

A large, stylized orange graphic consisting of a 'V' and the number '10' is positioned in the background, spanning across the entire cover. The 'V' is on the left, and the '10' is on the right, with the '1' being a simple vertical bar and the '0' being a large circle.

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Macroprudential Supervision and Geopolitical Risk: An Analysis of the Polish Financial Authorities' Publications (2015–2022)

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Abstract

Macroprudential supervision aims to mitigate systemic risk and, consequently, improve the stability of the financial system. Geopolitical risk is one of the factors taken into account in systemic risk. The 2022 war in Ukraine heightened the relevance of geopolitical risk for Polish policymakers. However, no studies to date have examined how geopolitical risk is incorporated into account in the work of Poland's macroprudential supervisory body competent for macroprudential supervision, the Financial Stability Committee (KSF). The aim of this paper is to analyze the application of macroprudential supervision by the KSF in the context of geopolitical risk. I examine the KSF's statements and compare them with those of relevant international bodies. My findings indicate that the KSF addresses geopolitical risk far less frequently than other macroprudential authorities and does not publish in-depth analyses on the topic. Additionally, the KSF lacks a dedicated geopolitical risk unit, which contrasts sharply with other relevant authorities, on which it was originally modeled. I analyze how the way KSF and relevant international bodies

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address geopolitical risk through a semantic analysis of publicly available statements. The cutoff date for data analysis is the end of June 2022.

Keywords

macroprudential supervision, systemic risk, geopolitical risk, Financial Stability Committee

Introduction

The aim of this article is to analyze the way in which the Financial Stability Committee (KSF) in Poland incorporates specialized political risk assessment – specifically, geopolitical risk assessment – into its analyses. This is achieved through an analysis of publicly available statements of the KSF from 2015 to June 2022. The collected data is then compared with that of the KSF's French and German counterparts, which represent the two largest economies whose relevant authorities drive the work of the European Systemic Risk Board (ESRB). I argue that the KSF does not sufficiently integrate geopolitical risk assessment into its publicly available analyses. This is subject to criticism given the public mandate to safeguard financial system stability. The method used was semantic analysis of publicly available statements, as well as simple quantitative analysis of the collected data. Data was obtained using web crawling. This research falls within the discipline of political science, with legal analysis serving as an auxiliary approach. A comparative method is used to analyze the study's findings and draw conclusions. In the Polish scientific debate, this topic has not yet been explored. This article sits at the intersection of macroprudential supervision – an area of theoretical thought that remains underdeveloped in Poland – and analyses of the impact of geopolitical risk on financial markets.

Macroprudential policy and supervision were developed and operationalized by the Bank for International Settlements (BIS) in response to the global financial crisis. From the difficulties faced by European economies came the attempts of the European Central Bank (ECB) to support the member countries. In order to support the financial system and achieve central banks' policy objectives (e.g. a specific inflation target) – expansionary monetary policy was implemented using non-standard tools (e.g. quantitative easing) for the first time. The EU central banks' efforts to stimulate

economic growth through monetary policy have resulted in a prolonged low-interest-rate environment, which has persisted since 2014.

Macprudential supervision is the operationalization of macroprudential policy, which aims to measure and mitigate systemic risk and, consequently, enhance the stability of the financial system. At this stage, it is important to clarify that the distinction between macroprudential “policy” and “supervision” is not rigid. In English-language literature, these terms are often used interchangeably. Broadly speaking, macroprudential supervision implements a country’s macroprudential policy through designated authorities. Surveillance can therefore be understood as the operationalization of macroprudential policy, although the two concepts are functionally interconnected.

The Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management in the Financial System (hereinafter “NadzU”)¹ attempts to define macroprudential supervision in a descriptive manner in Article 1:

1. “Macroprudential supervision of the financial system, hereinafter referred to as ‘macroprudential supervision,’ includes the identification, assessment, and monitoring of systemic risks arising within or around the financial system, as well as actions to eliminate or mitigate those risks using macroprudential instruments.
2. The objective of macroprudential supervision is to strengthen the resilience of the financial system in the event of the materialization of systemic risk and thereby promote long-term, sustainable national economic growth.”

