NBP Narodowy Bank Polski

Financial System in Poland 2012

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www.nbp.pl/systemfinansowy/rozwoj.

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1. Evolution of the size and structure of the financial system in Poland

The financial system is the part of the economic system that provides for the creation of money and the provision of services that allow its circulation in the economy. The financial system is made up of the market financial system, where services are rendered via market mechanisms, and the public (fiscal) financial system.[1] This report concerns the market financial system, which will be generally called a financial system. The system comprises: financial institutions, financial markets where financial instruments are traded, infrastructure, as well as regulations and rules that define their functioning.

In 2012, the Polish economy was affected by the consequences of the global economic slowdown. The Polish economy grew by 1.9% as compared to 4.5% in 2011. As a result, the economic standing of enterprises deteriorated and their capital expenditures slightly declined in real terms.[2] They were partly financed from external sources, which were, however, adversely affected by the tightening of lending policy by banks and a downward trend of stock prices on the Warsaw Stock Exchange in the first half of the year. The financial standing of households also deteriorated (moderate decrease in disposable income, increase in the unemployment rate), which contributed to a decline in the growth rate of housing loan debt. At the same time, the financial assets of households grew, primarily due to the change in bank deposits and investment fund units.

Despite poor global economic growth prospects, 2012 saw a decline in risk aversion in global financial markets, which was related to monetary easing by major central banks and an improved situation in the euro area banking sector. Those actions contributed to a marked decline in credit risk premium in the euro area money market, which was conducive to stability of the domestic money market. Moreover, financial market participants making investment decisions were driven by local factors to a significant extent. In this context, the attractive rate of return on government bonds in relation to investment risk, the positive assessment of the Polish economy and the stable situation of Polish public finance were conducive to the further inflow of foreign investors to the domestic capital market. In 2012, the stock market capitalisation of the Warsaw Stock Exchange increased significantly together with the size of the domestic government bond market, where the exposure of non-residents grew considerably. Similar trends – an increase of

[1] B. Pietrzak, Z. Polański, B. Woźniak (eds.), *System finansowy w Polsce* [Financial system in Poland], vol. 1, Warszawa 2008, Wydawnictwo Naukowe PWN, pp. 15–17.

[2] *Sytuacja finansowa sektora przedsiębiorstw w IV kw. 2012 r.* [Financial situation in the enterprise sector in Q4 2012], Warszawa, kwiecień 2013, NBP, p. 1.

stock market capitalisation and the growth of outstanding public sector debt securities – were observed in the global financial system.[3]

In 2012, the importance of the financial system in the Polish economy continued to increase. The financial system assets to GDP ratio increased by 4.7 percentage points as compared to 2011 and amounted to 123.0% (Table 1.1). Compared to the average value of the ratio for the euro area countries, the Polish economy – similar to the economies of other Central and Eastern European countries – was still characterised by a relatively low level of financial intermediation. At the end of the analysed period, the value of assets of institutions comprising the Polish financial system was PLN 1,961.9 billion (8.5% more than at the end of 2011). The increase in the financial sector's assets in the period under analysis was mainly the result of an increase in the value of assets of the banking sector and open pension funds.

Table 1.1. Assets of the financial system as percentage of GDP in selected Central and Eastern European countries and the euro area in 2009–2012 (%)

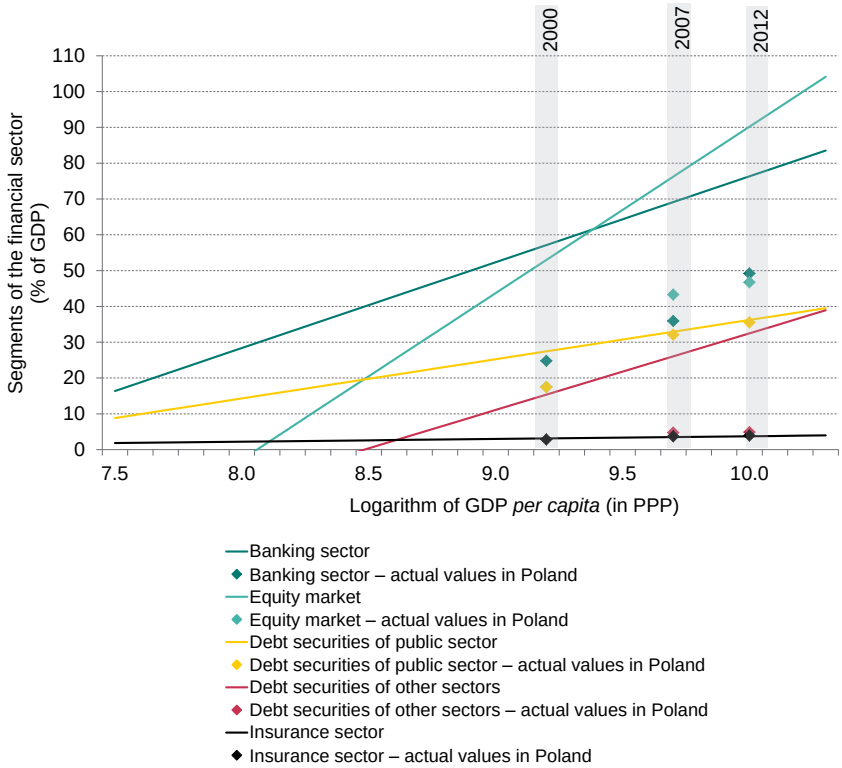
	2009	2010	2011	2012
Poland	111.2	117.7	118.3	123.0
Czech Republic	142.5	141.2	147.6	153.3
Hungary	168.6	165.3	149.4	136.4
Euro area	485.0	496.2	497.6	502.2

Note: the data for the euro area refer to 16 countries in 2009 and 2010 and 17 countries in 2011 and 2012. The data are not comparable to the data published in the previous versions of the report due to the change of the data source, inclusion of the assets of money market funds in the financial system assets and revisions sent by central banks.
Source: for the euro area – ECB Statistical Data Warehouse and Eurostat; for other countries – data provided by national central banks and the Central Statistical Office (GUS).

The analysis of financial institutions and financial markets of various countries against the level of their economic development suggests that some segments of the financial system in Poland, including the banking sector, are relatively poorly developed (Figure 1.1). At the same time, evidence from the recent financial crisis has shown that the banking sector in some countries was too large and inadequate for the needs of the real economy and that there is no optimal structure of the financial system that would ensure effective performance of its functions in all economic conditions.[4] The Polish financial system is also characterised by a relatively low level of stock market capitalisation and the low value of outstanding private sector debt securities, including corporate and bank bonds.

[3] *Financial globalization: retreat or reset*?, Global Capital Markets 2013, New York 2013, McKinsey Global Institute.
[4] *Changing global financial structures: can they improve economic outcomes?*, in: *Global Financial Stability Report. Restoring confidence and progressing on reforms*, October 2012, International Monetary Fund, pp. 150–152.

Figure 1.1. Financial system development depending on the level of GDP *per capita*



Note: the values of the regression function presented below were estimated for a panel of 203 countries containing data on their financial systems in 1991–2012.
The following development measures of individual sectors of the financial system were used:

— banking sector: loans to non-public sector to GDP (for Poland – banking sector loans and advances to the non-financial sector in domestic and foreign currency);
— equity market: equity market capitalisation to GDP;
— insurance market: non-life and life insurance premium to GDP;
— public sector debt securities: outstanding value of general government debt securities to GDP;
— debt securities of other sectors: outstanding value of debt securities of financial institutions and enterprises to GDP.

