EXPERT INVESTMENT FINANCING

RUNNING OUT OF STEAM

DR. JAN GĄSIOROWSKI, ASSOCIATE IN THE WARSAW OFFICE OF WOLF THEISS, EXPLAINS WHY BANKS IN POLAND FIND IT MORE DIFFICULT TO LEND MONEY AND HOW FOREIGN FINANCIAL INSTITUTIONS MAY TAKE ADVANTAGE OF THE SITUATION.

The current political situation coupled with increasing inflation and interest rates, as well as the growing pressure on banks, which may boost margins on loans, make entrepreneurs in Poland look into financing their investments with foreign capital.

This trend is already strong today. More and more firms in Poland decide to take the advantage of the alternatives offered by cross-border financing, instead of the banks in Poland.

FOREIGN CREDITORS

Under Polish law, in the area of business to business, there are no major obstacles for foreign institutions to finance Polish entrepreneurs' investments. This is usually undertaken under the so-called freedom to provide services, using the principle of the single European passport. It means that a credit institution that has been granted authorization (license) to carry out banking activities in one of the member states of the European Economic Area does not need to obtain additional authorizations to carry out such activities in other member states.

According to a compilation published on the website of the Polish Financial Supervision Authority (KNF), there are currently 591 foreign institutions in Poland whose notifications have been received by the KNF. Interestingly enough, most of the entities come from France (99), followed by Germany (89 notifications) as well as the UK (82). High on the list is Austria (47), slightly ahead of Luxembourg (52).

The principle of a single European passport is also used by institutions outside the European Union. They can provide their services throughout the European community by registering only once in the country of their choice.

HIGHER INTEREST

The growing presence of foreign institutions in the Polish financial market is certainly fueled by today's market situation. After a series of interest rate rises, the Warsaw Interbank Offer Rate WIBOR 3M (adjusted every three months) is at 7 percent and WIBOR 6M (adjusted every 6 months) is at 7.29 percent.

As for the rates tied to the financing of euro-denominated liabilities, the market rates for EURIBOR are around 0.2 percent for 3M and 0.7 percent for 6M. This already provides a prime example of a significant disparity, not to mention that one should also take into account the margins of the bank or financial institution.

PAYMENT HOLIDAYS

On 29 July 2022, the law introducing the so-called "payment holidays" came into force. With it, the holders of housing loans in Polish złoty will be able to postpone as many as 8 out of 17 loan installments to the end of the loan period, for free, until the end of 2023.

There are many **opportunities to finance major projects** in Poland including large construction investments in the warehouse and office markets.

The term "free of charge" is key here. Up to now, the solutions present in the market in the case of payment holidays moved a given installment to the end of the settlement period, but the bank added interest due to this operation. Now, with the "payment holidays", the bank has no such option.

This regulation, although related to the consumer market, will be reflected in the financial situation of banks offering housing mortgage loans in Poland. It may translate into billion złoty additional costs that domestic credit institutions will have to face.

There are problems already. Recently, the management board of Bank Millennium has decided to launch a recovery plan anticipating capital ratios to fall below the minimum requirements set by the KNF.

Numbers from the National Bank of Poland (NBP) suggest that the aggregated cost of the "payment holidays" could reach around PLN 20 billion.

In turn, according to estimates by the Association of Polish Banks (ZBP), assuming that 80 percent of those eligible benefit from "payment holidays", the total cost for banks may reach PLN 13.1-16.4 billion in 2022, and PLN 21.3-27.9 billion in 2022-2023.

Facing such pressure, banks in Poland began to feel the heat. It may lead to an inevitable increase of margins, especially on credit products.

OTHER OBLIGATIONS

In addition to income tax, financial institutions in Poland pay the so-called bank tax, the proceeds of which amount to more than PLN 5.5 billion annually.

They also pay fees to the Bank Guarantee Fund (BFG). For the entire sector, it is estimated to reach PLN 3.7 billion annually. Another contribution, to the Borrower Support Fund (FWK), stands at PLN 1.5 billion.

With the above in mind, one cannot forget about the situation in the mortgage market, where a further slowdown in lending can be expected due to the actions of the KNF. Since April, the KNF has recommended that banks examining creditworthiness should take into account a higher buffer for interest rate rises—5 percent, instead of 2.5 percent previously. This is already causing consumers' creditworthiness to decline. Some market analysts are talking about a potential collapse in the mortgage market.

ADDITIONAL PRESSURES

However, this is not all the pressure on the banking sector. Key politicians have already talked about introducing an excess profits tax on banks if interest rates on deposits for individual customers will not be increased.

Such announcements, in combination with the legislation passed so far, will surely put pressure on increasing margins on all banking products, including those related to investment and business lending.

CONCLUSIONS

All the present market circumstances represent opportunities for foreign investment financing institutions to increase their market share in Poland. They can offer much more favorable financing conditions than banks in Poland which are seeing their profits tumble. There are many opportunities to finance major projects in Poland including large construction investments in commercial real estate, including the warehouse and office markets, where already lending institutions from Austria, Germany and Scandinavia are present.