

**THE IMPACT OF ADMINISTRATIVE AND LEGAL MECHANISMS ON THE STABILITY AND ADAPTATION OF THE FINANCIAL SYSTEMS OF EU COUNTRIES: A COMPARATIVE ANALYSIS OF POLAND AND BULGARIA****Pawel Frankiewicz<sup>1</sup>**

*<sup>1</sup>PhD in Law, Chief Executive Officer of the European Economic Society LLC, Jarosław, Poland  
Email: pawelfrankiewicz@gmail.com, ORCID: <https://orcid.org/0009-0002-8816-7376>*

**Abstract.** This article examines how administrative and legal mechanisms influence the stability and adaptability of financial systems in European Union (EU) member states, through a comparative analysis of Poland and Bulgaria. Using a doctrinal and comparative legal research approach, it analyzes the role of supervisory institutions, financial legislation, EU law transposition, and national crisis-response strategies in shaping financial system resilience. Both qualitative and quantitative data – including macroeconomic indicators, legal frameworks, and case studies from the 2008 global financial crisis and the COVID-19 pandemic – are used to evaluate outcomes in Poland and Bulgaria. The study finds that Poland's financial system has benefited from proactive supervision, a flexible monetary regime, and timely legal reforms, enabling it to avoid recession during the 2008 crisis and to weather COVID-19 with limited instability. Bulgaria's financial system, in contrast, has faced greater volatility due to a rigid currency regime and past institutional weaknesses, suffering a sharp contraction in 2009 and a significant banking scandal in 2014. However, Bulgaria's commitment to strict fiscal discipline and accelerated integration with EU mechanisms (such as Banking Union membership in 2020) has improved its adaptive capacity. The comparative analysis highlights best practices – including robust deposit insurance, coordinated financial oversight, and macroprudential safeguards – as well as legal gaps and challenges such as foreign-currency lending risks and cross-border supervisory coordination. It concludes with practical legal and policy recommendations to enhance financial stability and resilience in EU member states through strengthened governance, comprehensive regulatory frameworks, and adaptive crisis management mechanisms.

**Keywords:** financial stability; administrative law; EU law; Poland; Bulgaria; banking supervision; financial crisis; COVID-19; legal framework; comparative law.

**INTRODUCTION.** Financial system stability is a cornerstone of economic prosperity, particularly within the integrated framework of the European Union. The global financial crisis of 2007–2009 and the COVID-19 pandemic tested the resilience of national financial systems across the EU, revealing how differences in legal and administrative mechanisms can lead to markedly different outcomes. Poland and Bulgaria offer a compelling comparison in this context. Both countries underwent significant financial sector reforms during EU accession and post-accession, yet their financial systems responded differently to external shocks. Poland was the only EU economy to avoid recession during the 2008–2009 crisis, achieving +2.6% GDP growth in 2009 [1], whereas Bulgaria's economy contracted sharply, with nearly a –9% decline over 2009 [2]. These divergent outcomes raise important questions about the role of national legal frameworks, regulatory institutions, and EU-driven policies in fostering financial stability and adaptability.

As EU member states, Poland and Bulgaria share common obligations under EU financial regulations and directives, ranging from bank capital requirements to deposit guarantee standards. Both have established regulatory bodies and transposed extensive EU legislation into national law. Nevertheless, critical differences persist in their administrative approaches: Poland maintains an independent monetary policy with a floating currency (the złoty) and a unified financial supervision authority, whereas Bulgaria operates under a currency board peg to the euro and a split supervisory structure (with the central bank overseeing banks and a separate commission for non-banks). These

distinctions, along with each country's legal choices in crisis management and adaptation strategies, have profound implications for financial system resilience.

This article explores *how administrative and legal mechanisms impact the stability and adaptability of the financial systems of Poland and Bulgaria*. It employs a structured academic legal analysis, reviewing the institutional frameworks, key legislation, and crisis responses in both countries. By comparing experiences in major stress events – notably the 2008 global financial crisis and the 2020 COVID-19 shock – the study identifies which legal mechanisms and administrative practices have bolstered stability, and which shortcomings have exacerbated vulnerabilities. The goal is to derive lessons and recommendations that can inform financial governance in these and other EU jurisdictions.

#### **Problem statement and relevance.**

**Problem Statement:** Despite operating within the overarching EU legal order, EU member states exhibit significant variance in financial system stability during crises. This raises the question: *Which administrative and legal mechanisms account for the different levels of financial stability and adaptability in Poland and Bulgaria, and how effective are these mechanisms in responding to financial crises?* The problem is essentially one of comparative institutional design – understanding how laws and regulatory institutions in two EU countries mediate external economic shocks and what this implies for legal resilience and compliance with EU standards.

Poland and Bulgaria present an apt comparison due to their shared context as post-communist transition economies and EU entrants (in 2004 and 2007 respectively), combined with contrasting choices in monetary regime and regulatory structure. The research problem centers on dissecting the *interaction between national legal frameworks* (banking laws, financial regulations, crisis-management laws) *and administrative mechanisms* (supervisory authorities, central bank policies, government interventions) in shaping financial stability outcomes. It also involves assessing the degree of *adaptation*: how quickly and effectively each country adjusts its laws and institutions in response to evolving EU requirements and crisis lessons.

**Relevance:** This inquiry is highly relevant both academically and practically. Academically, it contributes to comparative financial law and EU law scholarship by illuminating how different national implementations of EU directives and regulations can yield divergent results. Prior studies have noted Poland's relative resilience as "a beacon of stability" in emerging Europe [1; 2, 157-160], and have scrutinized Bulgaria's vulnerabilities during financial turmoil [2, p.236-242]. However, a direct comparative legal analysis of the two countries' financial governance – covering not just economic factors but detailed legal-institutional mechanisms – remains under-explored. This study fills that gap by systematically comparing the legal frameworks (such as banking acts, insolvency regimes, deposit insurance schemes) and administrative practices (such as coordination among regulators and crisis policy tools) of Poland and Bulgaria.

Practically, the findings hold value for policymakers, regulators, and legal reformers. Understanding why Poland's banks withstood the 2008 crisis without taxpayer bailouts [1] while Bulgarian banks faced a severe credit bust [2] can inform better policy design. The relevance is underscored by ongoing challenges: e.g., how to manage foreign-currency lending risks, how to strengthen bank supervision to prevent failures like Bulgaria's Corporate Commercial Bank collapse in 2014, and how to improve legal frameworks for crisis management (such as bank resolution and deposit protection) in line with EU standards. Insights from this comparison can guide reforms in other EU member states with similar profiles, and contribute to the development of EU-wide mechanisms that account for national specificities.

In sum, the central problem addressed is identifying the *administrative and legal determinants of financial stability* in Poland and Bulgaria and evaluating their efficacy. The broader relevance lies in enhancing financial system resilience through informed legal and policy measures, thereby protecting economies against future crises.

**Analysis of the latest researches and publications.** A body of literature has emerged examining the performance of financial systems in Central and Eastern Europe during periods of stress, often highlighting the importance of governance and regulatory policies. In assessments by international institutions, Poland is frequently cited as a success case in weathering the 2008–2009 global financial crisis. An IMF staff analysis attributed Poland’s resilience to “disciplined and transparent inflation targeting..., the shock-absorbing role of its floating exchange rate, and ... proactive macroprudential supervision” [2, p.158-159]. Specifically, the Polish Financial Supervision Authority’s early interventions – such as urging banks to retain earnings and curb foreign-currency lending – have been lauded as effective measures to bolster stability. Brookings economist Marcin Piatkowski likewise observed that Poland’s banking sector remained profitable and well-capitalized throughout the 2008 crisis, requiring “not a single dollar of public support” [1], in part due to countercyclical lending by the state-controlled PKO Bank Polski. These analyses underscore the role of both sound macroeconomic policy and vigilant supervision in Poland’s crisis performance.

