Globalisation, regionalisation and deflationary threats in macroeconomic policy

Anna Ząbkowicz

The article focuses on the globalisation of competition on the capital market and the adjustments it forces in the economic policies of various countries. The analysis was carried out with two assumptions. Firstly, that governments compete to attract foreign capital. Secondly, that a common regional currency is the most likely way to protect economies from the destructive effects of speculative attacks and currency crises. At the same time, a common regional currency presents a significant advantage in the global struggle to attract foreign capital. It seems that accepting the challenge and reaching for the opportunities offered by capital market globalisation is synonymous with conducting the same type of unilateral macroeconomic policy, regardless of whether it is a single country or an economically integrated region. In the present situation the struggle for foreign capital narrows the choices available for a national economic policy. Having in mind the globalisation of competition on the capital market, governments have to select a policy mix which leads to lowering their domestic spending.

Private banking - an essential component of contemporary banking

Leszek Dziawgo

Private banking is an individualised and comprehensive system providing financial services for wealthy clients. Private banking is an integral part of the international banking market. This offer is being permanently improved by universal and investment banks as well as those specialising in private banking. This is due not only to the profitability of private banking, but also thanks to its relations with other sectors of banking activity. In the last few years a dynamic growth of private banking has been seen on the international financial market.

Wealthy clients require high-quality financial services because they have large financial assets and high expectations connected with their management. Financial institutions interested in providing this kind of services have to present a very carefully selected offer, high-quality services and staff, and must be able to adopt financial innovations.

The number of the wealthiest clients in the developed countries is big enough and growing fast enough to attract the attention of the banks. In 2001 the group of the wealthiest clients whose financial assets exceeded US$ 1 million was estimated at over 7 million people, their combined financial assets being over US$ 26 trillion.

Private banking is entering new financial markets depending, among other factors, on the wealth level of a given society and the development of financial markets. Private banking has also been available in Poland for some time, which can be regarded as a sign that yet another level of development in the banking sector has been reached. Nonetheless, the introduction of these services in a financial institution poses serious challenges with regard to finances, organisation and human resources. Some banks will be able to meet them. We are now examining the shaping of the Polish private banking model and the rivalry between banks which want to attract the most affluent clients.

The efficiency of the polish commercial banking sector from 1997 to 2001 as influenced by mergers and take-overs

Małgorzata Pawłowska

In connection with the spread of globalisation, liberalisation and deregulation of international financial markets as well as due to the progress of IT, the number of mergers and take-overs in the banking sector is seen to be growing. The aim of this survey is to present the influence of such events on the efficiency in the Polish banking sector, in the years 1997-2001. The efficiency measurement assumed here is technical efficiency; the returns according to the scaled and non-parametric Malmquist productivity index.

In order to examine the technical efficiency and returns to scale the author used Data Envelopment Analysis (DEA), which is a method developed in 1978 by three American scientists A. Charnes, W. Cooper and A. Rhodes. It is a determinist method, which assumes that there is no random component and which does not require functional dependence between input and output. The authors of the DEA method used the productivity concept, formulated by Debreu (1951) and Farrel (1957) which defines the productivity measure as the ratio of a single virtual output to a single virtual input. They applied it to a multidimensional situation in which there can be more than one input and more than one output.

The results of the survey reveal that mergers and take-over processes have stimulated efficiency and productivity growth in the banking sector. One of the most important conclusions of the survey is the fact that all the banks participating in these processes have significantly increased their efficiency and productivity indices. Size is the main factor which influences the efficiency of the banks analysed. Most of the efficient banks in the Polish banking sector are those which belong to a group of "very big" banks, while most of the least efficient banks are the "small" ones. The results of the analysis also demonstrate that the technical inefficiency and low returns to scale result from the still too numerous "small" banks which are unable to attain a better input to output ratio because their expenditures are too low. The results of the survey with regard to mergers and take-overs in the commercial banking sector allow the forming of a conclusion that this process should be continued and it should also include the "small" and "medium-size" banks, because there are still too many inefficient banks.

