

INTEGRATION OF FINANCIAL MARKETS IN EUROPE: POLAND'S ATTITUDE TOWARDS LISBON STRATEGY

Krystyna Brzozowska
University of Agriculture in Szczecin

Introduction

In the last decade the European Union (EU) has made a progress in a number of spheres, but, like the rest of the world, is standing in front of changes related to globalisation and the tasks of creating a new, knowledge- based economy. Work on creating the regulatory framework needed to achieve integrated financial markets must be accelerated to reduce a cost of capital, create jobs and to enable citizens and businesses to reap the full benefits of the Euro zone.

The problems of European financial markets integration are inserted in special EU document called Lisbon strategy. The main assumption of Lisbon strategy is an implementation of adjusted regulations of single European financial market in each member state.

The aim of the paper is to present a preparation of Polish financial market to EU regulations according to Lisbon strategy provisions of single financial market.

In a first part of a paper a brief description of Lisbon strategy and Financial Services Action Plan is presented. Next the main issues of Lamfalussy report regarding to financial markets integration, as important part of EU financial reforms, are portrayed. The main part of an article is a comparison of Polish financial market regulations to necessary changes according to Lisbon strategy rules.

Lisbon strategy

On March 2000 in a summit meeting of European Council in Lisbon the strategic goal for the EU next decade was setting. The goal, also called as Lisbon strategy, has been defined as *"to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and more better jobs and greater social cohesion"* (Presidency Conclusions. Lisbon European Council, 2000). In 2001 during the Göteborg summit it was added the next general goal connecting to environmental policy.

After these changes the Lisbon strategy is focused on seven detailed areas (Presidency Conclusions 2002):

1. co-ordination of economic policies,
2. sustainable development, liberalisation and integration of markets not covered by common market, like as telecommunications, energy, services market, post services, financial services
3. a more favourable environment for entrepreneurship and competitiveness
4. reinforcing social cohesion
5. active policies towards full employment and more and better jobs

6. connecting European economies
7. a competitive economy based on knowledge.

At the moment of signing the Lisbon strategy has been seen as a dynamic and offensive, aimed to radical transformation of European economy, letting to outride the United States in the next 10 years, according to the overall strategic goal.

The Lisbon strategy is an effect of common work of member states with different local interests. So it is not a manual, but a collection of methods of action and coordination with the one overall goal. Progress with order to achieve the assumed goals is dependent on possibilities and wishes of the main actors that mean the Council of Ministers, the European Parliament, the European Commission, regulators, market participants and consumers. All the participants are responsible for identification of weaknesses at present local systems.

The Lisbon strategy tasks should be implemented in 4 stages:

1. Agreement of the common targets.
2. Transferring these targets to national and regional programmes with taking into account their specific features.
3. Adjustment the indicators of their measurement.
4. Monitoring, assessment, comparison and exchanging the best solutions.

One of the advantageous features of Lisbon Strategy is its complexity and mutual dependence of its elements. But such complexity will cause also the difficulties in their implementation. The economic goals are focused on increasing an economy dynamics with enhancement of productivity and employment, as well as a broad use of joint benefits, like as lower action costs, scale benefits, better capital allocation, and change of social policies.

Integration of European Financial Markets

Integration of financial services market is one of the priorities in the EU reforms. This objective has been reiterated at every summit meeting of EU government representatives ever since. An idea of single financial market in EU is a very crucial factor stimulating economic growth, mainly through effective capital allocation. It is consistent with the interest of each member state giving possibility of getting competitive advantage. The main goal of Lisbon strategy in context of liberalisation of the rules of financial markets, comprised in second area of necessary tasks, is to accelerate the actions leading to a full integration of European financial markets.

Discussions on financial markets liberalisation began in Cardiff Summit in 1998, The next step was a presentation of Financial Services Action Plan (FSAP) in 1999 with 4 strategic goals:

1. To establish the single wholesale capital market as the most urgent and ambitious.
2. To establish the open and safe retail market with protection of consumer's rights.

3. To establish modern prudence regulations and the system of financial market supervision.
4. To reduce differences in tax systems and corporate governance.

A single integrated financial services market means that each financial institution can provide services explicit from its seat with participant or its agenda or representatives in other member states. Supervision on financial institution is performed in domestic country. An open flow of all the financial services needs a liberalisation of capital flows.