By contrast, Bulgaria’s experience has been portrayed as more fraught. IMF research noted that Bulgaria entered the 2008 crisis with “massive external imbalances” – including a current account deficit around 25% of GDP – and a credit boom largely funded by foreign capital [2, p.17]. The fixed currency regime (a currency board pegging the lev to the euro) limited Bulgaria’s monetary policy response, necessitating internal adjustments. As a result, Bulgaria suffered a deep recession in 2009 and had to pursue strong fiscal austerity and painful external adjustment. Academic commentary (e.g. studies on crisis contagion in Eastern Europe) has highlighted how Bulgaria’s rigid monetary arrangement and heavy euro-denominated lending created vulnerabilities that Poland, with its independent currency and more diversified loan base, managed to avoid. Additionally, case studies on Bulgaria’s 2014 banking crisis (Corporate Commercial Bank collapse) emphasize deficiencies in oversight and governance. Reports in the financial press and by the European Commission pointed to supervisory lapses and related-party lending abuses leading up to that collapse [3], prompting subsequent legal and institutional reforms in Bulgaria.

Comparative studies directly juxtaposing Poland and Bulgaria are relatively scarce [4; 5], but some broader regional analyses provide context. Bakker & Klingens’ edited volume on *How Emerging Europe Came Through the 2008/09 Crisis* (IMF, 2012) includes country chapters and cross-country lessons that inform this article’s analysis. They note, for instance, that while Estonia and other Baltic states swiftly met fiscal criteria to adopt the euro post-crisis, Bulgaria “by contrast, had to withdraw its ERM II application and postpone euro entry” after 2009 [2] due to its macroeconomic imbalances. Such contrasts illustrate how legal commitments (e.g. euro adoption convergence requirements) can be delayed by inadequate stability mechanisms. EU-level policy reviews, including European Commission and European Central Bank publications, also shed light on how EU directives (such as the Capital Requirements Directive and Bank Recovery and Resolution Directive) were implemented across member states, highlighting initial delays in some countries. For example, the European Commission formally pressed Poland in 2015 to complete the transposition of the Bank Recovery and Resolution Directive (BRRD) – indicating that even a resilient country like Poland had gaps in timely incorporation of new EU crisis-management rules [6; 7].

In summary, existing literature establishes a foundation that Poland’s stronger crisis performance is linked to prudent policies and robust institutions [8; 9], whereas Bulgaria’s challenges have spurred it to strengthen its legal and administrative frameworks [5; 10]. However, a fine-grained comparison focusing on *administrative-legal mechanisms* (rather than just macroeconomic outcomes) is less evident in prior work. This article builds on the insights of these sources, using them to guide the areas of inquiry (such as supervisory authority actions, legal reforms in deposit insurance and bank resolution, and the role of EU law) in the comparative analysis that follows.

**Methodology.** This research adopts a qualitative comparative case study approach grounded in academic legal analysis. The primary methodology is a **comparative legal analysis**

of Poland and Bulgaria's financial system governance, supplemented by review of empirical data. Key components of the methodology include:

**Doctrinal Legal Analysis:** Examination of the legal frameworks governing financial stability in each country. This involves analyzing national legislation (e.g. banking acts, central bank laws, financial supervision acts, deposit insurance laws) and relevant EU legal instruments (regulations and directives) that have been transposed into national law. Particular attention is paid to the transposition of EU financial directives (such as CRD IV/V on capital requirements, the BRRD on bank resolution, and the Deposit Guarantee Schemes Directive) and the establishment of legal mechanisms like bank resolution funds and stability councils.

**Institutional Analysis:** Review of the administrative structures and practices. This includes mapping the roles of the central banks (National Bank of Poland (*Narodowy Bank Polski*) and Bulgarian National Bank (*Bălgarska narodna banka*)), financial supervisory authorities (the Polish Financial Supervision Authority – KNF, and the Bulgarian National Bank's Banking Supervision Department and Financial Supervision Commission), ministries of finance, and other bodies such as deposit insurance funds. The analysis considers how these institutions interact (for example, through Financial Stability Committees or inter-agency coordination agreements) and how responsibilities are allocated (e.g. Poland's integrated supervision vs. Bulgaria's segmented model).

**Comparative Case Analysis of Crises:** Two critical periods – the 2008 global financial crisis and the 2020 COVID-19 pandemic – are used as case studies to evaluate the effectiveness of the legal-administrative mechanisms in practice. For each case, the study identifies the measures taken (laws, regulations, policy actions) in Poland and Bulgaria and assesses their impact on financial stability outcomes (using indicators such as GDP contraction, non-performing loan ratios, bank failures or bailouts, etc.). The 2008 crisis analysis looks at emergency legal measures (like bank guarantee expansions, liquidity support facilities, etc.) and longer-term reforms instituted thereafter. The COVID-19 analysis reviews the rapid response measures (e.g. loan moratoria, capital buffer relaxations, state guarantee programs) and how existing legal frameworks facilitated or constrained these actions.

**Data Collection:** The research draws on a mix of legal texts, policy documents, and secondary data. Sources include official national gazettes for laws, EU law databases, central bank and supervisory authority reports, international financial institution reports (IMF, World Bank, EBRD), academic articles, and statistics from Eurostat and national central banks. Quantitative data (such as GDP changes, budget balances, bank capital ratios, NPL ratios) are incorporated to illustrate the real-world impact of legal mechanisms on financial stability. For instance, data on non-performing loans are used to show how post-crisis legal adaptations affected bank asset quality (e.g. the NPL ratio in Bulgaria spiked to ~17% [11] in the early 2010s, whereas in Poland it peaked below 8% and then declined [12]).

**Comparative Synthesis:** The findings are synthesized through a direct comparison that identifies similarities and differences in the two countries' approaches. This involves a side-by-side evaluation of aspects such as: (a) *preventive frameworks* (macroprudential policies, early warning systems); (b) *crisis-management tools* (e.g. lender of last resort facilities, bank recapitalization or resolution processes); (c) *legal alignment with EU norms* (speed and completeness of adopting EU regulations), and (d) *institutional arrangements* (independence, capacity, and coordination among agencies).

The methodology is qualitative and analytical, aiming for depth of understanding of legal mechanisms rather than broad statistical generalization. Reliability is sought through triangulation of sources – for example, corroborating a legal change (like deposit insurance increase) with multiple sources: the legal act, an EU directive requirement, and commentary in news or reports [13; 14]. The analysis remains mindful of context (historical, political, economic) that might influence how laws are implemented. Ultimately, the approach is designed to yield a comprehensive comparative picture, from which informed conclusions and recommendations can be drawn.

---

**MAIN RESEARCH RESULTS: COMPARATIVE LEGAL AND ADMINISTRATIVE ANALYSIS****1. Financial Regulatory Frameworks and Institutions in Poland and Bulgaria**

**Poland – Legal and Institutional Structure:** Poland's financial system oversight is characterized by strong institutional coordination and alignment with EU standards. Key elements include:

- **Central Bank and Monetary Policy:** The Narodowy Bank Polski (NBP) is constitutionally independent and pursues an inflation-targeting monetary policy with a free-floating currency (PLN). This framework provided Poland with a monetary buffer during crises – e.g., in late 2008 the PLN was allowed to depreciate significantly, cushioning the shock to exporters and enabling an easier monetary stance. The NBP also has a Financial Stability Department and is empowered to conduct lender-of-last-resort operations. During the 2008 crisis, NBP swiftly introduced swap lines (providing foreign currency liquidity to banks) and extended open market operations [2], actions underpinned by its broad statutory mandate.

- **Supervisory Authority:** In 2006, Poland consolidated supervision of banking, capital markets, and insurance into a single regulator, the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF). The KNF has legal powers to issue regulations, conduct on-site examinations, and enforce prudential standards. Notably, in the 2008–09 crisis, KNF exercised its authority to recommend profit retention (boosting bank capital buffers) and to restrict risky practices like foreign-currency mortgage lending [2]. These actions were largely heeded by banks and are credited with preventing a deterioration of loan quality. The KNF's integrated structure facilitated a holistic view of the financial sector, although it works closely with the central bank (the NBP President sits on the KNF's governing body).

