

## The long-term equilibrium real exchange rate – estimation for Poland

*Jan Przystupa*

In this article the real equilibrium exchange rate in 1993-I quarter of 2003 and in sub-periods 1993-1998 and 1999-I quarter of 2003 was estimated. The sub-periods were chosen in view of different exchange rate policy and, in general, monetary policy. The estimations concerned various versions of the purchasing power parity thesis and the macroeconomic balance approach worked out and developed by the International Monetary Fund. Both methods, though

quite different, give convergent results in the second sub-period. Deviations of the nominal effective exchange rate of zloty from the equilibrium exchange rate are relatively small; only between 2001-IIInd quarter of 2002 the overvaluation of the exchange rate of zloty approached 5-8%. Deviations of the exchange rate of zloty from the bilateral exchange rates (PLN/USD and EUR/USD) are higher and depend on the changes of the cross-rate EUR/USD.

## Towards the Euro-zone through the ERM II Countering Fallacies

*Adam Koronowski, Marek Rozkrut*

This paper sheds light on and, subsequently, rebuts the arguments often quoted by the opponents of the early euro-zone enlargement. In particular, the issues of overheating, structural and real convergence are touched upon. Next, the exchange rate mechanism II (ERM II) is scrutinized, with a special focus on its susceptibility to capital flows disturbances. In this part, credibility of the ERM II framework, its disciplining role and flexibility are dealt with. Moreover, adjustment mechanism of this exchange rate regime is

set against alternative options, a floating exchange rate system and a currency union in particular. Against this background the dispute over whether the ERM II should serve as a "useful framework" or merely a "waiting room" is settled, with the latter view deemed to correspond more closely with the facts. This is followed by the list of the ambiguities to be cleared up and indeed feasible amendments to this framework – the measures aimed at making the "waiting room" a more useful solution. The final section concludes.

## An Outline of the European Banking System – institutional and legal aspects.

### Basic principles underlying the functioning of credit and financial institutions in the European Union

*Piotr Zapadka, Sławomir Niemierka*

The article presents the key principles of the functioning of credit and financial institutions in the European Union. The analysis is based on the legal definitions of both institutions as included in Directive 2000/12/EC relating to the take-up and pursuit of business of credit institutions, which establishes an EU-legal framework for the internal national legislation of Member States concerning this issue.

Particular attention has been paid to fact that such institutions are entrepreneurs on the EU single market and have clearly defined company profiles which determine the range of their activities.

An important element of the EU financial market inheres in the existence of common harmonised and standardised ways of dealing between the institutions active on this market. The procedure of obtaining a licence necessary to set up a credit institution is associated with one of the main principles of the European financial market, namely with the single licence principle. The main idea underlying this

principle is that once an entity has obtained a licence in one of the member states it can conduct its business anywhere in the European Union. The single licence principle links to the mutual recognition principle. As laid down in the above Directive, the single licence principle allows credit institutions which have obtained such a licence and which respect supervision measures applied by the supervisory body issuing the licence to conduct business in any EU member state.

The article is wound up with the conclusion that the functioning of the entities active on the EU financial market is relatively stable since it is not subject to any frequent or radical modifications. It can be described as being relatively predictable, and this feature may be of particular significance for Polish entities which will become a part of this market with the accession. Its most crucial advantage is the Member States existing side by side with the common standardised legal framework which should be recognised in the legislation of all Member States.

## The Japanese banking system in the face of a banking and economic crisis

*Paulina Sotomska-Krzysztofik*

Since the beginning of the 1990s, the Japanese banking sector has been facing serious problems. The main reason for this is the poor quality of assets and the continually weakening capital position of the banks. No solution has been found so far to the problems with which the Japanese banks have been confronted over the last ten years; consequently the crisis has gradually spread to other sectors of the country's economy. The situation seems unmanageable – the poor financial condition of banks weakens the economic activities of companies, but the improvement of the situation of banks and their ability to overcome the crisis depends on an economic revival.

The study presents some of the characteristic features of Japan's economy and financial system as well as economic and regulatory actions which have been undertaken in the past and which may have been

at the root of the crisis. The article also describes actions taken by the Japanese central bank and by other financial institutions in the face of the numerous bankruptcies of major institutions as well as the development of a safety network in the banking system in reaction to the worsening economic situation and the subsequent deepening of the banking crisis.

Japanese experience concerning the management of a long-term banking crisis, such as changes in legislation, new institutional regulations and various interventional actions undertaken by the central bank, are presented in the paper in detail. Growing concern for the financial stability and security of the Japanese banking sector has also been reflected in the decisions made by the country's government, which are aimed to reduce bad debt at Japanese banks and to stimulate an economic revival.

