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MONETARY STABILIZATION FROM THE PERSPECTIVE OF ORDOLIBERAL THEORY: POLAND BETWEEN THE WARS AND DURING THE TRANSITION PERIOD

Abstract. In the economic history of twentieth-century Poland, two periods merit particular comparison: the interwar years and the time of systemic transformation. In 1918 and 1989, the Polish economy faced the formidable challenge of constructing a competitive economic order. Despite the temporal distance and substantial differences separating these two turbulent historical episodes, they share a common feature – strong destabilizing tendencies in the monetary sphere. The article aims to compare these two periods through the lens of the ordoliberal principle of stable money. Ordoliberalism regards this principle as necessary for establishing and maintaining a competitive economic order. The article employs a comparative analytical method, drawing on an institutional approach and the theoretical framework of the ordoliberal competitive order. The analysis reveals that in both cases, monetary policy played a fundamental role in overcoming inflationary crises and restoring confidence in the state and the market. In both periods, efforts were made to ensure financial stability through the institutional establishment of independent central banks. Despite elements aligned with ordoliberal thinking, both cases lacked the complete embedding of monetary policy within a long-term, normative vision of economic order.

Keywords: economic order, monetary stabilization, economic transformation, ordoliberalism, reforms.

1. Introduction

In the turbulent economic history of twentieth-century Poland, the periods of building an independent, democratic state with a market economy are particularly noteworthy. Such an effort was undertaken in 1918, when the country re-emerged after 123 years of partition – nominally with a market economy, yet faced with immense challenges related to unifying the territories of the three former partitions into a single economic organism. Similarly, in 1989, Poland regained genuine sovereignty after 44 years of dependence on the USSR, but inherited a legacy of systemic problems stemming from real socialism. In both historical moments, hyperinflation rendered everyday economic life impossible, and the entire monetary sphere required comprehensive restructuring. At this point, one may also refer to the post-war experience of West Germany and the renowned currency reform of 1948, which enabled price stabilization and the restoration of goods supply, as well as the 1957 law that granted the Bundesbank a high degree of independence.

The assessment of these processes is appropriately conducted through the lens of the principles of the competitive economic order as proposed by ordoliberal thought, which constitutes the central research objective of this study. Two of the seven core principles, developed by Walter Eucken, the head of the Freiburg school of economics (1952), are directly related to the monetary sphere: the general principle advocates for price flexibility, allowing prices to reflect the relative scarcity of goods and resources. The second principle pertains to the stable value of money, comprehended principally as price stability and external stability, measured by the exchange rate. The seventh principle relates to the constancy of economic policy, which, in this context, is specifically associated with monetary policy.

The ordoliberal principles of competitive order provide a useful framework for evaluating the process of monetary stabilisation, as they highlight the conditions necessary for achieving a desirable socio-economic model. Monetary stability lies at the heart of ordoliberal theory, making this concept particularly relevant for analysing monetary policy in conditions of high economic volatility. Eucken's principles – particularly the primacy of monetary policy over short-term fiscal policy, the prohibition of excessive public debt, predictable rules, and central bank independence (a clear separation of power and objectives between authorities) – enable monetary stabilisation policy to be evaluated from a long-term perspective rather than solely from an interventionist one. This approach also enables us to analyse whether monetary policy distorts competition by creating excessive incentives for the financial sector or by favouring certain groups.

The paper is divided into three sections. Firstly, it examines the events of the interwar period, with particular emphasis on 1918–1924, culminating in Grabski's monetary reform. The subsequent section is dedicated to the period of systemic transformation, focusing on the years 1990–1997. This study's third and final section offers a comparative analysis of these two historical episodes in light of the aforementioned ordoliberal principles.

2. The interwar period

In 1918, Poland confronted considerable challenges, as it was required to achieve political and economic unification of the three regions that had evolved over numerous years under diverse state administrations. The disparities manifested in the transportation infrastructure, public administration systems, legal frameworks, and the monetary sphere. Various currencies circulated within the territory, including the Tsarist ruble, the Austro-Hungarian krone, the German Reichsmark, the Polish mark introduced by the German authorities, and the so-called ost-ruble. Moreover, the karbovanets, hryvnia, forint, and even the U.S. dollar were circulated.

