POLAND

BANKING

SUMMARY

Poland's banking system has dramatically expanded and has become more efficient in recent years. In terms of assets the banking system has been growing at about twice the rate of the economy as a whole; however, it still remains small in absolute and relative terms when compared with the banking systems in Western Europe. In late 1997, a major milestone in the process of developing a healthy, modern and competitive banking sector was reached: the private sector at last controls a majority of the banking system's assets and equity, as well as about 40 percent of its deposits. Foreign banks play an increasingly leading role in the economy, particularly by providing greater competition and improving product offerings and services. Overall, the banking sector's asset base will need to grow appreciably in the future to meet the financial needs of the business and personal sectors.

The new Banking Act, which went into effect on January 1, 1998, created the Commission for Banking Supervision, which is responsible for supervising banks and licensing new banks. The National Bank of Poland's General Inspectorate for Banking Supervision acts as the commission's executive body. Banks are required to contribute to and participate in the deposit insurance program operated by the Bank Guarantee Fund.

As of June 1998, U.S. financial institutions had a majority interest in nine banks, which together control 4 percent of the banking system's capital and less than three percent of net assets and deposits. Poland has generally provided equal treatment for U.S., foreign, and domestic banks. However, the National Bank of Poland has followed a policy of requiring foreign, but not domestic, applicants to give financial assistance to troubled Polish banks in order to receive a banking license. The banking authorities will not be able to continue this discriminatory policy after December 31, 1998, because Poland has committed to the Organization for Economic Cooperation and Development (OECD) after that date it will provide national treatment for financial institutions from OECD member states. There also exists a nationality requirement for at least one of the bank executives of a foreign banking operation in Poland.

DESCRIPTION OF THE MARKET

Structure of the Market

As of the end of 1997, the Polish banking system had approximately US$72 billion in net assets, equal to about 55 percent of the country's Gross Domestic Product (GDP). The Polish banking system can be divided into five segments: the National Bank of Poland (NBP), the state-owned commercial banks, the foreign-owned or controlled banks, the Polish-owned private banks, and the cooperative banking system (Refer to Table I). As of December 31, 1997, there were 83 commercial banks and 1,295 cooperative banks operating in Poland.

The NBP is the central bank of the state pursuant to the constitution and implementing legislation that went into effect on January 1, 1998. Among other things, it manages official foreign exchange reserves, conducts foreign exchange operations, provides banking services to the government, and provides banks with refinancing facilities. The Monetary Policy Council (MPC) sets monetary policy and, in consultation with the government, foreign exchange rate policy. The MPC consists of the President of the NBP and nine other members appointed by the President and the legislative branch.

As of the end of 1997, the state held a majority interest in fifteen of the commercial banks, including three of the largest four banks. The state-owned banks possessed nearly 60 percent of the banking system's deposits, almost 50 percent of net assets, 43 percent of net loans, but only 36 percent of the capital. Poland's government and the NBP since 1989 have privatized six large banks, and the government intends to privatize another five in 1999. The government also has announced plans to privatize the two other remaining large, financially troubled banks by 2001, the Bank for Food Economy (BGZ) and the Polish Savings Bank (PKO BP). This would leave the government with just a few small banks, which play a minor role in the banking sector.

Foreign investors at the end of 1997 operated in Poland through 27 majority owned commercial banks and two foreign bank branches. They also had a controlling minority interest in two other large commercial banks. This represents a significant increase since the 1994 National Treatment Study. For example, in 1995, foreigners held a majority ownership stake in only nine banks and two branches. If the government achieves its bank privatization goals for 1998, foreign investors could possibly achieve control over a majority of the banking system's assets and equity and nearly a majority of its deposits. Starting in 1995, foreigners have been aggressively increasing their share of the Polish banking market. Foreigners have taken a majority or controlling minority interest in almost every large commercial bank that has been privatized to date, and they also have established numerous new banks or purchased existing small private banks to convert to uses for their own purposes.

The Polish private sector had a majority interest in 39 commercial banks, including 11 regional cooperative banks, as of December 31, 1997. This includes the two Polish banks with a minority but controlling interest held by foreigners. Generally, these banks are small and/or specialized (e.g., the Environmental Protection Bank or BOS), though two medium-size banking groups have emerged, centered around BIG Bank Gdansk and Kredyt Bank PBI.

Cooperative banks, the smallest of the five segments, is going through a process of consolidation and transformation. The number of cooperative banks has shrunk from 1,653 in 1993 to 1,295 in 1997. At the end of 1997, over 10 percent of the cooperative banks failed to meet the minimum 8 percent risk-based capital ratio. The cooperative banks share of the banking system's net assets declined to 4.5 percent at the end of 1997 from 4.6 percent the year previously. The cooperative banks and the regional banks are expected to consolidate further. Moreover, the government is working with the European Bank for Reconstruction and Development on plans to privatize the troubled Bank for Food Economy. The cooperative banking system traditionally has supported the Polish agricultural sector, which itself has been struggling since 1989. About a quarter of Poles work on farms, but generate less than 7 percent of GDP.

