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FINANCIAL SECURITY OF THE STATE – CASE OF POLAND

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**Abstract.** State security is a key issue both for the state as an entity and for its inhabitants. The economic security of the state is a particularly important component which can manifest itself on many different levels. The most important of them is financial security. This aspect of security is relevant as in modern economies money is the key value. Therefore, the financial security of the state is a component of economic security, but at the same time its key determinant. The level of financial security, which in the simplest terms is an ability to raise funds when needed, is influenced by a number of factors, the most important of which are the stability of the financial sector, the size of public debt, as well as the size and structure of the country's foreign exchange reserves. This paper attempts to analyze individual factors that affect the condition of financial security of the state. In the next part, a structural analysis of the most important aspects of the state's financial security was performed. The research showed that the state of Poland's financial security could now be assessed quite highly, but the effectiveness of all the measures taken by the government and the central bank to date would be verified in the near future through the development of the situation caused by the COVID-19 pandemic.

**Keywords:** economic security; financial security of the state.

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**JEL Classifications:** H2

**Additional disciplines:** political sciences and administration, law

## 1. Introduction

State security is an extremely important concept that plays an important role and affects basically all spheres of state functioning. However, in the literature on the subject, this concept is defined in various ways, which indicates that it is a multidimensional concept. When describing the essence of state security in the financial sphere, one should first look at the basic definition of state security and its classification. Referring to the very concept of security, it is generally defined as a state of no danger (Ściborek et. Al., 2015). When it comes to state security, it should be said that this concept is not so unambiguous (Dunaj, 2016). It is indicated that the security of the state depends on the factors that determine this security, and that it is a state determined at a given historical moment. Therefore, security is, in a sense, a dynamic concept and phenomenon that is significantly influenced by various processes, including globalization and regionalization (Paździor, Trubalska, 2018). They are also influenced by the activities of various institutions, e.g. insurers (Kaigorodova et.al., 2018). Particular importance should be paid to insurance products securing the risk of losing receivables in times of crisis in the economy (Dankiewicz, 2016) and safety regulations (Ostrowska-Dankiewicz 2019). State security can, therefore, be defined as “the actual state of internal stability and sovereignty of the state, which reflects the absence or presence of any threats” (Dworecki, 1994).

However, state security is a fairly general concept and specific areas of this security can be distinguished. From the point of view of this paper, the financial security of the state is particularly important, but to be able to understand it, first the concept of economic security should be introduced. Economic security is a state of the political and economic systems which are able to ensure the freedom of economic entities to run business, relatively low tax and bureaucratic burdens, as well as properly regulated relations of international exchange, which allow ensuring comparable conditions of competition. On the other hand, among the areas of economic security, there are such components as financial, raw materials and energy, food and technological security (Redo, Siemiątkowski, 2017).

Therefore, the financial security of the state is a component of economic security, but at the same time its key determinant. This is due to the fact that in the era of globalization, it is money that plays a relevant role in modern economies (Siemiątkowski, 2017a). The concept of financial security is a multidimensional one as it may refer to various entities and market segments. However, in its general form, it boils down to the lack of threats on the side of public finance, corporate finance or insurance. It can also be said that financial security is a process of continuous limitation and elimination of money risk in order to ensure an appropriate level of capital adequacy (Raczkowski, 2014). It is also important that financial security may be associated with the possibility of obtaining funds when they are needed (Redo et. Al., 2018). Moreover, it should be noted that the concept of financial security is inextricably linked with financial stability, therefore it can be assumed that financial stability is a kind of condition of financial security and opposite (Ciak, 2018).

In connection with the above, it is important to list the most important aspects that have the significant impact on ensuring the financial security of the state. These aspects include, in particular, the stability of the financial sector, the size of public debt, as well as the size and structure of the country's foreign exchange reserves. On the other hand, financial security institutions in Poland include the Council of Ministers, the Ministry of Finance, the Polish Financial Supervision Authority, the National Bank of Poland and the Bank Guarantee Fund (National Security Office, 2013). The connections between the financial security of enterprises and the financial security of the state should also be considered. The financial security of enterprises operating in a given country is one of the elements of the country's financial security. This relationship results from the fact that enterprises create added value, which in turn creates gross domestic product at the state level. Moreover, enterprises are among the main taxpayers, and therefore have the impact on both the state budget and the budgets of local governments (Delas et al., 2015). Therefore, in order to achieve the highest possible level of state financial security, it is necessary to prevent various types of fraud, including economic fraud on the part of enterprises (Blakytka, Ganushchak, 2018).

The aim of the paper was to define the concept and present the essence of the state's financial security, as well as to indicate the key factors that affect the state's financial security. These factors were characterized and the way in which they affect the improvement of the state's financial security or pose a threat to this security. In the next part, a structural analysis of the most important aspects of the state's financial security was carried out, including the economic situation measured by the GDP growth, the amount of public debt, the state and structure of official reserve assets, and the stability of the domestic financial system, especially due to the significant share of the banking system. On the basis of the research, an attempt to assess the current state of Poland's financial security and possible changes in the near future was made.

## **2. Factors influencing the financial security of the state**

An analysis of the literature on the subject shows that it is possible to distinguish many factors of different origins that have the significant impact on the level of financial security of the state. Appropriate shaping of these factors may contribute to the improvement of security, but on the other hand, certain disturbances and inappropriate shaping of these factors may cause threats to the sphere of the state's financial security. Due to the fact that the financial security of the state is largely dependent on the situation related to tax issues, among the factors that affect the level of this security, one can list all factors related to tax avoidance or other types of fraud. According to M. Redo's research, a threat to the financial security of the state may be the VAT gap, which in the case of Poland ranks among the highest in the European Union. The situation related to the VAT gap is important because the revenues from this tax constitute the main source of public expenditure in all European

Union countries, and thus, in some way, determine the effectiveness of economic policy, as well as stimulating economic growth and mitigating crises (Redo , 2018). Another important tax, especially in the context of Poland's financial security, is the excise tax, which in terms of share in the state budget is just behind VAT. The significance of the excise duty as a factor of Poland's financial security is so great that the fiscal efficiency of this tax is largely threatened by numerous tax frauds (Małeczka-Ziemińska, 2019). Due to the share of excise duty in the Polish budget, any problems with the collection of this levy are associated with a significant risk on the revenue side of the state budget, so they have a significant impact on its financial security.

