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The Expected Effects of the EU-Accession on the Banking Sector in Poland

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Introduction

Next year Poland will join the European Union. It will be a milestone in the history of the largest and the wealthiest country in central Europe, with a population of 38.6 million and a GDP of €205 billion. Having had said that it is necessary to point out that the effects of Poland's membership will be increasingly apparent as early a few years after 2004 or, according to newest studies – even three or four years later. Nevertheless, Poland has been preparing for this historical moment from 1991. Therefore examining the effects of accession one should have in mind that, paradoxically, Poland has already experienced some of them – before an accession. In the early 1990s, along with striving to meet obligations resulting from the so called European Agreement, Poland adopted a new political system connected with market reforms.

These reforms encompassed also financial markets – not existing at the beginning of the process. Under the previous regime the National Bank of Poland (NBP) had been a monobank linked strongly with central planning and serving the needs of the state owned enterprises. The 1st stage of the reforms (1989) conducted in the financial system was marked with creation of modern, two-level banking system with NBP as a central bank and a banking supervisory body. The lower level i.e. commercial banks started to develop and flourish until the years 1992-1993 (the first banking crisis). Academics and market participants point out that the reasons of the crisis resulted from rather weak supervision and liberal rules on banking licences.

At the same time Polish authorities were developing other segments of financial market. In 1991 the Warsaw Stock Exchange (WSE) opened and during the subsequent years it has undergone¹ substantial transformation in terms of size, technology, variety of products, number of listed companies and capitalisation.

As a result of reforms conducted in the social security system a new type of institutional investors emerged: pension funds. These are which, together with insurance companies and investment funds and in particular open pension funds, constitute a group of institutional investors in Poland with growing demand potential.

In all candidate countries the banking sector dominates. It is also in Poland that the financial sector is bank-driven. The capital market, although still developing, plays a rather insignificant role in delivering funds and allocating of capital. Banking assets in Poland amount to 66% of GDP and the capitalisation of WSE – to roughly 14% of GDP.

¹ P.Bednarski, J.Osiński, Financial sector issues in Poland, in: Financial Sectors in Accession Countries, ECB, September 2002.

Table 1.
Size of the financial sector segments in relation to GDP (end of 2001)

Segments	Size (EUR million)	Size (in % of GDP)
Commercial banks	129,43	63.1
Co-operative banks	6,107	3.0
SKOK (credit unions)	504	0.2
Brokerage houses	766	0.5
Investment funds (gross)	3,456	1.7
Pension funds (gross)	5,510	2.7
Insurance companies	13,328	6.5
Total assets	159,307	77.7

Sources: Polish Securities and Exchange Commission, Pension Funds Supervisory Authority, National Bank of Poland, State Office for Insurance Supervision

1. Growth effects of the EU accession

Programme „Agenda 2000“ published in December 1997 emphasises that in view of effective monetary policy within EMU Poland has to in advance conduct and conclude necessary reforms that would eliminate factors hindering an execution of the efficient monetary policy, such as for instance the lack of a level playing field in the banking sector and low degree of the financial market development. Moreover, „Agenda 2000“ assumes that meeting convergence criteria and conducting a policy aimed at stabilisation of the exchange rate would be of the crucial importance for Poland.

The positive effect of a consistent preparation of the Polish economy to the participation in the eurozone will be Poland's a monetary stability resulting, first of all, in lower long- and short-term interest rates. Equally, important will be also an improvement of the Polish credit rating in international financial markets. It should have a positive impact on the inflow of foreign direct investments creating additional chances for accelerated economic development. Any political instability will have no influence on a rate of inflation because it is European Central Bank that will have the power to decide about the value of money. Furthermore, Poland will gain a right of vote in decision-making process within ECB and other European institutions.

