Poland Country Report 2014-2015

Economic and Financial Background

Table 1. Key Economic and Financial Indicators

	2014
Population (million)	38.484
GDP (EUR billion)	405.574
Real GDP growth (%)	3.4%
Inflation rate (%)	0.0%
Unemployment rate (%)	11.4%
Stock market capitalisation (EUR million)	316.260
Stock market capitalisation (% of GDP)	77.97%
Bond market capitalisation (EUR million)	128.474
Bond market capitalisation (% of GDP)	31.67%
Household financial wealth (EUR billion) = Household savings	256.55
Average per capita financial wealth (EUR)	675

In 2014, the Polish economy experienced a much higher pace of growth than in 2012 and 2013. According to the estimates of the Central Statistical Office of Poland (GUS), the real GDP growth rate is +3.3%. The higher growth rate is largely attributable to internal demand which more than offset receding international demand. Robust growth was seen in consumption by households (+3.0%) which was undoubtedly attributable to historically low inflation and gross expenditures for fixed assets (+9.4% versus +0.9% in the previous year). Last year, we observed gradual improvement on the labor market. The registered unemployment rate declined from 13.4% in December 2013 to 11.5% at the end of last year. The main contributing factor was economic recovery and, consequently, more job offers. In 2014, employers reported a demand for more than 1.9 million employees while a year before that figure stood at slightly less than 0.9 million. Employees' improving situation last year translated into a higher average salary. Last year, price changes were one of the most closely followed macroeconomic indicators in Poland. The CPI published by GUS in the first half of the year was at a historically low level (albeit still positive). On the other hand, July was the first month in which the yoy prices of goods and services in the GUS "basket" declined. The subsequent months witnessed strengthening of that trend. At the end of last year, it turned out that the prices were -1.0% lower than in December 2013. In the first half of the year, the main deflationary drivers were the prices of foodstuffs and non-alcoholic beverages, declining by -3.2%. This was largely attributable to the embargo on the exports of Polish goods to Russia. In the second half of the year, lower prices abounded on rapidly declining global crude oil prices.

In 2014, the situation on the Polish capital market varied significantly. In the best case, the Warsaw Stock Exchange indices grew by a mere few percent. In the 12-month horizon, the overall WIG index grew by a mere +0.3%. Mid cap companies performed better – the mWIG40 index rose by +4.1%. Softer market conditions affected Polish blue chips – the WIG20 index closed the year with a loss of -3.5%. On the other hand, the highest losses were incurred by low cap companies – sWIG80 plunged by some -15.6%. The main contributing factor to unfavorable growth rate consisted of events on the international political arena. The Russian and Ukrainian conflict effectively discouraged investors from investing in Polish equities. Changes in the Polish pension system also had an adverse effect.

In 2014, the value of assets under management in Polish mutual funds rose to a record level of PLN 209.1 billion (EUR 49.056 billion). The assets managed by mutual fund companies exceeded PLN 200 billion for the first time in history.

Key trends in flows and assets under management

Table 2.
Assets by Fund Type (EUR billion)

	June 2015	2014
Equity	8.427	6.973
Bond	9.346	9.362
Balanced	1.965	1.884
Money market	7.859	7.175
Other	27.208	23.660
Total	54.798	49.056

Low risk profile funds owned 2014. Clients eagerly invested their assets in them because they were looking for an interesting alternative to deposits offering low interest rates. In terms of value, the highest growth was experienced by assets of debt funds and cash and money market funds.

The value of assets in cash and money funds rose to the greatest degree.

On the other hand, assets in bond funds rose to EUR 9.362 billion at the end of December. This was +23% more than in the previous year. This brought their market share up to more than 20%. Bullish sentiment on the debt market fostered this segment’s growth.

Equity funds experienced asset constriction to the greatest extent. In 2014, it was difficult to turn a profit, especially on the domestic equity market. The broad WIG market index ended the year a mere +0.3% higher than a year before.

In the first half of 2015 the situation on the market changed. The biggest winner were equity funds whose value increased by 20%. The biggest loss was for bond funds whose assets at the end of June 2015 were a bit smaller than at the end of December 2014.

Table 3

Net sales of fund types (Euro millions)

	June 2015	2014
Equity	1,049.429	-214.462
Bond	-162.814	1,343.258
Balanced	33.835	-376.016
Money market	537.024	1,481.997
Other	697.855	440.988
Total	2,155.330	2,675.765

The net sales of investment funds confirm mentioned above tendency of 2014 and the first half of 2015. While in 2014 customers were willing to buy mostly bond and money market funds, in 2015 Polish investors decidely prefered to buy equity funds.

Regulatory Developments

- **UCITS IV**: To what extent are asset management companies in your jurisdiction making use of the "efficiency measures" introduced by UCITS IV (management company passport, cross-border mergers, master-feeder structures, etc.)? What would you see as the main obstacles to make full use of these measures?

In principle, Polish entities do not take advantage of the opportunities afforded by the "efficiency measures" introduced by UCITS IV. Above all, this is linked to the disproportionate capital of Polish entities competing with other entities on the international market and limited distribution channels abroad.

- **UCITS V**: to what extent do you expect the new depositary regime under UCITS V will impact the funds industry in your country? Do you think it may help in restoring investors' confidence? Is an increase of the depositary fees to be expected?
  The new depositary regime under UCITS V will chiefly contribute to extending the duties of custodians and increasing their operating expenses, and consequently increasing the fees they charge to mutual funds. This will rather exert a neutral impact on investor confidence in financial institutions, especially mutual funds.**ELTIF**: The ELTIFs Regulation - entering into force by mid-2015 - is aiming at establishing a fund with an EU passport to invest in long term financing projects. Do you consider that there is a potential market for ELTIFs in your jurisdiction? Are there any long-term investment funds in your jurisdiction and how do you see their evolvement given the new EU regulatory framework? In which regulatory context do you anticipate the setting up of ELTIFs at your jurisdiction, i.e. modification of existing legislation or a new regulatory framework?

