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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

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Current GATS SSC of Poland

Sub-sector	Limitation on Market Access	Limitation on National Treatment
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. Lincesed 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 2:** No commitment **Mode 3:** Limitations on legal form of entry. Lincesed branches allowed. Nationality requirement for some – at least one – of the bank executives.	**Mode 1:** No commitment **Mode 2:** No commitment **Mode 3:** Full commitment

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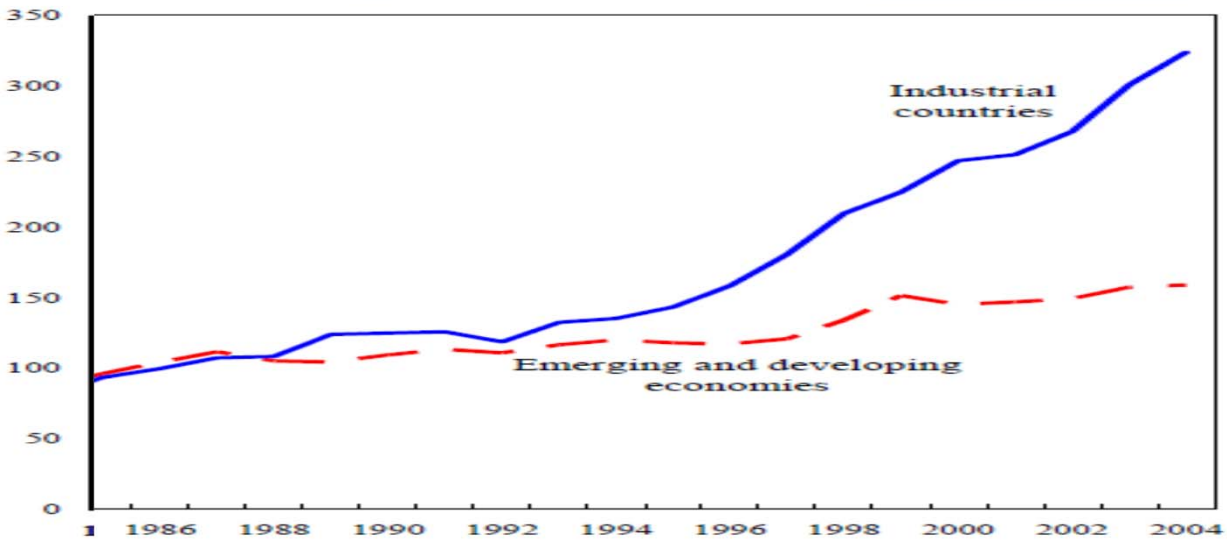
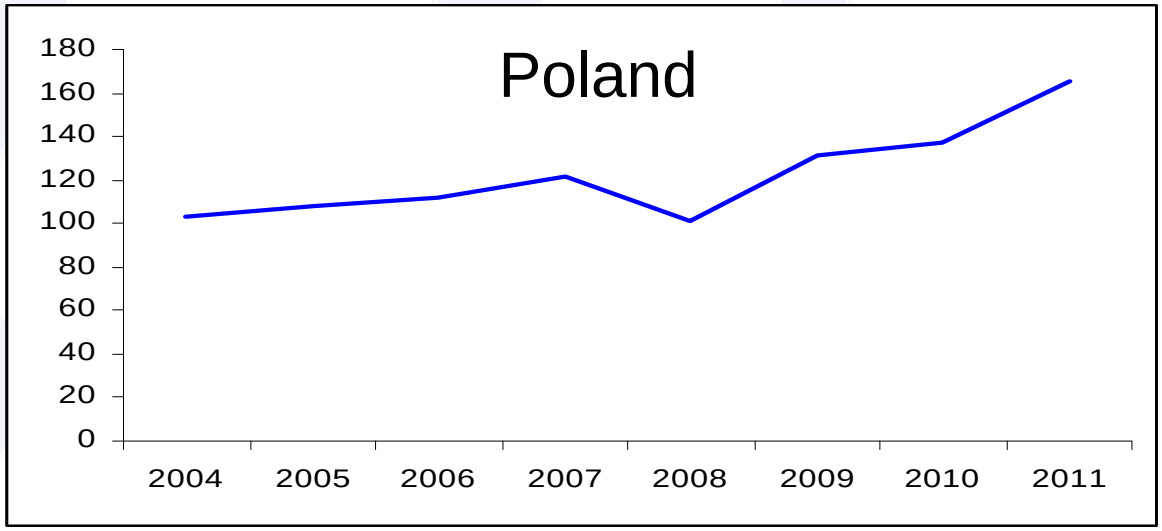
De facto openness – ratio of sum of foreign assets and liabilities to GDP