Competition between financial institutions, strengthened by the single currency, brings about lower cost of borrowed capital. Replacing banking accounts expressed in various particular currencies with a single euro account will diminish their maintenance cost. It will also simplify cash flow management in enterprises. Single currency gives Polish enterprises an unusual opportunity by creating more ways to raise funds as investors on the euromarket strive to diversify their portfolios between regions and industries. Since prices of goods and services are expressed in the single currency fierce competition will lead to prices reduction and a battle for customers. An increased competition contributes to the modernisation of enterprises and greater importance of technological research. With the single currency it becomes easier to perform bookkeeping and prepare reports for international companies.

Implementation of euro has a strong influence on the European debt markets. It increases investment advantages with low risk in the EMU countries. Most importantly, there will be gain a more freedom to invest in debt instruments issued by debtors from the whole eurozone, in particular, in case of pension funds.

As soon as the euro becomes a main currency in invoicing and payment, small and medium-size enterprises will have considerably easier access to the Single Market because of settlements in the single currency and greater transparency of their prices. Giving up the Polish currency will become a chance for many Polish enterprises to find their place on the Single Market. However, to take advantage of it, they have to be well prepared. It is not only price that matters!

At present the Polish banking sector does not play any vital role in financing Polish economy to such an extent as it is in the EU. Nevertheless, analysing a dynamic growth of assets over 10 years in relation to GDP leads to a conclusion that Poland's membership in the EU will further strengthen the growth rate of monetisation of the Polish economy. Also, observations from the last years prove that the significant growth of banking sector's assets was stimulated mostly by FDI inflows (through the privatisation process) and to a lesser extent by the needs of the Polish economy.

Table 2.
Gross domestic product and assets of the Polish banking sector

Year	Gross domestic product		Assets of the banking sector (end of a year)			
	in mn PLN	Dynamics	in mn euro	In mn PLN	in % GDP	Dynamics
1995	308103,7	107,0	97725,7	149342,2	48,8	112,0
1996	387826,6	106,0	114125,7	197215,2	51,1	111,4
1997	472350,4	106,8	126669,0	247668,9	52,8	111,0
1998	553560,1	104,8	140059,3	318726,8	58,0	118,5
1999	615115,3	104,1	144683,3	363427,4	59,4	103,8
2000	684981,9	104,0	177917,4	428486,3	62,6	108,7
2001	721575,3	101,0	204882,4	469780,4	65,1	105,8
I-IX 2002	557182,8	100,9	136624,6	472728,1	63,6	100,6

Source: National Bank of Poland

A growth impulse resulting from the EU accession and further implementation of the single currency will have an immense impact on the Polish banking sector in terms of assets. Lower level of interest rates will encourage more potential debtors to approach banks for financing. Apart from increasingly growing debt market supporting rather big companies, quoted on the stock exchanges and possessing international ratings, the banking sector will become the main source of financing for small and medium enterprises. The attempts to explore this segment by banks in Poland are already seen. But the accession and a strong competition on the Single Market will force banks to involve further in relations with debtors with worse credibility but paying more for the banking loans. Relations with SME will broaden beyond mere loan granting. Banks in Poland will strive to expand their offer by adding new products and services such as various types of banking accounts, different forms of financing and numerous ways of communication. At the moment the rise in number of banking branches and other banking units is noted. It is, however, worth emphasising that the rate of growth in this number gradually slows and, at the same time, banks develop other ways of contacting with their customers, for example by telephone and the Internet. Such a tendency is bound to intensify after the Polish accession.

Table 3.**Number of units of commercial banks in Poland (excluding headquarters and representative offices)**

At the end of		Commercial banks			Co-operative banks
		Total	With a majority of capital		
			Polish	foreign	
2000	Branches	2 449	960	1 489	1 149
	Other units	8 796	6 609	2 187	879
2001	Branches	2 879	1 090	1 789	1 201
	Other units	7 630	5 784	1 846	1 034
09.2002	Branches	2 813	1 093	1 720	1 255
	Other units	7 147	5 349	1 798	1 154

Source: National Bank of Poland

An apparent decrease in number of banking outlets started in the late 90's. It was a result of progress in modern banking techniques and the process of consolidation, mergers, takeovers and acquisitions. These phenomena have also lead to the increased amount of own funds.