- **Financial Stability Committee:** Poland legally formalized inter-agency cooperation via the Financial Stability Committee (Komitet Stabilności Finansowej, KSF). An initial committee was *ad hoc* created in late 2008 [2]; subsequently, the Committee was given a statutory basis (with enhanced powers) in 2015. The KSF brings together the Ministry of Finance, NBP, KNF, and the Bank Guarantee Fund, enabling information exchange and coordinated responses. For example, it serves as Poland's macroprudential authority under EU law, empowered to impose countercyclical capital buffers, etc. This institutional mechanism has improved Poland's adaptability to emerging risks by uniting key players under a shared legal mandate.

- **Deposit Insurance and Resolution:** The Bank Guarantee Fund (BGF) in Poland administers deposit insurance (covering deposits up to €100,000, per EU norms) and, since 2016, functions as the national resolution authority under the BRRD. Poland swiftly amended its laws in late 2008 to raise deposit coverage from €22,500 to €50,000 [2] (anticipating the EU's 2009 directive) and later to €100,000. The BGF also manages bank resolution tools; while Poland did not experience bank failures in 2008–09 requiring resolution, the legal framework is in place, and one medium-sized bank was resolved in 2020 using BGF funds (aided by EU-harmonized "bail-in" powers).

**Bulgaria – Legal and Institutional Structure:** Bulgaria's financial regulatory framework has evolved significantly since joining the EU, with notable strengthening after its 2014 banking crisis. Key features include:

- **Central Bank and Currency Board:** The Bulgarian National Bank (BNB) is the central bank, but uniquely operates under a currency board arrangement since 1997. By law, the Bulgarian lev is fixed to the euro (formerly to the Deutsche Mark) and BNB's monetary policy discretion is extremely limited – it cannot finance government deficits and must back monetary liabilities with foreign reserves. This arrangement ensured price stability and credibility (facilitating EU entry), but during crises it removes typical central bank tools. In 2008–09, BNB could not devalue or significantly cut rates; stability relied on maintaining confidence in the peg. The BNB's Banking Supervision Department oversees banks; however, the currency board constraints became apparent in the 2009 recession, which had to be countered by fiscal austerity rather than monetary stimulus [2].

- *Financial Supervision:* Banking supervision is housed within the BNB, while non-banking financial supervision (securities, insurance, pensions) is conducted by the autonomous Financial Supervision Commission (FSC). This split framework sometimes posed coordination challenges. Prior to 2014, there were criticisms that BNB's bank supervision was too lax – e.g. the buildup of concentration risk and related-party exposures at Corporate Commercial Bank (KTB) went unchecked until its collapse [3]. In response, Bulgaria enacted legal changes to strengthen supervision: the BNB was granted clearer powers to place banks under special supervision and to intervene earlier. Moreover, in preparation for joining the EU's Banking Union, Bulgaria underwent a comprehensive asset quality review in 2019 and amended banking laws to align with ECB standards. As of October 2020, the BNB entered into "close cooperation" with the European Central Bank, meaning the ECB now directly supervises Bulgaria's largest banks under the Single Supervisory Mechanism [15]. This effectively elevates the robustness of Bulgarian bank oversight by embedding EU institutional support.

- *Financial Stability Coordination:* Historically, Bulgaria lacked a formal equivalent to Poland's KSF. The Ministry of Finance, BNB, and FSC have cooperated on an as-needed basis. After the crises, steps were taken to formalize such coordination. In 2015, under pressure to implement EU macroprudential rules, Bulgaria established a National Financial Stability Council to consult on risk warnings (chaired by the Finance Minister with BNB and FSC participation). However, given Bulgaria's impending integration with the ECB/SSM, some macroprudential decisions (like countercyclical buffer rates) are now effectively coordinated with or delegated to the European level.

- *Deposit Insurance and Bank Resolution:* The Bulgarian Deposit Insurance Fund (BDIF) provides deposit protection up to €100,000, as mandated by EU law. In the wake of a depositor panic at KTB in 2014, the BDIF had to pay out approximately BGN 3.7 billion (≈€1.9 billion) to insured depositors – a huge test which it managed with state support. That episode exposed gaps in Bulgaria's resolution regime at the time (there was no effective bank recovery and resolution law then; KTB was handled via insolvency and payout). Bulgaria has since transposed the BRRD: a Bank Recovery and Resolution law took effect by 2016, giving the BNB (and now ECB, for significant institutions) authority and tools to resolve banks, and creating a bank resolution fund. Legal reforms in late 2014 also doubled the deposit guarantee limit to BGN 196,000 (≈€100,000) from BGN 100,000 [16, p.2-3], bringing it in line with EU norms ahead of schedule, and introduced requirements for more frequent reporting to Parliament on financial stability measures [13]. These changes have improved confidence and brought Bulgaria's safety nets to EU parity.

## **2. Impact of EU Law Transposition and Adaptation Strategies**

Both Poland and Bulgaria, as EU members, are bound to implement the Union's financial regulatory framework. The efficiency and completeness of transposition have affected their financial stability regimes:

*Poland:* Generally, Poland has been proactive in adopting EU financial legislation, although there have been occasional delays. For example, Poland promptly implemented the EU's increase in deposit insurance coverage during 2008–2009 (even before it was an EU legal requirement, demonstrating a willingness to exceed minima to bolster confidence) [2]. It also aligned its capital regulations and supervisory practices with the Basel standards via the CRD IV package in the 2010s. One area of slower transposition was the BRRD – the European Commission sent a formal notice in 2015 urging Poland to fully enact the bank resolution rules [6]. Poland did comply thereafter, empowering its Bank Guarantee Fund with resolution powers. In terms of Eurozone integration, Poland's strategy has been gradualist: while legally obliged to adopt the euro eventually, Poland has not set a target date and thus retains monetary autonomy. This stance (arguably a legal-political choice) allowed Poland to use currency flexibility as an adaptation tool during crises. However, it also means Poland is outside the Banking Union's safety net (e.g., it does not have automatic access to ECB emergency liquidity or the Single Resolution Fund). To mitigate this, Poland has built substantial own reserves and maintained conservative fiscal policies to ensure

credibility. Notably, Poland availed itself of an IMF Flexible Credit Line in 2009 as a precaution [2] – a strategy reflecting its preference for international backup over ceding monetary control through euro adoption.

**Bulgaria:** Bulgaria's adaptation strategy has been markedly Euro-centric. Despite the setback in 2009 when it had to withdraw its euro adoption bid [2], Bulgaria recommitted to that path in the late 2010s. It joined the EU's Exchange Rate Mechanism (ERM II) in July 2020, signaling intent to adopt the euro (expected around 2025). As part of that process, Bulgaria voluntarily entered the EU Banking Union framework ahead of euro adoption – a notable legal-institutional adaptation. This entailed changes such as amending the BNB Act to allow ECB oversight and harmonizing supervisory practices; from October 2020, the ECB assumed direct supervision of Bulgaria's major banks [15]. In legislative transposition more broadly, Bulgaria has shown commitment but sometimes required external impetus. The country met the deadlines for CRD and BRRD transposition, partly spurred by the lessons of KTB's failure. Additionally, Bulgaria aligned its anti-money laundering laws and other financial regulations closely with EU directives, seeking to improve its reputation and stability (this was important, for instance, after Bulgaria faced concerns about governance and was kept out of the Schengen Area and Eurozone initially). A unique aspect of Bulgaria's adaptation is the self-imposed fiscal rigor: even without being in the Eurozone, Bulgaria entrenched EU's Stability and Growth Pact norms (low deficits, low debt) in its national legislation. It ran budget surpluses in the years before COVID-19 [15], giving it a buffer to handle crises. This fiscal discipline is a legal-policy choice aligned with EU expectations for currency stability under ERM II.