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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.

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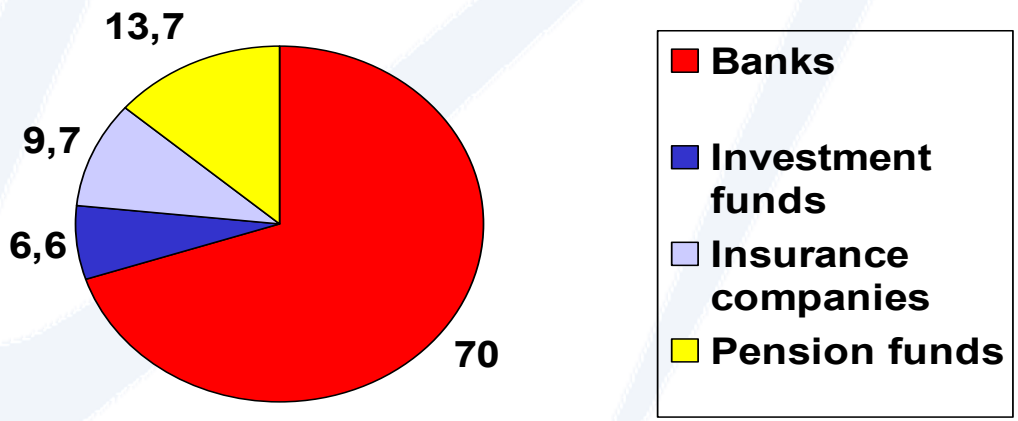
Polish financial market

Assets to GDP ratio

	2008	2009	2010
Poland	110,3	111,0	117,6
Czech Republic	137,3	138,4	136,0
Hungary	152,3	165,0	162,0
Euro area	461,2	481,7	493,6