From the perspective of economic theory, this state of monetary chaos – stemming from the coexistence of multiple currencies within a single country – must be assessed as highly inefficient. The consequence was that market exchange became similar to barter, unnecessary transaction costs were generated, and economic calculation was significantly hindered. These problems were further exacerbated by changes in price relations during World War I.

In 1919, the authorities envisaged a swift introduction of a new national currency. However, the complexity of such an operation exceeded the capabilities of the newly reconstituted state, particularly in the face of the Bolshevik threat during the 1919–1921 war. Consequently, the circulation of the Polish mark was extended, and the influx of currencies from former partitioning powers was prohibited to curb monetary competition. A transitional phase of dual-currency systems ensued in various regions. Ultimately, the Polish mark was declared the sole legal tender in successive districts, a process completed by mid-1920. In 1923, the Polish mark was also declared legal tender in Upper Silesia. The only exception to this was the Free City of Danzig, which, in 1924, established the Bank von Danzig and began issuing its currency, the Danzig gulden (Kozłowski, 1989, p. 254).

The monetary issues experienced by the Second Polish Republic were inextricably linked to the fiscal sphere; at that time, there was no clear separation between these domains as exists today. The early years of public finance were characterised by disorder and complex problems that directly impacted the monetary system. The treasury apparatus functioned disparately across each former partition region, exhibiting a paucity of centralised coordination and a dearth of qualified personnel. Low tax morale weakened the tax base, and the political unification of tax rates proved highly contentious. The government's expenditure needs were incompatible with its limited capacity to generate revenue and poor tax collection. In the aftermath of the Polish-Soviet War, military expenditure constituted more than 50% of the state budget. Successive finance ministers obtained loans from the Polish Loan Bank (PKPP) and financed public expenditures by issuing unbacked money. Within the initial two years of the state's formation, the money supply experienced a sixfold increase (Zagóra-Jonszta, 2011, p. 473), exacerbating the prevailing inflationary spiral.

By the end of 1921, two fundamental assumptions had been adopted: the necessity to balance the budget and the pursuit of a foreign loan (Morawski, 1989, p. 260). However, the structural imbalance could not be financed through international credit, as Poland, a young state with low creditworthiness, lacked access to global capital markets.

In the Second Polish Republic, the Minister of the Treasury position was subject to frequent rotation – between 1918 and 1925 alone, sixteen individuals held the office. This high turnover stemmed from unstable political arrangements and a similarly high rate of change in the office of the Prime Minister. The lack of continuity in fiscal and monetary policy is aptly summarized by a contemporary economist, F. Młynarski, who observed in 1923 (p. 15): "The most important thing is consistency. Even a theoretically inferior program, if implemented persistently and wisely, will yield better results than the constant changes of method we see today." Inconsistent policy-making undermined efforts to stabilize public finances and the national currency, eroding public confidence in the sustainability of reform attempts. From the perspective of modern economic theory, this situation may be interpreted as an inability to anchor inflation expectations and a lack of credibility by monetary authorities. As a result, gold and foreign currencies assumed the role of a store of value; capital fled abroad; international lenders refrained from granting credit to domestic enterprises; and taxpayers delayed the payment of taxes and public levies (Landau, 1959, p. 784).

During the initial post-independence period, inflation provided short-term benefits to the government and certain industrial sectors. However, the inflation tax imposed significantly higher costs on society than it generated in state revenues, resulting in a net social loss (Taylor, 1926, p. 283).

According to Szturm de Sztrem (1924, p. 49), inflationary gains accounted for as much as 64% of Treasury income between 1919 and 1923. Industrial capital was a beneficiary of inflation, as the weakness of the Polish mark improved the competitiveness of domestic goods, and government loans to the business sector were repaid in depreciated nominal amounts.

By 1923, the acceleration of inflation no longer stimulated economic activity. Banks became reluctant to lend, and industrial output collapsed, leading to rising unemployment and growing social tensions. The government, too, ceased to benefit from inflation, as monthly price increases of around 360%, as recorded in October 1923 (Morawski, 1989, p. 261), exceeded the technical capacity for printing new banknotes. Simultaneously, the flight from money eroded the base for collecting the inflation tax.