Banks in Poland may offer a wide range of products and services. The new Banking Act effective January 1, 1998, explicitly authorizes banks to engage in a variety of activities, which previously had not been clearly defined legally. In practice, however, no major differences exist in the permissible activities of banks in Poland under the new and old banking law. Banks in Poland are allowed to take demand and time deposits, maintain other bank accounts, extend loans and guarantees, issue bank securities, and performing bank settlements. In addition, banks may make cash advances, process checks and bills of exchange, issue and process bank (debit and credit) cards, make forward financial transactions, buy and sell debt, safekeep valuables, perform foreign exchange operations, endorse bills and notes, and perform operations relating to the issue of securities. The new mortgage bank law, effective as of January 1, 1998, provides that only specially licensed mortgage banking entities may obtain the benefit of a super-priority security interest in the mortgaged property. Thus, banks will have to either create a subsidiary to engage in mortgage banking activities or accept a lesser security interest. Many large banks have expressed interest in establishing a mortgage banking subsidiary.

Even with the legal authorization to do so, many banks have been slow in expanding and improving the range and quality of their products and services. Competition among commercial banks has developed unevenly since the collapse of communism in 1989. Foreign banks have competed intensely for international corporate accounts (e.g., General Motors, Lucent, etc.) and business from large state-owned enterprises (e.g., the telephone company), but they generally stayed away from small- and medium-size businesses and consumers. In the beginning of the post communist era, the state-owned foreign trade bank (Bank Handlowy) focused on servicing Polish exporters, and the other state-owned banks concentrated on servicing their existing clients, mostly large state-owned enterprises. Until recently, the state-owned savings banks (principally PKO BP and PEKAO SA) practically monopolized the retail market. These two banks at the end of 1997 held a majority of the banking system's deposits. Over time, however, competition has heated up in almost every sector. Foreign banks and private Polish commercial banks recently have increased their shares of the retail market; attracting retail deposits provides a lower-cost source of funds than borrowing on the interbank market. Moreover, banks have become more willing to lend to the medium and small businesses, and competition for the largest companies (private, state-owned or international) has become even more intense.

There are numerous signs of the recent efforts to expand products and improve quality of service. Foreign-owned banks especially have been leaders in introducing new products and services. For example, banks in 1997 tripled their issuance of bank (credit and debit) cards to1.7 million customers; Citibank was an innovator in this field. Banks have been rapidly building ATM networks. At the end of 1997, Poland had an estimated 1,600 machines installed and was expected within a year or two to double that number. For years, Polish banks had put a large share of their resources in Treasury bills and bonds, rather than making loans. Now, they have reduced the relative importance of government paper in their portfolios, and have substantially increased their lending to the business sector and to consumers, especially for car loans. Lending for housing, cars and installment purchases increased by almost 200 percent in 1997. Banks are increasingly providing foreign exchange and derivative products. The volume of foreign exchange transactions (spot and deposit transactions, forwards, swaps) increased by over 300 percent in 1997. Still, the banking sector has plenty of room to expand. In the retail sector, less than half of all Poles had any type of account with a bank in 1997. For businesses, banks make few long-term loans and tend to evaluate creditworthiness based almost exclusively on the amount of collateral, rather than the merits of a business proposal.

The largest banks have established a National Clearing House (NCH) with 17 regional centers. The NCH has developed several clearing systems: a fully electronic clearing system (ELIXIR); a limited electronic clearing system (SYBIR) to function in conjunction with the system of transporting documents; and a system for transport of clearing documents by courier.

Regulatory Structure

The new Banking Act, effective January 1, 1998, is intended to bring Poland's banking regime in line with EU and international standards with regard to bank regulatory requirements, including minimum capital requirements and other bank regulations. Also, it opened up the market to foreign banks operating through branches, as Poland had committed to do in its accession to the OECD. Finally, it provided for the creation of a new supervisory organ, the Commission for Banking Supervision, which replaced supervision by just the NBP.

In 1998 Poland revised its regulatory regime primarily to bring it into harmony with European Union (EU) regulations. Previously, the NBP and its General Inspectorate for Banking Supervision (GIBS) licensed, supervised, and sanctioned banks. The new Banking Act established the Commission for Banking Supervision (CBS). The CBS is responsible for supervising banks, licensing new banks, and imposing sanctions. It consists of the NBP President, the Director of GIBS, and representatives from the Finance Ministry, the Securities and Exchange Commission, and the Bank Guarantee Fund. The GIBS acts as the commission's executive body.

