Narodowy Bank Polski

Financial System in Poland 2015

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www.nbp.pl/systemfinansowy/rozwoj

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Summary

At the end of 2015, the ratio of domestic financial system assets to GDP was higher than at the end of 2014 and stood at 122.8%. Poland's financial system, including the banking sector, is not overly developed in comparison with the real economy and with the developed countries. It comprises all types of financial institutions and markets characteristic of well-developed market economies, as well as institutions that make up its infrastructure. The size and structure of the financial system have been perceived as optimal from the point of view of its positive impact on economic growth. Further positive changes in the composition of banks' loan portfolios would be commendable, as well as continued expansion of lending to small- and medium-sized enterprises (SMEs). It would be desirable if the currently diminishing role of the capital market in financing economic expansion was restored.

The analyses of the individual segments of Poland's financial system and of changes in its regulation and infrastructure, presented in this study, lead to the following conclusions and suggestions concerning the development of domestic financial institutions and markets.

Financial institutions

- In Poland, as in other countries of the region, the banking sector was the largest part of the financial system. In 2015, the bank assets to GDP ratio remained close to 89%.
- Accumulated growth in credit to the non-financial sector in Poland since the outbreak of the global financial crisis has been the highest among all EU member states. In 2015, credit growth was close to nominal GDP growth. All key credit categories were rising at a varying pace – the pace of corporate and consumer loan growth was the sharpest, while that of housing loans was the weakest. At the same time, the share of corporate loans in the assets of the banking sector was among the lowest in the entire EU and among countries of the region.
- Deposits of the non-financial sector, considered as the most stable external fund item, were the main source of funding for domestic banks. The rate at which they increased exceeded credit growth, thus further reducing the funding gap. At the same time, the funds provided by parent companies, mostly banks, accounted for a diminishing share of Polish banks' liabilities, which was related to a gradual decline of the value of portfolios of foreign currency housing loans and lower demand for currencies.
- Banks in Poland operated with a low leverage. Their capital ratios stood at a level similar to that in the EU, but the conservative methods of capital requirement estimation (resulting in high shares of RWAs in the assets) rendered the actual resilience of banks to shocks to be higher. At the end of 2015, the average value of the total capital ratio amounted to 16%, and of the Tier I capital and Common Equity Tier I capital ratios – 14.6%.

- Although the profitability of the banking sector remained considerably higher than the EU average, it was on a steady downward trend. In 2015, the decrease was driven by the adjustments to low interest rates coupled with one-off events, such as costs related to the provisioning of the Borrower Support Fund of BGK and payouts of guaranteed deposits to the clients of a failed cooperative bank. It can be expected that in the coming years the banking sector's earnings will be heavily affected by regulatory measures, such as the introduction of a tax on some financial institutions.
- Cooperative banks exhibited below-average profitability. This was underpinned by losses arising from cooperative banks' expansion into business areas which had so far been the domain of commercial banks, as well as low operating efficiency of the former. In order to contain the risks associated with their operating model and to meet the new regulatory requirements, cooperative banks and their associations need to change their mode of operation. One way to do it would be to tighten the cooperation of cooperative and affiliating banks under an institutional protection scheme, i.e. a group of banks whose members ensure their liquidity and solvency on a mutual basis.
- The financial position of credit unions remains tight although measures have been taken to increase the safety of deposited funds. As a result of the restructuring of credit unions, the scale of their operations was reduced – at the end of 2015, operational activity was conducted by 48 credit unions (2 fewer than at the end of 2014), and their asset value dropped by 9.4%.
- At the end of 2015, the credit unions sector posted a net loss. Their earnings were heavily affected by a decrease in interest income resulting from a decline in market interest rates, a drop in the value of the loan portfolio and the need to create provisions for the revaluation of financial assets.
- The capital position of the credit union sector remained tight, and the value of regulatory capital was inadequate to the scale of their operations.
- A record high inflow of funds to investment funds was registered in 2015 and at the end of the year their net assets were at the sector's all-time high of PLN 272.3 billion. Investor interest in participation units stemmed, among others, from the search for individual investment solutions, including those aimed at tax optimization, and opportunities to gain higher returns on investment than the interest rate on bank deposits. Households continued to prevail among investment fund participants, and the share of enterprises increased substantially.
- In 2015, net assets of open pension funds (OFE) dropped by 5.7% to PLN 140.5 billion, primarily on account of unfavourable developments in the domestic stock market and a negative cash flow from the Social Insurance Institution (ZUS; contributions to ZUS due to the so-called security slider were higher than contributions to OFE). Domestic equities prevailed in the structure of the funds' investment portfolios as they accounted for 76.1% of OFE investments at the end of 2015. At the same time, the share of foreign investments

in OFE portfolios doubled from 2014, to reach 8.0% at the end of 2015. The average annual weighted rate of return of OFE stood at -4.6% in 2015.

- At the end of 2015, assets accruing as part of contributions to the pension system on a voluntary basis were PLN 16.9 billion and were 8.6% higher than at the end of December 2014. The largest amount of assets was gathered in occupational pension schemes (PLN 10.6 billion), on individual pension accounts – PLN 5.7 billion, and the least on individual retirement security accounts – PLN 0.6 billion. As in previous years, the number of persons saving for retirement purposes on a voluntary basis continued to be low. Major changes in the functioning of the Polish pension system are expected in the coming years, which will be probably aimed at promoting voluntary forms of saving for retirement purposes.
- The value of the gross written premium collected by domestic life insurance companies declined somewhat in 2015, which reduced the value of the premium collected by the whole insurance sector. The value of deposits and assets of Sector I also decreased. The insurance sector reported a weaker financial and technical result than in 2014. Treasury securities prevailed in the investment structure of domestic insurance companies. The domestic insurance sector had sufficient own funds to cover the statutory solvency ratios and held higher assets to cover technical insurance provisions than the liabilities arising from insurance contracts.
- The model of business financing prevailing among Polish firms favours self-financing. Among external non-banking sources of financing, firms often resort to leasing and issue of bonds, including bonds issued in foreign markets. In 2015, the value of assets leased to other enterprises and loans extended to enterprises by leasing companies rose to PLN 49.8 billion. Non-financial entities raised PLN 24.7 billion in the domestic bond market, while the value of new share issues on the WSE-organised markets (Main List and NewConnect) was PLN 5.6 billion. Private equity funds were an additional source of own capital for some enterprises (in 2015, such funding was provided to 102 domestic companies). In the period under analysis, private equity funds invested PLN 3.4 billion in Poland. In the last five years, the ratio of the value of capital raised by domestic private equity funds to the value of funds raised by enterprises via new share issues on the WSE-organised markets has been 23% on average.
- According to data of the Central Statistical Office of Poland (GUS), the value of loans and advances granted by non-bank lending companies and in association with credit intermediaries in 2015 was PLN 33.1 billion, i.e. 15.7% more than a year earlier. Mortgage loans and cash loans and advances were the major products offered by these companies and intermediaries. Some non-bank lending companies fund their activity with bond issues or advances from their parent entities, and some – with bank loans; they are therefore included in the shadow banking sector. In 2015, a limit on non-interest costs of consumer loans was introduced in national regulations as organisational and legal requirements were set for these companies. Lending institutions were also allowed to use

the bank credit information-sharing system, which should positively affect the process of assessing borrower's creditworthiness and managing credit risk by market participants. However, no single public register of such entities has been established, and they are not subject to supervision. The absence of control and regular reporting requirements for non-bank lending companies makes it impossible to carry out monitoring of their activities. Any irregularities occurring in this market may lower Poles' confidence in other financial institutions.

- Domestic investment firms carry on their business primarily on organised markets run by the WSE and BondSpot. The core activity of investment firms consisting in conveying trade orders is becoming unprofitable. This is caused by the dwindling number of transactions in the spot and futures markets of the WSE and intense competition on the market for brokerage services, including competition from other financial institutions. This induces investment firms to search for new sources of income, including development of services related to the issuance of shares and bonds and the introduction of these instruments into organised trading. These entities have also been very active on the OTC market for a few years, mainly offering their clients access to internet-based trading platforms (so-called forex platforms), where they can conclude currency, commodity, stock and stock index contracts for difference (CFDs) . Net income from activity on these platforms was the main source of gross profit of brokerage houses in 2015.
- Protection of consumer rights in the market of financial services has gained in importance. This trend not only reflected the world-wide trends to strengthen consumer rights protection in response to the role financial institutions played in triggering the global financial crises and to identified sales malpractices, but was also the result of the raising of consumer awareness of their rights. New legal solutions implemented in Poland (e.g. regulating the rules for complaint handling), the establishment of new supervisory authorities (Financial Ombudsman) and new rights granted to existing institutions (Office of Competition and Consumer Protection, UOKiK) should contribute to better protection of consumers who are users of financial services. The solutions will also be an important factor affecting the functioning of financial institutions, their sales practices and the manner in which they build up their relationship with clients.

Financial markets and their infrastructure

- Significant changes in the structure of the domestic market for interbank deposit transactions was brought about by a marked decline in the liquidity of the unsecured deposit market accompanied by a slight increase in the value of conditional transactions. In 2015, the share of repo and sell-buy-back transactions in the domestic interbank deposit market's turnover was for the first time higher than the share of unsecured deposits. Therefore, the structure of interbank deposit transactions in Poland shifted towards the structure of interbank deposit transactions in the euro area. Despite these changes, for some banks unsecured interbank deposits remained the only liquidity management instrument. The value and term structure of turnover on the market for the deposits were determined by the small number of its participants and low credit limits imposed by banks on one another. O/N transactions prevailed, and their share in the market's turnover was almost 90% in 2015.

