

Poland

Country Report- 2003

**Prepared for FEFSI
by Association of Fund Management Companies in Poland**

1. Economic and Financial Background

for 31.12.2003 EUR/PLN = 4,717

Table 1,

Table 1: Key Economic Indicators		
	2002	2003
Population (million)	38,632	38,191
GDP (PLN millions)	780 449*	814 969
Real GDP growth (%)	1,3	3,7
Inflation rate (%)	1,9	0,8
Unemployment rate (%)	18,7	20
Stock market capitalization (PLN millions)	110 565	167 717
Stock market capitalization (% of GDP)	13	20
Household financial wealth (PLN millions)	325 934	345 132
Average per capita financial wealth (PLN)	8 436	9 037

* After correction announced in 2003. Difference with Country Report 2002)

2003 was the first year of growing economy after a couple of couple weak years. GDP growth was 3,7% compared with 1,3% in the previous year. From quarter to quarter the growth became more visible. The growth of GDP in first quarter was equal to only 2,3% yet in last quarter it was already equal to 4,7% (the highest growth since II Q 2000). Such a massive growth resulted from the intensive growth of the export. The other components of GDP were not so significant. Domestic demand in comparison with the previous year grew about 2,3% (0,8% In 2002), the total consumption grew 2,5% (2002 = 2,8%).

The depreciation of Polish Zloty to the currency basket (caused by the trouble with State Finance) enforced by appreciation of EUR created fabulous conditions for Polish Firms exporting goods to European market.

The other factor that influenced the financial market in Poland was the transformation in the saving structure. Customers' preference shift towards other than bank's time deposit vehicles. The policy of Central Bank and permanent cutting rates process resulted in extremely low interest rates offered by banks on time deposits. Investment funds in such a situation attracted more and more clients.

Good performance offered by hybrid and equity funds made a bigger risk acceptable.

Table 2. Average weighted interest rates offered by Polish banks

	1999	2000	2001	2002	2003
Bank A vista (PLN)	7,34%	7,67%	2,43%	1,20%	0,32%
12 months bank deposits (PLN)	13,13%	15,03%	7,99%	4,56%	3,38%
12 months bank deposits (USD)	4,44%	4,83%	0,96%	1,75%	1,10%

Source: NBP

2. Key Trends in Global Market

Table 3: Net assets of the European Fund Industry (PLN mln)				
Year	Total assets under management	Of which:		
		UCITS nationally domiciled	Non-UCITS nationally domiciled	UCITS domiciled abroad and promoted by national providers
1999	3 152	3 152		
2000	7 098	7 098		
2001	12 121,4	12 121,4	No	No
2002	22 766,2	22 766,2		
2003	33 231,2	33 231,2		

Main drivers of the investment funds growth in 2003:

- Dynamic increase of bonds prices in 1H2003 and decrease in 3H.
- Appreciation of PLN versus EUR,
- Bull market on Warsaw Stock Exchange,

Tabela 4. Basic Polish market data 1999-2003

	1999	2000	2001	2002	2003
Warsaw Stock Index (WIG)	41,33%	-1,31%	-21,99%	3,19%	44,92%
Change in YTM for 5 year Treasury Bond *	1,03%	2,00%	-4,27%	-3,95%	0,93%
Change in YTM for 2 year Treasury Bond *	2,71%	2,43%	-7,20%	-4,18%	1,24%
Change of the yield for 52 weeks Treasury Bills *	3,24%	1,43%	-6,43%	-5,15%	0,28%
Change in USD / PLN rates	18,39%	-0,12%	-3,8%	-3,7%	-2,6%
Change in EUR / PLN rates	N.A.	-7,54%	-8,6%	14,1%	17,3%
GDP growth	4,10%	4,00%	1,00%	1,40%	3,70%

* -calculations based on average yields from NBP auctions

3. Key Trends in UCITS Market

Table 5.