In summary, EU law acts as both a driver of reforms and a yardstick. Poland leveraged opt-outs (delaying euro adoption) to maintain policy flexibility, while Bulgaria accelerated convergence (joining Banking Union early) to compensate for past vulnerabilities. Both approaches carry trade-offs for stability and adaptability: Poland's independent path allowed innovative domestic solutions (like using a national development bank to support lending [1]), whereas Bulgaria's integration provides external oversight and support (ECB supervision) to shore up domestic shortcomings.

### **3. Crisis Response Mechanisms and Resilience: 2008 vs 2020**

A core part of this analysis is comparing how Poland and Bulgaria's legal-administrative setups coped with major systemic shocks, particularly the 2008 global financial crisis and the 2020 pandemic:

#### **2008–2009 Global Financial Crisis:**

**Poland's Response:** Poland's authorities reacted rapidly within their legal means. The government unveiled a "Stability and Development Plan" in late 2008, a package of measures (fiscal stimulus, credit guarantees, and regulatory relief) to shore up the economy [17, p.66]. On the financial side, the KNF (supervisor) and NBP executed a coordinated defense. The KNF's directive to banks to conserve capital (halt dividends) was an informal regulatory action but had industry-wide compliance. The NBP, under its mandate, slashed interest rates and opened wide liquidity facilities (including extending repo operations to 6-month tenor and accepting a broader range of collateral). Additionally, Poland's parliament swiftly amended banking and guarantee laws: deposit insurance was increased to €50,000 and the co-insurance (where depositors previously bore 10% of insured losses) was abolished to boost confidence [2]. A credit guarantee scheme was launched via the state-owned Bank Gospodarstwa Krajowego (BGK) to backstop lending to businesses. Although uptake of these guarantees was modest, their mere availability helped reassure markets. Notably, no Polish bank needed a bailout – a striking outcome when many EU peers were nationalized or rescued with public funds. The legal framework in Poland did permit the treasury to recapitalize banks if necessary, but that power went unused [1]. Instead, a combination of prudent regulation, EU structural funds inflows, and a flexible exchange rate kept banks solvent and credit flowing. Poland even took the unprecedented step of securing an IMF Flexible Credit Line (FCL) in 2009 as a precaution [2]. While not a direct legal requirement, obtaining the FCL was facilitated by Poland's solid legal-policy credentials (sound debt and

inflation laws, etc.) and it functioned as an international insurance mechanism, reinforcing market confidence at the height of the crisis.

**Bulgaria's Response:** Bulgaria confronted the 2008 crisis with far more constrained tools due to the currency board. The BNB could not unilaterally provide massive liquidity or depreciate the currency. Thus, the burden fell on fiscal and regulatory policy. Initially, Bulgaria's government and central bank focused on confidence measures: in October 2008, the Bulgarian Parliament promptly passed a law to raise the deposit guarantee ceiling from BGN 40,000 to BGN 100,000 (approx. €50,000) [13], doubling coverage in line with EU moves. This legislative action was crucial to avert bank runs; although Bulgarian banks were mostly liquid and well-capitalized then, the global panic threatened depositor trust. Parliament also mandated quarterly reports on the economy by the Finance Minister and BNB Governor [13] to increase transparency, and asserted that any bank capital injections (bailouts) required parliamentary approval – a signal of prudent, rule-of-law based crisis management. In practice, no banks were bailed out; instead, Bulgarian banks drastically curtailed new lending and foreign banks in Bulgaria stopped funding expansion. The government, encountering recession (GDP fell around 5% in 2009 [2, p.241]), could not devalue or significantly deficit-spend due to the currency board law. It thus implemented austerity to maintain the fixed exchange rate – cutting public spending to keep deficits low. Bulgaria's policy response was essentially to defend the peg at all costs, which it succeeded in doing, but at the price of a deeper domestic downturn. One positive facet was that Bulgaria had entered the crisis with low public debt and even fiscal surpluses, giving it some credibility. Still, the social and economic strain was significant, and plans to adopt the euro by 2011 were derailed (the ERM II application was shelved) [2]. In terms of legal reforms, the crisis catalyzed improvements in banking law governance: BNB tightened regulations on banks' foreign borrowing and encouraged higher liquidity buffers. Unlike Poland, Bulgaria did experience a notable rise in non-performing loans post-crisis, reaching an estimated 17% of loans by the early 2010s [11], reflecting the harsher impact on borrowers and less expansive relief measures.

#### **2020 COVID-19 Pandemic:**

**Poland's Response:** The COVID-19 shock was very different in nature, but Poland again utilized a mix of monetary, fiscal, and regulatory tools under its legal framework. The Polish government rolled out an anti-crisis shield ("Tarcza Antykryzysowa") which included financial components like loan guarantees for SMEs via BGK and deferrals of taxes – these required quick legislative action and were facilitated by Poland's existing state aid structures [18]. The KNF (supervisor) announced supervisory forbearance in line with European Banking Authority guidelines: it allowed banks to restructure loans and granted temporary capital relief. For instance, the KNF let banks run below the combined buffer requirements and postponed the implementation of an additional capital buffer that was planned. The KNF also adjusted its operations by suspending most on-site inspections to let banks focus on customer support [19]. Poland's central bank joined the global easing trend, cutting interest rates to record lows and (for the first time) engaging in quantitative easing by purchasing government bonds – a power implicitly available under its mandate, although never previously used. Importantly, Polish authorities and banks offered broad loan payment moratoria to individuals and firms affected by the pandemic. While Poland did not pass a law mandating a moratorium, banks (with regulatory support) voluntarily allowed payment holidays for several months, consistent with EU-level recommendations. The impact was that Poland's GDP, while contracting in 2020 (~-2.0%, *Fig. 1*), fell less than the EU average [20], and its banking sector remained stable with capital adequacy around 19% entering 2020 [21]. Legal mechanisms like the BGF were on standby, but no bank failures occurred; instead, the BGF and state development fund helped channel liquidity to the economy. Poland's existing crisis management framework thus proved adaptable to a very different crisis scenario, emphasizing flexibility within legal bounds (e.g. rapid regulatory adjustments and utilizing state-backed financial instruments under pre-existing laws).

Figure 1. Line Graph of Poland's GDP Growth Rate (1991–2023)



Source: [20]

**Bulgaria's Response:** Bulgaria faced a sharp, if temporary, economic hit in 2020 (GDP around -4% in 2020, Fig. 2) [22].

Figure 2. Line Graph of Bulgaria's GDP Growth Rate (1991–2023)



Source: [22]

Benefiting from lessons learned and stronger institutions, Bulgaria's response combined national measures with EU-level support. The government enacted emergency legislation to enable moratoria on debt payments and to extend guarantees. By decision of the BNB (following EBA guidance), Bulgarian banks were allowed to grant loan payment deferrals up to 6 months for borrowers hurt by the pandemic. This was formalized through BNB's coordination with the banks' association, effectively creating a country-wide moratorium scheme consistent with EU recommendations. The BNB also immediately canceled a scheduled increase in the countercyclical capital buffer that was to take effect in 2020, thereby freeing about BGN 0.7 billion in capital for banks to absorb losses or lend. Additionally, BNB required banks to capitalize their 2019 profits (BGN 1.6 billion) [15] instead of paying dividends, mirroring the practice in Poland. These steps were within the BNB's legal authority under banking law and macroprudential regulations. On the fiscal side, Bulgaria's government, with parliamentary approval, reallocated funds and expanded social support (for instance, a 60/40 wage subsidy scheme to preserve jobs). It also empowered the state-owned Bulgarian Development Bank (BDB) to provide portfolio guarantees to commercial banks for SME lending and to extend low-interest loans to affected businesses. To buttress liquidity, the BNB entered a €2 billion swap line agreement with the European Central Bank [15] – a novel step made possible by Bulgaria's Banking Union participation, giving it access to euro liquidity as needed. Consequently, Bulgaria navigated the COVID-19 crisis without any bank failures or exchange rate pressures; in fact, it kept its ERM II peg stable and maintained investor confidence (credit ratings remained investment-grade). The legal and administrative frameworks in place – upgraded after 2014 and enhanced by ECB oversight starting in 2020 – enabled a swift, rule-based response. The contrasting experiences of 2008 and 2020 for Bulgaria demonstrate significantly improved resilience, attributable to stronger institutions and alignment with EU mechanisms.