More in: T. Beck, A. Demirgüç-Kunt, *Financial institutions and markets across countries and over time: data and analysis*, World Bank Policy Research Working Paper, No 4943, May 2009.
The regression function was estimated using fixed effects GLS in relation to the banking sector and equity market, and random effects GLS in relation to debt securities of the public sector, other sectors, and the insurance sector. The model was selected based on the Hausmann test (M. Verbeek, *A Guide to Modern Econometrics*, John Wiley & Sons, 2004, pp. 351–352).

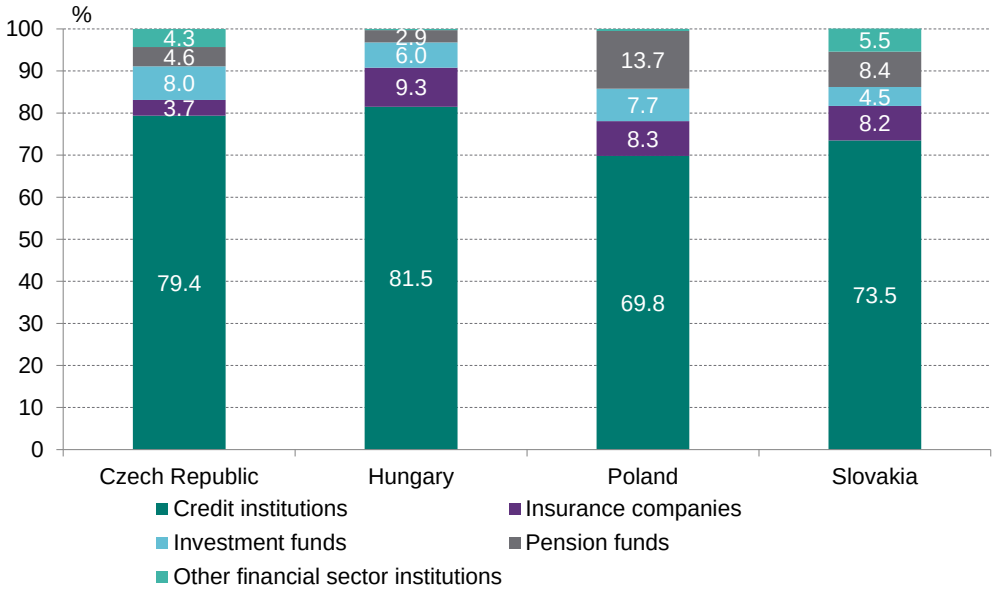
Source: NBP calculations based on data of the International Monetary Fund (*World Economic Outlook*, 04/2013), the World Bank (*Financial Structure Dataset*, 04/2013), and NBP.

As in the majority of other countries in the region, the banking sector in Poland continued to play the major role, although the Polish financial system may be considered as the least banking-oriented among the financial systems of Central and Eastern European countries (Figure 1.2). However, a relatively low level of development of the banking sector was observed across the

entire region as compared to the euro area countries (Table 1.2). Similarly to banking sectors in other countries in the region assets securitisation was barely used in the Polish banking sector. It was due to the focus of Polish banks on providing traditional banking services, primarily taking deposits and lending to non-financial clients.

In 2012, Poland recorded an increase in the value of assets of nearly all types of financial institutions (Tables 1.1.3 and 1.1.4), with a decrease observed only in assets of investment firms.

Figure 1.2. Composition of financial systems in Central and Eastern European countries at the end of 2012, by value of assets



Source: For Slovakia – data on credit institutions and investment funds were acquired from the website of the central bank of Slovakia http://www.nbs.sk, data on insurance companies and pension funds were taken from ECB Statistical Data Warehouse; for other countries – data provided by national central banks.

In 2012, the increase in assets of the banking sector was lower than in 2011. This was mainly due to a lower growth rate of loans to the non-financial sector. Compared to 2011, the fall of the growth rate of loans to enterprises (to 4.2%) was more pronounced than that of loans to households (to 2.9%[5]). Due to the economic slowdown, enterprises stalled their investment decisions. At the same time, some banks tightened lending standards and terms for enterprises, mainly for small and medium-sized enterprises[6], which resulted in reduced availability of

[5] The data after excluding the impact of exchange rate movements.

[6] *Senior loan officer opinion survey on bank lending practices and credit conditions*, 2012 and 2013 Q1 editions, Warsaw 2012 and 2013, NBP.

lending for that sector. Banks also restricted their lending policy towards households due to economic outlook forecasts, current and expected capital situation and a growing share of impaired loans in the housing loan portfolio. The growth rate of housing loans amounted to 5.1%, with the increase recorded only in zloty-denominated loans. The value of the consumer loan portfolio decreased for the second consecutive year. Those trends resulted in the ratio of loans to the non-financial sector to GDP in Poland being lower than in the previous year and still significantly lower than in the euro area countries.

Table 1.2. Banking sector (commercial and cooperative banks) development levels in selected Central and Eastern European countries and in the euro area, 2010–2012 (%)

	Assets/GDP			Loans[1]/GDP			Deposits[2]/GDP		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Poland	81.8	84.7	84.8	49.2	52.3	50.5	43.6	45.5	45.4
Czech Republic[3]	111.0	116.5	120.6	53.1	54.9	55.9	71.5	73.6	78.6
Hungary	105.2	103.3	93.0	52.7	50.3	43.5	35.2	35.6	35.1
Euro area[4]	351.3	355.8	344.6	107.3	105.7	102.5	80.8	80.4	83.1

[1] Loans and advances to the non-financial sector (in domestic and foreign currency).
[2] Deposits of the non-financial sector (in domestic and foreign currency).
[3] The data also include loans to non-bank financial institutions and deposits of those entities.
[4] Assets, loans and deposits of the monetary financial institutions sector. The data for the euro area refer to 16 countries in 2010, and 17 countries in 2011 and 2012. The data are not fully comparable with the data published in the previous versions of the report due to the change of their source and revisions sent by central banks.

Source: For the euro area – ECB Statistical Data Warehouse; for other countries – data provided by national central banks and GUS.

A gradual increase in assets accumulated in open pension funds was observed (except for April and May) in 2012. The value of assets of those financial institutions was significantly affected by the results of investment activity and, to a lesser extent, contributions transferred to the funds. The value of funds received from the Social Insurance Institution (ZUS) in 2012 was markedly lower than in 2011 and totalled PLN 8.0 billion (compared to PLN 15.1 billion in the previous year). This resulted from the May 2011 reduction of the contributions transferred to open pension funds from 7.3% to 2.3% of the calculation basis of the pension insurance contribution.

Investment funds achieved the highest growth rate of net assets among all categories of financial institutions in Poland. The value of assets of investment funds achieved its all-time high and the ratio of those assets to bank deposits of households increased and amounted to 30.0% at the end of the year (Figure 1.3). The increase of assets was due to a high positive balance of inflows and outflows, as well as profits from investment funds' operations. Net funds were deposited mainly with closed-end private equity investment funds and domestic bond funds.