The additional impulse in financial markets integration was a merger of 3 European stock exchanges:(in Paris, Brussels, and Amsterdam) in the beginning of 2000, and a few months later 2 others (London and Frankfurt).

Lisbon summit in 2000 confirmed too slow process of implementation of the financial markets liberalisation and FSAP, and a growing significance of capital risks markets. It was underlined that the best way to increase the value of financial systems in Europe was the integration of financial markets. There were also appointed the expert group, known as the committee of wise men with Chairman A. Lamfalussy (Lamfalussy's Committee). The Committee was responsible for report on assessment of possibilities of implementing changes in European securities markets through present regulations.

Lamfalussy Report indications

The Lamfalussy's Committee noted that the EU current regulatory framework is too slow, too rigid, complex and ill adapted. For more, existing rules and regulations are implemented differently, so in an effect it can bring some inconsistencies in the treatment of the same type of business and will cause a violation of the competitiveness and the neutrality of supervision.

The Committee of Wise Men stated that the main purposes of performing changes in EU policy are economic benefits of integrated markets; supply of equity and risk capital for small and medium entities; differences in legal systems and taxation; political, external trade and cultural barriers; priorities of the FSAP; European regulatory and supervisory structures; clearing and settlements; managing prudential implications of integrated markets; and resources and training (Final Report 2001).

The Lamfalussy Report recommended implementing proposals of changes in rules regarding to securities markets by the end 2004 using the fast truck procedures.

The realisation of each regulative targets of the Report should bring the advantages to every institution and for the EU as a whole, like as more rationale resources usage, quicker fitting decisions to a modern capital market needs, concentration the political efforts on the key political rules, giving the European regulators and their experts a formal position as advisors of European Commission, participation of European Parliament in system of monitoring and its implementing, and a greater efficiency and clear procedures of member states governments decisions.

In practice a performance of Lamfalussy report is going with considerable delays. Expert group proposed an implementation of changes in 4 approaches. The first

approach – the approval of framework principles by normal EU legislative procedures – is dependent on progress of implementing legal changes in law of 13 states accessing to the EU. A creation of single integrated financial market depends on possibilities of implementation some directives and recommendations by these states. There are some delays in it.

The second approach – the implementing detailed technical measures needed to implement the objectives pursued by the legislation – is much intensively performed.

The progress in increasing economic competitiveness is lower than expected. In the end Of 2002 31 of 42 FSAP goals were implemented and 6 of 8 priority goals for 2002 were fully implemented (Implementation Report, 2002).

Most important works under FSAP have been already implemented in a form of recommendations or directives connected to international accounting standards, open investment institutions, independence of auditors. But the most important issues related to setting the single financial market remain open. The whole FSAP has to be fully implemented by the end of 2005.

Polish financial market in view of Lisbon Strategy recommendations

Despite of serious delays in Lisbon strategy implementation Poland is interested in its success. Polish development strategy has to be more comprehensive because of much greater amount of necessary changes. In details Polish strategy must be different from Lisbon strategy, but many of Lisbon strategy assumptions were treated as an inspiration to further changes. Their realisation should create better conditions of future Polish activity in EU markets.

Poland makes efforts to prepare rules and procedures to the recommendations and directives of the EU, with these regarding financial markets, tackling with current economic and political obstacles. Entering into EU Poland has to work-out its own vision of union policy and to conduct the internal policy in a way letting to take advantages from the chances of having membership of the EU.

The undertakings regarding to development of financial markets are inserted in the government programme as 3 goals (Szomburg 2003):

1. Integration with the EU in the way of further harmonisation of the Polish capital market rules with Union directives, entering Warsaw Stock Exchange and Polish Depository of Securities into European structures, and setting the rules of their activity beneficiary to the development of the domestic capital market.
2. Presuming the pension funds potential to the privatisation of companies through open capital market, development of debt securities market, development of e-platform of bonds turnover;
3. A development of public capital market to increase possibilities of funding infrastructure projects in domestic market through pension funds, neutral and coherent tax systems, greater efficiency and co-operation of public

administration and prosecutor bodies relating to public turnover of securities criminals and more clear rules of financing local governments.

