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Financial System in Poland 2021



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Summary

In 2021 the situation of Poland's financial system remained affected by the impacts of the COVID-19 pandemic. The lifting of business-related restrictions and the government-funded assistance programmes had a positive effect on the economic situation of the country and contributed to fast GDP growth during the year. Financial system asset growth was lower than in 2020, which amid high GDP growth resulted in a decrease in the domestic financial assets to GDP ratio to 133.4% at the end of 2021 from 136.6% in 2020.

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

Financial institutions

- The banking sector remained the largest part of Poland's financial system – at the end of 2021, the value of assets of commercial banks and cooperative banks accounted for 73% of the financial system assets. In 2021 the impact of the COVID-19 pandemic on the operation of banks diminished substantially – loan demand was recovering steadily, households' demand for cash fell and banks were buying less Treasury securities.
- The universal business model of the majority of banks was reflected by the balance-sheet structure of the banking sector, where operations with non-financial entities and the share of net income in the net income from banking activity prevailed. As in previous years, loans to the non-financial sector (45%), including loans to households (30%) in particular, were the major items of banks' assets. Housing loans were growing at the highest pace in the loan portfolios of the domestic banking sector, which was supported by the environment of interest rates which were low and stable for most of the year. Value-wise, Treasury securities and securities guaranteed by the State Treasury were the second largest item (22%). In 2021, the rise of the portfolio was several times lower than in 2020, which resulted, among others, from the lower scale of financial support to industries affected by the pandemic fallout.
- Deposits of the non-financial sector were the main source of funding for banking activity (60% of liabilities), with most of the deposits placed by households (70%). Low interest rates and lower support from the Financial Shield in 2021 led to a slower pace of deposits growth (to 7.3% y/y in December 2021) and a more permanent shift in the term structure of deposits, i.e. the prevalence of overnight deposits over term deposits. Financing with the use of own debt securities issues was traditionally only an insignificant portion of the sector's balance-sheet total (merely 2.4% – excluding BGK's issues for special purpose funds). Both the outstanding debt securities and the amount of funds from the foreign financial sector decreased in 2021.
- The growth in scale of banking activity has for several years been accompanied by a relative stabilisation of the banking sector's earnings, and thus a gradual decline in profitability.

Similarly in 2021, the sector's profitability ratios were low (ROA – 0.25%) and remained below the pre-COVID-19 pandemic levels. Despite the decrease in the cost of credit risk vis-a-vis 2020 and increased fees and commissions income, the potential for improving the sector's profits was constrained by substantial provisions for the legal risk associated with FX housing loan portfolios. Unlike in 2021, the sector's earnings were however positive and – after complying with the relevant requirements – the Polish Financial Supervision Authority (UKNF) allowed some banks to pay out dividends.

- The average capital endowment of the banking sector remained high, and substantial buffers ensured banking business security and did not hamper banks' activity development. The rise in the yields on debt securities measured at fair value through so co-called other comprehensive income was responsible for a decline in the sector's own funds in the fourth quarter of 2021 (by around 6%) and the corresponding falls of capital ratios (TCR fell by 1.3 percentage points to 18.5%).
- Although the share of cooperative banks in the banking sector assets was insignificant, they play a significant role in providing financing to local communities, including farmers, local government units and small and medium-sized enterprises. They remained the largest group of banks in Poland, however following their consolidation, the number decreased to 511. Only 11 banks were active outside the institutional protection schemes (IPS). The cooperative banking sector's net financial result improved markedly. The quality of cooperative banks' loan portfolio improved but was lower than in the sector of commercial banks. The capital position of cooperative banks was varied and was relatively weak in a number of banks, although the sectoral capital adequacy ratios looked favourable.
- Lending growth forecasts were prepared for the purposes of assessment of the growth outlook of the largest financial system sector. As was the case in the previous edition of the Report, the forecasts are highly uncertain.
- The lending growth forecast for the non-financial sector indicates that the lending growth is expected to rise to around 8% y/y in the second quarter of 2023, and the rise is linked to a recovery in lending to enterprises, following the real declines of 2020 and 2021. The growth rate of total loans is likely to weaken in subsequent quarters and it may even be close to zero at the end of the forecast horizon.
- The scale of operations of credit unions remained small throughout 2021, although their assets continued to grow. The number of active unions decreased to 22 as a result of mergers. The credit unions sector posted a positive financial result despite low cost efficient and persisting costs of credit risk. The capital position of credit unions was varied and worsened. The end of 2021 solvency ratio for the whole sector ran below the minimum level determined by a law.
- In 2021 net assets of the sector of investment funds increased by 7% and at the end of the year they amounted to PLN 323.2 billion. All types of investment funds recorded asset increases, but funds accumulated in specialist open-ended funds were increasing most rapidly. In the case of open-ended funds, a positive balance of inflows and outflows was the main driver of asset growth (PLN 12.1 billion) and for closed-ended funds the result on operations was the main

source of asset growth (PLN 1.7 billion). In net terms, equity and mixed funds recorded the highest inflows. Debt funds were the only type of funds with a negative balance of inflows and outflows. Households remained the most substantial buyer of participation units as they paid in most funds in the period under analysis. Following the liquidations of several dozen open-ended funds, the number of such funds in the sector diminished again. However, open-ended investment funds were the largest group of funds on the domestic market. The number of investment fund management companies increased by 1, there were no acquisitions, mergers or withdrawals of operating licences. In nominal terms, positive rates of returns were posted by all types of open-ended funds, except for debt funds. Funds' costs rose considerably, but the sector's result on operations (PLN 11.8 billion) was significantly higher than a year earlier.

- The year 2021 again saw a rapid increase of the number of alternative investment companies, alternative investment company managers and the value of assets of alternative investment companies. At the end of December 2021, the companies held assets valued at PLN 8.2 billion, which represented an increase of PLN 4.2 billion on the end of December 2020 figure. The increase was the result of the rise in the number of managers as well as business expansions of existing companies. The value of private equity investment in Poland more than doubled (alternative investment company managers and alternative investment companies are part of the PE sector), amounting to PLN 5.4 billion at the end of 2021. The value of investment completed in the period under analysis dropped significantly (from PLN 4.7 billion in 2020 to PLN 2.0 billion in 2021).
- In 2021 net assets of open pension funds (OFE) increased by PLN 39.4 billion zlotys, to PLN 188.0 billion, on the back of the highest ever financial result posted by funds. The high rate of return was achievable due to the boom on the stock market. Open pension funds were actively investing in capital markets. The balance of purchase and sale transactions on the domestic market of equity instruments was PLN 2.1 billion. The funds' share in capitalisation and free float also rose (by 20.6% and 41.8%), respectively. To a lesser degree than in 2020, open pension funds reflected the WIG (the active share indicator amounted to 19.0%). A substantial rise of funds' assets translated into a larger profit (PLN 443.8 million) and a higher ROE (19.3%) of the sector of pension fund management companies, although neither the profits nor the ROE returned to their pre-pandemic levels.
- In 2021 the value of assets accruing as part of contributions to the pension sector on a voluntary basis rose by 26.7% and amounted to PLN 46.0 billion (Employee Capital Plans – PLN 18.9 billion, Individual Retirement Accounts – PLN 11.9 billion and Individual Retirement Security Accounts – PLN 6.0 billion). All the saving for retirement forms reported the growth in assets, but the fastest pace of growth was reported by Employee Capital Plans (172%). When compared to 2020, more accounts were operated for Pillar III participants (4.4 million) and the value of contributions paid in was higher (PLN 10.3 billion).
- The year 2021 saw a drop in assets of the insurance sector by PLN 6.5 billion to PLN 197.1 billion at the end of the year. Life insurance companies were behind the drop after their assets dwindled by 8%. Assets of non-life insurance companies increased by 1.3%, but the scale of the

increase was lower than in previous years. The decline in the value of assets of the sector ran in parallel with the increase in gross written premium (PLN 69.2 billion). The increase was higher than in previous years, especially in life insurance, higher y/y revenue from gross written premium was reported by life insurers for the first time from 2017.

- In 2021 the financial result of the insurance sector declined by PLN 0.4 billion to PLN 5.7 billion, while its technical result decreased to PLN 5.1 billion from PLN 6.1 billion in 2020. Life insurance companies contributed to the decrease after they had to pay higher claims and sustained higher costs as a result of the COVID-19 pandemic and the resulted higher mortality rate.
- At the end of 2021, the insurance sector held high surpluses of own funds over the capital requirement. SCR coverage with eligible own funds was 264% in the life insurance sector and 224% in the non-life insurance sector. The solvency ratio in life insurance at the end of 2021 was almost 10 p.p. lower and for non-life insurance companies it remained at a similar 2020 level. The solvency of the entire domestic insurance sector was 236% and was below the average for EEA countries – 258%.
- In 2021 the value of funding provided by leasing companies was PLN 88 billion, almost PLN 21 billion more than in 2020. Leasing agreements and loans accounted for 88% and 12% of the funding, respectively. Leasing was used mainly for the purchase of means of transport, and loans served primarily to buy agricultural machinery. The number of leasing agreements concluded in 2021 was 659 thousand, which represented a 99 thousand increase on the 2020 figure. The share of lessors in funding the real economy remained at a level similar to levels reported in previous years. New leasing agreements accounted for almost 50% of new loans to enterprises.
- In 2021 the value of debt bought back by domestic factoring service providers was almost PLN 400 billion, or 29.4% more than in 2020. Factoring services providers were banks and banking group-owned companies. The latter were responsible for 87% of the value of bought back invoices. Polish factoring service providers carried on their operations mostly on the domestic market, and non-recourse factoring was the most popular form of factoring.
- According to Statistics Poland data, the value of non-bank loans provided by lending companies in 2021 was PLN 12.3 billion (up 11.3% on the 2020 figure), of which PLN 7.3 billion were loan agreements entered into with natural persons (consumer loans). On the other hand, the value of loans and advances provided in cooperation with credit intermediaries amounted to PLN 52 billion. Mortgage loans were the most important product offered to households.
- Domestic investment firms carried on business mostly in the regulated markets and alternative trading systems organized by the WSE and BondSpot. In 2021 very good conditions continued on the stock market and the futures market in Poland. Despite this development, the provision by investment firms of core brokerage services, involving primarily financial instruments, and accepting, conveying and executing orders for the purchase of such instruments remained unprofitable. This made some brokerage houses to become more active in carrying out

operations in financial instruments on their own account, including in dealing in transactions initiated by retain clients via online forex platforms.

- In 2021 debt collection agencies accepted for processing 7.9 million debts of a nominal value of PLN32.8 billion. Consumer debt was the dominant item in the structure of the debts processed. From the point of view of their business type, outsourced debts prevailed in the structure of debt accepted for processing. In 2021 a recovery was seen on the debt market which – in terms of market size – returned to pre-COVID-19 pandemic levels.