Table 1.3. Assets[1] of financial institutions in Poland, 2005-2012 (PLN billion)

	2005	2006	2007	2008	2009	2010	2011	2012
Commercial banks[2]	539.3	624.0	727.1	963.2	977.2	1,062.1	1,187.9	1,236.6
Cooperative and affiliating banks[2]	47.1	57.8	65.7	75.9	82.4	96.4	106.1	115.8
Credit unions	5.3	6.0	7.3	9.4	11.6	14.0	15.6	16.9
Insurance companies	89.6	108.6	126.9	137.9	139.0	145.2	146.1	162.7
Investment funds[3]	61.6	99.2	134.5	76.0	95.7	121.8	117.8	151.3
Open pension funds	86.1	116.6	140.0	138.3	178.6	221.3	224.7	269.6
Investment firms[4]	6.9	10.8	11.8	8.6	9.9	9.2	10.1	9.0
Total	**835.9**	**1,023.0**	**1,213.3**	**1,409.3**	**1,494.4**	**1,670.0**	**1,808.3**	**1,961.9**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Banks that conduct operating activity. Commercial banks also include branches of credit institutions.
[3] Due to the change of the data source, data on assets of investment funds since 2010 differ from those published in the previous versions of the report. The data starting from 2010 are not fully comparable with the data referring to earlier periods.
[4] Up to and including 2009, the assets of investment firms included the assets of brokerage houses and offices. Starting from 2010, the assets of investment firms include exclusively the assets of brokerage houses due to the lifting of the obligation to financially separate the brokerage activity of banks.

Source: NBP, Office of the Polish Financial Supervision Authority (UKNF), Analizy Online, National Association of Credit Unions (KSKOK).

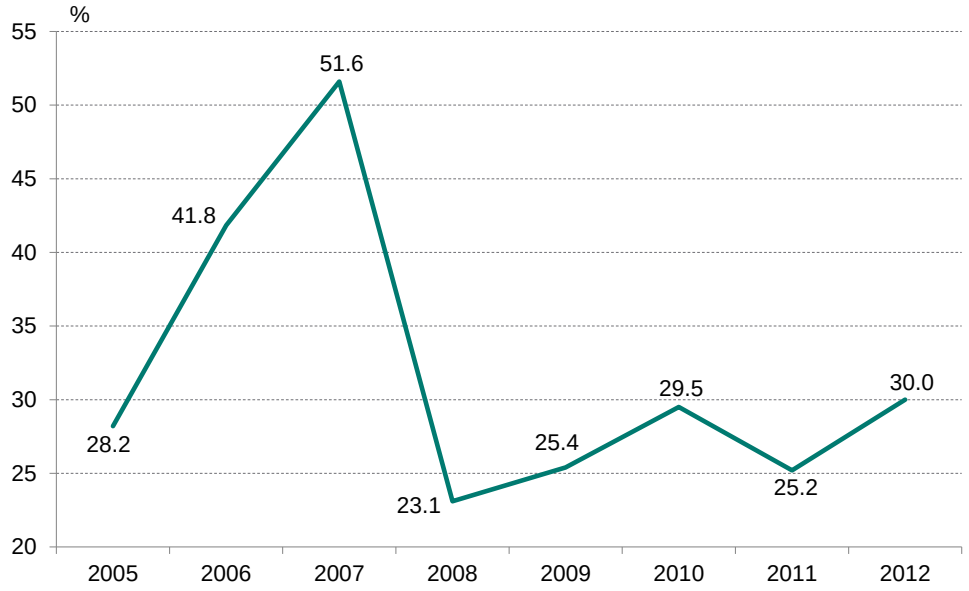
Table 1.4. Growth in assets[1] of financial institutions in Poland, 2009–2012 (y/y, %)

	2009	2010	2011	2012
Commercial banks[2]	1.5	8.7	11.8	4.1
Cooperative and affiliating banks[2]	8.6	17.0	10.1	9.2
Credit unions	23.4	20.7	11.4	8.3
Insurance companies	0.8	4.5	0.6	11.4
Investment funds[3]	25.9	27.3	-3.3	28.5
Open pension funds	29.1	23.9	1.5	20.0
Investment firms	15.1	-7.1[4]	9.8	-10.9
Total	**6.0**	**11.8**	**8.3**	**8.5**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Banks that conduct operating activity. Commercial banks also include branches of credit institutions.
[3] Due to the change of the data source, the data on assets of investment funds for 2010 and 2011 differ from those published in the previous versions of the report.
[4] The decrease in the value of assets of investment firms results from the narrowing of this category of financial institutions in 2010 to brokerage houses only (banks pursuing brokerage activity were not accounted for in the category). In 2010, the assets of brokerage houses increased by 10.8% in comparison with 2009.

Source: NBP, UKNF, Analizy Online, KSKOK.

Figure 1.3. Assets of investment funds as percentage of household bank deposits, 2005-2012

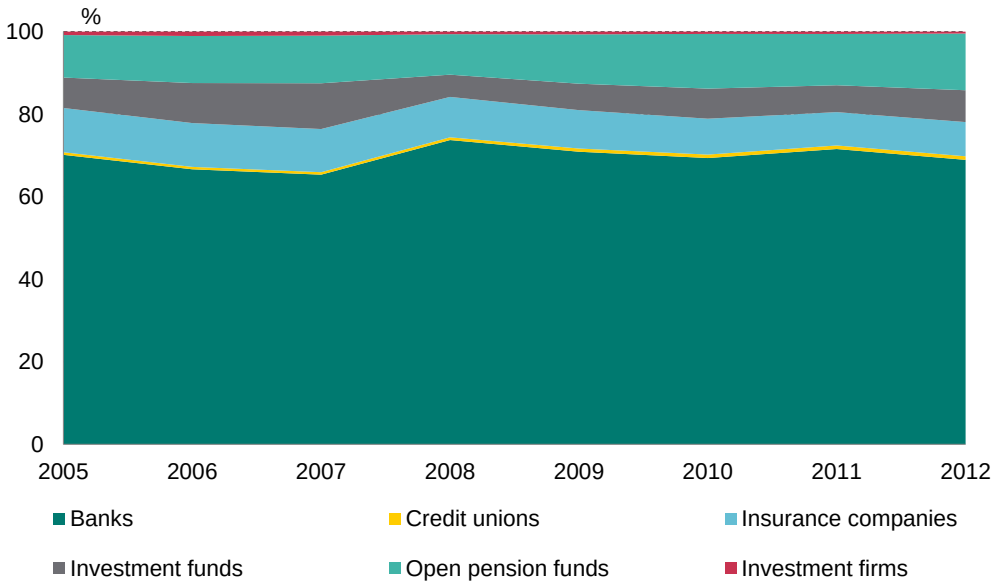


Source: NBP, Analizy Online.

The aforementioned developments resulted in a decline of the share of the banking sector in the structure of assets of the domestic financial sector, while the share of assets of non-bank financial institutions increased (Figures 1.4 and 1.5).

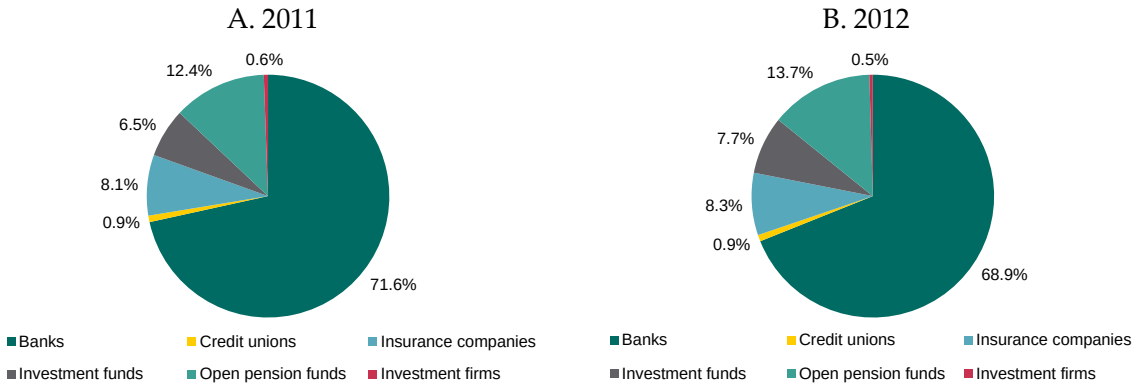
As at the end of 2012, there were 68 commercial banks in Poland, including 25 branches of credit institutions. The number of cooperative banks, as well as insurance companies decreased by two of each, and credit unions – by four. Four new entities conducting brokerage activity were established. The number of pension fund management companies managing open pension funds did not change. The year 2012 saw a further significant increase in the number of investment funds (Table 1.5). In addition, Polish Financial Supervision Authority (KNF) received further notifications about the intention of foreign entities to conduct business activity in Poland.