  The market dedicated to ELTIFs, especially long-term corporate investments is not particularly developed in Poland. At this stage it would be difficult to estimate the popularity of these types of mutual funds, as investor awareness of these types of investment vehicles is currently just being developed. No legislative work to implement these types of investment ventures is currently pending.

- **EMIR**: What is the status of implementation of the new rules and technical standards?

The central clearing house of the National Securities Depository (KDPW CCP) is running the process of implementing the new rules and technical standards for EMIR.

- **CRAs**: IOSCO has published in June 2014 a Consultation Paper on Reducing Reliance on CRAs in asset management and is anticipated to publish its Final Guidelines within 2015. The ESAs have published a Discussion Paper in December 2014 on the use of credit agencies by financial intermediaries in order to provide their set of guidelines for the harmonised implementation of the principle of non-sole or mechanistic reliance to credit ratings (article 5a of the CRA III Regulation). In the case of asset managers, it is mentioned that no specific challenges to encourage mitigation of reliance of ratings have been identified by sectoral competent authorities. However, the Paper also refers to some national authorities that have taken action so far, either by adding/removing references to external ratings or by issuing minimum requirements and describing due diligence procedures to apply to all new investments.

  Against this background, are there any actions taken so far by your respective national authority as to the use of ratings by asset managers? Are you aware of any intention of your national authority to further deal with the implementation of non-sole or mechanistic reliance to rating agencies by asset managers and investment funds?

In the near term, the pertinent legislative work is neither pending nor planned.

- **Pensions**

➢ Have new development in the legislation of pension funds and/or pension products that are relevant to the fund industry been introduced in 2014-2015 in your country? If yes, please explain.

The amendments to the regulations concerning open-end pension funds (OFEs) took force pursuant to the Act of 6 December 2013 on amending certain acts in connection with the definition of the principles for paying pensions from the assets accumulated in open-end pension funds (Journal of Laws of 31 December 2013, Item 1717). The amendments enacted by the aforementioned act are in force as of 1 February 2014 while some regulations (including the regulation banning OFEs from advertising until 31 July 2014) took force on 15 January 2014. According to the regulations of this act, on 3 February 2014 open-end pension funds retired 51.5% of the settlement units recorded on every OFE member's account as at 31 January 2014 and on this very same day they transferred OFE assets corresponding to 51.5% of the value of the settlement units recorded on every OFE member's account as of 31 January 2014 to the Social Security Company (ZUS).

The new act bans OFE from investing in treasury bonds and debt instruments guaranteed by the State Treasury. An equity investment floor was implemented for OFEs. It is 75% until the end of 2014, 55% until the end of 2015, 35% until the end of 2016 and 15% until the end of 2017.

As a result of the amendments, the option was introduced for each OFE member to choose whether a portion of the pension contribution (2.9% of gross salary) will continue to be transferred to OFE, or whether this contribution will be transferred in its entirety solely to ZUS.

Advertising containing information on open-end pension funds and information suggesting that advertising pertains to open-end pension funds are banned as of 31 July 2014.

The fee charged to the contributions by each OFE was reduced as of February 2014. The maximum fee charged to the contributions by funds was cut from a 3.5% cap to 1.75%. The fee charged by ZUS for transferring contributions to OFE was also cut from 0.8% to 0.4%.

Investment Management Governance

- **Fund Governance Issues**

➢ Have new regulation and/or voluntary initiatives been taken in 2014-2015 in areas relating to fund governance? If yes, please explain.

Work is underway to implement the AIFMD and UCITS V Directives.

The Chamber of Fund and Asset Management has undertaken an initiative to amend the Justice Minister's regulation on the special account standards for mutual funds. A working group in the Chamber of Fund and Asset Management has prepared the pertinent proposal to amend these regulations.

- **Governance of Management Company**

➢ Have new regulation and/or voluntary initiatives been taken in 2014-2015 in areas relating to the governance of management company? If yes, please explain.

Work is underway to implement the AIFMD and UCITS V Directives.

Other Activities of the Association

In 2014 the Chamber continued efforts from previous years. One of the standing items of activity entailed organizing the Mutual Funds Forum, a trade conference of the Polish fund and asset managers community. This conference was devoted to current issues pertaining to the mutual fund market.

In 2014 the Chamber in cooperation with the Warsaw Stock Exchange organized training for teachers of secondary school teachers entitled “The Stock Exchange and Mutual Funds - Investments for All”. Moreover, the Chamber was the patron for numerous events promoting the mutual fund market. The Chamber also organized the following competitions: The Fund Prix competition for journalists and the competition for the best master’s thesis on the mutual fund market.

The Chamber of Fund and Asset Management also was the author of social analyses and research. In 2014 the Chamber prepared several studies and reports pertaining to the mutual fund market, in particular voluntary pension savings: “The impact exerted by OFE reform on third pillar savings” and “Gender and making investment decisions”. The Chamber published a quarterly newsletter targeting Chamber members and other institutions. This newsletter reports on the Chamber’s efforts and the most important events on the mutual fund market in a given quarter.

As a standing part of its reporting activities the Chamber continued to prepare regular and current reports on the mutual fund market in Poland. In 2014 a report entitled “Mutual fund market in Poland in 2013” and the 2013 Annual Report were published.

In addition, two reports are prepared every month: one concerns the assets accumulated in Polish mutual funds and the other one concerns the buy and redemption orders in a given month.