Structure of assets, 2011

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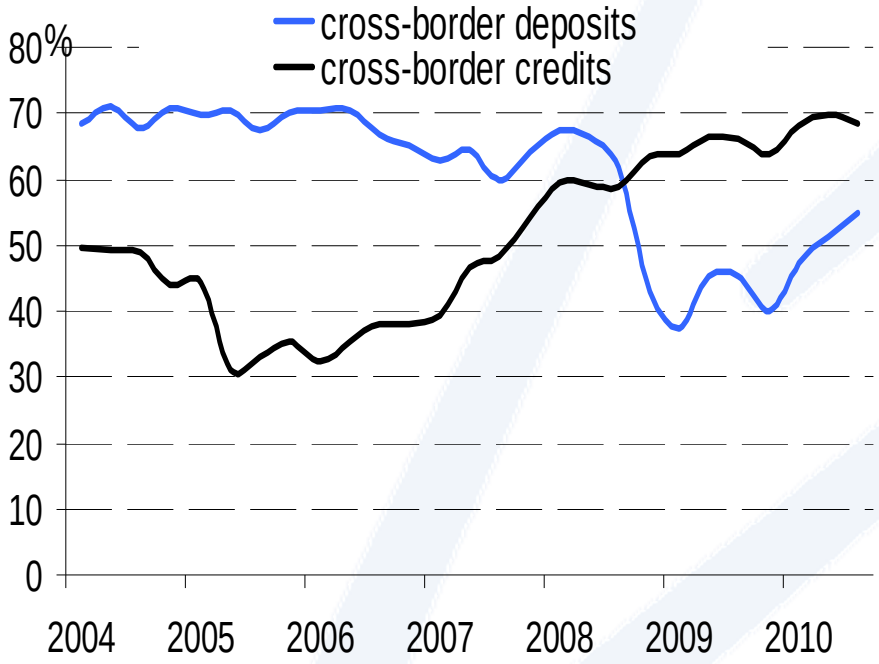
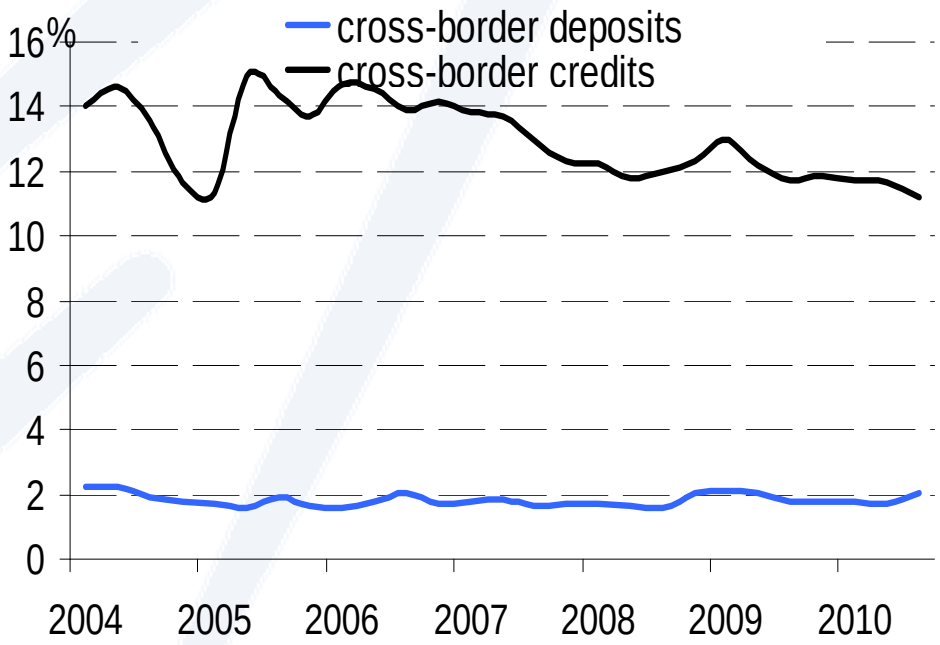
Cross – border banking in Poland

351 credit institutions from EEA notifided 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

