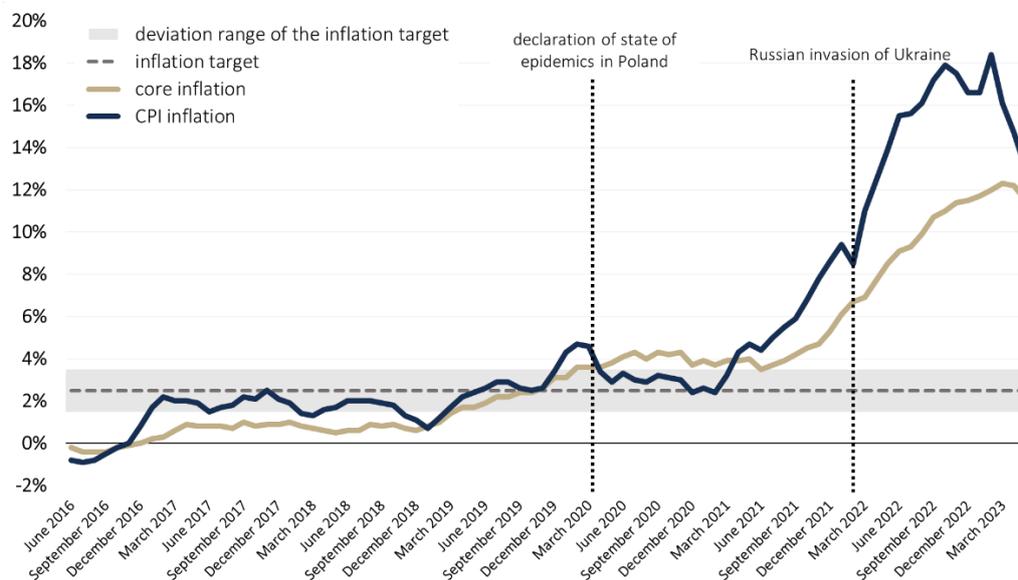
Contrary to the NBP's campaign claims, inflation had exceeded the upper deviation from the target even before the COVID-19 pandemic, reaching over 4% in the first three months of 2020. After the outbreak of the pandemic, inflation in Poland temporarily decreased to around 2.5% at the turn of 2020 and 2021, thanks to a declining energy prices on the global markets. However, throughout this period, core inflation, excluding food and energy prices, remained elevated.

Despite numerous alarming signals, the President of the NBP continued to state during press conferences that high and constantly rising inflation was transient, and any potential increases in the reference rate would be a "rookie mistake." The Monetary Policy Council did not opt for raising the reference rate until October 2021, when inflation reached 6.8%.<sup>2</sup>

Moreover, the NBP's Inflation Report published in July 2022 contradicted the notion that the pandemic and its effects were one of the main causes of high inflation. In the report, it was stated that "CPI inflation in December 2021 was 8.6%, of which a maximum of 3.8 percentage points can be attributed to disruptions in supply nets"<sup>3</sup> caused by interruptions in supply chains due to governments' measures to combat the pandemic. This implies that disruptions in supply chains accounted for just **over half of the inflation in December 2021, and even without these disruptions, inflation would still be almost twice the target.**

The aggression on Ukraine led by Putin's Russia contributed to inflation (due to the rise in energy and food prices). However, it cannot fully explain the inflation reaching almost 10% at the beginning of 2022.

Chart. Inflation y/y under the presidency of Adam Glapiński



Source: FOR's own study based on NBP data.

<sup>2</sup> See D. Filar, *Wysoka inflacja w Polsce to dzieło RPP* [PDF], Komunikat 4/2023, Forum Obywatelskiego Rozwoju, February 6, 2023, <https://for.org.pl/pl/a/9336,komunikat-for-4/2023-wysoka-inflacja-w-polsce-to-dzielo-rpp>.

<sup>3</sup> NBP, *Report on inflation*, July 2022, p. 22, [https://static.nbp.pl/dokumenty/polityka-pieniezna/raporty-o-inflacji/raport\\_lipiec\\_2022.pdf](https://static.nbp.pl/dokumenty/polityka-pieniezna/raporty-o-inflacji/raport_lipiec_2022.pdf).

**The National Bank of Poland, instead of safeguarding the value of the Polish currency, is engaging in the election campaign of Law and Justice (PiS) party.** Adam Glapiński regularly praises the current government and criticizes the opposition during press conferences, even going as far as promoting conspiracy theories about a "German plan to overthrow the Law and Justice government."<sup>4</sup> In May this year, the Polish central bank published an *Opinion of the NBP President regarding the election promises of PiS and Civic Platform (PO)*, clearly indicating Adam Glapiński's political preferences. Such actions by the NBP President violate the principle of central bank's independence and are irreconcilable with the office he holds.

**Central bank's independence is crucial for both citizens and market participants.** A central bank is considered independent when there are rules (applied in practice) that exclude any reasonable risk of external influences, primarily from politicians, on its functioning.

**An independent central bank can make decisions based on objective data and analyses, rather than reacting to the current political situation and the will of the ruling government.** This ensures long-term economic stability. Independence is vital for maintaining price stability and trust in the Polish economy.

Regardless of short-term government needs, an independent central bank can focus on maintaining low inflation and avoid the pressure to pursue loose monetary policy to facilitate the financing of populist government's programs. This contributes to maintaining its credibility, attracts foreign investments, stabilizes financial markets, and allows market participants to operate in a predictable environment, making better economic decisions.

**Adam Glapiński's actions - particularly his blatant and intentional support for the ruling party, constitute an unlawful use of state resources for election campaign purposes.** The NBP President uses his position, subordinates, and the resources allocated to the central bank to discredit the opposition and convince citizens into the mistaken belief that the economic situation in Poland is good due to the government's policies. This further solidifies the idea that the current parliamentary majority will ensure improved living conditions for Poles. These actions are selective and aligned with the current political calendar. Such situation undermines trust in the NBP and violates citizens' rights to fair elections, as well as the opposition's right to seek public support on equal terms.

*During the election campaign, we will monitor instances of state resources being used in favor of the ruling party. If such situation persists, it will erode trust in the democratic form of governance and significantly limit the possibility of holding the current government accountable at the ballot box.*

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<sup>4</sup> O. Papiernik, *Glapiński uderza w Tuska i mówi o „niemieckim planie obalenia rządu PiS i złotego”*, dziennik.pl, July 31, 2022, <https://gospodarka.dziennik.pl/news/artykuly/8502373,adam-glapiński-nbp-niemcy-polska-rząd-złoty-donald-tusk.html>.

## Civil Development Forum (FOR)

FOR was founded in 2007 by prof. Leszek Balcerowicz in order to effectively protect freedom and promote truth and common sense in the public discourse.

Our goal is to change the awareness of Polish people and existing and planned law in direction of freedom.

FOR achieves its goals by organizing debates, publishing reports and studies on important socio-economic topics, in particular: the state of public finances, the situation on the labor market, economic freedom, the judicial system and the creation of law. On the initiative of FOR, a public debt counter was launched in the Warsaw city center and on the Internet, it draws attention to the problem of the growing state debt. FOR's activities also include economic education projects and participation in campaigns to increase voter turnout.

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