Financial markets and their infrastructure

- The situation on the domestic money market in 2021 was mainly affected by uncertainty related to the impact of new waves of the COVID-19 pandemic on the economy and rising inflation, the latter intensified expectations about tighter monetary policy in Poland and globally. In the fourth quarter of 2021 the Monetary Policy Council raised the NBP reference rate from 0.1% to 1.75% and decided to raise (on 30 November) the required reserve ratio from 0.5% to 2.0%, which contributed to reducing funds available to the domestic banking sector in the last month of the year.
- The market of NBP bills remained the largest segment of the short-term debt securities market. In 2021 the average annual value of outstanding NBP bills, which reflected the scale of excess liquidity in the domestic banking sector, amounted to PLN 206 billion and was 53% higher than in 2020. The rise in value of the instruments was driven by measures taken by the central bank in a bid to inject structural liquidity into the banking and the scale of foreign currency purchases by NBP. In 2021 the Ministry of Finance did not issue Treasury bills, and outstanding 2020 Treasury bills were redeemed towards the end of the first quarter of 2021. Domestic corporate debt due to short-term securities increased to PLN 13.4 billion at the end of 2021, and the increase was mainly related to issued conducted by leasing companies and factoring firms whose parent entities were domestic banks.
- Average daily turnover in the market of interbank deposits in 2021 amounted to PLN 3.7 billion, similarly to 2020. However, the number of concluded transactions continued to decline – this time by as much as 27%. And Value and term structure of turnover on the market were determined by, among others, a small number of its active participants, the prudential liquidity requirements and daily changes in liquidity needs. O/N transactions accounted for approx. 93% of the value of turnover on the market. More than average activity of banks on the market of unsecured deposits with 1 month or longer than 1-month maturities was reported in the fourth quarter of 2021. Nineteen banks participated in NBP-developed POLONIA rate fixing.
- GPW Benchmark continued to develop the risk-free O/N indices, to be used for determining indices alternative to WIBOR indices on individual maturities and, ultimately, their replacements. Considering the recommendations of international organisations and the structural conditions of the domestic market of deposit transactions, it is advisable to develop indices alternative to WIBOR indices and their gradual replacement with such alternative indices in new and, potentially, also in existing contracts and financial instruments. The

replacement of the key WIBOR benchmark requires adequate actions by both the administrator as well as market participants and public institutions. It is necessary to set the timetable of key actions related to benchmark replacement actions related to the replacement of the benchmark and prepare market participants for upcoming developments.

- The year 2021 saw a substantial increase in turnover in the domestic FX swap market of the zloty. The average daily value of transactions on this market amounted to PLN 19.2 billion, i.e. 17% more than in 2020. Transactions between banks prevailed, with approx. 90% of the turnover accounting for transactions with foreign banks. In 2021, the increasing expectations of the tightening of monetary policy by NBP led to a rise in implied interest rate volatility in transactions in the FX swap market of the zloty.
- In 2021 the value of average daily turnover in the domestic market of conditional transactions rose by 10% and amounted to PLN 12.4 billion. Such a rise has primarily resulted from a more robust activity of non-credit financial institutions. As in previous years, SBB operations concluded by domestic banks, mainly with investment banks, prevailed on the domestic market. Most conditional transactions were concluded for less than a week, which stemmed from the use of these transactions for managing liquidity on a day-to-day basis. No interest in repo transactions cleared by CCPs distinguished the domestic money market from other EU financial markets. Clearing of repo transactions by CCPs in Poland may become popular after KDPW_CCP has offered this service on the TBSP platform. In May 2021, KDPW_CCP submitted a request with the KNF to broaden the scope of its services, compliant with the EMIR, to include clearing of repo transactions from the organized market. To start the service, KDPW_CCP must first receive KNF's authorization.
- In 2021, the domestic capital market, whose major segments are the WSE Main Market that facilitates trading in shares and the Treasury bond market, functioned in the conditions of temporary increased uncertainty among investors. They translated into an elevated volatility of financial instruments' prices on this market.
- Treasury bonds remained the dominant segment of the domestic market for long-term debt instruments. In 2021, the Treasury bond debt of the State Treasury increased to PLN 813.6 billion (of which, the savings bonds debt grew substantially to PLN 56.9 billion). Domestic banks continued to prevail in the investor structure, and they held PLN 366.4 billion worth of Treasury bonds at the end of the year. Foreign investors cut their exposure to the instruments. On the other hand, the value of Treasury bond portfolios held by general government units, natural persons as well as NBP, which conducted structural operations since November 2021 (i.e. it purchased Treasury bonds and bonds guaranteed by the State Treasury from the secondary market). Liquidity on the secondary market of Treasury bonds dropped – the average daily value of outright transactions amounted to PLN 7.0 billion. Accelerating inflation and related NBP interest rate increases in the fourth quarter of 2021 led to a substantial increase in yields on domestic Treasury bonds and to the flattening of the yield curve.

- As part of the government programmes aimed to counteract the fallout from the COVID-19, in 2021 BGK and PFR conducted issues of State Treasury-guaranteed bonds to the value of PLN 42.0 billion. In that year BGK did not issue debt securities for the National Road Fund. The total domestic debt of BGK and PFR due to State Treasury-guaranteed debt securities rose to PLN 215.7 billion at the end of December. They were mainly bought by domestic banks and NBP. BGK bonds for the COVID-19 Response Fund were most liquid among those financial instruments. Yields on these instruments on the secondary market were slightly higher than yields on Treasury bonds which were characterised by similar parameters, which reflected a different tax treatment of these asset classes.
- The value of the domestic market for corporate bonds increased slightly to PLN 86.5 billion at the end of 2021. In the period under analysis, the value of around 250 corporate bond issues was PLN 16.1 billion, but this market displayed a low industry diversification of issuers. In 2021, the value of long-term corporate debt securities registered with the Central Securities Depository of Poland (KDOW) and listed on the Catalyst platform increased, however, a substantial portion of the market for long-term corporate debt securities was non-marketable. This specifically applied to issues of bonds which were purchased by banks or enterprises to be held to maturity. Investment funds held the highest share in the structure of investors of these instruments. The liquidity of the market of long-term corporate debt securities remained insignificant.
- The value of outstanding municipal bonds (of over 17 thousand bond series) at the end of 2021 was PLN 30.2 billion, and they were issued by over 1 thousand local government units. In the period under analysis, the value of municipal bonds issued by these units was PLN 4.5 billion. The local government units used the funds raised mainly to carry out investment projects, including, among others, projects co-financed with EU funds. This market was still highly fragmented because the borrowing needs of the majority of local government units were small and the bond issuers were universally split into several series. The domestic banks which usually organized municipal bond issues held approx. 80% of these securities at the end of 2021. Liquidity of the secondary market of the instruments was marginal.
- The capitalisation of the domestic stock market increased at the end of 2021 to PLN 1,331.9 billion, and the ratio of the capitalization of domestic companies to Poland's GDP rose to 27.4%. For most of the year 2021, prices of equity instruments rose significantly, both on the WSE and on global stock markets, which was associated with the gradual lifting of economic restrictions put in place in response to the outbreak of the COVID-19 pandemic and to the improved macroeconomic outlook. The WIG index rose by 21.5% during the year, with the shares of banks and companies in the clothing industry reporting highest increases. The mWIG40 reported the highest increase, by 33.1%, and its value in early November was at its all-time high. The valuation of small caps included in the WIG80 increased by 24.6%, and the WIG20, which groups the largest caps, grew by 14.3%.
- In 2021 the average daily value of all stock traded on the WSE Main Market was PLN 1.3 billion (up 6.8% on the 2020 figure). The market's liquidity index, measured by the value of the said

transactions to the average capitalisation of domestic companies from the start and end of the year, fell slightly to 53.3% but was still substantially higher than before the year 2020. Interest in trading in shares among individual investors remained high in 2021, which mainly resulted from low interest rates on bank deposits and from their search for alternative forms of saving. Sixteen companies were floated on the WSE Main Market in 2021, with the value of IPO totalling PLN 9.2 billion. Nineteen 19 companies were delisted, mostly due to the main shareholder's decision.

- Increased interest in trading on NewConnect, both from issuers and investors continued in 2021. Individual investors were still the largest group of investors trading in this market, as its turnover was over twice lower than in 2020 but significantly higher than in previous years. The capitalisation of NewConnect did not change considerably in 2021 – the 21.3% decline of the NCIndex were offset by the IPOs of 32 companies and new share issues of listed companies (Secondary Public Offers). Twenty-five companies were delisted from NewConnect, mostly to ensure security for transaction parties.
- In 2021 the average daily turnover on the global spot market for the Polish zloty was USD 23.6 billion and was by over a half higher than a year earlier. The increase was driven by a relatively high volatility of the zloty exchange rate, which prompted some entities to increase speculative activity. Approx. 86% to transactions were concluded on the offshore market. On the domestic spot market of the zloty, involving transactions where a party to a transaction is at least one bank active in Poland, the average daily turnover in 2021 rose by 60% and amounted to over USD 3.3 billion (or around PLN 12.0 billion). In transactions between banks, transactions with foreign entities prevailed. The EUR/PLN exchange rate was primarily effected by the foreign investors' assessments of Poland's economic outlook and market participants' expectations about the pace and scale of NBP interest rate increases in response to rising inflation.
- The value of transactions in zloty-denominated OTC interest rate derivatives on the domestic market increased significantly for another year in succession, and the reasons of the increase were, among others, the changing and varying expectations of market participants of NBP interest rate increases. The average daily value of FRAs, to which a domestic bank was a party, amounted to PLN 4.1 billion in 2021, which represented an over 60% increase on the 2020 figure (and the highest level since 2014). The average daily turnover on the domestic market of IRSs rose to a lesser degree (from PLN 3.7 billion in 2020 to PLN 4.0 billion in 2021). Domestic banks cleared around 95% of transactions in OTC interest rate derivatives in 2021, which was related to the applicable EU central clearing obligation for selected classes of OTC derivatives.
- In 2021, the average daily value of transactions on the domestic market for OTC FX derivatives involving the Polish zloty was almost three times higher than in 2020 and amounted to PLN 6.9 billion. Such a substantial rise in the turnover was the result of the economic recovery and the persisting relatively zloty exchange rate. The factors translated into increased demand from non-financial corporations into FX derivatives which hedged the value of future currency cash flows on their operations. Moreover, the value of the transactions was increased by a change in the way some non-banking financial institutions raised funds.

- Investor activity on the exchange-trade derivatives market was still substantially lower than on the OTC market and it concentrated in the segment of WIG20 futures. The volume of trade on the WSE futures market rose by 4.3% (compared to 2020) to 11.9 million contracts, while the value of transactions grew by 11.8% to PLN 277.5 billion.

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

The fallout of the COVID-19 pandemic continued to impact the situation of Poland's financial system in 2021. Alleviating the restrictions which businesses faced and the government-funded social protection programmes had a positive effect on the economy by contributing to fast GDP growth. The growth in financial system assets during the year was lower than in 2020, which – amid high GDP growth – resulted in the decline of the domestic financial system assets to GDP ratio from 136.6% in 2020 to 133.4% at the end of 2021. The situation was similar in, among others, the Czech Republic. On the other hand, in Slovakia where the pace of financial system asset growth during 2021 was higher than the pace of GDP growth, the financial system assets to GDP ratio increased. In the case of Hungary and the euro area, where financial system asset growth and GDP growth were close, this ratio in 2021 compared to 2020 did not change considerably (Table 1.1).