Year	Number of UCITS	Fund Launches	Total net assets (PLN mln)	Average net assets by fund
1999	62	24	3 152,0	50,84
2000	81	19	7 098,0	87,63
2001	94	13	12 121,4	128,95
2002	114	27	22 766,2	199,7
2003	128	14	33 231,3	259,6

Table.6.

Table 4: UCITS assets by fund type (PLN mln)										
	1999		2000		2001		2002		2003	
	Net Assets	% of total	Net Assets	% of total	Net Assets	% of total	Net Assets	% of total	Net Assets	% of total
Equity	755,3	24	1 056,2	15	1 123,4	9	1 092,8	5	2 483,6	7,5
Bond	892,9	28	1 212,6	17	6 750,4	56	14 397,7	63	16 238,3	48,9
Balanced	1 225,7	39	1 545,6	22	1 811,4	15	1 581,6	7	7 755,9	23,3
Money										
Market	278,1	9	3 283,6	46	2436,0	20	3 892,2	17	5 447,9	16,4
Fund of Funds					0		37,3*		40,9*	-----
Other					0		1 801,8	8	1 305,5	3,9
Total	3 152,0	100	7 098,0	100	12 121,4	100	22 766,2	100	33 231,3	100

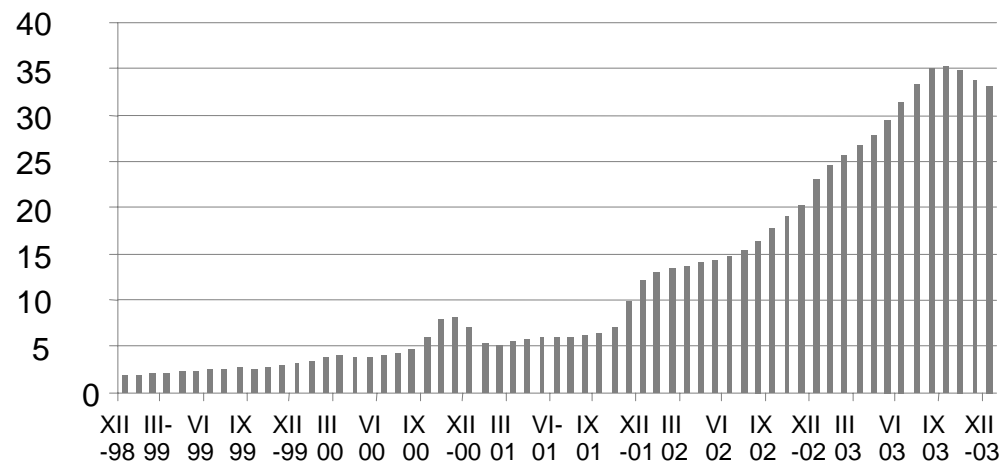
* included in Balanced

In the first half of 2003, the great popularity of „secure funds” (such as Polish State bond funds) was the main source of attracting new investors and new capital to the investment funds. The fabulous historical data on rate of return had a positive influence on investors, in comparison with the falling rate of return from bank deposits, and initiated a strong capital flow from banks to Polish debt State bond funds. Astonishing was the fact how easily the funds were sold. Yet we have observed that the level of awareness passed by the distribution network to the growing number of clients has decreased. The low level of awareness was one of the reasons, why in the second half of the year, during the strong decrease of Polish State bonds prices, there was a massive out-flow of clients and withdrawal of money from this group of funds. The disappointed clients, who were unwilling to wait for the improvement of this situation, immediately started redeeming their units and withdrawing money, that were allocated in the fund only a few weeks before.

The value of redeemed units of Polish bond funds during three consecutive months (July, August, September) was compensated with a surplus by the growing in-flow of capital to funds, that allocate at least part of their assets in equity. The popularity of “risk funds”, deriving from very good financial results of hybrid and equity funds, resulted in the fact, that even though there was a decrease in the in the funds’ asset value in October, November and December, the total asset value for the end of the year was by 1,5

bln PLN higher than the value achieved in June

Fig.. Total net assets value all funds in 1999-2003(bln PLN)



2003.