The reforms initiated by Władysław Grabski in January 1924 were implemented amid crisis conditions and without the assistance of foreign entities. Grabski occupied the dual roles of Prime Minister and Minister of the Treasury, a position that bestowed upon him the authority to promulgate decrees for six months. This action effectively circumvented the protracted delays typically associated with parliamentary procedures. An increase in taxes was made, and improvements were made to their collection. On the expenditure side, significant reductions were made. Currency market interventions were implemented by repurchasing the Polish mark to stabilise its exchange rate. Furthermore, several institutional reforms were implemented, including the prohibition of the State Treasury from providing additional credit financing through the Polish Loan Bank (PKKP) and the establishment of the Bank of Poland as a new issuing institution. To maintain its autonomy from the government, the Bank was established as a private joint-stock company, with the State Treasury serving as a shareholder. The principle of a central bank's independence and its exclusive right to issue currency was strongly advocated by, among others, F. Mlynarski (1929, p. 150), who was the co-founder and vice-president of the Bank of Poland. The new Polish currency, the zloty, was initially pegged at parity of 1:1 with the Swiss franc. Poland thus became part of a group of countries, including Austria, Germany, and Hungary, among the first to restore gold convertibility following hyperinflation caused by issuing paper money to finance budget deficits (Eichengreen, 2008, p. 45).

Nevertheless, the robust exchange rate parity undermined international competitiveness and exacerbated the trade deficit. The financing of the trade deficit through outflows of foreign exchange and gold resulted in a loss of confidence in the stability of the zloty. Consequently, from the autumn of 1924, efforts were undertaken to stimulate exports and to capture foreign currency inflows from the private sector. Confronted by a confluence of unfavourable developments, including diminished harvests, economic decline, and the advent of a tariff war with Germany, the government initiated a financing strategy involving the issuance of coinage, a practice for which it possessed the legal authority to mint. This development subsequently introduced a dual currency system, as the market demonstrated reluctance to absorb Treasury-issued coinage, which lacked the gold backing of Bank of Poland banknotes (Landau & Tomaszewski, 1971, p. 195).

The resurgence of inflation proved to be a far more serious threat, intensifying as the money supply grew relative to the volume of goods available, under conditions of economic stagnation. Zagóra-Jonszta (2018, p. 138) asserts that between June 1924 and September 1925 alone, the monetary base expanded by 51%. In response to this decline, the public fled from the zloty towards gold and foreign currencies. This shift led to mounting challenges in maintaining the exchange rate, which the authorities sought to address through interventions financed by foreign loans. A banking crisis, precipitated by panic, had a deleterious effect on the balance sheets of private banks. In contrast to their state-owned counterparts, private banks did not receive adequate support. As early as July 1925, a significant discrepancy had arisen between the market exchange rate and the official rate. By December, the zloty's market value had fallen to 56.2% of its official parity (Landau & Tomaszewski, 1971, p. 206). After the Bank of Poland's refusal to continue costly interventions, Grabski tendered his resignation from office in November 1925.

The subsequent depreciation of the zloty improved the trade balance, increased the Bank of Poland's reserves, strengthened the state budget position, and contributed to a general economic recovery. The new government, installed after the May Coup, sought to stabilise public finances and reinforce the credibility of the zloty's exchange rate, a goal aided by an improving economic climate. In the autumn of 1927, the new authorities successfully negotiated a foreign loan that formed the foundation of a stabilization plan for the złoty. According to the provisions of this plan, a new parity for the zloty was established, representing a 42% devaluation compared to the previous parity. Furthermore, the capital of the Bank of Poland was increased, the gold coverage ratio for banknote issuance was raised to 40%, and capital flows were liberalised. The fiscal policy framework encompassed obligations to balance the budget and to limit the issuance of Treasury-issued currency. The execution of the plan was overseen by American financier Charles Dewey, who was appointed to the Bank's board (Danowska-Prokop, Zagóra-Jonszta, 2004, p. 88).