#### 4. Comparative Discussion: Outcomes and Factors

The comparative results highlight how administrative and legal mechanisms concretely impacted stability and adaptation:

- *Crisis Outcomes:* Poland's financial system proved more stable in both crises (2008 and 2020) in terms of avoiding bank collapses, maintaining credit flow, and minimizing economic contraction [1; 20]. Bulgaria's system, while much improved by 2020, had a rougher experience post-2008, including a severe GDP decline and a delayed banking crisis in 2014. The legal frameworks in Poland allowed countercyclical action (monetary easing, fiscal stimulus within EU limits, etc.), whereas Bulgaria's currency board strictly limited its policy options in 2008–09. By 2020, Bulgaria had compensated by leaning on its integration into EU frameworks (ERM II, Banking Union) to obtain external monetary backstops (ECB swap line) and guidance, which helped stabilize expectations.

- *Administrative Efficacy:* A crucial difference has been supervisory rigor and coordination. Poland's integrated KNF, working in tandem with the NBP and Finance Ministry, identified risks early (e.g. foreign-currency loans, capital needs) and took preventive measures [2]. The presence of a formal Financial Stability Committee since 2008 ensured key actors shared information and crafted unified responses. In Bulgaria, pre-2014, coordination was weaker and supervision at the BNB was found wanting in the KTB case (resulting in prosecutorial charges against bank supervisors for negligence) [3]. This gap allowed problems to fester. The reforms after 2014, culminating in ECB oversight, have significantly tightened Bulgaria's supervisory environment, essentially borrowing the credibility and expertise of EU institutions to reinforce national administration [15]. The comparative insight is that robust institutional governance – clear mandates, independence, inter-agency communication – is fundamental to stability. Poland had a head start in this regard, whereas Bulgaria's improvements came reactively.

- *Legal Framework Robustness:* Both countries have generally harmonized their financial laws with EU standards, but the enforcement and context differ. Poland's legal framework for bank resolution was not tested in 2008–09 (no failures occurred), but when new EU laws like the BRRD came, Poland incorporated them to be prepared in future. Bulgaria unfortunately had a

bank failure before the BRRD was in force, so it resorted to old insolvency procedures which were slower and less effective, highlighting the cost of any lag in legal modernization. On deposit protection, both countries met EU benchmarks; tellingly, the presence of a credible deposit insurance scheme helped calm the public in both cases (there were no sustained bank runs in either country during COVID-19, and even in 2008 the measures taken prevented runs). A distinction is that Poland's fiscal capacity is larger, so its guarantee of deposits is implicitly stronger (Poland's public debt around ~50% of GDP vs Bulgaria's ~20% of GDP pre-COVID [15], although Bulgaria's low debt actually increases its ability to honor guarantees). Still, as seen in 2014, Bulgaria's fund needed state liquidity support to payout depositors – an operational challenge successfully met under legal arrangements.

- *Monetary vs Fiscal Trade-offs:* Poland leveraged monetary policy as a legal mechanism (the central bank's lender-of-last-resort and currency flexibility powers) to support stability. Bulgaria leveraged fiscal policy and EU alignment (treating the currency board as inviolable and adjusting fiscal policy accordingly, and later integrating with the Eurozone architecture). Each approach has merits and drawbacks. Poland's independent monetary path helped in crisis but kept it outside some collective EU supports; Bulgaria's fixed path forced painful internal adjustment but ultimately fast-tracked its convergence with EU norms and institutions, potentially providing greater long-term stability through euro adoption.

- *Adaptability:* Adaptation can be seen in how laws and policies were updated post-crisis. Poland adjusted macroprudential oversight by institutionalizing it (2015 law creating a systemic risk board), reacting to the global consensus on stronger oversight. It also grappled with new issues like a wave of Swiss Franc-denominated mortgages (a legacy of pre-2008 lending) through legal channels – courts in Poland, guided by EU consumer protection law, have adjudicated many of these contracts as abusive, leading to loan conversions. This judicial mechanism is a form of legal adaptation to protect consumers and indirectly banks (by clarifying liabilities). Bulgaria's adaptation was more structural: after experiencing a banking scandal, it amended its bank governance laws (to tighten related-party lending rules and require more transparency) and aligned itself with the EU's banking union as a form of *outsourcing trust*. The **speed** of adaptation also differed: Poland, having suffered less damage, perhaps moved methodically; Bulgaria, after 2014, moved rapidly on multiple reforms out of necessity.

In conclusion of the results section, the comparative analysis demonstrates that a *combination of sound legal framework, empowered and proactive institutions, and alignment with supranational safeguards* leads to greater financial system stability. Poland exemplified how national mechanisms can be highly effective, while Bulgaria's journey underscores the importance of strengthening legal-institutional capacity and, where beneficial, drawing on EU-level mechanisms to supplement national efforts. Both countries illustrate that stability is not a static condition but a dynamic outcome that depends on continual adaptation of laws and institutions to new challenges.

**Findings and Discussion.** The analysis yields several key findings about the impact of administrative and legal mechanisms on financial system stability and adaptation in Poland and Bulgaria:

**1. Proactive Supervision and Coordination Enhance Stability:** One of the clearest findings is that early and coordinated supervisory action can significantly mitigate the impact of financial shocks. Poland's experience during the 2008 crisis shows this: the KNF's timely warnings and requirements for banks to bolster capital and limit FX lending helped avoid a buildup of vulnerabilities. The existence of the Financial Stability Committee in Poland provided a formal platform for authorities to share information and react consistently [2]. In Bulgaria, the absence of such robust coordination prior to 2014 corresponded with slower reaction to brewing problems. After reforms, however, Bulgaria improved inter-agency cooperation, especially through its commitment to the ECB's joint supervisory framework, which has effectively filled the coordination gap. The takeaway is that strong institutional frameworks – clear mandates, information-sharing mechanisms, and decisive supervisory powers – are a best practice for

stability. Countries should ensure their financial oversight bodies have not only the legal authority but also the operational capacity and habit of acting preventively. This might involve regular stress testing, as both Poland and (now) Bulgaria conduct, and macroprudential policies (like countercyclical buffers) to pre-empt crises.

**2. Legal Frameworks Must Facilitate Crisis Management:** The crises examined revealed which legal tools were crucial. For instance, deposit insurance proved essential in both nations to maintain public confidence. Ensuring that deposit guarantee schemes are well-funded and legally backed by state support if needed is critical – a point underscored when Bulgaria’s fund had to swiftly mobilize financing in 2014 (ultimately backed by government and external loans) to reimburse depositors [3]. Another legal aspect is the framework for bank resolution or restructuring. Poland entered the 2020s with a fully operational resolution authority (BFG) aligned to EU norms, whereas Bulgaria’s equivalent was only born out of the post-2014 reforms. The existence of resolution tools can make the difference between an orderly handling of a failing bank and a chaotic collapse. In general, the alignment with EU’s post-crisis regulatory reforms (BRRD, etc.) is now a baseline expectation; any gaps in transposition or implementation can pose risks. Thus, an important finding is that legal harmonization with best practices (EU standards in this case) fortifies national systems. However, mere transposition is not enough – enforcement and readiness (e.g., performing simulations of a bank failure) are equally vital.

