

SYSTEMS RESEARCH INSTITUTE
POLISH ACADEMY OF SCIENCES

INTERNATIONAL INSTITUTE FOR APPLIED SYSTEMS ANALYSIS

CONTRACTED STUDY AGREEMENT REG /POL/1

**"CONCEPTS AND TOOLS FOR STRATEGIC REGIONAL
SOCIO-ECONOMIC CHANGE POLICY"**

STUDY REPORT

PART 1

BACKGROUND METHODOLOGIES

**COORDINATOR, IIASA: A. KOCHETKOV
COORDINATOR, SRI PAS: A. STRASZAK**

ZTS/ZPZC/ZTSW 1-36/85

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Consisting of 3 Parts

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VI. A BRIEF DESCRIPTION OF THE POLISH BANKING SYSTEM

by Małgorzata Lewandowska

This study, reported as "Brief description of the Polish banking system", presents the main elements of Polish banking system, organizational structure of the National Bank of Poland and guidelines with respect to monetary and credit policy for the recent two years.

There are the following banks in Poland:

- National Bank of Poland (NBP); the central bank of the country,
- Bank for Food Economy and the co-operative banks associated with it. It is a state - cooperative bank providing financial credit services to agriculture and agricultural-food industry,
- Bank Handlowy in Warsaw SA and Bank Polska Kasa Opieki SA are joint stock companies whose operations are based on the Banking Law (1982) and the Commercial Code of 1934. The main tasks of Bank Handlowy are financing, crediting of foreign trade and of Bank PKO SA - foreign exchange services for the population.

"The basic task of the banks is to accumulate financial means, conduct credit activities and organize settlements" ¹⁾

Thus banking operations are a tool of carrying out the fundamental functions of financial policy of the socialist state.

Financial relations occurring within money operations are used to:

- regulate circulation of money,
- preserve financial equilibrium,
- control the economy with financial means and funds of economic units,
- verify correctness of economic processes and broadly influence effectiveness of economic processes.

Since 1981 the Council of Banks has been the co-ordinating and consultative body of the banks. The Council of Banks is made up of the following:

- President of NBP and his first deputy,
- presidents of the banks or first deputies appointed by them,
- representative of co-operative banks,
- representative of the Planning Commission at the Council of Ministers,

1) notes at the end of this Chapter

- representative of the Minister of Finance.

The Council of Banks adopts resolutions, presents motions to authorities and bodies of state administration or expresses opinions which are passed on to the interested organs.²⁾

The National Bank of Poland was established in 1945 and is the state issuing bank and the central credit, savings, settlement and foreign exchange institution.

NBP has a three-level organization - Main Office, provincial branch offices and operational branch offices (Fig. VI.1) The Bank's Main Office is the highest organizational unit in the hierarchy and its task is to co-ordinate the institution's entire activity with respect to its all functions as well as supervision and control over the Bank's branch offices.³⁾

An intermediate link in the process of bank management is constituted by provincial branch offices of which there are 49 and which are located in provincial capitals.

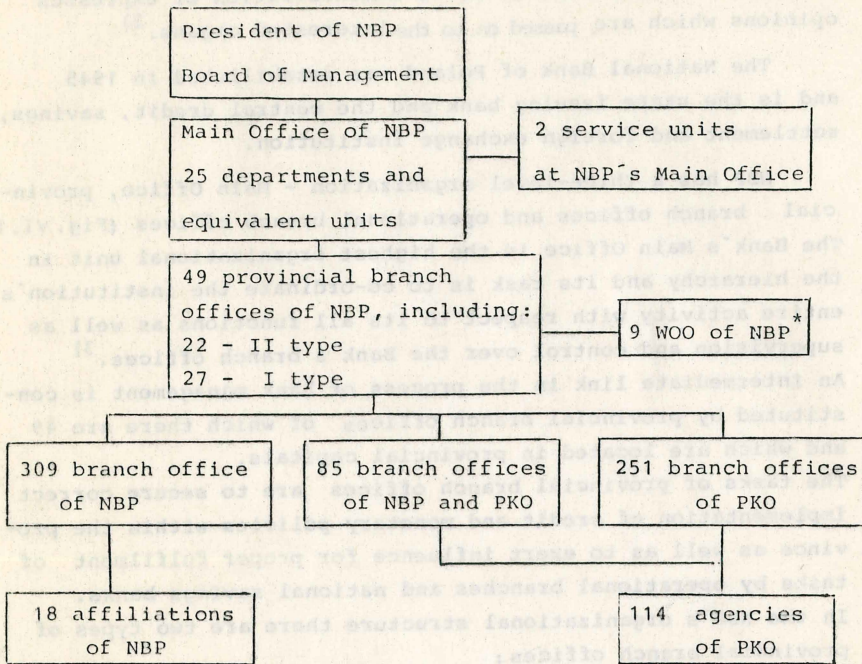
The tasks of provincial branch offices are to secure correct implementation of credit and monetary policies within the province as well as to exert influence for proper fulfilment of tasks by operational branches and national savings banks.