- The number of participants in the WIBID/WIBOR reference rate fixing did not change as compared with the end of 2014. In the coming years the EU regulations regarding indices used as benchmarks in financial instruments and contracts will have a substantial impact on the organisation and participation in the rates' fixing. Due to the importance of those rates for the domestic financial system, they may be recognised as so-called critical benchmarks. This would require the compliance of fixing participants and its administrator with the regulation-specified standards, and the identification of an institution responsible for oversight of the administrator in Poland. Banks participating in fixing the WIBID/WIBOR rates would be required to follow the administrator-set rules of conduct, including rules relating to the storing of data used to process quotes, internal control of staff responsible for their provision, and requirements aimed at preventing conflicts of interest. Procedures used currently at banks participating in rate fixing are largely consistent with the solutions adopted in the EU regulation under discussion. However, the compliance with these solutions will be more challenging for the administrator of reference rate fixing, as he/she will have to fulfil the requirements relating to, among others, ensuring the correct methodology and transparency of the fixing process as well as the verification of source data quality.
- Transactions of domestic banks accounted for approx. 17% of the turnover in the global fx swap market of the zloty. Domestic banks concluded fx swaps mainly with foreign banks that financed investment on Poland's capital market, in particular on the Treasury bond market, and speculated on zloty exchange rate movements. Domestic banks often used these transactions in their strategies of hedging against FX risk .
- Turnover growth, observed on the domestic market for conditional transactions since 2009, came to a halt in 2015. The average daily value of transactions concluded on the market fell by more than 5% (compared to 2014) and amounted to PLN 14.5 billion. In June 2015, KDPW_CCP launched the service of clearing repo and sell-buy-back transactions concluded on Treasury BondSpot Poland. This solution will allow banks to mitigate counterparty credit risk arising from repo and SBB transactions. Considering the legal environment, as well as trading and post-trading infrastructure, the development of the interbank conditional transactions market in Poland will likely be determined mainly by the actions taken by domestic banks, including their liquidity management policy.
- In 2015, the Treasury bond market remained the dominant segment of the domestic market for long-term debt instruments. The value of outstanding domestic marketable Treasury bonds rose by 6.3%, or around PLN 30.5 billion, compared to the end of 2014. In 2015, the Ministry of Finance continued its strategy of increasing the supply of floating

interest-bearing instruments – their share in the structure of domestic Treasury bonds at the end of 2015 amounted to almost 24%. In 2015, the value of the portfolio of zloty-denominated Treasury bonds held by domestic banks increased substantially (by over PLN 20 billion). The increase came on the back of, among others, persistent deflation and expectations of NBP interest rate cuts. The value of non-residents' portfolio of domestic Treasury bonds was relatively stable, ranging from PLN 195 to 210 billion. The share of long-term investors, such as central banks, public institutions, insurance companies and pension funds, in the structure of foreign buyers of domestic Treasury bonds rose considerably. A decline was observed in the liquidity of the secondary market for domestic Treasury bonds for yet another year. The average daily value of unconditional transactions dropped by over 16% on the 2014 figure and amounted to PLN 9.3 billion.

- The domestic market for non-Treasury long-term debt instruments was still relatively underdeveloped and not very liquid. The corporate bond market continued to be its main segment, with a 47.9% share in the market for non-Treasury debt instruments. In 2015, the debt of non-financial enterprises resulting from bond issues increased by around 20%. The market for these instruments was characterised by a high degree of concentration. Bonds issued by members of three capital groups accounted for almost 50% of the value of instruments sold in the primary market. The value of transactions in corporate bonds on the Catalyst platform fell from PLN 1.5 billion in 2014 to PLN 1.2 billion in 2015. The use of credit ratings assigned by rating agencies by domestic issuers continued to be limited.
- The value of outstanding municipal bonds increased slightly. The market for municipal bonds remained highly fragmented, which resulted from minor borrowing needs of smaller local government units and the splitting of issues into a number of series, which allowed the involved parties to set similar debt repayment timetables as in the case of loans. Since 1 July 2015, revenue bonds have been excluded from the debt limits of local government units. It can therefore be assumed that when implementing successive EU-cofinanced projects under the new seven-year budgetary perspective, local government units will be raising funds by issuing such debt instruments.
- The capitalisation of the Polish stock market declined to PLN 1,091.6 billion on the back of the falling prices of equity instruments (the WIG index dropped by 9.6%) and the delisting of companies, some of which had high market value. The ratio of the capitalisation of domestic companies to Poland's GDP at the end of 2015 was 29.2%. The liquidity of the domestic stock market remained low compared to stock exchanges in developed countries. This is, inter alia, due to the fact that securities traded on the domestic market are issued by a relatively large number of companies with low capitalisation and low free float.
- The year 2015 saw a rise in the value of new issue shares sold in public offerings on the WSE Main List. Foreign entities were the most active investors, as their share in gross turnover on the WSE Main List was the highest in the history of the market and for the

first time exceeded 50%. The share of individual investors, in turn, reached its all-time low of 12% for another consecutive year.

- The NewConnect market shrank again, both in terms of capitalisation and the number of issuers. This decline was driven both by movements in the prices of the listed shares, and by the delisting or transfer of equities to the WSE Main List by some issuers. The liquidity of the NewConnect market was adversely affected by low value of initial offerings. It seems that it would be reasonable to set a minimum value of a share issue and continue to improve the information transparency of the market.
- In 2015, average daily turnover on the global spot market for the Polish zloty rose by 10% to over USD 11.5 billion. The vast majority of transactions (over 80%) was concluded in the offshore market. The EUR/PLN exchange rate was largely determined by developments in the global financial markets and reflected only to a small extent the flows resulting from Poland's trade or non-resident investment on the domestic capital market.
- The value of transactions in zloty-denominated OTC derivatives in the offshore market, which involves transactions between non-residents, was substantially higher than in the domestic market, which was primarily related to the high activity of London-based banks and hedge funds. In Poland, OTC interest rate derivatives continued to prevail markedly in terms of turnover value, despite a substantial fall in market participants' interest in the instruments, observed in the course of the year. Investor activity on the market for exchange-traded derivatives was still substantially lower than on the OTC market and was concentrated in the segment of WIG20 futures.
- Recent years have seen a structural drop in activity in the domestic OIS market, which was primarily associated with a small number of market participants and a substantial reduction in POLONIA rate volatility (primarily as a result of fine-tuning operations carried out by NBP). In 2015, average daily net turnover in those instruments amounted to merely PLN 0.2 billion – more than two times less than in 2014 and the lowest in the history of the market in Poland. This decrease, apart from the structural factors discussed above, was additionally driven by low expectations for changes in the NBP reference rate. A further decline in the liquidity of the zloty-denominated OIS market may have adverse consequences for the development of other segments of the domestic financial market. OIS curves approximate risk-free rates and are used to discount cash flows from financial instruments, and thereby to their valuation. Moreover, on the developed markets OIS rates are more and more often considered the future key benchmarks on the money market.
- The first transactions in OTC interest rate derivatives denominated in the zloty have been cleared at KDPW_CCP. By the end of 2015, the clearing house accepted for clearing 258 such transactions (mostly IRSs) whose value amounted to PLN 34 billion. KDPW_CCP continued to work on expanding the catalogue of its clearing services to euro-denominated OTC interest rate derivatives and securities admitted to organised trading.

- Due to the poor quality of data, still only few institutions authorised to access the information stored at trade repositories decided to comprehensively acquire and analyse the data. ESMA issued guidelines to EU-registered repositories on data quality control and a single format for making them available. In line with those guidelines, in 2015 the KDPW_TR introduced new functions enabling additional control of the reported data and streamlining the automation of reports to be presented to authorised institutions.
- KDPW also expanded its service of assigning LEI codes, so far provided to legal persons only, to include natural persons running a business who conclude transactions in derivatives. The change will make it possible to reconcile reports on derivative transactions in which at least one of the parties is a natural person who runs a business. This should help broaden the scope of data stored at trade repositories and improve their quality.
- In April 2015, the Registry of Securities for transactions in Treasury bills concluded on the Treasury BondSpot Poland and OTC, as well as for NBP bills, was replaced by a new system – SKAR BILLIONET4. Market participants increasingly often used securities netting in the spot market, launched by KDPW_CCP in the second half of 2014, as well as partial settlement. In addition, KDPW began preparations to obtain an authorisation as a central securities depository in line with the CSDR requirements.

1. Financial system in Poland

1.1. Directions of the evolution of Poland's financial system

In 2015, the Polish economy was developing in an environment of diverse growth rates in the major world economies. In the United States, economic recovery was stronger than in the euro area, where the rate of GDP growth remained moderate. Poland's GDP growth of 3.9%, compared to 3.3% in 2014[1], occurred against the backdrop of falling prices. The annual average CPI amounted to -0.9%.[2] This was mainly driven by falling commodity prices in world markets and the absence of demand and cost pressure in the domestic economy.[3] The Monetary Policy Council (MPC) lowered the NBP interest rates on one occasion, on 5 March 2015, when it reduced the reference rate by 50 basis points to 1.5%, the Lombard rate to 2.5%, the deposit rate to 0.5% and the rediscount rate to 2.25%.

In such an environment, the economic condition of enterprises improved and outlays on new means of transport and machinery and equipment purchases increased. Corporate investment was partly financed with external sources, including credit. Growth in lending to enterprises was supported by low interest rates and the easing of lending policy by banks.[4] The financial situation of households improved in 2015. Households reported higher income and average monthly disposable income per capita was 4.3% higher in real terms than in 2014.[5] Poland's unemployment rate dropped to 9.8% from 11.4% in 2014. The total employment rate rose from 61.7% in 2014 to 63.5% in 2015. Household financial assets also grew (by 8.8%), and the growth of savings (bank deposits) amounted to 9.8%.

In the period under analysis, the monetary policy of major central banks was highly expansionary, albeit to a varying degree.[6] The ECB expanded its asset purchase programme and decreased the interest rate on the deposit facility to -0.3% in December 2015. On the other hand, the Fed signalled that an increase in interest rates was in prospect, and it ultimately raised them in December 2015. The Swiss franc appreciated strongly against most currencies, including the Polish zloty, after the Swiss National Bank changed its exchange rate policy. Growing uncertainty

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[1] *Poland in figures 2016*, Warsaw May 2016, GUS, p. 36.
[2] *Yearly price indices of consumer goods and services from 1950*, GUS, Information Portal.
[3] *Inflation Report. March 2015,* Warsaw March 2015, NBP, pp. 9, 25 and 29.
[4] *Sytuacja finansowa sektora przedsiębiorstw w IV kw. 2015 r.* [Financial situation in the enterprise sector in 2015 Q4], Warsaw April 2016, NBP, pp. 2 and 40.
[5] *Sytuacja gospodarstw domowych w 2015 r. w świetle wyników badania budżetów gospodarstw domowych* [The situation of households in 2015 as evidenced by the results of the household budget survey], Information note, Warsaw 26 May 2016, GUS, p. 1.
[6] *Report on monetary policy implementation in 2015*, Warsaw May 2016, NBP, p. 19.

in global financial markets and concerns about growth outlook globally were reflected, among others, in a rise in yields on government bonds of the economies of emerging markets and a decline in stock market indices, especially in emerging markets. Moreover, the currencies of most developing economies weakened substantially.

