

Rzeczpospolita, July 28, 2006 (Translation from Polish)

Interview with Christoph Rosenberg, IMF Representative for Central Europe and Baltics

No reason to change something that has been functioning well

Halina Binczak: A new financial supervision model is being introduced. Is the present system functioning badly according to the IMF?

Christoph Rosenberg: The International Monetary Fund and World Bank evaluated the financial sector last spring, including financial sector supervision. Our experts found that the present system is functioning well and is in line with best practices. Confidence in the banking sector is increasing, crises have been avoided. People are convinced that their money - in banks, insurance or pension companies - is safe. I have talked to many people in Poland and abroad and I did not meet one who questioned the professionalism of the supervision, especially of the General Inspectorate of Banking Supervision, or the way they conduct their supervision. In sum, we see no reasons to change this system.

HB: Does this apply to other segments of the financial market?

CR: Supervision institutions are separated in Poland, but have developed good mechanisms of exchanging information and cooperating. They work as if they were one system. Maybe in the future, there could be reasons for changes. But now would be a bad time: Poland's financial system is still developing, the pattern of credit is rapidly changing and banks must meet the new Basel II standards of avoiding risks. All this warrants the full attention and expertise of supervision. This is certainly not a good time for making fundamental changes.

HB: In some countries unified supervision works well. Why should it be different in Poland?

CR: I think there are no universal rules in this respect. We have carried out various analyses in the IMF, and have reached different conclusions. We think that a case by case approach is best. Integrated supervision is more justified in a situation of conglomerates operating in financial markets, like in the United Kingdom or Switzerland. In these countries there are no clear borders between different types of financial institutions and this creates the basis for changing the supervision over the whole financial market. There is no such situation in Poland, where the financial system is still segmented and dominated by banks.

HB: Maybe we should prepare for financial conglomerates?

CR: It is better to wait until they emerge. If one does unify supervision now, utmost care must be given to making sure that it remains independent. For example, in the Czech Republic and in Slovakia the supervision has been unified but was placed in the central bank.

There, the capabilities of the central bank and its independence and immunity to political influence was taken into account.

HB: In Poland the supervision would be accountable to the Prime Minister, who would appoint its management. Would it be independent in such a situation?

CR: This is what worries us. It is not the best solution. Even in countries where - like in the United Kingdom - the supervision has been placed outside the central bank there are very clear rules of its functioning. They define rules for appointing members of the supervision commission, their dismissal, and accountability. Not all these detailed, but difficult and important questions, were treated with adequate attention in the law adopted by the Sejm. For example, six out of seven members of the commission are appointed by the government - in the United Kingdom there are no ministerial representatives at all. The Polish law envisages no double veto rule, as it applies for example to the appointment of the NBP governor: proposed by the President and accepted by Sejm, so two separate institutions make the selection. Also, it was not specified how the two deputy chairmen could be dismissed. In practice, one would expect them to be subordinated to the chairmen, so they would not be independent.

HB: The financial industry is concerned that their representatives would not be present in the commission.

CR: Their voice is very important because they supply various experience and abilities to the supervision. The speed with which this important and difficult law was adopted is also surprising. It is difficult to believe that the opinions of all affected parties were fully taken into account. I think that before the law goes to the Senate one should take the time to seriously look at their opinions and reservations and to make sure that the law will be in line with best practice. We are ready to provide further assistance, if requested.

HB: Could changes in financial supervision affect preparations for Euro adoption?

CR: The ECB does not say how banking supervision should operate in various countries, but it is obvious that in the run-up to Euro adoption the issue of financial stability becomes especially important. The financial sector is especially vulnerable to exchange rate movements and credit growth is expected to pick up. Such a situation requires the utmost attention of the supervision, and the highest professional capability and independence of supervision officers. This is another reason why I think that it is not the best time to change something that has been functioning well.

HB: Do you think that the changes would jeopardize the National Bank of Poland's independence?

CR: On their own not. It is, however, very important to have a strong role of the central bank in the supervision institution, regardless if it would be a part of the central bank or not. This

is the situation in the United Kingdom, where the Bank of England enjoys a privileged role in the financial supervision agency. In the case of tensions or in a crisis situation, close cooperation between the bank and supervision is very important.

HB: Does the government ask the IMF for its opinion about the planned changes?

Yes we were consulted. In April/May, during the visit of the IMF mission, we presented a detailed opinion on the draft at that time. Some of our remarks have been taken into account, but the most important ones regarding governance issues were not included in the draft which was accepted by the Sejm last Friday. We have expressed our concerns to the government through various channels. We consider it as a part of our surveillance mandate to point to long-term threats to financial stability in our member countries. It is against this background that we think that the changes that are about to be introduced now in Poland are worrisome and warrant another close look.