NadzU does not refer to geopolitical risk, despite existing literature suggesting that including geopolitics in macroprudential assessments is essential.² However, no studies provide detailed explanations or models of the relationship between geopolitical risk and the stability of the financial system. This gap forms the primary motivation for the research presented in this paper.

Within macroprudential supervision, the central focus is systemic risk, particularly within the banking sector. Systemic risk does not have a single, universally accepted definition, although many authors have attempted to outline it.³ It can be understood as a measure of the probability of

1. Ustawa z dnia 5 sierpnia 2015 r. o nadzorze makroostrożnościowym nad systemem finansowym i zarządzaniu kryzysowym w systemie finansowym, Dz.U. 2015 poz. 1513, [Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management in the Financial System, Journal of Laws 2015, item 1513].

2. See for example: C. Buch, *European banking supervision a decade on - safeguarding banks' resilience amid global challenges*, 2024, <https://www.bis.org/review/r240229c.htm>, (access 17.11.2024).

3. E.g. G. Galati, M. Moessner, *Macroprudential Policy - a Literature Review*, “Journal of Economic Surveys”, 2013, Vol. 27, Issue 5, pp. 846–878, DOI: [10.1111/j.1467-6419.2012.00729.x](https://doi.org/10.1111/j.1467-6419.2012.00729.x).

the collapse of the entire system within which supervised entities operate. In principle, systemic risk is considered to be more than the sum of risks occurring at the level of individual firms, such as credit risk, liquidity risk, or operational risk. However, unlike these individualized entity-specific risks, the costs of systemic risk are borne by all trading participants, including those outside the supervised sector. It also follows that systemic risk is not sufficiently accounted for (internalized) in the economic calculations of the firms that are responsible for these risks. Additionally, the literature highlights that there is no optimal or agreed-upon level of systemic risk for the entire market, meaning no target value can be set.

Systemic risk can have two dimensions: micro- and macroeconomic. In the microeconomic dimension, it is the risk associated with the failure of institutions (companies) that are systemically important to the economy (also globally). Such institutions (known as Systemically Important Financial Institutions) are usually considered to be globally (e.g. JP Morgan, Deutsche Bank) or regionally (e.g. PKO BP S.A.) dominant. On the macro level, systemic risk arises from the exposure of the entire sector to certain risks, such as a dramatic rise or fall in the price of a specific asset class. While these risks may materialize separately, they are inherently interrelated. In Article 4(15), NadzU offers an overview of systemic risk: "Whenever the Act refers to systemic risk, it shall mean a risk of disruption in the functioning of the financial system which, if materialized, would impair the operation of the financial system and the national economy as a whole, the source of which may include, in particular, trends associated with excessive credit or debt dynamics and related asset price imbalances, unstable funding patterns, the distribution of risk within the financial system, linkages between financial institutions, or macroeconomic and sectoral imbalances." Therefore, this definition essentially aligns with the solutions developed by economic science and international regulations. Additionally, its indefinite nature can support decision-making regarding potential KSF intervention.

Geopolitical Risk

One of the factors considered in the calculation of systemic risk is geopolitical risk. Geopolitical risk refers to the risk of negative outcomes arising from the actions of states in the international arena. The issue of defining geopolitical risk has been addressed multiple times by macroprudential authorities. For instance, authors associated with the US Federal Reserve System, who define geopolitical risk as: "the risk associated with wars, terrorist acts, and tensions between states that affect the normal and peaceful course of international relations. Geopolitical risk captures both the risk that these events materialise, and the new risks associated with an escalation of existing events."⁴

4. D. Caldara, M. Iacoviello, *Measuring Geopolitical Risk*, International Finance Discussion Papers 1222, 2018, p. 2, DOI: [10.17016/IFDP.2018.1222](https://doi.org/10.17016/IFDP.2018.1222).

The term “geopolitics,” historically associated with states’ strategies of states to control and vie for territory, has evolved to include a wider range of power dynamics and events in recent decades. This broader interpretation now involves a variety of actors, such as corporations, NGOs, rebel factions, and political parties. As a result, “geopolitics” today describes a diverse array of phenomena, with numerous causes and impacts, ranging from terrorist group activities to the War in Ukraine and numerous rebellions and coups.