It should be underlined that financial markets area is one of the best prepared to the EU requirements in scope of regulations and creation of integrated single financial market. Polish financial institutions, for several years during implementation the new regulations have taken into account the EU recommendations and directives. A high level of regulations evolves that Polish financial market does not have any inheriting rules from the past, because of banking system transformation at the beginning of nineties and building from the roots a new base for new segments of financial markets.

Because of comprehensive nature of Lisbon strategy recommendations an assessment of Polish financial market preparation is presented in form of some highlights regarding to area of banking system, insurance sector, securities market and money laundering.

In banking system an adoption of EU regulations to domestic law has been well developed. Some acts have been amended; some new are to be implemented. Poland has received one transitory period and one exclusion. Adoption of the EU banking regulations has been reflected in amendments in Polish banking law, banking guarantee fund, mortgage debentures and mortgage banks, currency law, law about co-operative banks, their trusts, money laundering provisions, consumer loans, electronic signature, electronic payment tools, about accounting, and some others. These acts, and especially the fundamental amendment of Banking law from August 2001, have a multilevel character. Some of provision entered into life in 2003, and some will be treated as obligatory after Poland's accession to the EU. Such construction should help Polish banks in adoption manuals and internal regulations, and also new technologies.

The recommendations of European Commission regarding to banks are very detailed, and for this reason it will be very difficult to present all of them. The most important are, that after Poland's accession to the EU, according to single rule of licensing Poland will be obliged to ensure possibilities to open provision of banking services by any institution, which has a licence of other supervisory committee of member states. As well as the Polish banks will have a possibility to provide financial services on the area of the EU¹.

Worthy to mention is an amendment of deposit guarantee system, according to which guarantee sum has been increased to equivalent of Euro 22.5 thousand, and public funds was eliminating from Bank Guarantee Fund losing the same a form of state fund.

The regulations on banking supervision seem to be not worse than in the most EU states. They are influenced by the Basel Committee's standards. The banking supervision practise is under moderately protectionism and the banking monitoring

¹ Polish Banking Supervisory Commission will hold the supervision on the domestic banks, according to the rule of domestic supervision.

is more and more professional (Pawłowicz 2004). In general a level of Poland's preparation to requirements of the EU, represented in Lisbon strategy, should be assessed as a relatively high.

European Commission for banking supervision has recommended an introduction of a consolidated banking supervision and amendment of banking law related to the flow of information among Polish banks and their foreign parent institution and taking into account the possibility of sovereignty of supervisory actions and decisions from political influences because of Commissions statutes changes, and obligation of holder of account identification, as well as collecting information on country and transfer risks and setting standards regarding the provisioning for specified countries and exchange the information with foreign supervisors without breaching the economic interests of the Polish State (Iwanicz-Drozdowska,2003).

Some deformities of present banking market in Poland are effected from inefficient judgement system which causes additional risks in collaterals system (mortgage, lien), and delays of judicial proceeds cause that a rights of consumers, minority shareholders and employees are often illusory. More over tax system does not favour banking market stability and inclination for savings. Macro policy is now much unforeseen. So in general external factors cause that banking market becomes less attractive and much risky. But it should not be treated as a fear against European financial market integration, because a full integration should force positive changes in domestic banking system surroundings.

A special feature of Polish financial system in comparison to much developed EU countries is a significant share of foreign capital in equity of financial institutions. About 70 per cent of commercial banks assets are under control of foreign capital, and majority of domestic commercial banks are dependent from multinational holdings. Despite of unquestionable advantages, like as transfer of know-how, equity injections, or release from political pressure, there is possibility of appearing some threats, which can be mitigated through improvement of solutions in stage of creating new global financial structure and Lisbon strategy execution.

The insurance sector in Poland is in stage of development and is becoming a more important sector in the Polish economy. The pension system has been reformed and the market also expects the development of a commercial health insurance system as a consequence of reforms in the social health compensation system. The life and non life insurance markets are not developed in all lines of activity. The Insurance Supervision Committee should be in power to grant or withdraw any insurance licenses. In the aim of greater transparency the activity of Insurance Supervision Commission should be financed by levies on the insurance companies.