Figure 1.4. Asset structure of the Polish financial system, 2005-2012



Source: NBP, UKNF, Analizy Online, KSKOK.

Figure 1.5. Share of individual financial institutions in the asset structure of the Polish financial system in 2011 and 2012



Source: NBP, UKNF, Analizy Online.

The Polish stock market remained the largest market in the region, in terms of both capitalisation and the number of listed companies (Table 1.6). Trends on global stock markets pushed up stock prices on the Warsaw Stock Exchange. In 2012, the WIG index grew by 26.2%. Nineteen new

domestic and foreign companies conducted IPOs in the regulated market (38 in 2011) and 89 in the non-regulated NewConnect market (172 in 2011). The value of new issues of those companies[7] amounted to PLN 1.4 billion (PLN 2.3 billion in the previous year). The liquidity of the Polish stock market was still low.

Table 1.5. The number of financial institutions in Poland, 2005-2012[1]

	2005	2006	2007	2008	2009	2010	2011	2012
Commercial banks[2]	58	60	61	67	64	67	66	68
Affiliating banks[2]	3	3	3	3	3	3	2	2
Cooperative banks[2]	588	584	581	579	576	576	574	572
Credit unions	76	70	67	62	62	59	59	55
Insurance companies[3]	68	65	67	66	64	63	61	59
Investment funds (investment fund management companies)[4]	190 (23)	241 (26)	277 (33)	319 (39)	369 (43)	407 (50)	482 (50)	581 (54)
Open pension funds (pension fund management companies)[5]	15	15	15	14	14	14	14	14
Investment firms[6]	42	47	53	58	59	64	65	69

[1] The table presents the number of institutions whose assets were taken into account in Table 1.3. It does not include foreign entities which may pursue cross-border activity (without their legal and organisational presence in Poland), branches of insurance companies and branches of foreign investment companies.
[2] Banks that conduct operating activity. The number of commercial banks also includes branches of credit institutions. In 2005 there were seven, in 2006 – twelve, in 2007 – fourteen, in 2008 and 2009 – eighteen, in 2010 and 2011 – twenty one, and in 2012 – twenty five branches of credit institutions.
[3] Entities conducting operating activity in the area of insurance and reinsurance.
[4] Up to and including 2007, the number of established investment funds and investment fund management companies (pursuant to a decision by KNF); from 2008 to 2009, the number of entities registered in the Investment Fund Register held by the Regional Court in Warsaw; since 2010, the number of operating funds.
[5] The number of pension fund management companies equals the number of open pension funds.
[6] Investment firms include brokerage houses and banks pursuing brokerage activity.

Source: NBP, UKNF, KSKOK.

In 2012, the money bills market remained the largest segment of the short-term debt securities market. The significant increase in the value of those instruments resulted from the growing excess liquidity in the domestic banking sector. The strategy of extending maturity of public debt, consistently pursued by the Ministry of Finance, resulted in a significant reduction of the scale of issued Treasury bills, and in an increase in the outstanding value of Treasury bonds. Enterprises and banks issued short-term debt securities only to a minor extent.

[7] The value of new issues pertains to domestic and foreign companies that conducted IPOs in the WSE Main List and the NewConnect markets.

The Treasury bond market, whose size increased substantially in the analysed period, remained the dominant segment of the domestic debt securities market (Table 1.7). The market for non-Treasury long-term debt instruments was still relatively poorly developed, although the value of outstanding instruments in all of its segments continued to increase.

Table 1.6. Characteristics of stock markets in selected Central and Eastern European countries and in the euro area, 2010-2012[1]

	Stock market capitalisation (EUR billion)			Stock market capitalisation to GDP		
	2010	2011	2012	2010	2011	2012
Poland	142.3	107.5	134.8	39.8	29.1	35.3
Czech Republic	31.9	29.2	28.2	22.0	18.9	18.4
Hungary	20.6	14.6	15.7	21.0	14.6	16.2
Euro area[2]	5,183.4	4,481.2	5,049.4	56.6	47.6	53.2
	Liquidity ratio[3] (%)			Number of listed companies (including new companies)[4]		
	2010	2011	2012	2010	2011	2012
Poland	42.0	65.3	37.2	585 (120)	777 (210)	867 (108)
Czech Republic	48.2	51.8	53.7	27 (2)	26 (2)	26 (1)
Hungary	97.1	94.5	87.8	52 (6)	54 (6)	52 (1)
	2010	2011	2012	Number of listed companies		
				2010	2011	2012
Euro area[2]	125.2	137.4	121.9	7,129	6,977	6,796

[1] All values include alternative trading systems, if such platforms were run by the operator of a given stock exchange.
[2] Indices calculated for the euro area include the following stock exchanges: Athens Exchange, Deutsche Börse, NYSE Euronext (the European part), Irish Stock Exchange, Ljubljana Stock Exchange, Luxembourg Stock Exchange, NASDAQ OMX Helsinki, Spanish Exchanges (BME), Wiener Börse, Cyprus Stock Exchange, Malta Stock Exchange and Bratislava Stock Exchange.
[3] The ratio of net turnover value to stock market capitalisation.
[4] Includes domestic and foreign companies.

Note: due to the data revisions, the quoted values may differ from the values presented in the previous editions of the report.
Source: federation of European Stock Exchanges, Eurostat.

In 2012, the domestic money market saw a significant rise in the volume of conditional transactions, driven by a further increase in activity of foreign banks. As compared to 2011, the average daily value of transactions in the FX swap market and the unsecured interbank deposit market declined. Turnover decrease was also observed in the spot transactions and FX forward transactions markets, as well as in the OTC interest rate derivatives market (Table 1.8). As in the previous years, the majority of the zloty exchange transactions and OTC FX derivatives operations were concluded in the offshore market (between non-residents). The activity of

investors in the exchange-traded derivatives market was concentrated in the segment of WIG20 index futures.

Table 1.7. Outstanding value of individual instruments of money and capital markets as of year-end, 2009–2012 (PLN billion)

	2009	2010	2011	2012
Treasury bills	47.5	28.0	12.0	6.1
NBP bills	41.0	74.6	93.4	117.0
Short-term bank debt securities	3.0	2.6	7.7	5.9
Short-term corporate bonds	6.2	11.7	15.9	18.5
Marketable Treasury bonds	405.4	471.3	495.2	520.0
BGK bonds for the National Road Fund	7.9	13.9	21.7	24.8
Long-term corporate bonds	15.5	21.6	29.7	32.3
Municipal bonds	6.9	10.9	14.4	15.6
Long-term bank debt securities[1]	5.5	5.2	10.4	18.0
Mortgage bonds	3.0	2.5	2.9	3.1

[1] The data include only bonds and bank securities, denominated in PLN and in foreign currency, issued by banks operating in Poland. European Investment Bank bonds and bonds issued by EU credit institutions have been also traded in the domestic market.

Note: Due to adjustments, the data may differ from those presented in previous editions of the report.
Source: Ministry of Finance, NBP, National Depository for Securities (KDPW), Fitch Polska.