## The influence of the changes in the structure of the Polish banking sector on its efficiency in the years 1997 – 2002 (a non-parametric approach)

*Małgorzata Pawłowska*

The article describes the outcome of the panel survey of the efficiency of the Polish banking sector in the years 1997 – 2002, carried out by means of the Data Envelopment Analysis (DEA).

The aim of the paper is to present the influence of the structural changes in the Polish banking sector upon its efficiency. The analysis is based on three criteria - technical efficiency, efficiency of scale and Malmquist Productivity Index. The above criteria have been estimated by means of the Data Envelopment Analysis (DEA). The method was developed by three Americans: A. Charnes, W. Cooper and A. Rhodes (1978). It is a deterministic method which excludes a random component and does not require a functional relation between input and output.

The research described here is the continuation of the research presented in the article published in "Bank & Credit" No 2/2003, supplemented by data for the year 2002. Additionally, the article contains a comparison of data concerning technical efficiency for Poland and for other CEC5 countries (The Czech Republic, Poland, Slovakia, Slovenia and Hungary). The analysis of the

technical efficiency in the CEC5 countries was made using data from the BankScope database.

The results of the survey carried out in years 1997 - 2002 by means of the DEA method show that mergers and take-overs have positively affected the efficiency of the banking sector. The survey reveals that the potential benefit of mergers and take-overs in 2002 did not compensate for the real-sphere influence on the banking sector, nor for the worsening quality of the credit portfolio. This latter factor resulted in a decrease in efficiency and productivity in 2002. The data on the technical efficiency of particular banks show considerable decrease in those engaged in providing credit for large companies. In banks active on the retail market the technical efficiency remained unchanged or even increased. It should be expected that the predicted economic revival should cause improvement in the banks' credit portfolios, which will have a positive effect on the technical efficiency in Poland, as compared with other CEC5 countries. Gradual consolidation on global markets will bring about structural changes in the Polish banking market, but the effects of these changes will only manifest themselves in the future.

## Electronic banking developments and the changes in the Danish banking system

*Tomasz Chojecki, Anna Matysek-Jędrych*

The authors continue their discussion about the developments of the European banking systems driven by the latest technologies used in banking services. The subject of the analysis is broadly defined electronic banking in the Danish banking system. The review of the main transformations of the system in terms of structure, features and effectiveness serves as a background for the discussion.

The authors aim to define the factors resulting from the system transformations, which account for differences between the development of the Danish and other Scandinavian banking systems. The article also examines the similarities among Nordic banking systems, particularly in the area of implementation of the latest information and communication technology solutions for banking services.

The analysis shows that despite similar schemes for development of services accessible through electronic banking and many analogies in the solutions adopted, there are considerable differences between the Finnish, Swedish and Danish systems. Undoubtedly, a common feature of the three systems is the strategy of an integrated distribution of banking services, based both on traditional and electronic distribution channels. The distinctive characteristics of the Danish banking sector are: dominant position of payment cards (debit cards in particular) in everyday transactions, continuing popularity of cheques and definitely more extensive traditional and electronic bank infrastructure.

## Controversy over methods for calculating the public sector deficit and public debt

*Malgorzata Gajda*

The article discusses the applicability of the indicators used, to date, to estimate the fiscal position of a country. It focuses on the methods used for calculating the budget deficit and public debt. The discussion covers the basic advantages and disadvantages of these indicators, as well as suggestions for their improvement in order that they may best reflect the fiscal policy currently pursued by the government, make it more transparent and, thus, more reliable. The estimation of redistribution effects of current fiscal policy on future generations is of particular importance here. In the current political situation, more transparency and future-oriented indicators could prevent governments from faking implementation of fiscal reforms which, at the moment, are necessary to forestall any future financial crisis in public funds. By incorporating adjusted indicators into their fiscal policy, governments may gain a crucial argument against the demands by certain social groups for increased budget expenditure. Proposals formulated in the discussion show the

possibility of using indicators adjusted for factors like prices, interest rates or economic conditions. The article also discusses the controversy caused by taking into account the unofficial assets and liabilities of the public sector, which have their influence on the so-called public sector net wealth. The arguments for and against the idea to distinguish, within the budget, two separate items were considered, namely the so-called current budget and the capital budget. Furthermore, the discussion covers the advantages and disadvantages of budget accounting methods which take into consideration the influence of fiscal policy upon particular generations (so-called *generational accounting*). The authors point to certain difficulties connected with attempts to improve the fiscal indicators. They also discuss the latest tendencies to confront quantitative indicators used so far with qualitative indicators which, for instance, reflect the structure of public debt or which take into account factors influencing the ability to repay public debt in the future.