Amount of assets and own funds of banks in Poland are presented in the table below.

Table 4.**Assets and own funds of particular groups of banks (at the 30 Sep. 2002)**

	Number of banks in a group	Own funds				Assets			
		Total		Foreign		in mn PLN		in %	
		in PLN	in %	in PLN	in %	in mn PLN	in %	in %	
Banking sector, including:	667	10 458,4	100,0	6 535,5	62,5	472 728,1	100,0		
Cooperative banks	606	472,5	4,5	0,0	0,0	23 118,9	4,9		
Commercial banks, including:	61	9 985,9	94,5	6 535,5	65,5	449 609,2	95,1		
- with the majority of Polish capital	16	2 138,8	20,5	170,9	8,0	129 991,9	27,5		
- controlled by foreign investors, including:	45	7 847,1	75,0	6 364,6	81,1	319 617,3	67,6		
with 100% share of foreign capital	23	3 023,6	28,9	3 023,6	100,0	35 071,3	7,4		

Source: National Bank of Poland

2. The effect of accession on foreign trade and evolution of net exports

According to the studies conducted by National Bank of Poland it is apparent that Polish exporting enterprises achieve increasingly satisfactory effects on the European market. To some extent, it is the result of weakening American dollar in relation to euro. Demand for Polish goods and a positive balance in Polish foreign trade (at the end of January the value of export has increased by 8,2% and import rose by 2%) seem to be rather stable even despite unfavourable economic conditions, especially in Germany.

In 2001 Polish export to the EU amounted to USD 24.9 billion (dynamics 112.1% in comparison with the previous year) and import - to USD 30.9 billion (dynamics 101.4%) A negative trade balance was estimated at USD 5.9 billion. It was a year succeeding in reduction of trade deficit with the EU countries. The main partners for Poland in export and import are Germans (export – 34.4%, import – 24.0%), Italy (export – 5.4%, import – 8.3%), France (export – 5.4%, import – 6.8%) and Great Britain (export – 5.0%, import – 4.2%).

Poland as a member state of the European Union will have to obey the regulations of the Single Market. Art. 7a of the Rome Treaty describes the Single Market as an area without borders assuring free flows of goods, persons, services and capital. European integration has transformed from the single market and the custom union (created on the basis of the Rome Treaty from 1957) to the internal market (stipulated by the Single European Act from 1986). In the end, Economic and Monetary Union has been established with a single currency as the only legal tender. For Polish enterprises it will mean joining the area allowing sales of their goods and services under the same conditions as enterprises from the EU. Internal market of the EU and harmonisation of trade rules will simplify the access of Polish products and services to the customers from the whole EU.

In such an environment banks should enjoy a greater demand for their services connected with the foreign trade. Since revenues gained from this sort of activity take, overwhelmingly, by the form of fees and provisions, this should change the structure of revenues. Namely, banks will have a diminished share of interest incomes, so they will become less vulnerable to a dangerous volatility in total revenues. It is difficult to evaluate how the increase in non-interest incomes resulting from foreign trade would replace a reduction of incomes from currencies' conversion on the eve of single money adaptation. However, bearing in mind that even Polish banks have felt the impact of the euro and a reduction of incomes from transactions in member currencies, it can be stated that the moment of entering the eurozone will have a rather limited influence on banks' profits. It seems that banks have already adjusted their activities to the new challenges.

3. The effect of accession on FDI flows

Member states are the main source of foreign direct investment inflows, and impact structural changes of Polish economy, its dynamics, as well as on dynamics and the volume of Polish export. The biggest share of Poland's foreign direct investments in 2001 is represented by French investors with USD 2.4 billion. German companies, the second group of foreign investors have brought USD 1.4 billion. The USA, ranked third, have invested USD 700 million.

