This document contains the summary and the first chapter of a comprehensive report *Rozwój systemu finansowego w Polsce w 2014 r.* [Financial system development in Poland 2014], prepared by the Financial Stability Department. The report is available in Polish, together with its previous editions, on NBP website: www.nbp.pl/systemfinansowy/rozwoj

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Summary

At the end of 2014, the domestic financial system assets to GDP ratio amounted to 121.4%. When compared with the real economy, the financial system is not developed excessively. It includes all types of financial institutions and financial markets typical for well-developed market economies. From the point of view of its positive effect on economic growth, the level of financial system development, according to international institutions is of optimal size and structure. Maintaining favourable trends in changes in the composition of banks’ loan portfolio would be desirable. The description of individual segments of Poland’s financial system, changes in the related regulations and infrastructure, and the results of the analyses, all of which are presented in this study, allow use to formulate the following conclusions and suggestions about the development of domestic financial institutions and markets.

Financial institutions

- In Poland, as in other countries of the region, the banking sector continued to play the key role in the financial system. In 2014, assets of domestic banks increased by around 9%, which led to a slight increase of the assets to GDP ratio to 89%.
- The growth rate of lending to the non-financial sector amounted to 4.5% and was similar for all main categories of credit. Since the outbreak of the global financial crisis, credit growth in Poland was the highest among all EU member states. At the same time, the share of corporate loans in banking sector assets is one of the lowest both in the whole EU and in the region. The rising concentration on lending to households is an unfavourable development for economic growth; however, this came to a halt in recent years amid the lower significance of lending to enterprises. A further decline in the value of foreign currency housing loans was also a favourable change in the structure of loans to the non-financial sector.
- Deposits of the non-financial sector were the main source of funding of domestic banks. The rate at which deposits growing was higher than the credit growth rate, resulting in a narrower funding gap. At the same time, the share of foreign funding in the structure of banks’ liabilities decreased.
- A relatively strong increase in cooperative banking sector’s assets was largely driven by the growing penetration of cooperative banks of new business areas, including business lines that were so far a matter of commercial banks. The lack of properly developed risk management systems related to such an activity was one of the factors behind a deterioration in the quality of the credit portfolio and a fall in the sector’s returns. In order to contain the risks associated with the existing operating model of cooperative banks and meet the new regulatory requirements, affiliating cooperative banks may need to change the way they operate. One of the measures should be to tighten collaboration of cooperative and affiliating banks under the institutional protection scheme, i.e. a group of entities that mutually warrant their liquidity and capital adequacy.
In 2014, restructuring processes were carried out in the credit unions sector. As a result of the processes, the sector’s scale of activities was limited. At the end of 2014, operational activities were carried on by 50 credit unions (5 fewer than at the end of 2013), and the value of their assets decreased by approximately 27%. At the end of 2014, credit unions that carried on their activities reported a combined net loss. The earnings of credit unions were heavily affected by the deteriorating quality of assets (the need to create provisions) and a decrease in interest income resulting from, among others, decreasing interest rates. The capital position of credit unions was difficult, and the value of regulatory capital – inadequate to the scale of their operations.

Domestic enterprises prefer a conservative strategy of financing their activities and use mainly own funds to do so. Among external sources of financing, they are increasingly willing to use leasing and issue of bonds, including bonds issued in foreign markets. In 2014, the value of leasing contracts and loans extended to enterprises by leasing companies increased to PLN 42.8 billion. Non-financial entities raised PLN 21 billion in the domestic market for long-term bonds, while the value of new share issues on the WSE-organised markets (Main Market and NewConnect) amounted to merely PLN 2 billion. Another source of financing are private equity funds. In 2014, private equity funds invested around PLN 1 billion in Poland, but the ratio of capital provided by private equity funds to capital raised through the new share issues was always above 25% in the past four years.

Non-bank lending companies specialize in granting short-term low-amount loans to less affluent consumer groups, which means that the products supplement the range of products offered by banks. GUS data show that lending provided by the companies in 2014 amounted to PLN 7.6 billion, which represents a 35.4% rise on the 2013 figure. Some of non-bank lending companies fund their activities with bank loans, bond issues or advances from controlling entities, and they are therefore included in the shadow banking sector. The fact that these companies are not subject to supervision has a negative impact on borrowers’ security, and the malfunctions relating to, among others, non-interest costs of advances, present on this market, may lower Poles’ confidence in other financial institutions. This situation justifies an implementation of a regulation aimed at eliminating practices that infringe on the interests of consumers and at strengthening their protection on Poland’s lending services market.