In 1997, the GIBS conducted 118 inspections of 42 commercial banks and 378 inspections of cooperative banks. It employed the inspection methods used by the Federal Reserve System. The NBP President suspended the activities of one commercial bank and eight cooperative banks in 1997. In the period 1991-1997, the NBP has required 17 commercial banks and 287 cooperatives to implement corrective measures.

The supervision and assistance from the NBP has contributed to the improvement in the financial health of the banking sector. The new Banking Act requires that banks maintain a capital base at a level that represents no less than 8 percent of risk-weighted assets and off balance sheet commitments. A new bank for the first 12 months will need to meet a 15 percent capital base requirement and a 12 percent requirement for the next 12 months. Corresponding to EU standards, a bank as of January 1, 1999, must have the equivalent of a minimum of five million ECU in capital. The NBP does not provide capital ratio information, other than to say that as of December 31, 1997, eight commercial banks (out of 83) did not meet the 8 percent minimum capital requirement. We believe that the eight included two large state-owned banks and six small private banks, and that no foreign-owned banks fails to meet this test. The percentage of bad loans in the commercial banks' portfolios has dropped from 31.0 at the end of 1993 to 10.4 percent at the end of 1997.

Since 1995, all commercial banks and cooperatives have been required to contribute to the Bank Guarantee Fund (BGF), which provides deposit guarantees for customers and technical and financial assistance for troubled banks. In 1997 the BGF supported 11 commercial banks and 24 cooperatives with approximately US$120 million of assistance. Also, it paid almost two million dollars to cover deposits at the bank and cooperatives declared bankrupt in 1997.

U.S. PRESENCE IN THE MARKET

As of June 1998, U.S. investors have a fifty-percent or greater interest in nine banks in Poland. Citibank, GE Capital, and Bank of America have wholly-owned banks, which provide a wide range of services and products. Citibank in 1991 was the first U.S. bank to enter the Polish market and still remains the leading U.S. bank with over US$100 million of capital. Ford and General Motors/Opel have opened wholly-owned banks primarily to provide car loans. American Express obtained a banking license in order to offer its debit and credit cards in Poland. In 1998, American International General bought a majority interest in a small Polish bank, Bank Podlaski, to support its consumer credit activities. Moreover, the Polish-American Enterprise Fund, created as part of the U.S. government's assistance to Poland, founded and for now retains a 50 percent interest in two specialized banking institutions, PAM Bank (which provides mortgages) and PPABank (which lends to small- and medium-businesses). As of the end of 1997, these nine banks combined had 4 percent of the banking system's capital, 2.4 percent of its assets, and 1.8 percent of its deposits. On December 31, 1997, the only foreign country with a larger share than the United States of the Polish banking system was Germany; Holland had a slightly smaller share than did the United States.

Chase Manhattan/Chemical Bank maintains a representative office in Warsaw but has no banking license and, thus, cannot provide banking services (such as originating loans or taking deposits) in Poland.

In addition, J.P. Morgan and two European financial institutions in 1997 together acquired a 27 percent interest in Bank Handlowy, the formerly state-owned trade bank, which provided J.P. Morgan and its partners substantial control over management of the bank. As of the end of 1997, Bank Handlowy, whose shares are now publicly traded, had over 10 percent of the banking system's capital, nearly 7 percent of its assets, and less than 4 percent of its deposits.

Euronet, a U.S. firm traded on the Nasdaq Stock Market, has built and manages a network of over 300 ATM's in Poland as of the end of 1997 and plans to expand further.

Foreign and U.S. banks have concentrated on corporate lending, especially for international businesses operating in Poland. Leading other foreign banks ranked by country of origin are: German banks (Dresdner Bank, West deusche Landesbank, Deutsche Bank, Vereinsbank, Berliner Bank), Dutch banks (ING and ABN AMRO, Rabo Bank), Austrian banks (Raiffeisen-Centrobank, Bank Creditanstalt, Volkwagen Bank), French banks (Credit Lyonnais, Societe Generale), an Irish Bank (Allied Irish Bank) and a Korean bank (LG Petro Bank). Other than VW Bank, these banks concentrate on servicing the Polish offices of their home clients. However, there is greater interest in some of the larger banks to compete for Polish corporate and retail business. U.S. banks are trying to build up their retail bases – Citibank and GE Capital have developed credit card businesses, and Ford and General Motors/Opel provide automobile loans.

TREATMENT OF U.S. FINANCIAL INSTITUTIONS

In 1992, the NBP indicated it did not intend to issue any more licenses for foreign banks to establish in branch form. Poland made a commitment to the OECD to liberalize its financial services sector after December 31, 1998. The new Banking Act, effective January 1, 1998, implemented Poland's commitment to allow foreigners to operate in branch form.