Obstacles confronted by local government bodies in the acquisition of loans. Part I

Sebastian Skuza

The possibility of local government bodies obtaining loans is legally guaranteed in all Western European countries. However, besides the European Charter of Local Government, which guarantees local governments access to capital markets, even the EU has not devised any universal principles regarding the means of local-government public borrowing and its limits. Local governments obtain loans mainly in order to carry out investment projects. This purpose is often specified as the only justification for taking short and long-term loans. Such limitation is stipulated in the laws of France, Belgium, Germany, and Luxembourg. Not all Western countries have special provisions in this respect, but there is a widely-accepted practice of long-term loans being provided mainly for investment purposes.

The financing of local government investment projects in some Western European countries is carried out through loans given by banks or government agencies which have access to "cheap" funds, for instance in the UK there is a *Public Works Loan Board*; the *Landesbank* in Germany and the French have their *Credit Local de France*.

Big cities and wealthy regions are the main issuers of municipal bonds. Contrary to the views and assumptions cherished in Poland, the role of the capital markets in financing local government bodies in Western Europe is insignificant. In spite of an obvious increase in the number of municipal bonds issued on the Euro-market, their share in the overall issue rate is quite minor. The main Euro-market players are French, German, Spanish and Italian regions and communes. In the US the municipal bonds are issued by the local administrative bodies at all levels. In the last twenty years their popularity has grown very significantly.

The establishment and collapse of the currency board in Argentina

Paulina Sotomska-Krzysztofik

The article presents a history of the currency board regime in Argentina. The country's experience gained in the 80s justified the introduction of far-reaching structural changes as well as the implementation of a radical stabilisation plan. Reforms initiated in Argentina concerned all areas of public life, including the tax system, the administration, social benefits, education and the pension system. In 1991, Argentina's monetary system was based on the currency board principle, meaning the abolition of the autonomy of monetary and foreign exchange policies in exchange for full credibility by the central bank. These steps led Argentina down a path of economic success and rapid development until the Mexico crisis revealed the vulnerability of the currency board to external shocks. Currency crisis and the crisis of the banking system of 1995 caused by the so-called "tequila effect" forced the Central Bank of Argentina to take steps to ensure liquidity and to ameliorate the consequences of foreign capital withdrawals.

However, more useful experience may be gained from the way the crisis was managed. In Argentina, the crisis resulted from a coinciding series of external disruptions (including the devaluation of the Brazilian real) that pushed the country towards long-term and deep-reaching recession. The articles describes subsequent action taken in an attempt to prevent the accelerating down-market trend, to restructure the state budget and public finance and to limit the country's increasing dependency on external sources of funds. In their efforts to support the currency board, the monetary authorities applied every possible method of crisis management, starting from the official *dollarisation* concept, through new exchange rate solutions under the existing system and limitations in withdrawing deposits to the total freezing of deposits and the suspension of foreign debt servicing at the end of 2001.

Despite all efforts, trust in the stability of the currency board continued to fall while financial markets lost confidence in the long- and short-term solvency of Argentina. As a result, January 2002 saw the abolition of the currency board system. The central bank was once more able to be in charge of autonomous monetary and foreign exchange policies, it began to act as a last resort lender, and the exchange rate of the peso was subject to devaluation.

Mass retail settlements – if and when is the time for direct debit?

Krzysztof Freliszek

The author touches upon a topic of particular and immediate interest for the banking sector, that is payments made to so-called mass creditors, i.e. telecommunication companies, power companies, cable TV operators, etc. It is estimated that the number of customer invoices mailed by these companies reach several dozen million per month. As a very special segment of the retail payment market, it is particularly attractive for institutions servicing retail settlements.

The author offers a short description of various methods used by individuals to make regular payments with particular emphasis on a new service that allows clients to pay invoices in cash while shopping in big shopping malls or fuel stations.

The article contains a short description of the banking sector policy regarding mass payment that indirectly led to the emergence of this new payment mode, competitive for banks and the Polish Postal System. In addition, development of mass payments is analysed to identify directions in the evolution of the payment system. In the second part of the article, the author provides justification of the thesis that, in the future, mass payments will be primarily made in the form of non-cash transactions, including direct debit. What remains unknown is the period needed for the establishment of similar customer behaviour in Poland to that in the western countries.

Direct debit is a form of monetary settlement specifically designed for mass payments. It is a convenient and safe solution for both the client (debtor) and the creditor. Due to a lack of adequate promotion and product recognition, it currently remains under-used by bank account holders in terms of its capacity for facilitating mass payments.

