Q&A

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Challenges and opportunities for Poland and the EU

What key development opportunities do you see for the Polish economy in the context of the current economic situation in the European Union?

After the transformation of 1989, Poland made a development leap, reaching a seven-fold GDP growth – the best in Europe and one of the best in the world.

After a short period of economic slowdown due to the COVID-19 pandemic, we can see the signs of economic revival. In 2024, the GDP grew by 2.9% while the forecast for 2025 is even more optimistic (3.5%). We are the leader of growth, and many investors turn to Poland, especially in the face of reshoring as European businesses need to shorten their supply chains.

Increasing the effectiveness of labour by higher expenditures on new production assets, more efficient management systems or automation of production processes are challenges of the Polish economy. Robotisation rate per 100k employees in Poland is still four-times lower than in e.g. Germany, and it grows slower than than labour costs.

Also, according to Eurostat, labour productivity in Poland has grown by 11.4% since 2019 – much above the EU average, similar to the US level. However, our starting point was lower and we have a lot of work to do.

Recently, development of infrastructural projects has also gained momentum. The investments in the Central Communication Port, high speed rail, local roads and expressway network are ahead of us. We still have to integrate less prosperous regions of Poland by developing public transport and decentralising our economic system so that development is not concentrated around the largest cities.

Our competitive edge is the educated and innovative staff whose labour cost is still lower than in Western European countries. It creates a chance to attract large foreign investments in technological projects and R&D.

Polish companies face high energy prices as our energy sector depends on fossil fuels. The construction of a nuclear power plant, tapping the potential of on-shore and off-shore wind farms and development of an electrical grid to absorb energy from households to the system – those are the investments worth every penny.

Which sectors of the EU economy have the greatest growth potential in the coming years?

Europe has a chance to regain its competitive edge and get back on the quick growth track provided that it invests in four areas. First, technological research and AI, i.e. tools that help businesses transform and accelerate production processes. The development of the European economy cannot be based on technological achievements of the USA and Asian countries.

Second, investments in modern industrialisation to shorten the supply chain and stimulate the European labour market. The European industry must be rebuilt at a more technologically advanced level. We cannot go back to the extensive production economy from the past century. It is encouraging that the European Commission (EC) and leading countries of Western Europe understand this idea.

Third, transition to net-zero – meaning not only investments in the RES but also transformation towards energy efficiency. In the face of those challenges transformation is a must – it will cut production costs due to low energy prices and help mitigate climate change risks that Europe faces every year.

And finally, the fourth, most important change in Europe is the new defence industry funding model. We have witnessed a breakthrough change of Germany relaxing debt rules to boost defence budget. The EU has also taken some actions, e.g. a loan package of EUR 150bn for member states, supporting not only arms purchases but also European companies operating in the defence sector and critical infrastructure. Those funds will boost development of many sectors in Europe. It seems that investments will remain high at least until 2030.

How can the banking sector support business development, particularly for small and medium-sized enterprises?

The banking sector in Europe is multifaceted and responds to the needs of every market segment. This is visible particularly in Poland, where the banking sector is very competitive, yet the demand for banking services keeps growing. However, the Polish banking sector is small when compared to Poland's GDP. Despite the solid PAT driven mainly by the net interest income, the banking sector's equity in 2024 accounted for 7.4% of the GDP, which is the second worst result in Europe. In the majority of the Eurozone it accounts for over 15% (in Luxembourg even 29.4%).

The recent years in Europe have been difficult due to persisting inflation caused by the war between Russia and Ukraine and growing energy prices. This triggered higher interest rates in the Eurozone, but also in Poland which still has one of the highest reference rates (5.75%).

Banks are still the most important entities financing enterprises, incl. SMEs. We know that geopolitical risks, uncertainty and high cost of funds keep the demand for loans at a relatively low level but we try to adjust our offering to every customer.

We can also play a role in boosting private investments in Europe by helping create new, safe and long-term investment products. Europeans have gathered massive resources that could help deliver those objectives. The EC works on broadening the access to such customised products (mainly pension schemes) and we want to play a part in it. Governments cannot take all the expenses, and banks have both the know-how and the potential for profit in the co-creation of such products.

What economic policy measures should be taken to enhance Poland's competitiveness in the EU and global markets?

We are in constant dialogue with the public administration and follow legislative projects of the EU. The banking sector needs clear and fair rules, while the market needs some deregulation and legal stability to develop quicker and unleash the potential of many businesses.

We opt for introducing state guarantees for green loans. This will reduce their risk and cost of funding. Such mechanisms have been applied in some EU member states, also for other products, e.g. mortgage loans for families and strategic investments in the defence sector.

Investment incentives by the state will boost investment lending in Poland, which is currently too low. This is specific for the Polish sector – entrepreneurs have high cash resources, and the banking sector experiences excess liquidity, but an uncertain situation discourages indebtedness. The change of that sentiment could help Poland join the most developed countries already in the next decade.

Do the current banking regulations in the EU facilitate investment and economic growth, or do they require adjustments to better support entrepreneurship and innovation?

We can see pros and cons of the EU regulations. We opt for completing the capital and banking union to facilitate the exchange of funds within the EU and popularise banking services even more. This is undoubtedly the right step of the EC. We also look forward to deregulation announced by the EU in the current term of office of 2024-2029 (e.g. ESG reporting simplification, Omnibus). The business has waited for it for many years, and Santander Group also advocated for increasing competitiveness.

Some areas are overregulated, making it more difficult for the sector to operate, which affects financing of the economy. After the financial crisis of 2008 no one challenged capital requirements introduced to prevent the risk. Today, however, Basel III has been controversial because it imposes more and more excessive requirements onto banks.

In our opinion some regulations trigger the cost for banks without any benefits for customers, as in the case of a poorly designed banking tax in Poland that is based on assets and discourages lending.

We can also see that more efforts have been made to protect consumer rights, which is good as long as it does not imbalance liabilities of the parties to the agreement. We are concerned about the PSR and PSD3 that may lead to the bank's excessive liability for unauthorised transactions made at the customer's fault. We also oppose the actions of law firms challenging the reliability of WIBOR before Polish courts.