Another factor directly related to tax collection is the level of budget arrears. The high level of the aforementioned arrears significantly reduces the revenues of the state budget and local governments, which in turn reduces the implementation of public tasks, and also reduces financial liquidity (Grzeškiewicz, 2018). The issue of paying taxes is also associated with the shadow economy. Research conducted in the literature shows that in those countries where the shadow economy is relatively large and constitutes a significant part of the overall economic activity, this phenomenon in some way limits fiscal solutions, which in turn increases the likelihood of a country's insolvency, as well as an increase in debt servicing costs. public, and thus unequivocally contributes to the decline in financial security (Szturo et. al., 2018). Therefore, the tax morality of the society has the significant impact on the financial security of the state. Although it is difficult to clearly define the impact of unethical taxpayers' attitudes on the financial security of the state, this factor cannot be ignored. Taxpayers' attitudes related to tax evasion significantly translate into a reduction in budget revenues, which in turn poses a real threat to state security (Pasternak-Malicka, 2015).

Among the factors that influence the financial security of the state, the level of reserve assets owned by the state stands out. Gold reserves are a safeguard against a state of emergency, and their main role is to protect the value of a national currency or certain commodities in international trade, should that currency become unacceptable. Currently, the level of gold reserves depends, in principle, on the country's wealth and undoubtedly constitutes an important element of the country's financial security (Płaczek, Stańczyk, 2016).

In addition, the factors ensuring the financial security of the state also include the policy pursued by the central bank, which is also an element of the financial security network (Kraś, 2013). The purpose of the functioning of the financial security network is to create conditions suitable for the safe operation of the financial system and the performance of its functions (Alińska, 2012), which is also very important in the context of building the financial security of the state, whose element is also the stability of entities operating in the financial market. The issues related to the financial security of the state are particularly important in the era of globalization, and as S. Tkalenko points out, financial security in some way illustrates the condition of the financial and credit sector, which by definition should be characterized by balance, resistance to any negative internal and external events, as well as an ability to ensure the stable functioning of the domestic economic system in the country and economic growth (Tkalenko, 2013). Moreover, the state of the country's financial security depends on the economic security of the financial sector, and the unstable and unprofitable work of financial institutions poses a real threat to state security, which is synonymous with the inability to fully satisfy the financial needs and interests of society and enterprises (Zachosova, Babina, 2018).

In the current reality, where most processes, both for enterprises and for the state, are carried out using IT networks, a security risk may also come from any breaches in cyberspace. It is pointed out that threats related to hacker attacks may have the negative impact on the state, causing a direct threat to its financial system, which in turn boils down to the situations that are also dangerous for the citizens of the state and for the public order (Frańczuk, 2014).

The notion of the state financial security is also related to its financial independence, expressed in the possibility for the government to finance all state expenses from budget revenues. However, most often in the budgets of modern states, a deficit can be observed, which means that financial autonomy is not fully achieved. On the other hand, it should be remembered that too high public debt may also cause various types of problems (Miształ, 2019). Therefore, an excessively high level of public debt may also pose a threat to the financial security of the country.

Among the factors influencing the financial security of the state, there are also such factors as the situation in the balance of payments, which is the balance of transactions concluded between residents of a given economy and external entities. That perfectly illustrates the flow of money in the economy. The balance of payments is essentially made up of four accounts, and in the context of financial security, it is not the values of individual accounts that are important, but their interrelationships, in addition to other macroeconomic parameters. However, the analysis of external debt is a key in analyzing the impact of the balance of payments on financial security. The main threat posed by such a situation is the risk of the domestic economy becoming financially dependent on external entities, which may consequently lead to a reduction in the autonomy of the national policy (Siemiątkowski, 2017b).

### 3. Research methodology

The analysis of the state's financial security was carried out using historical data obtained from the databases of the National Bank of Poland, the Ministry of Finance, Eurostat and OECD. The studies were conducted for various time periods due to the varied data availability. The purpose was to show the broadest possible time horizon so that it would be possible to identify trends and regularities taking place in the analyzed areas that affect the financial security of the state.

The study uses the method of secondary data analysis extended by a literature review, with particular emphasis on research conducted by scientific circles, whose subject was the identification and determination of the impact of various factors on the level of financial security of the country, as well as publications of such institutions as the National Bank of Poland. As part of the research, the structural analysis of the state's financial security was made, and an attempt was made to assess the current state of financial security in Poland, taking into account the socio-economic consequences associated with the prevailing COVID-19 pandemic.

### 4. Structural analysis of Poland's financial security

As mentioned earlier, the main aspects influencing the state's financial security include the stability of the financial sector, the amount of public debt, as well as the size and structure of the country's foreign exchange reserves. Therefore, in this part of the paper these factors will be analyzed in detail in order to assess the current state of the state's financial security, as well as to identify trends taking place in the area of individual factors.

The condition of state's economy and whether the economy is developing or not are crucial from the point of view of economic security, and especially the financial security of a state. One of the basic measures describing the condition of a country's economy is its GDP. Annual GDP growth values in 2009-2019 and growth forecasts for 2020-2021 are presented in figure 1.

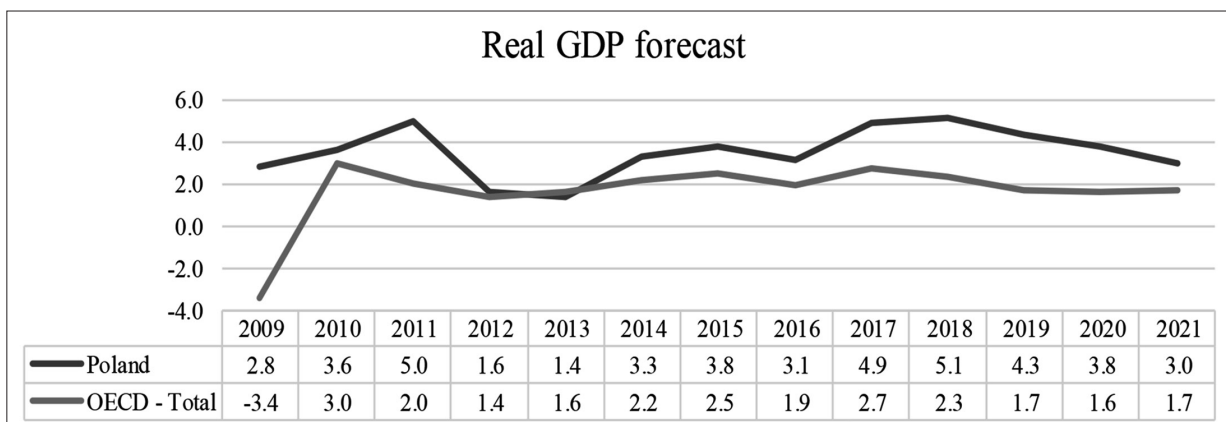


Figure 1. Real GDP growth forecast for Poland and OECD countries [in%].

