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Financial System in Poland 2017



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www.nbp.pl/systemfinansowy/rozwoj

Narodowy Bank Polski
00-919 Warszawa
ul. Świętokrzyska 11/21
Tel.: +48 22 185 10 00
Fax: +48 22 185 10 10
www.nbp.pl

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Summary

At the end of 2017, the ratio of domestic financial system assets to GDP amounted to 124.4%, which means that it declined slightly from the end of 2016 on the back of faster GDP growth. Poland's financial system, including the banking sector, is not overly developed in relation to the real economy and compared with developed countries. Respective indicators for Poland show that it can be classified as a country with a medium level of financial development, where the financial system positively affects economic growth. It comprises all types of financial institutions and markets, characteristic of well-developed market economies, as well as institutions that make up its infrastructure. However, the level of development of the 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 than markets in other countries. This indicates possibilities and directions of sustainable development of the financial system that will support stable economic growth. The development should remain moderate and take place as the importance of financial markets grows.

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

Financial institutions

- In Poland, as in other countries of the region, the banking sector was the largest part of the financial system. In 2017, the sector developed at a moderate pace, which was slightly slower than that of the economy, therefore the ratio of bank assets to GDP decreased slightly (to amount to approx. 89% at the end of the year).
- The past year saw significant changes in the ownership situation of the banking sector. The sale of a large entity controlled by a foreign investor increased the share in assets of the sector of banks controlled (indirectly or directly) by the State Treasury. As a result, the value of assets of domestically controlled banks was higher than at foreign-controlled banks, and this happened for the first time since 1999.
- In 2017, changes in the balance-sheet structure of banks were insignificant and mainly concerned a slightly higher increase in the highest rate of return assets, i.e. consumer loans. As in previous years, loans, including housing loans to households in particular, were the largest item of banks' assets. Deposits of the non-financial sector were the dominant source of funding of domestic banks. In the environment of a protracted period of low interest rates, the relatively higher attractiveness of investment in the property market and the capital market led, however, to over two times lower nominal growth in deposits than, on average, in the previous three years. Liabilities to foreign companies continued to account for a diminishing

share of banks' liabilities, which stemmed from a gradual decline of the value of foreign currency housing loan portfolios and lower demand for currencies.

- Banks in Poland ran their business using low leverage. Their capital ratios remained at a level similar to that in the EU, but the conservative approach to capital requirement estimation (resulting in high shares of RWAs in assets) rendered the actual resilience of banks to shocks to be higher. Retained earnings were the main source of the increase in capital. Although the downward trend of profitability continued, the average return on banks' assets in 2017 was still higher than in the EU.
- The trends indicated above were shaped by commercial banks, which accounted for over 90% of assets of the banking sector. The role of branches of credit institutions and cooperative banks was much lower. The latter were a particularly numerous and fragmented group of entities. Although the current condition of the cooperative banking sector is satisfactory, certain unfavourable trends can be identified, pointing to the need to alter the sector's organisation and business model. The 2016 start of the institutional protection schemes should support growth in the security of the cooperative banking sector and stimulate business change.
- As in previous years, restructuring continued in the credit union sector. In 2017, the number of active credit unions fell by 6 to 34 at the end of the year, and their assets totalled PLN 10.2 billion. As the number of credit unions declined, the extent of the sector's concentration rose. Receivables due to loans and credits granted to credit union members remained the main item of their assets. The quality of the loan portfolio improved, however it was substantially lower than in the banking sector. The liquidity position of credit unions remained stable. Deposits of credit union members were the dominant source of funding of the sector's activity, as their value in the group of credit unions carrying on business did not change substantially.
- In 2017, the credit union sector posted a net profit of PLN 40 million. The factors positively influencing the result were the sale of overdue debt and release of provisions for impaired loans. On the other hand, high operating costs (especially the cost of outsourcing) had a negative impact on the result. The capital position of credit unions varied, and the sector's capital adequacy ratio was primarily affected by the largest credit unions. At the end of 2017, the regulatory capital of credit unions amounted to PLN 213 million, and their capital adequacy ratio was 2.4%. Out of 34 active credit unions, 28 posted a capital adequacy ratio at a level above the regulatory minimum of 5%, however their assets accounted for only 16.7% of the sector's assets.
- In 2017, the net assets of investment funds grew for the sixth time in a row and amounted to PLN 302.8 billion at the end of December. The balance of inflows and outflows of capital was positive. Households made the most payments to investment funds, in net terms, and remained the prevailing group of participation unit holders. In 2017, the number of active investment funds fell for the first time in the history of the sector. The fall followed the 2016 entry into force of tax regulations pertaining to investment funds and also the May 2017 warning of the Ministry of Finance against the use of closed-end funds for tax optimisation.

Closed-end investment funds continued to dominate in the domestic sector, both in terms of the volume of funds and value of accumulated assets. Debt securities had the highest share among investments of investment funds.

- Four companies were entered into the register of alternative investment fund managers at the end of December 2017, and the number of alternative investment companies they managed was seven. No entity obtained the Polish Financial Supervision Authority (KNF) authorisation to conduct business as an alternative investment company manager¹. The number of registered managers should be expected to grow substantially in 2018. It seems that the alternative investment company sector in Poland will largely comprise private equity-related entities. In 2017, the value of investments made by private equity sector entities in the domestic market amounted to approx. PLN 10.6 billion, which means that it was more than twice as high as a year earlier. However, this growth was largely driven by two large transactions. As a result of the transactions, the ratio of private equity investments to GDP in Poland rose from 0.2% in 2016 to 0.5% in 2017.
- At the end of 2017, the net value of assets of open pension funds (OFE) was 17% higher than a year earlier and amounted to PLN 179.5 billion. The funds posted a negative balance of cash flows from the Social Insurance Institution (ZUS). The value of transfers of funds under the security slider mechanism increased, mainly on account of the lowering of the retirement age. The lowering of the retirement age also led to a fall in the number of open pension fund members. The year 2017 saw one acquisition, which means that the number of active funds decreased to 11. Domestic equities continued to prevail in the structure of OFE investments, and the OFE stock portfolio reflected, to a large extent, the structure of the WIG index. The financial result of the sector of open pension funds was over twice as high as in 2016, and their average annual weighted rate of return was at its all time high of 18.7%. The financial results and profitability of regulatory capital of pension fund management companies also improved.
- The number of persons with additional savings increased, however it remained low. At the end of 2017, the value of funds accruing as part of contributions to the pension system on a voluntary basis was more than 16% higher than in 2016 and amounted to PLN 22.3 billion. The largest amount of capital was gathered in occupational pension schemes – PLN 12.6 billion. Almost PLN 8 billion was deposited on individual retirement accounts, and PLN 1.7 billion on individual retirement security accounts.
- The year 2017 saw a rise in the value of the gross written premium collected by domestic life insurance companies and in the value of assets of the insurance sector. The premium growth was mainly driven by an inflow of funds to unit-linked insurance funds and of car insurance. At the same time, the value of claims paid in these business lines increased.

¹ In line with the applicable provisions, only such management entities can pursue cross-border activity.

- The technical result and financial result of the insurance sector in 2017 improved slightly in life insurance and significantly in non-life insurance. The domestic insurance sector reported a large surplus of own funds over the capital requirements arising from the Solvency II Directive. The coverage of solvency parameters in the life insurance sector was over three-fold and for non-life insurance over two-fold higher than the capital requirements.
- Domestic firms favour self-financing as the model of business financing. Leasing topped the list of external non-banking sources of financing. In 2017, the value of leasing agreements concluded by entrepreneurs rose to PLN 56.0 billion from PLN 49.2 billion in 2016. The agreements were mostly favoured by micro- and small enterprises. European Commission research shows that the percentage of small and medium-sized enterprises (SMEs) that use leasing in Poland is one of the highest in the EU. Enterprises raised PLN 21.8 billion from long-term bond issues on the domestic market. The value of new share issues on the WSE-organised markets (Main List and NewConnect) was PLN 3.3 billion. The amounts were similar to the 2016 figures.
- In 2017, enterprises mostly used non-recourse factoring, which shows that in addition to ensuring fast payment for goods sold, the enterprises needed collateral against risk payment default by the counterparty. In the period under analysis, the value of all debts bought back by domestic factors rose by 17% to PLN 222.5 billion. The shift in corporate preferences towards more advanced factoring solutions is evidence of the growing awareness of Polish entrepreneurs of this financial service and of the fact that the domestic factoring market is becoming more mature.
- According to data of Statistics Poland (GUS), the value of loans and advances granted by non-bank lending companies and in association with credit intermediaries in 2017 was PLN 38.6 billion. This value was the result of loans to natural persons in the amount of PLN 38.8 billion and to enterprises in the amount of PLN 7.1 billion. The 2017 introduction of the registering obligation for non-bank lending companies and credit intermediaries is contributing to an improvement in the transparency of the market of non-bank lending and consumer security, however the lack of the reporting requirement makes it impossible to monitor the activity of lending companies.
- Domestic investment firms carry on their business primarily on the regulated markets and the ATS organised by the WSE and BondSpot. Operating conditions for investment firms improved in 2017, but the provision of core investment services, mainly consisting in offering financial instruments, and accepting, conveying and executing orders for the purchase or sale of the instruments, remained unprofitable. This made some entities increase their involvement in operations in financial instruments on own account, including dealing in transactions initiated by clients via forex platforms. Preparation for entry into force in early 2018 of MiFIDII/MiFIR required certain adjustments on the part of investment firms, mainly in respect of procedures associated with handling retail clients and designing financial products dedicated to such clients.

