

## FOCUS · Poland: new rules, worse outlook?

Poland will grow by around 3.5% year-on-year in 2016 and 2017, strong progress that will be achieved without too much inflationary tension (remaining below 2% in 2017) and without an escalating current account deficit. An enviable outlook which is not as surprising as it may seem in the context of the EU since Poland did not actually enter into a recession in 2008-2009 (it was the only country not to do so, remember) and was able to average annual growth in the order of 4% between 2005 and 2015. However, the rules of the game that helped Poland to achieve one of the best institutional frameworks in Eastern Europe are being altered and taking on a stance that might end up harming Polish interests in the medium and long-term.

During the last year far-reaching have been announced; institutional, regulatory and also in the area of economic policy. In the strictly institutional area, the workings of the Constitutional Court have been modified while, in legislation, rules have been adopted that are specifically aimed at the media and banking, increasing state intervention in both sectors. In terms of economic policy, public finances have been given an expansionary twist (increasing social expenditure), budget control procedures have been relaxed and discretionary taxes can now be levied on banks.

In fact, banking is one of the sectors most affected by the changes underway. In 2015 the government established a series of restrictions to interest rates on consumer credit. It also announced its decision to legislate in three key areas, establishing a bank tax, a larger contribution to the Bank Guarantee Fund (equivalent to the Spanish Deposit Guarantee Fund) and a plan to change mortgages in Swiss francs to the zloty. The first of these transformations has already been put into practice. Last January a 0.44% tax was approved on the bank assets of private entities (excluding the public debt on bank balance sheets). The effects of this tax will be markedly adverse as it will considerably reduce the sector's profitability and, according to calculations by Poland's central bank, force 20% of the sector into making a loss.<sup>1</sup> The revenue from this tax (around 6.2 billion zloty, 0.3% of GDP) will be allocated in its entirety to finance social expenditure policies.

According to preliminary statements, the new financing model for the Bank Guarantee Fund could result in banks having to increase their current contributions by a third (from 24 bps of their risk-weighted assets to

36 bps) and, according to some estimates, the additional contribution would total around 1.15 billion zloty.

Although quite substantial, these figures pale into insignificance, however, before the initial estimates for the impact of the forced conversion of mortgages. Although the details have yet to be announced (in particular, which exchange rate will be applied, which group of creditors will benefit and how banks will be able to accrue their losses), based on the information available for the project, the central bank has estimated that the measure might cost the banking sector between 38 and 44 billion zloty, depending on the parameters considered.<sup>2</sup> Given that the sector's total earnings, before tax, were 15.5 billion zloty in 2015, most analysts believe that Polish banks will simply not be able to assume the cost and that, ultimately, the new legislation will be more realistic.

International investors and analysts do not take kindly to these institutional and regulatory changes<sup>3</sup> and are most concerned about the medium and long-term consequences. If the case of Hungary is anything to go by, the country having implemented quite similar policies to those planned by Poland, then the latter can expect a period of less credit being granted, higher financing costs and a more adverse international perception. If this happens, the country could end up nostalgically remembering the days of 4% annual growth.

### Poland: main macroeconomic indicators

	2005-2012	2013	2014	2015	2016 (f)	2017 (f)
Real GDP growth (%)	4.6	1.3	3.3	3.6	3.4	3.5
Inflation CPI (%)	3.0	1.2	0.2	-0.9	0.1	1.9
Current account balance (% of GDP)	-4.8	-1.3	-2.0	-0.5	-1.8	-2.1
Fiscal balance (% of GDP)	-4.6	-4.0	-3.3	-2.6	-2.6	-3.1
Public debt (% of GDP)	49.5	56.0	50.5	51.3	52.0	52.7

Note: (f) Forecast.

Source: CaixaBank Research, based on data from Thomson Reuters Datastream.

1. According to available estimates, this duty is equivalent to 0.38% of total assets, approximately. In 2015, the return on assets was 0.8%.

2. At the beginning of 2016, 36.2% of the outstanding mortgage balance was in Swiss francs and 7.2% in euros. Together these represented 9.3% of GDP.

3. Significantly, the credit rating agency S&P lowered its rating for the country in January, from A- to BBB-, the first drop since 1996.