The financial results of equity and hybrid funds were achieved mainly thanks to a clear growth of value of listed on the Stock Exchange companies. The high growth, that was achieved for the first time since a long time, resulted in fabulous results of risk funds. As a result of this, a great in-flow of capital to funds related with equity was observed.

Foreign debt funds were another beneficiary of the decrease in the value of the Polish zloty (the value decreased due to taxation problems). Due to the weak PLN and proper management, the foreign debt funds achieved very good, outstanding financial results (in zloty). The financial results were an effective tool in attracting new investors to this group of funds.

Investment funds assets

The net value of assets gathered in investment funds at the end of December 2003 achieved the level of 33,2 bln PLN (7,1 bln EUR). The previous year will be presented in history as the next, very good period for investment funds. The achieved dynamics of growth of assets (+44,3% in PLN and 27,86% in EUR) places our market in one of the leading positions among other European countries. The exceeded level of 7 bln EUR of assets makes our market visible for most of the companies connected with the world trust fund market.

The value of assets gathered by Polish funds in 2003 is equal to 4,13% value of GDP. This result is 117 basis points more than at the end of 2002.

While analyzing the percentage of the net asset value of funds in the savings of households (understood as resources gathered in banks and in funds), we see that there is a continuous change in the savings structure of savings of Polish citizens. Thanks to this, investment funds are beginning to play a more and more important role in the Polish financial system.

While the liabilities of the banking sector towards households (bank deposits) for the second, consecutive year now are decreasing, the fund assets are dynamically growing. For the end of 2003, the percentage of the funds net asset value in the savings of Polish citizens (the deposits and investment funds assets together) was equal to 13,52% and was higher than at the end of 2002 by 4 percentage points.

Table 7. The share of savings in funds of Polish households assets (mln PLN)

	1999	2000	2001	2002	2003
household assets *	167 498,40	201 175,72	224 456,97	216 947,47	212 618,69
NAV of funds	3 185,70	7 015,80	12 133,90	22 773,00	33 229,29
Total	170 684,10	208 191,52	236 590,87	239 720,47	245 847,98
Fund's share	1,87%	3,37%	5,13%	9,50%	13,52%

* liabilities of financial institutions (banks) to households

According to approximate data, during last year, all investment funds gathered 8,4 bln PLN (total of in-flow and out-flow), being about 10% less capital than in the previous year.

Table 8.. Estimated in-flow of assets to investment funds, participation in NAV growth

	1999	2000	2001	2002	2003
NAV growth	1 390,20	3 830,10	5 118,10	10 639,10	10 456,29
estimated in-flow / redemption	859,40	2 957,10	4 828,40	9 331,10	8 377,50
estimated percentage of inflow in growth	61,82%	77,21%	94,34%	87,71%	80,12%

During 2003 the trends in the changes of the fund market (as for the investment policy) were strengthened. More popular were funds with an investment policy that included involvement on the equity market. Less popular were Polish debt funds and money market funds. While comparing the data for the end of the year, we can observe very important changes in the market structure. The share of Polish debt funds in the market decreased from 67,1% (at the end of 2002) to 40,7%.

The share of hybrid funds, investing both on the Polish market and on the foreign market exceeded 23% in December 2003. The share of money market funds decreased slightly and was equal to 16,4%.