Financial markets and their infrastructure

- In 2017, the liquidity of the domestic market for interbank deposits transactions increased slightly compared with 2016. As in the previous year, O/N transactions prevailed, accounting for 90% of the trade. Unsecured interbank deposits still played an important role in managing liquidity at domestic banks, in particular by smaller entities.
- As in previous years, the liquidity of the market for unsecured interbank deposits was concentrated in the O/N transactions segment. This was primarily driven by the liquidity norms that banks were required to comply with, low propensity to invest excess liquidity in other banks, low limits for counterparty credit risk and the design of the tax on certain financial institutions. The activity of banks participating in POLONIA rate fixing diminished and their number dropped to 21. The number of participants in WIBID/WIBOR reference rate fixing decreased to 11.
- Measures were taken in 2019 to strengthen the quality and reliability of the benchmark indices of the domestic money market as well as rates calculated at selected foreign markets. On 30 June 2017, the Financial Market Association ACI Polska, the administrator of the WIBID and WIBOR reference rates, passed on the organisation of the fixing of the rates to GPW Benchmark. On 1 December 2017, the organisation of POLONIA rate fixing was taken over from ACI Polska by NBP.
- In 2017, the average daily value of transactions in the domestic FX swap market of the zloty rose to PLN 14 billion, with the transactions accounting for only approx. 23% of the turnover in the global FX swap market. Transactions with non-residents prevailed on the domestic FX swap market, and they accounted for over 90% of net turnover. Increased activity on this market was supported by global institutional investors searching for high yield assets; to finance them, they used currencies from, among others, FX swaps transactions.
- In 2017, the average daily turnover on the domestic market for conditional transactions was PLN 13.8 billion, the same as in 2016. Almost all the operations were collateralised by Treasury bonds, and the majority of the transactions were concluded for less than one week, which stemmed from the use of repo/SBB transactions mainly for managing liquidity on a daily basis. The fact that the Polish market for conditional transactions is highly fragmented poses a big problem. The uniform definitions and standards of concluding repo and sell-buy-back/buy-sell-back transactions that are widely accepted by participants (i.e. banks, brokerage houses, insurance companies, investment funds and pension funds) are not in place. Consolidation of the legal documentation used on the market for conditional transactions in Poland could contribute to improving its liquidity and developing the tri-party repo market.
- The average annual value of outstanding NBP bills, which reflected the scale of excess liquidity of the domestic banking sector, was PLN 1.7 billion and was approx. 35% higher than in 2016.

- In 2017, the debt of domestic enterprises due to short-term debt securities rose to PLN 18.7 billion, which was related to the December issue of these instruments by a large capital group member amid a simultaneous redemption of long-term debt securities.
- In 2017, the value of Treasury securities issued by the Ministry of Finance was PLN 6.0 billion, and they were redeemed by the end of August.
- In 2015, the Treasury bond market remained the dominant segment of the domestic market for long-term debt instruments. At the end of 2017, the value of marketable Treasury bonds issued on the domestic market amounted to PLN 605.7 billion. The relatively minor increase in State Treasury debt compared with 2016 resulted from the sound condition of the State budget and the larger scale of pre-funding of borrowing needs than in previous years. Domestic banks prevailed in the investor structure on the market and the value of Treasury bonds held by them was PLN 243.9 billion at the end of 2017. What made the secondary market for the instruments unique was its liquidity; the average daily value of transactions rose to PLN 28.2 billion in 2017, including the value of unconditional transactions to PLN 13.4 billion. The better-than-expected performance of the State budget in 2017 and the upbeat growth outlook for Poland led to a decline in the yields on Treasury bonds along the entire yield curve.
- Enterprises raised PLN 21.8 billion via bond issues. At the same time, their long-term securities debt dropped, which was primarily related to the early redemption in December of bonds of a substantial value by a company from a large capital group. Industry-wise, the issuer diversification of the long-term bond market remained low, and energy producing companies and development companies prevailed in this highly segmented market, whose transparency was limited. A substantial portion of corporate bonds was not registered with KDPW and was not assigned LEI codes as the issues of the instruments were often used for a transfer of funds within a capital group. The liquidity of the secondary corporate bond market remained small – the value of transactions in corporate bonds on the Catalyst platform was PLN 1.3 billion.
- The value of outstanding municipal bonds did not change significantly in 2017 and amounted to just over PLN 20 billion at the end of the year. This market was highly fragmented, which stemmed from the minor borrowing needs of small local government units and the splitting of issues into a number of series. Funds raised via municipal bond issues were largely used to fund infrastructure projects.
- At the end of 2017, the Polish stock market capitalisation rose to PLN 1,389.5 billion. The increase was driven primarily by the rising prices of equity instruments listed on the WSE (the WIG index surged by 26.4%), which was in line with trends observed on the emerging markets. However, the number of issuers whose shares were traded on the WSE Main List fell for the first time in 14 years. A number of companies, some of which had a high market value, chose to be delisted. At the end of 2017, the ratio of the capitalisation of domestic companies to Poland's GDP was 34.2%. Domestic stock market liquidity remained low compared to stock

exchanges in developed countries. This was, among others, due to the fact that securities traded on the domestic market were issued by a relatively large number of companies with low capitalisation and low free float.

- The year 2017 saw a drop in the value of new issue shares sold in IPOs on the WSE Main List. Non-residents were the most active investors, as their share in the session turnover in shares and allotment certificates on the WSE Main List amounted to 53% and was the highest in the history of the market. On the other hand, the share of individual investors in the session turnover edged up to 16% at the expense of the share of domestic institutional investors (31%).
- In 2017, falling share prices contributed to a slight decline of the capitalisation of the NewConnect market. The shares of 19 companies were floated on NewConnect, and the instruments of 17 companies were delisted, mostly because listing was transferred to the WSE Main List. The liquidity of the NewConnect market was adversely affected by the low value of initial offerings.
- Average daily turnover on the global spot market for the Polish zloty in 2017 amounted to approx. USD 10.5 billion, similar to the 2016 level. The vast majority of transactions were concluded in the offshore market. The EUR/PLN exchange rate was largely determined by developments in the global financial markets and reflected, only to a small extent, the flows arising from Poland's trade exchange or non-resident investment on the domestic capital market. The appreciation of the zloty against the euro and the US dollar and the fall in EUR-PLN exchange rate volatility were driven, among others, by better-than-expected data on the pace of growth in Poland and the euro area and a better growth outlook for these economies.
- The value of transactions in zloty-denominated OTC derivatives in the offshore market was substantially higher than in the domestic market, which was primarily related to the high activity of London-based banks and hedge funds. In Poland, OTC interest rate derivatives continued to markedly prevail in terms of turnover value, despite a fall in market participants' interest in the instruments in the course of the year. Investor activity on the market for exchange-traded derivatives was still substantially lower than on the OTC market and concentrated in the segment of WIG20 futures.
- The structure of turnover in the domestic market of OTC interest rate derivatives changed substantially. The value of average daily turnover on the domestic FRA market was PLN 1.2 billion, and was more than half lower than in 2016. The strong decline in investor activity observed on this market for several years was the result of little diversified expectations of market participants for changes in NBP interest rates in the short and medium term. As a result, the IRS market was the most liquid segment of the OTC interest rate derivatives market. At the same time, activity in the domestic OIS market continued to fall. In 2011-2017, the value of average daily net turnover in the OIS market diminished by over 90% and amounted to less than PLN 0.1 billion in 2017, which represents the lowest figure in the history of the market in Poland. Continued low volatility of the OIS market in the long term may prevent domestic

banks from hedging effectively against the changes in short-term financing costs and negatively impact other segments of the domestic financial market.