Several measures to calculate geopolitical risk have been introduced, most notably the Geopolitical Risk Index (GRI).⁵ The GRI analyses “automated text-search results of the electronic archives of 10 newspapers: Chicago Tribune, the Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, USA Today, The Wall Street Journal, and The Washington Post.”⁶ Dario Caldara and Matteo Iacoviello calculate the index by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of articles).⁷ References to the GRI are widespread in macroprudential assessments of geopolitical risk, as illustrated by examples provided later in this paper.

In Poland, the adopted model for macroprudential supervision is that of a collegiate body, functioning outside the structures of the National Bank of Poland (NBP), though it retains (at least formally) an overarching position retained.

The Financial Stability Committee was established in 2015, building upon an earlier body with the same name, which was created in 2008 to coordinate anti-crisis measures. As a collegiate body, the KSF is composed of the President of the NBP (Poland’s central bank), the Chairman of the Financial Supervision Authority (“Komitet Nadzoru Finansowego” [KNF] – the microprudential authority for Poland), the President of the Management Board of the Bank Guarantee Fund, and the Minister of Finance (or their designated proxies). As a rule, the Chairman of the KSF is the President of the NBP. Due to the lack of a legal basis for such actions, the KSF cannot issue universally binding acts and therefore cannot directly regulate Poland’s financial market. Each institution comprising the Committee has already been assigned statutory tasks concerning the maintenance of the financial system stability. At the same time, the issuance of a recommendation by the KNF on macroprudential supervision must be preceded by a consultation of the draft of such a recommendation with the KNF. Therefore, the Committee has three avenues to influence the system: (1) initiating statutory changes,

5. D. Caldara, M. Iacoviello, *Measuring Geopolitical Risk*, “American Economic Review”, 2022, Vol. 112, No. 4, pp. 1194–1225.

6. Ibidem, pp. 1197–1198.

7. As stated on the website of the authors of the GRI, see: <https://www.matteoiacoviello.com/>, (access 23.05.2024).

including a well-defined lobbying process, (2) issuing a decision or recommendation through the Financial Supervision Authority, and (3) issuing a delegated act by the Minister of Finance on the basis of statutory authority.

The objectives of the KSF align with the general catalogue of objectives of macroprudential supervision discussed earlier, as it is designated under Article 3 of the NadzU as the competent authority for carrying out this supervision. The tasks of the KSF, however, are outlined in Articles 5 and 6 of the NadzU. These tasks can be grouped into three categories: analytical and forecasting, coordination, and corrective.

In 2019, the NBP, along with the other KSF members, published a document called the Macroprudential Policy Strategy.⁸ Among other things, the document provides guidance on the fundamental principles of macroprudential supervision in Poland, sets out its strategic priorities and the principles of inter-institutional cooperation, presents the Committee's thinking on systemic risk, and presents the tools available to the KSF. This document builds on the previously published (in 2016) report, "Macroprudential Supervision in Poland: Institutional and Functional Framework,"⁹ which was the first to describe the framework for macroprudential supervision in Poland. Institutional and functional framework. As discussed in part 2.2 below, neither of these documents includes assessments of geopolitical risks.

According to KSF's sources, the Macroprudential Policy Strategy (hereinafter referred to as the "Strategy") should be based on a holistic analysis and monitoring of the financial system as a whole, focusing on identifying, monitoring, and preventing risks. All corrective and remedial actions (including those related to crisis management) should also be carried out under the Strategy. Supervisory activities should primarily target the banking system, as it is the sector most exposed to the generation and transmission of risks. However, other actors should not be entirely excluded from the analysis.¹⁰

The Strategy should, in principle, focus on taking action and operationalizing preventive tools. These tools should primarily aim to prevent (or reduce the likelihood of materializing of) the accumulation of systemic risks. In addition to these tools (e.g., buffers of various types), sophisticated predictive analytics, which warn of potential threats to financial sector stability, serve this purpose. This is especially where the analysis of geopolitical risk should be conducted. Should such a threat

8. Narodowy Bank Polski, *Strategia polityki makroostrożnościowej*, 2019, <https://nbp.pl/wp-content/uploads/2022/08/strategia-polityki-makroostroznościowej-2.pdf>, (access 24.10.2024).