In the NBP's organizational structure there are two types of provincial branch offices:

- type one means that statutory tasks of the provincial branch are delegated to branch which simultaneously carries out statutory tasks of an operational branch, located in a given capital of a province,
- type two means that a branch office is separated organizationally and it carries out only statutory tasks of a provincial branch office, that is it is a supervisory office.⁴⁾

The bank's basic organizational units are operational branches and national savings banks which carry out the bank's tasks in direct contact with enterprises and other units of socialized economy as well as with the population.

Fig. VI.1 General organizational structure of the National Bank of Poland



Figures valid for 1985.

WOO - Provincial Computing Centres

Source: NBP Information Bulletin, Organization and Management
Department of NBP, Warszawa 1986.

The task of national savings banks are to accept and service savings deposits, keep current account of natural persons and of units of non-socialized economy, grant credits to the population, keep current accounts of employees' relief-credit funds and funds of other types.⁵⁾

The above presented structure of the National Bank of Poland is an example of a centralized banking system existing in Poland. Presently the planned economy is not ready yet to changes in the banking system, i.e. to transformation of NBP into a bank for banks, to change the structure of the banking system and to develop a capital market. However, it is worth thinking if for implementation of a rational monetary policy with the centralized banking system it is necessary that within the organizational structure of NBP there exist provincial branch offices of type II, i.e. units of supervisory character. Securing of proper functioning of credit and monetary policies in a region and exertion of influence towards proper fulfilment of tasks by operational branches and national savings banks was earlier (before the administration reform in 1975) possible with existence of only 22 provincial branch offices. Thus it can be suggested that the present number of supervisory branches should be decreased. And it would be advisable to provide all NBP branches with computing centres which will make the bank's activities more effective.

Within the framework of economic reform the bank conducts a restrictive policy, i.e. the policy of expensive money. The basic instruments of monetary-credit policy utilized by the bank are as follows:

- credit-worthiness as a condition to grant credit,
- volume and dates of credit repayment which are differentiated depending on the needs and solvency of the enterprise,
- interest on credit and interest on the enterprise's monetary funds in banking accounts which is to favour rational utilization of funds by enterprises,
- credit plan which sets general principles on which credit may be granted.⁶⁾

To carry out the above tasks NBP's branch offices are obliged to permanently update present evaluation and anticipated credit-worthiness of enterprises.

Financial results evidenced in the last verified annual financial report of the enterprise should be the starting point to evaluation of financial effectiveness. The branch offices should evaluate as much as possible if financial results evidenced in the verified report result from effective management or from price fixing - even without violating the principles of their fixing but to the extent making it possible for the enterprise to set off the results of its mismanagement (incorrect work organization, low quality of products, waste of materials and raw materials, growth of wages unjustified by effective work). The evaluation of the foreseen financial effectiveness is a kind of prognosis. Under such circumstances the extent of its feasibility is most important for the evaluation. For this purpose NBP's branches should evaluate in particular if the enterprise:

- has secured demand for its products in the future,
- undertakes effective measures to modernize technology of production and parameters of manufactured products,
- does not abuse their rights with respect to price fixing in order to neutralize results of mismanagement, with particular regard to unjustified costs,
- utilizes the existing possibilities with respect to: lowering of costs of production, specially unit costs as well as growth of labour productivity,
- maintains proper relations between wage growth and growth of labour productivity.

When evaluating credit-worthiness of an enterprise an important role is played by comparative analysis which concerns e.g. the following indices:

- production dynamics,
- level and dynamics of profitability,
- labour productivity,
- assets productivity,
- average wages and degree of payment for labour productivity etc.

To secure the debts, the bank periodically makes an evaluation of the enterprise's assets, which aims at:

- determining of approximate value of the enterprise's liquid assets,
- comparison of value of liquid assets with the total of obligations towards the bank and other creditors.

This evaluation does not cover assets and liabilities of separate financial activities, e.g. the enterprise's benefit funds, housing activities.

The higher the share of the enterprise's fund in financing of its liquid assets, the higher the certainty that the granted credits will be repaid.⁷⁾

The bank grants credits for operational and investment activities. Enterprises contract the following types of credit with the bank to finance partly or fully the needs connected with operational activities:

- credit for permanent needs converted (9% interest),
- development credit (12%),
- seasonal credit (9%),
- credit for receivables (12%),
- payment credit (12%),
- other turnover credits (12%).⁸⁾

There is also overdue debt resulting from non-repayment by an enterprise of a credit on due dates, bearing interest of 18%. Another type of credit is an investment credit at 9% and for investments started after 1984.01.01 - 12%. There are following credits for investment financing:

- investments started at the enterprise's decisions,
- investments to be carried out by enterprises at the order of the founding body, central investments.⁹⁾

Bank grants credit for financing the enterprise's investments under the condition that its repayment length is not longer than the length of economically justified exploitation of the investment.

