NBP Narodowy Bank Polski

Financial System in Poland 2019

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www.nbp.pl/systemfinansowy/rozwoj

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Summary

At the end of 2019, the domestic financial system assets to GDP ratio amounted to 124.5% and decreased from the end of 2018 on the back of faster GDP growth. Compared with most economically developed countries and in relation to the real economy, Poland's financial system, including the banking sector, is not overly developed. However, the level of development of individual segments of the financial system varies. Financial institutions, including the banking sector, are much better developed. On the other hand, financial markets are relatively less developed. Therefore, there is room for continued sustainable development of the financial system that will support economic growth.

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

Financial institutions

- The banking sector is the largest part of Poland's financial system (at the end of 2019, bank assets were the equivalent of 87% of GDP). The sector varies in terms of ownership and legal form – in addition to commercial banks (they have a dominant share, in terms of asset value) and branches of credit institutions from EU member states, there is a large group of cooperative banks, which are mostly members of affiliations and Institutional Protection Schemes (IPS).
- The majority of banks, excluding four relatively small mortgage banks and other small specialist banks, provided universal banking services. Banks active in Poland concentrated on the provision of traditional banking services, nevertheless they were provided with the use of modern customer communication channels. This business model was reflected in the balance-sheet structure of the banking sector, where operations with non-financial entities prevailed, and the dominant share of the net interest income in the net income from banking activity. As in previous years, loans, including loans to households, were the major item of banks' assets. Treasury securities were also of relatively great importance as they allowed banks to meet the liquidity standards and reduce the taxation base with the tax on certain financial institutions. Deposits of the non-financial sector were the main source of funding for banking activity because their values were steadily rising despite the relatively low level of interest rates. As the deposits were easily available and the cost of raising them was low, the role of debt instruments in the banks' funding structure was low, which sets the sector from the EU average. The Polish banking sector also exhibited low leverage, and the surplus of accumulated capital allowed banks to lend.
- In the last few years, the increasing level of banking activity was accompanied by a relative stabilization of the sector's earnings, in nominal terms. This was evidenced in the gradual decline of ROA as well as ROE to the level below its implied cost of equity capital. Nevertheless,

the high cost efficiency of banks allowed them to post ROE rates at levels which were higher than the EU average, and this gap steadily diminished.

- Cooperative banks played a relatively minor role in shaping trends in the whole sector. They were still the most numerous group of banks in Poland, however their number has successively declined in recent years as a consequence of mergers of banks and take-overs of unprofitable banks and banks with poor capital endowment. Despite the satisfactory current situation of the sector of cooperative banks, vulnerabilities of individual banks can be identified. The operations of IPSs, including with the aid of funds accumulated in the assistance funds, was conducive to growth in the security of the sector of cooperative banks. In 2019, new banks joined the IPSs set up towards 2015. At the end of 2019, 22 cooperative banks were active outside the IPS.
- The value of the credit unions sector has declined successively over the last few years, which reduces their share in assets of the financial system in Poland. In 2019, this trend came to a halt, and the main driver of the assets' fall was the decrease in the number of credit unions, mainly due to mergers and acquisitions.
- At the end of 2019, the value of net assets of investment funds amounted to PLN 304.5 billion, which means it increased mainly on account of the growth in their valuation. Debt funds were the only type of funds where investors paid in funds (in net terms). Households made the most payments to the sector and insurance companies made the most withdrawals. The number of active investment funds decreased for another year in succession after many closed-end funds discontinued their activity. However, closed-end funds continued to prevail in the market, both in terms of their number and the value of accumulated assets. In 2019, the number of investment fund management companies (TFIs) also declined, mainly as a consequence of the decision of the Polish Financial Supervision Authority (KNF) to withdraw the licences of three management companies. The sector's financial result grew, but as the cap amount for the fixed management fee was introduced for managing open-ended investment funds, TFIs' management fee revenue decreased for the first time since 2012.
- At the end of 2019, 156 companies were entered into the register of alternative investment fund managers, compared to 80 at the end of 2018. External managers prevailed. In 2019, the number of managed alternative investment companies rose considerably (from 90 to 198) as did the value of their assets (from PLN 172.3 million to PLN 851.8 million). The increase was the result of a continued implementation of public programmes supporting the innovativeness of the Polish economy by the National Centre for Research and Development and the Polish Development Fund and using EU funding.
- At the end of 2019, the net value of assets of open pension funds (OFE) amounted to PLN 154.8 billion, which represented a drop of 1.6%. The value of contributions they received slightly increased compared with 2018. On the other hand, the value of funds transferred under the security slider mechanism declined by almost 14% from 2018. This was due to the decrease in the average value of net OFE assets in 2019 (a fall of 4.3% from 2018). At the end of 2019, ten open pension funds were active on the market, the same as at the end of 2018. Domestic equity instruments continued to prevail in the structure of OFE investments, and their stock portfolio

largely reflected the structure of the WIG index. The financial result of the open pension funds sector was positive and amounted to PLN 1.4 billion, compared with a loss of PLN 17.0 billion in 2018. The OFE average weighted rate of return was also positive and close to 1. The decrease of the financial result of pension fund management companies by 12.2% from 2018, amid a 2.6% fall in regulatory capital, translated into a drop in profitability of the companies.

- In 2019, the value of assets accruing as part of contributions to the pension sector on a voluntary basis grew by 17.9%, and at the end of the year they stood at PLN 28.1 billion. In relation to household financial assets, this accounted for merely around 2%, and in relation to net assets of OFE – 18.2%. The value of contributions made in 2019 to all forms of accumulating pensions savings on a voluntary basis amounted to PLN 4.6 billion, up 31% on the 2018 figure. After the start of the Employee Capital Plans in the second half of 2019 and the first group of employees joined this occupational pension scheme, the number of participants in Pillar III was increasing at a high rate of 18.4%. As a result, the percentage of persons saving for pension purposes in occupational pensions schemes, on individual retirement accounts and on individual retirement security accounts in the population of professionally active persons rose from 13% to 15.4%. In terms of value, the occupational pension schemes remained the dominant form of additional saving for retirement (PLN 14.5 billion).
- The year 2019 saw a rise in the value of assets of the insurance sector by PLN 1.1 billion to PLN 192.9 billion. The value of assets of non-life insurance companies rose by PLN 1.5 billion, reaching the all-time high of PLN 98.5 billion, while assets of life insurance companies dropped by PLN 0.4 billion. The gross written premium in the entire insurance sector went up by PLN 1.7 billion to PLN 63.8 billion. An increase (of PLN 2.1 billion) was only recorded in non-life insurance and it mostly applied to comprehensive auto insurance and fire and theft insurance. The fall in life-insurance premiums resulted from lower revenues due to unit-linked insurance.
- The financial results of insurance undertakings improved from 2018 and were at their all-time high since the introduction of Solvency II rules. The domestic insurance sector held a surplus in own funds over the capital requirements arising from Solvency II; the SCR of own funds of life insurance was over three times higher and of non-life insurance – over two times higher than the minimum capital requirements. At the end of 2019, the solvency ratios additionally increased as insurance companied retained their current earnings.
- The value of funding from leasing companies fell in 2019 for the first time in 10 years (by 5.8% from 2018). The decrease resulted mostly from leasing coming to a halt in the segment of means of road transport. Lessees obtained PLN 77.8 billion from leasing companies, of which 13.7% were loans for the purchase of fixed assets. At the end of 2019, the value of the portfolio of active leasing agreements was PLN 160.4 billion (PLN 13.8 billion more than a year), and the ratio of this value to loans extended to non-financial corporations was around 42%. Funding from leasing companies in 2019 was used by 444 thousand entities, i.e. 7 thousand fewer than in the previous year.
- In 2019, the value of debt bought back by factoring service providers amounted to PLN 315.0 billion, i.e. it was 28% higher than a year earlier. The debt involved 13.6 million invoices. Non-

recourse factoring remained the most popular form of factoring, like in other developed EU markets. Non-recourse factoring allowed the factorer to reduce the days sales outstanding and transfer the risk of payment default by the counterparty onto the factorer and the associated debt collection.

- According to GUS data, the value of loans provided by lending companies in 2019 was PLN 11.3 billion (3.7% more than in 2018), of which the value of loans entered with natural persons was PLN 7.3 billion. On the other hand, the value of loans and advances granted in cooperation with credit intermediaries was PLN 31.6 billion, which represented a 24.6% rise on the 2018 figure. Mortgage loans were the most popular product offered to households.
- Domestic investment firms carry on business primarily on the regulated markets and alternative trading systems organised by the WSE and BondSpot, among others, intermediating in dealing in transactions. In 2019, the value of trading in shares and derivatives fell substantially in the WSE Main Market, which led to the deterioration in the operating conditions of the investment firms. Moreover, enterprises were less interested in organising IPOs and debt securities issuance. Consequently, the provision of core investment services involving primarily offering financial instruments and accepting, conveying and executing orders for the purchase or sale of such instruments remained unprofitable. This made certain service providers increase their involvement in operations in financial instruments on own account, including dealing in transactions initiated by retail clients via online forex platforms. Towards the end of July 2019, the product intervention of the European Securities and Markets Authority (ESMA) expired – it restricted the possibility of taking risks related to CFDs by the retail clients. Considering the need to continue to protect such clients, the KNF took the decision to apply the same restrictions on the domestic level.
- In 2019, debt collection agencies accepted for processing 6.9 million debts with the nominal value of PLN 32.4 billion zlotys. Consumer debt was the dominant item in the structure of debts processed. From the point of view of the type of business, outsourced debts prevailed in the structure of debt accepted for processing. Debt collection agencies reduced the scale of debt purchase and focused on raising the rate of collection of debt purchased in the past and on improving their cost efficiency.

Financial markets and their infrastructure

- The *Capital Market Development Strategy* was adopted in October 2019. The document recommended measures aimed at levelling off or reducing the identified barriers to capital market development in Poland. The recommendations relate to, among others, avoiding gold-plating, implementing the so-called single banking licence, developing the organised market of repo transactions to be cleared by a CCP, reviewing the design and scope of the tax on certain financial institutions, offering tax incentives for investors and issuers and preparing the Financial Education Strategy.