Table 1.8. Average daily net turnover in the domestic financial market, 2009–2012 (PLN million)

	2009	2010	2011	2012
Shares and allotment certificates	700.5	933.3	1,076.1	820.0
Treasury bonds	13,827.8	23,923.6	29,555.3	28,491.7
Treasury bills	2,454.7	2,110.3	1,250.3	520.0
Unsecured interbank deposits	7,259.9	7,025.4	6,195.4	5,874.2
FX swap transactions	9,385.6	10,855.2	12,928.0	11,520.8
Repo/SBB transactions	8,130.8	9,143.2	11,572.5	12,557.5
Spot FX market	3,906.6	4,280.0	5,219.1	5,179.9
FX forwards	1,222.4	1,318.1	1,379.6	1,210.7
CIRS transactions	156.3	154.4	113.3	200.9
Currency options	579.5	341.7	321.5	220.6
FRAs	2,399.4	3,504.9	5,572.6	5,116.4
IRSs	682.5	1,353.0	2,218.8	1,698.4
OISs	868.2	963.7	1,215.0	633.5
WIG20 futures contracts	995.1	1,319.6	1,381.6	832.8

Notes:
1. Average daily net turnover means the value of the transaction (transactions calculated individually). In the case of FX swap market transactions, turnover value was calculated for only one currency of the transaction.
2. The turnover value in the Treasury bonds and bills market takes into account unconditional and conditional transactions (repo and sell-buy-back).
3. The value of conditional transactions (repo and sell-buy-back) was calculated according to the initial exchange value. For FX swap transactions, the net turnover value was calculated according to the initial exchange value.
4. For the following markets: FX swap, spot FX, FX forwards, currency options and interest rate derivatives, the values represent the value of exchange transaction involving the zloty or zloty-denominated instruments. The influence of Money Market Dealers population changes was eliminated.
5. The turnover in stocks includes the value of session and package transactions.
6. The turnover in WIG20 futures contracts was calculated according to settlement values, taking into account session and package transactions.
7. The turnover in the foreign exchange market includes only domestic transactions. It does not include the offshore market.
8. Turnover in interest rate derivatives refers to domestic money market rates instruments.

Source: NBP study based on data from the WSE, the Ministry of Finance and NBP.

2. Households and enterprises in the financial market in Poland

The financial system facilitates the flow of capital between entities with surpluses and entities in need of funds. The circulation of funds in the financial system takes place via banks or the financial market, where businesses issue securities (stocks or bonds). Investors, including households, may acquire securities either directly in the financial market or via financial institutions (i.a. investment funds).

2.1. Financial assets of households

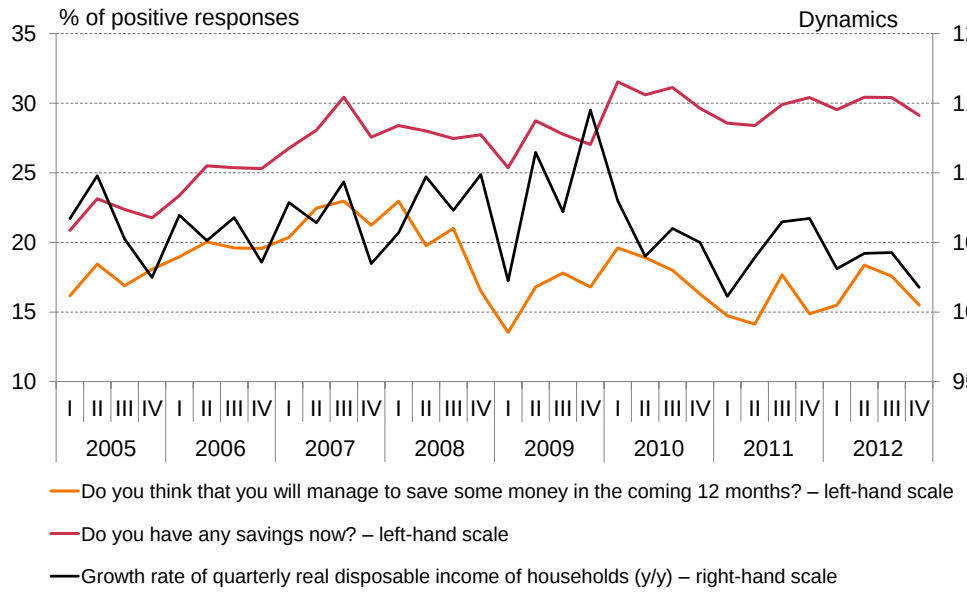
The choice of the form of savings, made by households, is determined by both microeconomic (e.g. their financial standing) and macroeconomic factors (economic situation of the country). Depending on the impact of individual determinants, households decide about the amount of savings and choose specific savings and investment products. The level of savings of domestic households and the form of their allocation are important for economic growth and financial system development.

According to the results of public sentiment surveys conducted in Poland by Ipsos, at the end of 2012 only 29.1% of respondents said that they had made savings and 15.5% claimed they had had the ability to make savings within the coming 12 months (an increase from 14.9% in 2011). The expectations of households concerning their own financial resources and savings are influenced, inter alia, by changes in their disposable income (Figure 2.1).

In 2012, financial assets of households[8] increased by 7.0% and amounted to PLN 814.5 billion at the end of December 2012. The figure represented 51.1% of GDP, which marks a growth by 1.3 percentage points as compared to the previous period (Figure 2.2). The growth of the assets was influenced mainly by changes in the value of bank deposits and investment fund units. A decline was recorded in the case of stocks of companies listed on the WSE-organised markets included in the households' portfolio, as well as (both Treasury and non-Treasury) debt securities purchased by households.

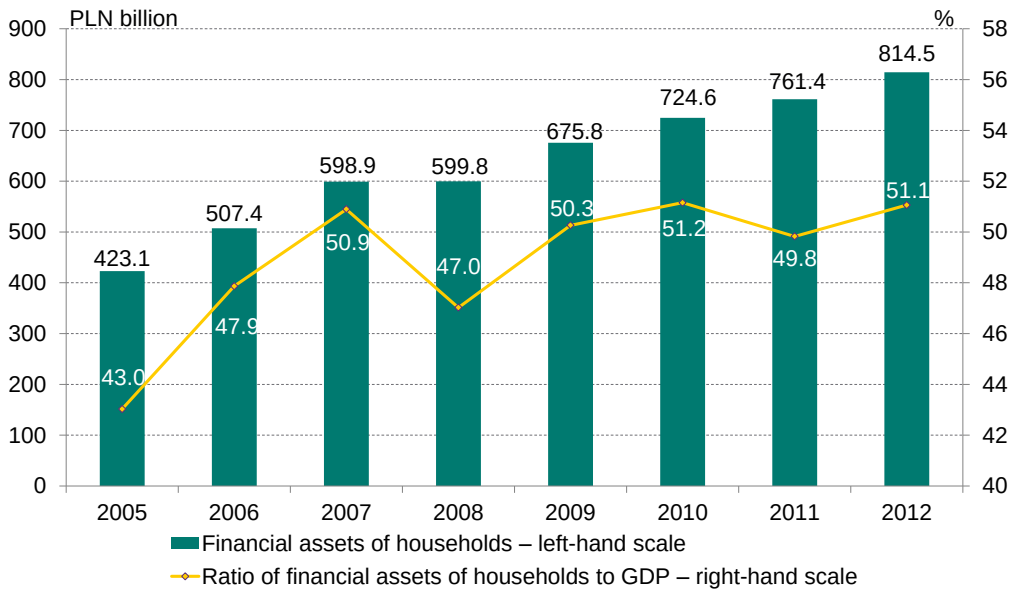
[8] In this analysis, the financial assets of households include the following items: deposits at banks and credit unions, investment fund units purchased by households, unit-linked assets and life insurance savings premiums corresponding to the value of technical provisions in life insurance, Treasury securities, stocks quoted on the WSE-organised markets, cash in circulation (excluding vault cash) and non-Treasury debt securities.

