Future Finance Summit – The Warsaw Finance Week

Opening remarks – Jacek Jastrzebski, Chair of the Board of the Polish Financial Supervision Authority

Good morning, Ladies and Gentlemen,

First of all, I would like to thank Paweł Widawski and the entire Future Finance Poland Team for having me here and for giving me this opportunity to share my thoughts with you.

As the Polish Financial Supervision Authority, we have been supporting the Future Finance Poland project from its inception. Today we are proud and happy to see this initiative flourish and attract attention from such an impressive group of distinguished guests and participants, including opinion leaders from the financial market and beyond.

I would like to congratulate Paweł and his Team on this.

Introduction

The foundational idea behind Future Finance Poland was to make Poland a leading financial centre of the future. We all know, it takes a lot to build a globally recognized financial centre, able to attract capital, investors, issuers, technology and talent.

I believe that the quality of financial supervision is a key element of the environment required for a success of a financial centre. The predictability of the supervisor, the trust and authority that supervisor enjoy within the financial community are absolutely vital to the safe, smooth and efficient operation of the financial market – and therefore also for its competitiveness.

And we all know that in the current state of play – taking into account various efforts taken or planned at the European level, but also other global developments – competitivity has become the name of the game.

Therefore, and against this background, let me offer some remarks from the perspective of the Polish financial supervision.

Contexts

Financial supervisors do not operate in a vacuum – they must consider various contexts in which they operate.

In this spirit, I would like to begin by highlighting the most important aspects of the landscape in which the Polish financial market, along with its supervisors, currently operates.

1. Without any doubts, Poland is a European growth champion. Poland's economic rise has been among the world's most extraordinary ones. For instance, in 1991, Poland's GDP per capita was two and a half times lower than that of Greece and Portugal, yet recently, we have surpassed both countries. Poland is not yet as rich as Germany, France or the Great Britain, however, we are approaching Spain.

   Among various reasons for such a strong growth momentum the joining of the EU is one of the most important ones. According to a study prepared by the Polish Economic Institute, Poland's GDP per capita in 2022 was 40% higher than in the alternative scenario of no EU accession. This means that the average annual growth of GDP per capita between 2004 and 2022 was 4.2%, 1.7 pp higher than if Poland had sought to develop outside the EU. If Poland had remained outside the EU, our standard of living, as measured by GDP per capita, would have remained at 2014 and 2015 levels[1].

These figures clearly show that among various reasons for such a strong growth momentum, Poland's EU accession and EU integration is one of the most important ones.

This has to be fully acknowledged and borne in mind while discussing unionwide strategies and policies aimed at ensuring a better operation of the common market. This is the first context of my speech today and one of the key contexts of our discussion.

2. Moving on to the second context, Poland's strong economic growth in recent decades was highly balanced and even the pandemic recession was relatively small. The success of the Polish economy was possible due to its strong institutional base, including financial supervision. The proper functioning of its financial market, made possible by a strong and efficient supervision, can be treated as a necessary condition for Polish economic success. This applies both to the past and to the future.

   This is the second context. We need to embrace new opportunities but also appreciate and preserve the heritage of past decades, in particular in the field of our strong and innovative banking sector.

3. Finally, there is a third context. While celebrating the economic success of Poland, an obvious question appears: how to sustain such a strong growth path, especially when the good-old engines of growth are no longer active and hardly available in the future.

   For years the difference between the median real wage growth in Poland and labour productivity growth was the highest among the OECD countries (the so-called low wage growth model)[2] and it is no longer the case.

   Moreover, Poland is now in a strong demographic decline with shrinking working age population.

   Thus, what we need is a substitution of labour by capital. A higher level of investment is a must. It is a must also because we cannot sustain such a high level of growth of the export to GDP ratio. This is the third context, which brings me also to the current European debate.

Current European debate and the Polish financial market

Here I would like to offer some remarks regarding the Mario Draghi report.

In the context of what I have just said, we fully endorse M. Draghi's call for more investments and innovations.

[1] https://pie.net.pl/wp-content/uploads/2024/04/The-Big-Bang-Enlargement_20-years-of-Central-Europes-membership-in-the-EU.pdf

[2] Such a difference is called as wage-productivity decoupling, see., e.g., OECD study about it, https://www.oecd-ilibrary.org/docserver/eco_outlook-v2018-2-3-en.pdf?expires=1730898562&id=id&accname=guest&checksum=6C5D97E82A32986C23E8255F7337E872

Mario Draghi's call for investments and innovations is also one of the contexts in which we should have a new look at the structure of the financial market. In Poland we have a strong banking sector but relatively less developed capital market.