The ratio of financial system assets to GDP increased by 1.4 percentage points and amounted to 122.8% at the end of 2015 (Table 1.1.1). In Poland, like in other Central and Eastern European (CEE) countries, the development of financial intermediation, measured by the value of financial system assets to GDP ratio, continued to exhibit a relatively low level compared with the average ratio in euro area countries (Figure 1.1.1). At the end of 2015, assets of institutions comprising the Polish financial sector stood at PLN 2.2 trillion, i.e. they were 5.2% higher than a year earlier. The asset growth was primarily caused by a rise in the value of assets of commercial banks and investment funds. On the other hand, assets of open pension funds dropped substantially – by 5.7% and assets of credit unions – by 9.4%.

Table 1.1.1. Assets of the financial system as a percentage of GDP in selected CEE countries and in the euro area, 2012-2015 (%)

	2012	2013	2014	2015
Poland	121.2	125.9	121.4	122.8
Czech Republic	153.3	165.0	164.4	154.4
Hungary	135.1	132.9	133.3	127.0
Euro area	487.1	470.6	493.8	463.6

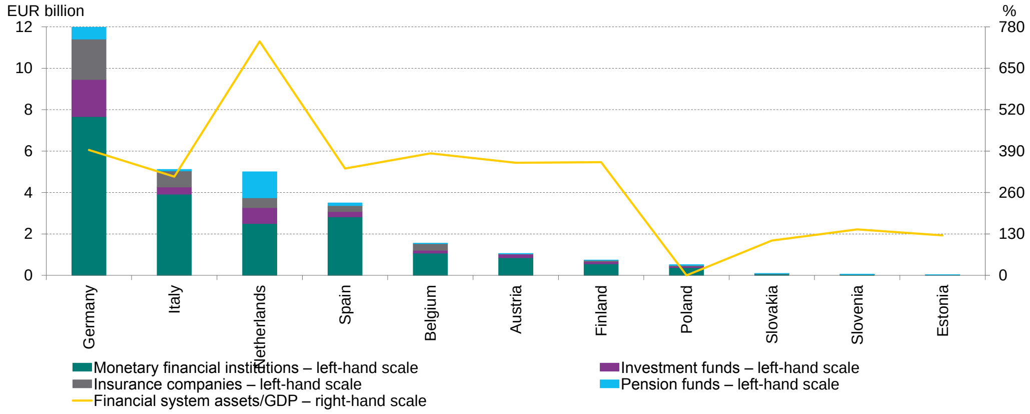
Notes: Data for the euro area refer to 17 countries in 2012-2013, 18 countries in 2014 and 19 countries in 2015. Due to the change of the source of data, inclusion of assets of money market funds and adjustments sent by central banks, the data are not comparable with the data released in previous editions of the report.
Sources: For the euro area – ECB Statistical Data Warehouse and Eurostat; for other countries – data are provided by national central banks (NCBs) and GUS.

An analysis of financial institutions and markets of various countries against the backdrop of their economic development implies that some segments of Poland's financial system, including the banking sector, remain relatively poorly developed (Figure 1.1.2).

A specific feature of the Polish financial system is the relatively low stock market capitalisation and the low value of outstanding private sector debt securities, including corporate and bank bonds. However, evidence of the recent global crisis has shown that the excessive share of the banking sector in the financial system in a number of developed European countries causes systemic risk growth and adversely affects economic growth.[7]

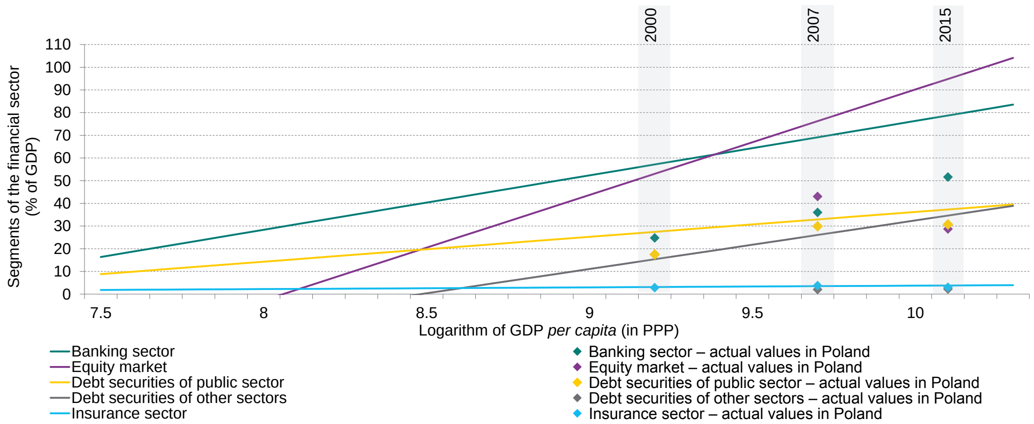
[7] S. Langfield, M. Pagano, *Bank Bias in Europe: Effects on Systemic Risk and Growth*, ECB Working Paper No 1797, May 2015, European Central Bank.

Figure 1.1.1. Financial system assets in selected EU countries at the end of 2015



Source: Calculations based on ECB, Eurostat, GUS and NBP data.

Figure 1.1.2. Financial system development depending on the level of GDP *per capita*



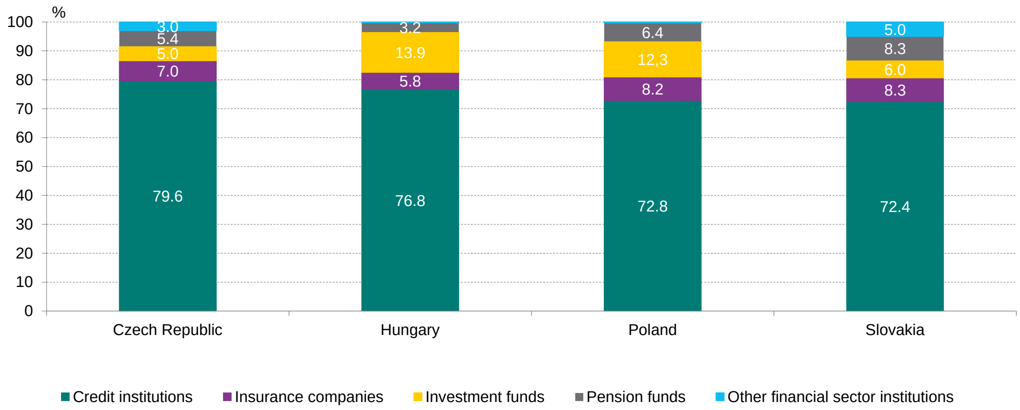
Sources: NBP calculations based on data provided by the International Monetary Fund (World Economic Outlook, 04/2013), the World Bank (Financial Structure Dataset, 04/2013) as well as GUS, Office of the Polish Financial Supervision Authority (UKNF), Warsaw Stock Exchange (WSE), Fitch Polska and NBP.
Note: Values of the regression function presented in the figure were estimated for panel data which included information on the financial systems of 203 countries for the years 1991-2012.

The following development measures of the individual sectors of the financial systems were used:
– banking sector: loans to non-public sector to GDP (for Poland – banking sector's loans and advances to the non-financial sector in domestic currency and foreign currency),
– equity market: capitalisation of domestic companies of the WSE Main List 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 the Fixed Effects GLS in relations to the banking sector and equity market, and the Random Effects GLS in relation to debt securities of the public sector, other sectors and the insurance sector. The model was selected on the basis of the Hausman test (M. Verbeek, *A Guide to Modern Econometrics*, 2004 John Wiley & Sons, pp. 351-352).

In Poland, like in other countries of the region, the banking sector continued to play a major role in the financial system, although the Polish financial system can be regarded as one of the least banking-oriented in CEE (Figure 1.1.3). This is because the sector of collective investment undertakings, i.e. pension and investment funds and insurance companies, is larger compared with other countries of the region.

Figure 1.1.3. Composition of financial systems in CEE countries at the end of 2015, by value of assets



Sources: For Slovakia, data were derived from the website of the central bank of Slovakia http://www.nbs.sk and ECB Statistical Data Warehouse; for other countries – data were provided by NCBs; for Poland – by NBP.

In CEE countries, the level of banking sector development remained low compared to euro area countries (Table 1.1.2). Domestic banks focused on providing traditional banking services, mainly in deposit taking from and lending to non-financial clients.

Table 1.1.2. Banking sector development levels (commercial and cooperative banks) in selected CEE countries and in the euro area, 2013-2015 (%)

	Assets/GDP			Loans[1]/GDP			Deposits[2]/GDP		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Poland	85.9	88.5	88.7	48.7	48.8	51.6	46.6	48.4	51.2
Czech Republic[3]	132.4	131.8	122.9	64.7	66.4	63.4	76.9	79.2	76.3
Hungary	85.5	84.7	82.6	39.3	36.7	30.3	32.4	31.7	32.8
Euro area[4]	308.3	309.9	296.0	97.0	94.2	92.0	82.4	83.4	83.4

[1] Loans and advances from the banking sector to the non-financial sector in domestic and foreign currency.
[2] Deposits of the non-financial sector in the banking 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. Data for the euro area refer to 17 countries in 2013, 18 countries in 2014 and 19 countries in 2015. Due to adjustments sent by central banks, the data are not fully comparable with the data published in previous versions of the report.

Sources: For the euro area – ECB Statistical Data Warehouse; for other countries – data provided by NCBs and GUS.

The year 2015 saw a significant increase in the value of assets of investment funds and banks in Poland (Tables 1.1.3 and 1.1.4). The balance sheet total of open pension funds, credit unions and brokerage houses decreased for another year in succession.

The rate of growth of loans to the non-financial sector was approx. 5% at the end of 2015 and varied in the market's individual segments. In 2015, the value of zloty housing loans rose by 2.6%, which represents a slowdown in lending compared with previous years. The percentage of foreign currency loans in the portfolio of housing loans decreased to 44%. A robust recovery in the consumer loans market was observed (a 6.4% increase), which was driven by the easing of monetary policy by banks and favourable macroeconomic conditions. The year 2015 also saw a 7.9% rise in the value of loans taken by enterprises, both investment loans as well as current and real estate loans. The share of corporate loans in total loans also rose in 2015.

Assets of investment funds increased by 24.1% to their highest level in the history of the sector, i.e. PLN 272.3 billion. The asset growth came mainly on high net inflows.