- In 2019, turnover in the market of interbank deposits transactions grew by approx. 8%. The declining activity in the market of unsecured deposits was accompanied by a rising share of repo and sell-buy back transactions in managing liquidity by domestic banks.
- The value and term structure of turnover on the market of unsecured interbank deposits were determined by, among others, a small number of entities with excess liquidity and low credit limits imposed on banks on a reciprocal basis. Average daily turnover on this market amounted to PLN 3.3 billion and was 8% higher than in 2018. O/N transactions accounted for over 90% of the market turnover value. Operations with maturities over 7 days were concluded occasionally, which was associated with, among others, the prudential liquidity requirements and the method of calculating the tax on certain financial institutions. At the end of 2019, nineteen banks submitted data for POLONIA rate calculation. Ten banks participated on WIBOR and WIBID reference indicators rate fixing.
- Work continued on the adjustment of the WIBOR and WIBID reference indicators to the BMR requirements. GPW Benchmark, the organiser of WIBOR and WIBID rate fixing, held consultations with the market participants and performed analysis for the preparation of determining the indicators. On 6 December 2019, GPW Benchmark submitted an application with the KNF for an authorisation to administer the index. Moreover, the WIBOR indicator was entered into the EU list of critical benchmarks in March 2019. Therefore, the KNF can impose on the benchmark administrator temporary obligations of, respectively, administering it and submitting input data to calculate it.
- LIBOR rates are one of the most important reference indicators in the global financial system. On 31 December 2021, the Financial Conduct Authority (the British financial supervision authority) will cease to support the calculation of the rates, which means that from 2022 they will not be developed. In 2019, special working groups (in the euro area and in the countries for whose currencies the LIBOR index is set) worked, among others, on the identification of alternative benchmarks for the rates. The cessation of the LIBOR benchmark also poses a big challenge to domestic banks which hold portfolios of Swiss franc-denominated housing loans. The banks should develop a method of selecting an alternative reference benchmark and calculating the spread that compensates the difference between such a benchmark and the CHF LIBOR rate used in credit agreements. The banks should also define the method of implementing suitable contingency plans in those agreements. Towards the end of 2019, the European Commission held consultations on the functioning of the EU Benchmark Regulation (BMR). The results of the consultations may provide the rationale to start work on amending the regulation at the EU level; such an amendment would offer solutions aimed at mitigating the risk of lack of continuity in agreements based on the LIBOR rates, i.e. agreements with no suitable contingency clauses.
- In 2019, the average daily value of transactions in the domestic FX swap market of the zloty grew considerably to amount to PLN 16.6 billion, which accounted for merely 18% of the turnover in the global FX swap market. Transactions between banks prevailed, with over 90% of the net turnover accounting for operations with foreign banks. In 2019, a further increase in

the share of EUR/PLN operations was observed in the currency structure of FX swaps of the zloty in Poland, which could have been affected by the lower cost of obtaining euro than the cost of obtaining the US dollar.

- In 2019, the average daily turnover of conditional transactions concluded on the domestic market was PLN 17.0 billion, i.e. up 9% on 2018. Higher activity on the domestic market of repo transactions drove the change. However, SBB operations concluded by domestic banks mainly with investment funds prevailed. Conditional transactions were collateralised by Treasury bonds, and the majority of such transactions were concluded for less than a week, which stemmed from the use of repo/SBB transactions mainly for managing liquidity on a daily basis. Domestic entities did not use the uniform documentation for those transactions and did not use the post-trading infrastructure that mitigates credit risk arising from the transactions. The implementation of the proposal included in the *Capital Market Development Strategy* to exempt exposures due to such transactions from the taxation base of the tax on certain financial institutions may be essential for the popularisation of the transactions cleared by a CCP in Poland.
- In 2019, regulatory change became effective and had a considerable impact on the issue of non-Treasury debt securities. At the start of the second half of the year, the obligation was introduced regarding the dematerialisation and registration of new issues of non-Treasury bonds with a central depository, and KDPW started to publish information in the Bond Issuers' Register (RZE) on the profiles of all issued debt securities. Bond issuers who do not intend to seek admission to the alternative trading system or the regulated market are required to sign an agreement with an investment firm or a custodian bank on performing the function of an issuing agent. Moreover, the EU provisions broadened the definition of a public offer to include each offer of securities addressed to more than one potential buyer.
- The market of NBP bills remained the largest segment of the market of short-term debt securities. In 2019, the average annual value of outstanding NBP bills, which reflected the scale of excess liquidity in the domestic banking sector, was PLN 80 billion and was 9% lower than in 2018. No Treasury bills were issued by the Ministry of Finance in 2019. The debt of domestic enterprises due to short-term debt securities dropped to PLN 5.6 billion at the end of 2019 and was related to the increase in the fixed cost of short-term corporate bonds and the restricted use of the instruments for transferring liquidity inside capital groups.
- Treasury bonds continued to prevail on the domestic market for long-term debt instruments. Despite negative net borrowing needs, in 2019 the value of marketable Treasury bonds denominated in the zloty rose by PLN 18.9 billion and at the end of December amounted to PLN 646.1 billion. This followed the reduction by the Ministry of Finance of bond issues on international markets. Domestic banks dominated in the structure of buyers of zloty-denominated Treasury bonds, as the value of the bonds held by domestic banks at the end of 2019 amounted PLN 305.0 billion. The significant decrease in foreign investor's exposure to this market was related, among others, with the sale of domestic Treasury bonds by Asian central banks in early 2019. In the period under analysis, the liquidity of the secondary market for

domestic Treasury bonds decreased due to the fall in the value of conditional transactions (daily to PLN 10.7 billion on average).

- Corporate bonds were the main segment of the domestic long-term non-Treasury debt securities – long-term debt securities debt at the end of 2019 amounted to PLN 93.7 billion. In 2019, the value of bonds issued by over 130 enterprises was PLN 15.8 billion. The transparency of the corporate bond market remained limited (the majority of the bonds were not registered with KDPW by the second half of the year), the market itself was highly segmented and industry-wise, the diversification of issuers was low, as was its liquidity. The value of corporate bonds quoted on organised markets was PLN 20.5 billion.
- In the year under analysis, the value of municipal bonds issued by local-government units was PLN 4.1 billion, as the value of outstanding municipal bonds increased to PLN 25.2 billion at the end of December. Local governments used funds raised from the issues to complete investments, including, among others, projects co-financed with EU funds. The municipal bonds market was highly fragmented (which stemmed from the low borrowing needs of local governments and the fact that bond issues were spilt into several series) and exhibited low liquidity and a dominant share of banks in the structure of municipal bond buyers. Domestic banks usually issued the instruments as an alternative to providing credit to the units.
- At the end of 2019, the capitalisation of the Polish stock market declined to PLN 1,113.5 billion from PLN 1,135.9 billion at the end of 2018, primarily as a consequence of the decrease in the number of listed companies – in the period under consideration 49 companies were delisted (22 companies from the WSE Main Market and 27 from NewConnect). At the same time, the value of stocks offered on this market (both IPOs and SPOs) was at its all-time low. According to major shareholders of a number of listed companies, as there was no demand for raising capital, costs arising from the public company status outnumbered the status-related benefits.
- In 2019, the broad market index WIG edged up 0.2%, and stock price changes differed depending on the size of the company. WIG20 suffered the strongest fall, and the market price of small companies posted the largest increase. The capitalisation of domestic companies to Poland’s GDP at the end of 2019 was 24.5%. Polish stock market liquidity was low compared to developed countries. This was, among others, due to the continued trading in securities of a relatively large number of companies with low capitalization and low free float. In order to boost interest in trading, the WSE started to publish seven new indices and launched a support programme to extend the analytical coverage of listed companies. The changes in the company structure of session trading in the WSE Main Market were a continuation of the trends observed in previous years.
- The year 2019 saw a strong increase in share prices on NewConnect (NCIndex grew 19.3%), which led to a marked increase in the market capitalisation. A total of 15 companies were floated on this market, as the instruments of 27 companies were delisted, mostly due to liquidation bankruptcy. Toward the end of July 2019, NewConnect was granted SME *Growth Market* status within the meaning of MiFID II. Such a market status may, on the one hand, encourage new

companies to introduce their shares for trading and, on the other hand, to make more mature companies to graduate their shares to the WSE Main Market.

- In April 2019, average daily turnover on the global spot market for the Polish zloty rose to over USD 12 billion, which according to BIS data translated into 22nd place for the Polish currency among currencies most frequently exchanged in spot transactions. The vast majority of transactions (approx. 85%) were concluded in the offshore market. The EUR/PLN exchange rate was largely determined by developments in global financial markets and, only to a small extent reflected the flows arising from Poland's trade exchange or non-resident investments in the domestic capital market.
- The value of transactions in zloty-denominated OTC derivatives in the offshore market was substantially higher than in the domestic market, which was primarily attributable to the high activity of London-based banks and foreign hedge funds. The average daily value of transactions in zloty-denominated interest rate derivatives in April 2019 was over USD 8 billion, which ranked the Polish zloty the 19th currency in terms of trading value on the global market of these instruments.
- Activity on the domestic IRS market was on the rise for another year in succession. The value of IRS transactions, to which a domestic bank was a party, was 29% higher in 2019 than in 2018. Trading in the market of zloty-denominated FRAs also increased, which was related to the varying and changing expectations of market participants about NBP interest rate changes throughout the year. The domestic OIS market basically ceased to operate. The little liquidity of this market may make it difficult for domestic financial institutions to hedge against changes in the costs of long-term financing.
- Over 90% of transactions in OTC interest rate derivatives were cleared by domestic banks at CCP, which was related to a gradual implementation in the EU of the central clearing obligation for selected classes of OTC derivatives. In transactions between domestic banks, they mainly used the services of KDPW_CCP, among others due to is direct access to the clearing system and the possibility to establish collateral in cash in the zloty and domestic government bonds. The vast majority of zloty-denominated FRAs and IRSs concluded with non-residents were submitted for clearing by a CCP in London.
- In 2019, the average daily value of transactions on the domestic market of OTC FX derivatives was over 11% higher than in 2018 and amounted to PLN 2.8 billion. Almost ¾ of the value of the turnover of OTC FX derivatives were forwards, which are Poland's main instrument used for mitigating FX risk by non-financial corporations.
- Investor activity on the market of exchange-trade derivatives remained substantially lower than on the OTC market and concentrated in the segment of WIG20 futures.
- KDPW continued to seek an authorisation to obtain the operating licence as a central securities depository for services necessary for the functioning of the domestic financial market, i.e. the registration and settlement of securities and managing the depository system. KDPW's

application for an authorisation in accordance with the CSDR was deemed as complete by the KNF in September 2019.

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

At the end of 2019, the domestic financial system assets to GDP ratio amounted to 124.5% and decreased from the end-of-2018 figure on the back of faster GDP growth (Table 1.1). The development of financial intermediation, measured by the financial system assets to GDP ratio, continued at a low level in Poland and in other Central and Eastern European (CEE) countries, compared with the ratio's average value in euro area countries (Figure 1.1).