9. Komitet Stabilności Finansowej, *Nadzór makroostrożnościowy w Polsce: ramy instytucjonalno-funkcjonalne*, 2016, https://nbp.pl/wp-content/uploads/2022/08/Ramy_inst-funkc.pdf, (access 21.05.2024).

10. Narodowy Bank Polski, *Strategia polityki makroostrożnościowej*, op. cit.

occur, the Strategy should assume that the relevant authority is equipped with corrective (remedial) instruments. The comprehensive endowment of the authority with the competence to detect, prevent, and correct endogenous risks enables an effective macroprudential supervision policy in the country. It should be emphasized that, unlike the tasks of the competent central bank or the minister responsible for financial institutions, the macroprudential supervisory authority can and should be characterized by flexibility in its actions, based on expert assessments and accumulated experience. This calls for a strong emphasis on the competence of those responsible for supervision, both in terms of education and personal qualities (e.g., the ability to properly assess risks), as well as the institutional distribution of competences and the creation of specializations within them.¹¹

11. Ibidem.

Application of Estimation Frameworks of Geopolitical Risk

In this section, I analyze the application of macroprudential supervision by the KSF in the context of geopolitical risk, based on examined below publicly available statements examined below from its members and the KSF itself, as part of the organizational structure of the NBP. I analyze the KSF's statements and compare them with those of relevant international bodies in terms of (1) frequency of analysis, (2) depth of analysis, and (3) methods of analysis used.

In the years 2015-2022, during which the KSF published the "Information on the activities of the Financial Stability Committee on the macroprudential supervision of the NBP"¹² – an annual activity report – the KSF mentions geopolitical analysis only once, in 2018. Specifically, it states: "In Q3, at its meeting on 21 September 2018, the Committee reviewed the analysis of external sources of risk (geopolitical phenomena) and their impact on the stability of the Polish financial system." Geopolitical analyses are also not included in the KSF's strategy, as outlined in the 2019 "Macroprudential Policy Strategy,"¹³ and other official KSF publications. The conclusion of the above summary is that the KSF, as a body, does not systematically address geopolitical risk analyses, whether through regular reports or analysis, or by maintaining a dedicated unit or personnel responsible for such analyses.

In addition to the above, the KSF also publishes a "Financial System Stability Report."¹⁴ These reports (2015–2022) include analyses or references to geopolitical risk in seven out of the nine published reports. However, in most of them (e.g. December 2016), this merely involves the use of the term "geopolitics," with no deeper analysis. Only the June 2022 report contains a detailed analysis of geopolitical risk, citing a selected geopolitical risk index and identifying channels for the propagation of shocks to the financial sector.¹⁵ This report (hereafter referred to as the "Report") is the only one

12. See: *Publikacje / nadzór makroostrożnościowy* [Publications / Macroprudential supervision], <https://nbp.pl/system-finansowy/nadzor-makroostroznościowy/publikacje-nadzor-makroostroznościowy/>, (access 26.10.2024).

13. Narodowy Bank Polski, *Strategia polityki makroostrożnościowej*, op. cit.

14. *Raporty o stabilności systemu finansowego* [Reports on the stability of the financial system], <https://nbp.pl/system-finansowy/raporty-o-stabilności-sys-temu-finansowego/>, (access 26.10.2024).

15. Narodowy Bank Polski, *Raport o stabilności systemu finansowego, 2022*, <https://nbp.pl/wp-content/uploads/2022/09/rsf062022.pdf>, (access 26.10.2024).

to explicitly describe geopolitical risk as part of systemic risk and will serve as the basis for further analysis of how the KSF treats geopolitical risk.