**3. Flexibility vs. Discipline – Both Can Contribute to Resilience:** Poland’s strategy leveraged flexibility (monetary flexibility, exchange rate adjustment, discretionary fiscal stimulus when possible within EU rules), whereas Bulgaria’s strategy emphasized discipline (strict fiscal control, fixed monetary regime, early adoption of external rules). Interestingly, both approaches have yielded periods of stability but through different channels. Poland avoided recession in 2009 by using its flexibility – e.g., the zloty’s depreciation acted as an “automatic stabilizer” [2] – and by having space for countercyclical fiscal policy (though Poland’s public debt did rise, it remained manageable). Bulgaria avoided a currency crisis by sticking firmly to its rules (currency board and fiscal orthodoxy), essentially trading off short-term growth to maintain long-term stability. Neither approach is absolutely superior; each must be buttressed by appropriate legal mechanisms. Poland needed strong central bank independence and a credible inflation-targeting regime to make its flexibility effective (too loose a policy could have led to inflation or loss of confidence). Bulgaria needed legal commitments to budget discipline and political consensus to not break the peg, to make its rigidity credible (which it achieved, even writing a balanced-budget ethos into law). Thus, the finding is that whether using flexible or fixed approaches, credibility is key – built via legal commitments and proven track record. Countries with independent currencies can benefit greatly from robust regulatory institutions (as Poland did) to manage the risks of flexibility (like potential currency mismatches), while countries with fixed regimes must augment them with strong buffers and willingness to adapt through structural reforms (as Bulgaria eventually did by turning to Banking Union membership and pending euro adoption to address the shortcomings of its previous model).

**4. Crisis Preparedness and Adaptation Are Ongoing Processes:** Both countries learned and adapted from each crisis, highlighting that financial stability is dynamic. Post-2008, Poland shored up certain areas (e.g., formalizing the stability committee, considering measures for forex loans). Bulgaria learned hard lessons from 2008 and 2014, leading to sweeping changes in law (banking supervision overhaul, BRRD adoption) and international integration (ERM II entry). By the time COVID-19 hit, Bulgaria was much better prepared institutionally and legally – and it shows in the relatively effective response with no systemic fallout. A critical insight is that legal reform often follows crisis, but ideally, it should also precede the next one. This calls for a forward-looking regulatory strategy: for instance, today both Poland and Bulgaria must contend with new risks (fintech, cyber risks, climate-related financial risks). Ensuring their legal frameworks and institutions adapt to these proactively will be the next test. The discussion underlines that adaptation means not just reacting, but also implementing EU directives timely, updating national laws for new realities, and investing in institutional capabilities continuously.

**5. Remaining Challenges and Gaps:** Despite progress, some challenges persist. In Poland, one ongoing issue is the portfolio of legacy foreign-currency mortgages. While not destabilizing to banks system-wide (banks have provisioned for legal losses and the economy absorbed the currency shifts), it raised questions about consumer protection and bank conduct. The Polish legal system (courts applying EU consumer law) is resolving this, but a more coordinated legislative solution could perhaps have been less protracted. This indicates that legal gaps in consumer financial protection can indirectly affect financial stability and should be addressed through clear laws and supervisory guidance. In Bulgaria, although supervision has strengthened, challenges remain in the non-banking financial sector (for example, some Bulgarian pension funds have faced questions on governance). Also, Bulgaria's success going forward partly hinges on a smooth euro adoption – a process that requires continued political and legal commitment (e.g., passing necessary amendments to the BNB Act on euro changeover). Both countries must remain vigilant about corruption or political interference in financial oversight; the Reuters report on the indictment of Bulgarian central bank officials after the KTB scandal [3] is a stark reminder that laws on paper are only as good as their implementation. Strengthening the rule of law, transparency, and accountability in financial governance is an area of common interest. In Poland, a minor scandal in 2018 involving a KNF chairman (who resigned amid allegations of soliciting a bribe from a bank) showed that even well-regarded institutions need safeguards (e.g., ethical rules, independent oversight) to maintain integrity and public confidence.

In summary, the discussion finds that *administrative and legal mechanisms are decisive in shaping financial stability*, as evidenced by Poland and Bulgaria. Effective mechanisms (clear rules, empowered institutions, aligned incentives) yield resilience, whereas weaknesses (gaps, inertia, conflicts of interest) tend to surface as instability under stress. Importantly, EU membership has provided a framework and impetus for both countries to improve their mechanisms – but how they utilized those tools was up to national choices. Poland used EU frameworks as a floor and sometimes went beyond (more countercyclical policy than some EU peers), whereas Bulgaria increasingly uses EU frameworks as a support and guide to reach the stability it seeks (essentially importing best practices). Both strategies underscore that *supranational and national legal mechanisms must work in tandem* to ensure a robust financial system.

**CONCLUSIONS.** In conclusion, this comparative analysis of Poland and Bulgaria demonstrates that administrative and legal mechanisms profoundly affect the stability and adaptability of national financial systems within the EU. Poland's experience over the past decade and a half illustrates how a combination of prudent macroeconomic policies, strong regulatory institutions, and agile legal responses can create a resilient financial system. Its ability to withstand the 2008 financial crisis without a recession – unique in the EU – was not a coincidence but rather the result of deliberate choices: an independent central bank that could act as a shock absorber, a unified financial supervisory authority that enforced conservative banking practices, and a legal framework that enabled rapid crisis measures (such as expanding deposit insurance). Poland's case confirms that *comprehensive and proactive legal governance* (aligned with but also going beyond EU requirements) is a bulwark against instability.

Bulgaria's trajectory, while more turbulent, yields equally important lessons. The shocks it faced exposed that a *stable currency peg alone is not sufficient* – it must be buttressed by robust supervision, transparent governance, and flexible fiscal capacity. The collapse of KTB in 2014 was a costly reminder that lapses in the rule of law (e.g., tolerating risky banking practices, delayed intervention) can undermine financial stability. However, Bulgaria's subsequent reforms and its embracement of EU mechanisms (Banking Union membership) have significantly enhanced its financial system's adaptability. The fact that Bulgaria navigated the COVID-19 crisis with no bank failures or currency stress, and is on the cusp of Eurozone entry, marks a turnaround. It underscores that *legal and institutional reform, even if prompted by crisis, can substantially improve resilience*. Bulgaria's convergence with EU banking standards, its stricter domestic laws on bank governance,

and the increasing accountability of its institutions together create a much sturdier framework than existed in 2008.

Comparing the two countries highlights that there is no one-size-fits-all model – rather, each country’s historical context and policy choices shape its approach. Poland’s model leaned on sovereign flexibility and internal strengths; Bulgaria’s evolving model relies on external anchors and strict rules. Yet, both aim to fulfill the EU’s overarching goals of safe, stable, and single integrated financial markets. The convergent trend is that Poland and Bulgaria today are more similar in their adherence to EU norms than they were a decade ago: both have €100k deposit guarantees, both have implemented Basel III capital rules, both have macroprudential bodies, and both cooperate with EU institutions (Poland via the European Systemic Risk Board and EBA, Bulgaria additionally via ECB supervision). This convergence is a positive development, as it reduces the scope for regulatory arbitrage and fosters collective stability.

**Conclusions can be distilled as follows:** Administrative and legal mechanisms – from the independence and capacity of central banks, to the scope of supervisory authority powers, to the design of financial safety nets – are decisive in how well a country’s financial system withstands crises. Effective mechanisms can prevent shocks from becoming systemic crises, whereas weak mechanisms can exacerbate vulnerabilities. Poland and Bulgaria, through successes and setbacks, show the critical importance of:

- (1) *strong institutions* that act in the public interest;
- (2) *sound laws and regulations* that are regularly updated to reflect new risks and EU developments;
- (3) *crisis preparedness* (including legal provisions for emergency liquidity, bank restructuring, and fiscal backup); and
- (4) *commitment to the rule of law and good governance*, ensuring that regulations are enforced impartially and transparently.

Ultimately, financial stability is a continual endeavor. Both countries must remain vigilant. As they move forward – Poland as a large EU economy outside the euro, Bulgaria as a smaller economy on the brink of euro accession – their ability to adapt their legal and administrative frameworks to future challenges (be it another global downturn, technological disruptions like fintech, or climate-related financial risks) will determine the durability of their financial stability. The comparative insight gained from Poland and Bulgaria’s experiences provides valuable guidance for other EU states and EU-level policymakers: it reinforces the notion that *well-crafted laws and effective institutions are the bedrock of a resilient financial system*, and that these must evolve in tandem with an ever-changing economic landscape.