Source: OECD (2020), Real GDP forecast (indicator).  
 doi: 10.1787/1f84150b-en (Accessed on 31 May 2020).

When analyzing the situation of Poland in 2009-2019, it can be seen that GDP continued to grow, as evidenced by positive values in individual years. Despite the fact that from year to year these were quite different values, it can be seen that the economy was constantly developing, which created the most positive conditions for the functioning of all entities operating in the country. Moreover, it can be seen that real GDP growth in Poland during this period was almost every year higher than the growth in all OECD countries, which can be considered a sign of a stable economic situation. However, since 2008, a downward trend can be observed in Poland, despite the fact that GDP growth was still positive. Future GDP values may already be much lower, as evidenced by the forecasts for 2020 and 2021, but in reality these results may be even worse due to the prevailing COVID-19 pandemic and the related problems on the part of enterprises and countries.

Another important indicator describing the condition of the economy is the PMI (Purchasing Managers' Index), which is designed to show the activity of managers purchasing certain goods and services in the market, so it is an index of the financial activity of market and economic entities. Moreover, it is believed that this index is a leading one of the economic situation, and therefore its development may herald future changes in GDP. The PMI values for Poland are presented in figure 2.

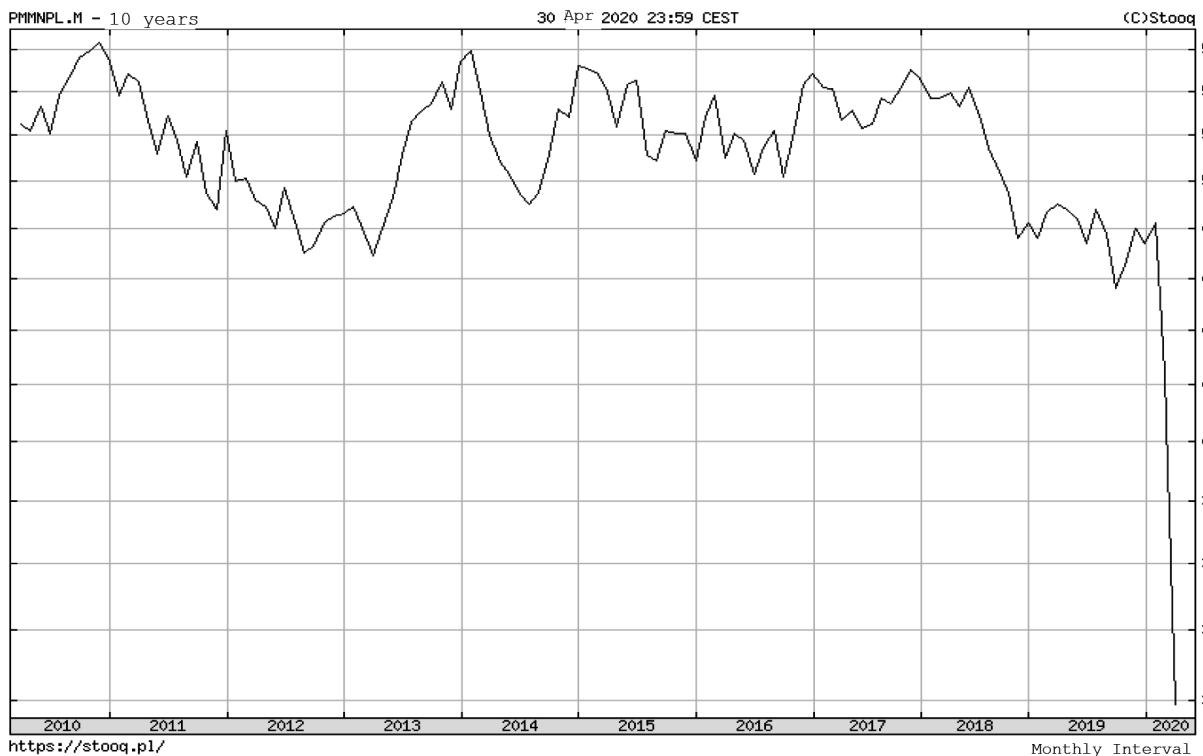


Figure 2. PMI for Poland.

Source: Generated from the stooq.pl database.

It is assumed that the value of the PMI at the level of 50 points is a neutral level, while values higher than this level indicate a good economic situation, and lower values herald negative changes in the economy, which may lead to a crisis. When analyzing the values of the aforementioned index for Poland, it can be noticed that, in principle, until mid-2018 it had (with few exceptions) values above 50 points, which indicated a favorable economic situation and a stable economic situation. Throughout 2019, the value of the index remained at a level close to 48 points, which is slightly below the neutral level. However, a very unfavorable development of the index can be observed in principle since the beginning of 2020, when it dropped drastically from 48 points to only 32 points. The reason for such behavior of the index can be undoubtedly seen in the current situation related to the COVID-19 pandemic, which has caused some perturbations in the domestic market. Referring to the fact that the PMI is a leading index of the economic situation, one should expect a significant deterioration in the economic situation in the near future, including a decline in GDP in the coming periods, and thus a deteriora-

tion in the situation of many entities operating in the market, including financial institutions and the state . The above will undoubtedly affect the level of public debt, which is one of the key factors influencing the financial security of the state. The data on the volume of public debt in Poland in 2008-2019 are presented in figure 3.

