



## Marta Kightley

First Deputy Governor - Narodowy Bank Polski

### Speech

Ladies and gentlemen, it is my pleasure to welcome you to the last day of the Eurofi seminar, which has already inspired a lot of discussions behind the scenes.

Yesterday, the concept of savings and investments union was on the agenda. It goes without saying that we need to reinforce the capital market as a pillar of the financial system in Europe, which is complementary to banks. The ample savings of our citizens should be channelled in the most efficient way to finance the economy, including innovations, the energy sector, and last but not least, the European defence industry. In this journey, we should be ambitious and optimistic, but also realistic and pragmatic.

Today, I would like to look at the savings and investments union through the lens of Poland, a country highly dependent on banks, where the capital market is relatively small. Please take a note that these are my own views rather than the official views of Narodowy Bank Polski. To begin with, I will say a few words on the European financial landscape. When designing the savings and investments union, we should recognise the structural differences among Member States. Countries vary by the level of citizens' wealth and by the size and development of their financial sectors.

The level of household wealth is, in my opinion, one of the most important factors determining the prospects of capital market development. The wealthier we

are, the more opportunities we have to diversify our financial assets and the more prone we are to take riskier investments. In the same vein, households with a low level of savings use them for current needs. For them, cash and a bank account are the most convenient, liquid and secure form of asset allocation.

This brings me to the second difference, that the size of financial systems in the EU Member States is very diverse. While the average level of financial system assets in the eurozone is almost five times its GDP, in Poland, Czechia and Hungary it hovers around 120 to 160% of GDP. There is no doubt that the benefits of the savings and investments union may be most obvious in the largest EU financial centres. Economies with smaller dependence on the capital market will have a larger gap to close and may see fewer advantages in the short run. However, all Member States should be mindful of the benefits that would spill over to all jurisdictions. The investments in the EU would be higher and thus so would be the economic growth of the union and individual Member States.

The current diversity will probably affect the level of enthusiasm and backing of individual countries for the savings and investment project. Thus, it should be acknowledged and duly addressed during the implementation process to ensure desired support of Member States.

Ladies and gentlemen, having discussed the European

landscape, let me now focus on Poland through the lens of the previously mentioned structural preconditions. I would also like to mention some positive experiences with capital market development in Poland. We are definitely not a financial centre. The shortcomings of the European financial market, identified in the Draghi and the Letta reports, are clearly visible in Poland and even as through a magnifying glass. The financial assets of Polish households comprise 90% of GDP compared with more than 200% in the EU as a whole and reaching as much as 365% in Denmark, for instance. Almost 52% of household financial assets are kept in cash or bank deposits. The EU average is 31%, when as previously mentioned, in Denmark it is 13%. Also the Polish financial system is not large. Its assets are around 120% of GDP.

Banks dominate in Poland, covering almost 75% of financial sector assets, but the loans to deposit ratio is only about 65%. The volume of loans to the non-financial sector amounts to 33% of GDP, of which for corporations it is just 11% of GDP. Such an overhang of savings in the form of deposits might be used more effectively for the benefit of the real economy. However, this would require stronger demand for corporate credit as enterprises, especially small and medium-sized enterprises (SMEs), finance their investments and working capital mainly from retained profits. Weak demand for external funding suggests that we need to encourage enterprises to use

leverage to boost their economic potential. The equity market is also relatively small, even if it is the largest in our region, with 768 companies listed. The capitalisation of the Warsaw Stock Exchange reaches 40% of GDP. Despite a relatively small financial system, Poland has well developed market infrastructure. We have built our domestic central securities depository and the central clearing counterparty (CCP) from scratch.

Ladies and gentlemen, against this backdrop of the Polish financial landscape, let me share with you my initial views on some of the savings and investments union proposals. I will present them through three dimensions, the supply of capital, demand for capital and infrastructure of the capital market and supervision.

Let me start with the supply of capital, about which I will cover four topics.

The first topic concerns the idea of enhancing the harmonised framework for securitisation. It seems to be needed and beneficial, particularly to the largest banks and markets experiencing capital constraints. In Poland, the development of securitisation is not essential to improve supply of financing, as banks are very well capitalised and have ample deposits. Nevertheless, development of responsible securitisation in Europe will help to finance the real economy across the continent. In the long run, it may also be beneficial for Poland, especially when demand for external financing gradually arises in the future.

The second topic concerns tax incentives to invigorate the supply of long term savings. Again, the effectiveness of this measure will mostly depend on household wealth in a given jurisdiction, but financial incentives for longer term investment should also be contemplated. Having said that, let me share Poland's positive experience. Many years ago we already introduced some tax incentives to foster investment in private pension savings schemes, and that policy proved

to be effective. Even if the size of the savings is still not large, the private pillar of the pension system in Poland is gaining in importance.

