

Aims & Scope (Economics)

Article

THE ECONOMIC AND FINANCIAL SITUATION OF POLISH BANKS IN CONDITIONS OF FRAGILITY OF THE ECONOMIC SYSTEM

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Abstract. The main objective of this study is to present and evaluate the basic indicators characterising the economic and financial condition of Polish banks under conditions of instability of the financial system, originally derived from the global crisis of financial markets and, since 2019, caused by the Covid 19 pandemic. The results of the statistical analysis of such parameters as the values of assets, the state of the non-financial sector's credit bond and deposit share, changes in the level of own funds, indicators of the sector's efficiency (interest margin, operating expenses ratio, ROA, ROE), the share of non-performing receivables in the Polish banking system and the values of the solvency ratio of commercial and cooperative banks indicate that the negative effects of the financial crisis have not significantly affected the stability of Polish banks. Nonetheless, the COVID-19 pandemic had a decidedly negative impact on the economic and financial situation of Polish banks, as evidenced by the significant deterioration in, inter alia, ROE and ROA and the quality of the loan portfolio of Polish banks in 2020.

Keywords: Polish banking sector; financial crisis; COVID-19 pandemic; commercial banks; cooperative banks, financial condition.

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Introduction

A bank is a typical enterprise, which is judged by its economic performance, therefore bank managers should strive to maximise results and have a high level of competitiveness (Guruli, 2021, p. 24). This is ensured by a global strategy of operations not only in the domestic market, but also in the European market. Examples include those banks that have acquired Polish entities. In this way, they not only control foreign entities, but operate practically throughout the European Union. Banks that implement a regional strategy will have to develop an appropriate specialization based on value chain analysis. A lack of specialization or a so-called universal (generic) strategy deprives banks of a competitive advantage, and their low economic performance is to be expected (Buszko, 2010, p. 32).

However, this strategy should also consider the principles of corporate social responsibility, which results from the key role of banks in the economy. Banks' activities should be based on the interests of entrepreneurs as well as employees and customers. It has been repeatedly stated in the literature that corporate social responsibility can contribute both to the stability not only of the banking system (SB) but of the economy as a whole. However, it can be concluded that SB in Poland is not characterized by a high level of compliance with CSR principles and that there is an increase in socially responsible activities of the largest banks in the country (Bolibok, 2021, p. 3).

In line with the above, the banking system (SB) plays a key role in most economies worldwide and, as a result, can have a decisive impact on economic development in modern times. The role of banking is primarily to provide the necessary capital to bring demand and supply of this factor of production into equilibrium (Dondalski & Ostrowska, 2020, p. 142). A more efficient

allocation of money enables the development of economic agents but can also have a positive impact on the functioning of households and, consequently, the economy as a whole (Komarnicka & Komarnicki, 2022, p. 4).

The role and the formation of the SB in individual countries have changed over the years (Kumar & Chakravarthy, 2020, p. 1493) Based on the experience of countries with highly developed market economies, the Anglo-Saxon model of the banking system was formed in Poland. In this system, the positions and functions of the first level, i.e. the central bank, and the operational banks constituting the second level of the discussed structure that carry out all banking operations, have been separately defined. Such a structure of the banking system ensures the efficient introduction of money into economic circulation and, at the same time, creates the necessary conditions for controlling the movement of money while respecting the freedom of economic decisions of market participants (Białas & Mazur, 2014, p. 12).

Since the marketisation of the Polish economy, the SB has actively and simultaneously participated in several processes rapidly changing its shape and principles of functioning. These include the universal processes of globalization and liberalization of financial markets, as well as systemic transformation processes specific to Central and Eastern Europe. This segment of the economy is a pioneer of the changes taking place and, thanks to its openness to the world and high degree of internationalization, it is ahead of the real sector of the economy for its own restructuring and integration into the European Union. The internationalization of banking, market liberalization and concentration, ensuring the stability and security of SB, innovation and striving for a high level of competitiveness are also key determinants of SB in Poland (Białas & Mazur, 2014, p. 12).

In recent years, the SB in Poland has been one of the fastest growing of all SBs in the region and, as a result, has become one of the largest in Central and Eastern Europe. Despite the significant growth in the role of the banking sector in the economy, compared to the SB of the EU-15 countries, it is characterized by a relatively low level of development (Lipski, 2015, pp. 157-158). For this reason, it is important for banks to pay close attention to international trends, including both opportunities and threats (Alex, Ngaba 2018, p. 177). In the current reality, political and epidemiological factors (the COVID-19 pandemic) may also significantly affect SB and, consequently, the rest of the economy due to the very important importance of SB in the economy and the numerous economic-financial links of banks with other economic activities (Berger & Demirguc-Kunt, 2021, p. 1). It is from the example of COVID-19 that the strong linkages between banking and the rest of the economy can be seen. The pandemic has become both an opportunity and a threat to the operation and development of businesses. COVID-19 highlighted the importance of competitive advantages based on digitalization, which have a positive impact on the economic and financial situation of commercial and cooperative banks. However, the results indicate that, to a significant extent, the pandemic contributed to the deterioration of the performance of the Polish SB. This may have been due to several constraints hindering business operations, including disruptions in domestic and global supply chains, reduced demand, which in the longer term contributed to business closures and paradoxically reduced demand for capital. The consequences of the deterioration of SB performance also had an impact on the deterioration of macroeconomic performance (Pukin-Sowul & Ostrowska 2021, p. 49).