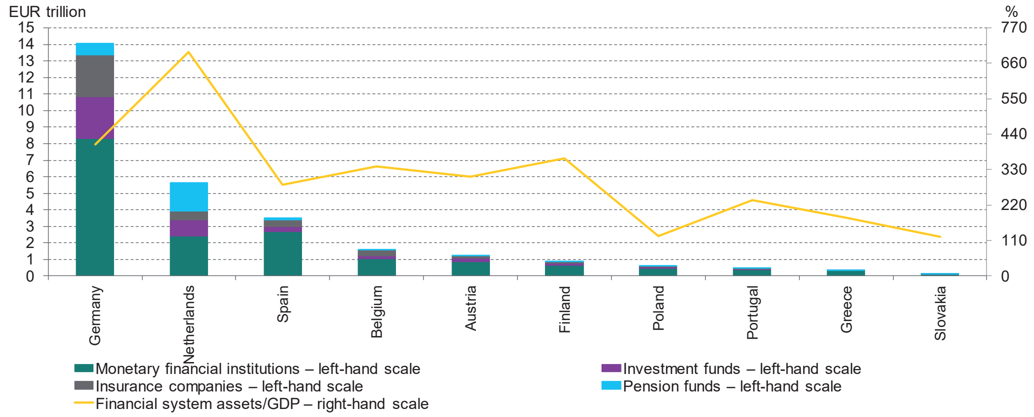
Table 1.1. Assets of the financial system as a percentage of GDP in selected CEE countries and in the euro area, 2016-2019 (%)

	2016	2017	2018	2019
Poland	132.8	132.1	128.3	124.5
Czech Republic	160.3	175.4	173.0	169.8
Slovakia	124.3	126.8	125.8	127.5
Hungary	130.9	128.4	132.3	131.1
Euro area	487.2	478.2	466.0	488.0

Notes: Due to the change of the source of data, inclusion of a broader category of non-bank institutions (leasing companies, factoring firms and lending companies) assets, assets of money market funds in financial system assets and adjustments sent by central banks, the data are not comparable with data released in previous editions of the report.

Source: For the euro area – ECB Statistical Data Warehouse and Eurostat; for other countries – data are provided by national central banks (NCBs) and Statistics Poland (GUS).

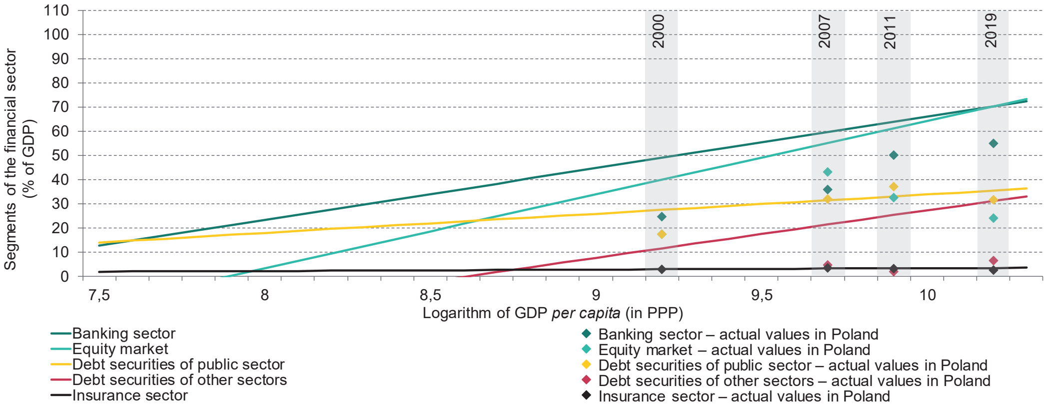
Figure 1.1. Financial system assets in selected EU countries at the end of 2019



Source: Own calculations based on ECB, Eurostat, OECD, GUS and NBP data.

Analysis of the financial institutions and markets of various countries in the context of their economic development implies that certain segments of Poland's financial system, including the banking sector, are still poorly developed. The Polish financial system is also distinctive for its relatively low stock market capitalisation and low value of outstanding private sector debt securities, including corporate and bank bonds (Figure 1.2).

Figure 1.2. Financial system development depending on the level of GDP *per capita*



Source: NBP calculations based on data provided by the International Monetary Fund (World Economic Outlook), the World Bank (Financial Development and Structure Dataset, 07/2018) 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 1991-2016.

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 Market 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 relation 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 (Verbeek M., *A Guide to Modern Econometrics*, 2004 John Wiley & Sons, pp. 351-352).

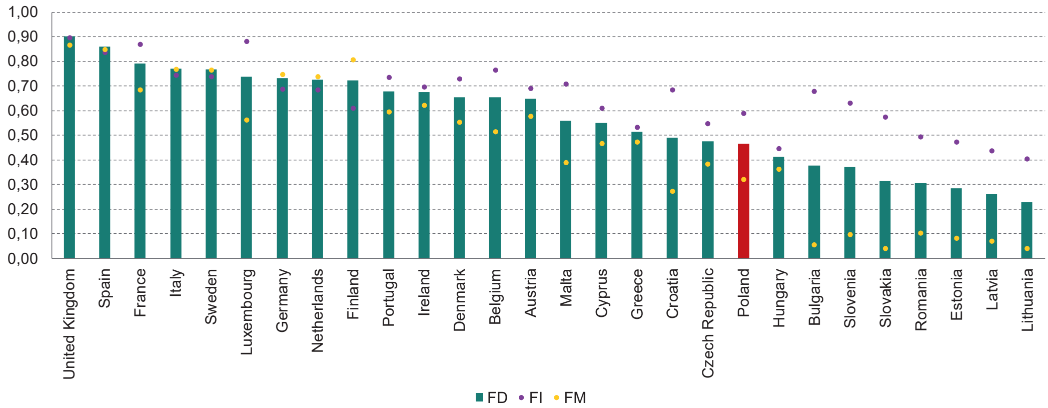
The index of financial development (FD) helps to assess the level of financial system development in a more comprehensive way than the assets to GDP ratio.[1] In 2018, the index for Poland stood at 0.466, which helped classify Poland into the group of countries with a medium level of financial

[1] The index was developed by the IMF. See: Sahay R., Cihak M., N'Diaye P., Barajas A., Pena D.A., Bi R., Gao Y., A' Kyobe, Nguyen L., Saborowski C., Svirydzenka K., Yousefi R, *Rethinking Financial Deepening: Stability and Growth in Emerging Markets*, IMF Staff Discussion Note SDN/15/08, May 2015, IMF and Svirydzenka K., *Introducing a New Broad-based Index of Financial Development*, IMF Working Paper, WP/16/5, January 2016, IMF. The data cited in this study are derived from the IMF database which contained the 2018 updated values of the FD index and its sub-indices (updated on 27 July 2020) https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B.

development[2] (Poland was ranked 20th in the group of EU countries[3]). Greece (0.51), Croatia (0.49), the Czech Republic (0.48) and Hungary (0.41) were at a similar level of financial development. For other countries of the CEE region, the level of FD was lower: Bulgaria (0.38), Slovenia (0.37), Slovakia (0.31), Romania (0.31), Estonia (0.28), Latvia (0.26) and Lithuania (0.23) (Figure 1.3).

The different level of development of the individual segments of Poland's financial system is also shown by the development of FI and FM sub-indices which comprise the overall index of financial development (FD). After the year 2000, the development of the Polish financial system has been based on financial institutions (banking sector) amid the reduced significance of financial markets (Figure 1.4).[4] This is evidence of the relatively feeble development of financial markets in Poland compared with other countries, especially with countries with a more developed financial system.[5]

Figure. 1.3. The FD index, the Financial Institutions (FI) index and the Financial Markets (FM) index in EU countries, 2018



Source: NBP calculations based on the *Financial Development Index Database*, IMF Data, updated on 27 July 2020. https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B.

[2] Values of the indicator are in the range of <0 ; 1>. FD-associated data for Poland and other countries are for the year 2018.

[3] Poland is ranked 24th in the EU, in terms of GDP per capita in 2018.

[4] In 2018, the sub-index FI amounted to 0.591 and the sub-index FM – 0.323. A more detailed description of the IMF-developed Financial Development Index (FD) and its sub-indices (financial institution development index, FI) and financial market development index, (FM) can be found in *Financial System in Poland 2014*, Warsaw 2016, NBP, pp. 29-32.

[5] The importance of financial markets in the operation and development of the financial system is bigger in countries with a more developed financial system (measured by FD) (see Figure 1.3).

Figure. 1.4. The FD index, the Financial Institutions (FI) index and the Financial Markets (FM) index in Poland, 1995-2018

Source: NBP calculations based on the *Financial Development Index Database*, IMF Data, updated on 27 July 2020. https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B.

The experience of the recent global financial crisis and IMF research have shown that an overly developed financial system (including specifically the banking system) in relation to the size of the real economy may adversely impact economic growth and cause systemic risk to grow.[6]

Considering its development level, the Polish financial system had a positive influence on economic growth.[7] Assessments of both Polish and international institutions that there is room for its further sustainable development that will support economic growth are still valid. This development should remain moderate and take place with the increasing importance of financial markets as they are relatively less developed.[8]

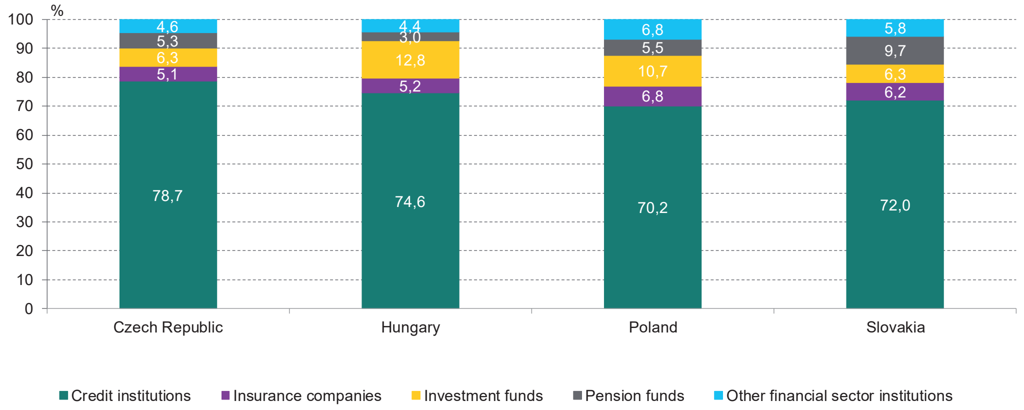
In Poland, like in other countries of the region, the banking sector played a major role in the financial system, and the Polish and Slovak financial systems can be regarded as among the least-banking oriented in CEE (Figure 1.5). This is related to the growing importance of non-bank financial institutions, including collective investment undertakings, i.e. pensions funds, investment funds and insurance companies as well as leasing companies, factoring firms and lending companies.

[6] See, among others, Langfield S., Pagano M., *Bank Bias in Europe: Effects on Systemic Risk and Growth*, ECB Working Paper No. 1797, May 2015, ECB; Popov A., *Evidence of finance and economic growth*, Working Paper Series No. 2115, December 2017, ECB.

[7] According to the IMF analysis, the level of development of the financial system (measured by FD) beyond which a positive impact on economic growth decreases is in the range of 0.4-0.7. See Sahay R., Cihak M., N'Diaye P., Barajas A., Pena D.A., Bi R., Gao Y., A' Kyobe, Nguyen L., Saborowski C., Svirydzenka K., Yousefi R., op.cit., pp. 15-16.

[8] See, among others, the position of the Ministry of Finance in *Monitor Konwergencji z Unią Gospodarczą i Walutową* [Monitor of Convergence with the Economic and Monetary Union] (Polish version only), July 2019, Ministry of Finance, p. 9. Several studies also highlight the importance of a further diversification of the financial sector by developing capital markets as a market-based financing model is key to supporting innovation-led growth.