The Commission also recommended defining clearly and precisely the responsibility of company boards for internal controls, precise the regulations about life insurance and a full implementation of the EU directive about insurance group. It is also necessary to improve co-operation between Insurance Supervision Commission and auditors, and setting the formal provision for exchange confidential information with other domestic or international financial supervisors.

Hitherto legal regulations in insurance area which entered into life after 90, similarly as in banking system, are based on regulation models of financial markets in developed countries, especially in EU. Polish government carefulness in regulations convergence with EU legislations has evolved that present rules of insurance activity in Poland are generally agreed with them. Further regulations in obligatory scope after EU accession, should influence positively on preparation and competitiveness of Polish insurance units.

As regard to securities market in Poland, which is relatively small in comparison to other countries of similar extension and population, the regulations are in general compliant with European ones. In the main issues, like as a co-ordination of information duties, harmonisation of turnover security rules, and unification of terms of service provisioning, the Polish regulations are compliant to the EU directives and recommendations. European Commission has been recommended an increase of independence of Polish Securities Commission by reducing the presence of the government within the Commission, increasing the powers in the supervision of listed companies and exchanging information with the insurance supervisor. The most important issues are connected with provisions of mergers and investment funds in frame of consumer protection, increasing a control on standardisation of the financial reports of investment funds and information required and exchanged by Polish Securities and Exchange Commission, Warsaw Stock Exchange, The Central Table of offers and the National Depository of Securities (Draft Peer Review Report 2002).

Integration of European financial markets can bring to securities market in Poland some positive, but also negative effects, especially after euro implementing. For domestic companies and investors it will be a way of free access to bigger and much effective markets, but for domestic securities market it will be a serious threat of too extended and unadjusted infrastructure to future needs. Probably this infrastructure will need a deep restructuring after outflow of the most important companies to integrated European market to the needs of local market. But there are some doubts whether a full unification of institutional solutions in regulated market in EU will suit to development of niche securities market for services for domestic small and medium size enterprises with much difficult access to integrated market. Such market and its potential users can be different than pure public market. So there will be a necessity of creating new elastic regulations in EU level, which can ensure an institutional platform adjusted to local conditions.

Regarding to money laundering European Commission confirmed a fair preparing of Polish regulations to European rules and recommended obligatory identification the beneficiary owner and enforcing the provisions related to information exchange with foreign finance investigation units.

Conclusions

The main goal of Lisbon Strategy is to achieve economic integration in the EU. The realisation of the overall goal is delayed because for changeable market terms and

delay with implementation following tasks.

One of the key tasks of Lisbon strategy is a liberalisation and integration of financial markets. The aims of Lamfalussy reports are matching Lisbon strategy recommendations to changing terms and improve the possibilities of implementing the next tasks leading to integration. A progress with realisation of Lamfalussy report recommendations are not satisfactory, and the implementation meets many obstacles.

Poland is preparing very actively to implement recommendations and directives of Lisbon strategy. In particular, in financial markets areas Poland should participate in finish of FSAP implementation, creation of unified regulation and supervisory infrastructure, improvement of integrated financial market functioning after FSAP.

References

1. Analiza zmian w prawie polskim w związku z przystąpieniem Polski do Unii Europejskiej – Konsekwencje dla konsumentów i przedsiębiorców, Urząd Komitetu Integracji Europejskiej Warszawa 2003.
2. Biała Księga 2003. T. 4th: Liberalizacja i integracja rynku usług finansowych. PSFL, Gdańsk- Warszawa 2003.
3. Draft Peer Report on Effective Financial Services Supervision in Poland, European Commission 2002.
4. Final Report of the Committee of Wise Men on the Regulation of European Securities Markets. Brussels 2001.
5. <http://europa.eu.int>.
6. **Iwanicz- Drozdowska M.** Safety of the Polish banking sector in the European banking market in the light of new prudence regulations, IBnGR, Gdańsk 2003.
7. **Pawłowicz L.** Integration and Stability of the Financial Market in the Light of the Lisbon Strategy, Gdańsk Institute for Market Economics, Gdańsk 2004
8. Presidency Conclusions. Part 1. Barcelona European Council 15- 16 March 2002.
9. **Priinits M.** Strategy Goal of the European Union or the Lisbon Strategy, Kroon&Economy No. 3, 2003.
10. **Szomburg J.** Scenariusze dla Unii Europejskiej, Bankier 10/2003.
11. The EU Economy: 2001 Review. Charter 4. Financial Market Integration in the EU, Commission of the European Communities, Brussels 2002.
12. The EU Economy:2003 Review – Summary and main conclusions, Commission of the European Communities, Brussels 2003.