The purpose of this paper is to present and assess the key indicators characterising the economic and financial condition of Polish banks under conditions of economic uncertainty.

Methods

The analysis of the economic and financial situation of Polish banks in the conditions of instability of the economic system, which was initially the result of the negative effects of the global crisis of financial markets and then the pandemic shock, began with a brief characterisation of the banking system and identification of the main trends of changes in the organisation of the banking system in Poland.

This was followed by the main part of the analysis, considering such parameters as:

- dynamics of changes in the value of banking sector assets,
- values of loan obligations and the size of deposits from the non-financial sector,

- changes in the level of own funds of commercial and cooperative banks,
- sector operating efficiency ratios (interest margin, operating cost ratio, ROA, ROE),
- the quality of the credit portfolio of Polish banks and the values of their solvency ratio.

For the above-mentioned analyses, data covering the period 2015-2020 from the reports of the Polish Financial Supervision Authority (UKNF), the National Bank of Poland (NBP), the Central Statistical Office (GUS) and the Polish Banks Association (ZBP) were used.

Results

Trends in changes in the organisation of the banking system in Poland

At the end of 2020, 30 commercial banks (BKs), 530 cooperative banks (BSs) and 26 branches of credit institutions (CIs) were operating in the Polish banking system. In recent years, the number of banks in Poland has been systematically decreasing, which is evident in both the cooperative and commercial banking sectors (Table 1). The reasons for this phenomenon are not mainly to be found in the difficult economic and financial situation of the institutions in question, which may result in bankruptcy or liquidation of a bank, but mainly in consolidation processes, which for many years have been one of the basic forms of transformation in the Polish banking system.

Specification	2013	2014	2015	2016	2017	2018	2019	2020
Number of entities carrying out banking activities	640	631	626	621	616	612	600	596
Of which:								
Commercial banks	41	38	38	36	35	32	30	30
Branches of credit institutions	28	28	27	27	28	31	32	36
Co-operative banks	571	565	561	558	553	549	538	530
Employment (thousands)	174,3	172,7	170,9	168,8	168,8	164,0	158,3	149,0
Share in sector assets - domestically controlled banks (%)	36,8	38,5	41,0	43,4	54,5	53,6	54,7	56,4
Share in sector assets of top 5 banks (%)	46,1	48,5	48,8	48,3	47,8	49,9	50,1	54,5

Source: Own compilation based on data from the Polish Financial Supervision Authority (FSA)

Consequently, there was an increase in the share of the sector's assets of the 5 largest banks (46.1% to 54.5%). On the other hand, noteworthy is the dynamically growing number of branches of foreign credit institutions, which testifies to the attractiveness and stability of the Polish banking system. In the period under review, the share of the sector's assets - banks controlled by domestic investors increased from 36.8% to 56.4%.

Analysing the consolidation processes in the Polish SB, which are realized mainly through mergers, it should be stated that in the commercial bank sector they most often proceeded in a natural way, while in the cooperative banking sector their realization was forced by the introduction in 2001 of new legal norms defining the principles of BS operation and pre-accession arrangements made by the representation of Poland before accession to the EU, as well as the necessity to imply anti-crisis regulations, mainly resulting from the provisions of the so-called Basel Committee (Basel

III). At this point, it should also be added that consolidation in the Polish SB, despite the reduction in the number of banking head offices, has not resulted in a reduction in access to banking services; on the contrary, the number of banking outlets carrying out operational activities has been steadily increasing for many years. It is also noteworthy that the number of branches of credit institutions has been growing on the Polish services market for several years. Under current Polish law, such enterprises are not treated as traditional banks. However, they carry out financial operations analogous to basic banking activities. In the opinion of the author of this study, further growth in the number of such entities should be expected soon.

Basic parameters characterising the economic and financial condition of banks in Poland

The key element in determining the economic and financial condition of SBs is the asset values of commercial and cooperative banks, therefore, based on the analysis of changes in the structure and value of the banks' total assets, it is possible to assess the pace and directions of their development (Table 2).