- Transactions in OTC interest rate derivatives were increasingly cleared by domestic banks at CCP, which was related to the gradual implementation in the EU of the central clearing obligation for selected classes of OTC derivatives. In 2017, almost 95% of FRAs and OISs, and almost 90% of IRSs denominated in the zloty concluded in the domestic market were submitted for clearing at CCP. In transactions between domestic banks, they mostly used the services of KDPW_CCP due, among others, to their direct access to the clearing system and the possibility to establish collateral in the form of zloty cash and domestic government bonds. The vast majority of FRAs and IRSs denominated in the zloty concluded with non-residents was submitted for clearing by a CCP in London.
- On 29 September 2017, KDPW submitted an application with the Polish Financial Supervision Authority (KNF) for an authorisation as a central securities depository, which was in line with the CSDR requirements. Such an authorisation should be granted within six months from the date such an application was deemed to be complete by KNF. The authorisation is a necessary condition for KDPW to carry on its activity in the area of all core services which are necessary for the functioning of the domestic financial market, including the government bond market and the equity market. Work also continued on the start of new services, i.e. the approved reporting mechanism and the acceptance by the KDPW_TR trade repository of reports from market participants on financing transactions, where securities are used as collateral.

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

The economic condition of the global economy was favourable in 2017. The growth rate of global GDP was 3.2% and was higher than the growth rate of 2.5% in 2016. The economic situation in the euro area also improved and its GDP rose to 2.4% from 1.6% in 2016. The economy in the United States expanded at a faster rate and GDP growth increased from 1.5% in 2016 to 2.3% in 2017².

Poland's GDP growth reached 4.8%, compared with 3.1% in 2016 and was mainly driven by consumer demand. Consumption in the household sector was characterised by robust dynamics and grew by 4.9%. The growth in investment outlays was also favourable and, after a slump in 2016, rebounded by 3.5% in 2017³.

Faster economic growth was accompanied by rising price growth. After a price decline in 2015-2016, the CPI index rose. The annual CPI index in 2017 was 2%, mainly on the back of faster price growth of foods and energy⁴.

The economic condition of enterprises was good in 2017. Their basic economic and financial indicators improved⁵. Corporate investment activity was still relatively low.

As in the previous year, the financial situation of households improved markedly in 2017. Households reported higher income, and average monthly disposable income per capita was 6.3% higher, in real terms, than in 2016⁶. Poland's registered unemployment rate dropped to 6.6% from 8.2% in 2016. The total employment rate rose by 1.6 percentage points and amounted to 66.1% in 2017⁷. Household financial assets also grew (by 5.0%), and the growth rate of savings (bank deposits) amounted to 4.2%.

² <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> and <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1>.

³ *Annual macroeconomic indicators*, Warsaw, GUS, data as of 5 October 2018.

⁴ *Inflation Report. March 2018*, Warsaw 2018, NBP, pp. 15-16.

⁵ *Financial results of economic entities in I-XII 2017*, Warsaw 2018, GUS.

⁶ *Sytuacja gospodarstw domowych w 2017 r. w świetle wyników badania budżetów gospodarstw domowych [The situation of households in 2017 as evidenced by the results of the household budget survey]*, Information note, Warsaw, 23 May 2018, GUS, p. 1.

⁷ *Annual macroeconomic indicators*, Warsaw, GUS, data as of 5 October 2018. The employment rate is based on the results of the Labour Force Survey by GUS. According to the LFS, the unemployment rate was lower than the registered unemployment rate and amounted to 4.5% in 2017.

The monetary policy of central banks was divergent in the period under consideration. In view of current inflation and inflation forecasts, the Polish Monetary Policy Council (MPC) kept the NBP interest rates unchanged. The European Central Bank (ECB) kept its interest rates close to zero, including the interest rate on the deposit facility below zero, and carried on its asset purchase programme. The US Federal Reserve (Fed) took a different approach by tightening its monetary policy. The Fed raised three times its target range for the fed funds rate by 0.25 percentage points to 1.25-1.50% and steadily reduced its balance-sheet total by limiting the reinvestment of assets. This led, among others, to the growth in yields on the country's government bonds compared to the yields on bonds of major euro area countries. At the same time, the good global economic situation translated into a further rise in prices of financial assets, mostly shares⁸.

At the end of 2017, the ratio of domestic financial system assets to GDP amounted to 124.4%, which means that it declined slightly from the end of 2016 on the back of faster GDP growth (Table 1.1.). In Poland, like in other Central and Eastern European (CEE) countries, the development of financial intermediation, measured by the value of financial system assets to GDP ratio, continued to exhibit a relatively low level compared with the 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, 2014-2017 (%)

	2014	2015	2016	2017
Poland	121.9	122.7	125.6	124.4
Czech Republic	164.4	154.4	157.9	175.3
Slovakia	118.1	125.8	124.1	126.6
Hungary	131.0	125.9	127.2	124.2
Euro area	493.8	463.6	486.6	475.7

Notes: Data for the euro area refer to 18 countries in 2014 and 19 countries in 2015-2017. Due to the change of the source of data, inclusion of assets of money market funds and adjustments sent by central banks, the data are not comparable with the data released in previous editions of the report.

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

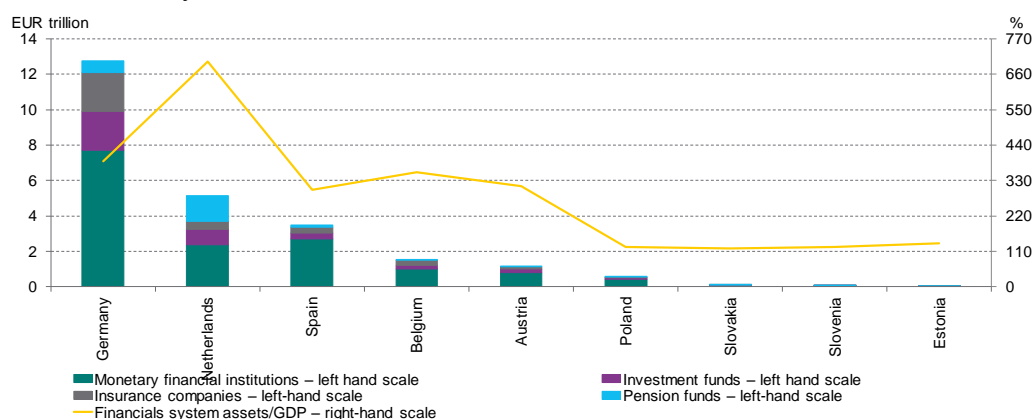
The IMF-developed Financial Development Index (FD) is a more comprehensive measure of the level of financial development than the asset to GDP ratio⁹. As the FD for Poland in 2017 was

⁸ *Report on monetary policy in 2017*, Warsaw, May 2018, NBP, p. 18.