One of the most important sources of the foreign capital inflow will come from the EU budget. It is also anticipated that after the Polish accession the inflow of the FDI will further grow. For this reason, in the next years we should witness modernisation of the Polish tax regime, regulations and necessary infrastructure (including efficient system of financial intermediation).

Considering the volume of FDI's to the Polish banking sector the situation seems to be rather stable here. At the moment the banking sector is already dominated by foreign capital what is shown in the table below. The overwhelming majority of banks have already been privatised and only slight changes in the share of foreign ownership in the Polish banking sector are expected.

Table 5.
Foreign direct investments in the banking sector (Sept 2002)

Origin of capital	Foreign direct investments		
	Amount (in mn PLN)	Structure (in %)	Share in funds of commercial banks (in %)
Germany	1 634.0	25.0	16.4
USA	1 298.1	19.87	13.0
Netherlands	736.2	11.27	7.4
Ireland	514.1	7.87	5.2
Belgium	460.1	7.04	4.6
France	445.2	6.81	4.5
Portugal	392.2	6.00	3.9
Sweden	343.9	5.26	3.4
Austria	332.0	5.08	3.3
Italy	126.6	1.94	1.3
South Korea	60.4	0.92	0.6
Czech Republic	59.3	0.91	0.6
Denmark	42.2	0.65	0.43
Cyprus	42.0	0.62	0.41
Great Britain	38.2	0.58	0.38
EBRD	11.0	0.17	0.11
Others	96.7	2.12	1.20
Total	6 535.5	100.0	65.45

Source: National Bank of Poland

As mentioned before one should await any greater changes in the percentage ownership within the banking industry. The main international credit institutions already exist in Poland. Any slight changes can only result from the strategies of foreign investors willing to expand their control in particular banks. Further drop in the number of banks as a whole with a steady growth in own funds of banks are likely to take place. Such a situation will persist as long as the foreign owners are not free to transform their Polish subsidiaries into branches of foreign "parents". However, it will not happen at the moment of accession because the foreign investors have to consider carefully if it is better to maintain an affiliate located under the Polish law with some privileges connected with it or transform them into branches with all the so called prudential advantages. The first solution would mean that they will enjoy, for example, the privileged treatment in bankruptcy processes of their debtors. The second one entails that a volume of parent's capital would be a benchmark for an ultimate amount their branches could lend.

To see the changes in number of banks along with the inflow of foreign capital into the banking sector, study the table below. One can notice that a number of banks controlled by foreign investors is constantly growing. Some of them have been sold to foreign companies simply through a public offer while some have

been taken over. The rest has been founded entirely as a greenfield investment, i.e. a licence from the Polish banking supervision has been obtained on the base of the Polish regulations (for example, a brand new bank has to be equipped with an initial capital of at least euro 5 million). That is, there are now in Poland why we have now several “genuinely Polish” banks such as Deutsche Bank Polska.

Table 6.

Number of banks in Poland and a share of particular groups of banks in the banking sector

	1993	1994	1995	1996	1997	1998	1999	2000	2001	09.2002
Number of banks (excluding banks in the receivership and winded up)										
Commercial banks, including:	87	82	81	81	83	83	77	74	71	63
With the majority of State capital:	29	29	27	24	15	13	7	7	7	8
- belonging directly to the State	16	15	13	8	6	6	3	3	3	3
- belonging indirectly to the State	11	11	11	13	8	7	4	4	4	5
- belonging to NBP	2	3	3	3	1	0	0	0	0	0
With the majority of private capital, including:	58	53	54	57	68	70	70	67	64	55
- controlled by Polish investors	48	42	36	32	39	39	31	20	16	8
- controlled by foreign investors	10	11	18	25	29	31	39	47	48	47
Co-operative banks	1653	1612	1510	1394	1295	1189	781	680	642	606
Banking sector	1740	1694	1591	1475	1378	1272	858	754	713	669

4. Labour market effect of accession with EU

On the eve of the Polish accession labour market in Poland becomes more and more difficult. Some jobs can be found in services and trade. The worse perspectives refer banking and construction.