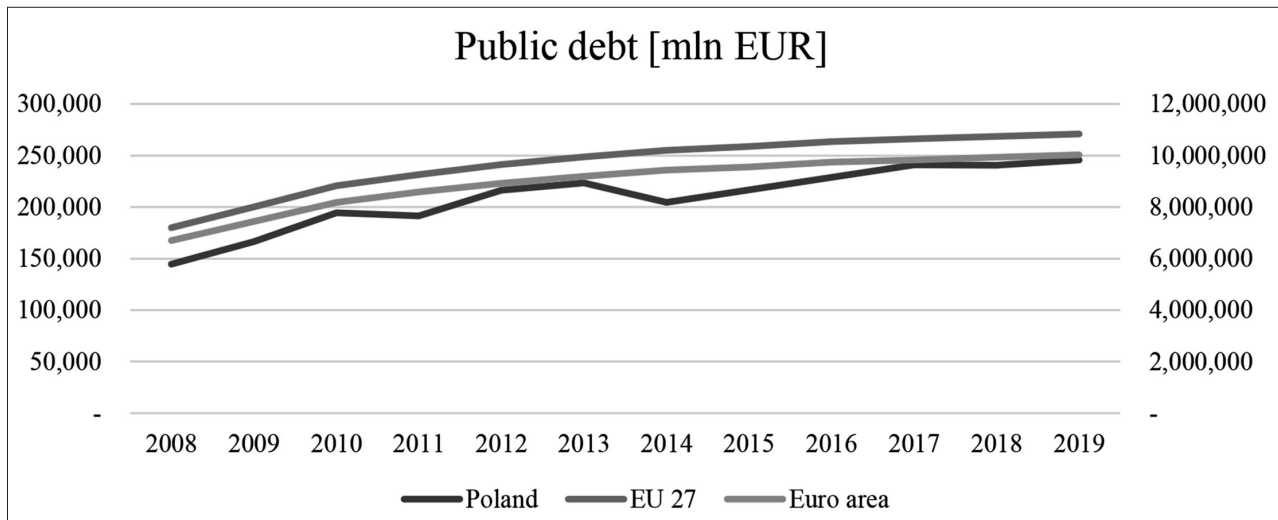


Figure 3. Public debt in the years 2008-2019 in mln EUR.

Source: Own study based on Eurostat data.

As mentioned, public debt is one of the main factors that influences the financial security of the state. When analyzing the amount of public debt in Poland, it can be noticed that this value is constantly growing and in the period from 2008 to 2019 it increased from less than EUR 150.000 million to almost EUR 250.000 million (left axis). Comparing the situation of Poland to other countries, similar trends can be seen. It turns out that public debt is growing both in individual countries and in groups of countries. The public debt of the European Union countries in 2019 was close to EUR 11.000 billion, and of the euro area countries - around EUR 10.000.000 million (the right axis).

Although the amount of public debt is constantly growing, the key factor is not its amount measured in absolute terms, but its level in relation to GDP. Public debt in Poland, the EU countries and the euro area expressed as % of GDP is presented in figure 4.

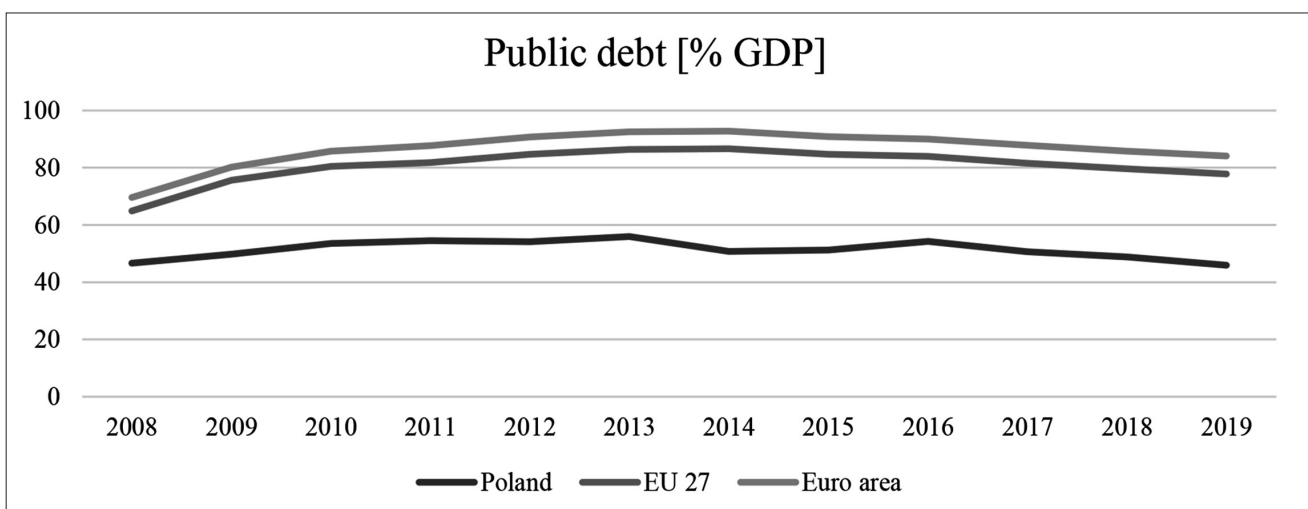


Figure 4. Public debt in the years 2008-2019 as % GDP.

Source: Own study based on Eurostat data.

The analysis of public debt is important in the context of its relation to GDP. Although the public debt of Poland and other countries has been growing year by year, in recent years it has been seen that its ratio to GDP is falling. It is worth noting that Poland is one of the few European Union countries where the public debt is less than the treaty 60% of GDP. In case of Poland, in 2013 the public debt was closest to the 60% GDP limit and has been gradually decreasing since then. In 2019, this ratio was a record low at 46%. It is worth noting that the public debt of the European Union countries and the euro area significantly exceeds the treaty limit and in 2019 it amounted to 77.8% and 84.1%, respectively.

From the point of view of Poland, such a phenomenon should be assessed positively. The relatively low and continuously falling level of public debt as % of GDP means that the state's situation is stable and is constantly improving, which also has a positive effect on Poland's financial security.

An important factor with regard to state security and its attractiveness for investors is its rating. The rating is an assessment of creditworthiness and a measure of the risk associated with an investment in debt securities of the issuer, in this case Poland. The most important are three rating agencies: Fitch, Moody's and S&P, and their current ratings for Poland are presented in table 1.

**Table 1.** Current rating for Poland.

Rating agency	Foreign currency		National currency		Perspective
	Lon-term	Short-term	Long-term	Short-term	
Fitch	A-	F2	A-	F1	stable
Moody's	A2	P-1	A2	P-1	stable
S&P	A-	A-2	A-	A-1	stable

*Source:* <https://www.gov.pl/web/finanse/rating> access: 29.05.2020

These major rating agencies have slightly different scales when it comes to issuing country ratings. S&P and Fitch agencies give ratings from BBB- to AAA for long-term investment ratings, where AAA is the highest possible. On the other hand, the Moody's agency issues its ratings in the range from Baa3 to Aaa, where the Aaa rating is the highest. In case of a short-term rating, the ratings are different for each agency.

When analyzing the current long-term rating of Poland, it should be noted that this rating is relatively good for both the national and the foreign currency. Moreover, all the discussed agencies described the rating outlook as stable.