The gold exchange standard, under which Poland operated, significantly impeded economic adjustment during the Great Depression. As Eichengreen (2008, pp. 84–87) has demonstrated, countries that abandoned the gold parity earlier, such as the United Kingdom in 1931, entered a phase of economic recovery sooner than those that delayed this decision, such as France in 1936. The pivotal mechanism that enabled the recovery process was the capacity to augment the money supply and devalue the currency. This, in turn, led to increased demand and production. By adhering rigidly to the gold parity standard, Poland was compelled to pursue deflationary policies to defend the fixed rate. These policies reduced budgetary expenditures, as the crisis had significantly diminished government revenues. The maintenance of full convertibility of the zloty resulted in a continuous outflow of gold and capital, which instead fuelled the economies of countries that had relaxed these constraints and stimulated their domestic production. Consequently, by 1935, the Bank of Poland's reserves (in gold and foreign currency) had declined by 81%, despite costly efforts to support exports and obtain foreign loans.

Between 1933 and 1936, Poland, along with several Western European countries, formed part of the so-called Gold Bloc. The bloc members committed themselves to upholding the principles of monetary stabilisation, maintaining the convertibility of national currencies into gold, and preserving the free movement of international capital. Poland was the only debtor country within the bloc; the other participants benefited from full convertibility, which enabled them to withdraw capital and repay debts in currencies that had not been devalued.

The strategy pursued by the Bank of Poland during the Great Depression can be evaluated through the lens of its relationship with the government, to which it became de facto subordinated in 1929, following the resignation of Governor Karpiński and the issuance of a governmental directive. This subordination was evident in the Bank's acquiescence to unfavourable policies, including the outflow of foreign exchange reserves, the increase in coinage circulation, and the financing of undertakings initiated by the Council of Ministers (Landau & Tomaszewski, 1982, p. 253). Notably, the absence of institutional autonomy had a similar effect on the Polish Loan Bank (PKKP) management, resulting in its subordination to the government's needs, particularly those of the military.

In 1935, faced with a budgetary situation of unprecedented severity, the authorities undertook a concerted initiative to increase tax revenues. However, it was not until 1936 that the decision was made to introduce controls over trade in foreign currencies, gold, and foreign exchange transactions. This decision improved the level of gold reserves (Morawski, 1989, p. 275).

At this juncture, the question arises as to why Poland persevered in its commitment to the gold standard and maintained a parity that ultimately proved detrimental to the national economy. The explanation for this phenomenon lies in the realm of politics. As a young and newly independent state, Poland sought to demonstrate credibility and stability in the international arena.

It is imperative to situate monetary policy and monetary reforms within the broader context of general economic conditions, as these conditions ultimately influence the feasibility and effectiveness of their implementation. The economic climate experienced a period of relative stagnation across most interwar years, except for 1921–1922, 1927–1928, and 1936–1938, which saw a notable uptick in economic activity. The economic downturn of 1924–1926, which significantly impacted industry, was attributed to government policy, particularly the efforts to stabilise the currency in connection with Grabski's reform. The global economic crisis of 1929–1935 had a profound impact on the global economy (Jezierski & Leszczyńska, 2001, p. 252).

3. The transformation period

Until 1989, the role of money in Poland was passive, as evidenced by the subordination of monetary flows to physical (real) flows. The allocation of goods and services was the result of administrative decisions rather than the possession of purchasing power. As Wilczyński (2005, p. 91) asserts, financial resources were required to undergo a passive adjustment by planned production and investment decisions, thereby relinquishing their pivotal role as a medium for transactional activities. It was found that official prices could not perform an informational role in the same way that flexible market prices do. The primary factors contributing to the 'instability' of the Polish zloty can be categorised as follows:

- the institutional factors observed included the complete subordination of the central bank to the government. The financing of budget deficits through monetary means was also evident;
- inflationary monetary policy is subject to economic planning objectives;
- the present situation can be characterised as one of chronic imbalance in fiscal policy, with an inefficient expenditure structure;
- the zloty is characterised by an absence of external convertibility within a fixed exchange rate regime.