<p align="center">Table 2 Asset values of commercial and cooperative banks in Poland in 2013- 2020 (PLN billion)</p>								
Years	2013	2014	2015	2016	2017	2018	2019	2020
Total banking sector	1407,2	1532,3	1599,9	1 711,3	1 781,7	1 893,7	2 000,1	2 350,1
Commercial banks	1278,6	1394,6	1458,3	1 553,9	1606,7	1 689,6	1 780,2	2 106,0
Co-operative banks	96,5	104,8	109,8	120,8	130,3	138,3	150,7	167,2

Source: Own compilation based on data from the Office of the Financial Supervision Authority (FSA)

During the period under review (2013-2020), there was a significant increase in SB assets. At the beginning of the period under study, they amounted to PLN 1,407.2 billion, while in the last period they amounted to PLN 2,350.1 billion (an increase of 67.00%), with the assets of commercial banks increasing from PLN 1,278.6 billion to PLN 2,106.0 billion (an increase of 64.71%), while those of cooperative banks increased from PLN 96.5 billion to PLN 167.2 billion (73.26%). The results of the research indicate that the Polish banking sector showed high growth dynamics, while it should be noted that the growth rate of cooperative banks was higher compared to commercial banks. Such trends indicate an increase in the similarity of the Polish SB with the banking sectors of highly developed countries. In most EU countries, cooperative banking has an established place in the financial system and even plays a major role. In Poland, too, this banking sector, taking advantage of its long tradition and very good knowledge of local financial markets, is becoming increasingly important systematically, increasing its share in the assets of the banking system.

The value of the credit bond and deposit share of banks around the non-financial sector plays the greatest impact on the financial result of both commercial and cooperative banks. The values of the above parameters are summarized in the table below.

The increase in the level of assets in the banking system was mainly due to an increase in the loan portfolio of commercial banks. In the period under review, loans granted to the non-financial sector increased by more than 17.46% and deposits by 85.05%. It can be assumed that this development was partly halted by the share price falls on the Warsaw Stock Exchange, the disturbances on the global financial market and the COVID-19 pandemic. As a result of the phenomena discussed above, commercial banks' lending and deposit activity slowed down from 2016. The trends described have consequently increased the importance of the banking sector in the

structure of financial sector assets. In the author's opinion, in the perspective of the coming years, the share of such institutions in the Polish financial system should significantly increase.

Years	2013	2014	2015	2016	2017	2018	2019	2020
Total credits	972,7	1043,1	1118,5	1 172,4	1 214,3	1 088,2	1 136,8	1 142,5
Household credit	555,5	588,9	628,5	660,7	671,9	707,9	745,3	766,8
Business credit	278,0	300,9	327,3	344,9	367,3	373,1	383,9	367,6
Total deposits	775,4	854,1	938,8	1 028,1	1 070,4	1 158,6	1 269,8	1 434,9
Business deposits	209,7	229,4	253,3	274,9	285,0	293,6	322,9	386,8
Household deposits	548,2	606,4	665,7	730,8	761,3	838,8	919,9	1 081,4
Deposits of non-financial institutions	17,5	18,3	19,7	22,4	24,1	26,3	27,0	29,7

Source: Own compilation based on data from the Office of the Financial Supervision Authority

The main sources of threats to the further stable development of lending of Polish banks are in the macroeconomic and regulatory environment. In particular, the realization of unfavorable scenarios for the development of the macroeconomic situation related to the economic situation after the COVID-19 pandemic, the war in Ukraine and the progressing inflation and the situation on the international financial market may have a negative impact on the attitudes of businesses and consumers. On the regulatory side, on the other hand, it is important to bear in mind that excessive tax and para-tax burdens on banks may lead to a reduction in their ability and propensity to develop lending, and the implementation of extreme proposals to address the issue of foreign currency housing loans may destabilize the sector and reduce lending.

Another key parameter affecting the size of a bank's active operations is the level of own funds (Table 4).

Years	2013	2014	2015	2016	2017	2018	2019	2020
Banking sector	138,6	145,2	159,1	175,5	198,1	204,6	210,3	231,9
Commercial banks	128,4	134,9	148,4	164,7	186,6	191,6	197,9	218,8
Co-operative banks	10,2	10,3	10,7	10,9	11,5	12,0	12,4	13,1

Source: Compiled based on Office of the Financial Supervision Authority and Statistics Poland data

In the Polish SB in recent years there has been a dynamic increase in the level of own funds of commercial and cooperative banks (total increase of 67.31%; BK - 70.40%, BS - 28.43%). It is noteworthy that this process was slower in the BS sector than in the BK bank sector. The reasons for this situation can be attributed to the need for BSs to implement the EU Capital Requirements Directive IV (CRD 4) and the related IPS (Institutional Protection Scheme) security systems.

Measuring the banking sector's operational efficiency makes it possible to assess the effectiveness of its activities and its economic and financial condition. The values of basic parameters characterising the efficiency of Polish banks are presented in the table below.