Figure 2.1. Public sentiment survey on savings, and dynamics of disposable income, 2005–2012



Note: quarterly values are the arithmetic means of monthly data. Quarterly amounts of disposable income were deflated by the quarterly CPI. Quarterly dynamics is calculated with reference to the same quarter of the previous year.
Source: the calculations based on data provided by Ipsos and GUS.

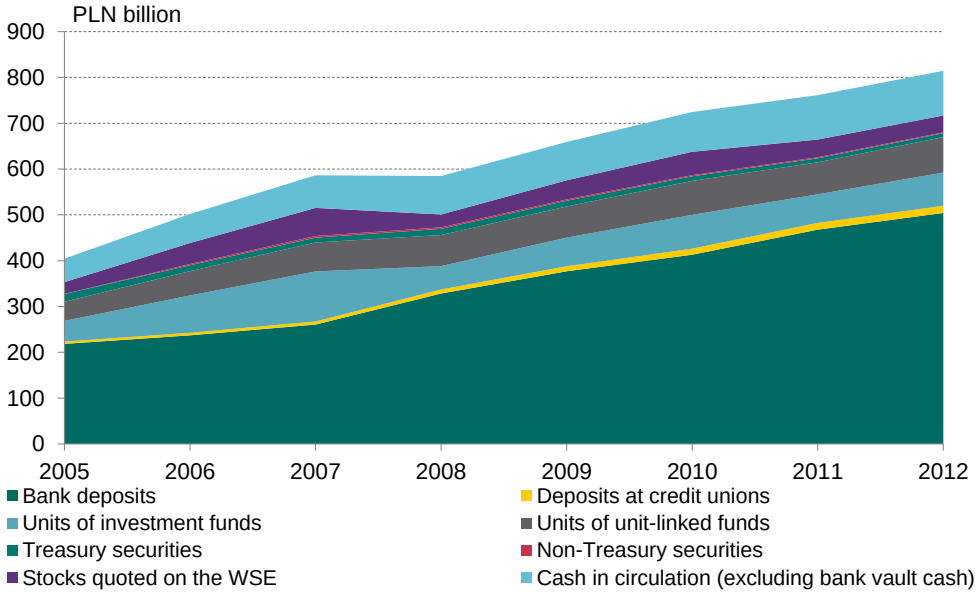
Figure 2.2. Financial assets of households, 2005–2012



Note: due to the change of sources, the data may differ from the data presented in previous editions of the report.
Source: based on data provided by GUS, UKNF, Analizy Online and NBP.

Bank deposits remained the main item of households' financial assets (Figure 2.3). Their value rose from PLN 467.8 billion at the end of 2011 to PLN 504.2 billion at the end of 2012. However, the growth rate of households' bank deposits decelerated significantly compared to the previous year. Poles were less willing to deposit funds with banks due to both deteriorating macroeconomic conditions (resulting, inter alia, in reduced growth of wages) and a fall in interest on bank deposits in the second half of the year, as a result of the cycle of interest rates cuts initiated by the Monetary Policy Council (average interest on new zloty deposits fell from 4.7% in December 2011 to 4.2% in December 2012). Furthermore, price increases in the domestic stock market encouraged households to seek more attractive forms of depositing their savings. The value of deposits most rapidly grew in December. The increase was largely seasonal and was related to the payment of additional benefits by employers (bonuses, annual bonuses) that are commonly observed in this period of the year.

Figure 2.3. Structure of household financial assets, 2005–2012, as at period-ends



Notes: 1. Units of unit-linked funds include life insurance saving premiums.
2. Due to the change of sources, the data may differ from the data presented in the previous editions of the report.
Source: NBP estimates based on data provided by UKNF, Analizy Online and NBP.

As in previous years, cash in circulation (excluding bank vault cash) was the second important category of household assets. As at the end of 2012, its value amounted to PLN 97.5 billion and was 0.6% higher than at the end of 2011.

Unit-linked assets and life insurance saving premiums were another items among household assets. Their value in households' portfolio increased from PLN 69.9 billion at the end of 2011 to PLN 77.4 billion at the end of 2012. The so-called anti-tax products (such as a product combining the features of a life insurance policy and a bank deposit, and some structured insurance

products written in the form of endowment insurance) were very popular. The development of the segment of life insurance products was driven by banks' interest in the distribution thereof and the withdrawal of one-day deposits from banks' offer due to amendment of the Act on Tax Ordinance.[9]

Table 2.1. Structure and changes in selected items of household financial assets, 2009–2012, as at period-ends

	2009	2010	2011	2012
Share in total assets of households (%)				
Bank deposits	57.2	57.0	61.4	61.9
Deposits at credit unions	1.7	1.8	1.9	1.9
Units of investment funds	9.5	10.2	8.2	8.9
Unit-linked assets and life insurance saving premiums	10.3	10.2	9.2	9.5
Treasury securities	1.9	1.4	1.2	1.0
Non-Treasury securities	0.4	0.3	0.3	0.2
Stocks quoted on the WSE	6.3	7.1	5.1	4.5
Cash in circulation (excluding vault cash)	12.7	12.0	12.7	12.0
Increase in household assets (y/y, %)				
Total financial assets	12.7	9.9	5.1	7.0
Bank deposits	14.8	9.6	13.2	7.9
Deposits at credit unions	25.0	20.0	11.4	6.8
Units of investment funds	22.5	18.1	-15.4	16.2
Unit-linked assets and life insurance saving premiums	0.2	9.1	-5.7	10.8
Treasury securities	-7.2	-19.5	-12.9	-3.4
Non-Treasury securities	-9.4	-17.2	-6.7	-19.2
Stocks quoted on the WSE	48.1	22.6	-24.3	-4.7
Cash in circulation (excluding vault cash)	-0.3	3.7	11.7	0.6

Note: Due to the change of sources, the data may differ from the data presented in the previous editions of the report.
Source: The study based on data provided by the UKNF, Analizy Online and NBP.

The value of units of investment funds held by households[10] at the end of 2012 amounted to PLN 72.5 billion. This represents a rise of 16% compared to the value at the end of 2011. The change in value of this part of households' deposit portfolio resulted from both the increased value of financial instruments in the funds' investment portfolios, and net capital inflow to those financial

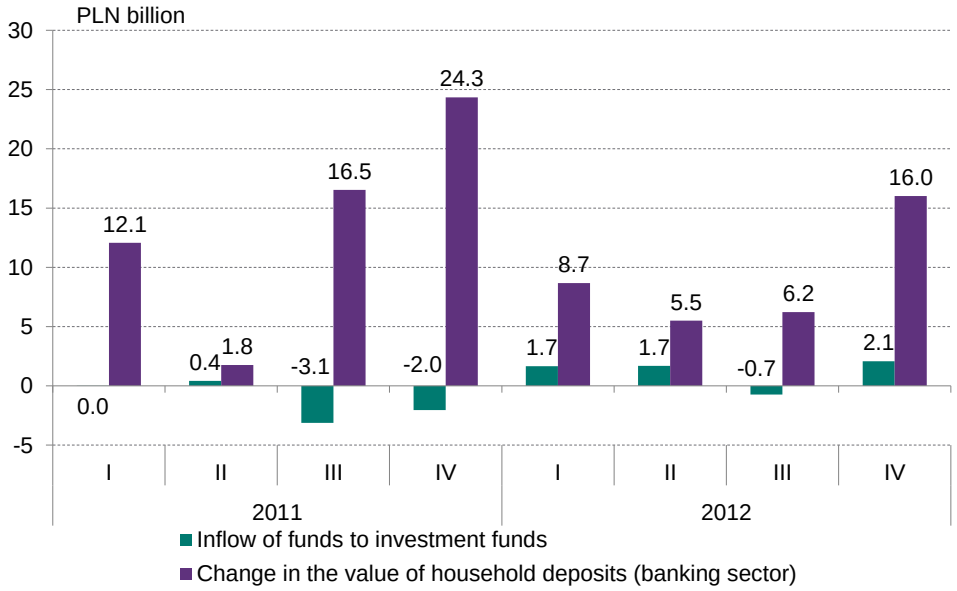
[9] Act of 22 December 2011 Amending Certain Acts Related to the Implementation of the Budget Act (Journal of Laws of 2011, No 291, item 1707).