## The single budgetary policy in the euro area - real vision or utopia?

*Konrad Szeląg*

With the establishment of Economic and Monetary Union, which involves the introduction of the single currency and the single monetary policy in the euro area, the recurring theme is the introduction – as a counterbalance – of a single budgetary policy across the EU (or, at least, in the euro area). This idea, though apparently natural and reasonable, proves to be a highly sensitive and controversial matter. This controversy stems from the fact that all issues related to a budget, which falls within the authority of the governments of Member States, are deemed cornerstones of national sovereignty. Hence, the implementation of the single budgetary policy flares up strong opposition, particularly in the wake of the recent relinquishment by Member States of some part of their sovereignty in terms of monetary policy. Despite those short- and medium-term difficulties with the implementation of the above-

-mentioned idea, resulting from the lack of political will in this respect, it is worth considering whether this process could (and should) be extended over a longer period. Therefore, the potential implications of the implementation of the single budgetary policy for the EU budget should be investigated. Firstly, it seems natural that in such case the Community budget would have to be considerably increased. Secondly, extension of the budget would lead to an increase in its importance and role, both on the revenue and the expenditure side. Hence these two major issues are tackled in the article:

- is broad tax harmonisation across the EU and / or the introduction of EU-wide taxes possible (and desirable)?
- what sectors and areas could be financed from the EU central budget?

## Liquidity strategies versus corporate bankruptcy forecasting

*Maciej Ryś*

The subject of the article is evaluation of the relation between the type of liquidity strategy adopted in terms of income and risk, and the value of the discriminant function  $Z_H$  applied when evaluating the probability of corporate bankruptcy. The study has been based on data from the financial reports of 55 construction and food industry companies quoted on the Warsaw Stock Exchange.

The outcome of the study can prove useful in finance management, particularly while determining the level and the internal structure of gross circulating capital. The study shows that the majority of companies adopted a moderate liquidity strategy, although many of them also opt for aggressive strategies

which boosted earnings, although at the same time undermined financial stability. According to the analyses presented in the article, companies following aggressive strategies achieve, on average, lower functional  $Z_H$  values. Therefore, they are more likely to run into financial difficulties, which may even lead to bankruptcy. On the other hand, companies pursuing more conservative liquidity strategies usually report higher functional  $Z_H$  values. The analyses show that the more aggressive the liquidity strategy, the higher the bankruptcy risk. When companies move towards more moderate or even conservative strategies, the decrease in the  $Z_H$  index is usually small, and so is the relative risk of bankruptcy.

## Customer complaints and their influence on the resilience of customer – bank relationships illustrated by that of banks and students

*Edyta Rudawska*

The effectiveness of a strategy related to building a lasting relationship between a bank and its customers largely depends on the quality of the communication between both parties. It is mainly a matter of communication in moments of crisis, for instance, when customers are dissatisfied with the quality of services offered. The bank's readiness to recognise and deal with customers' problems as well as its reaction to their complaints influences the customers' trust and loyalty and determines the bank's future market position. Hence, the need to create an effective complaint management system which should constitute an integral part of the bank's marketing policy.

By presenting selected research findings, from Poland as well as abroad, the author argues that the way of handling complaints affects the resilience the customer/bank relationship. To benefit from the situation, banks have to avoid a passive procedure in handling customers' complaints, where they are dealt with as they arise. A system should be developed in

which the whole company is involved, which would bring about an improvement in the services offered and strengthen the bank's competitiveness. One may even speak here of an organisational culture within a company, focused on creating a lasting relationship with customers, where complaints are actively gathered, analysed and handled in a systematic way. The whole company, from senior management staff and officers down to ordinary employees must have a positive attitude towards complaints and the customers who make them.

Implementation of such a system should in effect bring about lasting changes in the behaviour of the employees dealing with customers. This may be achieved through a properly designed training system and through authorising the employees to make independent decisions in certain circumstances. Although complaints by customers cannot be a source of satisfaction for a bank employee, if such complaints occur, they should be seen as an opportunity rather than a threat.

## Customer education in banks' marketing strategies

*Artur Kowalczyk*

The growing competitiveness in the modern world of finance makes it necessary to recognise education as one of the major elements in marketing communication between banks and their customers. It is of particular importance in the case of the Polish finance sector where technological innovations as well as social and economic changes are taking place very fast. Domestic financial institutions have at their disposal various tools which can be employed in educational strategies, starting from advertising media, through public relations to modern customer service points specialised in consulting services. The internet offers banks a particularly wide variety of possibilities as regards consumer education on financial market; however these possibilities have not

been fully recognised yet. Agents in our country seem rather reluctant to give up a popular and sometimes even quite successful "strategy" of lack of marketing reliability, which is, in fact, the opposite of educational philosophy. Yet, in the last few years banks have made huge progress in expanding customers' knowledge and understanding of the modern economy and technology. The methods and tools are constantly changing. More and more training initiatives are being undertaken by financial institutions. This new approach seems a necessary step for any bank to achieve success. An educated client can generate more value for a financial institution than a client lacking familiarity with the modern electronic banking environment.