Figure 1.5. Composition of financial systems in selected CEE countries at the end of 2019, by value of assets



Note: "Other financial sector institutions" includes assets of the following financial institutions: leasing companies, factoring firms, lending companies and brokerage houses.
Source: for Slovakia and Hungary data were derived from the website of their central banks; for the Czech Republic data were provided by the Czech Central Bank; for Poland – NBP, UKNF and GUS data.

In CEE countries, the level of development of the banking sector remained low compared with euro area countries (Table 1.2). Domestic banks concentrated on providing traditional banking services, mainly on deposit taking from and lending to non-financial clients.

Table 1.2. Banking sector development levels (commercial and cooperative banks) in selected CEE countries and in the euro area, 2017-2019 (%)

	Assets/GDP			Loans[1]/GDP			Deposits[2]/GDP		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Poland	89.4	89.2	87.6	49.4	49.5	48.2	53.4	54.3	55.2
Czech Republic[3]	138.7	136.7	133.5	49.9	50.4	49.9	65.5	66.0	65.9
Hungary [3]	95.3	100.1	97.7	32.1	32.4	34.2	40.1	43.1	41.9
Euro area [4]	271.9	266.5	272.3	88.8	87.6	87.3	84.8	85.1	87.4

[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] Due to methodological changes, the data are not comparable with data included in previous editions of the report.
[4] Assets, loans and deposits of the sector of monetary financial institutions. Due to adjustments sent by central banks, the data are not fully comparable with the data published in previous versions of the report.

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

At the end of 2019, the assets of institutions comprising the Polish financial system amounted to PLN 2.8 trillion, which means that they were 4.6% higher than a year earlier. The asset growth was primarily driven by a rise in the value of banking sector assets and such non-banking institutions as factoring enterprises and leasing companies. On the other hand, assets of credit unions and open pension funds decreased (Tables 1.3 and 1.4).

Table 1.3. Assets[1] of financial institutions in Poland, 2014-2019 (PLN billion)

	2014	2015	2016	2017	2018	2019
Financial institutions subject to KNF supervision[2]						
Commercial banks[3]	1,393.9	1,455.3	1,547.8	1,603.4	1,704.6	1,790.0
Cooperative and affiliating banks[3]	135.4	139.7	158.2	173.4	182.1	201.8
Credit unions	13.7	12.3	11.3	10.2	9.6	9.4
Insurance companies	178.5	180.3	184.3	198.4	191.8	192.9
Investment funds	218.9	272.5	275.4	302.8	293.4	304.5
Open pension funds	149.1	140.5	153.4	179.5	157.3	154.8
Brokerage houses	7.9	7.6	6.2	6.8	6.6	6.6
Total	**2,097.4**	**2,208.2**	**2,336.6**	**2,474.5**	**2,545.4**	**2,660.0**
Other financial institutions[4]						
Leasing companies	79.5	83.0	109.9	122.4	140.9	148.3
Factoring enterprises	13.4	15.1	17.7	20.4	25.1	28.6
Lending companies	6.8	8.4	10.0	11.0	10.3	11.1
Total	**99.7**	**106.5**	**137.6**	**153.8**	**176.3**	**188.0**
Total	**2,197.1**	**2,314.7**	**2,474.2**	**2,628.3**	**2,721.7**	**2,848.0**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Includes the most important financial institutions subject to KNF supervision.
[3] Banks that conduct banking activity. Commercial banks also included branches of credit institutions.
[4] Includes the most important categories of other financial institutions not subject to KNF supervision, for which statistical data are available.

Note: Due to adjustments, some data may differ from the data presented in the report's previous edition.
Source: NBP, UKNF, National Association of Cooperative Savings and Credit Unions (KSKOK) and GUS.

The growth in banking sector assets throughout 2019 resulted mainly from an increase in lending to non-financial borrowers. Banks increased their exposure to all main credit categories but FX housing loans. The annual rate of growth of housing loans, the category with the highest share in the loan portfolio, rose to 6.0% y/y at the end of 2019 compared with 4.9% y/y at the end of 2018. This was because the pace of zloty loan growth was higher (12.3% y/y at the end of 2019) and FX loans were repaid on a regular basis (-8% y/y). The percentage of foreign currency loans in the portfolio of housing loans dwindled to approx. 27%. The recovery continued in the segment of consumer loans, although its annual rate dropped somewhat (to 8.3% y/y at the end of 2019). In 2019, the downward trend of corporate lending growth (to 3.2% y/y at the end of the year) continued. The course of the trend was decided by the slowing pace of growth of current loans, as at the same time the pace of growth of investment loans rose (which can be attributed to the high rate of production capacity utilisation of enterprises). The share of corporate loans in the structure of the loan portfolio of the non-financial sector remained low (approx. 31% at the end of 2019). The increased value of the portfolio of securities, mainly Treasury securities, was also an important factor influencing banking sector asset growth.

Table 1.4. Growth in assets[1] of financial institutions in Poland, 2016-2019 (y/y, %)

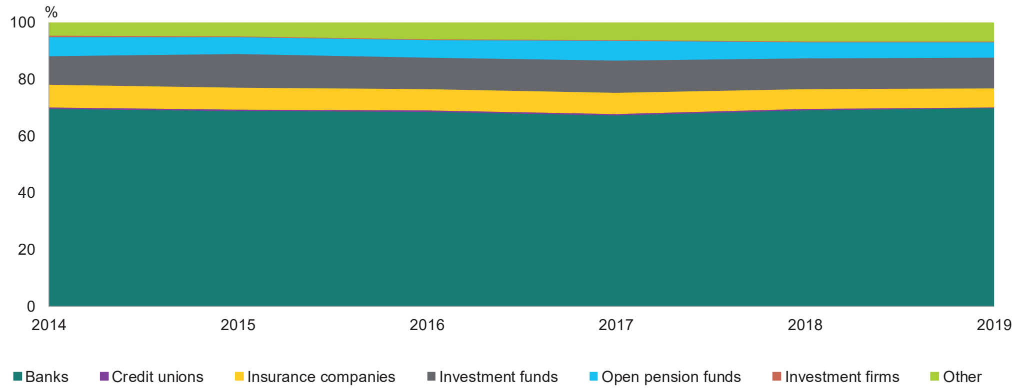
	2016	2017	2018	2019
Financial institutions subject to KNF supervision[2]				
Commercial banks[3]	6.4	3.6	6.3	5.0
Cooperative and affiliating banks[3]	13.2	9.6	5.0	10.8
Credit unions	-8.1	-9.7	-5.9	-2.1
Insurance companies	2.2	7.7	-3.3	0.6
Investment funds	1.1	9.9	-3.1	3.8
Open pension funds	9.2	17.0	-12.4	-1.6
Brokerage houses	-18.4	9.7	-2.9	0.0
Total	**5.8**	**5.9**	**2.9**	**4.5**
Other financial institutions[4]				
Leasing companies	32.4	11.4	15.1	5.3
Factoring enterprises	17.2	15.3	23.0	13.9
Lending companies	19.0	10.0	-6.4	7.8
Total	**29.2**	**11.8**	**14.6**	6.6
Total	**6.9**	**6.2**	**3.6**	**4.6**

[1] Net asset value for banks, investment funds and open pension funds.
[2] Includes the most important financial institutions subject to KNF supervision.
[3] Banks that conduct banking activity. Commercial banks also included branches of credit institutions.
[4] Includes the most important categories of other financial institutions not subject to KNF supervision, for which statistical data are available.

Note: Due to adjustments, the data may differ from data presented in the report's previous edition.
Source: NBP, UKNF, KSKOK and GUS.

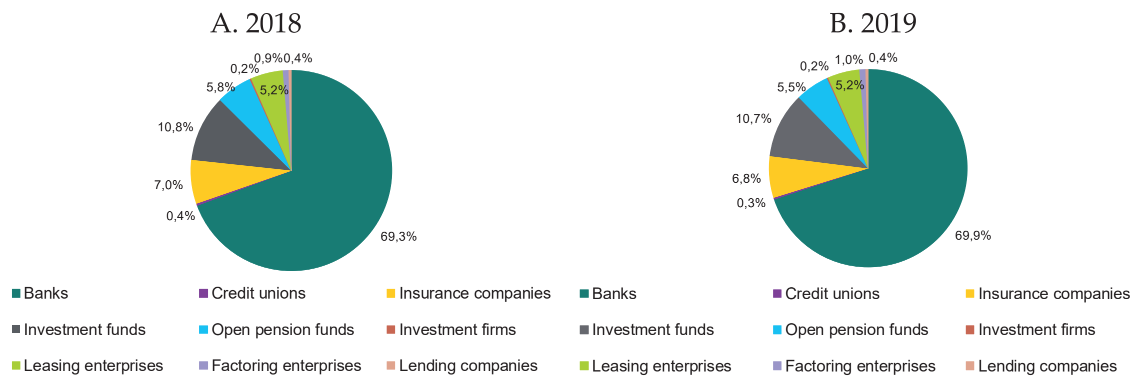
Investment fund assets grew in 2019 as the assets of open-ended investment funds posted the highest increase and assets of closed-end investment funds posted the lowest increase. The growth in asset value was the consequence of a change in asset valuation. In the case of open-ended funds, the growth was driven by a positive balance of capital inflows and outflows. In the period under consideration, assets of open pension funds fell primarily on account of a negative balance of cash flows from OFE to the Social Insurance Institution (ZUS). Those trends caused the banking sector, leasing companies and factoring enterprises to have a bigger share in the assets structure of financial sector assets and a lower share of, among others, assets of pensions funds and credit unions (Figures 1.6 and 1.7 and Tables 1.3 and 1.4).

Figure 1.6. Asset structure of the Polish financial system, 2014-2019



Source: NBP, UKNF, Analizy Online, KSKOK and GUS.

Figure 1.7. Share of individual financial institutions in the asset structure of the Polish financial system in 2018 and 2019



Source: NBP, UKNF and GUS.

The capitalisation of the Polish stock market in 2019 dropped by 2.0% to PLN 1,113.5 billion, primarily after shares of several companies were delisted. The market managed to maintain its market position in the region (Table 1.6), but its liquidity remained low compared with that of stock exchanges in developed countries. The number of companies listed on the organised market decreased again. The share of non-residents in trading on the WSE reached its all-time high in 2019 – 63%. The broad market index WIG did not change significantly, however stock price changes were strongly diversified depending on the size of the company. WIG20 recorded the biggest fall (by 5.6%) and, on the other hand, the market price of small caps, sWIG80, grew by 13.9%.

In 2019, the money bills market remained the largest segment of the market of short-term debt instruments. The average annual value of outstanding money bills decreased from 2018 to PLN 80.2 billion. The State Treasury financed its borrowing needs exclusively with instruments with maturity longer than one year. Enterprises and banks used short-term debt securities issues to finance their borrowing needs only to a minor extent.