[10] Excluding the units purchased by insurance companies as a result of life insurance agreements concluded by natural persons with unit-linked funds.

institutions. The highest inflow of funds was recorded in the fourth quarter of 2012, when it amounted to net PLN 2.1 billion (Figure 2.4). Households were purchasing mainly units of domestic bond funds.

The direct exposure of households in stock markets organised by the WSE continued to decrease, despite the growth of main stock exchange indices. The value of stocks in the investment portfolio of Poles fell to PLN 36.9 billion at the end of 2012. This could have been the effect of reduced privatisation of State Treasury-owned companies, whose stocks quoted on the WSE usually attract large interest of individual investors.

Figure 2.4. Net inflow of funds from households to investment funds and the change in the value of household bank deposits in PLN, 2011–2012



Note: households include non-commercial institutions offering services to households.
Source: calculated based on NBP data.

Deposits in credit unions rose from PLN 15.7 billion at the end of 2012 and remained of minor importance in the structure of the financial assets of households (1.9%). The growth rate of deposits in credit unions decelerated considerably in the analysed period. They increased by only 6.8%, while in the years 2007-2011 their average growth rate stood at 20%.

The value of Treasury bonds in the households' portfolio slightly declined and amounted to PLN 8.5 billion at the end of 2012 (PLN 8.8 billion at the end of 2011). Due to low interest on government bonds for retail customers, households sought more attractive forms of depositing their savings than those debt instruments.

Funds deposited in accounts at open pension funds are of different nature than the aforementioned categories of financial assets in which households make their savings. Participation in open pension funds is obligatory for persons born after 31 December 1968, which ensures constant inflow of funds. Moreover, it is not possible to freely use the capital accumulated in open pension funds before the retirement date. At the end of 2012, the value of funds accumulated in open pension funds amounted to PLN 269.6 billion, i.e. 20% more than at the end of 2011. Such a significant increase was achieved despite a considerable drop in the inflow of contributions due to the reduction (in May 2011) of the contribution transferred to open pension funds to 2.3% of the remuneration basis, and resulted mainly from better investment results of the funds.

2.2. External sources of financing of Polish enterprises

In 2012, the economic situation of non-financial enterprises deteriorated. The growth of revenues (by 3.9% in nominal terms) was slower than that of costs (by 5.3%), resulting in the decrease in their net profit by 21% compared to 2011. Enterprises generated lower profits from operating activity and incurred losses on financial activity. The profit margin continued to fall during the entire 2012. Following an increase in investment activity in the enterprise sector in 2011, capital expenditures dropped by 1.3% in real terms in 2012. Only 34.6% of entities, significantly less than in the previous year, expanded their investments.[11] Due to uncertainty regarding the economic situation in the euro area and its impact on economic growth prospects in Poland, enterprises reduced their expenditures on modernisation of the existing machinery and equipment.

In 2012, banks tightened lending terms and criteria, in particular for small and medium-sized enterprises (SMEs), mainly due to unfavourable economic growth prospects in Poland.[12] Due to loans granted by domestic banks, corporate debt at the end of 2012 was 2.1% higher than at the end of the previous year.

Leasing was an important non-bank external source of financing for domestic non-financial enterprises, in particular for SMEs (Figure 2.5). Leasing provides financing of tangible fixed assets to entities with short business record which face difficulties in accessing alternative external financing sources, such as loans or issuing debt securities. The value of assets leased in 2012 did not change significantly compared to the previous year. The marked deceleration of the turnover growth rate in the leasing market in Poland may be explained, inter alia, by the finalisation of some infrastructural investments related to the preparations to the European Football championship. Leasing companies registered the highest turnover near the end of the

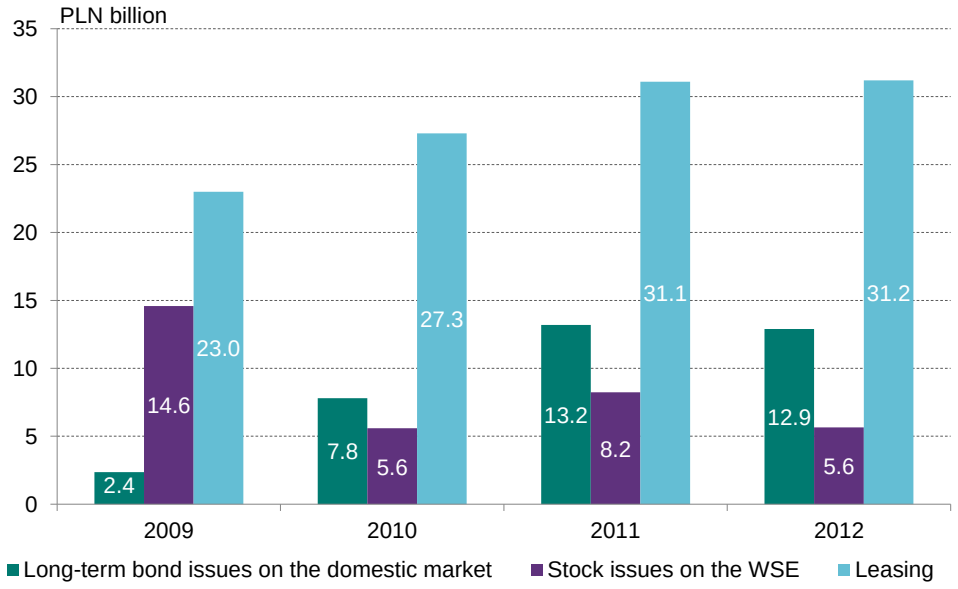
[11] *The financial situation of the enterprise sector in 2012 Q4*, NBP, Warsaw, April 2013.

[12] *Senior loan officer opinion survey on bank lending practices and credit conditions – 2012 Q3*, Warsaw 2012, NBP.

year, which may have been due to the aforementioned tightening of the lending policy towards small and medium-sized enterprises by banks.[13]

The value of issues of new shares of non-financial enterprises traded in the WSE markets (the WSE Main List and NewConnect) amounted to PLN 5.2 billion in 2012 and was PLN 2.6 billion lower than in the previous year. Decreases of equity prices in the WSE Main List in the first half of 2012 and projections of poor economic growth outlook in Poland discouraged enterprises from conducting IPOs in this market. Numerous companies decided to delay their IPOs fearing that they would not be able to obtain sufficient capital. In 2012, 108 domestic companies conducted their IPOs on the WSE Main List and NewConnect (210 in 2011), of which over 80% floated their shares in the alternative trading system. Even small entities and companies with short business record could raise capital on NewConnect due to relatively low issue costs, less strict disclosure requirements and lower fees imposed on issuers as compared to the WSE Main List.