Bearing in mind that from 1997 the UE implements the plan of co-ordination of strategies in member state employment, one can predict that after the Polish accession we will gain new impulses resulting from comparison of different strategies, including diminished share of social levies in labour costs, pension provisions and taxes, reduction and abolition of financial assistance for unemployed etc.

Table 6.

Employment in the Polish banking sector (foreign affiliates excluded)

At the end of	Banking sector	Commercial banks			Co-operative banks
		Total	With majority of capital		
			Polish	foreign	
1993		119 733	119 045	688	
1994		128 705	127 708	997	
1995		136 048	134 048	2 000	
1996	169 534	144 201	129 102	15 099	25 333
1997	172 227	147 095	130 823	16 272	25 132
1998	174 044	149 067	131 266	17 801	24 977
1999	174 748	149 638	86 199	63 439	25 110
2000	169 934	144 237	59 821	84 416	25 697
2001	165 226	138 822	57 775	81 047	26 404
09.2002	162 151	134 035	56 037	77 998	26 695

Source: National Bank of Poland

5. The effect of EU accession on the regulatory framework

Harmonisation of the Polish regulations to the *acquis communautaire* started long before the official beginning of membership negotiations, i.e. March 31st 1998. In the so called European Agreement signed on December 16th 1991 Poland took the obligation to adopt Polish law within 10 years from coming into force of the Agreement, i.e. April 1st 1994. Such a commitment included also an area of financial services listed in Appendix XII C of the Agreement. When the negotiations started the most important works on Polish law harmonisation have already been completed. From the start of negotiations the works connected with the banking sector have included two areas: „Freedom of services” (harmonisation of Polish banking law with that EU regulations) and “Economic and Monetary Union” (harmonisation of monetary policy instruments, independence of the central bank, floating of the zloty exchange rate, implementation of the euro regulations and at last adjustment of the National Bank of Poland to the functioning in the European System of Central Banks). Floating the exchange rate of the Polish currency in April 12th 2000 marked the completion of one of the areas mentioned above. It is worth mentioning that Poland takes advantages of the EU assistance program provided for candidate countries. To give example, within the framework of Phare 2000 Poland has executed a project entitled „Adaptation of the National Bank of Poland to the functioning in the European System of Central Banks”. This project is based on twinning agreements with central banks from the EU.

From the first day of accession Polish central bank will become a member of ESBC. That is why it is and it will be necessary to adapt the situation in the Polish money market, i.e. its structural overliquidity, to the environment where European Central Bank operates, i.e. in the structural lack of liquidity. This task is performed by NBP with the use of existing instruments of monetary policy. These are, in particular, open market operations, for example, of the 3rd quarter of 2000 so called outright sale of Treasury bonds gained in the conversion of liabilities of the State Treasury into securities. The issue of reserve requirements will be adapted to the EBC standards but it requires implementation of a few changes on the day of accession. These are the following:

- Further reduction of reserve rate to 2%;
- Changes in the method of the reserve calculation, based, for example, on the value of liabilities for the last day of a month;
- Changes in a period of the reserve holding;
- Introduction of interest on funds held by banks on their reserve accounts.

In April 2000 the period for lombard loan was reduced to one day so the issue of the so called standing facility, i.e. a loan at the end of a day applied by ECB has already been completed. A deposit at the end of a day, another instance of “standing facility” was implemented by NBP a year later.