In light of these extensive determinants of 'unstable money,' price liberalisation, which had already commenced in 1988, intensified persistent open inflation. This, in turn, led to a period of hyperinflation from 1989 to 1990, precipitated by the dissolution of numerous instruments of administrative price control. By January 1990, the state exercised price control for only 14% of the value of domestic trade, with an additional 10% of prices subject to indirect oversight by tax offices (Czarny & Czarny, 1992, pp. 7–8). Eliminating administrative price controls enabled prices to fulfil their informational function within the market. However, this also exposed the deficiencies of the socialist economy, most notably the persistent supply deficit. By December 1989, the annual inflation rate had reached 640%; by February 1990, it had escalated to 1183.1%.

In the initial years of transformation, stabilising prices necessitated the implementation of a combination of short-term, anti-inflationary measures and policies to establish a new socio-economic framework. These policies aimed to ensure the existence of 'stable money.'

The National Bank of Poland (NBP) and its monetary policy played a pivotal role in stabilising the value of the Polish złoty. Following 1989, the NBP's monetary policy strategy underwent a fundamental transformation, evolving from eclectic and ad hoc responses to inflationary shocks towards implementing a coherent and transparent price stabilisation strategy. In the initial phase, spanning 1989–1992, the NBP primarily relied on reactive measures to combat inflationary pressures, employing administrative methods to control the money supply. In the subsequent phase, spanning the years from 1993 to 1997, the central bank underwent a gradual process of learning how to conduct a relatively advanced monetary policy. This learning process involved the progressive introduction and application of standard economic intervention instruments. Following 1998, the NBP commenced the implementation of a consistent and transparent inflation-targeting strategy, while concurrently initiating institutional reforms that were in line with the legal and economic requirements of European Union integration (Bałtowski & Miszewski, 2006, pp. 265–266; Grostal et al., 2015, p. 72).

The fundamental shift in monetary policy commenced on 1 January 1990. It consisted of amending the Banking Law and the Act on the National Bank of Poland, enacted as part of the Balcerowicz Plan (Bałtowski & Miszewski, 2006, p. 266). During this period, monetary policy was characterised by a lack of a clearly defined overarching strategy; actions were multifaceted and closely aligned with the government's broader economic reform agenda. The objectives of monetary policy were expanded to encompass more than just the containment of hyperinflation; the introduction of the zloty's convertibility and the gradual stabilisation of its purchasing power were also included (Monetary Policy Guidelines..., 1990). The range and intensity of instruments employed by the central bank – such as liquidity control, the rediscount rate, and administrative credit restrictions – were determined pragmatically, without firm anchoring in a specific strategic framework.

From the second half of 1989 onwards, the aforementioned legislative changes in the monetary sphere were accompanied by a shift in the policy towards an anti-inflationary stance, marked by a sharp increase in key interest rates. In January 1990, the National Bank of Poland (NBP) introduced a series of measures aimed at reducing the money supply. One of these measures was to set the rediscount rate at 49% quarterly, representing the highest level the rate had reached in its history. Concurrently, the NBP implemented relatively high reserve requirements, ranging from 5% to 15%, contingent on the nature of deposits. The central bank's tightening of lending conditions led to higher interest rates on loans offered by commercial banks and a slowdown in credit activity, particularly during the initial phase of the transformation. For a considerable proportion of Polish enterprises, credit became excessively costly, giving rise to the issue of 'non-performing loans' and constituting a substantial impediment to development, further exacerbating the decline in GDP. Conversely, the ostensibly high interest rates on bank deposits did not guarantee profitability for savers, as real interest rates (ex post) remained negative until 1993.

A significant component of the institutional reforms aimed at stabilising the value of the zloty was the introduction and strengthening of the central bank's independence, which was deemed an indispensable condition for conducting anti-inflationary monetary policy. The impetus for transforming the banking system into a more market-oriented entity dates back to 1987. In that year, the Powszechna Kasa Oszczędności (now PKO BP SA) was separated from the National Bank of Poland's (NBP) structure, thus marking the beginning of the dismantling of the monobank system (Polański, 2005, p. 97). A radical shift occurred in 1989 with the enactment of the Banking Law and the Act on the National Bank of Poland, which transformed the NBP into a central bank performing functions appropriate for a market economy. These acts also established the foundation for establishing a network of universal commercial banks, whose operations were to be based on two key principles: market orientation and public trust (Pietrzak, 2010, pp. 447–448). The formal confirmation of the central bank's independence from other branches of government was not achieved until 1997, when Article 227 of the Constitution of the Republic of Poland and the Act on the National Bank of Poland, dated August 29, 1997, were passed.