Figure 2.5. Selected non-banking external sources of financing of Polish enterprises, 2009–2012



Source: NBP calculations based on data from KDPW, Fitch Poland and NBP.

In 2012, companies raised PLN 12.9 billion by issuing long-term bonds in the domestic financial market (a slight decrease compared to 2011). This source of financing attracted particularly high attention from large companies from the energy and fuel sector, which was associated with their

[13] *Senior loan officer opinion survey on bank lending practices and credit conditions*, 2012 and 2013 Q1 editions, Warsaw 2012 and 2013, NBP.

investment activity in 2012. The demand for bonds by, inter alia, investment funds and pension funds, which sought higher rates of return than those on investments in Treasury bonds, facilitated placing the issues in the market. Moreover, the dynamic development of the Catalyst platform for trading debt instruments created favourable conditions for enterprises to obtain financing by issuing bonds. Investors that purchased bonds traded on the Catalyst platform accepted slightly lower margins due to lower liquidity risk of those instruments as compared to bonds traded in the OTC market. The value of corporate bonds issued and traded on Catalyst in 2012 was PLN 7.4 billion, which was an increase by 72.2% compared to the previous year.

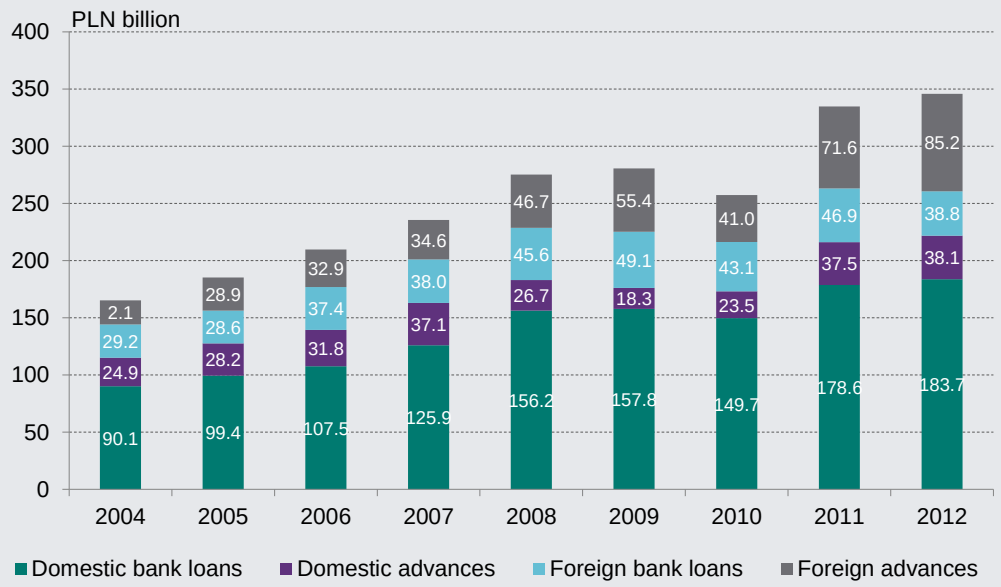
Domestic enterprises also extensively used various forms of foreign financing (Box 1). Foreign entities linked by capital to domestic enterprises supply them with capital by providing equity (contribution of share capital) or extending loans. Polish enterprises also take loans from foreign entities from outside their capital group and issue debt instruments intended for non-residents. In addition, domestic importers use trade credit provided by foreign suppliers.

Box 1. Foreign financing of non-financial enterprises operating in Poland

The structure of liabilities of domestic non-financial enterprises shows that equity is of greatest importance for the financing of their activity. External sources of financing, in particular loans and advances, are less popular among enterprises operating in Poland. According to the Eurostat data (financial accounts based on ESA95), at the end of 2012 equity represented approximately 48% of the liabilities of Polish enterprises, loans advances – 25%, financial instruments other than shares – 4%, other financial liabilities (mostly trade credits) – 23%. Such structure did not differ from the structure of liabilities of euro area enterprises (with the respective categories of their liabilities accounting for 51%, 31%, 4% and 14%), but for a higher ratio of loans to trade credits in the euro area.

Foreign financing, in particular in the form of acquiring shares in equity, and loans and advances is of great importance in the liabilities of domestic enterprises.[1] In recent years, the share of foreign entities in the core capital of Polish enterprises was stable and amounted to 24% at the end of 2012. Since 2004, the nominal value of loans and advances extended to domestic non-financial enterprises by foreign entities more than doubled and amounted to PLN 124 billion at the end of 2012, with loans representing 31% of this amount (Figure I). Foreign loans accounted for approximately 17% of bank loans taken by Polish non-financial enterprises, and foreign advances – approximately 70% of domestic non-financial entities' liabilities resulting from received advances.

Figure I. Structure of the outstanding value of loans and advances for domestic non-financial enterprises, by origination source, 2004-2012



Note: data refer to non-financial enterprises with 10 or more employees.
Source: NBP study based on GUS data.

The increase in the value (expressed in the zloty) of foreign loans and advances in 2008 and the following years was mainly due to changes in the zloty exchange rate. In addition, the attractiveness of that method of financing increased after significant interest rates cuts abroad and the tightening of lending policy by banks operating in Poland from mid-2008 to 2009.[2]

Foreign loans and advances were mainly used by enterprises with foreign capital (Table I). They borrowed directly from their foreign parent entities or, less often, took loans from foreign banks. Foreign parent companies with access to less expensive bank loans or to market funding (e.g. due to lower interest rates, having a rating, economies of scale) may transfer funds within their group in the form of loans for subsidiaries in Poland. The GUS data on financing of fixed assets outlays in 2011[3] show that enterprises with foreign capital allocated foreign financing mainly for this purpose (81%).

Table I. Loans and advances extended to domestic non-financial enterprises with foreign capital, 2004-2012

	The number of enterprises with foreign capital	Share of foreign loans to enterprises with foreign capital in total foreign loans to enterprises (%)	Share of foreign advances to enterprises with foreign capital in total foreign advances to enterprises (%)
2004	6,000	70	94
2005	6,475	73	96
2006	6,697	70	92
2007	7,003	71	94
2008	7,553	65	93
2009	7,550	60	91
2010	7,043	71	95
2011	7,867	73	93
2012	8,020	73	92

Note: data refer to non-financial enterprises with 10 or more employees.
Source: NBP study based on GUS data.

Exporters used foreign loans on a greater scale than other enterprises. In 2005-2012, the share of revenues from exports in total revenues was 1.5-2 times higher in entities taking loans abroad than in the enterprises that did not use this form of financing. This may have been due to the fact that some exporters were subsidiaries of foreign entities which located their production in Poland due to, inter alia, lower labour costs.

In future, the increasing economic integration with other EU Member States may result in a situation where the growing trade volume will be accompanied by increasing foreign trade liabilities. The reduction of interest rates disparity between Poland and the euro area, which stimulated the growth of foreign loans, may contribute to the development of financing and a change of its structure.

Foreign sources of financing were more frequently used by enterprises from western and central Poland than by those from eastern Poland. This is due to the differentiation of regional development in Poland and the location of enterprises with foreign capital.

[1] Unit data from F02 forms concerning non-financial enterprises allow to analyse foreign financing in the form of loans and advances (excluding trade credit) and in the form of contribution to share capital.
[2] *Senior loan officer opinion survey on bank lending practices and credit conditions*, 2008–2009 and 2010 Q1 editions, Warsaw 2012 and 2013, NBP.
[3] *Fixed assets in National Economy in 2011*, Warsaw 2012, GUS.

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