Table 1.5. The number of financial institutions in Poland, 2012-2019[1]

	2012	2013	2014	2015	2016	2017	2018	2019
Commercial banks[2]	68	67	64	63	61	61	61	60
Affiliating banks[2]	2	2	2	2	2	2	2	2
Cooperative banks[2]	572	571	565	560	558	553	549	538
Credit unions	55	55	50	48	40	34	30	25
Insurance companies[3]	60	58	57	57	60	61	60	58
Investment funds[4]	588	639	681	812	929	905	878	813
Open pension funds	14	13	12	12	12	11	10	10
Brokerage houses	54	57	53	52	46	44	40	38

[1] Includes the most important financial institutions subject to KNF supervision, whose assets were taken into account in Table 1.3. 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 2012 there were 25 branches of credit institutions, in 2013 – 28, in 2014 – 28, in 2015-2016 – 27, in 2017 – 28, in 2018 – 31 and in 2019 – 32.

[3] Entities carrying on operating activity in the area of insurance and reinsurance.

[4] The number of active funds.

Source: NBP, UKNF and KSKOK.

Like in previous years, the Treasury bond market remained the dominant and most liquid segment of the domestic market of long-term debt securities during 2019 (Table 1.7).The Polish Treasury bond market was also the largest market for such instruments in CEE and the 9th largest market in the EU. Domestic banks prevailed in the investor structure of the Treasury bond market, with a share of over 45%.

In 2019, the average daily turnover of unconditional transactions in Treasury bonds dropped to PLN 10.7 billion (from PLN 11.5 billion a year earlier). 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 edged up from 19.6% at the end of 2018 to 20.2% at the end of 2019 as a consequence, among others, of a rise in debt due to municipal bonds and long-term corporate bonds.

The year 2019 saw a rise in FX swap transactions and in conditional transactions in the deposit transactions market, which is mainly used by financial institutions to manage liquidity on a day-to-day basis. On the other hand, the value of unsecured Interbank deposits declined (Table 1.8).

Table 1.6. Characteristics of stock markets in selected CEE countries and in the euro area, 2017–2019[1]

	Capitalisation of domestic companies (EUR billion)			Capitalisation of domestic companies to GDP (%)		
	2017	2018	2019	2017	2018	2019
Poland[2]	163.1	136.3	131.5	34.2	27.6	24.5
Czech Republic	26.9	23.6	23.4	13.9	11.2	10.5
Hungary	26.3	25.2	29.4	21.0	18.9	20.4
Euro area[3]	7,936.6	6,869.5	8,436.8	70.8	59.4	70.8
	Liquidity ratio[4] (%)			Number of listed companies (including foreign ones)		
	2017	2018	2019	2017	2018	2019
Poland	37.5	36.2	34.1	893 (32)	890 (29)	851 (28)
Czech Republic	16.3	19.2	14.4	25 (11)	23 (10)	54 (38)
Hungary	36.1	42.3	31.8	42 (0)	41 (0)	43 (0)
Euro area[3]	61.2	70.5	49.8	6,723 (420)	6,962 (901)	6,986 (1,039)

[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 revisions, some data differ from data presented in previous editions of the report.
Source: Eurostat, FESE, Warsaw Stock Exchange (WSE), Ljubljana Stock Exchange and GUS.

Table 1.7. Outstanding value of individual instruments of money and capital markets as of year-end, 2016–2019 (PLN billion)

	2016	2017	2018	2019
Treasury bills	0.0	0.0	0.0	0.0
NBP bills	81.3	94.4	53.3	65.0
Short-term bank debt securities	4.7	6.3	5.7	5.3
Short-term corporate bonds	7.6	16.3	8.4	5.6
Marketable Treasury bonds	576.7	605.7	627.2	646.1
BGK bonds for National Road Fund	22.7	25.6	18.5	18.5
Long-term corporate bonds	69.0	76.0	85.9	93.7
Municipal bonds	19.9	20.1	23.1	25.2
Long-term bank debt securities[1]	27.4	34.8	36.6	36.3
Covered bonds	7.6	9.9	11.3	11.9

[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.
Source: Ministry of Finance, NBP, KDPW and Fitch Polska.

Table 1.8. Average daily net turnover in the domestic financial market, 2016–2019 (PLN billion)

	2016	2017	2018	2019
Equity and debt instruments market				
Shares and allotment certificates	811.4	1 049.8	864.4	793.5
Treasury bonds	27,167.1	28,178.6	27,352.3	28,078.4
Treasury bills	101.3	127.8	0.0	0.0
Deposit transactions market				
FX swap transactions	13,729.2	13,734.8	14,580.1	16,602.3
Repo/SBB transactions	13,781.2	13,758.7	15,605.3	16,999.1
Unsecured interbank deposits	3,806.6	3,760.4	3,654.2	3,306.5
Derivatives transactions market				
FX forwards	1,793.8	2,014.1	2,016.0	2,075.4
CIRS transactions	173.6	150.5	140.7	273.0
Currency options	350.1	347.6	394.1	472.4
FRAs	2,608.0	1,212.4	1,724.1	1,834.8
IRSs	2,533.4	2,291.4	2,801.9	3,344.2
OISs	125.1	75.1	9.8	1.3
WIG20 futures	676.1	840.6	821.9	700.5
Spot FX market	6,727.1	6,781.0	7,184.2	7 422.3

Notes:

1. Average daily net turnover means the value of transactions (turnover calculated individually). In the case of the FX swap market, turnover value was 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), including transactions between non-residents. In 2016, the average daily value of unconditional transactions in the Treasury bond market amounted to PLN 12.5 billion, in 2017 – PLN 13.4 billion, in 2018 – PLN 11.5 billion and in 2019 – PLN 10.7 billion. In the case of Treasury bills, the average daily value of unconditional transactions in 2016 was less than PLN 60 million and in 2017 almost PLN 50 million (in 2018 and 2019, Treasury bills were not traded).

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, 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.

5. The turnover in shares includes the value of session and block transactions.

6. The turnover in WIG20 futures was calculated according to settlement values, taking into account session and block transactions.

7. The turnover in the FX market and the OTC derivatives market includes domestic transactions only. It does not include the offshore market.

8. The turnover in the markets for interest rate derivatives refers to domestic money market rate instruments.

Note: Due to revisions, some data differ from data published in the previous edition of this report.
Source: NBP study based on data from WSE, Ministry of Finance and NBP.

As in previous years, most zloty exchange transactions and transactions in OTC FX derivatives were concluded in the offshore market, mainly in London. This meant that the zloty exchange rate was largely determined by operations between non-residents, mostly investment banks and hedge funds. In the case of derivatives, the Polish OTC market was much better developed in terms of turnover value and variety of financial instruments. In 2019, the average daily turnover on the OTC market in 2019 were several times higher than the turnover in derivatives transactions on the WSE market. Investor activity in the exchange-traded derivatives market continued to concentrate in the segment of WIG20 futures.

Box 1.1. Capital Market Development Strategy

In 2018, while addressing trends observed on the domestic capital market over several years and proposals from market participants, the Ministry of Finance started work on the Capital Market Development Strategy (SRRK). As part of the project, the team working on the SRRK prepared a list of the most important barriers to the development of this market based on questionnaire surveys to market participants and interviews with, among others, banks, investment fund management companies, brokerage houses, entities of the post-trading and trading infrastructures and public institutions. The identification of many barriers, such as poor compliance with corporate governance by companies listed on the Warsaw Stock Exchange markets, no single standard for documentation for repo transactions, insufficient level of financial education of consumers and the related low propensity to save was consistent with the conclusions Narodowy Bank Polski unveiled in the previous issues of this report.

The list of the barriers served as the basis for discussion on how to stimulate the development of the equity and bond market and also other forms of market financing. Conclusions from the work were included in SRRK, the document adopted by the Council of Ministers on 1 October 2019.[1] It recommends solutions concerning different segments of the domestic financial system, including among others:

– the activity of credit intermediation companies (including lending companies),
– the commitment to avoid gold-plating,
– the implementation of the so-called single banking licence,
– the creation and development of the organised market for repo transactions cleared by a CCP,
– a review of the design and scope of the tax on certain financial institutions,
– tax incentives provided for investors and issuers,
– allowing NBP to provide intraday credit to KDPW_CCP,
– the preparation of the Financial Education Strategy.

According to SRRK, domestic legislative solutions which are overly burdensome for entities of the financial sector, especially when compared with their counterparts from other EU countries, should be avoided. Domestic regulations should not be more restrictive than required under EU law. Therefore, a working team will be set up by the Ministry of Finance and the Polish Financial Supervision Authority to identify an excess of such provisions in domestic regulations and to amend or eliminate them. Moreover, during work on the implementation of new EU directives, all proposed regulations going beyond EU requirements should be consulted with interested supervised beneficiaries. It seems that this practice should, however, include exceptions for situations in which the willingness to introduce tighter requirements would stem from the need to protect consumers in a special way or from a significant disproportion in the development of individual segments of the domestic market when compared with other EU countries.

SRRK has identified banks' limited access to organised trading in financial instruments as a barrier to capital market development in Poland. Currently, banks can – with no additional licence – execute on the regulated market or the Alternative Trading System (ASO) transactions exclusively in debt securities and derivatives whose underlying instrument is an interest rate, currency or debt securities. In the case of activity on the market for the other financial instruments, those institutions must – in addition to a banking licence – obtain the KNF authorisation to carry out brokerage activity in the form of an office or a separate organisational unit. Such a requirement generates additional operating costs for banks and thereby discourages them from being active on the capital market. Therefore, SRRK provides for the so-called single banking licence, or the removing of the requirement to obtain an additional licence to conduct brokerage activity.

Moreover, there are proposals in SRRK to introduce changes in the trading infrastructure of the domestic market of non-Treasury securities. Its liquidity is insignificant, which largely results from the fact that many issues are bought by banks (as a substitute for granting a loan) or members of the same capital group, and then held to redemption. Fragmentation of the secondary market may also adversely affect the liquidity – since 2009 as many as four trading platforms operate as part of the Catalyst market, although transactions are concluded on some of them only occasionally. It seems that integration of the existing trading platforms could have a positive impact on the development of the domestic secondary market of non-Treasury debt securities, e.g. leaving one regulated market and one ASO.

Incentives for banks to transfer their activity to such a market are foreseen in SRRK in order to develop an organised market of repo transactions to be cleared by a CCP. Exposures due to the transactions would be excluded from the taxation base of the tax on certain financial institutions. The current design of the tax reduces the propensity of market participants to conclude transactions whose maturity falls in a subsequent month, which is reflected in their quotations. The solution proposed in SRRK could improve the functioning of the money market, thus enhancing its transparency. Also, the popularisation of clearance of repo transactions by a CCP could stimulate the development of the market of deposits with longer maturity periods and also help to develop the risk-free rate as an alternative to the WIBOR rates. With regard to the impact of the tax on certain financial institutions on the domestic financial market, a recommendation is contained in SRRK to carry out analysis on the possibility of exempting from the tax of other asset types, e.g. funds deposited on the market of unsecured interbank deposits or with the central bank (including funds held as deposit facility, on current accounts or funds provided to NBP in open market operations).