The Report first cites geopolitical risk as part of the macroeconomic situation of Poland as of June 2022. It analyses the influence of the 2022 War in Ukraine on the Polish banking sector and identifies three impact channels.¹⁶ These channels are the “exposition channel,” the “market channel,” and the “macro channel.” The first two are described as part of the “direct channel,” while the third is considered the “indirect channel.” This classification mirrors the characterization of impact channels made by the US Federal Reserve: “Geopolitical tensions could lead to financial instability through two key channels. The first is directly through a financial channel triggered by restrictions placed on capital flows and payments (such as capital controls, financial sanctions, and international asset freezing) or through an increase in uncertainty and investors’ risk aversion to future restrictions, the escalation of conflict, or expropriations.”¹⁷ The second channel is through the real economy, as shocks made by a geopolitical event reverberate through supply and demand constraints, heightened time waiting and such.

The Report cites, for the first time in this series of publications, the previously mentioned “Geopolitical Risk Index.” However, the analysis is limited to a comparison of the War in Ukraine with the 2003 Iraq Invasion and the 9/11 terrorist attacks. In this part, the KSF defines geopolitical risk as low. Secondly, the Report introduces geopolitical risk as part of the assessment of systemic risks, defining it as *uncertainty* that increases the overall risk level.¹⁸ Geopolitical risk influences: (1) banks, (2) the legal risks of foreign currency mortgage-backed loans, (3) liquidity, (4) pension funds, and (5) other factors.

16. Ibidem, p. 16.

17. International Monetary Fund, *Global Financial Stability Report*, April 2023, p. 85.

18. Narodowy Bank Polski, *Raport o stabilności...*, op. cit., p. 87.

Comparison of the KSF with other Relevant Authorities

In comparison, the French counterpart of the KSF, the *Haut Conseil de Stabilité Financière* (HCSF), referred to geopolitics three times in its annual reports between 2015 and 2022. The German counterpart, *BaFin*, does not mention geopolitical risk in its macroprudential-related publications. Both the HCSF and *BaFin*, as part of the Eurozone, are members of the European Systemic Risk Board (ESRB).

The genesis of the ESRB lies in the strong and complex interdependencies within the legal systems of the EU countries, which are becoming increasingly interconnected due to their increas-

ing harmonization. This harmonization was the entry into force of Regulation No. 1092/2010,¹⁹ which established the ESRB. Its mandate is to carry out EU-wide macroprudential supervision. The legal basis for the creation of the ESRB is Article 114 of the Treaty on the Functioning of the European Union, which, through its general wording, provides the basis for all harmonization efforts by Member States.

The ESRB analyzed geopolitical risks in six out of its nine annual reports between 2015 and 2022.²⁰ At the same time, the ESRB has published 88 analyses related to geopolitics since 2018. Geopolitical risks were also addressed in the ESRB's 52nd regular meeting on 30 November 2023. The ESRB noted that financial stability risks in the EU remain elevated, partly due to increasing geopolitical tensions. These tensions contribute to a challenging macroeconomic environment, which could lead to balance sheet stress for households and non-financial corporations, especially given the limited capacity of fiscal policy to provide support compared to previous periods. The Board also mentioned that geopolitical risks are contributing to heightened volatility in bond markets and potential disruptions in financial markets, which could be exacerbated by high credit and liquidity risks within the non-bank financial intermediation sector.²¹ In an earlier meeting on 28 September 2023, the ESRB also acknowledged the impact of geopolitical factors on financial stability. The Board highlighted that while financial stability risks had remained broadly unchanged since June 2023, the macroeconomic environment – shaped by factors including geopolitical risks – continued to pose challenges. This included the risk of compounding balance sheet stress for households and non-financial corporations as monetary tightening persisted across the economy.²²

In September 2022, the ESRB issued a warning on vulnerabilities within the EU financial system, addressing how geopolitical risks – such as tensions in Eastern Europe – can disrupt financial markets and economic stability. The Board emphasized the need for close monitoring and the implementation of macroprudential measures to mitigate these risks.²³ All these discussions indicate the ESRB's ongoing concern about the implications of geopolitical tensions for financial stability within the EU.