⁹ See: R. Sahay, M. Cihak, P. N'Diaye, A. Barajas, D. A. Pena, R. Bi, Y. Gao, A' Kyobe, L. Nguyen, C. Saborowski, K. Svirydzenka, R. Yousefi, *Rethinking Financial Deepening: Stability and Growth in Emerging Markets*, IMF Staff Discussion Note SDN/15/08, May 2015, IMF and K. Svirydzenka *Introducing a New Broad-based Index of Financial Development*, IMF Working Paper, WP/16/5, January 2016, IMF. The IMF-developed Financial Development Index (FD) was discussed in *Rozwój systemu finansowego w Polsce w 2014 r. [Financial System in Poland 2014]*, Warsaw 2015, NBP, pp. 29-32. The data cited in this report come from the IMF database containing the 2016

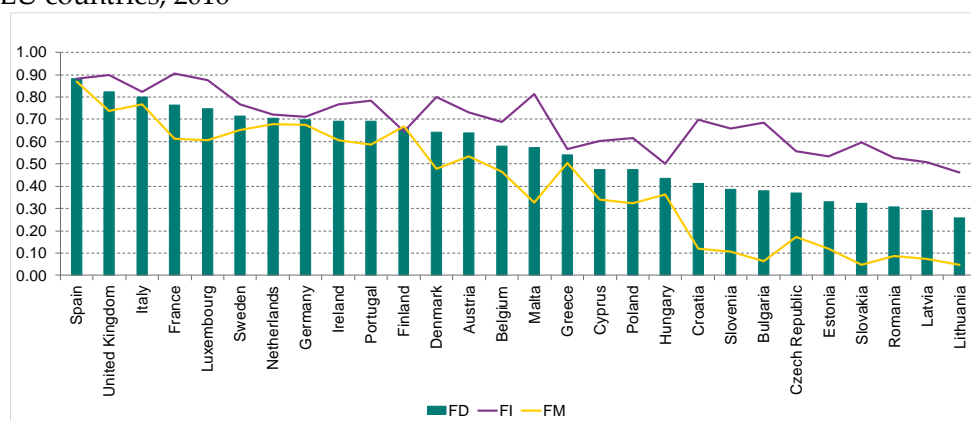
0.437, the country could be classified into the group of countries with a medium level of financial development¹⁰. This means that Poland is ranked 41st among 183 countries analysed in the IMF paper and 18th among EU countries¹¹. Cyprus (0.47), Hungary (0.44), Croatia (0.41) and Slovenia (0.39) had a similar level of development. The remaining countries of the region had a significantly lower level: Bulgaria (0.38), Czech Republic (0.37), Estonia (0.33), Slovakia (0.32), Romania (0.31) Latvia (0.29) and Lithuania (0.26) (Figure 1.2).

Figure 1.1. Financial system assets in selected EU countries at the end of 2017



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

Figure 1.2. The FD index, the Financial Institutions (FI) index and the Financial Markets (FM) index in EU countries, 2016



Source: NBP calculations based on IMF data. <http://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>

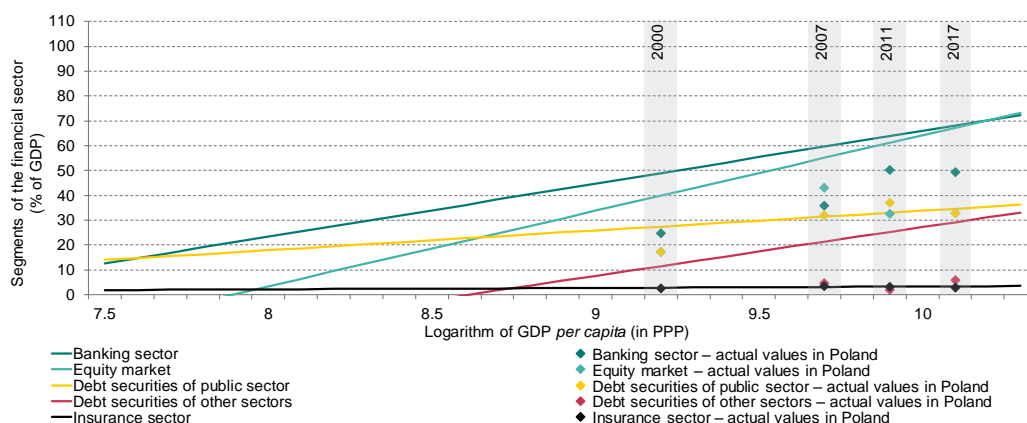
updates of the Financial Development Index and its components <http://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>.

¹⁰ Values of the indicator are in the range of <0 ; 1>. FD-associated data for Poland and other countries are for the year 2016.

¹¹ Poland is ranked 26th in the EU, in terms of GDP per capita.

An analysis of financial institutions and markets of various countries against the backdrop of their economic development implies that some segments of Poland's financial system, including the banking sector, remain relatively poorly developed. A specific feature of the Polish financial system is the relatively low stock market capitalisation and the low value of outstanding private sector debt securities, including corporate and bank bonds (Figure 1.3).

Figure 1.3. 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 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 List to GDP,
- insurance market: non-life and life insurance premium to GDP,
- public sector debt securities: outstanding value of general government debt securities to GDP,
- debt securities of other sectors: outstanding value of debt securities of financial institutions and enterprises to GDP.

More in: T. Beck, A. Demirgüç-Kunt, *Financial Institutions and Markets across Countries and over Time: Data and Analysis*, World Bank Policy Research Working Paper No. 4943, May 2009.

The regression function was estimated using the Fixed Effects GLS in 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 (M. Verbeek, *A Guide to Modern Econometrics*, 2004 John Wiley & Sons, pp. 351-352).

The different level of economic development of the individual segments of the Polish financial system is also indicated by the results of the analysis of the sub-indices comprising the overall index of financial development (FD). The sub-index FI (0.616), defining the level of development of Financial Institutions, was significantly higher than the sub-index FM (0.324), which reflects the level of development of Financial Markets. This shows that the development of financial markets in Poland is relatively lower compared with other countries, in particular with countries with a more developed financial system. The importance of financial markets in the functioning

and development of the financial system is higher in countries with a more developed financial system (measured by the FD index) (Figure 1.2.).

The experience of the recent global financial crisis has shown that an overly developed financial system (including the banking system in particular) in relation to the real economy increases systemic risk and adversely affects economic growth¹².

In the case of Poland, given its development level, the financial system has a positive impact on economic growth. According to the assessment of both Polish and international institutions, there is room for its further sustainable development that will support economic growth. The development should remain moderate and take place as the importance of financial markets grows because they are relatively poorly developed¹³.

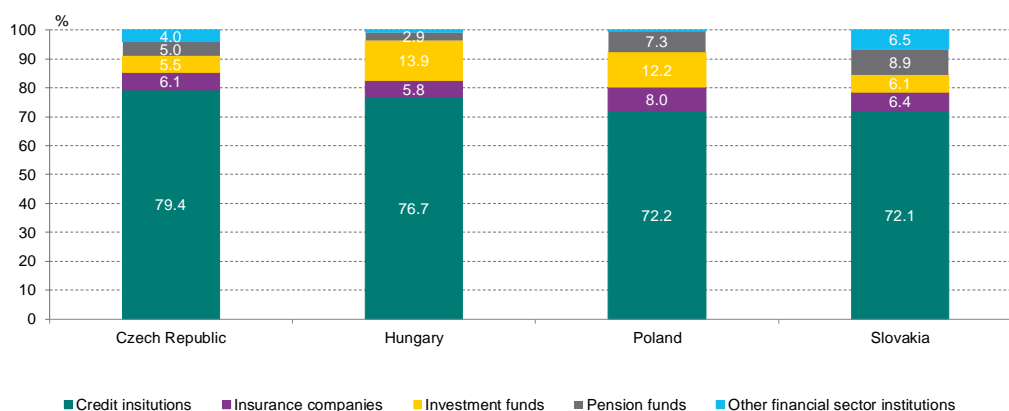
In Poland, like in other countries of the region, the banking sector continued to play a major role in the financial system, although the Polish and Slovak financial system can be regarded as one of the least banking-oriented in CEE (Figure 1.4). This is related to the growing importance of non-bank financial institutions, including collective investment undertakings, i.e. pension and investment funds and insurance companies.

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

At the end of 2017, assets of institutions comprising the Polish financial sector stood at PLN 2.47 trillion, i.e. they were 5.9% higher than a year earlier. The asset growth was primarily caused by a rise in the value of assets of open pension funds, investment funds, cooperative banks and brokerage houses. The assets of insurance companies and commercial banks grew only to a minor extent. On the other hand, assets of credit unions dropped substantially by 9.7% (Tables 1.3 and 1.4).

¹² S. Langfield, M. Pagano, *Bank Bias in Europe: Effects on Systemic Risk and Growth*, ECB Working Paper No 1797, May 2015, European Central Bank.

¹³ According to the IMF analysis, the level of development of the financial system (measured by the FD index) beyond which a positive impact on economic growth decreases is in the range of 0.4-0.7. See: R. Sahay, M. Cihak, P. N'Diaye, A. Barajas, D. A. Pena, R. Bi, Y. Gao, A' Kyobe, L. Nguyen, C. Saborowski, K. Svirydenko, R. Yousefi, op.cit. pp.15-16. See also 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)], June 2018, Ministry of Finance, p. 9. Similar assessments can be found in the World Bank report *Poland: Toward a Strategic, Effective, and Accountable State. Systematic Country Diagnostic*, 2017 World Bank, Washington, DC, p. 71. The report also highlights 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 (p. 74).