Zusammenfassung

INTEGRATION DER FINANZMÄRKTE IN EUROPA: POLENS STELLUNGNAHME ANGESICHTS LISSABONER STRATEGIE

Krystyna Brzozowska
Landwirtschaftsakademie in Szczecin

Die Europäische Union (EU) hat in den letzten zehn Jahren einen wesentlichen Fortschritt in vielen Bereichen gemacht, sie steht jedoch vor der Herausforderung, die aus der Globalisierung und aus dem Bau einer neuen wissenschaftsbezogenen Wirtschaft resultierenden Änderungen zu überwinden. Damit die gesetzten Ziele erreicht werden können, muß der Marktintegrationsprozess beschleunigt werden, insbesondere in Bezug auf europäische Finanzmärkte. Auf dem Gipfel in Lissabon im Jahre 2000 wurde die Lissaboner Strategie angenommen, wo das Hauptziel, d.h. die Bildung in Europa der Konkurrenzwirtschaft, festbestimmt wurde. Die Lissaboner Strategie ist das Ergebnis der Zusammenarbeit der EU-Mitgliedstaaten, die öfters unterschiedliche Nationalinteressen haben. Sie ist keine Handlungsvorschrift, sondern eine Aufzeichnung der Koordinationsmethoden der Handlungen mit dem angenommenen Hauptziel.

Die Integration der Finanzmärkte ist eine der Prioritäten der im Rahmen der Lissaboner Strategie durchzuführenden Reformen. Diese Priorität war eine Grundlage für die Bestimmung der im Handlungsplan gefaßten Aufgaben aus dem Bereich der finanziellen Dienstleistungen, wo 4 Einzelziele angenommen worden sind: Bildung eines einheitlichen Kapitalgroßhandelsmarktes, Vereinfachung der finanziellen Einzelhandelsmärkte, Einführung einer modernen Finanzmarktaufsicht und Verminderung der Unterschiede in Steuersystemen.

Die Verspätung in der Plandurchführung wird immer größer. 2000 ist unter der Leitung von A. Lamfalussi eine Expertengruppe gebildet worden, die einen Bericht über die Möglichkeiten der Änderungseinführung auf dem europäischen Finanzmarkt erstatten sollte. In dem Lamfalussi-Bericht ist eine ungeschickte und verlangsamte Ausführung der durch die Strategie gesetzten Ziele betont worden, und die einzelnen Hauptziele im Bereich der Änderungsdurchführung sind festbestimmt worden, das heißt die ökonomischen Vorteile der Integration der Finanzmärkte, Gewährleistung der Kapitalquellen für kleine und mittelgroße Unternehmen, Gleichmachung der juristischen und kulturellen Unterschiede, Verstärkung des Regel- und Aufsichtssystems, Vereinheitlichung der Verrechnungen, einheitliche Politik der Verwaltung der Menschkräfteressourcen.

Der polnische Finanzmarkt bereitet sich auf die Anforderungen der Lissaboner Strategie und des Lamfalussi-Berichts aktiv vor. Die mit der Finanzmarktentwicklung verbundenen Unternehmungen sind in dem Wirtschaftsprogramm der Regierung im Rahmen der 3 Ziele, die eine volle Integration der Finanzmärkte zum Zweck haben, gefaßt worden. Der

Finanzmarktbereich ist einer der in juristischen Hinsicht am besten zu den EU-Anforderungen vorbereiteten Bereiche. Der hohe Übereinstimmungsgrad der Regelungen resultiert vor allem daraus, dass man im Rahmen der Umbildung des Finanzsystems in Polen am Anfang der 90er Jahre und bei der Bildung eines neuen Systems die Richtlinien und Empfehlungen der EU als Muster angewendet hat. Im generellen kann man den Vorbereitungsgrad des polnischen Finanzmarktes: des Bank- und Versicherungssystems, der Bank- und Versicherungsaufsicht, des Börsenmarktes als relativ hoch bezeichnen.