Such an assessment means that Poland is a relatively safe country for investments, which is good news for both investors and the country. However, it should be remembered that countries with a rating of A are more sensitive to any changes in the economic environment than countries with higher ratings, and therefore investors should be wary of such countries. However, this assessment is in no way binding, but due to the high prestige of the agency, it is often taken into account.

When analyzing the situation in Poland, it is worth noting how the rating developed in the past. The changes in the years 1995-2018 are presented in table 2.

**Table 1.** Poland's rating changes in 1995-2018.

Fitch					Moody's					S&P				
Year	Foreign currency		National currency		Year	Foreign currency		National currency		Year	Foreign currency		National currency	
	D.	K.	D.	K.		D.	K.	D.	K.		D.	K.	D.	K.
<b>2018</b>	<b>A-</b>	<b>F2</b>	<b>A-</b>	<b>F1</b>	<b>2018</b>	<b>A2</b>	<b>P-1</b>	<b>A2</b>	<b>P-1</b>	<b>2018</b>	<b>A-</b>	<b>A-2</b>	<b>A</b>	<b>A-1</b>
2017	bz	bz	bz	bz	2017	bz	bz	bz	bz	2017	bz	bz	bz	bz
2016	bz	bz	A-	F1	2016	bz	bz	bz	bz	2016	BBB+	bz	A-	A-2
2015	bz	bz	bz	-	2015	bz	bz	bz	bz	2015	bz	bz	bz	bz
2014	bz	bz	bz	-	2014	bz	bz	bz	bz	2014	bz	bz	bz	bz
2013	bz	bz	bz	-	2013	bz	bz	bz	bz	2013	bz	bz	bz	bz
2012	bz	bz	bz	-	2012	bz	P-1	bz	P-1	2012	bz	bz	bz	bz
2011	bz	bz	bz	-	2011	bz	bz	bz	-	2011	bz	bz	bz	bz
2010	bz	bz	bz	-	2010	bz	bz	bz	-	2010	bz	bz	bz	bz
2009	bz	bz	bz	-	2009	bz	bz	bz	-	2009	bz	bz	bz	bz
2008	bz	bz	bz	-	2008	bz	bz	bz	-	2008	bz	bz	bz	bz
2007	A-	bz	bz	-	2007	bz	bz	bz	-	2007	A-	bz	bz	bz
2006	bz	bz	bz	-	2006	bz	bz	bz	-	2006	bz	bz	bz	bz
2005	bz	bz	bz	-	2005	bz	bz	bz	-	2005	bz	bz	bz	bz
2004	bz	bz	A	-	2004	bz	bz	bz	-	2004	bz	bz	A	A-1
2003	bz	bz	bz	-	2003	bz	bz	bz	-	2003	bz	bz	A-	A-2
2002	bz	bz	bz	-	2002	A2	P-1*	A2	-	2002	bz	bz	A	no
2001	bz	bz	bz	-	2001	bz	bz	bz	-	2001	bz	bz	bz	bz
2000	bz	bz	bz	-	2000	bz	bz	bz	-	2000	BBB+	A-2	A+	bz
1999	bz	bz	bz	-	1999	Baa1	P-2	bz	-	1999	BBB	bz	A	bz
1998	BBB+	F2	A+	-	1998	bz	-	A2	-	1998	bz	bz	bz	bz
1997	bz	bz	bz	-	1997	bz	-	-	-	1997	bz	A-3	bz	bz
1996	BBB	F3	A-	-	1996	bz	-	-	-	1996	BBB-	-	A-	A-1
1995	BB+	B	-	-	1995	Baa3	-	-	-	1995	BB	-	-	-

D – long-term; K – short-term; \* - the assigned rating cap; no – no subject to evaluation; bz – no changes

Source: Own study based on the data from the Ministry of Finance  
(<https://www.gov.pl/web/finanse/rating> access: 29.05.2020).

When analyzing the historical changes in Poland's ratings, it can be noticed that the rating steadily improved over the years, which proves the increased credibility of Poland as a country chosen by investors, as well as its dynamic development. Moreover, for 2 agencies, the rating was never downgraded. The exception here is the S&P agency, which in 2016 lowered Poland's rating from A- to BBB + for 2 years, but in 2018 the A- rating was restored again. Relatively low volatility in terms of a country's rating may indicate its stable economic situation, which is important both from the point of view of potential investors, but also reflects the state's security, including its financial security.

Other components that influence the level of the country's financial security are the size and structure of the country's reserve assets. The country's foreign exchange reserves are mainly aimed at ensuring the security of trading and payment liquidity of the country, but in the conditions of a floating exchange rate, their role is mainly reduced to strengthening the financial credibility of the country, and thus also to reducing financing costs on global markets (NBP, 2020), and thus the level of foreign exchange reserves proves the financial security of a country. The status of official reserve assets of Poland in 2014-2019 is presented in figure 5.



