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Statement by the Hon. **MAREK BELKA,**
Governor of the Bank for the **REPUBLIC OF POLAND**

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**Governor of the Bank for the Republic of Poland**

I am honoured to deliver this statement on the occasion of Annual Meetings 2010, when we gather to discuss the condition of the world economy in the aftermath of the unprecedented crisis and seek solutions to better protect the stability of global economic system in the future.

The financial crisis and the subsequent economic downturn were extremely painful in many aspects and regions of the global economy. Although the crisis started in the financial sector in the developed world, it quickly spread to many developing countries, particularly the ones most connected to the global economy through the channels of trade, investment and workers' remittances. It put at risk progress made on growth, job creation and poverty reduction.

The crisis hit while we were halfway from the Millennium Development Goals target deadline and its impact on progress toward the MDGs is worrisome. We were reminded of that a few weeks ago at the UN High Level Meeting on MDGs in New York, where the international community confirmed that efforts must be maintained and work continued towards the set targets and commitments taken.

The Europe and Central Asia (ECA) Region was one of the regions most severely hit by the global financial and economic crisis. In 2009, twenty out of 30 countries in the Region experienced a decline in GDP. However, it must be noted that the ECA countries are quite diversified and the impact of the crisis varied for individual countries. Poland, for example, as one of the top performers succeeded in maintaining a positive GDP growth rate. Poland's economy has showed a relatively high resilience to the global crisis owing, among others, to a less pronounced than in other countries dependence of domestic economic climate on external demand, a lower share of credit in financing the real sector as well as a relatively stable internal demand. The sustainability of economic growth was also fostered by appropriate macroeconomic policies both before and during the crisis, including monetary policy aimed at maintaining price stability over the medium term under the floating exchange rate regime.

Common understanding of the causes of the recent crisis and its scale have prompted politicians and regulators to act quickly without waiting until the situation fully stabilizes. The G-20 patronage gives strong support for the world-wide implementation of the reforms, reducing the risk of regulatory arbitrage. The scope and significance of the projected changes are impressive. The most important proposals include strengthening

the capital standards, together with introducing counter cyclical buffers, introduction of liquidity norms and setting up mechanisms to resolve problems posed by Systemically Important Financial Institutions.

It is in our common interest to implement the proposed changes with determination. When implementing them, however, we should take into account at least four significant challenges which I would like to briefly touch upon:

- immediate regulatory reaction during the crisis,
- liquidity norms,
- effective enforcement of new regulations,
- risk of regulatory arbitrage.

The existing regulatory system has been created for decades. Changes were not introduced very frequently and preparations preceding them were carried out at a pace slow enough to allow for prior testing and calibration to avoid undesirable results in the future. It was almost a rule that changes should not be introduced during the time of crisis, when regulators show a natural propensity to adopt an overly restrictive approach, leading to the overregulation of the market.

This time the response to the identified causes of the crisis was immediate. It should be remembered, however, that Basel II regulations, the preparations of which had kept regulators busy for several years, had come into force shortly before the onset of the crisis, Even so, regulations concerning own funds have proved insufficient. Regulatory solutions which are presently being developed come into force when the crisis is over and the situation in the financial market returns to normal. Considering the present fast pace of work, maximum effort should be made to avoid the need for another modification before the new regulations of Basel III are fully implemented.

The next, and possibly even a greater challenge, will be the liquidity norms. We can profit from the experience of those countries which have already introduced liquidity norms. But it is for the first time that a regulation, not guidelines, addressed to all markets is being developed. The risk of making a mistake is therefore larger and the consequences of errors may surface much more abruptly than it was the case with capital adequacy. It is, therefore, a good thing that both time for testing new solutions and a sufficient transition period are envisaged.

Thirdly, the way in which supervisors enforce the regulations is of great importance. Prudential regulations lay down basic principles for banking activity. Curbing excessive risk taking is a task for the banking supervisors and it remains to be seen how effectively they will implement the new regulations and how strict they will be about enforcing them

in practice. No matter how good prudential regulations are, they will not produce the expected outcome if they are not effectively applied by supervisory institutions. Therefore, much thought should be given to the methods of ensuring effective enforcement of regulations by supervisors on all markets.

The necessity of common observance of regulations brings me to the fourth and final challenge. To make the regulations serve their purpose, i.e. decrease the risk in banking activity, we must ensure that they are universally implemented and respected. Only through their universal application and observance can we protect the level playing field, thus preserving the effectiveness and original rationale behind the regulations. Therefore, we should take every effort to avoid the risk of regulatory arbitrage which occurs if regulations are not implemented in a uniform way.

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The financial crisis was a challenging test also for the International Financial Institutions. First and foremost, the IFIs have mobilized and provided financing to countries whose fiscal position was bad. They helped governments use fiscal stimulus and in this way cushion the impact of the global crisis on local labour markets.

In addition, the IFIs will become increasingly responsible for the coordination of policies, which is necessary to avoid another crisis and allow policy makers to respond quickly to emerging threats. The Mutual Assessment Process which collects information on current and future policy plans, is a good example of such an activity. A joint cooperation between major economies, supported by International Financial Institutions, will strengthen the global economy, help reform the labour market, make the banking sector safer and alter growth models so that they lead to sustainable growth.

The crisis has clearly demonstrated that the World Bank and the Fund should continue to adjust their governance to the changing conditions in the world economy in order to enhance their effectiveness and capacity to deliver.

We strongly believe that modernizing IMF governance as well as the Fund's Mandate will improve the Fund’s credibility, legitimacy and effectiveness. Recent developments in the global economy have clearly highlighted the need for improving global financial safety nets. Therefore, we welcome the IMF’s efforts to strengthen the Fund’s crisis prevention role. With the expanded crisis prevention toolkit, the Fund will be better equipped to help detect a risk of financial crises in the future.

We also appreciate that the World Bank Group has been learning from the crisis experience by developing a post-crisis directions strategy as well as taking on board a

package of internal reforms aimed at modernizing its institutional strategy, structure and operations. Internal modifications and adjustments are crucial to help sustain and enhance the WBG effectiveness and relevance in the post-crisis world.

There is no doubt that in the aftermath of the financial crisis, a fundamental challenge for policymakers will be to sustain a solid global growth. The crisis response underscored the importance of international cooperation and effective multilateral institutions in this regard. With global mandates and memberships, the WBG and the IMF should play key roles in efforts to make the world economy more resilient to another crisis.