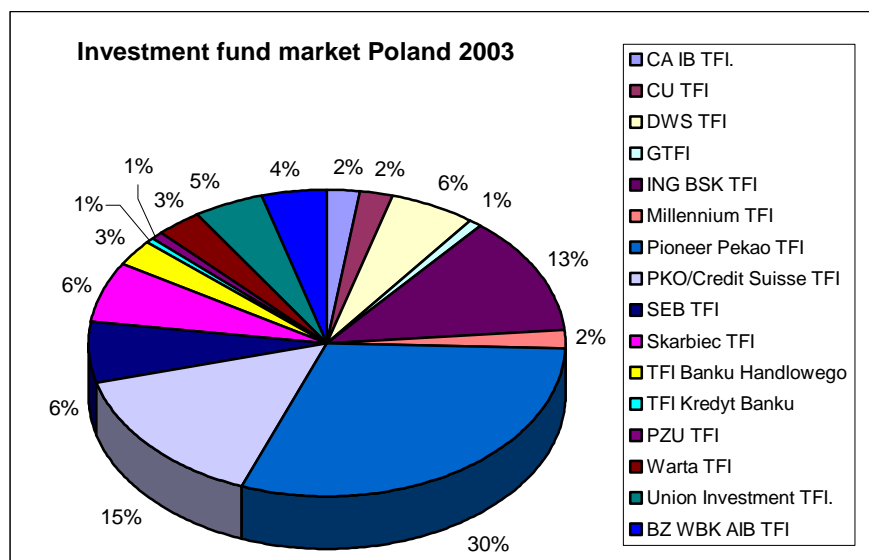
From the point of view of net asset dynamics, hybrid funds and foreign fixed income funds are the leaders as for the entire year. The hybrid funds are popular due to the pro-pension nature and their usage in systematic savings plans. The Foreign fixed income funds are an interesting alternative for foreign currency deposits offered by banks.

The only group of funds, where a negative change in the net asset value was observed in 2003 were the Polish fixed income funds. The value of decrease was equal to almost 2 bln PLN (13%).

4. Key Trends in Other Nationally Regulated Funds

5. Industry Structure

Table 9.



According to the legal regulation, only funds managed by companies based in Poland are distributed in Poland. The first three biggest fund management companies possess more than 50% of the market. The most efficient distribution channel is the retail bank network.

6. Legal & fiscal developments

6.1 UCITS III Directives

The new act on investment funds has the objective of adjusting the Polish regulations to the UCITS requirements. The Polish investment fund market was very rigorously regulated, so implementing UCITS – is a new act and not an amendment to the existing act. The UCITS regulations were very enthusiastically received by the sector. The sector sees the UCITS regulations as a chance for development and a chance for introducing new products on the market. The act was carefully prepared and consulted with the sector. In the half of 2003 it was presented to the Parliament, yet to the end of 2003 it was not passed. It is foreseen that the Act will be passed in 2004.

6.3 Other regulatory developments at national level that impact fund management

According to the new Act on VAT, managing investment funds is free of VAT tax.

6.4. New tax rules at national level

During this year, no regulations regarding taxes on funds and income from investments in funds were introduced.

7. Corporate Governance

- STFI established the Institute of Directors, an institution that deals with Corporate Governance aspects. This is the crowning achievement of the STFI leading role in activities for the Corporate Governance in Poland. For some years now, STFI undertakes activities in this area. Each year a committee of fund managers selects the best public company that operates according to Corporate Governance.

8. Product development

Until the new Act on investment funds is passed, it is very unlikely that new products will appear.

9. Standardization efforts

STFI approved the Code of good conduct on the presentation of performance records and the classification of investment funds (see our website).

10. Development in fund based pension products

In 2003 the following projects of Acts were prepared: Act on Individual Pension Accounts (IKE) and the Act on Employees Pension Plans (Amendment)

Both of these Acts have the objective to popularize investing in investment funds in order to gather resources for pension.

The Act on IKE will support the taxation incentive and encourage people to individual investing.

The Act on Employees Pension Plans should encourage employers to organize employee pension plans based on investment funds and insurance products.

The investment fund sector participated in consultations and preparation of these Acts. The Acts were presented to the Parliament in 2003 and it is foreseen that they will be passed in 2004.