Table 1.1. Assets of the financial system¹ as a percentage of GDP in selected CEE countries and in the euro area, 2018-2021 (%)

	2018	2019	2020	2021
Poland	128.0	124.6	136.6	133.4
Czech Republic	172.1	167.5	178.9	174.1
Slovakia	126.8	128.7	141.6	150.6
Hungary	124.8	124.3	143.1	143.5
Euro area	482.5	507.1	567.5	567.4

¹ Assets of the following financial institutions: monetary financial institutions (excluding central banks), insurance companies, investment funds, pension funds, securitization special purpose entities, leasing companies, factoring firms, lending companies and brokerage houses are included in this table.

Note: Due to adjustments, some data differ from the data presented in the previous edition of the report.

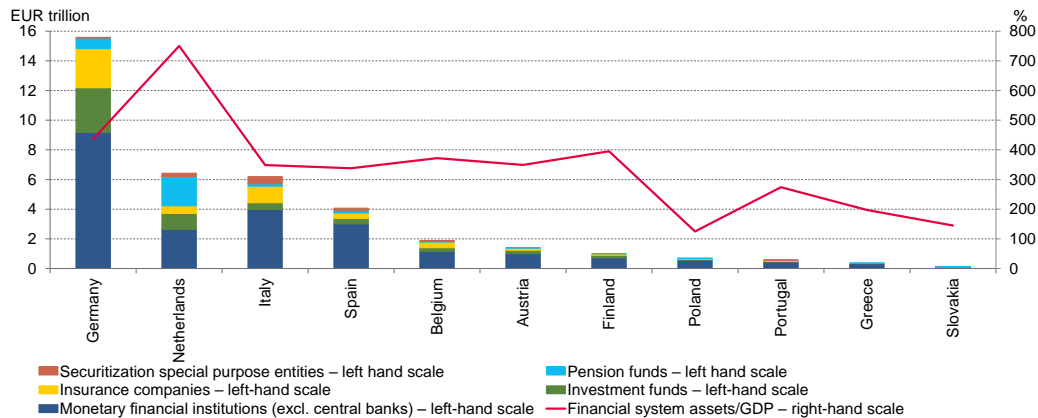
Source: For the euro area – ECB Statistical Data Warehouse and Eurostat; for other countries – data are provided by national central banks (NCBs) and Statistics Poland.

Despite these changes, the level of financial intermediation development, measured by the ratio of financial system assets to GDP, in Poland and other CEE countries, when compared to the average ratio in euro area countries, was relatively low (Figure 1.1). When assessment of the level of financial system development of this group of countries is measured with the use of other indices, conclusions are similar. For instance, the IMF-developed Financial Development Index (FD)¹ for

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., Svirydzhenka K., Yousefi R, *Rethinking Financial Deepening: Stability and Growth in Emerging Markets*, IMF Staff Discussion Note SDN/15/08, May 2015, IMF and Svirydzhenka 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 2020 updated values of the FD index and its sub-indices (updated on 8 July 2022) <https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>.

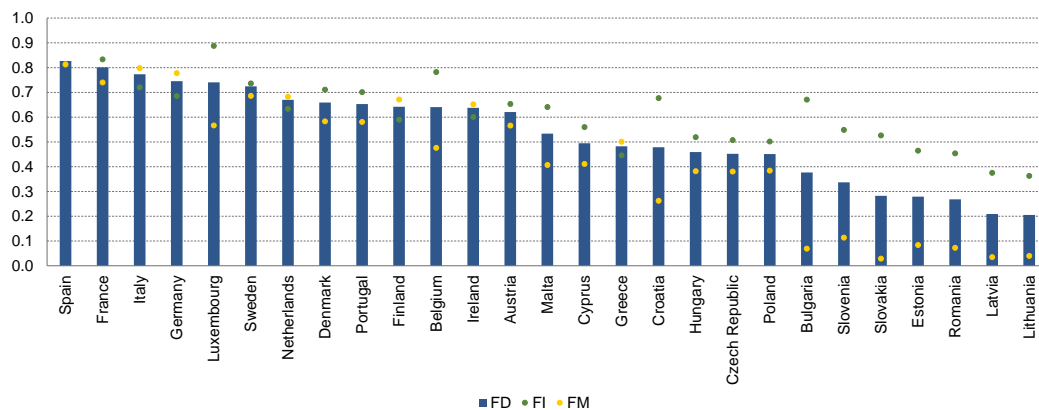
Poland amounted to 0.451, which helped classify it into the group of countries with a medium level of financial development² (Poland was ranked 20th in the group of EU³ countries). The level of financial development of the Czech Republic (0.452), Hungary (0.459) and Croatia (0.478) was similar (Figure 1.2).

Figure 1.1. Financial system assets in selected EU countries at the end of 2021



Source: Own calculations based on ECB, Eurostat, Statistics Poland and NBP data.

Figure 1.2. The FD index, the Financial Institutions (FI) index and the Financial Markets (FM) index in EU countries, 2020



Source: NBP study based on IMF data. *Financial Development Index Database*, IMF Data; data updated on 8 July 2022. <https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>.

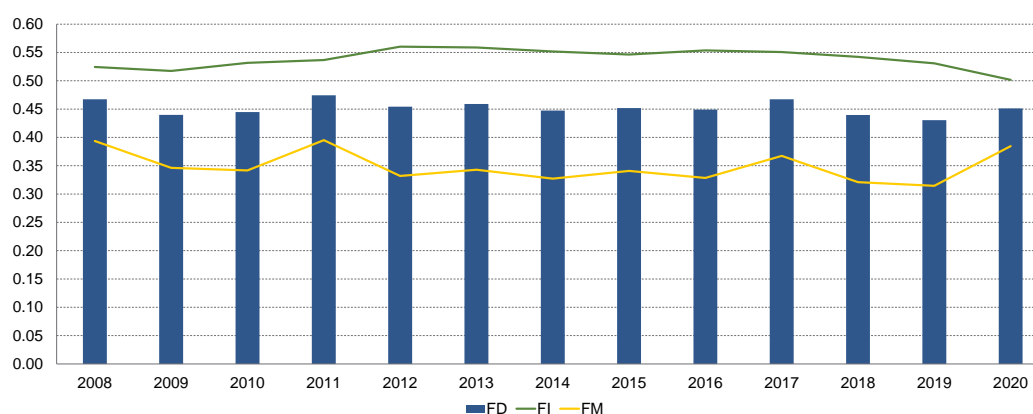
The level of development of the individual segments of Poland's financial system is reflected by the development of FI and FM sub-indices, which comprise the overall index of financial development (FD). In recent years, the development of the Polish financial system has been based

² Values of the indicator are in the range of $<0 ; 1>$. FD-associated data for Poland and other countries are for the year 2020.

³ Poland is ranked 24th in the EU, in terms of GDP per capita in 2020.

on financial institutions (banking sector), with financial markets being less important (Figure 1.3).⁴ This demonstrates the relatively feeble development of financial markets in Poland compared with other countries, especially with countries with more developed financial systems.

Figure. 1.3. The FD index, the Financial Institutions (FI) index and the Financial Markets (FM) index in Poland, 2008-2020



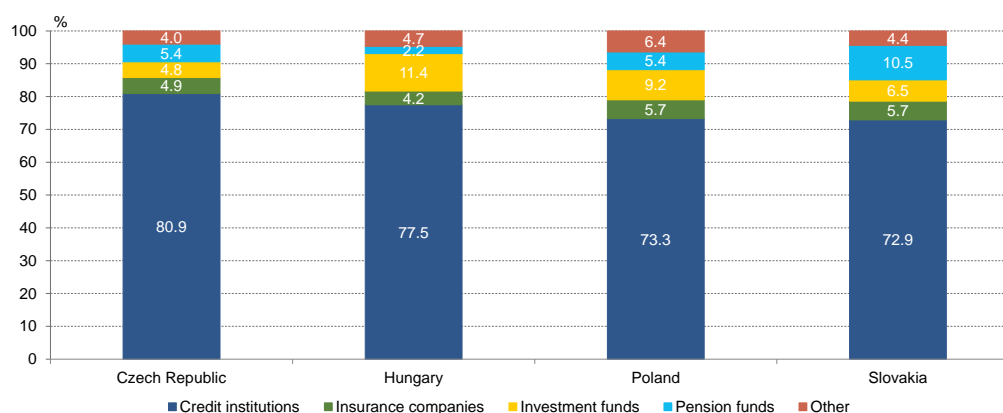
Source: NBP study based on IMF data. *Financial Development Index Database*, IMF Data; data updated on 8 July 2022. <https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>.

In the case of euro area countries, the rising importance and share of non-monetary financial institutions in assets was a typical characteristic of the change of the financial system. This trend changed during the COVID-19 pandemic, when the value of assets of credit institutions was rising faster. However, their share in financial system assets grew insignificantly and was below 40% (Box 1.1).

The sector of credit institutions played a major role in the financial system, both in Poland and in other countries of the region, accounting for from 70% to 80% of assets of their financial systems. In the case of Hungary and Poland, due to the slower pace of growth of assets of credit institutions in 2021, the share of these institutions in the financial system decreased slightly. A different trend was observed in the Czech Republic and Slovakia (Figure 1.4).

Although the value of financial system assets in CEE countries increased, the ratio of financial system assets to GDP declined in 2021. 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 deposit taking from and lending to non-financial clients.

⁴ In 2020, due to a deterioration of the condition of the banking sector and the rebound on financial markets, the increase in FD followed an increase in the sub-index FM from 0.315 in 2019 to 0.385 in 2020, with the sub-index FI decreasing to 0.502 (from 0.531 in 2019). The IMF-developed FD (financial development) index and its sub-indices FI (financial institutions index) and FM (financial markets index) are described in detail in *Financial System in Poland 2014*, Warsaw 2015, NBP, pp. 28-32.

Figure 1.4. Composition of financial systems in selected CEE countries at the end of 2021, 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 the Czech Republic, Hungary and Slovakia data provided by NCBs; for Poland data are provided by NBP, the Office of the Polish Financial Supervision Authority (UKNF) and Statistics Poland.

Table 1.2. Banking sector development levels (commercial and cooperative banks) in selected CEE countries and in the euro area, 2019-2021 (%)

	Assets/GDP			Loans ¹ /GDP			Deposits ² /GDP		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Poland	87.0	100.0	97.4	48.2	47.1	44.0	55.2	60.9	58.6
Czech Republic	133.5	141.0	140.8	49.5	52.4	53.0	66.0	75.1	75.8
Hungary	92.6	111.6	111.3	32.4	36.2	35.7	39.6	48.3	49.6
Euro area ³	270.6	307.6	298.2	86.8	94.9	91.5	86.9	100.6	99.1

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 Assets, loans and deposits of the sector of monetary financial institutions (excluding Eurosystem).

Note: Due to adjustments, some data are not comparable with data included in the previous edition of the report.

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

At the end of 2021, assets of institutions comprising the Polish financial system amounted to PLN 3.5 trillion or 9.6% higher than a year earlier. The asset growth was primarily driven by the rising value of assets of the banking sector and open pension funds. Assets of brokerage houses, factoring companies and leasing enterprises also rose substantially, but assets of insurance companies decreased (Tables 1.3 and 1.4).