The next area of adaptation covers issues relating to the development of a payment system. The works started in 1999 from the analysis of current and maximal productivity of the Polish national system of payment settlement, RTGS – SORBNET, as well as its harmonisation with standards required to link it with the settlement system of the European Union, TARGET, and to execute transborder settlements in euro. From January 2002 it is obligatory to pass to SORBNET all orders obtained from customers amounting to above 1,000,000 zlotys. From July 1999 SORBNET has accepted the settlements of payment orders resulting from settlements of transactions conducted in capital market, recorded by National Deposit of Securities. In this way, NBP fulfilling its function as a settlement bank has managed to harmonise a system of settlements in Polish capital market with international standards,

including standards defined by ECB (among others, obligation of settlements in the money of a central bank, specified for systems of securities settlements in loan operations by ESBC).

Within the framework of issues concerning the payment system the works are being performed on some solutions assuring current liquidity in the RTGS system, with view of meeting the criteria defined by ECB. Among others, an analysis is being conducted on the capital market and securities functioning in Poland whose goal is an assessment of their utilisation in delivering the banks liquidity during a day, information is being gathered on the possible utilisation of securities placed in central deposits in certain countries, patterns are defined on communication with other deposits and systems of securities settlements, the regulations are finalised for the area of Polish securities and deposits in accordance with the regulations of the EU aimed at bringing them to the "joint package" and using them within the euro area. In addition to it, the works concern the evaluation of the Polish systems of securities settlements and their ability to meet the international standards, with focus on standards existing in the EU countries.

Apart from other numerous tasks relating to this issue it is worth emphasising that currently works are performed on the implementation to the Polish law the EU Directive on the finality of settlements in payment systems and in the systems of securities settlements as well as a Directive on transborder payments and a Recommendation on electronic payments.

Harmonisation of law and standards in a banking system is another vast area patronised by NBP. Statistics represent one of the issues in this area. At present the works carries out concern an adaptation of monetary and banking statistics and also of balance of payment to the standards defined by ECB for the EU member states. The works on monetary statistics include, among others, a list of Polish monetary financial institutions, reporting on central banks activities, consolidated balance of the sector of monetary financial institutions, statistics to be used with reserve requirements, statistics of interest rates and statistics on securities issued.

In the field of regulations directly linked with the banking sector works concentrate on the following subjects:

- a.) Defining of conditions necessary for an entire liberalisation of capital flows;
- b.) Defining of consequences of the euro implementation in the third countries;
- c.) Analysis of patterns of research functioning and analytical units in ESBC;
- d.) Assessment of coverage of proposed legal solutions with the EU regulations and other international standards;
- e.) Technical readiness of the Polish banking sector for functioning in the Single Market;
- f.) Analysis of the ability of the Polish banking sector to perform its activity in competitive environment in the Single Market;
- g.) Monitoring of the profitability level of banks and other financial institutions, their corporate governance and cost control;
- h.) Defining an optimal institutional infrastructure for competitive environment in the Single Market.

6. The effect of accession on the market structures

From the very beginning of the economic transformation the structure of the Polish financial market becomes similar to that of the EU. Competitive battle between the biggest financial institutions for the market share and also – an expansion of foreign rivals is more and more apparent.

During 2002 the process of changes in the Polish banking sector deepened. First of all, the process of consolidation was continued and consequently 8 banks lost their legal identity. Powszechny Bank Kredytowy S.A. merged with Bank Przemysłowo – Handlowy S.A. and 6 banks uniting co-operative banks merged into Bank Polskiej Spółdzielczości S.A. Gospodarczy Bank Wielkopolski S.A. consolidated with Pomorsko – Kujawski Bank Regionalny S.A. Following the decision of Commission of Banking Supervision Dolnośląski Bank Regionalny S.A. was taken over by Bank Polskiej Spółdzielczości S.A. Additionally – Polski Kredyt Bank S.A. and Bank Rozwoju Cukrownictwa stopped their banking activities.