Figure 1.4. Composition of financial systems in selected CEE countries at the end of 2017, by value of assets

Source: For Slovakia: data were derived from the website of the central bank of Slovakia http://www.nbs.sk/_img/Documents/_Publikacie/BulletinMFS/2018/BulletinMFS_032018_EN.pdf; for other countries – data were provided by NCBs; for Poland – by NBP.

Table 1.2. Banking sector development levels (commercial and cooperative banks) in selected CEE countries and in the euro area, 2015-2017 (%)

	Assets/GDP			Loans ¹ /GDP			Deposits ² /GDP		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Poland	88.6	91.7	89.4	50.0	51.2	49.4	51.9	54.9	53.4
Czech Republic ³	122.9	124.9	138.7	61.6	63.4	62.9	76.3	76.4	62.9
Hungary ⁴	96.6	97.3	95.3	34.8	33.2	32.1	38.2	39.4	40.1
Euro area ⁵	296.0	288.3	271.9	92.0	90.4	88.8	83.4	84.6	84.8

¹ Loans and advances from the banking sector to the non-financial sector in domestic and foreign currency.

² Deposits of the non-financial sector in the banking sector in domestic and foreign currency.

³ The data also include loans to non-bank financial institutions and deposits of those entities.

⁴ Data include assets of credit unions. Note: Due to data revisions, data may differ from data presented in previous editions of the report.

⁵ Assets, loans and deposits of the sector of monetary financial institutions. Data for the euro area refer to 19 countries in 2015-2017. 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 2017, the rate of growth of loans to the non-financial sector was approx. 6% y/y and varied in the market's individual segments. The annual rate of growth of housing loans, the category with the highest share in the loan portfolio, remained stable (3.4% y/y at the end of 2017). This was because the pace of zloty loan growth was relatively high and foreign currency loans were repaid on a regular basis. The percentage of foreign currency loans in the portfolio of housing loans decreased to approx. 34%. Recovery continued in the segment of consumer loans. The loans are highly profitable at relatively low capital requirements, therefore banks are eager to develop this segment. 2017 saw a substantial rise in corporate lending growth (8% y/y at the end

of the year). The surge was primarily driven by a faster pace of growth of current loans. The share of corporate loans in the structure of the portfolio of loans to the non-financial sector remained low (around 32% at the end of 2017.)

Table 1.3. Assets¹ of financial institutions in Poland, 2010-2017 (PLN billion)

	2010	2011	2012	2013	2014	2015	2016	2017
Commercial banks ²	1,062.1	1,187.8	1,233.7	1,275.4	1,393.9	1455.3	1548.1	1603.7
Cooperative and affiliating banks ²	96.4	106.1	115.8	129.3	135.4	139.7	158.2	173.4
Credit unions	14.0	15.6	16.8	18.7	13.7	12.3	11.3	10.2
Insurance companies	145.2	146.1	162.9	167.6	178.5	180.3	184.3	198.4
Investment funds	121.8	117.8	151.5	195.0	218.9	272.5	275.4	302.8
Open pension funds	221.3	224.7	269.6	299.3	149.1	140.5	153.4	179.5
Investment firms	9.2	10.1	9.0	8.6	7.9	7.6	6.2	6.8
Total	1,670.0	1,808.2	1,959.3	2,093.9	2,097.4	2,208.2	2,336.9	2,474.8

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

² Banks that conduct banking activity. Commercial banks also included branches of credit institutions.

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

Source: NBP, UKNF and KSKOK (National Association of Credit Unions).

Table 1.4. Growth in assets¹ of financial institutions in Poland, 2014-2017 (y/y, %)

	2014	2015	2016	2017
Commercial banks ²	9.2	4.4	6.4	3.6
Cooperative and affiliating banks ²	4.6	3.2	13.2	9.6
Credit unions	-26.7	-10.0	-8.4	-9.7
Insurance companies	6.5	1.0	2.2	7.7
Investment funds	12.3	24.5	1.0	10.0
Open pension funds	-50.2	-5.7	9.2	17.0
Investment firms	-8.1	-4.2	-17.4	8.6
Total	0.1	5.2	5.8	5.9

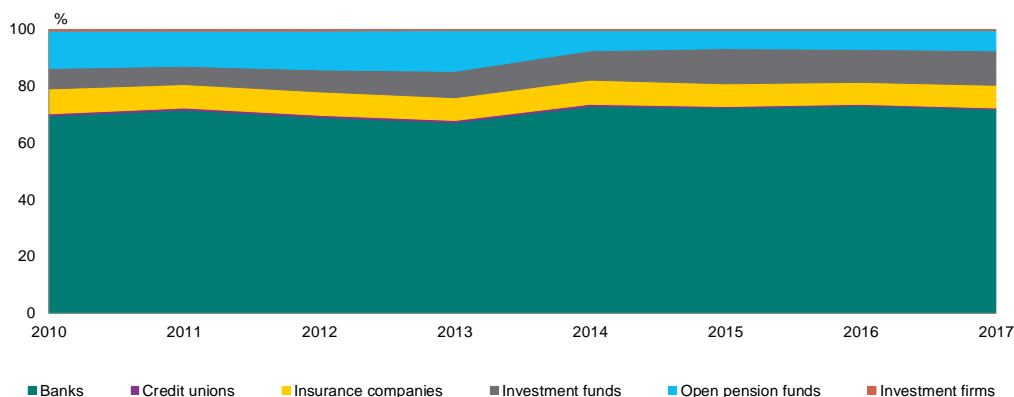
¹ Net asset value for banks, investment funds and open pension funds.

² Banks that conduct banking activity. Commercial banks also included branches of credit institutions.

Source: NBP, UKNF, Anality Online and KSKOK.

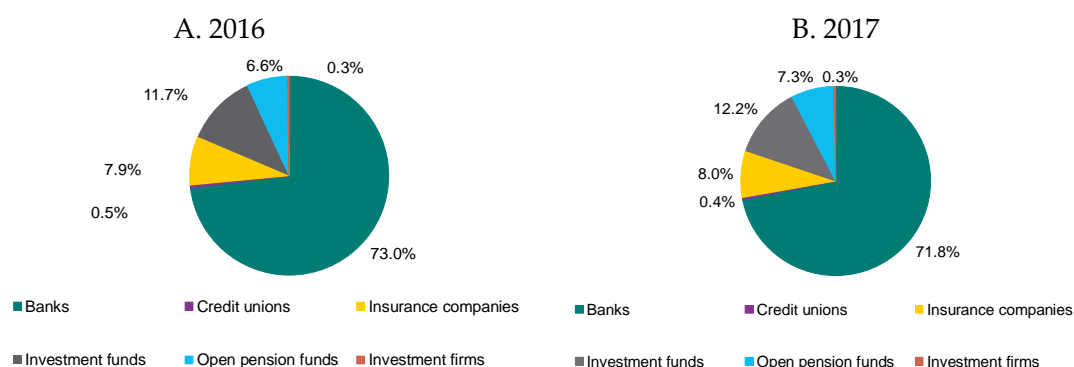
The growth in assets of investment funds referred to both open-ended and closed-end funds, with assets of the former increasing to a larger extent. A positive balance of capital inflows and outflows was primarily responsible for the growth in value of assets of open-ended investment funds, and in the case of closed-end funds – a change in the valuation of the portfolio's components. In the period under analysis, the growth in assets of open pension funds followed a change in the asset valuation. The trends discussed earlier in the text led to a decrease in the share of the banking sector in the structure of financial system assets and a rise in the share of assets of pension and investment funds (Figures 1.5 and 1.6) even after their number dropped (Table 1.5.).

Figure 1.5. Asset structure of the Polish financial system, 2010-2017



Source: NBP, UKNF, Analizy Online and KSKOK.

Figure 1.6. Share of individual financial institutions in the asset structure of the Polish financial system in 2016 and 2017



Source: NBP, UKNF and Analizy Online.

The capitalisation of the Polish stock market rose by over 23% in 2017 to PLN 1,389.5 billion, mostly on the back of stock price growth. It continued to play a significant role in the region (Table 1.6). However, the number of companies whose shares were traded on the organised market fell again. Domestic stock market liquidity remained low compared with the stock exchanges in developed countries. Residents were main investors on the WSE. The ratio of the capitalisation of domestic companies to Poland's GDP at the end of 2017 was 60.4%. The broad market index WIG went up by 23.2%, primarily due to the change in prices of the largest caps on the WSE, which were in line with the trends observed in emerging markets.