Table 1.1.3. Assets[1] of financial institutions in Poland, 2008-2015 (PLN billion)

	2008	2009	2010	2011	2012	2013	2014	2015
Commercial banks[2]	963.2	977.2	1,062.1	1,187.9	1,233.7	1,276.7	1,393.9	1,455.3
Cooperative and affiliating banks[2]	75.9	82.4	96.4	106.1	115.8	129.5	135.4	139.7
Credit unions[3]	9.4	11.6	14.0	15.6	16.8	18.7	13.7	12.3
Insurance companies	137.9	139.0	145.2	146.1	162.9	167.6	178.5	180.3
Investment funds[4]	76.0	95.7	121.8	117.8	151.5	195.0	219.5	272.3
Open pension funds	138.3	178.6	221.3	224.7	269.6	299.3	149.1	140.5
Investment firms[5]	8.6	9.9	9.2	10.1	9.0	8.6	7.9	7.6
Total	**1,409.3**	**1,494.4**	**1,670.0**	**1,808.3**	**1,959.3**	**2,095.4**	**2,098.0**	**2,207.9**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Banks that conduct operating activity. Commercial bank also included branches of credit institutions.
[3] Data for 2015 include assets of active credit unions.
[4] Due to the change of the source of data, data on assets of investment funds since 2010 differ from data published in previous editions of the report. Data starting from 2010 are not fully comparable with data concerning previous periods.
[5] Up to and including 2009, assets of investment firms included assets of brokerage houses and offices. Starting from 2010, assets of investment firms include exclusively assets of brokerage houses, which results from the termination of the obligation to financially separate the bank's brokerage activity.

Note: Due to the adjustments made, data may differ from data presented in the previous issue of the report.

Sources: NBP, UKNF, Analizy Online and KSKOK.

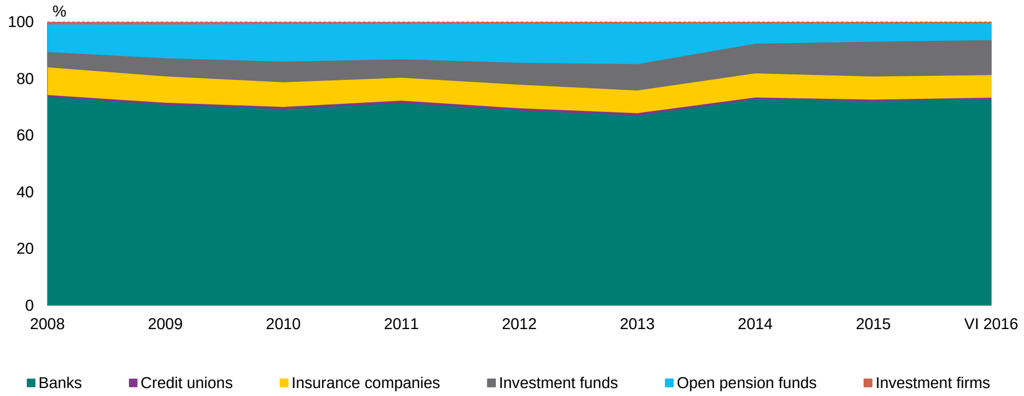
In the period under analysis, assets of open pension funds dropped by 5.7%. The trends discussed earlier in the text led to a slight decline in the share of the banking sector in the structure of financial system assets (Figures 1.1.4 and 1.1.5).

Table 1.1.4. Growth in assets[1] of financial institutions in Poland, 2012-2015 (y/y, %)

	2012	2013	2014	2015
Commercial banks[2]	3.9	3.5	9.2	4.4
Cooperative and affiliating banks[2]	9.1	11.8	4.6	3.2
Credit unions	7.7	11.3	-26.7	-10.0
Insurance companies	11.5	2.9	6.5	1.0
Investment funds	28.6	28.7	12.6	24.1
Open pension funds	20.0	11.0	-50.2	-5.7
Investment firms	-10.9	-4.4	-8.1	-4.2
Total	**8.4**	**7.0**	**0.1**	**5.2**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Banks that conduct operating activity. Commercial bank also included branches of credit institutions.
Sources: NBP, UKNF, Analizy Online and KSKOK.

Figure 1.1.4. Asset structure of the Polish financial system, 2008-2015

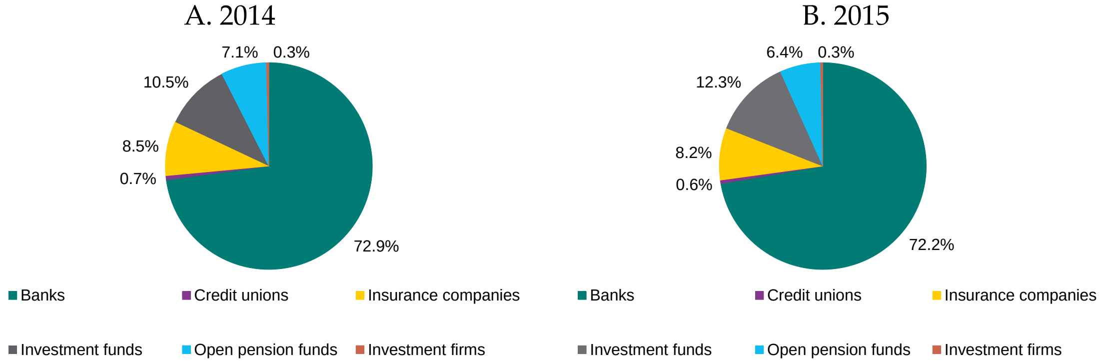


Sources: NBP, UKNF, Analizy Online and KSKOK.

At the end of 2015, 63 commercial banks, including 27 branches of credit institutions, carried on operations in Poland. Also, 560 cooperative banks and 2 affiliating banks operated on the domestic market. The number of investment funds rose markedly (Table 1.1.5) after closed-end investment funds (mostly private equity investment funds) had been set up to provide customised investment solutions for enterprises and affluent individuals.

In 2015, the capitalisation of the Polish stock market fell to PLN 1,091.5 billion. However, the continued to play a significant role in the region (Table 1.1.6). The decrease in the market valuation of companies and negative investor sentiment towards emerging markets caused the broad market Index WIG to fall by 9.6%. Shares of 16 new companies were admitted to trading in the regulated market and the number of companies listed on the non-regulated organised market NewConnect has dropped by 13 since 2014. Domestic stock market liquidity remained low compared with the stock exchanges in developed countries. A fall in non-residents' share in the WSE capitalisation was observed, and it stood at 43.1% at the end of 2015.

Figure 1.1.5. Share of individual financial institutions in the asset structure of the Polish financial system in 2014 and 2015



Sources: NBP, UKNF and Analizy Online.

Table 1.1.5. The number of financial institutions in Poland, 2008-2015[1]

	2008	2009	2010	2011	2012	2013	2014	2015
Commercial banks[2]	67	64	67	66	68	67	64	63
Affiliating banks[2]	3	3	3	2	2	2	2	2
Cooperative banks[2]	579	576	576	574	572	571	565	560
Credit unions	62	62	59	59	55	55	50	48
Insurance companies[3]	66	64	63	61	60	58	57	57
Investment funds (investment fund management companies)[4]	319 (39)	369 (43)	417 (50)	484 (50)	588 (54)	639 (55)	681 (58)	812 (60)
Open pension funds (pension fund management companies)[5]	14	14	14	14	14	13	12	12
Investment firms[6]	58	59	50	51	53	57	54	51

1 The table presents the number of institutions whose assets were taken into account in Table 1.2.3. It does not include foreign entities which can 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 banking activity. The number of commercial banks also includes branches of credit institutions. In 2006 there were 12, in 2007 – 14, in 2008 and 2009 – 18, in 2010 and 2011 – 21, in 2012 – 25, in 2013 – 28, in 2014 – 28 and in 2015 – 27 branches of credit institutions.
3 Entities carrying on operating activity in the area of insurance and reinsurance.
4 Up to and including 2007, the number of investment funds and investment fund management companies established (under the decision of the Polish Financial Supervision Authority (KNF); in 2008 and 2009 – the number of entities registered with the Investment Fund Register kept by the Regional Court in Warsaw; since 2010, the number of active funds.
5 The number of pension fund management companies equals the number of open pension funds.
6 Up to and including 2009, the number of investment firms included the number of brokerage houses and offices. Since 2010, the number of investment firms concerns exclusively brokerage houses.

Sources: NBP, UKNF and KSKOK.

The fall in the annual average value of outstanding money bills, which continued during 2015, reflected a steady decrease in excess liquidity in the banking sector. The State Treasury financed borrowing needs exclusively with instruments with maturities longer than one year. Only to a minor extent did enterprises and banks use short-term debt securities issues to finance their needs.

The Treasury bond market remained the dominant and most liquid segment of the domestic long-term debt securities during 2015 (Table 1.1.7). The Polish Treasury bond market was also the largest market for these instruments in CEE and the 9th largest market in the EU.

Table 1.1.6. Characteristics of stock markets in selected CEE countries and in the euro area, 2013-2015[1]

	Capitalisation of domestic companies (EUR billion)			Capitalisation of domestic companies to GDP (%)		
	2013	2014	2015	2013	2014	2015
Poland[2]	145.6	140.7	123.2	36.5	34.9	29.2
Czech Republic	22.0	22.6	23.5	13.9	14.5	14.1
Hungary	14.4	12.0	16.2	14.2	11.5	14.9
Euro area[3]	6,073.0	6,298,0	6,774,6	61.5	62.5	65.1
	Liquidity ratio [4] (%)			Number of listed companies (including foreign companies)		
	2013	2014	2015	2013	2014	2015
Poland	41.1	40.5	44.3	895 (26)	902 (30)	905 (33)
Czech Republic	24.1	19.1	20.9	26 (11)	23 (10)	25 (10)
Hungary	54.8	50.6	42.8	50 (0)	48 (0)	45 (0)
Euro area[3]	66.2	74.1	80.2	6,633 (550)	6,748 (483)	6,900 (440)

[1] All values also include alternative trading systems, if such platforms were run by the operator of a given stock exchange.
[2] Calculations of values for Poland were based on WSE and GUS data using the average NBP exchange rates at the end of particular years.
[3] Indices calculated for the euro area include the following stock exchanges: Athens Exchange, Cyprus Stock Exchange, Deutsche Börse, Euronext, Irish Stock Exchange, Ljubljana Stock Exchange, Luxembourg Stock Exchange, Malta Stock Exchange, NASDAQ OMX Nordics & Baltics, Spanish Exchanges (BME) and Wiener Börse.
[4] The ratio of net turnover value of the shares of domestic companies to stock market capitalisation at the end of the year.