**RECOMMENDATIONS.** Based on the comparative analysis and findings, the following practical legal and policy recommendations are offered to strengthen financial system stability and adaptability in Poland, Bulgaria, and by extension other EU member states:

**Enhance Supervisory Independence and Capacity:** Governments should ensure that financial supervisory authorities (KNF in Poland, BNB/FSC in Bulgaria) have strong legal independence and adequate resources to perform thorough oversight. This includes protecting regulators from political interference and providing budgets for skilled personnel and modern analytical tools. Both countries should continue investing in supervisory training (possibly through EU bodies like EBA) and in integrated data systems that can flag risks (e.g. real-estate bubbles or foreign-currency exposures) early. An independent and capable supervisor is the first line of defense against instability.

**Strengthen Inter-Agency Coordination via Legal Frameworks:** It is recommended to formalize and, where already formalized, strengthen financial stability councils. Poland’s Financial Stability Committee should continue to be empowered as the macroprudential authority, with a clear legal mandate to issue binding recommendations or decisions on systemic risk buffers and lending standards. Bulgaria should institutionalize its coordination mechanism further – perhaps by statute – to ensure the Ministry of Finance, BNB, FSC, and deposit insurance fund meet regularly and jointly handle risk assessments and crisis simulations. Regular “fire drills” (crisis

simulation exercises) involving all relevant agencies should be mandated, to test and improve coordination in practice.

**Maintain Robust Deposit Insurance and Resolution Regimes:** Both countries must keep their deposit guarantee funds adequately funded, through risk-based contributions from banks and backstop arrangements. Legal provisions should ensure that if a systemic crisis exhausts the national deposit fund, swift access to government support or EU-level funds (once available) is in place. Moreover, the relatively new bank resolution frameworks should be operationalized: Poland and Bulgaria should both draft and update resolution plans for all systemically important banks and conduct periodic resolvability assessments. This may require legal tweaks to address any impediments to effective resolution (for example, ensuring that the law allows for a range of tools like bridge banks, asset separation, and bail-in of debt). By doing so, authorities can act quickly under stress, minimizing the need for taxpayer bailouts and preserving key bank functions.

**Continue Aligning with EU Banking Union Practices:** For Poland, although not in the Eurozone, it is advisable to voluntarily adopt certain Banking Union best practices. For instance, Poland could consider entering “close cooperation” with the ECB’s Single Supervisory Mechanism (as Bulgaria did) if and when the political conditions allow, or at least mirror the ECB’s rigorous supervisory standards domestically. Short of joining, Poland can engage actively with the ECB and other EU supervisors in colleges of cross-border banking groups that operate in Poland. Bulgaria, on its path to the euro, should continue to rigorously implement ECB recommendations that arise from joint supervision and promptly address any identified weaknesses. Both countries should also support and prepare for the implementation of the EU’s pending **European Deposit Insurance Scheme (EDIS)**, which would add another layer of protection – this may involve legal and operational preparation to integrate national deposit funds into a European framework once agreed.

**Improve Legal Frameworks for Crisis Lending and Liquidity Support:** Legal provisions for emergency liquidity assistance (ELA) should be reviewed. Poland’s central bank already has ELA authority; Bulgaria’s BNB, under the currency board law, has constrained ability to provide ELA (it can only lend against liquid collateral within strict limits). Considering Bulgaria’s Banking Union membership, the BNB could work with the ECB to ensure mechanisms exist to provide liquidity in a crisis (e.g., through the ECB’s ELA arrangements for non-euro member states, if any, or maintaining ample fiscal reserves to recapitalize the central bank if needed). It may be wise for Bulgaria to enact contingency legislation that would allow more flexible crisis response *after* euro adoption when the currency board is lifted. Poland should likewise ensure that its laws allow the NBP to conduct unconventional monetary policies in extreme situations (the experience of 2020 bond purchases sets a precedent, but a clear legal basis and limits for such actions could be codified to bolster legitimacy and transparency).

**Address Foreign-Currency Lending Risks through Law and Regulation:** Both countries (and others in the region) should draw lessons from the foreign-currency mortgage issues. It is recommended to enact or strengthen laws that either limit excessive foreign-currency lending to unhedged borrowers or require stringent safeguards (such as higher capital charges or borrower income tests). Poland’s supervisors have already tightened these rules post-2008, but writing some of these prudential norms into law (for permanence) could be beneficial. In Bulgaria, euro loans to households are common due to the peg; as euro adoption nears this is less of a currency risk, but interim measures to ensure borrowers understand risks or to encourage more local currency (lev) lending would be prudent. Legal provisions for **consumer protection** in financial contracts (transparency, fairness) should be robust to prevent mis-selling that can later translate into systemic problems.

**Ensure Legal Accountability and Transparency in Financial Governance:** Both Poland and Bulgaria should continuously fortify the rule of law in financial governance. This includes clear legal accountability for regulators and bank executives. Whistleblower protections in financial institutions, conflict-of-interest rules, and fit-and-proper vetting for bank owners and managers should be enforced vigorously. Bulgaria’s prosecution of those responsible for the KTB fiasco, including central bank officials, while painful, sends a message that negligence or malfeasance will

have consequences. Embedding such accountability in law (e.g., through defined sanctions in banking laws for supervisory failures or bank fraud) can deter misconduct. Additionally, transparency measures – like requiring publication of supervisory reports or enforcement actions in aggregate – can build public trust. Poland might consider publishing more detailed financial stability reports and summaries of KSF meetings, while Bulgaria could enhance the transparency of its bank supervision outcomes now that ECB is involved (the ECB already publishes significant bank assessments which will include Bulgarian banks).

**Leverage EU Recovery Funds and Fiscal Space for Adaptation:** In the post-COVID environment, the EU has introduced recovery funds (e.g., Next Generation EU). It is recommended that Poland and Bulgaria use these funds strategically to address vulnerabilities and invest in their financial sector's digital and operational resilience. For example, upgrading IT systems of regulators for better data analytics, or funding training for risk management in banks. Legally, this may involve ensuring that national recovery plans (which are legal documents agreed with the EU) include components for financial stability enhancements. This will indirectly shore up adaptability by making the financial sector more robust and modern.

**Continuous Review and Update of Financial Legislation:** Financial law should not remain static. Both countries should establish processes (perhaps a committee of experts under the finance ministry or central bank) to periodically review and recommend updates to financial legislation in light of evolving EU law and market innovations. With the EU moving toward a Capital Markets Union and fintech regulation (e.g., crowdfunding, crypto-assets regulation), Poland and Bulgaria should proactively transpose and implement these to diversify and strengthen their financial systems. By keeping laws up-to-date, they reduce the risk of regulatory gaps that could be exploited or that could leave the system exposed.

**Regional Cooperation and Knowledge Sharing:** Finally, Poland and Bulgaria – along with other Central and Eastern European countries – should enhance regional cooperation on financial stability matters. Through platforms like the Vienna Initiative or the Baltic-Nordic supervisory cooperation (Poland is part of some of these as many banks are Scandinavian-owned), they can share best practices and coordinate on common issues (like managing foreign bank parent-subsidiary dynamics). Supporting each other in negotiations at the EU level for policies that account for their specific circumstances is also key (for instance, in calibrating capital requirements or resolution fund contributions). This collaborative approach complements national measures and ensures that administrative and legal mechanisms benefit from a wider pool of experience.

By implementing these recommendations, Poland and Bulgaria can further reinforce the legal and administrative bulwarks of their financial systems. The recommendations aim to institutionalize the lessons learned, close remaining gaps, and prepare the countries for future challenges. They are consistent with a vision of an EU where each member's financial stability is a building block of the Union's overall financial resilience – a goal that is ever more important in an interconnected global economy. Both national authorities and EU institutions have a role in supporting these measures, through technical assistance, monitoring, and when necessary, enforcement actions to ensure compliance with sound principles. The evolution of Poland's and Bulgaria's financial governance, as analyzed in this article, stands as an encouraging example of progress and a guide for continuous improvement in the pursuit of stable and adaptive financial systems.