Table 1.3. Assets¹ of financial institutions in Poland, 2016-2021 (PLN billion)

	2016	2017	2018	2019	2020	2021
Financial institutions subject to KNF supervision²						
Commercial banks ³	1,547.8	1,603.4	1,704.6	1,790.0	2,117.2	2,320.2
Cooperative and affiliating banks ³	158.2	173.4	182.1	201.8	221.2	236.1
Credit unions	11.3	10.2	9.6	9.4	9.5	10.0
Insurance companies	184.3	198.4	191.8	193.0	203.6	197.1
Investment funds	275.4	302.8	293.4	304.6	302.2	323.2
Open pension funds	153.4	179.5	157.3	154.8	148.6	188.0
Brokerage houses	6.2	6.8	6.6	6.6	9.9	14.3
Total	2,336.6	2,474.5	2,545.4	2,660.5	3,012.2	3,288.9
Other financial institutions⁴						
Leasing companies	109.9	122.4	140.9	148.3	140.2	161.5
Factoring enterprises	17.7	20.4	25.1	28.0	28.8	35.6
Lending companies	10.0	11.0	10.3	13.9	12.6	13.6
Total	137.6	153.8	176.3	190.2	181.6	210.7
Total	2,474.2	2,628.3	2,721.7	2,850.7	3,193.8	3,499.6

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 operating activity. Commercial banks also include 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 previous edition of the report.

Source: NBP, UKNF and Statistics Poland.

Banking sector assets in 2021 grew to a smaller extent than a year earlier and their share in financial sector assets were at a similar level as in 2020 and stood at 73%. Receivables from the non-financial sector were the largest part of assets (45.1%). The second largest item were securities (29.2%). Their share in banking sector assets decreased compared with 2020. In 2021, the value of loans provided to the non-financial sector to GDP was lower than in 2020 and amounted to 44.0% at the end of 2021.

In the period under analysis, investment fund assets rose by 6.9% (to PLN 323.2 billion) and their share in financial system assets dropped from 9.5% in 2020 to 9.2% at the end of 2021.

Open pension funds' assets increased substantially (by over 26%), which resulted from the very good investment performance related to the boom on the stock market. The very favourable conditions on the stock and futures markets continuing throughout 2021 also led to a surge in assets of brokerage houses (by over 44%).

During the year 2021, only the value of assets of insurance companies declined (by 3.2%). The decline was due to an 8% decrease in assets of life insurance companies.

Table 1.4. Growth in assets¹ of financial institutions in Poland, 2018-2021 (y/y, %)

	2018	2019	2020	2021
Financial institutions subject to KNF supervision²				
Commercial banks ³	6.3	5.0	18.3	9.6
Cooperative and affiliating banks ³	5.0	10.8	9.6	6.7
Credit unions	-5.9	-2.1	1.1	5.3
Insurance companies	-3.3	0.6	5.5	-3.2
Investment funds	-3.1	3.8	-0.8	6.9
Open pension funds	-12.4	-1.6	-4.0	26.5
Brokerage houses	-2.9	0.0	50.0	44.4
Total	2.9	4.5	13.2	9.2
Other financial institutions⁴				
Leasing companies	15.1	5.3	-5.5	15.2
Factoring enterprises	23.0	11.6	2.9	23.6
Lending companies	-6.4	35.0	-9.4	7.9
Total	14.6	7.9	-4.5	16.2
Total	3.6	4.7	12.0	9.6

¹ Net asset value for banks, investment funds and open pension funds.

² Includes the most important financial institutions subject to KNF supervision.

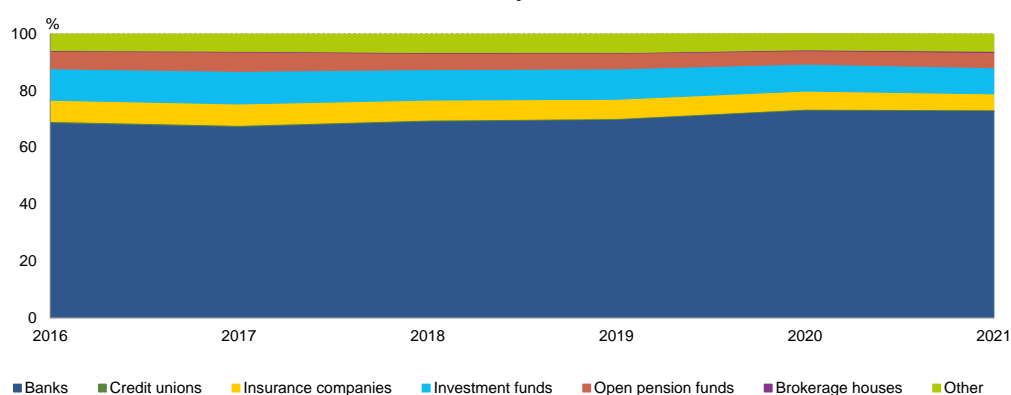
³ Banks that conduct operating activity. Commercial banks also include branches of credit institutions.

⁴ Includes the most important categories of other financial institutions not subject to KNF supervision, for which statistical data are available.

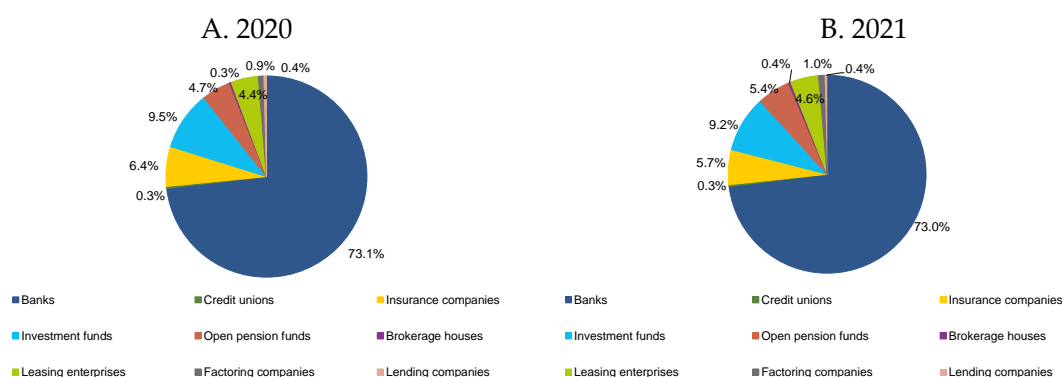
Note: Due to adjustments, the data may differ from data presented in the previous edition of the report.

Source: NBP, UKNF and Statistics Poland.

As a result of the trends discussed above, the share of the banking sector in the financial system remained at a level close to 2020; the share of open pensions funds, brokerage houses and other financial institutions was up, but the share of investment funds and, to the largest extent, of insurance companies dropped (Figures 1.5 and 1.6 and Tables 1.3 and 1.4).

Figure 1.5 Asset structure of the Polish financial system, 2016-2021

Source: NBP, UKNF, Analityz Online and Statistics Poland.

Figure 1.6. Share of individual financial institutions in the asset structure of the Polish financial system in 2020 and 2021

Source: NBP, UKNF and Statistics Poland.

The money bills market remained the largest segment of the market of short-term debt instruments in 2020. The average annual value of outstanding money bills grew significantly compared to 2020 and amounted to PLN 206 billion. The Ministry of Finance financed its borrowing needs mainly with instruments with maturity longer than one year. Outstanding Treasury bills were redeemed in the first quarter of 2021. Enterprises and banks used the issuance of short-term debt securities to finance their borrowing needs to a minor extent.

Table 1.5. Number of financial institutions in Poland, 2014-2021¹

	2014	2015	2016	2017	2018	2019	2020	2021
Commercial banks ²	64	63	61	61	61	60	64	65
Affiliating banks ²	2	2	2	2	2	2	2	2
Cooperative banks ²	565	560	558	553	549	538	530	511
Credit unions	50	48	40	34	30	25	23	22
Insurance companies ³	57	57	60	61	60	58	59	55
Investment funds ⁴	681	812	929	905	878	813	737	706
Open pension funds	12	12	12	11	10	10	10	10
Brokerage houses	53	52	46	44	40	38	37	36

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 operating activity. The number of commercial banks also includes branches of credit institutions. In 2014 there were 28 branches of credit institutions, in 2015-2016 – 27, in 2017 – 28, in 2018 – 31, in 2019 – 32, in 2020 – 36, and in 2021 – 37.

³ Entities conducting operating activity in the area of insurance and reinsurance.

⁴ The number of active funds.

Source: NBP and UKNF.

The capitalisation of the Polish stock market increased by 22.4% to PLN 1,331.9 billion, primarily as a result of the growth in share prices of listed companies. The stock market retained its position

in the region (Table 1.6). The number of companies whose shares were traded on the organised market increased somewhat. Trading in shares on the WSE-organised markets increased slightly, as individual investors, who demonstrated relatively robust activity, wanted to invest their savings in these instruments because bank deposits were less attractive. Amid a marked economic recovery and in the environment of interest rates continuing at low levels throughout the year, stock price indices were increasing until early November, but later this trend reversed. In the period under analysis, the broad market index WIG grew by 21.5% and the WIG20 rose by 14.3%.

Table 1.6. Characteristics of stock markets in selected CEE countries and in the euro area, 2019–2021¹

	Capitalisation of domestic companies (EUR billion)			Capitalisation of domestic companies to GDP (%)		
	2019	2020	2021	2019	2020	2021
Poland ²	131.3	120.8	156.6	24.4	23.8	27.4
Czech Republic	23.4	21.8	33.0	10.4	10.1	14.2
Hungary	29.4	22.8	27.8	20.1	16.8	18.3
Euro area ²	8,436.8	8,886.6	11,897.8	70.4	78.0	97.0
	Liquidity ratio ³ (%)			Number of listed companies (including foreign ones)		
	2019	2020	2021	2019	2020	2021
Poland	33.8	50.1	38.5	824 (54)	806 (54)	810 (51)
Czech Republic	14.4	15.7	13.0	54 (38)	55 (35)	55 (34)
Hungary	31.8	48.7	39.9	43 (0)	45 (0)	50 (0)
Euro area ²	49.8	58.2	45.0	6,986 (1,039)	7,077 (1,202)	7,635 (1,302)

¹ All values also include alternative trading systems, if such platforms were run by the operator of a given stock exchange.

² Indices calculated for the euro area include the following stock exchanges: Athens Exchange, 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.

³ The ratio of annual net turnover value of the shares of domestic companies to stock market capitalisation at the end of the year.

Notes:

1. Values calculated in the table based on WSE data for Poland and FESE data for foreign markets.

2. Due to adjustments, some data differ from the data presented in the previous edition of the report.

Source: Eurostat, FESE, WSE, Ljubljana Stock Exchange and Statistics Poland.

The Treasury bond market remained the largest and most liquid segment of the domestic market of long-term debt securities (Table 1.7). In terms of value, the Polish market of Treasury bonds was also the largest in Central and Eastern Europe and the 8th largest market in the European Union. Domestic banks were the largest buyers of Treasury bonds. Their share in the investor structure of the Treasury bond market was almost 45%. In 2021, the average daily value of conditional transactions in Treasury bonds dropped slightly to PLN 7.0 billion.