Tax incentives do not work without supply of long-term savings and pension products. Easy access to long-term investment and pension instruments, which are simple to understand and cheap, is crucial to encourage EU citizens to invest in the capital market. Our experience with these types of savings programs in Poland proves that automatic enrolment is the most effective mechanism. For example, five years ago we introduced the employee capital plans. They accumulated 30% of all voluntary retirement savings, with the participation of over 30% of the eligible labour force.

Third, I have also mentioned that investing in various instruments must not be expensive. The long term rate of return received by individual investors depends significantly on the price they pay to financial intermediaries. Here we have much to do, as the average cost of retail investment funds in the EU is higher than in the US, approximately even by 60%. We need to implement carrots and sticks for intermediaries to reduce their fees. Polish asset management companies are very, very profitable. The return on equity in 2024 amounted to 43%. In Poland, we have taken measures to reduce the management fees, but it is clearly not enough.

Finally, on the EU level, the savings and investments unions should address the cross border diversity and complexity of tax regimes, as well as corporate and insolvency laws, as they impede the free flow of funds across jurisdictions. One example is harmonisation of the calculation and payment of capital gains taxes, regardless of whether the origin of profits is domestic or foreign. Also, the diversity of civil codes and corporate laws makes it difficult to understand how much of the investment could be reclaimed in the case of issuer's default. The harmonisation of law across the EU is in the interest of

all Member States, regardless of their wealth.

Let me move to the demand for capital. As I mentioned, Polish enterprises do not rely much on external funding. Their propensity to use equity and debt instruments is tiny. That means that we lack demand for capital.

The savings and investments union advocates for easy access to the capital market for SMEs and startups, but the question is how to do this. The EU regulations already provide for simplified requirements and procedures for SMEs entering the capital market. In Poland, the dedicated floor for SMEs has existed on the stock exchange for years, but activity on this market is small. It may suggest that the SMEs sector needs to be nudged to make use of the market financing. One such incentive could be to limit tax preferences for debt versus equity, or even to treat dividends paid to shareholders as a tax deductible cost, as it is the case with interest on debt.

The final dimension on my views of the savings and investments union is market infrastructure and supervision. If we want to have a single capital market in the EU, we need to eliminate barriers for cross border trading and post trading infrastructure. The existing 28 central securities depositories and 14 CCPs seem to be too much for one single capital market. However, the complete consolidation of market infrastructure could also entail some risks. Securities depositories and CCPs are systemically important. Their merger into a single EU entity could bring risks related to concentration. Especially, cyber risks should be mentioned here. The current inefficiencies related to the multiplicity of post trade infrastructure entities could be solved, as noted in the Commission communication, by enhancing the interoperability, interconnection and efficiency of EU trading and post trading infrastructures.

We should also be pragmatic and take into consideration the fact that consolidation would limit

the role of local stock exchanges and infrastructure. Many Member States, including Poland, created stock markets from the ground up during the political and economic transformation, and the local capital market is an important symbol of their economic success. That is why I would suggest leaving consolidation to market forces. Regulatory incentives and – at least – the lack of supervisory obstacles could be helpful. In Europe we already have a very good example of bottom up consolidation in the case of Euronext. Some kind of close cooperation among local stock exchanges may also be a solution.

Lastly, let me refer to supervision. Harmonisation, as proposed in the European Commission communication, would indeed be a step in the right direction. The equal supervisory treatment of financial institutions, irrespective of their nationality, will create a European level playing field. It will help to avoid both regulatory arbitrage and gold plating. The convergence of regulatory and supervisory practices will also contribute to the removal of barriers for a bottom up consolidation of markets across borders, including stock markets. As a result, the elimination of excessive requirements may bring benefits of scale and synergies, like reduction of transaction costs and better access to investment products.

I agree with the view that harmonisation does not require a single supervisor and can, in principle, be achieved for a true convergence of national supervisory practices. Such an approach to supervision reform in the EU will be better perceived by most Member States. The efficient framework may assume harmonised and shared supervision where a central body and local supervision entities are involved.

Ladies and gentlemen, let me conclude. I have mentioned the differences among EU Member States, but I do not want to raise concerns about the savings and investments union's successful implementation. Quite to the

contrary, I strongly believe that Europe is ready for mobilisation and determined to complete this project. We must increase the competitiveness of our economy for the benefit of all citizens. As market conditions in our countries differ, we should use different tools and incentives to gain the trust and support of all Member States. To this end, we should start with activating market led forces using a variety of incentives. The best approach is to give a due role for Member States led actions, as it was indicated in the Commission communication.

Finally, let me repeat what I said in the beginning, that optimism is as much needed as pragmatism. The savings and investments union will certainly substantially increase the role of the capital market, and it is our goal. However, Europe will remain dependent on banks, and to this end, simplification of rules and requirements will be needed in the banking industry as well. While planning for the savings and investments union, let us keep in mind that our capital and banking markets should be reinforced in tandem. Thank you very much.