Note: Due to data revisions, data may differ from data presented in previous editions of the report.
Sources: Eurostat, Federation of European Stock Exchanges (FESE), WSE and GUS.

The average daily turnover of unconditional transactions in Treasury bonds amounted to PLN 9.3 billion in 2015. The market for non-Treasury long-term debt instruments was still relatively poorly developed. The share of non-Treasury instruments in the domestic market for long-term debt securities increased somewhat, from 20.9% at the end of 2014 to 21.0% at the end of 2015.

Except for transactions in FX swaps, turnover in the deposit transactions markets, which is used mainly by financial institutions to manage liquidity on a day-to-day basis, was observed to fall. The most liquid segment of the Polish money market was the conditional transactions market, where SBB operations collateralized with Treasury bonds prevailed. The average daily value of conditional transactions went down by over 5%. At the same time, trade in the market for FX swaps went up by almost 14% (Table 1.1.8).

Table 1.1.7. Outstanding value of individual instruments of money and capital markets as of year-end, 2012–2015 (PLN billion)

	2012	2013	2014	2015
Treasury bills	6.1	0.0	0.0	0.0
NBP bills	127.5	131.4	110.6	98.8
Short-term bank debt securities	5.9	4.2	5.1	5.0
Short-term corporate bonds	18.5	16.2	13.5	7.3
Marketable Treasury bonds	520.0	565.7	482.9	513.4
BGK bonds for National Road Fund	25.6	25.4	19.6	19.4
Long-term corporate bonds	32.3	37.8	54.2	65.2
Municipal bonds	15.6	18.6	19.1	20.0
Long-term bank debt securities[1]	17.2	20.0	25.1	26.5
Covered bonds	3.1	3.3	4.1	5.4

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

Note: Due to revisions, data may differ from data presented in previous editions of the report.
Sources: Ministry of Finance (MF), NBP, KDPW and Fitch Polska.

As in previous years, the majority of zloty exchange transactions and OTC FX derivatives operations were concluded in the offshore market, mostly in London. This means that the zloty exchange rate is largely determined by operations executed between non-residents. Investor activity in the exchange-traded derivatives market continued to concentrate in the segment of WIG20 futures.

Table 1.1.8. Average daily net turnover in the domestic financial market, 2012-2015 (PLN million)

	2012	2013	2014	2015
Equity and debt instruments market				
Shares and allotment certificates	820.0	1,041.8	941.0	905.3
Treasury bonds	28,491.7	30,113.8	27,158.9	24,3253
Treasury bills	522.0	286.9	0.0	0.0
Deposit transactions market				
FX swap transactions	11,520.8	9,508.6	10,336.4	11,779.2
Repo/SBB transactions	12,557.5	14,508.2	15,249.9	14,454.3
Unsecured interbank deposits	5,874.2	5,563.3	4,554.9	3,923.1
Derivatives transactions market				
FX forwards	1,210.7	1,396.1	1,795.0	1,653.0
CIRS transactions	200.9	188.3	183.5	136.6
Currency options	220.6	273.3	399.2	331.7
FRAs	5,116.4	5,772.7	4,404.8	3,435.4
IRSs	1,698.4	2,100.0	2,422.4	2,361.0
OISs	633.5	441.4	520.8	236.5
WIG20 futures	832.8	813.8	850.1	781.5
Spot FX market	5,179.9	5,106.8	5,549.3	6,290.8

Notes: 1. Average daily net turnover is the value of transactions (turnover calculated individually). In the case of the FX swap market, turnover value has been calculated for only one currency of the transaction.
2. The value of turnover in the Treasury bond and bills market takes into account unconditional and conditional transactions (repo and sell-buy-back). In 2013, the average daily value of unconditional transactions in the market amounted to PLN 14.3 billion for bonds and PLN 70 million for bills. In 2014, the value of such transactions for Treasury bonds was PLN 11.1 billion, while in 2015 it was PLN 9.3 billion (in these years, Treasury bills were not traded).
3. Due to the change of the source of data, since 2013 the values of turnover in the market for unsecured interbank deposits have differed from the values published in previous issues of the report. Moreover, since 2013 data have not been fully comparable with data for 2012.
4. 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.
5. For the following markets: FX swap, FX, FX forwards, currency options and interest rate derivatives, the value represents the value of an exchange transaction involving the Polish zloty or PLN-denominated instruments. The impact of changes in the population of Money Market Dealers was eliminated.
6. The turnover in shares includes the value of session and block transactions.
7. The turnover in WIG20 futures was calculated according to settlement values, taking into account session and block transactions.
8. The turnover in the FX market includes domestic transactions only. It does not include the offshore market.
9. The turnover in the markets for interest rate derivatives refers to domestic money market rates instruments.
Sources: NBP study based on data from WSE, MF and NBP.

1.2. Households and enterprises in the financial market in Poland

The financial system facilitates the flow of capital between entities holding surplus funds and those in need of funds. The circulation of funds in the financial system takes place via banks or the financial market, where businesses issue securities (shares or bonds). Investors, including households, can acquire securities either directly in the financial market or via financial institutions (i.e. investment funds).

1.2.1. Financial assets of households

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

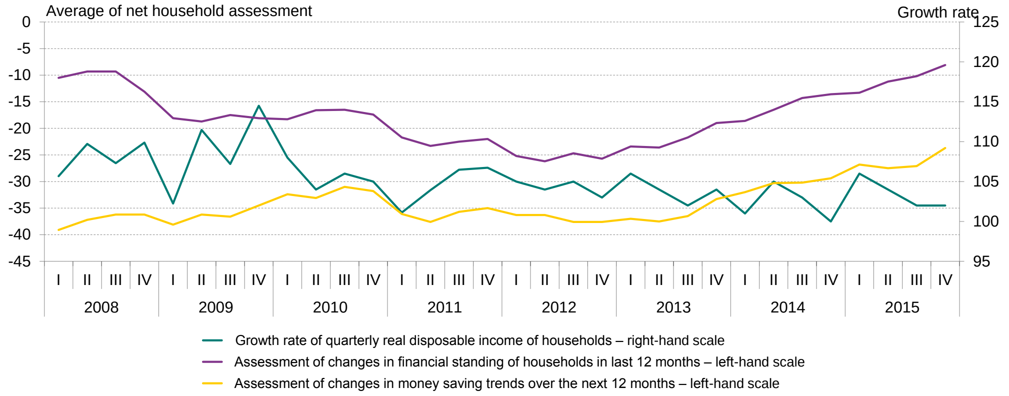
In a Kronenberg Foundation research covering the years 2008-2015, nearly 2/3 of the respondents said they would save for the future. In 2015, the number of persons convinced that saving for the future was a worthwhile activity dropped to 67% from 75% in 2014. On the other hand, the percentage of persons declaring that they save on a regular basis increased from 12% in 2014 to 16% in 2015 and the percentage of savers who do it occasionally – from 37% to 43%.[8] According to GUS data, the financial condition of households improved in 2015. The average monthly disposable income per capita in the household rose by 4.2% (to PLN 1,386).[9] Despite rising expenditure, the surplus of disposable income over expenditure increased, which should boost savings growth.[10] Consumer sentiment improved, both with regard to the current financial position and projected saving trends (Figure 1.2.1).

[8] According to the results of the research *Poles' Attitudes towards Saving*, a report of the Kronenberg Foundation at Citi Handlowy, September 2015, pp. 21, 23 and 24.

[9] Household's disposable income is defined as the sum of household's current income from various sources reduced by prepayments on personal income tax made on behalf of the tax payer by the tax-remitter (…), by tax on income from property, taxes paid by self-employed persons, including those in free professions and individual farmers and by social security and health insurance premiums. (…) Disposable income is allocated to expenditure and an increase in savings. See *Methodological notes on household budget surveying*, Warsaw, 2011, GUS, p. 33.

[10] *Sytuacja gospodarstw domowych w 2015 r. w świetle wyników badania budżetów gospodarstw domowych* [The situation of households in 2015 as evidenced by the results of the household budget survey], Information note, Warsaw, 25 May 2016, GUS.

Figure 1.2.1. Public sentiment surveys on savings and dynamics of disposable income, 2008-2015



Notes: Quarterly values of disposable income were deflated by the quarterly CPI. The quarterly growth rate is calculated with reference to the corresponding quarter of the previous year. A positive average of household assessment balances means the preponderance of consumers who take a positive view of the changes over consumers who take a negative view of the changes.
Source: The calculations are based on GUS data from *Non-financial quarterly accounts by institutional sectors in 2005-2014*, at current prices, Warsaw 2014, GUS and results of the GUS/NBP *Consumer Tendency* survey (editions from 2007-2013) available on the website www.stat.gov.pl.

Household financial assets[11] grew by almost 9% in 2015 and amounted to PLN 1,054.8 billion at the end of December 2015. They represented 58.7% of GDP, i.e. 2.4 percentage points more than compared with the previous period (Figure 1.2.2). This asset growth was primarily driven by changes in the value of cash in circulation and, as a year earlier, of bank deposits and investment fund units. The value of deposits held at credit unions and of shares listed on the WSE was observed to decline.