Table 1.7. Average daily net turnover in the domestic financial market, 2018–2021 (PLN million)

	2018	2019	2020	2021
Equity and debt instruments market				
Shares and allotment certificates	864.4	793.5	1,293.9	1,337.0
Treasury bonds	27,352.3	28,078.4	18,782.4	20,514.6
Treasury bills	0.0	0.0	445.1	99.5
Deposit transactions market				
FX swap transactions	14,580.1	16,602.3	16,424.6	19,157.2
Repo/SBB transactions	15,605.3	16,999.1	11,667.2	12,365.9
Unsecured interbank deposits	3,654.2	3,306.5	3,660.7	3,725.4
Derivatives transactions market				
FX forwards	2,016.0	2,075.4	1,842.8	5,550.4
CIRS transactions	140.7	273.0	213.8	326.0
Currency options	394.1	472.4	323.0	984.9
FRAs	1,724.1	1,834.8	2,531.3	4,074.8
IRs	2,801.9	3,344.2	3,747.4	4,046.6
OISs	9.8	1.3	0.0	0.0
WIG20 futures	821.9	700.5	844.1	930.0
Spot FX market				
	7,184.2	7,422.3	7,514.6	12,051.4

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 2018, the average daily value of unconditional transactions in the Treasury bond market amounted to PLN 11.5 billion; it was PLN 10.7 billion in 2019, PLN 7.1 billion in 2020, and PLN 7.0 billion in 2021. In the case of Treasury bills, the average daily value of unconditional transactions in 2021 amounted to PLN 9.3 million, compared to PLN 120 million in 2020 (after taking into account the number of business days in the months in which the instruments were outstanding). 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.
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 adjustments, some data differ from the data published in the previous edition of this report.

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

At the end of 2021, BGK and PFR bonds guaranteed by the State Treasury accounted for 60% of the value of outstanding non-Treasury debt securities. The markets for long-term corporate and bank debt securities and for municipal bonds were still poorly developed. The liquidity of these instruments was low, and a substantial portion of them were still not marketable.

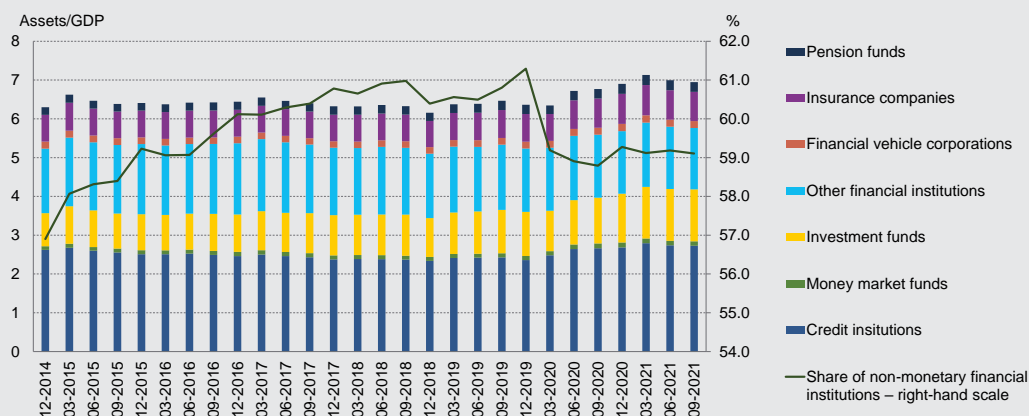
The volume of transactions in the deposit transactions market, which is mainly used by financial institutions to manage liquidity on a day-to-day basis, rose by 11% in 2021. The rise was mainly reported on the market for FX swap transactions. The average daily value of unsecured Interbank deposits did not change significantly, but domestic banks' activity on the market for conditional transactions increased slightly (Table 1.7).

As in previous years, most zloty exchange transactions and transactions in OTC FX derivatives were concluded in the offshore market, mainly in London. The zloty exchange rate was largely determined by transactions between non-residents, mainly 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 transaction. The average daily net turnover on the OTC market in 2021 was several times higher than the turnover in derivatives transactions on the WSE. Investor activity in the exchange-traded derivatives market continued to concentrate in the segment of WIG20 futures.

Box 1.1. Financial sector structure in euro area countries in 2014-2021¹

In 2014-2019, the ratio of assets of the euro area financial sector to GDP was stable at the level of 6.3-6.5 times the GDP. In 2020-2021, the ratio rose to 7 times the PKB (in the third quarter of 2021), and the value of financial sector assets reached EUR 85 trillion. A steady rise of the share of assets of non-monetary financial institutions (to nearly 61% at the end of 2019) in financial sector assets was a typical characteristic feature of the change in the financial sector structure in 2014-2019. This trend changed in 2020-2021 and at the end of the third quarter of 2021 the share of assets of non-monetary financial institutions declined to 59%, as the share of credit institutions and money market funds increased to 41% (Figure I).

Figure I. Assets of the financial sector of euro area countries, 2014-2021 (to GDP)



Source: Calculations based on ECB data.

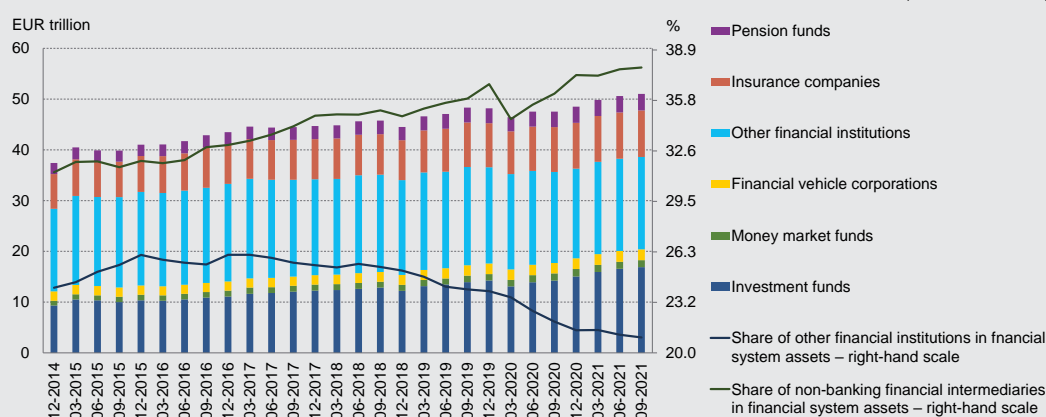
Banks' assets increased by EUR 3.9 trillion in 2020-2021, mainly on account of the policies to counteract the economic consequences of the COVID-19 pandemic (fiscal policy, monetary policy and macroprudential policy aimed to stimulate lending).

In 2014-2021, assets of non-bank financial institutions grew from EUR 37.4 trillion at the end of 2014 to EUR 51.0 trillion at the end of the third quarter of 2021. Within this group of financial institutions, the major role was played by the other financial institutions (i.e. sub-sectors S.125 – excluding financial

vehicle corporations engaged in securitization transactions, sub-sectors S.126 and S.127)² and investment funds. The declining share of assets of the other financial institutions in financial sector assets can be observed since the middle of 2017. This downward trend even strengthened from 2019. At the end of the third quarter of 2021, the share of assets of these institutions decreased to 21% (from 26% at the first quarter of 2017). The subsector of the other financial institutions (including, among others, holding companies and entities that channel financial flows within non-financial corporations) was the only sub-sector in 2021 which reported a fall in the value of financial assets in 2021 (by around EUR 0.5 trillion) when compared the end of 2019 (Figure II). In addition to exchange rate fluctuations, the decline in the sub-sector's assets³ was driven by changes in the international tax regulations impacting the way international corporations operate.

Assets of non-bank financial intermediaries⁴ increased in 2014-2021 from EUR 21.1 trillion at the end of 2014 to EUR 32.8 trillion at the end of the third quarter of 2021. The share of assets of these institutions in financial sector assets showed the upward trend (except for the first quarter of 2020) and rose from 31.3% at the end of 2014 to 37.8% at the end of the third quarter of 2021 (Figure II). The major role in this group of financial institutions was played by investment funds⁵ whose share in the total assets of these entities increased from 44.1% in 2014 to 51.5% at the end of the third quarter of 2021 and, together with money market funds⁶, it amounted to 48.6% and 55.6%, respectively.

Figure II. Assets of non-bank financial institutions of euro area countries, 2014-2021 (EUR trillion)



Source: Calculations based on ECB data.

¹ The European Central Bank report on *Financial Integration and Structure in the Euro Area*, April 2022, ECB Committee on Financial Integration was used in this analysis. The report is available on the website <https://www.ecb.europa.eu/pub/pdf/fie/ecb.fie202204-4c4f5f572f.en.pdf>. The ECB is accompanied by new data to enable additional analysis of structural changes in the financial system. The data are available on the website https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/shared/files/financial_integration_and_structure_indicators.xlsx?20220404. Due to the scope of financial institutions under analysis and the fact that only financial assets were taken into account, some values and indicators may vary from those values and indicators presented in other parts of the report.

² In line with the classification applied in the financial accounts, these subsectors include the following financial institutions: the other financial intermediaries, except insurance corporations and pensions funds (S.125) – this sub-sector includes financial vehicle corporations engaged in securitization transactions (FVC), security and derivative dealers, financial corporations engaged in lending and specialized financial corporations; financial auxiliaries (S.126); captive financial institutions and money lenders (S.127).

³ Assets of this group of entities are concentrated in Luxembourg, the Netherlands and Ireland.

⁴ Non-bank financial intermediaries (in a narrower sense) include: money market funds, investment funds, financial vehicle corporations, insurance companies and pension funds.

⁵ Assets of investment funds are concentrated in Luxembourg, Ireland, Germany, France and the Netherlands (a 91% share in assets of investment funds of euro area countries).

⁶ Assets of money market funds are concentrated in three countries: Ireland, Luxembourg and France (a 98.9% in assets of money market funds of euro area countries).

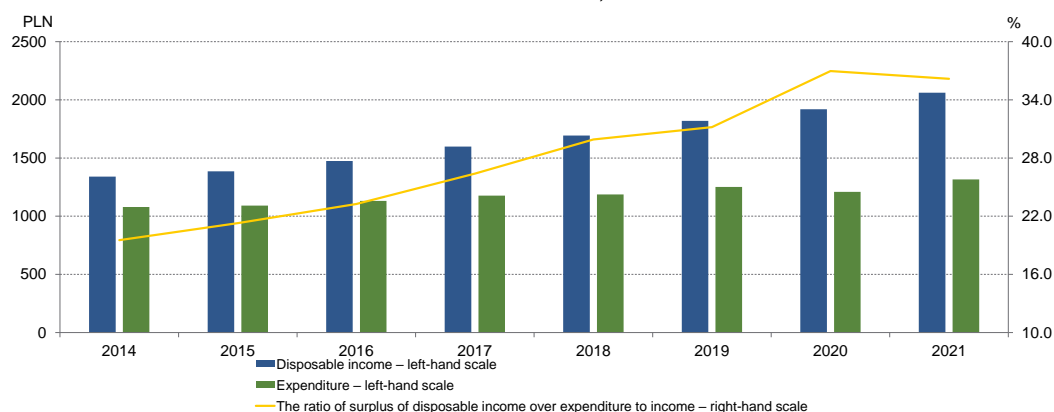
2. Households and enterprises in the financial market in Poland

In 2021, as in the previous year, the situation of households and enterprises on the financial market was affected by the COVID-19 pandemic. The government continued to provide social protection programmes to counteract the pandemic's economic fallout; however as the related business restrictions were relaxed, the value of the financial support was lower than in 2020.