Table 1.5. The number of financial institutions in Poland, 2010-2017¹

	2010	2011	2012	2013	2014	2015	2016	2017
Commercial banks ²	67	66	68	67	64	63	61	61
Affiliating banks ²	3	2	2	2	2	2	2	2
Cooperative banks ²	576	574	572	571	565	560	558	553
Credit unions	59	59	55	55	50	48	40	34
Insurance companies ³	63	61	60	58	57	57	61	61
Investment funds (investment fund management companies) ⁴	417 (50)	484 (50)	588 (54)	639 (55)	681 (58)	812 (60)	929 (62)	905 (62)
Open pension funds (pension fund management companies) ⁵	14	14	14	13	12	12	12	11
Investment firms ⁶	50	51	54	57	53	52	46	44

¹ The table presents the number of institutions whose assets were taken into account in Table 1.3. It does not include foreign entities which 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 2010 and 2011 there were 21 branches of credit institutions, in 2012 – 25, in 2013 – 28, in 2014 – 28, in 2015-2016 – 27 and in 2017 – 28.

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

⁴ The number of active funds.

⁵ The number of pension fund management companies equals the number of open pension funds.

⁶ The number of investment firms concerns exclusively brokerage houses.

Source: NBP, UKNF and KSKOK.

In 2017, the money bills market remained the largest segment of the domestic market for long-term debt instruments. The average annual value of outstanding money bills did not change substantially when compared with 2016. Apart from a small issue (as in 2016) of Treasury bills, the State Treasury financed its borrowing needs exclusively with instruments with maturities longer than one year. Enterprises and banks used short-term debt securities issues to finance their needs only to a minor extent.

Like in previous years, the Treasury bond market remained the dominant and most liquid segment of the domestic long-term debt securities during 2017 (Table 1.7). The Polish Treasury bond market was also the largest market for these instruments in CEE and the 9th largest market in the EU. Domestic banks prevailed in the investor structure of the Treasury bond market, with a share of 39%.

Table 1.6. Characteristics of stock markets in selected CEE countries and in the euro area, 2015-2017¹

	Capitalisation of domestic companies (EUR billion)			Capitalisation of domestic companies to GDP (%)		
	2015	2016	2017	2015	2016	2017
Poland ²	123.2	128.1	163.1	29.2	30.4	34.2
Czech Republic	23.5	22.2	26.9	14.1	12.6	14.0
Hungary	16.2	21.3	26.3	14.9	18.9	21.3
Euro area ³	6,774.6	7,081.8	7,936.6	65.1	66.0	71.0
	Liquidity ratio ⁴ (%)			Number of listed companies (including foreign companies)		
	2015	2016	2017	2015	2016	2017
Poland	44.3	36.4	37.5	905 (33)	893 (32)	890 (29)
Czech Republic	20.9	23.8	16.3	25 (10)	25 (11)	23 (10)
Hungary	42.8	35.7	36.1	45 (0)	42 (0)	41 (0)
Euro area ³	80.2	64.8	61.2	6,900 (440)	6,723 (420)	6,962 (901)

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

² Calculations of values for Poland were based on WSE and GUS data using the average NBP exchange rates at the end of particular years.

³ Indices calculated for the euro area include the following stock exchanges: Athens Exchange, Cyprus Stock Exchange, Deutsche Börse, Euronext, Irish Stock Exchange, Ljubljana Stock Exchange, Luxembourg Stock Exchange, Malta Stock Exchange, NASDAQ OMX Nordics & Baltics, Spanish Exchanges (BME) and Wiener Börse.

⁴ The ratio of net turnover value of the shares of domestic companies to stock market capitalisation at the end of the year.

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

Source: Eurostat, Federation of European Stock Exchanges (FESE), WSE and GUS.

In 2017, the average daily turnover of unconditional transactions in Treasury bonds amounted to PLN 13.4 billion and in the case of Treasury bills it was less than PLN 50 million. 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 decreased from 19.1% at the end of 2016 to 18.2% at the end of 2017.

As in previous years, there was a rise in FX swap transactions in the deposit transactions market, which is used mainly by financial institutions to manage liquidity on a day-to-day basis. On the other hand, the value of conditional transactions and unsecured interbank deposits was similar to the 2016 level (Table 1.8.).

Table 1.7. Outstanding value of individual instruments of money and capital markets as of year-end, 2014-2017 (PLN billion)

	2014	2015	2016	2017
Treasury bills	0.0	0.0	0.0	0.0
NBP bills	110.6	98.8	81.3	94.4
Short-term bank debt securities	5.1	5.0	4.7	6.3
Short-term corporate bonds	13.5	7.3	7.8	18.7
Marketable Treasury bonds	482.9	513.4	576.7	605.7
BGK bonds for National Road Fund	19.6	19.4	22.7	25.6
Long-term corporate bonds	54.2	65.2	69.0	76.0
Municipal bonds	19.1	20.0	19.9	20.1
Long-term bank debt securities ¹	25.1	26.5	27.4	34.8
Covered bonds	4.1	5.4	7.6	9.9

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 (MF), NBP, KDPW and Fitch Polska.

As in previous years, the majority of zloty exchange transactions and OTC FX derivatives were concluded in the offshore market, mostly in London. This means that the zloty exchange rate is largely determined by operations executed between non-residents, mostly investment banks and hedge funds. In the case of derivatives, the OTC market is much better developed in terms of turnover value and variety of financial instruments offered. Investor activity in the exchange-traded derivatives market continued to concentrate in the segment of WIG20 futures.

Table 1.8. Average daily net turnover in the domestic financial market, 2014-2017 (PLN million)

	2014	2015	2016	2017
Equity and debt instruments market				
Shares and allotment certificates	941.0	905.3	811.4	1,049.8
Treasury bonds	27,158.9	24,325.3	27,167.1	28,178.6
Treasury bills	0.0	0.0	101.3	127.8
Deposit transactions market				
FX swap transactions	10,336.4	11,779.2	13,729.2	14,005.7
Repo/SBB transactions	15,249.9	14,454.3	13,781.2	13,758.7
Unsecured interbank deposits	4,554.9	3,923.1	3,806.6	3,760.4
Derivatives transactions market				
FX forwards	1,795.0	1,653.0	1,793.8	2,144.8
CIRS transactions	183.5	136.6	173.6	157.9
Currency options	399.2	331.7	350.1	347.6
FRAs	4,404.8	3,435.4	2,608.0	1,246.7
IRSs	2,422.4	2,361.0	2,533.4	2,624.4
OISs	520.8	236.5	125.1	75.1
WIG20 futures	850.1	781.5	676.1	778.0
Spot FX market	5,549.3	6,290.8	6,727.1	6,781.0

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 2014, the average daily value of unconditional transactions in the Treasury bond market amounted to PLN 11.1 billion, PLN 9.3 billion in 2015, PLN 12.5 billion in 2016 and PLN 13.4 billion in 2017. In the case of Treasury bills, the average daily value of unconditional transactions was less than PLN 60 million in 2016, and almost PLN 50 million in 2017 (in 2014-2015, 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 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 rates instruments.
- Source: NBP study based on data from WSE, MF and NBP.

2. Households and enterprises in the financial market in Poland

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

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 level of savings of domestic households and the form of saving are of great importance for economic growth and financial system development.

The results of surveys conducted for ten years show that Poles' attitudes towards saving have evolved¹⁴. While in 2008, only 7% of Poles saved on a regular basis, the rate of savers rose to 16% in 2017. The percentage of persons saving on an irregular basis rose from 34% in 2008 to 47% in 2017. The low percentage (8%) of persons saving for retirement may be worrying¹⁵.