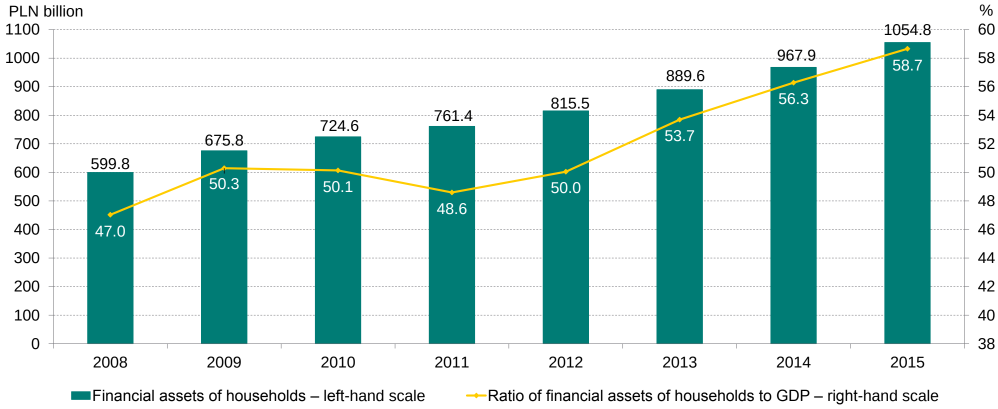
Polish households predominantly prefer these methods of managing surplus cash that enable them to use the funds instantly or withdraw them easily, and are at the same time regarded as the safest.[12]

The survey of household wealth and debt in Poland[13] shows that Poles held their savings at banks, with 81.9% of households holding bank deposits. Households were far less likely to invest

[11] In this analysis, household financial assets include the following items: deposits at banks and credit unions, investment fund units purchased by households, unit-linked assets and life insurance saving premiums corresponding to the value of technical provisions in life insurance, Treasury securities, stocks quoted on the WSE-organised markets, cash in circulation (excluding bank vault cash) and non-Treasury debt securities. Funds kept at accounts at open pension funds are different in nature than the categories of financial assets discussed earlier in the text, in which households invest their savings, as it is not possible to freely use the funds.
[12] CBOS surveys show that only 7% of the survey respondents would choose financial investments with a high rate of return, but also carrying a potentially high loss. See: *Płeć a podejmowanie decyzji inwestycyjnych*, a survey report, Warsaw, May 2014, CBOS, p. 7.
[13] *Household Wealth and Debt in Poland. Pilot study report 2014*, Warsaw 2015, NBP, pp. 34-38.

their savings in investment funds (4.2%), shares (3.5%) and bonds (1.0%).[14] Deposits accounted for the bulk (68.2%) of the total value of household financial assets, the share of financial investments in securities was 11.7% (of which approximately 61% were shares in investment funds).

Figure 1.2.2. Household financial assets, 2008-2015

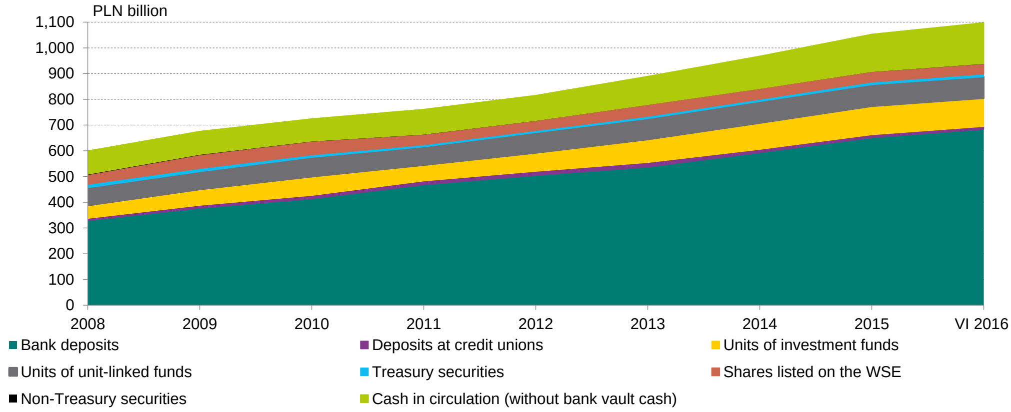


Note: Due to adjustments, data may differ from data presented in the report's previous editions.
Sources: Based on GUS, UKNF, Analizy Online and NBP data.

Statistical data on financial assets confirm the household preferences expressed in the surveys (Figure 1.2.3). At the end of 2015, deposits at banks and credit unions accounted for a total of 63% of household financial assets (Table 1.2.1). The value of cash accumulated by households totalled PLN 145.3 billion, which substantially boosted the growth rate of cash in circulation (15.5%). The value of bank deposits placed by households during 2015 rose by 9.8%.

[14] The percentage of households holding deposits in Poland is significantly lower in comparison with euro area countries (96.4% of households in the euro area). Polish households are also less inclined to invest in mutual funds, shares or bonds than their euro area counterparts. See *Household Wealth…*, op.cit, pp. 37-38.

Figure 1.2.3. Structure of household financial assets, 2008-2015, as at period-ends



Notes: The category of unit-linked funds is presented jointly with life insurance saving premiums.
Source: NBP estimates based on UKNF, Analizy Online and NBP data.

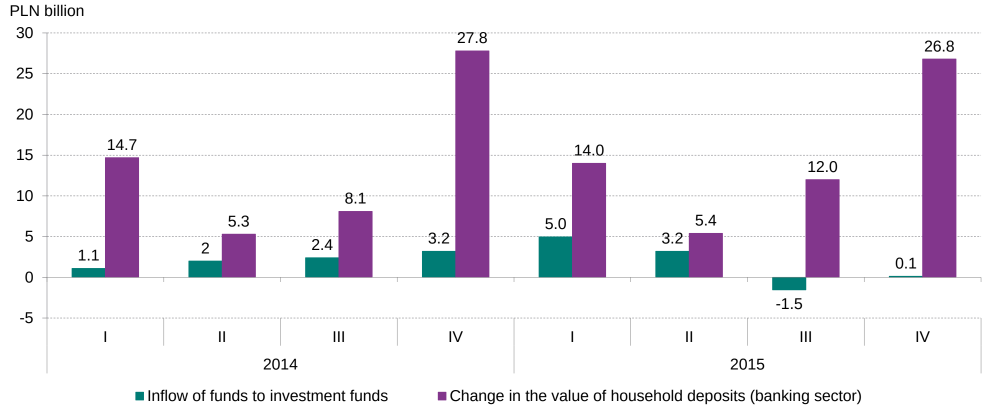
Table 1.2.1. Value of household financial assets and their structure, 2012–2015, as at period-ends

	2012	2013	2014	2015
Value of household financial assets (PLN billion)				
Bank deposits	504.2	536.5	592.4	650.8
Deposits at credit unions	15.7	17.6	12.7	11.9
Units of investment funds	72.5	90.4	103.2	111.8
Units of unit-linked funds and life insurance saving premiums	77.9	80.1	82.7	82.7
Treasury securities	8.5	9.3	9.3	10.7
Non-Treasury securities	1.8	1.3	1.3	1.8
Shares listed on the WSE	37.2	44.6	40.5	39.8
Cash in circulation (excluding bank vault cash)	97.7	109.8	125.8	145.3
Total	**815.5**	**889.6**	**967.9**	**1,054.8**
Structure of household financial assets (%)				
Bank deposits	61.8	60.3	61.2	61.7
Deposits at credit unions	1.9	2.0	1.3	1.1
Units of investment funds	8.9	10.2	10.7	10.6
Units of unit-linked funds and life insurance saving premiums	9.6	9.0	8.5	7.8
Treasury securities	1.0	1.0	1.0	1.0
Non-Treasury securities	0.2	0.1	0.1	0.2
Shares listed on the WSE	4.6	5.0	4.2	3.8
Cash in circulation (excluding bank vault cash)	12.0	12.3	13.0	13.8

Note: Due to adjustments, data may differ from data presented in the report's previous edition.
Source: Study based on UKNF, Analizy Online and NBP data.

The value of units of investment funds[15] in the portfolio of households rose by 8.3%. The change in the value of this portion of the household deposit portfolio resulted primarily from a net capital inflow to these financial institutions. Households searching for forms of saving alternative to term deposits first of all chose investment funds with a low risk profile, buying mostly units of funds investing in debt securities. Funds investing in foreign equity markets also attracted interest, which was related to the downturn on the WSE. The highest inflow of funds to investment funds was reported in the first quarter of 2015, when it was net PLN 5.0 billion (Figure 1.2.4.).

Figure 1.2.4. Net inflow of funds from households to investment funds and the change in value of household bank deposits, 2014-2015



Note: The category of households also includes non-commercial institutions offering services to households.
Source: Calculations based on NBP data.

The value of unit-linked funds and life insurance saving premiums in the household portfolio remained unchanged in 2015. Despite action taken by UOKiK against insurance companies offering unit-linked insurance, the demand for this product remained high.

The value of shares held by Poles in their investment portfolio decreased by 1.7% (to PLN 39.8 billion) in the period under analysis. The change in the portfolio's value was primarily linked to the fall of equity instrument prices on the WSE-organised markets.

The year 2015 saw a 15.1% increase in the value of Treasury bonds in the portfolio of households to PLN 10.7 billion.

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

1.2.2. External sources of financing of Polish enterprises

The economic condition of non-financial enterprises remained sound in 2015. Their revenues were higher (by 3.2%) than in 2014, while their financial result from the sale of products, goods and materials, and net financial result improved by 5.0% and 1.5%, respectively. Their profitability ratios did not change, and financial liquidity indicators were high despite dropping slightly.[16]

In 2015, enterprises increased investment outlays by 11.8% to PLN 136 billion, an all-time high figure in nominal terms. However, the pace of investment growth was markedly lower than the 2014 figure of 16.8%. The bulk of investment outlays was earmarked for the installation of new fixed assets, although 2015 saw a rising share of modernisation investments.[17] The investments were to a large extent financed with own funds, which reflected the investment funding priority model prevailing at Polish enterprises.[18]

At the end of 2015, the value of loans granted to enterprises was 7.9% higher than a year earlier. Corporate loan portfolio growth was underpinned by sharp investment loan growth and a significant acceleration of current and real estate loan growth. Robust credit growth was driven by good economic conditions, low interest rates and a lending policy eased by banks. On the other hand, the growth of lending to SMEs and microenterprises was supported by the *de minimis* Portfolio Guarantee Facility (for more information on the facility, see Box 1.2.1).

Leasing was the main non-banking external source of funding for domestic non-financial enterprises, especially in the SME sector (Figure 1.2.5). 2015 saw a continued rapid growth in turnover in Poland's leasing market and an increase, to approximately 183.3 thousand, in the number of enterprises that entered into leasing contracts. The segment of modes of road transport was responsible for over 71.4% growth in the value of assets leased.

Enterprises raised PLN 24.7 billion on the domestic long-term bond market, which represented an increase of over 13% on the 2014 figure. In the period under discussion, long-term corporate debt securities (DPDP) were issued by around 140 entities. As in previous years, the largest issues were related to the implementation of government investment programmes. The placement of large corporate bond issues was facilitated by a great interest in the instrument by the investors who sought higher returns in an environment of low interest rates. A portion of DPDP issues was still tied with the use of the instruments for transferring funds inside capital groups.