2.1. Financial assets of households

In the year under analysis the financial condition of households improved slightly.⁵ Households reported higher income and spent more than in 2020. The average monthly disposable income per capita in households⁶ rose to PLN 2,062 (an increase of 7.4% in nominal terms and by 2.2% in real terms). The level and structure of expenditure also changed. The average monthly expenditure per capita in households increased by 8.8% (in real terms, by 3.5%) to PLN 1,316. The highest increases were reported for expenditure on transportation, health services, restaurants and hotels, recreation and culture as well as on the use of dwellings and energy carriers. On the other hand, the share of expenditure on food and beverages, home furnishings, household management and alcoholic beverages and tobacco products decreased. The excess of disposable income over expenditure rose from PLN 710 in 2020 to PLN 746 in 2021 (Figure 2.1).

Figure 2.1. Financial situation of households in Poland, 2014-2021



Source: Study based on Statistics Poland data.

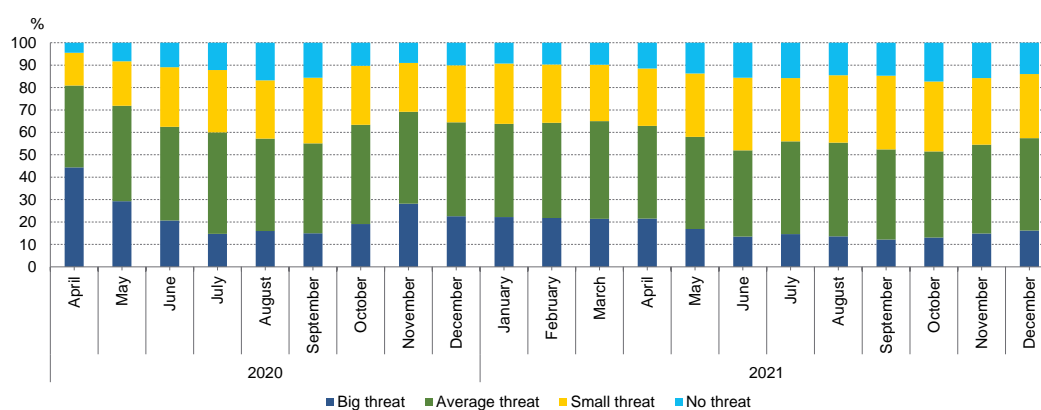
⁵ See *Sytuacja gospodarstw domowych w 2021 r. w świetle wyników badania budżetów gospodarstw domowych*, Informacja Sygnalna, Warsaw, 31 May 2022, Statistics Poland.

⁶ "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 taxpayers 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 *Metodologia badania budżetów gospodarstw domowych*, Warsaw, 2011, Statistics Poland, pp. 30-31.

The subjective evaluation of the financial situation of households also improved. In 2021, 53.0% of households assessed their financial situation as good or rather good (compared to 51.6% in 2020). The percentage of households perceiving it as bad or rather bad decreased (to 5.1% in 2021 from 5.8% in 2020).

The course of the COVID-19 pandemic in 2021 also had an influence on consumer sentiment and on households' assessments of risks to their financial condition. The assessment of the scale of risks changed in the subsequent months of the year (Figure 2.2).⁷

Figure 2.2. Impact assessment of the COVID-19 pandemic on the financial situation of households, April 2020-December 2021



Source: Study based on Statistics Poland data.

In 2021, household financial assets that can be used relatively freely⁸ increased to a lesser extent than in 2020 (to PLN 129 billion, i.e. by 7.8%) and at the end of December they amounted to PLN 1,773.1 billion, and the ratio of household financial assets to GDP dropped to 67.6% because the pace of nominal GDP growth was faster (Figure 2.3). This asset growth was primarily driven by the changing value of Treasury securities, cash in circulation, shares listed on the WSE and units of investment funds. On the other hand, the value of non-Treasury securities and life insurance funds held by households declined (Table 2.1).

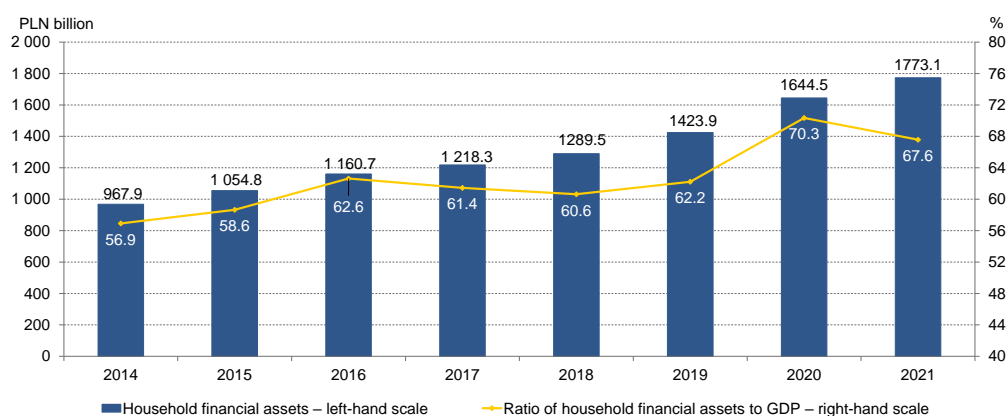
Bank deposits and cash prevailed in the structure of assets held by households, as was the case in the previous year. In 2021, the growth in bank deposits was lower than a year earlier (the share of deposits in assets in 2021 dropped to 59.8%), which, among others, was related to the lower value

⁷ In the *Consumer tendency* survey conducted by Statistics Poland, respondents were asked to answer the question: "What is the threat of the current epidemiological situation (COVID-19 coronavirus) for your personal financial situation?". See *Konjunktura konsumencka*, Statistics Poland, News releases, January-December 2021.

⁸ 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.

of the disbursement of funds from the so-called Anti-Crisis Shield, which were designed to combat the effects of the COVID-19 pandemic, to sole proprietors and micro-entrepreneurs. They were also related to the use of savings for the purchase of dwellings and higher consumer demand. The share of cash rose to 18.9% in 2021. The rising share of cash and the large share of banks deposits indicate that Polish households preferred safe financial surplus management methods (Figure 2.4). At the end of 2021, deposits held at banks and credit unions accounted for a total of 61.3% of household financial assets, and – with cash they accumulated – as much as 79.2% (Table 2.1).

Figure 2.3. Household financial assets¹, 2014-2021



¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 8, p. 24).

Note: Due to adjustments, the data may differ from data included in the previous edition of the report. 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 Statistics Poland, UKNF, Analityz Online and NBP data.

On the other hand, the low interest rates on bank deposits prompted households to search for more profitable forms of investing capital than deposits. That is why in 2021 households invested more in Treasury securities (to PLN 55.1 billion), shares listed on the WSE (to PLN 89.0 billion) and units of investment funds⁹ (to PLN 166.6 billion).

The value of life insurance assets¹⁰ in the household portfolio in 2021 fell by 8.3% to PLN 57.5 billion. This specifically applied to other endowment insurance, for which the value of technical provisions shrank by PLN 3.9 billion. This was the effect of the cycle of interest rate increases started in the fourth quarter of 2021. In turn, the lower (by PLN 1.3 billion) value of unit-linked insurance liabilities resulted from a net outflow of funds. The value of non-Treasury securities held by households decreased to the greatest extent, by over 53%, (to PLN 1.5 billion).

⁹ Excluding units purchased by insurance companies as a result of life insurance contracts concluded by natural persons with unit-linked funds.

¹⁰ The value of life insurance assets (including unit-linked assets) is calculated as the value of technical provisions for the purposes of solvency, valued 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 Re-insurance (Official Journal of the European Union L335, p. 1).

Table 2.1. Value of household financial assets¹ and their structure, 2017–2020, as at period-ends

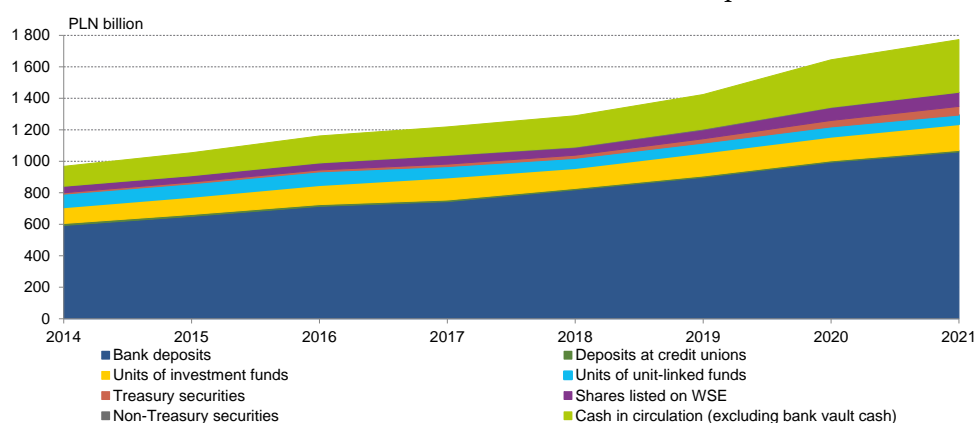
	2018	2019	2020	2021
Value of household financial assets (PLN billion)				
Bank deposits	818.9	898.1	993.8	1,059.9
Deposits at credit unions	9.0	8.7	8.9	9.4
Units of investment funds	129.2	147.9	153.3	166.6
Life insurance assets (including unit-linked assets) ²	61.4	6.9	62.7	57.5
Treasury securities	20.0	27.4	4.8	55.1
Non-Treasury securities	4.7	5.6	3.2	1.5
Shares listed on the WSE	47.7	56.2	8.8	89.0
Cash in circulation (excluding bank vault cash)	198.6	219.1	301.0	334.1
Total	1,289.5	1,423.9	1,644.5	1,773.1
Structure of household financial assets (%)				
Bank deposits	63.5	63.1	60.5	59.8
Deposits at credit unions	0.7	0.6	0.5	0.5
Units of investment funds	10.0	10.4	9.3	9.4
Life insurance assets (including unit-linked assets) ²	4.8	4.3	3.8	3.2
Treasury securities	1.5	1.9	2.5	3.1
Non-Treasury securities	0.4	0.4	0.2	0.1
Shares listed on the WSE	3.7	3.9	4.9	5.0
Cash in circulation (excluding bank vault cash)	15.4	15.4	18.3	18.9

¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 8, p. 24).