The financial situation of households improved markedly in 2017. The surplus of disposable income over expenditure increased, which should boost savings' growth¹⁶. The average monthly

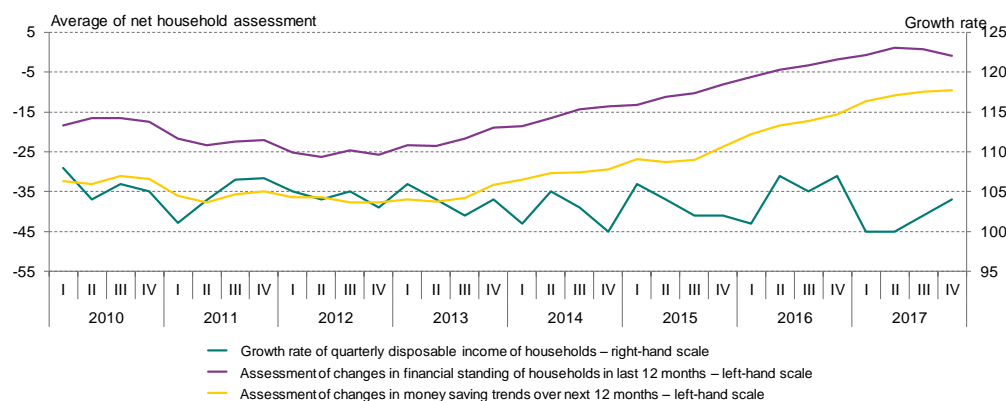
¹⁴ The surveys have been carried out for ten years by the Kronenberg Foundation. Reports on *Postawy Polaków wobec oszczędzania* [Poles' Attitudes Towards Saving] were published in 2008-2014 and reports on *Postawy Polaków wobec finansów* [Poles' Attitudes Towards Finance] were published in 2015-2017.

¹⁵ See *Postawy Polaków wobec finansów* [Poles' Attitudes Towards Finance], a survey by the Kronenberg Foundation at Citi Handlowy and Think! Foundation, October 2017, pp. 3-5.

¹⁶ "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 *Metodologia badania budżetów gospodarstw domowych* [Methodological notes on household budget surveying], Warsaw 2011, GUS, pp. 30-31.

disposable income per capita in the household rose, in real terms, by 6.3% (to PLN 1,598)¹⁷. The trend of improving consumer sentiment continued, both with regard to the current financial position and projected saving expectations (Figure 2.1).

Figure 2.1. Public sentiment surveys on savings and dynamics of disposable income, 2010-2017



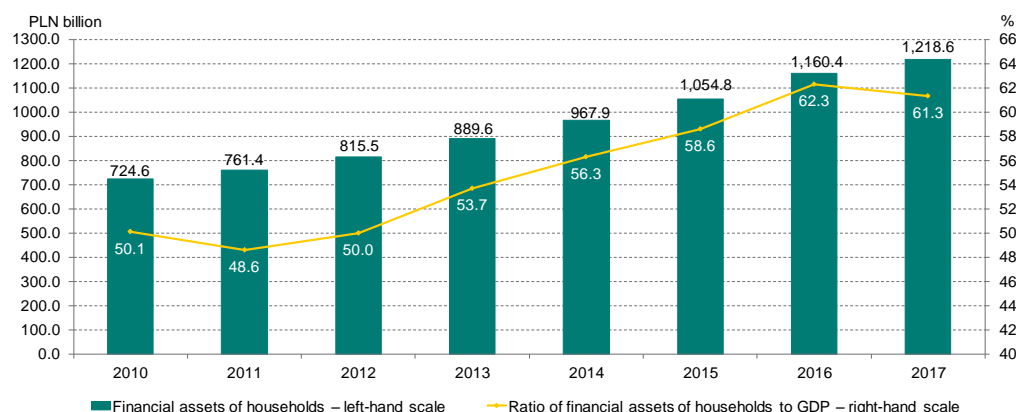
Notes: Quarterly values of disposable income were deflated by the quarterly CPI. The quarterly growth rate is calculated with reference to the corresponding quarter of the previous year. A positive average of household assessment balances means the preponderance of consumers who take a positive view of the changes over consumers who take a negative view of the changes.

Source: The calculations are based on GUS data from *Non-financial quarterly accounts by institutional sectors for the period from the 1st quarter of 2010 to the 1st quarter of 2018, at current prices*, 06.07.2018, GUS, and the results of the GUS/NBP *Consumer Tendency survey* (2010-2017 editions) available on the website www.stat.gov.pl.

In 2017, household financial assets that can be used relatively freely grew by 6.7% and amounted to PLN 1,218.9 billion at the end of December¹⁸. They represented the equivalent of 61.3% of GDP, i.e. 1.0 percentage point less than compared with the previous period due to a faster pace of GDP growth (Figure 2.2). This asset growth was primarily driven by changes in the value of securities (Treasury and non-Treasury securities), investment fund units and shares listed on the WSE held by households. Bank deposits, life insurance assets (including uni-linked assets) and the value of cash in circulation grew at a slower pace, and their share in household financial assets diminished somewhat. The value of deposits kept at credit unions was observed to decline (Table 2.1).

¹⁷ *Sytuacja gospodarstw domowych w 2017 r. w świetle wyników badania budżetów gospodarstw domowych* [The situation of households in 2017 as evidenced by the results of the household budget survey], Latest statistical news, Warsaw, 23 May 2018, GUS.

¹⁸ 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 pension fund management companies and voluntary pension funds or funds transferred to the Social Insurance Institution by OFE in February 2014.

Figure 2.2. Household financial assets¹, 2010-2017

¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 18, p. 24).

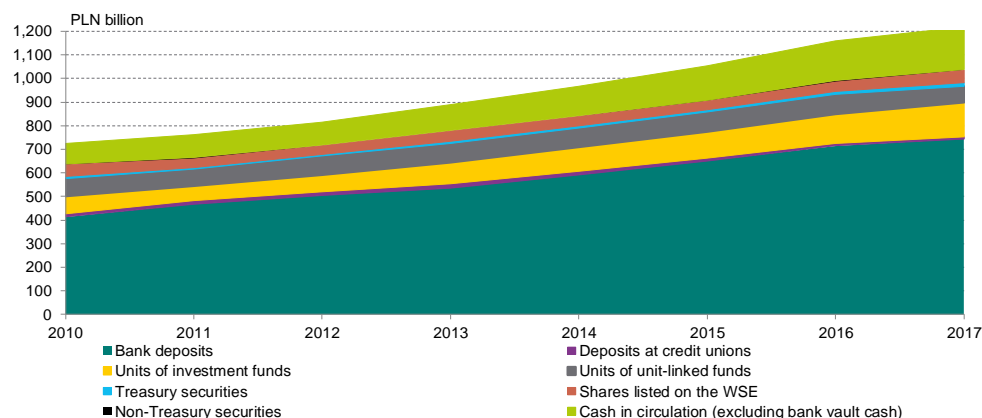
Note: Due to adjustments, the data may differ from data presented in the report's previous edition. Due to methodological changes in the valuation of life insurance assets, arising from the implementation of the provisions of the Solvency II Directive, data for 2017 are not fully comparable with data for previous years.

Source: Based on GUS, UKNF, Analizy Online and NBP data.

Polish households prefer those methods of managing surplus cash that enable them to use funds instantly or withdraw them easily, and are at the same time regarded as the safest, and are less interested in their profitability¹⁹.

Statistical data on financial assets confirm the household preferences expressed in the surveys (Figure 2.3). At the end of 2017, deposits at banks and credit unions accounted for a total of 61.8% of household financial assets and – with cash accumulated by them – for as much as 76.6% (Table 2.1).

¹⁹ See *Polak oszczędny 2017*, Kantar TNS for BGŻ Optima, September 2017, pp. 17-18.

Figure 2.3. Structure of household financial assets¹, 2010-2017, as at period-ends

¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 18, p. 24).

Notes: For the years 2010-2016, the category of unit-linked funds is presented jointly with life insurance saving premiums. For 2017, life insurance assets (including unit-linked assets). Due to the asset valuation, based on the provisions of the Solvency II Directive, data for 2017 are not fully comparable with data for previous years.

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

The value of units of investment funds²⁰ in the portfolio of households rose by 15.7%. The change in the value of this portion of the household deposit portfolio resulted primarily from an inflow of new funds. The net inflow of households' funds to investment funds in the amount of PLN 13.8 billion was PLN 9.1 billion lower than in 2016. Households seeking a saving alternative to low-interest term deposits at banks were first of all participants in open-ended investment funds, especially debt securities funds. Equity funds and mixed funds also attracted interest. The highest inflow of funds to investment funds was reported in the fourth quarter of 2017, when it was PLN 5.4 billion net (Figure 2.4.).

²⁰ Excluding units purchased by insurance companies as a result of life insurance contracts concluded by natural persons with unit-linked funds.