In 2002 r. two new banks, i.e. MHB Bank Polska S.A. and Bank of Tokyo – Mitsubishi (Polska) S.A., started their operation. Obviously, a number of commercial banks will continue to fall. For instance, Nordbanken AB (shareholder of NORDEA BANK POLSKA S.A.) will place LG Petro S.A. in its structures, Bank Częstochowa will become a part of BRE Bank S.A. and Bank SPOŁEM S.A. will take over Bank Wschodni S.A. Structure of Bank Gospodarstwa Krajowego will be enriched by the part of Bank Rozwoju Budownictwa Mieszkaniowego S.A., and a banking licence of this the latter one will be a base to create a mortgage bank.

Undoubtedly, the further consolidation in the Polish banking sector will triggered not from within Poland but from factors created abroad. The first evidence of the process has already been seen, i.e. a merger between two German banks possessing two banks in Poland resulted in their merger. As mentioned above, consolidation in due time will probably encompass also units of foreign banks in Poland and their conversion into branches.

In the tables below data on quantitative and qualitative evolution of the Polish banking sector are presented. Equally importantly, data show an increasing concentration of the banking market – a phenomenon resulting from closer integration with the European Union.

Table 8.
Share of the biggest banks in the banking sector (in %)

At the end of	5 banks	10 banks	15 banks
Assets			
1998	42,9	62,3	75,1
1999	47,7	67,7	79,0
2000	46,5	66,7	78,8
2001	54,7	77,6	82,4
09.2002	53,7	77,4	82,8
Deposits			
1998	51,0	66,7	78,7
1999	55,4	71,0	83,5
2000	54,7	70,3	82,6
2001	59,8	82,1	85,4
09.2002	60,5	83,1	86,0
Loans (gross)			
1998	35,7	60,7	72,9
1999	46,1	68,1	77,5
2000	46,1	66,7	76,8
2001	52,1	75,7	81,3
09.2002	49,6	74,8	80,3

Source: National Bank of Poland

The last years before accession do not seem to be convenient for the financial situation of the banking sector in Poland.. The quality of banking assets started to deteriorate from 2000. At the end of 2001 the lower quality assets amounted to more than 18% and at the end of 2002 exceeded 20%. The reasons behind this phenomenon include, first of all, the overall slowdown of the Polish economy with further difficulties such as the increase in unemployment rate and worsening structural problems. The eve of accession, demanding more decisive and more active fiscal and monetary policy had than its profound influence on the banking sector. Yet, there are some indicators that the near accession will impact the economic slowdown, and after joining the EMU it will even eliminate, to a certain extent, some reasons for the banking assets deterioration. The first of them is market risk. The overwhelming foreign ownership in the Polish banking sector and the progressive openness of the Polish economy has induced better measurement systems and a more modern infrastructure allowing better quality of market risk management. The examples are as follows:

- An upgraded risk management capacity resulting from considerable investment in MIS, IT and management processes²
- Improved staff quality, which includes risk managers, middle- and back-office staff, and internal audit, and in case of many foreign-owned banks also involved strict internal limits and owner oversight
- Improved and enhanced regulations and supervision, with more frequent and in-depth examinations of the trading area
- The availability of hedging products, such as interest rate and currency swaps, FRAs and FX options.

The second problem influencing the present quality of the banking assets is liquidity, or even overliquidity. It is why, irrespective of certain behavioural factors, monetary impulses are weakly transmitted and translated into the ALCO strategies of Poland's banks. Taking into account that the ESCB acts in the environment characterised by permanent liquidity shortages (a phenomenon typical of a developed economy) the accession should contribute to better allocation of banking capital and a wiser use of liquidity surpluses.

Banks in Poland become increasingly involved in a better utilisation of their capital. They employ different techniques and instruments to perform this task. Polish regulators also provide their support involved in it constantly working on some changes in law and regulations. To give an example, the subsequent novelisation of the Banking Law will enable banks to use securitisation of their own assets, i.e. a technique of numerous advantages (freeing up their regulatory capital, diversification of financing sources, improving a share of non-interest incomes in their profit etc.). It will further harmonise environment of the Polish banking sector with the European one.