² The value of life insurance assets (including unit-linked assets) is calculated in compliance with the Solvency II Directive and includes technical provisions of the life insurance sector.

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

Source: Study based on UKNF, Anality Online and NBP data.

Figure 2.4. Structure of household financial assets¹, 2014-2021, as at period-ends

¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 8, p. 24).

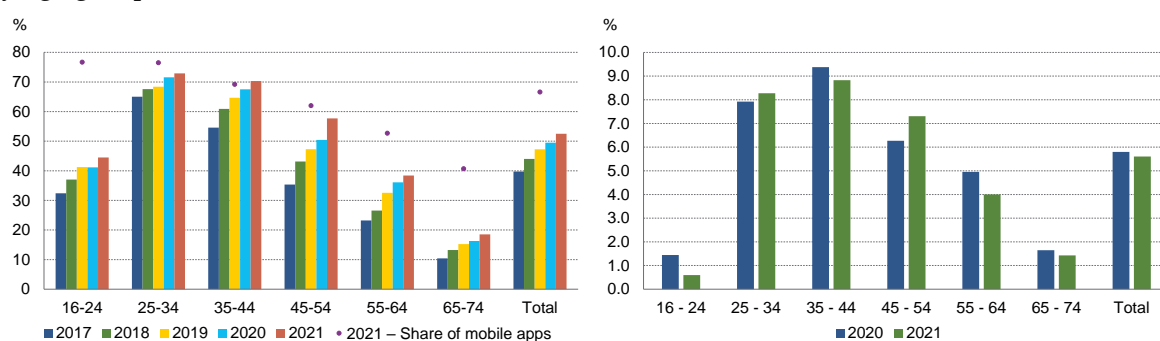
Notes: For the years 2014-2016, "Units of unit-linked funds" is presented jointly with life insurance saving premiums. Since 2017, life insurance assets (including unit-linked assets). Due to the asset valuation based on the provisions of the Solvency II Directive, data since 2017 have not been fully comparable with data for previous years. Source: Study based on UKNF, Anality Online and NBP data.

2.2. Household use of financial services via the internet

The upward trend of the importance of modern forms of accessing internet- and digital technology-based financial services continued in 2021.

Internet banking, including such bank operations as payments and transfers executed by customers via the internet and other activities related to handling their bank accounts was most frequently used by households. The share of internet banking users (via websites or applications) grew from 49.5% in 2020 to 52.5% in 2021.¹¹ The percentage of internet banking users was steadily increasing in each age group. Over 66% of internet users used mobile applications in 2021. Young customers used this form accessing internet banking to the greatest extent (Figure 2.5, left-hand panel).

Figure 2.5. Share of internet banking users¹ in total population, 2017-2021 (left-hand panel) and users of at least one financial service over the internet, 2020-2021 (right-hand panel) in Poland – by age groups



¹ During the last three months among people aged 16-74.

Source: Study based on Statistics Poland data.

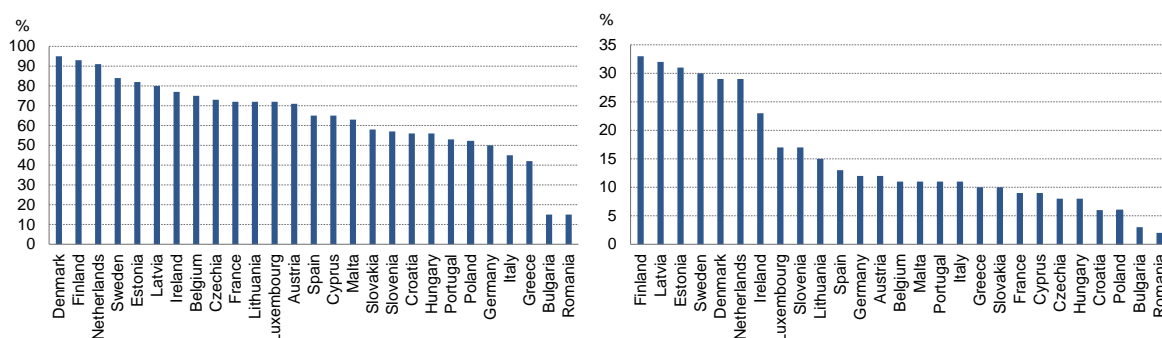
Households used the internet to get access to other financial services far less often than for internet banking. In 2021, the situation did not improve (Figure 2.5, right-hand panel).

The rate of household use of banking services via the internet compared with other EU countries is hardly satisfying. In terms of internet banking usage, Poland's position (22nd) in 2021 compared

¹¹ 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 that 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>. Statistics Poland 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 2021 roku* [Usage of ICT in public administration, enterprises and households in 2021], Warsaw, 21 December 2021, Statistics Poland, 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-przedsiębiorstwach-i-gospodarstwach-domowych-w-2021-roku,3,20.html>.

to 2020 did not change, both in relation to the total population and to active internet users (Figure 2.6 and Figure 2.7).

Figure 2.6. Share of internet banking users¹ in total population (left-hand panel) and users of at least one financial service over the internet (right-hand panel) in EU countries, 2021

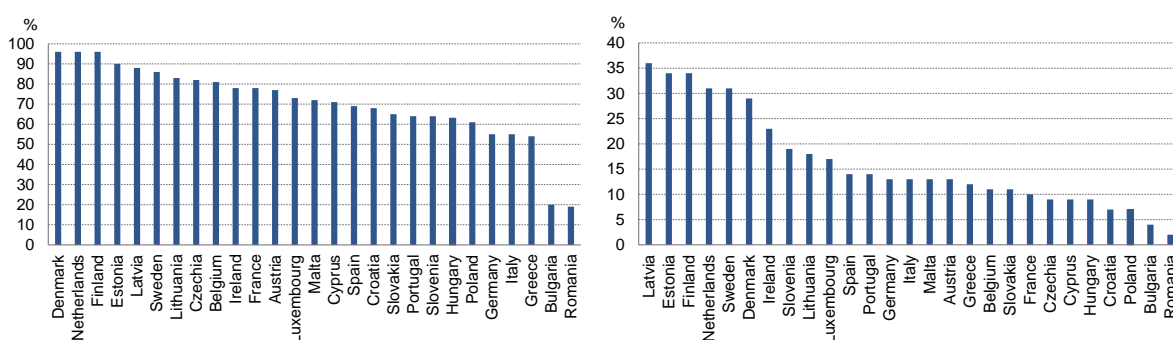


¹ During the last three months among people aged 16-74.

Source: Study based on Eurostat data.

Households used the internet to get access to other financial services far less often than for internet banking. In 2021, Poland was ranked 25th, both in relation to the total population and to active internet users, which means that the country's position deteriorated from 2020 (Figure 2.6 and Figure 2.7).

Figure 2.7. Share of active internet banking users¹ in the number of active internet users (left-hand panel) and users of at least one financial service over the internet (right-hand panel) in EU countries, 2021



¹ During the last three months among people aged 16-74.

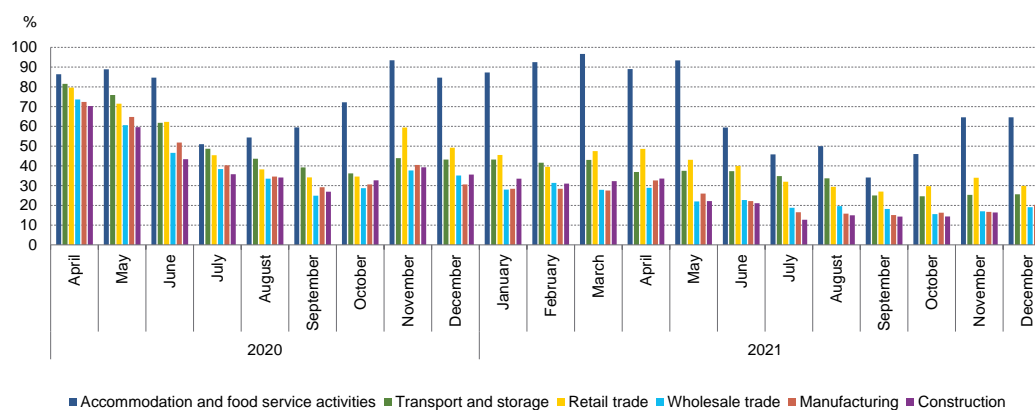
Source: Study based on Eurostat data.

2.3. External sources of financing of Polish enterprises

The evolving COVID-19 pandemic situation and the pandemic-related restrictions had an influence on corporate economic activity and financial standing. In 2021, the percentage of enterprises reporting the serious impacts of the COVID-19 pandemic or the impacts of the pandemic that threatened the company's stability changed during the year and varied across

industries. The most negative effects of the pandemic, especially from January to May 2021, were experienced by enterprises from the following sectors: accommodation and food service activities, transportation and storage, and retail trade (Figure 2.8).

Figure 2.8. Shares of businesses foreseeing “serious” impacts of the COVID-19 pandemic¹ or impacts of the pandemic that “threaten the company’s stability”, April 2020-December 2021



¹ The respondents answered a question concerning: “The negative effects of the coronavirus pandemic and its impact on your business activity in the current month...”, choosing only one answer: 1. “minor”, 2. “serious”, 3. “a threat to the company’s stability” and 4. “lack of negative effects”.

Source: NBP study based on Statistics Poland data. *Wpływ pandemii COVID-19 na koniunkturę gospodarczą – oceny i oczekiwania (dane szczegółowe oraz szeregi czasowe)*. Annex to *Koniunktura w przetwórstwie przemysłowym, budownictwie, handlu i usługach 2000-2022 (marzec 2022)*, 28 March 2022, Statistics Poland.

The government continued to provide social protection programmes to counteract the pandemic’s economic fallout; however as the related business restrictions were relaxed, the size of the assistance was significantly lower than in 2020 and targeted at the most threatened industries.

In 2021, corporate credit growth, which was initially negative, rose steadily during the year, going into positive territory in December (3.9% y/y), mainly due to a strong increase in current loans. The propensity of enterprises to take out investment loans remained low, and their annual rate of growth in the whole of 2021 remained negative (-0.5% y/y in December 2021).

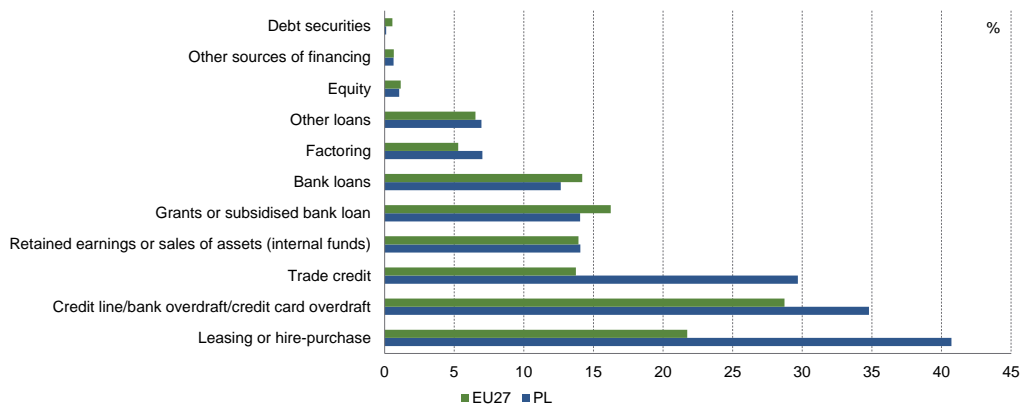
According to the results of the European Commission Survey on the Access to Finance of Enterprises (SAFE), the major non-banking sources of financing for small and medium-sized enterprises (SMEs) in Poland in 2021 included leasing, current loans¹² and trade credit.¹³ Leasing was used by 40.7% of SMEs, which put Poland in second place of the EU list (the EU average was 21.7%). Current loans were used by 34.8% of SMEs (9th place in the EU, the EU average was 28.7%).