SRRK provides for certain tax breaks for investors, among others, offering natural persons the possibility of offsetting their profits (losses) from investments made via investment funds with losses (profits) from direct investments on the capital market and of reducing the taxation on dividends in the case of long-term investments. The document also includes the proposal to change the terms of taxation of income from investment in bonds purchased on the secondary market so that the tax is proportional to the income. To encourage enterprises to admit shares for trading on the regulated market, the document offers the possibility of deducting from the tax up to 125% of the value of the cost related to an IPO (among others, court fees, notarial charges, consultancy fees and fees for trading platform organisers). SRRK also provides for the exclusion of employee stock (including stock received by managerial staff under an incentive programme) from the capital gains tax, provided that the stock is sold by the beneficiaries still employed by the issuer only after the lapse of a definite period of time after its receipt.

As far as the infrastructure of the capital market is concerned, SRRK foresees, among others, providing NBP with the legal possibility of providing an intraday credit to domestic clearing houses with a CCP status. The credit would be provided according to the terms similar to the terms of an intraday credit facility for commercial banks – it would be a non-interest bearing facility repaid on the same trading day and collateralised with securities approved by NBP. This solution would increase the resilience of the domestic financial sector. In case of market turmoil or a failure of a clearing member of the clearing house, the intraday credit it received would help it manage liquidity and thus contribute to the smooth operation of the system of high value payments and to reducing domestic money market strain.

An important role is assigned in SRRK to financial education because its ultimate level may have an impact on the low propensity to save by consumers and undermine their confidence in financial institutions. Improving the level of financial education may therefore be one of the major factors contributing to capital market development. For this reason, SRRK foresees the creation of a Financial

Education Strategy which would comply with the respective OECD standards[2] and provide for the transfer of financial knowledge at every stage of school education. Introducing a separate school subject to achieve this goal would be the object of further analysis. Irrespective of this, SRRK provides for a greater involvement on the part of the Office of the Polish Financial Supervision Authority in the financial education of investors, issuers and other supervised entities.

It is advisable to include during the implementation phase of measures contained in SRRK other potentially important barriers to domestic capital market development that it has not addressed. These barriers are, for example, the limited needs to widen the scale of market financing among Polish enterprises and high expenses borne by domestic investment fund participants. These factors may affect the final design of the solutions reached.

[1] Resolution No. 114 of the Council of Ministers of 1 October 2019 on the adoption of the Capital Market Development Strategy (M.P. [Official Gazette of the Republic of Poland] of 2019, item 1027).
[2] OECD, *National Strategies for financial education*, OECD/INFE Policy Handbook, 2015, available at https://www.oecd.org/daf/fin/financial-education/national-strategies-for-financial-education-policy-handbook.htm.

2. Households and enterprises in the financial market in Poland

The financial system plays an important role in the circulation of capital between entities holding surplus funds and those in need of funds. The flow 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).

2.1. Financial assets of households

The way in which households save is determined by both microeconomic factors (e.g. their financial standing, size and demographic structure) and macroeconomic ones (e.g. the 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 savings of domestic households, the value of savings and the form of saving are of great importance from the point of view of financing investments, the impact of economic growth and financial system development.

The results of household surveys point to a shift in Poles' attitudes towards saving. While in the years 2013-2015, the percentage of households that declare having any savings was below 50%, then from 2016 this share rose significantly to reach 71% in the years 2018-2019.[9] The surveys also show that there is little interest in investing as only 8% of the survey-participating Poles invest and 12% believe that keeping cash at home is the safest form of saving.[10]

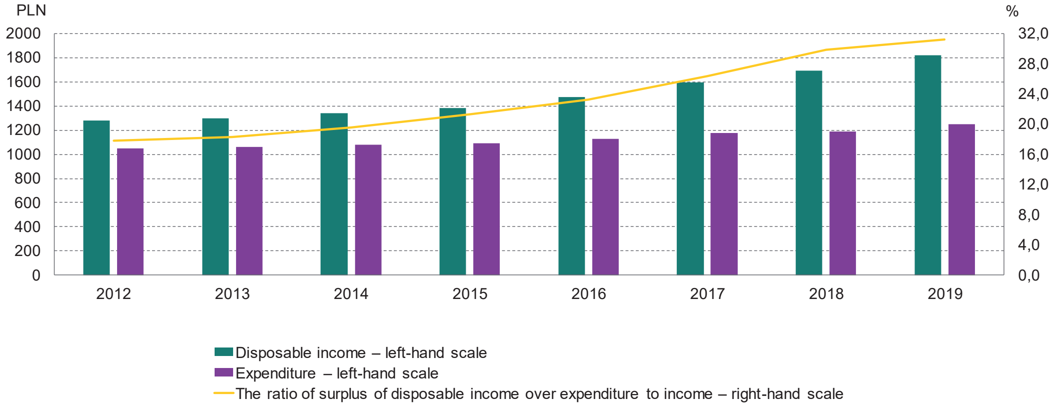
The financial situation of households improved in 2019. They reported higher income and spent slightly more than in 2018. The surplus of disposable income over expenditure rose, which should

[9] See *Finansowy Barometr ING*, August 2020, ING, p. 5. This international survey of ING on attitudes and behaviour towards saving in Poland and in the world was carried out for the ING Group by IPSOS. More issues of the survey for 2013-2019 are available on the website https://www.ing.pl/aktualnosci/finansowy-barometr-ing#raporty.

[10] See *Poles' Attitudes Towards Saving*, a survey by the Kronenberg Foundation at Citi Handlowy and Think! Foundation, November 2019, p. 4.

be conducive to savings growth[11] (Figure 2.1). The average monthly disposable income per capita in households grew, in real terms, by 5.0% (to PLN 1,819).[12]

Figure 2.1. Financial situation of households in Poland, 2012-2019



Source: Study based on GUS data.

Households' subjective opinions on their financial situation has also improved. In 2019, 48.6% of households rated their financial situation as very good or rather good (in 2018 – 44.0%). The percentage of households which rated their financial situation as bad or rather bad declined (to 7.0% in 2019 from 8.1% in 2018).[13] The trend of improving consumer sentiment with regard to the current financial position and projected saving expectations continued (Figure 2.2).

In 2019, household financial assets that can be used relatively freely grew by 10.4% and amounted to PLN 1,422.9 billion[14] at the end of December, and the household financial assets to GDP ratio increased to 62.2% (Figure 2.3). This asset growth was driven by changes in the value of (Treasury and non-treasury) securities, shares listed on the WSE and investment fund units, cash in

[11] "Households' available income is defined as the sum of households' current incomes from various sources reduced by prepayments on personal income tax made on behalf of tax payers by the tax-remitters (…), 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. (…) Available income is allocated to expenditure and savings increase". See *Methodological notes on household budget surveying*, Warsaw, 2011, GUS, pp. 30-31.

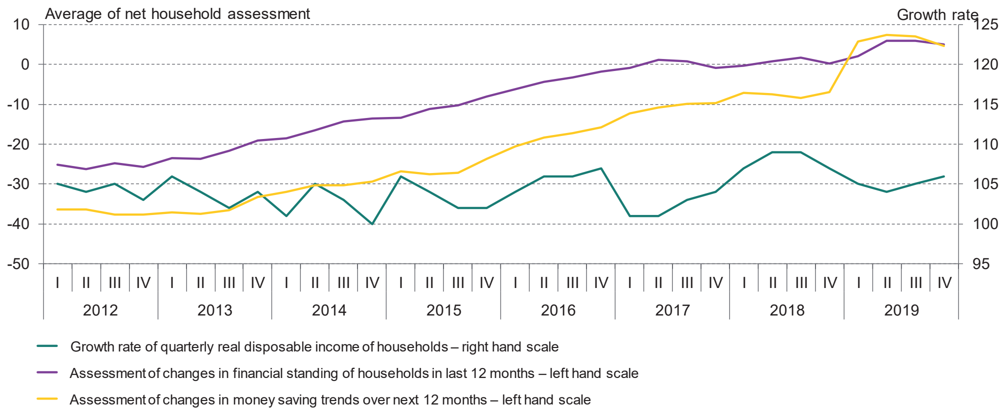
[12] *Sytuacja gospodarstw domowych w 2019 r. w świetle wyników badania budżetów gospodarstw domowych* [The situation of households in 2019 as evidenced by the results of the household budget survey], Informacja Sygnalna, Warsaw, 29 May 2020, GUS.

[13] Ibidem, p. 12.

[14] The following financial assets that households can freely use were considered in this analysis: deposits at banks and credit unions, investment fund units purchased by households, life insurance assets (including unit-linked assets), Treasury securities, stocks quoted on the WSE-organised markets, cash in circulation (excluding bank vault cash) and non-Treasury debt securities. Not considered in this analysis were the funds kept at accounts at open pension funds (OFE, assets of occupational pension schemes and voluntary pension schemes or funds transferred to the Social Insurance Institution by OFE in February 2014 as the nature of the assets differ from the point of view of how they can be freely used by households.

circulation and bank deposits. On the other hand, the value of life-insurance assets (including unit-linked assets) and deposits at credit unions held by households diminished (Table 2.1).

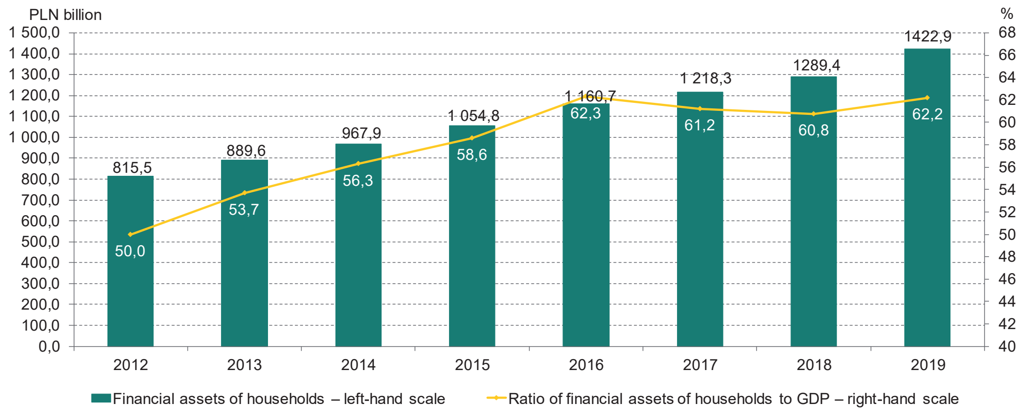
Figure 2.2. Public sentiment surveys on savings and growth rate of disposable income, 2012-2019



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 negative average of household assessment balances means a preponderance of consumers who take a negative view of the changes over consumers who take a positive view of the changes.
Source: The calculations are based on GUS data from *Non-financial quarterly accounts by institutional sectors for the years 2010-2019* and the results of the GUS/NBP *Consumer Tendency* survey (2012-2019 editions), available on the website www.stat.gov.pl.