The data suggests that the KSF addresses geopolitical risks far less frequently than other macroprudential authorities and does not publish in-depth analyses. Furthermore, there is also no dedicated geopolitical risk unit within the KSF, which aligns with the structure of other European competent authorities.

19. Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, Official Journal of the European Union L 331/1, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R1092>, (access 21.05.2024).

20. ESRB, *Annual Reports*, <https://www.esrb.europa.eu/pub/reports/ar/html/index.pl.html>, (access 21.05.2024).

21. See: *The General Board of the European Systemic Risk Board held its 52nd regular meeting on 30 November 2023*, ESRB 2023, <https://www.esrb.europa.eu/news/pr/date/2023/html/esrb.pr231207~cf5e849f36.en.html>, (access 21.05.2024).

22. See: *The General Board of the European Systemic Risk Board held its 51st regular meeting on 28 September 2023*, ESRB 2023, <https://www.esrb.europa.eu/news/pr/date/2023/html/esrb.pr231005~9c9aa48081.en.html>, (access 21.05.2024).

23. See: Warning of the European Systemic Risk Board of 22 September 2022 on vulnerabilities in the Union financial system (ESRB/2022/7), Official Journal of the European Union C 423/1, https://www.esrb.europa.eu/pub/pdf/warnings/esrb.warning220929_on_vulnerabilities_union_financial_system~6ae5572939.en.pdf, (access 21.05.2024).

Conclusions

The development of macroprudential policy and supervision emerged as a response to the global financial crisis, with the goal of measuring and mitigating systemic risk to enhance financial stability. This policy framework, particularly within the European Union, has led to the implementation of expansionary monetary policies and a prolonged low-interest-rate environment. In Poland, the macroprudential supervision framework was formalized in 2015. NadzU defines macroprudential supervision as the identification, assessment, and mitigation of systemic risks to safeguard the stability of the financial system and foster sustainable economic growth. While systemic risk is crucial in macroprudential supervision, it lacks a universally accepted definition but generally refers to the risk of a complete collapse of the financial system. Geopolitical risk, involving adverse outcomes from state actions on the international stage, is vital for a comprehensive evaluation of systemic risk.

Despite the significance of geopolitical risks, the KSF's publications and strategies have seldom addressed them in depth. A comparative analysis with other international bodies – such as the ESRB, *BaFin*, and HCSF – reveals that the KSF is lagging in integrating and analyzing geopolitical risks. As shown, KSF does not sufficiently incorporate geopolitical risk assessments, which is the central aim of this article. This paper highlights the need for Polish authorities to more rigorously include geopolitical risks in their macroprudential supervision to align with global standards and better safeguard financial stability.

The findings of this research will have important implications for those involved in the development of macroprudential policy. The increasing relevance of geopolitical factors in financial stability makes this study especially pertinent. Legal scholars specializing in financial law will find the insights valuable, as they navigate the evolving landscape of regulatory frameworks influenced by geopolitical dynamics. Additionally, the findings will be of significant interest to Polish political scientists. As Poland navigates its own geopolitical challenges, understanding how these factors influence macroprudential policies can offer crucial perspectives for political analysis and strategy.

The conclusions of this paper will also contribute to a more comprehensive understanding of non-economic aspects of systemic risk in Polish macroprudential policy. By incorporating geopolitical risks and other non-economic factors into risk assessments, policymakers can craft more robust strategies to safeguard financial stability. This holistic approach will not only enhance the resilience of the financial system but also support long-term economic growth and stability in Poland. Ulti-

mately, this research aims to bridge the gap between economic and non-economic risk factors, providing a more nuanced framework for analyzing systemic risks within the context of macroprudential supervision and policy-making in Poland.

The author's conclusion is that the KSF fails to fully achieve its implied goal of maintaining the stability of the Polish financial system due to not incorporating political risk assessment on a wider scale, despite existing literature and best practices from relevant foreign authorities, thus failing to properly fulfill its mandate. This is relevant for policymakers dealing with financial stability, as it highlights a need to integrate political risk assessment into current models and risk frameworks. However, merging political, legal, and economic competences is a complex task, and the author anticipates delays in this essential process.

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