¹² Credit line, overdraft credit or credit card overdraft.

¹³ *Survey on the access to finance of enterprises (SAFE)*. Analytical Report 2021, Brussels, November 2021, European Commission. The report is available at <https://single-market-economy.ec.europa.eu/system/files/2021-11/Analytical%20report%202021.pdf>.

In 2021, 29.7% of SMEs used trade credit (4th place in the EU, the EU average stood at 13.7%) (Figure 2.9).

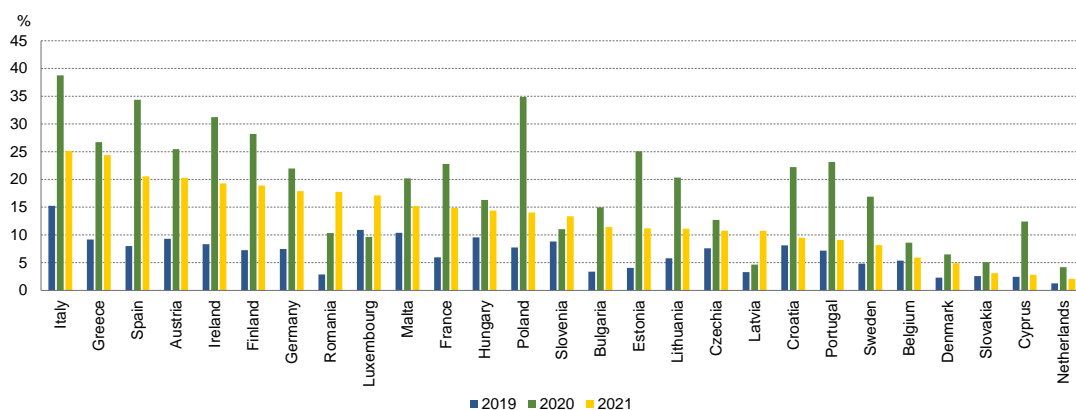
Figure 2.9. Percentage of small and medium-sized enterprises using a selected financing source (in Poland and in the EU in 2021)



Source: Study based on *Survey on the Access to Finance of Enterprises (SAFE)*, 2021, European Commission.

The percentage of SMEs that used grants or subsidised bank loans as a source of financing in 2021 diminished considerably (from 34.9% in 2020 to 14.0% in 2021). This was because the government reduced the scale of its assistance. A similar trend was observed in the entire EU (the EU average decreased from 24.2% in 2020 to 16.2% in 2021). The rate at which SMEs used grants or subsidised bank loans increased in four out of 27 EU countries (Figure 2.10).

Figure 2.10. Percentage of small and medium-sized enterprises using a grant or a subsidised bank loan in EU countries, 2019-2021

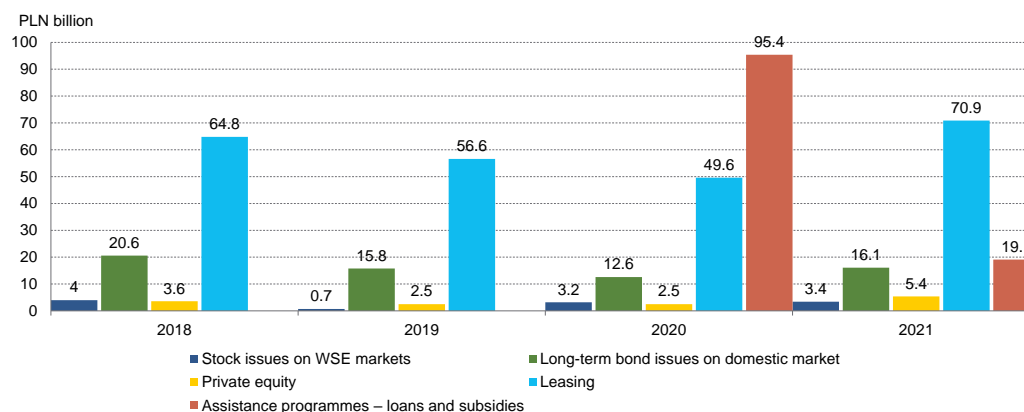


Source: Study based on *Survey on the Access to Finance of Enterprises (SAFE)*, 2019, 2020 and 2021 survey issues, European Commission.

The statistical data also indicate that the volume of grants and subsidies provided to enterprises under the assistance programmes to counteract the COVID-19 pandemic fallout decreased (from

PLN 95.4 billion in 2020 to PLN 19.1 billion in 2021).¹⁴ In 2021, like in the years preceding the year 2020, leasing was the most important non-banking source of financing to enterprises (Figure 2.11).

Figure 2.11. Selected non-banking external sources of financing of Polish enterprises, 2018–2021



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

In the year under analysis, the scale of funding provided by leasing companies increased. As in previous years, modes of road transport, including passenger cars, prevailed in the structure of assets financed by leasing companies.

In 2021 enterprises raised almost the same amount of financing as in 2019 (i.e. before the outbreak of the COVID-19 pandemic) on the domestic market for long-term corporate bonds. The value of new issues of corporate bonds rose to PLN 16.1 billion. The value of new corporate debt of non-financial corporations was close to the 2020 level and amounted to PLN 77.2 billion.

The value of new share issues admitted to trading on the WSE-organised markets (WSE Main Market and NewConnect) did not change substantially from 2020 and amounted to PLN 3.4 billion. Forty-eight IPOs of domestic enterprises were conducted on these markets (WSE Main Market – 16, NewConnect – 32), with the shares of only four being graduated from the alternative trading system to the regulated market.

In 2021, financing from private equity funds exceeded the value of new share issues and was also higher than in 2020, amounting to over PLN 5.4 billion. The number of domestic enterprises which benefitted from the funding was similar to that in 2020. Around 2/3 of the value of investments of the whole private equity sector was concentrated in the sector of consumer goods and services.

Equity crowdfunding was a supplementary source of financing for enterprises. Although the amount of financing was insignificant, the market was developing fast. In 2021, issuers using equity crowdfunding platforms raised PLN 101.5 million, i.e. 32% more than in 2020 (Box 1.2).

¹⁴ NBP estimates based on data released by PFR, ZUS and the *Sprawozdania z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 2021 r., Omówienie*, Warsaw, 2022, Council of Ministers.

Box 1.2. Equity crowdfunding as a source of financing for businesses

Crowdfunding is a fundraising method that allows both companies and individuals to raise funds for various projects via specialised online platforms. The major segments of the crowdfunding market are equity crowdfunding/crowdinvesting and debt crowdfunding. These business models may potentially constitute competition for financial institutions, especially investment funds and banks.

The market of equity crowdfunding (which bestows ownership on investors) platforms grew rapidly in 2021. In line with the data released by UKNF¹, issuers raised PLN 101.5 million under 65 completed offers in 2021, which represented a 32% rise on the 2020 figure. All the offers were new share issues and were conducted pursuant to the exception repealing the obligation to issue a prospectus for offers of up to EUR 1 million. As part of crowdfunding campaigns, issuers achieved, on average, 63% of the issue target value, and 20 offers achieved the fundraiser's full initial target value. In 2021, the market of crowdfunding platforms was – like in previous years – very highly concentrated. It can be assumed that several platforms were active on the market in the year under review.² According to UKNF data, three platforms accounted jointly for approx. 85.3% of the financing raised by businesses during offers available to the public.³ The gaming industry and the hemp industry were most represented industries among issuers. Very low liquidity remained a characteristic feature of the market for financial instruments placed in crowdfunding campaigns in 2021. It has been to date possible to resell a financial instrument acquired during the crowdfunding campaign through individual transactions on the non-public market or on NewConnect. This was the case of only a few companies, which in addition to crowdfunding issues, also conducted IPOs on this alternative trading system-type organised market.

The size of the crowdfunding market is limited by the provisions on the possibility of conducting issues under a simplified procedure, without the need to present an information prospectus. By 2018, the cap on the public offer of financial instruments under a simplified procedure was EUR 100,000. It was later raised and amounted to EUR 1 million in 2021. Regulation (EU) 2020/1503⁴ entered into force in the same year. The Regulation required crowdfunding platforms to obtain a regulatory authorisation to conduct the business. The platforms which on the day the regulation became effective had already provided their services, could carry on their business on unchanged terms. After the expiry of the transitional period, such platforms will have to obtain a relevant licence from the Polish Financial Supervision Authority (KNF). In 2021, the market of crowdfunding platforms was awaiting a Polish law on crowdfunding for business, which will grant the KNF the adequate powers and ensure the application of Regulation (EU) 2020/1503. Following the entry into force of such a law, until the expiry of the transition period (10 November 2023), the maximum threshold to exempt platforms from the obligation to publish an issue prospectus will be EUR 2.5 million, and will ultimately increase to EUR 5 million, which will significantly affect the prospects of the expansion of the industry.

In Poland, individual investors' motives behind their participation in crowdfunding fundraisers were often of a non-economic nature. This means that the crowdfunding campaigns referred to certain common ideas for investors and opened up opportunities to financially support the ideas, without anticipating financial returns on the investment.

¹ *Rynek ofert publicznych akcji oraz dłużnych papierów wartościowych w Polsce w 2021* [Market for public offerings of shares and debt securities in Poland in 2021], Warsaw 2022, UKNF; the report is available at https://www.knf.gov.pl/knf/pl/komponenty/img/Rynek_ofert_publicznych_akcji_oraz_dluznych_papierow_wartosciowych_w_Polsce_w_2021.pdf.

² *Crowdfunding udziałowy 3.0. Raport roczny 2021* [Equity crowdfunding 3.0. Annual Report 2021], Gdańsk 2022, ZPF; this document is available at <https://zpf.pl/raports/crowdfunding-udzialowy-3-0/>. In 2021, crowdfunding platforms were not subject to the reporting obligation. Sixteen entities were covered in the ZPF (Association of Financial Companies in Poland) industry report on equity crowdfunding platforms in Poland in 2021, and nine platforms in the UKNF study on public offerings cited earlier in the text. Therefore, it can be said that a dozen or so equity crowdfunding platforms were

active in Poland in 2021. However, the market was highly concentrated and activity of smaller platforms can be regarded as marginal.

³ Crowdway participated in public issues valued at PLN 40.82 million. Crowdconnect was in the second place (approx. PLN 28.42 million), and Beesfund was third (PLN 17.39 million) (data after UKNF).

⁴ Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (Official Journal of the European Union L347 of 2020, p. 1).

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