Percentage of bank credit in financing of the investment should not be higher than 80% and should follow from the analysis and

evaluation of the credit-worthiness of the enterprise as well as the goal and effectiveness of the investment.

As regards the investments for retaining the production or service abilities in the fields connected with:

- export,
 - economy of fuels, energy and raw materials,
 - production of deficit industrial goods destined for delivering to the market,
- percentage of bank credit in financing of the investment can be increased to 90%.

Furthermore, investments connected with the following lines are preferable:

- implementation of the scientific-technical progress,
- development of the food and agriculture complex including manufacturing of the products of agriculture, fishing and bakery,
- development of services,
- improvement of conditions of safety and hygiene of work,
- protection of the environment,
- exploitation of the stocks coming from the neglected investments.¹⁰⁾

With the economic reform there arise proper conditions for the bank to utilize works on modelling of the national economy and investment processes^{*)}, taking into account new credit regulations, to evaluate credit-worthiness of enterprises.

It should be added that effectiveness-oriented activities of the banking system will not produce the expected results for reasons independent of the bank, for instance:

- price system (which are not equilibrium prices for social reasons) which results in a very difficult situation when evaluating credit-worthiness of enterprises,
- excessively expanded and largely arbitrary system of reliefs, including a protective system expanded by founding bodies over ineffective enterprises,

^{*)} K. Cichoński, W. Wojciechowski, Draft of a model to balance credit-investment plans, IBS PAN, ZTS 20-27/84.
I. Kaliszewski, L. Słomiński, Bank as creditor. Mathematical models, IBS PAN, ZPM 16-27/PAN Program/C/84.

- arbitrariness in granting reliefs, in burdens due to wage increases, including e.g. reliefs to enterprises which have only limited credit,
- a system of obligatory brokerage in procurement which does not permit to direct the flow of raw materials and components only to enterprises with high effectiveness of management and which repay their debts on time.¹¹⁾

However, more strict criteria to evaluate credit-worthiness of enterprises set in 1984 and continued in 1985 caused that enterprises whose effectiveness of management was low and showed no prospect for improvement, were recognized as the ones with very low or lowered credit-worthiness; in relation to them regulations of the law on improvement of management in a state enterprise and on bankruptcy were applied.

At the end of 1984, out of 16,500 units credited by NBP the number of enterprises with lowered credit-worthiness was 1,108, including 458 state-owned enterprises and 650 co-operatives. Credit was refused to 7 state-owned enterprises and 90 co-operatives and in 11 enterprises the commissary management was introduced, i.e. the founding body appointed a commissioner responsible for the enterprise's activity. The other units (state-owned enterprises and co-operatives) were credited on the basis of programmes improving their economic activities, which were agreed upon with the bank.¹²⁾ At the end of 1985, the number of enterprises with lowered credit-worthiness was 730, including 250 state-owned enterprises and 480 co-operatives. Three enterprises were bankrupt and in 37 enterprises the commissary management was introduced. The other state-owned units were credited on the basis of programmes improving their economic activities, which were agreed with the bank.¹³⁾

The guidelines for credit policy for 1984 and 1985 assumed that banking credit would be less and less treated as an obligatory and automatic source of financing of economic processes, just to the contrary - that it would be an active element influencing growth of rational management by enterprises. However, the economic reality still forces the bank to grant credits not always justified from the economic point of view.

Notes

1. The Banking Law, the law of 1982.02.26. Journal of Laws No. 71/1983, item 318.
2. K. Kalicki, The Banking Sector in the Economic Reform, Main School of Planning and Statistics, 1983.
- 3,4 NBP Information Bulletin. Organization and Management Department of NBP, Warsaw 1984.
5. L. Laskowski, Tasks of the National Bank of Poland and its Organization, NBP 1977.
- 6,7 Credit Instruction No. 1/84. Crediting of Socialized Enterprises.
- 8,9 Regulation of the President of NBP 1984.12.07 on interest on credits granted by banks; on interest on funds in banking accounts of units of socialized economy.
10. Regulation No. A 2/II/86, Crediting of units of socialized economy, Warsaw 1986.
- 12 Report from realization of the credit plan and balance of monetary income and expenditures of the population in 1984, NBP, Warsaw 1985.
13. Report from realization of the credit plan and balance of monetary income and expenditures of the population in 1985, NBP, Warsaw 1986.

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STUDY REPORT

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