In 1998, the NBP implemented a formal inflation-targeting strategy called the BCI (Bezpośredni Cel Inflacyjny). Within the BCI framework, the primary goal of monetary policy became maintaining inflation at a predetermined level or within a specified deviation band. The primary objective of the BCI strategy was to break inflation expectations, which were one of the main barriers to further disinflation (Grostal et al., 2015, pp. 127–134).

The inflationary impact of fiscal policy was only interrupted by external pressure and the signing of a Letter of Intent with the International Monetary Fund in December 1989. In this document, the Polish government committed to reducing the budget deficit from over 8% of GDP in 1989 to 0.8% in 1990. This objective was achieved by eliminating various tax exemptions, reducing subsidies, and decreasing investment expenditures (Marczakowska-Proczka, 2010, p. 308). Unfortunately, a considerable budget deficit was sustained in the ensuing years, and an overly expansionary fiscal policy continued to impede price stabilisation initiatives. Between 1991 and 1993, approximately 70% of the deficit was financed through credit extended by the National Bank of Poland (NBP). It was not until 1997 that the Constitution of the Republic of Poland explicitly prohibited such practices.

The mounting inflationary pressure was further exacerbated by the lack of convertibility of the zloty and the existence of an administratively managed exchange rate system, which prevented the market from determining the currency's value. Until the close of the 1980s, the state exercised a monopoly on foreign trade and foreign exchange transactions. This policy significantly restricted the development of international trade, consequently exacerbating the imbalance in the domestic market for goods and services. The process of restoring full convertibility of the zloty commenced with the adoption of the 1989 Foreign Exchange Law, which abolished the state monopoly on foreign exchange operations. A fixed exchange rate was introduced for all domestic foreign currency transactions, accompanied by extensive foreign exchange controls at both the banking sector and individual citizen levels, and a lack of external convertibility of the national currency. To ensure the internal convertibility of the zloty, a uniform exchange rate was adopted on January 1, 1990, applicable to all entities, regardless of ownership form or type of transaction. The exchange rate policy entailed an initial devaluation of the zloty by approximately 30%, to 9,500 zloty per U.S. dollar, followed by a subsequent adjustment to 11,100 zloty per dollar in May 1991. The devalued fixed rate of the zloty was intended to serve as a so-called nominal anchor, i.e., to curb the inflationary spiral by eliminating the pass-through effect of a rapidly depreciating currency on the prices of imported goods and by stabilising inflation expectations (Czogała, 2005, p. 217). This measure was instrumental in safeguarding the Polish economy from the potential consequences of spontaneous dollarization, which could have been precipitated by the erosion of confidence in the national currency due to the prevailing hyperinflation.

In mid-October 1991, a crawling peg system was introduced, entailing the daily devaluation of the zloty by a fixed amount relative to a currency basket, while simultaneously allowing market exchange rate fluctuations within a $\pm 2\%$ band. As of mid-May 1995, the former system was superseded by a crawling band system, which permitted a broader fluctuation range of $\pm 7\%$ for the market rate. On 12 April 2000, Poland formally adopted a floating exchange rate regime (Financial System..., 2008, pp. 142–149).

A significant reform was also the currency denomination on January 1, 1995, which involved converting 10,000 old złotys (PLZ) into one new złoty (PLN). This was a purely accounting operation that did not affect the real asset balances of economic entities. The denomination played a significant psychological role by improving the transparency of prices, wages, and transactions, which positively impacted public perceptions of monetary and economic stability.

