Trade in financial services, economic growth and financial supervision in Poland

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Poland and WTO

- Poland joined GATT in 1967 => Poland is an original member of the WTO
- Poland included financial services into initial Schedule of Specific Commitments (1994)
- Poland ratified the Fifth Protocol to the GATS and SSC was amended
- Poland joined the EU in 2004 => initial and revised offer of the new SSC (under the Doha Round) is a part of the EU proposal
<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Limitation on Market Access</th>
<th>Limitation on National Treatment</th>
</tr>
</thead>
</table>
| Direct life and non-life insurance           | **Mode 1**: Full commitment only for reinsurance, retrocession and goods in international transport.  
|                                               | **Mode 2**: Full commitment only for reinsurance, retrocession and goods in international transport.  
|                                               | **Mode 3**: Limitations on legal form of entry. Licensed branches allowed.                     | **Mode 1**: Full commitment only for reinsurance, retrocession and goods in international transport.  
|                                               |                                               | **Mode 2**: Full commitment only for reinsurance, retrocession and goods in international transport.  
|                                               |                                               | **Mode 3**: Full commitment                                                                    |
| Banking: acceptance of deposits; lending of all types | **Mode 1**: No commitment                                                                    | **Mode 1**: No commitment                                                                        |
|                                               | **Mode 2**: No commitment                                                                    | **Mode 2**: No commitment                                                                        |
|                                               | **Mode 3**: Limitations on legal form of entry. Licensed branches allowed. Nationality requirement for some – at least one – of the bank executives. | **Mode 3**: Full commitment                                                                        |
De facto openness – ratio of sum of foreign assets and liabilities to GDP

Poland
Principles of EU banking law

• *Consolidated banking directive* (2006)
• EU member requires credit institutions (banks) to obtain **authorisation** before commencing their activities
• Basic licensing and supervision requirements are harmonised
• „*Single passport*” regime within the EU: it applies to the cross – border banking, and activities of branches. Subsidiaries must obtain authorisation of host country.
### Polish financial market

#### Assets to GDP ratio

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poland</strong></td>
<td>110,3</td>
<td>111,0</td>
<td>117,6</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
<td>137,3</td>
<td>138,4</td>
<td>136,0</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>152,3</td>
<td>165,0</td>
<td>162,0</td>
</tr>
<tr>
<td><strong>Euro area</strong></td>
<td>461,2</td>
<td>481,7</td>
<td>493,6</td>
</tr>
</tbody>
</table>

#### Structure of assets, 2011

- **Banks**: 70%
- **Investment funds**: 6,6%
- **Insurance companies**: 9,7%
- **Pension funds**: 13,7%
Cross-border banking in Poland

351 credit institutions from EEA notified the intention to provide cross-border services in Poland

Share of cross-border deposits and credits: MFI

Share of cross-border deposits and credits: non-MFI
Commercial presence: banking sector

Structure of banking sector assets in selected CEE countries in 2011

- Estonia
- Poland
- Slovenia

- Domestic banks
- Branches of EU banks
- Foreign subsidiaries
Financial services and growth

- Financial services can affect growth through enhanced capital accumulation and/or technical innovation.
- Major functions that financial systems perform in reducing transactions costs and improving the allocation of real resources:
  - facilitating the trading of risk,
  - allocating capital to productive uses,
  - monitoring managers,
  - mobilizing savings through the use of innovative financial instruments,
  - easing the exchange of goods and services
Some econometrics

\[ \Delta \text{cre}_{it} = \delta_0 + \delta_1 \Delta \text{macro}_{it} + \delta_2 \Delta \text{BANK}_{it} + \delta_3 \Delta \text{RATING}_{it} + \delta_4 \Delta \text{SPREAD}_{it} + \delta_5 \Delta \text{INT}_{it} + \gamma_{itr} \]

Where:
- **cre** – credit volume;
- **macro** – GDP or industrial production;
- **BANK** – indicators of banking sector performance;
- **RATING** – The Country Risk Classification’s grade (OECD);
- **SPREAD** – EURIBOR 3M and German T-bills 3M spread;
- **INT** – indicators of openness of financial markets.

Some econometrics

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>intercept</td>
<td>-2,016</td>
<td>-1,347</td>
<td>-1,415</td>
</tr>
<tr>
<td>Δgdp</td>
<td>1,452</td>
<td>1,303</td>
<td>1,319</td>
</tr>
<tr>
<td>Δ(A/GDP)</td>
<td>0,007</td>
<td>0,008</td>
<td>0,008</td>
</tr>
<tr>
<td>ΔRATING</td>
<td>-0,055</td>
<td>-0,052</td>
<td>-0,057</td>
</tr>
<tr>
<td>ΔSPREAD</td>
<td>-0,036</td>
<td>-0,027</td>
<td>-0,028</td>
</tr>
<tr>
<td>ΔChinn – Ito</td>
<td>0,062</td>
<td>0,057</td>
<td></td>
</tr>
<tr>
<td>ΔFA/A</td>
<td>0,005</td>
<td>0,005</td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0,905</td>
<td>0,915</td>
<td>0,929</td>
</tr>
</tbody>
</table>

Notes: all variables are statistically significant; Chinn – Ito index: indicator of *de iure openness* of financial markets; FA – foreign assets of banking sector; A – total assets of banking sector.
Some political issues

- Econometrical estimates indicate that there are gains from liberalizing banking services sectors.

- These gains can not be realized by a mechanical opening up of services markets.

- Badly designed reform programs can undercut the benefits of liberalization.

- Increased entry into financial sector without adequate prudential supervision and competition can lead to poor investment decisions.

- Carrying out the reforms of services markets require therefore that the opening of trade be accompanied with a careful combination of competition and regulation.
Foreign commercial presence in banking sector and financial supervision

- The KNF supervises all subsidiaries of foreign banks. Polish regulations are consistent with the guidelines of Basel II.
- The KNF is entitled to supervise branches of non-EU banks: see GATS Market Access commitments on Mode 3.
- The home country authorities supervise branches of EU banks. The KNF can impose liquidity requirements.
- Liberalization of the European trade in banking services requires deep international cooperation. New European supervisory authorities: EBA and ESRB.