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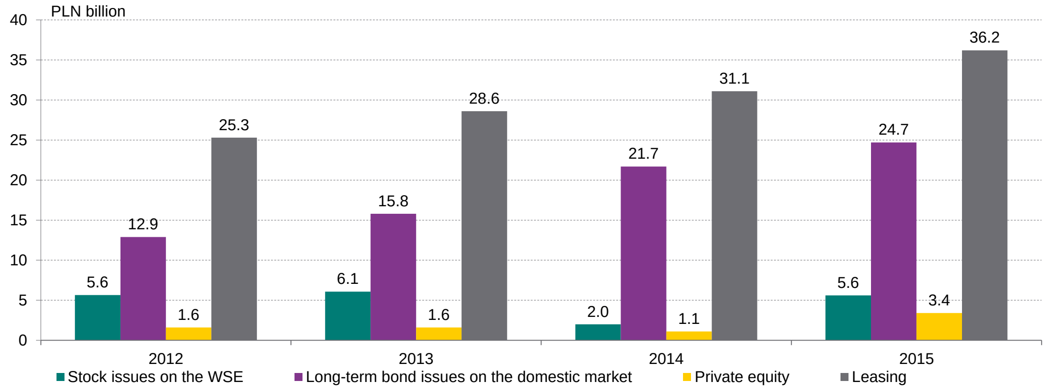
[16] *Financial results of non-financial enterprises 2015*, Warsaw, March 2016, GUS.

[17] *Sytuacja finansowa sektora przedsiębiorstw w IV kw. 2015 r.*[Financial situation in the enterprise sector in 2015 Q4], Warsaw April 2016, NBP, pp. 18-21.

[18] *Dostępność finansowania przedsiębiorstw niefinansowych w Polsce*, Warsaw 2016, NBP, p. 4.

Figure 1.2.5. Selected non-banking external sources of financing of Polish enterprises, 2012-2015



Note: Data on leasing do not include loans granted by leasing companies and therefore may differ from data released in previous editions of the report.
Sources: Calculations based on data from Fitch Polska, GUS, KDPW, WSE, EVCA and NBP.

The value of new issues of shares by non-financial enterprises and admitted to trading in the WSE-organised markets (WSE Main List and NewConnect) amounted to PLN 5.6 billion in 2015. On the WSE-organised markets, IPOs were conducted by a total of 49 domestic enterprises (WSE Main List – 30, NewConnect – 19), and shares of 13 enterprises were graduated from ASO to the regulated market. The increase in the value of new share issues under IPOs and SPOs may have stemmed from the rising investment expenditures of small- and medium-sized companies and the related increased capital needs.

Funding from private equity funds was also a source of financing for the development of Polish enterprises. In 2015, the number of domestic companies financed by such funds (PLN 3.4 billion) was 102, i.e. 24 more than a year earlier. Despite the still small size of the market, capital from private equity funds is an important source of financing own funds of Polish companies. In the years 2012-2015, the ratio of the value of capital raised in this way to the value of financing raised by enterprises via new share issues on the WSE-organised markets (WSE Main List and NewConnect) was on average 23%.

Box 1.2.1. *De minimis* guarantee programme

The *De minimis* Portfolio Guarantee Facility (hereinafter referred to as PLD guarantees or *de minimis* guarantees) is offered by Bank Gospodarstwa Krajowego (BGK) under the government programme to support the sector of micro-, small- and medium-sized enterprises (SMEs) in Poland. The *de minimis* guarantee programme, launched by the Polish government in 2013 in response to the economic slowdown, was aimed at providing greater access to credit for the SME sector.[1] SME-supporting programmes have also been implemented in other European countries.[2]

Under the PLD programme, BGK grants entities from the SME sector, on their request, guarantees to secure the repayment of loans granted by commercial and cooperative banks. The maximum unit amount of a guarantee is PLN 3.5 million, but its ultimate amount depends on the value of *de minimis* aid received by the entrepreneur in a given fiscal year and in the two preceding fiscal years. The total guarantee amount granted to a single entrepreneur by a single bank also cannot exceed PLN 3.5 million. Only loans from the banks that have signed cooperation agreements with BGK can be subject to a *de minimis* guarantee.[3]

Loan covered by a *de minimis* guarantee can be used to finance the current business of an enterprise, for example to repay working capital loan at another bank or to finance an investment project (construction, development or modernisation of facilities related to the business, purchase of machinery, equipment and vehicles). However, loan received under the *de minimis* guarantee programme cannot be spent on the repayment of an investment loan taken at another bank, on the purchase of financial instruments, capital investments or on the purchase of an organised part of an enterprise.

Covering a given loan by a guarantee under the *de minimis* programme depends on the borrower's creditworthiness assessment made by the lending bank. The guarantee secures up to 60% of the loan amount, however it cannot cover interest and other related costs. In the case of working capital loan, the guarantee is granted for the period of up to 27 months, and in the case of investment loan – up to 99 months.

During the first year of the programme, the borrower's fee for a *de minimis* guarantee was 0%.[4] In subsequent years, it was set at 0.5% of the guarantee amount.

For enterprises, the basic benefits arising from covering a loan with a *de minimis* guarantee include, among others, facilitating the availability of credit for enterprises with a short credit history or without assets that could serve as collateral, a reduction of total loan costs as well as saving time during the loan and guarantee application procedure.

Over 156 thousand guarantees for a total amount of PLN 25.55 billion were granted from the start of the PLD programme to the end of 2015. Basic data on the PLD programme are shown in Table I.

Table I. *De minimis* Portfolio Guarantee Facility, 2013-2015

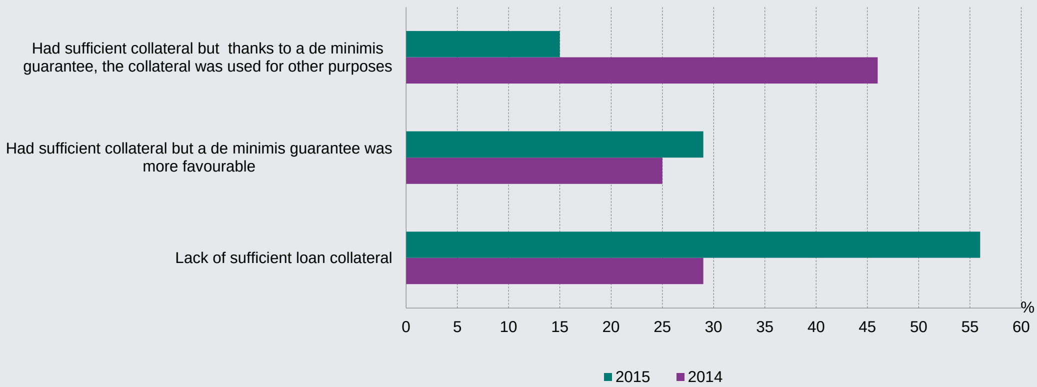
	2013	2014	2015
Number of agreements signed by BGK with banks	22	24	22
Value of granted guarantee limits (PLN billion)	13.20	22.00	30.55
Value of granted guarantees (PLN billion)	7.00	9.65	8.90
Number of granted guarantees	40,119	62,835	53,948

Source: BGK.

BGK conducts regular surveys among enterprises participating in the *de minimis* guarantees programme, in order to evaluate its impact. The latest survey was performed in 2015 on the group of 1,617 enterprises that had received loans with a *de minimis* guarantee from July 2014 to May 2015.[5] When asked to name the reasons for their application for a loan with a *de minimis* guarantee, 56% of the respondents indicated that they did not have the collateral required by the bank. In turn, 29% of the respondents had sufficient collateral, but it was more favourable for them to take advantage of a guarantee than to use this collateral. 15% of the respondents had adequate collateral, but participation in the *de minimis* guarantee programme allowed them to use this collateral for other purposes (Figure I). The data show that besides facilitating access to financing for enterprises, which was the programme's main objective, the scheme also increase availability of loans and improve enterprises' creditworthiness.

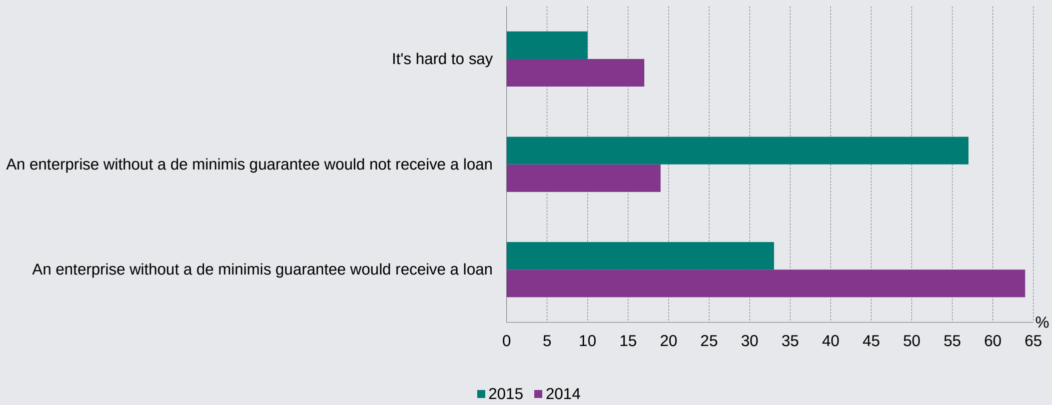
The enterprises were also asked whether they would have received a loan if they had not participated in the guarantee programme. 57% of the enterprises said that without the guarantee they would not have got a loan and 33% – that they would have received it anyway (Figure II). Therefore, the results may indicate that the accuracy of targeting the programme has improved compared to the initial period of the scheme functioning, when the majority of respondents – 64% – said they would have received a loan even without participating in the programme (the so-called deadweight effect)[6] (Figure II), and moreover merely 29% of the respondents identified lack of adequate collateral as the reason for applying for a loan with a guarantee[7] (Figure I). Thus, it is possible that banks began to pursue a less restrictive lending policy over time, that enterprises were less shy of applying for financing under the programme or that it became more popular, especially among enterprises with worse creditworthiness or enterprises that were initially unwilling to apply for financing because of concerns that their applications would be rejected. However, for the initial and later period of the programme, there are no widely available data on the characteristics of enterprises that applied for loans with a *de minimis* guarantee.

Figure I. Reasons for using *de minimis* guarantee by enterprises surveyed in 2014 and 2015



Source: Own study based on A. Kowalczyk, T. Kaczor, *Efekty programu gwarancji de minimis realizowanego przez Bank Gospodarstwa Krajowego*, BGK, 2014, 2015.