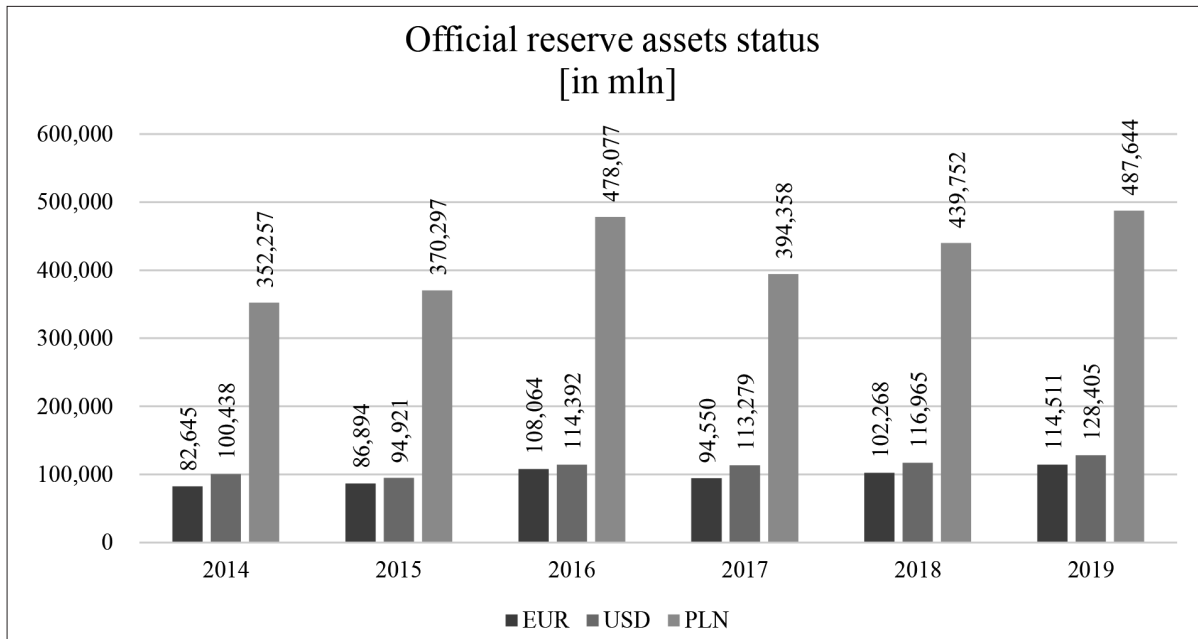


Figure 5. Status official reserve assets at the end of the year in 2014-2019 [in mln].

Source: Own study based on the data from NBP.

When analyzing the status of official reserve assets in Poland, it can be noticed that their value changes from year to year. Invariably, however, Poland has the largest amount of reserve assets in the Polish currency. The smallest share are assets denominated in EUR. It should be noted that in 2019 the level of official reserve assets was the highest in the entire analyzed period, and moreover, in the last 3 years there was a tendency to increase the level of these assets. These activities should be assessed positively from the point of view of increasing the country's financial security.

A similar, but more pronounced tendency to increase the level of official reserve assets can be observed in the long term. The change in the level of reserve assets in 1993-2019 is shown in figure 6.

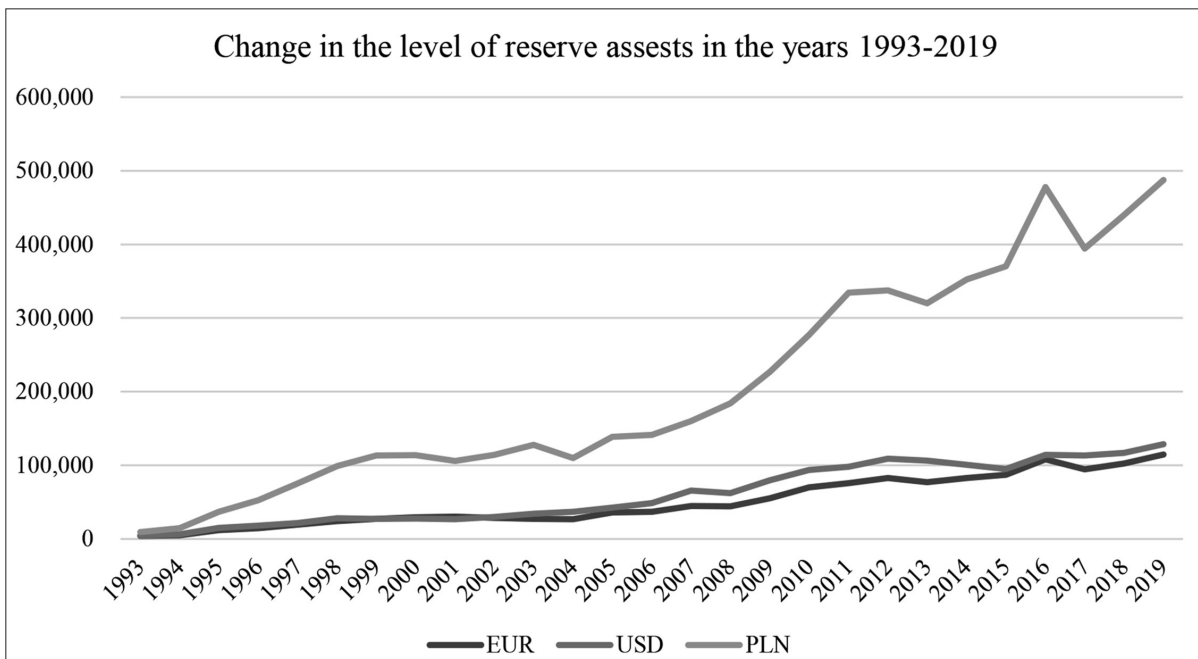


Figure 6. Change in the level of reserve assets in the years 1993-2019 [in mln].

Source: Own study based on the data from NBP.

Assuming a broader time horizon of the analysis, one can see how much work and resources were put into increasing the reserve assets since 1993. The dynamic growth of assets was recorded basically continuously since 1993, and it can be seen that the highest growth dynamics was recorded in case of reserves nominated in the Polish currency, in which the provisions are currently worth nearly PLN 500.000 million. Moreover, it can be noticed that the most dynamic increase in the balance of reserves accumulated in all analyzed currencies took place basically since 2004. Thus, it can be seen how much emphasis is placed by the central bank on increasing the country's financial security by expanding the state of official reserve assets.

Although the reserve assets held by Poland consists of various elements, a particularly high activity of the central bank has recently been recorded in the area of purchasing monetary gold. The value of monetary gold included in Poland's official reserve assets in individual quarters in 2004-2019 is presented in figure 7.