The stabilisation of the zloty was the result of actions undertaken across three dimensions: macroeconomic (reducing inflation and the budget deficit), institutional (central bank reform, currency denomination, and full currency convertibility), and psychological (anchoring inflation expectations through exchange rate policy and denomination). From this standpoint, monetary policy not only served to reduce inflationary pressure but also contributed to shaping the foundations of a new economic order by ordoliberal principles. Measures such as abandoning administrative price-setting mechanisms, stabilizing the exchange rate regime, and limiting unbacked money issuance constituted integral elements of a broad transformation strategy. For the first time in many decades, the National Bank of Poland began to fulfil an autonomous stabilising role, technically, systemically, and institutionally.

4. Conclusions

The review conducted allows us to observe that, in both historical moments, similar problems emerged within the monetary sphere, though several fundamental differences can also be identified. A brief comparative analysis and synthesis of the results will be carried out based on the criteria presented in Table 1.

Table 1

Comparison of the Context of Monetary Policy in the Interwar Period and the Transformation Period

Criterion/Dimension	Interwar Period	Transformation Period
Main challenge in the monetary sphere	currency unification, hyper-inflation	hyperinflation
Price flexibility	extensive regulation and price controls during the wartime economy	liberalization of most prices in the period 1989–1990
Central bank independence	relative independence in 1924–1929; no constitutional guarantees	high level of autonomy, constitutionally guaranteed (since 1997)
Monetary reforms	introduction of a new currency unit in 1924	denomination in 1995
Stability of monetary policy	unstable and inconsistent monetary (and fiscal) policy in terms of goals, tools, and personnel – primarily until 1924; followed by orthodoxy in maintaining the gold parity from 1929 to 1939	increasing stability and predictability of monetary policy during the transformation period
Role of exchange rate policy	stabilization function (nominal anchor), attempt to build credibility, commitment to maintaining the gold parity	stabilization function (nominal anchor), attempt to build credibility, parity against the dollar in 1990–1991, followed by gradual liberalization
Monetary policy during major crises	deflationary policy due to the constraints of the exchange rate peg	flexibility in interest rate reduction, e.g., during 2008–2010
Role of gold in monetary policy	maintaining the gold standard	gold as a reserve component only, though with a significant increase since 2018 (by over 345 tons by 2025)
Capital mobility	relative freedom for most of the period, the introduction of foreign exchange control in 1935	gradual liberalization and removal of foreign exchange controls
Role of foreign capital	high capital needs, difficulties in securing foreign loans on favorable terms; success of 1924 reforms without foreign support	high level of foreign debt inherited from the previous regime; creditor negotiations; IMF assistance; acute capital shortages, especially in the early phase of transition
Banking crises	banking crisis in 1925; bank failures during the Great Depression	absence of a classic banking crisis; successful financial restructuring of banks and enterprises under the 1993 Act*

* Act on the Financial Restructuring of Enterprises and Banks of 3 February 1993 (Journal of Laws 1993, No. 18, item 82).

Source: Authors' elaboration.

In both the early years of independence and the inaugural phase of the transition period, the prevailing challenge was persistent inflation that ultimately culminated in hyperinflation. This represented a flagrant contravention of the ordoliberal principle of stable money, which is widely regarded as a prerequisite for effectively operating a competition-based price system. Ordoliberalism, like other strands of liberalism advocates sound money, fiscal discipline, predictability in public policy, protection of private property, freedom of contract, consistency in economic policy, market competition, acceptance of at least limited liability, and the avoidance of moral hazard.

The leading causes of inflation during the interwar period included monetary disorder, a legacy of the three former partitioning powers; unstable monetary policy; challenges in securing foreign loans; and the repercussions of the First World War and the Polish-Soviet War. In the transition period, the drivers of inflation were typically threefold. Firstly, inadequate indexation mechanisms were in operation. Secondly, inflation was suppressed under central planning. Thirdly, there was a liberalisation of prices and wages. The following list comprises the set of common causes of inflation shared by both the interwar period and the transformation era: (a) an excessive money supply; (b) large and persistent budget deficits and their monetary financing; (c) exchange rate adjustments and devaluations; (d) external shocks such as deteriorating terms of trade and the collapse of traditional markets.