Advisability and effectiveness of capital flow controls in the context of alternative exchange rate policies

Marek Andrzej Dąbrowski

The study is devoted to the analysis of theoretical and empirical arguments put forward in the disputes about the application of the instruments to limit the free movement of capital. The importance of the issue has been growing, in particular in the discussions concerning economic policy in the emerging markets. The question as to whether it is possible to benefit from the inflow of capital whilst simultaneously reducing threats arising from it is ever-present.

The analysis has been divided into two parts. The first one considers the advisability of restricting the movement of capital, while the second focuses on the effectiveness of the instruments used to inhibit inflow and outflow of capital. Pros and cons of both problem issues were viewed in the light of Polish circumstances in order to present possible indications for the application of the capital flow controls.

The analysis leads to the important conclusion that the introduction of barriers limiting capital flows in Poland would be neither justified nor effective. Such barriers would not fulfil their purpose because sizeable foreign investments finance domestic investment projects. Such instruments fail to reduce pressure for financial appreciation. The date of Poland's accession to the EU is approaching (along with the requirement for free movement of capital and the need to determine the parity rate), and the need to reform public finance.

In turn, the ineffectiveness of capital flow controls may stem from the fact that its potential advantages (such as the reduction of already insignificant inflow of short-term capital) seem relatively modest compared to its side effects. The disadvantages of such a solution would include: a substantial growth in the cost of capital for small and medium enterprises, and administrative costs connected with the introduction and maintenance of limitations in capital flow.

The modified bootstrapping method applied to determine profitability curves

Gerard Cięciwa

Despite its obvious advantages for accounting purposes, conventional accounting methods do not work well in risk-management and the execution of transactions. The article presents a short analysis of the reasons underlying the application of such accounting methods as well as the analysis of factors that should induce their users to abandon their application in all instances where they are not required by legal regulations. According to the author, preference should be given to market methods, which in most cases necessitate the creation of profitability curves. A vast number of methods for the creation of profitability models is offered by the professional literature; however, in most cases, the models require some additional simplification or assumptions to be of practical use. Typically, certain requirements with respect to regularity (as overlapping cashflows of individual instruments) should be imposed on the data entered, but this is not often done. While some methods, based on statistical methods, do not impose such requirements, the curves they produce do not correspond fully with the market parameters and they offer only a coarse approximation in the evaluation of financial instruments.

The text gives a short review of curve creation methods accompanied by the analysis of selected problem issues in conjunction with their real-life application. In the second part of the article, a method for the creation of profitability curves derived from *bootstrapping* is presented. Although the method is not ideal for every solution, it does not cause the above-mentioned problems, since it:

- correctly reproduces the prices of instruments with required precision,
- maintains non-negative term rates (as long as negative rates are not forced out by the entry data)
- is user-friendly (calculation of discount factors is relatively easy).

Apart from the curve determining method, the article discusses two practical aspects, including the choice of instruments which serve as the entry data for the model and the mode of operation in the case that prices of the entry instruments are not available at a particular time (e.g. on a non-working day).

Stable forward rate curve in Polish money market – B-spline method approach

Eugeniusz Gurazdowski

The article describes method for using smoothing technique to estimate the term structure of interest rates in money market. We use B-spline technique, proposed earlier by many authors for term structure of interest rates in bond market, to incorporate different shapes of estimated curve. Because our main focus is to receive stable forward curve of interest rates, B-spline technique together with „roughness penalty" method, appears to be the more appropriate. Finally we show estimation results for Polish money market, indicating that above technique has ability to produce flexible and stable forward curve.

An attempt to assess equity capital costs in banks in 2002 on the basis of the CAPM model

Katarzyna Kochaniak

In the study, an attempt is made to forecast costs of equity capital in 2002 in 12 banks listed on the Warsaw Stock Exchange. The research described in the study was based on the CAPM (Capital Assets Pricing Model) with particular emphasis on the difficulties encountered in the application of the above-indicated model in the Polish economic environment. Some adjustments were needed to the planned method of estimating the model's parameters (in particular for the market risk premium). The analysis was based on the information on daily prices of the banks' shares included in the WIG index and on selected treasury securities, which form a secure alternative for equity investment. Line-regression equations were used to determine the relationship between the profitability of banks' shares and the rate of return on the stock exchange index.

Reliability of the forecast is supported by the similarity between the research findings and information provided in publications devoted to the cost of equity capital.