Prudential lending limits for foreign bank branches in Poland are based on local paid-in equity, not the parent bank's equity, effectively removing much of the advantage of establishing a branch. No U.S. bank has entered the Polish banking market in branch form.

The main treatment issue for U.S. financial institutions has been the licensing policy of the NBP. After 1991, the NBP pursued a policy of requiring a foreign applicant for a banking license to either purchase or financially assist a troubled Polish bank. The Commission for Banking Supervision will determine what, if any, financial assistance a foreign bank is required to provide in order to obtain a banking license either as a joint stock company or a branch. Foreign firms wanting to provide banking services have the option of either (1) acquiring an existing firm with a banking license or, (2) creating a new firm and obtaining a license. In either case, the NBP has required the applicant to provide financial assistance to troubled banks, not necessarily to the bank that the foreign firm acquires. Helping a foreign bank does not obviate the requirement for obtaining a banking license. A foreign investor can obtain a banking license for one bank while providing financial assistance, such as soft credits, to a troubled bank. In other words, the foreign applicant is not required to purchase a troubled bank, only to help it. Domestic applicants do not have to provide such financial assistance. Under its commitments to the Organization for Economic Cooperation and Development (OECD), Poland must provide national treatment to banks from OECD member countries (which includes the United States) after December 31, 1998. Thus, the NBP after December 31, 1998 will either have to end this financial assistance policy or require that domestic applicants also provide financial assistance to troubled Polish banks.

There exists a nationality requirement for some – at least one – of the bank executives of foreign banking operations in Poland. The Banking Act gives discretion to the Commission for Banking Supervision on granting licenses. Though the Banking Act does not specify that any of the bank executives be Polish, the Commission has the discretionary authority to continue that policy - established by its predecessor in granting licenses, the NBP. Poland reserved the right to do so in its offer to the WTO. In addition, the appointment of two of the members of a bank's management board, including the president, requires the approval of the Commission for Banking Supervision. This approval is required for both foreign and locally incorporated banks.

The Polish government provides guarantees for deposits, which supplement the deposit guarantees of the Bank Guarantee Fund, to three large state-owned banks, PEKAO SA, PKO BP, and the Bank for Food Economy (BGZ). These supplementary guarantees are scheduled to expire on December 31, 1999.

A foreign owner may convert Polish zloty to foreign currency and remit abroad without need of a foreign exchange permit its share of bank profits and proceeds from the sale of its shares or liquidation of the bank. Poland has also committed to the OECD to liberalize its foreign exchange regime, and the government is working on legislation which would allow for full convertibility in or outside of Poland for current account transactions and non-portfolio capital transactions. The latter transactions would still require permits in certain cases. The government hopes to implement this legislation by January 1, 1999.

In its Financial Services Offer of December 1997 to the WTO, Poland agreed to impose no limitations on national treatment with respect to banking and other financial services for commercial presence and the presence of natural persons. Furthermore, the limitations on market access for banking services were (1) a nationality requirement for some – at least one – of the bank executives, and (2) establishment of a bank only in the form of a joint stock company, though after January 1, 1999, or the date of entry into force of the Fifth Protocol, whichever is later, establishment will be permitted through licensed branches. The Fifth Protocol has not yet been ratified.

Poland's GATS offer in the banking sector is unbound with respect to cross-border supply and consumption abroad for both market access and national treatment limitations. As for the activities of U.S. financial institutions in the banking sector (i.e., commercial presence) it appears to be fully bound. Poland has begun negotiations to join the EU, and as part of the accession process, Poland will harmonize its banking regime with the directives and policies of the EU. This may lead to further opening of the market for EU investors. While there are no significant national treatment or MFN issues now in the banking sector, when Poland joins or prepares for accession to the EU then U.S. investors may see that EU investors receive different or preferential treatment compared with U.S. investors. This would be the same preferential treatment that U.S. investors face when investing in EU countries.

Polish Banking System

(Shares of Banking System's Net Assets, Capital, and Deposits as of December 31, 1997)

Types of Institutions	Number	Net Assets (percent)	Capital (percent)	Deposits (percent)
Commercial Banks	83	95.5	95	94.8
State-owned Banks	*15*	*50*	*32*	*58*
Private Sector Banks	*68*	*45.5*	*63*	*36.8*
Polish-majority Banks	*39*	*30.5*	*39.1*	*24.1*
Foreign-majority Banks	*29*	*15*	*23.9*	*12.7*
U.S.-majority Banks	*8*	*4*	*2.4*	*1.8*
Cooperative Banks	1,295	4.5	5	5.2
Total Banking System	1,378	100	100	100

Net assets are defined as "total assets less accumulated depreciation, specific provisions, and valuation allowances."

Sources: National Bank of Poland, General Inspectorate of Banking Supervision, Summary Evaluation of the Financial Situation of Polish Banks; Gazeta Bankowa for data on U.S.-majority banks.