

IT PAYS TO INVEST IN POLAND

Professor Elżbieta Mączyńska, President of the Polish Economic Society talks to Ewelina Janczylik-Foryś about domestication of banks and their development in the Polish financial system.



PM What is the difference between re-polonisation and domestication of the financial sector?

In the debate about domestication of banks in Poland it is important to distinguish between two categories: domestication and re-polonisation. These terms are not identical, although they are often treated as synonyms. Domestication means that the bank's head office is located in Poland and the decisions are also taken by this bank in Poland. However, such a bank may combine different capitals, Polish and foreign. Large investment projects are and will be implemented in Poland, including those involving infrastructure. This and other factors indicate the need to gather capital which could be used to finance them. Moreover, in the event of domestication banks respond can better and quicker to the requirements of Poland's development strategies. Re-polonisation, in turn, would mean banks with exclusively Polish capital. In the latter case there are concerns that Polish capital could be insufficient, and secondly, under globalisation conditions, where capital knows no borders, it would be a highly doubtful solution and a departure from the changes occurring in the world economy. It is also important to distinguish between re-polonisation and domestication and nationalisation.

PM Quite. So, re-polonisation and domestication cannot be equated with economic nationalism?

Nationalism would mean nationalisation of banks, and this is not the objective here. Banks are to remain private and be listed on the stock market. The fact that banks are listed on the WSE under conditions of free market

capital, chosen by us at the time of our accession to the EU, allows free movement of capital. If nationalisation were to mean increased involvement of the state in banking, then this direction would be contrary to the gist of the transformation consisting, after all, in privatisation of enterprises. The stake held by the State Treasury in companies should decrease, rather than increase. But there are no signs indicating that the government is moving towards nationalisation. The aim is to adjust the development of the banking sector to the needs of the Polish economy. Banks have their nationality, as does capital. It turns out that in critical situations domesticated banks are more inclined to respond to the needs of the economy in order to alleviate the consequences of possible crises. Problems usually appear in a crisis. It has to be remembered that fluctuations in the economic situation and crises and bankruptcies of businesses are part and parcel of the market economy. Banks may reduce crisis threats, but if their headquarters are based abroad then domestic interests come to the fore.

There is no issue of nationalisation understood as increasing the participation of the state in this sector. Besides, we continue to refer to domestication in a highly negative context, as if Poland were to become a country in which the state needs its own enterprises. In my opinion, this interpretation is simply wrong. True, domestication is needed, but Poland is highly interested in the influx of foreign investment and foreign capital. The crux of the matter is restoring the appropriate proportions. If we take a look at the statistics, we can see that we have one of the highest stakes of foreign capital in the

banking sector in the world, and certainly in Europe. The situation in the neighbouring countries, such as Germany, is the opposite. We are trying to restore the correct proportions in Poland.

PM So, the government should start domesticating banks?

Domestication of banks requires, above all, conditions which are conducive to the development of the banking industry in Poland. Here, and in other countries, the trading conditions have deteriorated slightly following the increased capital requirements after 2008, prudential requirements, as well as additional regulations connected with the functioning of banking in the European Union. The banks have been compelled to increase the commitment of their own funds and to reduce debt. The banks outside Poland function in an environment in which interest rates are low or even negative. In Poland, the interest rates are relatively high (currently the base rate of the National Bank of Poland stands at 1.5% - ed.). Therefore, the possibility of generating earnings on banking transactions is greater than elsewhere. At the same time, the banking tax which has a slightly adverse effect on the functioning of banks has been introduced. Nonetheless, the conditions under which the banking sector operates in Poland continue to be encouraging. Moreover, we should take into account the fact that Poland is a large country with a market of nearly 38 million people. Every business is located in a particular market with a view to exploiting the possibilities and market potential, and in Poland this potential still remains very high. •