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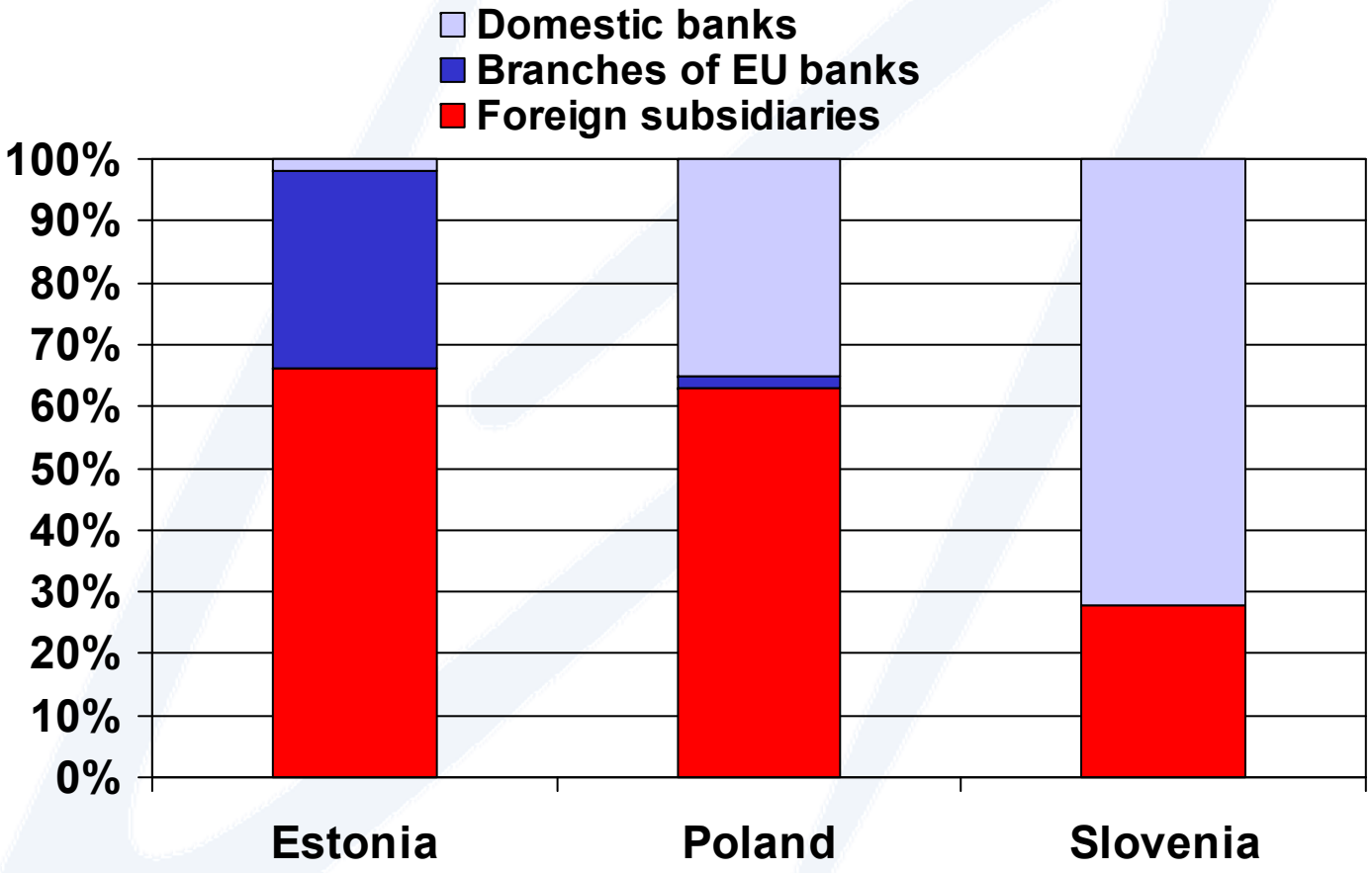
Commercial presence: banking sector



Structure of banking sector assets in selected CEE countries in 2011

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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

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Some econometrics

$$\Delta cre_{it} = \delta_0 + \delta_1 \Delta macro_{it} + \delta_2 \Delta BANK_{it} + \delta_3 \Delta RATING_{it} + \delta_4 \Delta SPREAD_t + \\ + \delta_5 \Delta INT_{it} + \gamma_{it}$$

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

Sample: 11 CEE countries, 2004 – 2010, panel data techniques

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Some econometrics

Independent variable	(1)	(2)	(3)
intercept	-2,016	-1,347	-1,415
Δgdp	**1,452**	**1,303**	**1,319**
Δ(*A*/*GDP*)	0,007	0,008	0,008
Δ*RATING*	-0,055	-0,052	-0,057
Δ*SPREAD*	-0,036	-0,027	-0,028
ΔChinn – Ito	**0,062**		**0,057**
ΔFA / A		**0,005**	**0,005**
R^2	0,905	0,915	0,929

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

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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.

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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 committments 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 intenational cooperation. New European supervisory authorities: EBA and ESRB.