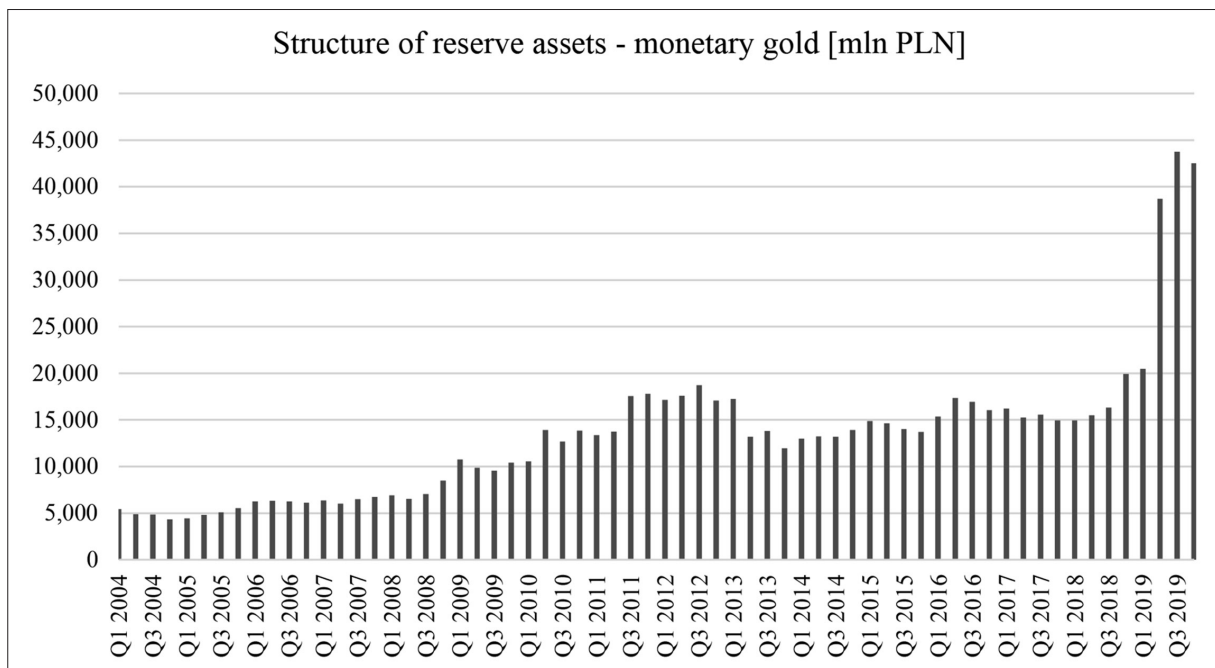
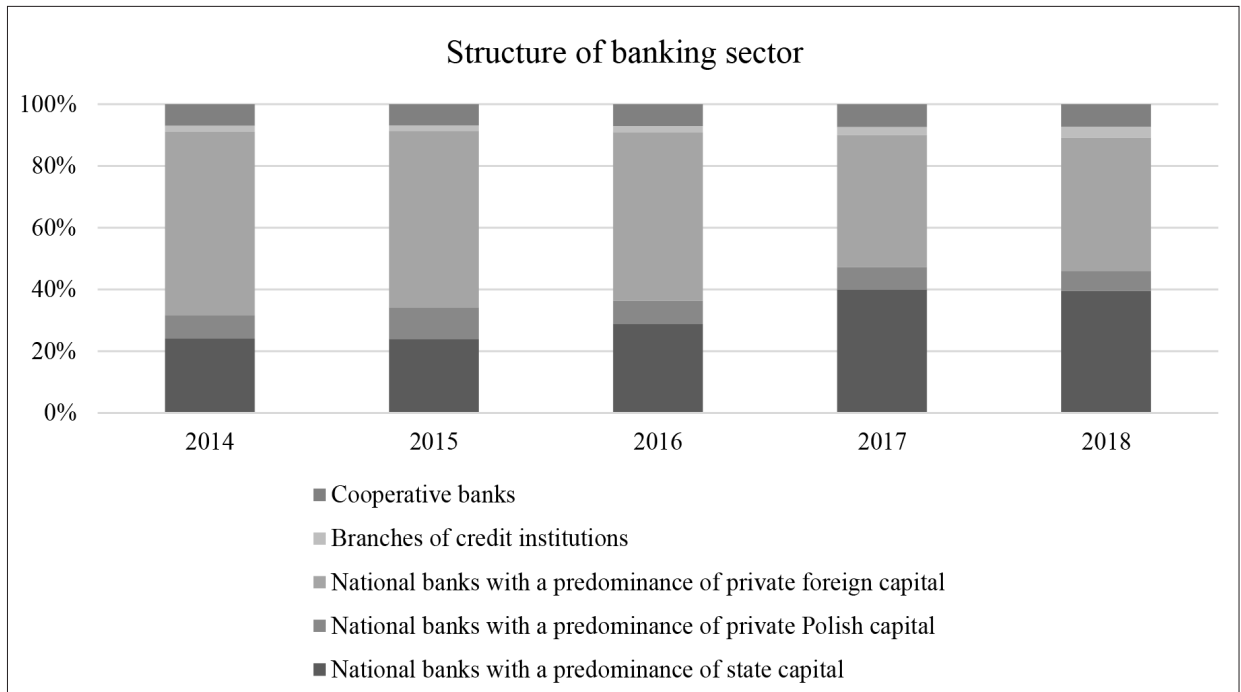


Figure 7. Structure of official reserve assets - monetary gold [mln PLN].

Source: Own study based on the data from NBP.

Looking more closely at the structure of Poland's reserve assets, it can be seen that receivables in convertible currencies, which are systematically growing year by year are the largest share in them. However, in the area of receivables no unusual changes have been observed recently. The situation is different for monetary gold. In the case of this element of the country's reserve assets, an increased activity of the National Bank of Poland has been noticed recently. While, basically, from the beginning of 2004 to the first quarter of 2019, the level of monetary gold changed and did not exceed PLN 20.000 million in any of the years, significant changes can be observed in the last three quarters. In the second quarter of 2019, the share of monetary gold in reserve assets increased from over PLN 20.000 million in the first quarter to nearly PLN 39.000 million. In Q3, another increase was recorded to the level of almost PLN 44.000 million, while in the last quarter of 2019 their share was reduced to over PLN 42.500 million. Thus, it can be seen that in 2019 the activity of the central bank in shaping the structure of reserve assets, and in particular monetary gold, was much more diversified than in the previous periods. However, such activities should be assessed positively from the point of view of improving the country's financial security.