Table 2.1. Value of household financial assets¹ and their structure, 2014-2017, as at period-ends

	2014	2015	2016	2017
Value of household financial assets (PLN billion)				
Bank deposits	592.4	650.8	713.9	744.0
Deposits at credit unions	12.7	11.9	10.9	9.8
Units of investment funds	103.2	111.8	124.3	143.8
Life insurance assets (including unit-linked assets) ²	82.7	82.7	83.5	68.8
Treasury securities	9.3	10.7	11.8	15.9
Non-Treasury securities	1.3	1.8	2.3	3.6
Shares listed on the WSE	40.5	39.8	43.6	53.2
Cash in circulation (excluding bank vault cash)	125.8	145.3	170.0	179.8
Total	967.9	1054.8	1160.4	1218.9
Structure of household financial assets (%)				
Bank deposits	61.2	61.7	61.5	61.0
Deposits at credit unions	1.3	1.1	0.9	0.8
Units of investment funds	10.7	10.6	10.7	11.8
Life insurance assets (including unit-linked assets) ²	8.5	7.8	7.2	5.6
Treasury securities	1.0	1.0	1.0	1.3
Non-Treasury securities	0.1	0.2	0.2	0.3
Shares listed on the WSE	4.2	3.8	3.8	4.4
Cash in circulation (excluding bank vault cash)	13.0	13.8	14.7	14.8

¹ The analysis takes into account household financial assets that can be used relatively freely (see Footnote 18, p. 24).

² For 2017, the value of life insurance assets (including unit-linked assets) was calculated in compliance with the provisions of the Solvency II Directive and included technical provisions of the life insurance sector. The data are not comparable with the amounts for 2014-2016. For 2016, this item when compared with 2017 amounted to PLN 65.8 billion and the sum of assets totalled 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, Anality Online and NBP data.

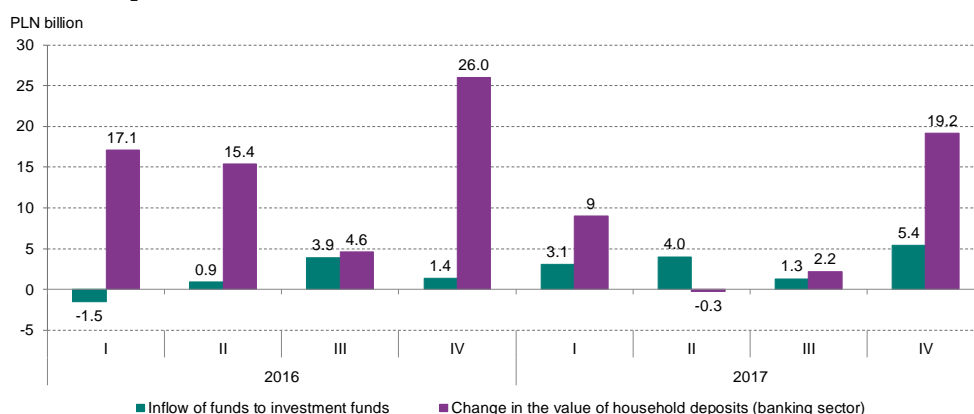
In 2017, the value of life insurance assets (including unit-linked assets) in the household portfolio rose by PLN 3 billion, i.e. by 4.6%²¹. The increase came primarily as a result of good investment performance. Almost 74% of the assets were related to unit-linked funds.

²¹ The amounts were 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 if 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 in Poland in 2016], Warsaw 2017, NBP, pp. 211-212.

The value of shares held by Poles in their investment portfolios increased by 22.0% (to PLN 53.2 billion) in the period under analysis. The increase was tied to the good situation on the capital market and the rise in the prices of equity instruments on the WSE-organised markets (in 2017, WIG grew by 23.2%).

The year 2017 saw a 34.7% increase, to PLN 15.9 billion, in the value of Treasury bonds in the portfolio of households.

Figure 2.4. Net inflow of funds from households to investment funds and the change in value of household bank deposits, 2016-2017



Note: The category of households also includes non-commercial institutions offering services to households.

Source: Calculations based on NBP data.

2.2. External sources of financing of Polish enterprises

Corporate investments were largely financed with own funds, which reflected the investment funding priority model prevailing in Poland²².

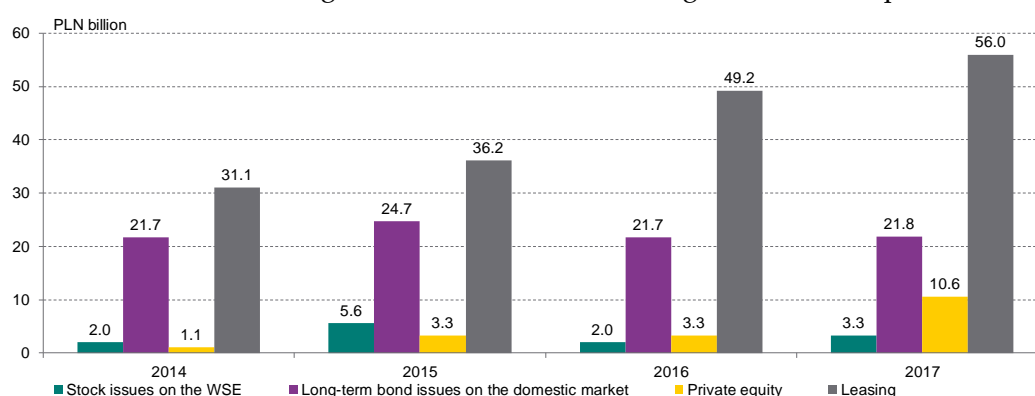
The year 2017 saw a substantial increase in corporate credit growth (8% y/y at the end of the year). The increase was primarily driven by a markedly faster rate of growth of current loans, which – according to banks – resulted from the higher financing needs of enterprises for inventories and working capital. The rising value of corporate loans in 2017 was accompanied by tighter credit terms, which was reflected, inter alia, in the increase in their interest rates.

²² Dostępność finansowania przedsiębiorstw niefinansowych w Polsce, Warsaw 2016, NBP, p. 4. See also Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw, Nr 02/18 (kwiecień 2018 r.) [NBP Quick Monitoring Survey. Economic climate in the enterprise sector], Warsaw 2018, NBP, p. 20. According to the survey results, in the case of over half of the 25.5% of enterprises planning new investment projects, own funds will be a major source of funding, as bank credit and other funding sources are used nearly half as frequently.

In the case of SMEs, lending was supported by the portfolio guarantee facility programmes of Bank Gospodarstwa Krajowego (BGK)²³. Loans covered by the BGK guarantees accounted for approx. 14% of loans granted to enterprises in 2017.

Leasing remained the most frequently used non-banking external source of funding for small enterprises (Figure 2.5). 2017 saw continued rapid growth in funding provided by leasing companies, and the number of enterprises that entered into leasing contracts also grew. As in previous years, the segment of modes of transport was almost 70% responsible for the growth in the value of assets leased.

Figure 2.5. Selected non-banking external sources of financing of Polish enterprises, 2014-2017



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

Enterprises raised PLN 21.8 billion on the domestic long-term bond market via new corporate bond issues in 2017, nearly the same as in 2016. On the other hand, the new corporate bond debt of non-financial enterprises fell by over PLN 10 billion (i.e. by almost 15%). The number of entities that went ahead with bond issues decreased again (from 124 in 2016 to 115 in 2017). The value of the market in 2017 was limited by the very good economic situation in the sector of non-financial enterprises and the redemption of bonds of a substantial value by one company. The Polish corporate bond market was still characterised by a relatively low industry diversification of issuers. In 2017, the share of bonds issued by energy producing and development companies in the value of bonds sold on the primary market amounted to approx. 50%. 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.

²³ A. Kowalczyk, T. Kaczor, *Efekty programu gwarancji de minimis 2017*, Warsaw, December 2017, BGK.

In 2017, the value of new issues of shares by non-financial enterprises and admitted to trading in the WSE-organised markets (WSE Main List and NewConnect) amounted to PLN 3.3 billion and was higher than in 2016. On the WSE-organised markets, IPOs were conducted by a total of 34 domestic enterprises (WSE Main List – 15, NewConnect – 19), and shares of 7 enterprises were graduated from ATS to the regulated market.

Funding from private equity funds was also a source of financing for the development of Polish enterprises. In 2017, funding in the amount of PLN 10.6 billion from private equity funds was received by 60 domestic companies. Despite the relatively small size of the market in Poland, capital from private equity funds is an important source of own funds of domestic companies. Private equity funds may play an important role in providing financing to start-ups, new tech start-ups in particular.

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