The general principle of price flexibility was implemented, with certain exceptions, during the wartime economy of the Polish-Soviet War. Most prices were liberalized during the subsequent transformation period, which began in 1990. Shifting responsibility for determining the prices of virtually all goods and services to the market during this period was entirely in line with ordoliberal theory. According to ordoliberal thinking, only flexible prices can accurately reflect the scarcity of goods and services.

Implementing the ordoliberal principle of stable money must be considered within a broader institutional context, considering monetary, fiscal, and exchange rate policies. In this area, Eucken's distinction between the principle of the economic order and its realisation becomes apparent. The general nature of these principles necessitates the search for methods of their application within an evolving socio-economic reality. The achievements of monetarism and subsequent experience have identified central bank independence as a prerequisite for maintaining monetary stability. In the early 1920s, there were attempts to establish such independence, but it had not yet been enshrined in the constitution – a standard that would be implemented in Poland in 1997. Both periods under analysis saw monetary reforms: a new monetary unit was introduced in 1924, and a well-executed denomination operation was implemented in 1995.

The stability of policy, including monetary policy, advocated by ordoliberal thinkers, proved problematic in the Second Polish Republic, particularly before 1924 and beyond. This was due to unstable objectives and frequent personnel changes. However, in the 1990s, monetary policy became more coherent and predictable, in line with the growing professionalism of the National Bank of Poland (NBP).

During the interwar and transformation periods, the exchange rate acted as a nominal anchor for monetary policy. In the Second Republic, this took the form of a fixed gold parity, which necessitated deflationary policy amid economic stagnation, particularly during the Great Depression. In the 1990s, the dollar-to-złoty exchange rate also played a stabilising role, but it was gradually liberalised over time, allowing for greater flexibility in macroeconomic policy. This made the transformation strategy more adaptive and better aligned with evolving economic conditions.

Regarding the relationship between monetary policy and macroeconomic crises, the Second Polish Republic pursued a deflationary policy to maintain gold parity, resulting in rising unemployment and declining output. In contrast, during the transformation period – particularly after the year 2000 – monetary policy could function counter-cyclically, aligning with the ordoliberal principle of ensuring stable conditions for competition. The role of gold differed between these two periods: in the Second Republic, it served as a nominal anchor of monetary value; in contrast, during the transformation period, it merely constituted a component of official reserves, although significant increases in gold holdings have been observed since 2018. Although foreign capital played a key role in both eras, the conditions differed. During the interwar period, access to foreign financing was limited, and Grabski's reforms were implemented without external support. In contrast, in the 1990s, Poland benefited from IMF assistance, engaged in debt renegotiations, and opened up to foreign investment. These measures facilitated a more rapid stabilisation process and restored confidence in the economic system.

Finally, there were significant differences in the stability of the banking sector. The Second Republic experienced major banking crises in 1925 and during the Great Depression. In contrast, Poland avoided a classic banking crisis in the 1990s thanks to the financial restructuring law enacted in 1993.

In conclusion, monetary policy played a key role in stabilising the economy and restoring public confidence. However, during the transformation period, monetary actions were more consistently embedded within a normative institutional framework aligned with the ordoliberal principle of stable money. During the interwar period, the lack of institutional permanence and consistency in policymaking limited the effectiveness of stabilisation efforts, despite them being partially aligned with ordoliberal thought.

It seems that in both cases analyzed, there was a lack of a long-term comprehensive vision of economic order, and decision-makers often acted in a piecemeal manner and under the pressure of current events. While ordoliberal theory can be applied to such assessments, it is worth noting that during the first period under review, decision-makers may not have been familiar with it, as the main tenets of ordoliberalism were developed later. In turn, during the transition period, the point of reference was rather Anglo-Saxon thought and the Washington Consensus, which was a set of stylized recommendations for procedural and stabilization policy, rather than economic order policy (Moszyński, 2015, p. 199). The momentum of big-bang-style reforms was gradually lost, and the implementation of certain objectives was delayed (e.g., disinflation), while others were not fully implemented (re/privatization). Furthermore, the use of the term "social market economy" for the reforms of the transition period and the economic system in the 1997 Constitution was not inspired by the Fribourg school of economics.

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