#### REFERENCES

1. Piatkowski, M. (2015). Four ways Poland's state bank helped it avoid recession. *The Brookings Institution*. Retrieved from <https://www.brookings.edu/articles/four-ways-polands-state-bank-helped-it-avoid-recession/>
2. Bakker, B. B., & Klingen, C. (Eds.). (2012). *How emerging Europe came through the 2008/09 crisis: An account*. Washington, D.C.: International Monetary Fund. Available at:

[https://tile.loc.gov/storage-](https://tile.loc.gov/storage-services/master/gdc/gdcebookspublic/20/23/69/10/85/2023691085/2023691085.pdf)

[services/master/gdc/gdcebookspublic/20/23/69/10/85/2023691085/2023691085.pdf](https://tile.loc.gov/storage-services/master/gdc/gdcebookspublic/20/23/69/10/85/2023691085/2023691085.pdf)

3. Reuters. (2018). *Bulgaria charges two Corpbank supervisors with mismanagement*. Retrieved from <https://www.reuters.com/article/bulgaria-corpbank/bulgaria-charges-two-corpbank-supervisors-with-mismanagement-idUSL8N1S13C7/>

4. Chortareas, G., Girardone, C., & Ventouri, A. (2011). Regulation and bank performance in Europe. In P. Molyneux (Ed.), *Bank performance, risk and firm financing* (pp. 154–173). Palgrave Macmillan Studies in Banking and Financial Institutions. [https://doi.org/10.1057/9780230313873\\_8](https://doi.org/10.1057/9780230313873_8)

5. Lin, C. YY., Edvinsson, L., Chen, J., & Beding, T. (2014). Impact of the 2008 financial crisis. In *National intellectual capital and the financial crisis in Bulgaria, Czech Republic, Hungary, Romania, and Poland. SpringerBriefs in Economics* (Vol. 15). Springer. [https://doi.org/10.1007/978-1-4614-8018-1\\_2](https://doi.org/10.1007/978-1-4614-8018-1_2)

6. International Swaps and Derivatives Association. (2015). *European Bank Recovery and Resolution Directive (BRRD) – Implementation information*. Retrieved from <https://www.isda.org/a/QOEDE/brrd-isda-implementation-monitor-v1-jun15.pdf>

7. Bank Guarantee Fund. (2019). *Resolution in questions and answers*. <https://www.bfg.pl/en/resolution/resolution-in-questions-and-answers/>

8. Kostecka-Jurczyk, D. (2011). The EU financial sector regulatory reform as an instrument of crisis prevention. In (pp. 373–385). Digital Library of University of Wrocław. Retrieved from <https://www.bibliotekacyfrowa.pl/Content/35520/017.pdf>

9. Kurzepa-Dedo, K. (2024). INSTITUTIONAL ANALYSIS OF THE RECOMMENDATION Z FROM THE POLISH FINANCIAL SUPERVISION AUTHORITY ON THE PRINCIPLES OF INTERNAL GOVERNANCE IN BANKS. *Humanities and Social Sciences Quarterly*, 31(3), 37–58. <https://doi.org/10.7862/rz.2024.hss.29>

10. Christova-Balkanska, I. (2015). The European debt crisis and the challenges to the banking sector in Bulgaria. *Journal of Financial and Monetary Economics*, 2(1), 15–22. Retrieved from [https://www.icfm.ro/RePEc/vls/vls\\_pdf\\_jfme/vol2i1p15-22.pdf](https://www.icfm.ro/RePEc/vls/vls_pdf_jfme/vol2i1p15-22.pdf)

11. The Bulgarian Industrial Association – Union of the Bulgarian Business. (n.d.). *Bloomberg: Bulgaria disagrees with S&P downgrading*. Retrieved November 15, 2021, from <https://en.bia-bg.com/service/view/15786/>

12. International Monetary Fund. (2010). *Republic of Poland: Arrangement under the Flexible Credit Line: Staff report; staff supplement; press release on the Executive Board discussion; and statement by the Executive Director the Republic of Poland* (Vol. 2010, Issue 207). International Monetary Fund. <https://doi.org/10.5089/9781455202560.002>

13. Balkan Investigative Reporting Network. (2008). *Bulgaria lifts bank deposit guarantee*. Retrieved from <https://balkaninsight.com/2008/10/30/bulgaria-lifts-bank-deposit-guarantee/>

14. Financial Stability Board. (2010). *Update on unwinding temporary deposit insurance arrangements: Report to the Financial Stability Board*. Retrieved from [https://www.fsb.org/uploads/r\\_1006.pdf?page\\_moved=1](https://www.fsb.org/uploads/r_1006.pdf?page_moved=1)

15. European Bank for Reconstruction and Development. (2020). *Transition report 2020-21: The state strikes back. Country assessments: Bulgaria*. Retrieved from <https://www.ebrd.com/publications/transition-report-202021-bulgaria>

16. Banov, B. (2017). Is it always profitable to be a member of European Union (EU)? (I-st part): For the bankruptcy of the Corporate Trade Bank and a wrongful directive of EU. SSRN. <https://doi.org/10.2139/ssrn.3067255>

17. Drozdowicz-Bieć, M. (2011). Reasons why Poland avoided the 2007–2009 recession. *Prace i Materiały, Instytut Rozwoju Gospodarczego (SGH)*, 86(2), 39–66. Retrieved from <https://bibliotekanauki.pl/articles/500125.pdf>

18. European Systemic Risk Board. (n.d.). *Measures taken in response to coronavirus (COVID-19) pandemic: Poland*. Retrieved November 15, 2024, from

[https://www.esrb.europa.eu/home/search/coronavirus/countries/html/esrb.covidpmc\\_poland.en.html](https://www.esrb.europa.eu/home/search/coronavirus/countries/html/esrb.covidpmc_poland.en.html)

19. Pawlak, Ł., & Bobrzyński, M. (2020). *How COVID-19 impacts Polish banking sector, debt availability and borrowers*. GT Alert. Retrieved from

<https://www.gtlaw.com/en/insights/2020/3/covid-19-koronawirus-wplyw-epidemii-sektor-bankowy-dostep-dluznego-sytuacje-kredytobiorcow>

20. World Bank. (n.d.). *Poland GDP growth rate 1991–2024*. Macrotrends LLC. Retrieved from <https://www.macrotrends.net/global-metrics/countries/pol/poland/gdp-growth-rate>

21. International Monetary Fund. European Department. (2021). *Republic of Poland: 2020 Article IV consultation—Press release; staff report; and statement by the Executive Director for the Republic of Poland* (IMF Country Report No. 21/35). International Monetary Fund. Retrieved from <https://www.elibrary.imf.org/view/journals/002/2021/035/article-A002-en.xml>

22. World Bank. (n.d.). *Bulgaria GDP Growth Rate 1981-2024*. Macrotrends LLC. Retrieved from <https://www.macrotrends.net/global-metrics/countries/BGR/bulgaria/gdp-growth-rate>

---

#### Article History:

Received: December 02, 2024 | Revised: January 11, 2025 | Accepted: January 27, 2025 | Published Online: February 11, 2025

**Citation:** Frankiewicz, P. (2024). THE IMPACT OF ADMINISTRATIVE AND LEGAL MECHANISMS ON THE STABILITY AND ADAPTATION OF THE FINANCIAL SYSTEMS OF EU COUNTRIES: A COMPARATIVE ANALYSIS OF POLAND AND BULGARIA. *International Interdisciplinary Scientific Journal "Expert"*, 1(5), 56–73. <https://doi.org/10.62034/2815-5300/2024-v1-i5-005>



Provides free access under the Gold Open Access model with costs covered by APCs.

This article is permanently accessible online and can be freely used, shared, or adapted, provided proper attribution is given.



This work is licensed under the Creative Commons Attribution 4.0 International (CC BY 4.0).