Statistical data show that households in Poland prefer safe financial surplus management methods (Figure 2.4). This is evidenced by a big share of cash and bank deposits in household financial assets. At the end of 2019, deposits at banks and credit unions accounted for a total of 63.7% of household financial assets and – with cash they accumulated – for as much as 79.1% (Table 2.1).

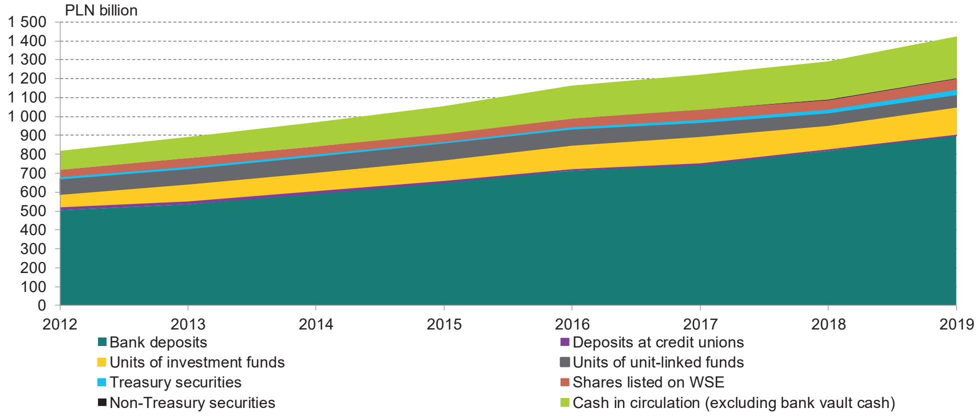
Figure 2.3. Household financial assets[1], 2012-2019



[1] The analysis takes into account household financial assets that can be used relatively freely (see footnote 14, p.27).

Note: Due to methodological changes in the valuation of life insurance assets, arising from the implementation of the provisions of the Solvency II Directive, data since 2017 have not been fully comparable with data for previous years.
Source: Based on GUS, UKNF, Analizy Online and NBP data.

Figure 2.4. Structure of household financial assets[1], 2012-2019, as at period-ends



[1] The analysis takes into account household financial assets that can be used relatively freely (see footnote 14, p. 27).

Notes: For the years 2012-2016, "Units of unit-linked funds" is presented jointly with life insurance saving premiums. Since 2017, life insurance assets (including unit-linked assets). Due to the asset valuation based on the provisions of the Solvency II Directive, data since 2017 have not been fully comparable with data for previous years.
Source: Study based on UKNF, Analizy Online and NBP data.

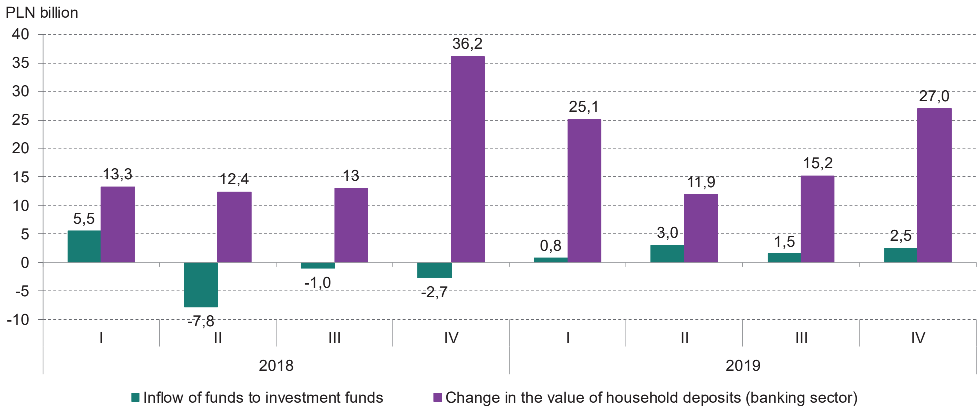
Table 2.1. Value of household financial assets[1] and their structure, 2016–2019, as at period-ends

	2016	2017	2018	2019
Value of household financial assets (PLN billion)				
Bank deposits	713.9	744.0	818.9	898.1
Deposits at credit unions	10.9	9.8	9.0	8.7
Units of investment funds	124.7	143.8	129.2	147.1
Life insurance assets (including unit-linked assets)[2]	83.5	68.8	61.3	60.8
Treasury securities	11.8	15.9	20.0	27.4
Non-Treasury securities	2.3	3.6	4.7	5.6
Shares listed on the WSE	43.6	53.2	47.7	56.2
Cash in circulation (excluding bank vault cash)	170.0	179.2	198.6	219.0
Total	**1,160.7**	**1,218.3**	**1,289.4**	**1,422.9**
Structure of household financial assets (%)				
Bank deposits	61.5	61.0	63.5	63.1
Deposits at credit unions	0.9	0.8	0.7	0.6
Units of investment funds	10.7	11.8	10.0	10.3
Life insurance assets (including unit-linked assets)[2]	7.2	5.6	4.8	4.3
Treasury securities	1.0	1.3	1.5	1.9
Non-Treasury securities	0.2	0.3	0.4	0.4
Shares listed on the WSE	3.9	4.4	3.7	4.0
Cash in circulation (excluding bank vault cash)	14.6	14.8	15.4	15.4

[1] The analysis takes into account household financial assets that can be used relatively freely (see footnote 14, p. 27).
[2] Since 2017, the value of life insurance assets (including unit-linked assets) has been calculated in compliance with the Solvency II Directive and includes technical provisions of the life insurance sector. The data are not comparable with the amounts for 2016. For 2016, this item when compared with 2017 amounts to PLN 65.8 billion and the sum of assets totals PLN 1,142.6 billion.
Note: Due to adjustments, the 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 nearly 14%. The rise in the value of this portion of the household deposit portfolio was the consequence of both the change of its valuation and an inflow of new funds. In 2019, households were the group of investors whose net inflows to the investment funds sector had the highest value (PLN 7.8 billion) (Figure 2.5.). This investment orientation resulted from the search for potentially more profitable forms of investing capital in the situation of persistently low interest rates. A portion of capital households placed in investment funds (approx. net value of PLN 2 billion) were contributions related to accumulation of savings under the voluntary part of the pension scheme.

Figure 2.5. Net inflow of funds from households to investment funds and the change in value of bank deposits of households in PLN, 2018-2019



Note: "Households" also includes non-commercial institutions offering services to households.
Source: Calculations based on NBP data.

That is why the search for more profitable forms of investing capital than deposits led to an increase in the value of household assets in the period under analysis, by 17.8% (to PLN 56.2 billion), and in the value of Treasury securities, by 37.0% (to PLN 27.4 billion).

In 2019, the value of life insurance assets (including unit-linked assets) in the household portfolio dropped by PLN 0.5 billion, i.e. by 0.8%.[16] This drop mainly came as a result of lower interest in unit-linked funds, which resulted in a net outflow of funds.

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

[16] Since 2017, the amounts have been calculated in accordance with the provisions of the Solvency II Directive, i.e. Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Official Journal of the European Union L335, p. 1). The directive introduced changes in the rule of valuation of assets and liabilities of insurance undertakings, which significantly impacted the value of technical provisions, causing them to decline substantially in the new system. Consequently, the shown value of the assets of households declined. See Box 4.8.1 New Solvency Rules in the Insurance Sector in: *Rozwój systemu finansowego w Polsce w 2016 r.* [Financial system development in Poland 2016], Warsaw 2017, NBP, pp. 211-212.

2.2. Household use of financial services via the internet

Households are increasingly relying on the use of modern forms of accessing financial services via the internet and digital technologies. This trend reflects both the expectations and preferences of customers as well as the aspiration of financial institutions to modernise the methods of providing services and to increase efficiency.[17]

Households most often use internet banking which includes bank operations (payments and transfers) executed by the customer via the internet, and also other activities related to handling its bank account. The percentage of internet banking users rose from 44.0% in 2018 to 47.3% in 2019.[18] It was higher for persons who are actively using the internet[19] as it amounted to 58.7% in 2019 (56.8% in 2018). Almost 58% of internet banking users accessed the internet via mobile applications in 2019 compared with 51% in 2018. The usage of internet banking via mobile channels was the highest among younger users. As many as 70.7% of customers aged 16-24 and over 67% of customers aged 25-34 used mobile applications in 2019.

In terms of internet banking usage, Poland was ranked 19th in the EU in 2019, the same as in 2018. Internet banking usage was at a similar level in Croatia, Hungary, Slovenia and Portugal. It was lower for Italy, Cyprus, Greece, Bulgaria and Romania. Finland, Denmark and the Netherlands topped the ranking (Figure 2.6).

It should be pointed out that Poland can be included to the group of EU countries with a relatively high increase in the number of users of internet banking services in the last decade (Figure 2.6).

Households used other financial services via the internet, such as insurance, loans and advances, shares, bonds and other investment services banking internet services much less frequently. At least one financial service was accessed via the internet by 8.1% of persons (6.1% in 2018). A rise in the percentage of buyers of internet financial services was registered in the insurance sector (to 6.5% from 4.3% in 2018) and loans and advances (to 1.8% from 1.6% in 2018). On the other hand,

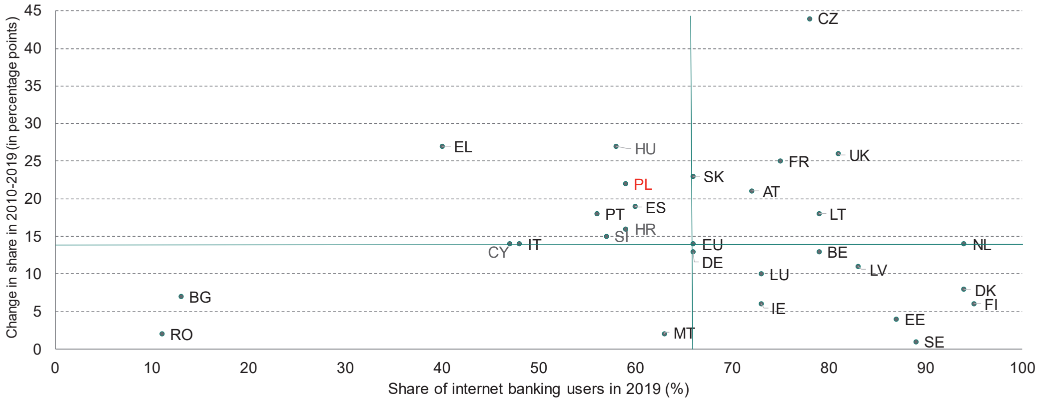
[17] See Box 2.1. Use of financial services via the internet. Poland compared with EU countries in: *Financial System in Poland 2018*, Warsaw 2019, NBP, pp. 32-37.