As described above, the introduction of euro has enabled debtors to make better use from debt markets. It is also the case of Polish banks. They enter these markets more and more frequently and raise funds on the EU markets not only for financing their activity but also for acquiring other financial and non-financial institutions. The tendency in the EU towards creating financial conglomerates has also been imported to Poland. Together with the reduction of the number of banks, one can observe an increase in the number of financial holdings encompassing credit institutions, insurance companies, pension and investment funds and other financial intermediaries. This trend will strengthen after entering the EU structures.

² P.Bednarski, J.Osiński, Financial sector issues in Poland, in: Financial Sectors in Accession Countries, ECB, September 2002.

Table 8.
Selected indicators of commercial banks

	Jan-Sept 2001	2001	Jan-Sept 2002
Number of banks analysed	69	65	61
Income assets as a percentage of assets	86,72	84,02	86,98
Working assets as a percentage of assets	83,67	80,71	82,99
Interest received as a percentage of average assets	12,10	12,20	7,88
Interest paid as a percentage of average assets	8,86	8,71	4,72
Interest profit as a percentage of average assets	3,25	3,49	3,17
Profit from banking operations as a percentage of average assets	5,82	6,33	6,00
Cost of bank as a % of average assets	3,31	3,67	3,26
Gross profit as a % of average assets	1,53	1,34	1,07
Net profit as a % of average assets ROA	1,09	0,99	0,72
Net profit as a % of average assets	13,92	12,76	8,35

Source: National Bank of Poland

7. Short-term policy measures related to the banking sector

Apart from the above-mentioned works preparing the Polish banking sector for operating within ESCB equally crucial are the activities of the Commission of the Banking Supervision and NBP in the field of Polish prudential regulations' harmonisation. One ought to remember that Polish institutions after accession will obtain a right to make use of the so called "European passport". It means that they will be allowed to offer their services in any member state regardless of the country of their licence. However, to receive such a right, the Polish banking supervision has to prove that it applies the same supervisory standards as in the UE countries.

As it was stated before, Polish banking regulations are to a great extent consistent with the European directives. As a result, there is no need to introduce more dramatic changes. Polish banking supervision faces, however, a lot of tasks connected with the legislative process still realised by the EU member states. An example of the latest task could be preparation for the fulfillment of recommendations of the New Basel Accord. These recommendations will be incorporated into *acquis* in the scope of a new directive. Supervision will then have to be ready to verify compliance of banks in Poland. Banks, on their side, will have to bear additional costs for IT infrastructure, databases and staff training in the area of risk measurement and management (mainly credit risk) to maintain their position in the more and more competitive European market.

Particular attention has to be paid to the sector of co-operative banks. At the beginning of the economic transformation their number amounted to over than 1800. These banks were low capitalised and weakly managed. Negotiations with the EU resulted in derogation for co-operative banks, i.e. they were granted an extended transitional period (until 2008) to meet the requirement of having at least euro 1 million in capital. The law implemented two years ago divided the process of fulfilling the latter requirement into a few stages. Its imposition forced co-operative banks to consolidate. At present this segment of banks starts to flourish. They are already better capitalised, possess greater expertise in management and become real niche banks, knowing their customers in their local territory. It is likely that it will be the only genuine Polish segment of Poland's banking sector.

It is very difficult to separate the effects of accession and the effects of globalisation resulting from the opening up of the Polish financial markets. At the present stage of development of the Polish banking sector we can, however, draw a conclusion that the Polish banking sector has already become a part of the international (mainly European) banking industry. Any changes in it will mirror the evolution of the European banking community. Any short- and long term policy measures performed in Poland will reflect the measures undertaken by Polish European partners.

Banking loans will remain the main source of financing for the Polish enterprises and households after the accession. It is due to the banking sector having a dominant position in the Polish financial sector and some other factors such as a relative financial weakness of the Polish enterprises in comparison with their EU partners or the level of education and willingness to tap the other segments of financial system.

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