Figure II. Distribution of answers to the question "Would an enterprise get a loan without a *de minimis* guarantee?" in surveys conducted in 2015 and 2014



Source: Own study based on A. Kowalczyk, T. Kaczor, *Efekty programu gwarancji de minimis realizowanego przez Bank Gospodarstwa Krajowego*, BGK, 2014, 2015.

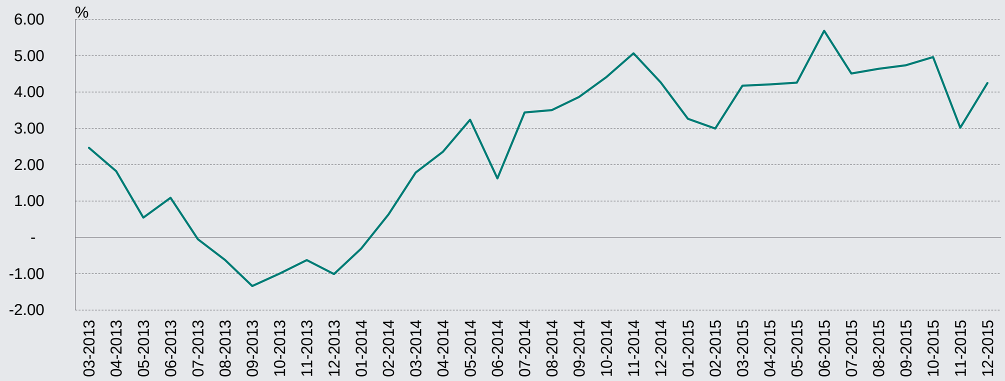
Reported experience of enterprises that applied for a credit or a loan directly before receiving a loan with a *de minimis* guarantee may be a sign of more adequate targeting of the programme in its later phase. In the survey conducted in 2015, only 11% of respondents said they had received such a credit or loan, while in the survey conducted in 2014, this percentage was over three times higher and amounted to 38%. In the latest survey, the group of the respondents that received a credit or loan albeit at less favourable terms than they had applied for was much bigger (18% versus 7%) than in the earlier survey. Similar relationship between the results of the two surveys was observed in the group of enterprises that were completely denied such a credit or loan (10% versus 2%).

The hypothesis of the better financial condition of the programme's beneficiaries in its initial than later phase seems to be also confirmed by data on how the loan with a *de minimis* guarantee was used. In the initial period, only 17% of the surveyed enterprises took such a loan to address their liquidity problems, and as many as 70% used this financing as a permanent business finance management tool. This shows that loans with a *de minimis* guarantee were initially used rather as a tool contributing to enterprise development and not as a crisis management tool. Later, the situation changed and a loan with a *de minimis* guarantee solved the liquidity problems for as many as 46% of the surveyed enterprises, while 53% of them used it as a permanent business finance management tool.

The fact that in each category of surveyed enterprises (micro-, small and medium-sized ones) the value of obtained loans almost doubled between surveys conducted in 2014 and 2015 may also be evidence that enterprises participate in the programme more and more actively.

The results of the BGK surveys also show that the *de minimis* guarantee programme helped generate additional demand for credit in the enterprise sector. The amount of additional loan that would not arise if it had not been for *de minimis* guarantees, calculated for the period from the programme's launch to August 2015, was approximately PLN 12.3 billion. The NBP surveys on bank lending practices and credit conditions also show that in the third quarter of 2013 the demand for short-term loans grew, mainly from SMEs. According to the banks, this was mainly driven by the interest rate decrease and the implementation of the *de minimis* guarantee programme.[8] The NBP data indicate that the growth rate of lending to SMEs at the end of the first quarter of 2013, when the programme was launched, amounted to around 2.47% (y/y), and at the end of 2015 – to around 4.25% (y/y) (Figure III). However, it is not possible to affirm that the growth was exclusively due to the implementation of the aid programme discussed above.

Figure III. Annual growth rate of loans to the SME sector (data adjusted for foreign exchange rate fluctuations)



Source: NBP.

Job creation was another positive outcome of the *de minimis* guarantee programme. New jobs were created in 33% of the enterprises surveyed in 2015. According to 93% of them these jobs would be kept for more than a year. In the period analysed in this latest survey, a total of 1,299 new jobs were created only in the surveyed enterprises. 23% of respondents pointed out that getting a loan with a *de minimis* guarantee allowed them to keep at least some of already existing jobs. BGK also estimates that the total amount of new loan generated by the PLD programme translates into 54 thousand jobs (28 thousand new jobs and preventing 26 thousand job cuts).

The *de minimis* guarantee programme also supported investment and innovativeness in the economy. Half of the enterprises surveyed in 2015 said that working capital loans secured by a *de minimis* guarantee helped them to improve their financial position, which facilitated investment. According to around one third of respondents, thanks to the guarantee programme their financial condition will change in the near future to such an extent that they will be able to invest. Innovation was introduced at 62% of companies that received working capital loans under the programme. Also, according to 54% of enterprises that had used investment loans, their investments were innovative.

In the opinion of the surveyed entrepreneurs, the *de minimis* guarantee programme was closely aligned with the needs of borrowers, and its parameters, e.g. the upper limit on the loan amount, the maximum duration of the guarantee, were selected accurately.

The *de minimis* guarantee programme is financed with budgetary funds provided to BGK by the Minister of Finance. These funds can be earmarked for satisfying guarantee claims and covering the costs and expenditures of programme administration. Upon the PLD programme launch, it was assumed that in 2013 the amount of satisfied guarantee claims will not exceed 3.7% and – in the next three years – 6.2% of exposure due to granted guarantees.[9] The actual claims ratio is at a level lower than it was anticipated.[10] This is shown by the data on the amounts claimed and paid out under the entrepreneurship promotion programme (Program Wspierania Przedsiębiorczości), which consists mainly of *de minimis* guarantees (in terms of the value of granted guarantees). The value of these payments in 2013 was PLN 1.2 million, in 2014 – PLN 74 million and in 2015 – PLN 336.6 million.[11] Such an increase in the amounts paid out is understandable, considering an increase in the percentage of programme beneficiaries which would not have received loans if it had not been for the *de minimis* guarantees.

The *de minimis* guarantee scheme was extended several times and is to remain in force to the end of 2016. It is very popular among entrepreneurs, delivers positive economic outcomes and involves lower costs than originally projected. Therefore, is seems reasonable to continue this form of aid to facilitate SMEs' access to bank loan.

[1] The Regulation of the Minister of Finance of 18 February 2013 on the de minimis aid granted by Bank Gospodarstwa Krajowego in the form of a loan repayment guarantee (Journal of Laws of 2013, item 239); Outcomes of *de minimis* Guarantee Scheme, a brochure, BGK, 2014. The document is available on the website https://www.bgk.pl/files/public/Pliki/news/Ekspertyzy_BGK/Efekty_Programu_Gwarancji_de_minimis/Broszura_PLDII_eng.pdf; Ministry of Finance, Rusza rządowy program wsparcia przedsiębiorców, a press release of 4 March 2013 available on the website http://www.mf.gov.pl/ministerstwo-finansow/wiadomosci/aktualnosci/ministerstwo-finansow2/-/asset_publisher/M1vU/content/rusza-rzadowy-program-wsparcia-przedsiebiorcow?redirect=http%3A%2%2F.

[2] E.g. *National Guarantee Programme* in the Czech Republic or *Credit Guarantee Scheme* in Ireland.

[3] Unless another source was indicated, general information on the programme relating to the terms of granting loans with a *de minimis* guarantee, comes from the programme's website https://www.bgk.pl/przedsiebiorstwa/poreczenia-i-gwarancje/gwarancje-de-minimis/informacje-dla-przedsiebiorcow/.

[4] The explanatory memorandum accompanying the draft regulation of the Minister of Finance of 5 February 2013 on the de minimis aid granted by Bank Gospodarstwa Krajowego in the form of a loan repayment guarantee. The document is available on the website http://legislacja.gov.pl/projekt/130252/katalog/130259#130259.

[5] A. Kowalczyk, T. Kaczor, Efekty programu gwarancji de minimis realizowanego przez Bank Gospodarstwa Krajowego, BGK, 2015, a research report is available on the website https://www.bgk.pl/aktualnosci/ekspertyzy-i-badania/. Wherever in this text reference is made to the results of the survey conducted in 2015 or the latest survey or to data on the later period of the programme, the data are derived from this report.

[6] The *deadweight effect* was also pointed out by the Supreme Audit Office (NIK) in its report on the audit of "Realizacja rządowego programu wspierania przedsiębiorczości z wykorzystaniem poręczeń i gwarancji Banku Gospodarstwa Krajowego" [Implementation of the government entrepreneurship promotion programme with Bank Gospodarstwa Krajowego sureties and guarantees], Warsaw 2015, NIK, p. 7. The document is available on the website https://www.nik.gov.pl/kontrole/P/14/015/KBF/.

[7] A. Kowalczyk, T. Kaczor, Efekty programu gwarancji de minimis realizowanego przez Bank Gospodarstwa Krajowego,

BGK, 2014, a research report is available on the website https://www.bgk.pl/aktualnosci/ekspertyzy-i-badania/. Wherever in this text reference is made to the results of the survey conducted in 2014 or to data on the initial or former period of the programme, the data are derived from this report.

[8] Senior loan officer opinion survey on bank lending practices and credit conditions 4th quarter 2013, Warsaw 2013, NBP.

[9] The explanatory memorandum to the draft law on amending the law on sureties and guarantees from the State Treasury and some legal persons, Sejm paper No 964 of 30 November 2012. The document is available on the website http://orka.sejm.gov.pl/Druki7ka.nsf/0/5B0AE5C170080760C1257AD000462E86/%24File/964.pdf.

[10] The explanatory memorandum to the draft regulation of the Minister of Finance of 30 June 2016 amending the regulation on the de minimis aid granted by Bank Gospodarstwa Krajowego in the form of a loan repayment guarantee. The document is available on the website http://legislacja.gov.pl/projekt/12287420/katalog/12364179#12364179.

[11] Information on sureties and guarantees from the State Treasury, some legal persons and Bank Gospodarstwa Krajowego for the successive years of 2013, 2014 and 2015, Ministry of Finance. The documents are available on the website http://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/poreczenia-i-gwarancje/informacje-roczne.

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