[18] The survey involved persons aged 16-74. The data on the household use of financial services via the internet cited here have been obtained from surveys on ICT usage in EU countries Eurostat has conducted for many years. See *Community Survey on ICT Usage in Households and by Individuals, Annual Eurostat's Survey*, information on the survey is available at https://ec.europa.eu/eurostat/cache/metadata/en/isoc_i_esms.htm and in the dataset https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database. GUS has participated in surveys and released its country results for Poland on an annual basis. See e.g. *Wykorzystanie technologii informacyjno-komunikacyjnych w jednostkach administracji publicznej, przedsiębiorstwach i gospodarstwach domowych w 2019 roku* [Usage of ICT in public adminstration, enterprises and households in 2019], Warsaw, 1 June 2020, GUS; the results of the survey are available on the website https://stat.gov.pl/obszary-tematyczne/nauka-i-technika-spoleczenstwo-informacyjne/spoleczenstwo-informacyjne/wykorzystanie-technologii-informacyjno-komunikacyjnych-w-jednostkach-administracji-publicznej-przedsiebiorstwach-i-gospodarstwach-domowych-w-2019-roku,3,18.html.

[19] People using the internet during the last three months.

interest in buying shares, bonds and other financial services diminished (a decrease in the percentage of buyers from 1.5% in 2018 to 0.9% in 2019).[20]

Figure 2.6. Internet banking users[1] in EU countries – their share increases in 2019 compared to 2010



[1] Percentage share of people aged 16-74 using internet banking among internet users during the last three months.
Source: NBP calculations based on Eurostat data.

According to the analysis presented in last year's issue of the Report, there was a strong dependence between the level of internet financial services usage, including internet banking usage, on the general development of a digital economy and digital society in a given country. Poland's ranking in this area improved when compared with other EU countries as the country moved in the Digital Economy and Society Index (DESI) 2020 (based on 2019 data) from 25th to 23rd place (Figure 2.7).[21]

The rising importance of remote access to financial services, i.e. the delocalisation of customer services, is reflected in the structural change of the financial sector, where the number of bank branches was reduced and employment in the banking sector decreased. According to ECB data, the number of bank branches in Poland in 2019 decreased by 14.2% from 2014 (by 2,034 branches). In the euro area, the number of branched dropped by 17.5% (or 27,000 branches). In Poland, employment in the banking sector in the period under analysis was cut by 8.1% (over 14,000 staff), and in the euro area – by 7.3% (over 146,000 staff).[22]

[20] Data relate to people aged 16-74, who used financial services in the past 12 months via the internet, using the internet in the last three months.

[21] DESI 2020 for Poland amounted to 45.0, and for the EU – 52.6, which means Poland was 23rd in the ranking. DESI 2019 for Poland was 40.7 and for the EU it was 49.4, which means Poland was ranked 25th. See *Digital Economy and Society Index (DESI). 2020 Country Report. Poland*, Brussels, 11 June 2020. European Commission, p. 3. The document is available on the website https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=66953.

[22] EU structural financial indicators: end of 2019, ECB, press release, 8 June 2020, https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200608_ssi_table~3054d55051.en.pdf?d00127a0105d75d677bbbe2b03699e99.

Figure 2.7. Digital Economy and Society Index (DESI) 2020 for EU countries – an increase in DESI 2020 compared to DESI 2015 (%)

Source: NBP study based on European Commission data.

This trend is permanent and may affect access to financial services, including banking services, for the customers who do not use such services via the internet. In Poland, this applies to customers from old age groups and from smaller towns. In 2019, over 67% of persons aged 55-64 and over 84% of persons aged 65-74 (a total of 7 million people) did not use internet banking; over 65% of people living in the countryside (7.6 million) and over 50% people living in cities with the population below 100,000 (4.7 million) and also over 70% of farmers (1 million) were also not internet banking users. In geographical terms, the lowest percentage of internet banking users was recorded for less economically developed voivodships in the east and south-east of Poland (Figure 2.8).[23]

Figure 2.8. The share of people using internet banking[1] according to voivodships in 2019 (%) (left-hand figure) and to GDP *per capita* (PLN) in 2018 (right-hand figure)

[1] Percentage share of people aged 16-74 using internet banking in the last three months.
Source: NBP study based on GUS data.

[23] According to the new NUTS 2016 classification, in force since 1 January 2018, introduced by the Regulation (EC), Mazowieckie Voivodship was divided into two statistical units – Warsaw capital and Mazowiecki regional (units). In 2019, the share of people using internet banking for the former was 69.7%, and for the latter – 37.8%. On the other hand, in 2018 the GDP *per capita* in the two units was PLN 121,246 for the Warsaw capital and PLN 46,497 for the Mazowiecki regional unit.

2.3. External sources of financing of Polish enterprises

In Poland, enterprises were more willing to finance new investments with own funds, which reflected the investment funding priority model prevailing in the country.[24]

The year 2019 saw a decrease in corporate credit growth (it amounted to 3.2% y/y at the end of the year) from 2018. At the same time, the rate of growth of investment credit increased, which may be attributed to the high level of use of production capacity of enterprises.[25] In 2019, banks tightened somewhat the standards on corporate loans, citing possible deterioration of the economic situation and a rise in industry-specific risk.[26]

In the case of small and medium-sized enterprises (SMEs), lending was supported by the portfolio guarantee facility programmes of Bank Gospodarstwa Krajowego (BGK).[27] BGK-guaranteed loans accounted for approx. 15% of loans granted to enterprises during 2019.[28]

Leasing and trade credit were the major financing sources for SMEs in Poland, according to the results of European Commission surveys (SAFE).[29] In 2019, 39% of SMEs used leasing, which put Poland on top of the EU list (the EU average was 24%). Importantly, only 36% of Polish SMEs indicated that leasing is not a business financing method suitable for their companies (for the EU, the percentage of responses was 51%). Trade credit was used by 35% of SMEs (Poland ranked 4th in the EU, the EU average was 17%). SMEs used other methods of financing less frequently (own funds – 12%, factoring – 8%, equity – 1%, other sources, e.g. crowdfunding or peer-to-peer lending – 0.2%).

Statistical data also confirm that leasing was the most popular non-banking external source of funding for small enterprises (Figure 2.9). However, the year 2019 saw a fall in funding provided by leasing companies, and the number of enterprises that entered into leasing contracts decreased, which was primarily a consequence of the fact that leasing came to a halt in the segment of modes

[24] See *Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw* [NBP Quick Monitoring Survey. Economic climate in the enterprise sector], No. 01/20, January 2020, Warsaw 2020, NBP, p. 43. According to the survey results, in the case of over half of the 21% of enterprises planning new investment projects, own funds will be a major source of funding. Bank credit remained a markedly less frequently used funding source.

[25] Above 84% in 2019 Q4. See *Szybki Monitoring NBP*, op.cit., p. 27.

[26] See *Senior loan officer opinion survey on bank lending practices and credit conditions 1st quarter 2020*, Warsaw, January 2020, NBP, p. 3.

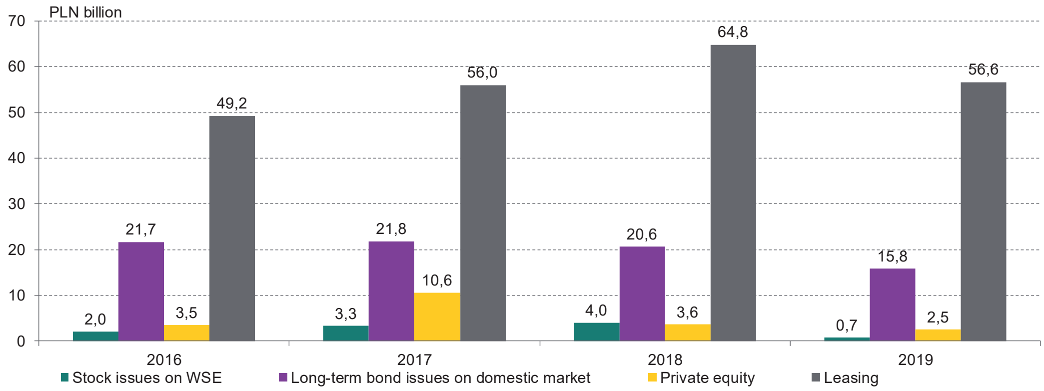
[27] Kowalczyk A., *Efekty programu gwarancji de minimis 2019*, Warsaw, November 2019, BGK.

[28] In 2019, the value of BGK-guaranteed loans granted to enterprises amounted to PLN 23.4 billion.

[29] *Survey on the Access to Finance of Enterprises (SAFE). Analytical Report 2019*, Brussels, November 2019, European Commission. The report is available on the website http://ec.europa.eu/growth/safe.

of road transport. This led to a decrease in the ratio of leasing contracts entered into by enterprises in 2019 to new loans to the enterprise sector.[30]

Figure 2.9. Selected non-banking external sources of financing of Polish enterprises, 2016-2019



Source: Calculations based on data from Fitch Polska, GUS, KDPW, WSE, Invest Europe and NBP.

Enterprises raised PLN 15.8 billion on the domestic long-term bond market via new corporate bond issues in 2018, significantly less than in 2018. On the other hand, the new corporate bond debt of non-financial corporations amounted to PLN 83.4 billion.[31] Confidence in the corporate bond market remained limited after Getback SA ceased to meet its obligations towards bondholders in 2018. This led a drop in investor demand for debt instruments issued by small and medium-sized companies with a relatively short business history. Industry-wise, the issuer diversification of the corporate bond market was still low. In 2019, the share of bonds issued by energy producing companies, companies from the extractive industry and development companies in the value of bonds sold on the primary market companies was approx. 50%. Leasing companies, factoring enterprises and companies dealing with trading in debt were also actively raising capital on this market. Private issues prevailed, and some of them – as in previous years – were related to the use of the instruments for the transfer of funds inside capital groups.

The value of new issues of shares admitted to trading in the WSE-organised markets (WSE Main Market and NewConnect) declined significantly from 2018 and amounted to PLN 0.7 billion. On the WSE-organised markets, IPOs were conducted by a total of 22 domestic enterprises (WSE Main Market – 7, NewConnect – 15), as shares of five enterprises were graduated from the alternative trading system to the regulated market.

[30] The NBP-estimated value of new credit agreements for non-financial enterprises in PLN and EUR (converted into PLN at the NBP exchange rate) amounted to PLN 164.1 billion in 2016, PLN 174.7 billion in 2017, PLN 156.0 billion in 2018 and PLN 159.8 billion in 2019. In 2019, the ratio of the value of new leasing contracts to the value of new credit agreements for enterprises was 35.4% (in 2018 – 41.5%).

[31] In 2018, the value of the debt was PLN 78.2 billion. Figures for 2019 are not fully comparable with the data of previous years due to legal changes related to the organisation of issuance of non-Treasury bonds (see *Rozwój systemu finansowego w Polsce w 2019 r.* [Financial system development in Poland 2019], p.263, Box 5.2.1).

Funding from private equity funds was also a source of financing for the development of Polish enterprises. In 2019, funding in the amount of PLN 2.5 billion from private equity funds was received by 82 domestic companies. Despite the decrease in the value of investment on the Polish market compared with 2018, funding from private equity funds was provided by 12 more entities than a year earlier.

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