Table 5								
Selected performance indicators for the banking sector in 2013-2020								
Years	2013	2014	2015	2016	2017	2018	2019	2020
<i>Interest rate margin (%)</i>								
Total banking sector	2,81	2,50	2,24	2,55	2,68	2,58	2,63	2,26
Commercial banks	2,77	2,46	2,22	2,54	2,69	2,59	2,68	2,31
Co-operative banks	3,68	3,35	2,96	3,02	3,06	2,96	2,83	2,19
<i>Operating cost index (%)</i>								
Total banking sector	53,25	50,94	58,69	55,97	56,25	56,10	55,60	63,40
Commercial banks	51,23	48,79	56,93	54,03	54,41	53,80	53,2	61,2
Co-operative banks	70,81	68,94	76,84	70,10	66,03	67,89	66,7	74,8
<i>ROA (%)</i>								
Total banking sector	1,10	1,07	0,71	0,84	0,78	0,79	0,70	0,04
Commercial banks	1,14	1,11	0,84	0,86	0,80	0,83	0,76	0,01
Co-operative banks	0,81	0,75	-1,09	0,51	0,59	0,47	0,41	0,32
<i>ROE (%)</i>								
Total banking sector	10,09	9,95	6,60	7,76	6,93	7,08	6,73	0,30
Commercial banks	10,24	9,97	7,57	7,73	7,04	7,21	6,87	0,08
Co-operative banks	7,90	7,38	-11,21	5,33	5,23	5,15	4,59	3,74

Source: Own compilation based on data from Office of the Financial Supervision Authority and Polish National Bank (NBP)

The consequence of the reduction in the result of banking activities and the increase in operating costs was a significant deterioration in operating efficiency, measured by the ratio of the share of these costs in results, from 53.25 per cent in 2013 to 63.40 in 2020.

Another indicator based on which the financial situation and efficiency of banks can be favorably assessed is the quality of the loan portfolio, measured by the share of "difficult loans" in the total loan portfolio (Table 6).

Table 6								
Share of non-performing loans in the Polish banking system and solvency ratio values of commercial and cooperative banks in the years 2015-2020 (%)								
Years	2013	2014	2015	2016	2017	2018	2019	2020
"Problem loans" in the banking system	7,4	7,0	6,5	7,1	6,8	6,8	6,6	6,9
BK solvency ratio	15,8	15,2	16,5	16,1	17,3	19,1	19,2	20,7
BS solvency ratio	14,3	15,7	13,7	17,1	17,2	17,7	17,7	18,9

Source: Compiled based on data from Office of the Financial Supervision Authority and Polish National Bank

As can be seen from the table above, the quality of the credit portfolio of commercial and cooperative banks has improved slightly but is still above the acceptable limit. It is assumed that the maximum share of non-performing receivables of banks in total receivables should not exceed 5%. Several factors contributed to the slight improvement in the quality of the loan portfolio. The economic recovery and the improved situation on the labour market favored the stabilization or improvement of the financial situation of some companies and households. The situation of borrowers was also favorably influenced by the strong easing of the NBP's monetary policy until 2021, which led to a reduction in debt servicing costs. The measures taken by the banking supervision and the development of business information bureaus, led to an increase in the efficiency of credit risk management. At the same time, the strengthening of the banks' capital base that has taken place in recent years has created greater opportunities for them to restructure their debt.

The increase in the level of own funds in the banking system has also had a positive impact on the solvency ratio. This ratio is treated as the basic measure of a bank's solvency risk. The legally required minimum value of this parameter cannot be lower than 8%. At the end of 2020, the average level of the BS solvency ratio was 18.9%, with the average for the commercial bank sector at 20.7%. The results of the analyses carried out give grounds to conclude that the Polish banking sector has exhibited a high level of solvency in recent years. Since Poland's accession to the EU structures, the average value of the analyses indicator in the banking system has been at the level of about 14%, still maintaining a high safety margin in relation to the legally required minimum at the level of 8%, which testifies to the safety and stability of the Polish banking system.

Conclusion

The banking sector in Poland plays a major role in the domestic financial system, with the Polish financial system being the least bank-oriented among the financial systems of Central and Eastern European countries.

Considering the crisis phenomena in the global economy, the slowdown in economic growth and price volatility in financial markets, the financial performance of Polish banks can be assessed as good. Thanks to the focus on traditional deposit and credit activities and effective financial supervision, the performance of the banking sector in the analyses period was more stable than in Western European countries and the the United States.

When analysing the value of the average solvency level of the banking sector, it should be noted that it is mostly at a stable and safe level in both the commercial and cooperative bank sectors. Nevertheless, the COVID-19 pandemic had a decidedly negative impact on the economic and financial situation of Polish banks, as evidenced by the deterioration in the quality of their loan portfolio and the relatively low values of ROE and ROA ratios.

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