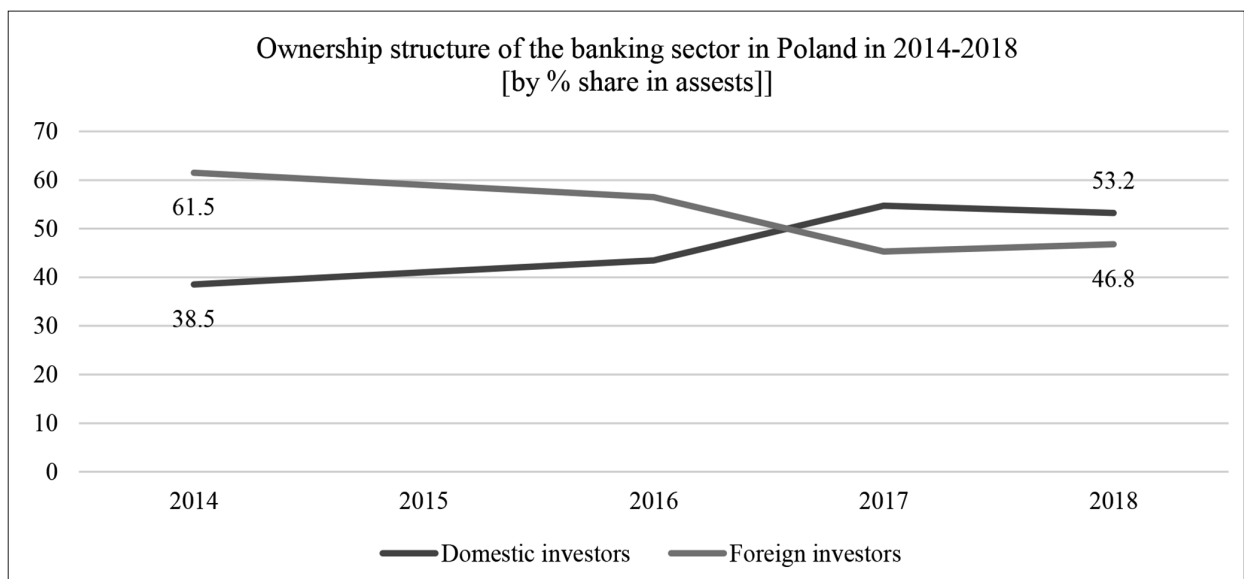
Another component that influences the state's financial security is the stability of the financial institutions operating in it. Due to the fact that the banking sector plays a very important role in the economy and is important both for the society and the state itself, it is crucial to ensure the stability of the functioning of this sector and provide all entities with access to a fully independent banking system. Therefore, it is important how the structure of the banking sector in Poland is shaped. Data on this subject are presented in figure 8.



**Figure 8.** Structure of Polish banking sector.

Source: Own study based on: NBP (2019). *Financial system developments in Poland in 2018 (Rozwój systemu finansowego w Polsce w 2018 r.)*, Warszawa, p. 131.

When analyzing the entity structure of the banking sector in Poland, it can be noticed that the share of entities with a majority of foreign capital is gradually decreasing, in favor of the growing share of state-owned banks and banks with a majority of private Polish capital. In order to analyze the ownership structure of the Polish banking sector in more detail, figure 9 presents the percentage share of domestic and foreign investors in the assets of banks operating in Poland.



**Figure 9.** Ownership structure of the banking sector in Poland in 2014-2018 [by % share in assets].

Source: Own study based on: NBP (2019). *Financial system developments in Poland in 2018 (Rozwój systemu finansowego w Polsce w 2018 r.)*, Warszawa, p. 131.

When analyzing the share of investors in the assets of the Polish banking sector, a tendency to reduce the share of foreign capital can be noticed. In 2014, foreign investors had a 61.5% share in the assets of the Polish banking sector and this share decreased year by year, until it dropped to 46.8% in 2018. On the other hand, the share of domestic investors grew in the analyzed period. In 2014, this share was only 38.5%, while in 2018 it increased to 53.2%.

The predominant share of domestic capital in such an important sector as banking is a key element of the independence of states and their economic security. It is essential that domestic capital accounts for more than 50% of assets. The data presented in figure 9 shows that until a few years ago the Polish banking sector was dominated by foreign investors, so in a sense, it was not in the hands of domestic entities. However, the activities carried out over the years to repolonise the banking sector have resulted in the fact that most of the assets of the Polish banking sector are currently in the hands of national entities. The current state of affairs was achieved mainly through an increase in the share of state capital in the banking sector and contributed significantly to an increase in the level of state financial security.

In addition, the stability and security of the Polish financial system is evidenced by the fact that it operates on the basis of solid capital and a low level of financial leverage compared to other EU countries, which makes it resistant to any shocks (NBP, 2019). The stability of financial institutions, as an extremely important element of the state's financial security, allows us to conclude that with the current state of knowledge, there are no grounds for concern about threats to the financial sector that could adversely affect the security of the state and its citizens.

## 5. Conclusions

The financial security of the state is a particularly important element of national policy, because in modern economies money is a key value without which it is impossible to perform state tasks. Therefore, it is in the interest of the rulers to provide the state with an appropriate level of financial security, which will allow for obtaining funds when they are needed to perform key state tasks.

A number of factors affect the level of a country's financial security. Some of them have the positive impact, some negative one. It should be emphasized that the most important factors include, first of all, all the issues related to taxes, budget arrears and citizens' morality, because they directly translate into the state of the income side of the state budget. Any inefficiencies in the collection of taxes, in particular VAT and excise duty, which are a key item in the state budget revenues, may pose a financial threat to the state, which in turn may translate into a decrease in the level of financial security.

The key aspects of the state's financial security are factors such as the state of the country's economic development, the stability of the financial sector, the amount of public debt, as well as the size and structure of the country's reserve assets. The analysis showed that although economic growth has continued lately, the recent events related to the COVID-19 pandemic may have the negative impact on economic development in the near future, as evidenced by, for example, a drastic decline in the PMI, which is considered as a leading index of the economic situation, and therefore there is a risk that its behavior will be reflected in a decline in GDP in the future.

However, ignoring the issues related to the situation caused by the pandemic, it can be said that Poland is a country where the financial security is at a relatively high level and actions are still being taken to increase the level of security. The high level of security may be evidenced by the fact that the level of public debt, although it is growing year by year, as in most countries, has been maintained in Poland at a much lower level than in other EU countries for years. The relatively low ratio of public debt to GDP also increases the country's credibility, which may translate into ratings issued by leading agencies, which in turn is a very important indicator for potential investors who want to invest their capital in Polish stocks, which in turn has a positive effect on development of all segments of the financial market. The relatively high level of the country's financial security

may also be demonstrated by the systematic increase in the state's reserve assets. In recent quarters, particular activity of the central bank can be seen in the area related to the purchase of monetary gold, which contributes to an increase in Poland's credibility and may translate into a reduction in the costs of obtaining financing in global markets, and thus also contributes to the improvement of the country's financial security. The last element analyzed was the stability of the financial system and the ownership structure of the banking sector. As shown in the analysis of available data, the Polish financial sector is very stable, which is the result of the stable capital situation of financial market entities and the fact that they conduct their activities based on a relatively low level of financial leverage, which makes them resistant to shocks and not cause threats to the security of the country. In recent years, extensive activities aimed at the repolonisation of the banking sector have also been observed, which has resulted in an increase in the share of domestic investors in the assets of the Polish banking sector. All these activities undoubtedly have the significant impact on the growth in the country's financial security and its level can be assessed relatively high. However, it should be borne in mind that all these activities may be verified in the near future by the situation caused by the COVID-19 pandemic.

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