According to our data, a share of cash and deposits in household financial assets in Poland is among the highest in the EU. We should work on the solutions redirecting and channelling these funds into the capital market.

As I mentioned before, the Polish financial market – including the banking sector and the capital market – has been successful in supporting the growth of the Polish economy. After the economic transformation Poland has developed a robust and very innovative banking industry. Both the business and the general public in Poland heavily rely on bank financing and bank products in meeting their economic and personal goals. Bank financing proved to be an efficient and stable source of finance for the Polish economy. Poland has also developed an impressively innovative payment environment, with Blik being a flagship project here. Another success story is our capacity in the field of cybersecurity, where we are able to successfully build upon the competence, talent and motivation of Polish experts.

Nowadays we see that particularly the Polish capital market needs to develop further and faster in order to meet our current ambitions and the current needs of the Polish economy.

We want to embrace the opportunities related to the development of capital markets, while retaining the benefit of a strong banking sector which is also part of the heritage we have built in Poland over the last three decades.

Having said that, I would like to highlight that our views related to the need to develop capital markets are vastly in-line with the diagnoses provided for in the recent European reports, mostly the Letta and the Draghi reports. We share the view that European capital markets deserve attention and possibly, in some areas, a redefinition of the approach. We also agree that we should together reflect on the over-reliance on bank financing.

As for now, I am leaving aside certain institutional proposals which – in my opinion – do not necessarily respond to the most relevant structural deficiencies of European capital markets or to the major inhibitors of their development. Instead, let me mention certain key aspects and directions of future actions that have been identified at European level and which seem particular relevant for the Polish capital markets.

A key area of our focus and action should be the scaling up of long term capital market savings and investment from the general public – be it in the form of stock market based retirement schemes of through other instruments, including direct stock market participation. The Polish employee capital programme – the PPK – can be viewed as successful model of such initiatives and a solid conceptual base for further developments.

I believe the development and scaling up of long term capital markets product is not only crucial because it may unlock the potential of household savings – and channel significant funds to the capital markets and make them work better for the economy. It is also necessary to protect the long-term economic situation of today's younger generations, against the backdrop of the demographic situation.

Of course, there are several conditions which are necessary to attract interest investors and making them willing to invest in the capital markets in the long term.

The obvious first condition is about attractive rate of returns. This requires a sufficient number of quality issuers being willing to collect capital in the Polish stock market. Together with the Warsaw Stock Exchange and the Polish investment firms we are currently working on potential ways to attract more quality issuers to file their prospectuses with the PFSA. I will not delve into more details now, but you can expect us to revert to the market on that when the time comes.

The second key condition, is trust in the fair operation in the market. This is why an efficient enforcement process is so crucial for the capital markets. It is a core element of our activity and we commit significant resources to strengthen our enforcement capacity. We also come up with innovative legal instruments allowing for a swifter and more efficient administrative response.

However, it is also important that professional market participants – investment firms, asset managers – are able to identify and eliminate the "black sheep" whose fraudulent or abusive practices, if not reacted to by the financial community, ruin the reputation of entire markets and destroy the public trust in them.

Since I touched the topic of trust, let me conclude this part of my remarks by saying that trust – between investors and issuers, between the owners of the funds and those who manage or invest the funds on their behalf, and ultimately: between the market participants and the public authorities responsible for the market – is the foundation of financial markets.

Without trust there will be neither long term investments nor deregulation. It is lack of trust that leads to overregulation, increases compliance costs and transaction costs and hinders competitiveness. If we are not able to establish and maintain trust it will be extremely difficult to break the vicious circle of overregulation and inefficiency.

Conclusion

I will be moving to the conclusions of my remarks now. Apart from the fields that I mentioned, there are many other areas of our focus that cross the borders of traditional sectors of the financial markets, in particular banking and capital markets.

However, as financial supervisors, we have to keep in mind that further integration and growing interdependence between the banking industry and capital markets may create a risk of faster propagation of crises and their transfer between these sectors. It may also bring risks that have not been identified yet, the famous "unknown unknowns".

We are aware of this, but we are also aware of the benefits of this stronger integration of the financial market both for the market itself and for the entire economy.

As modern supervisors we have to embrace these challenges. We know that every opportunity and every innovation comes at a price – also a price of risk. But we also understand that it is our responsibility and our obligation towards the financial market and the entire economy to have – and if necessary: build – the competences and tools that are required to assess and manage these risks, including new risks.

And I will conclude by assuring you that we, as the Polish Financial Supervision Authority, are prepared and willing to stand by these commitments vis-à-vis the financial market.

Thank you very much.