At the end of 2014, the value of net assets of investment funds reached a record level of PLN 219.5 billion. The increase was driven mainly by a net inflow of funds. The balance of inflows and outflows was lower than in 2013, which was related to the worse situation on the domestic equity market and lower investor interest in funds that serve to provide tax optimization solutions. Households continued to prevail among participants in investment funds. Both the ratio of the value of funds invested by households in participation units to household bank deposits and the share of the units in the savings structure of households increased. In 2014, for the first time in the sector’s history, the Polish Financial Supervision
Authority (KNF) revoked an operating licence of an investment fund management company on the grounds of the company’s delay in paying investors for the redeemed units.

- Net assets of open pension funds (OFEs) fell by 50.2% to PLN 149.1 billion in 2014 in the wake of entry into force of the new provisions of law according to which open pension funds were required to transfer more than 50% of their assets to the Social Insurance Institution (ZUS) and which introduced membership of an open pension fund on a voluntary basis. As a result of changes in the investment policy of pension funds, which were caused by the new investment limits, domestic equities – which at the end of 2014 accounted for 79.6% of the portfolio’s value – have prevailed in pension funds’ portfolios since February 2014. The new catalogue of acceptable investments of open pension funds does not include Treasury securities, which has so far accounted for almost half of their assets. In 2014, the average weighted rate of return of OFEs stood at 0.5%.

- At the end of 2014, assets accumulated as part of contributions to the pension system on a voluntary basis amounted to PLN 15.6 billion and were by 13% higher than in 2013. The most assets were gathered in occupational pensions schemes (PLN 10.3 billion), and the least – on individual retirement security accounts (PLN 0.3 billion). Although the number of persons who save additional funds for retirement purposes has grown slightly, the schemes and accounts remain not popular.

- In 2014, assets and deposits of the insurance sector rose, and its profit was PLN 6.8 billion. Treasury securities prevailed in the deposit structure of domestic insurance companies. Although the gross written premium declined, the domestic insurance industry had sufficient own funds to cover the statutory solvency ratios and held deposits higher than liabilities arising from insurance contracts.

- Investment firms conduct their activity primarily on domestic markets organised by WSE and BondSpot. As the number of transactions in the equity and forward transactions market is decreasing and competition in the market for brokerage services is fierce, which is reflected in falling fees, the core activity of investment firms is becoming less profitable, which in turn may trigger mergers and acquisitions in the sector.

- Due to such a situation in the capital market, investment firms are forced to seek alternative sources of income and to broaden the range of services for individual investors with, among others, the possibility of concluding transactions in organized foreign markets and cash-settled forward transactions for foreign exchange rates, goods and stock exchange indices via the online trading platforms. High leverage and investment risk associated with the use of such contracts were behind the law-makers’ decision to set at 1% the minimum ratio of the margin call to the nominal value of a financial instrument, required to execute transactions in derivatives that are not cleared by a CCP.

**Financial markets and their infrastructure**

- The structure of interbank deposit transactions in Poland differed significantly from that in the euro area. Interbank unsecured deposits remain the main liquidity management
instrument used by domestic banks. The volume and term structure of turnover in the interbank unsecured deposits market were determined by a small number of participants and low credit limits imposed by banks on one another. O/N transactions prevailed, and their share in the turnover in this market in 2014 was over 90%.

- The number of participants in the WIBID/WIBOR reference rate fixing increased from 11 to 13. Domestic banks, which use the WIBID/WIBOR rates to the greatest extent (among others, as they hold balance sheet receivables indexed by the rates and portfolios of WIBOR/WIBID-based derivative instruments), should participate in their fixing, while complying with the supervisory recommendations on the internal process of fixing and providing quotations for its needs. A regulation on indices used as indicators in financial instruments and contracts, now developed by the European Union, will have a substantial impact on the organisation of reference rate fixing. The draft provisions are intended to improve supervision of the process of market indicator fixing and guarantee high quality source data. The proposed solutions provide for, among others, the introduction of strict organisational requirements for administrators of key indicators, which the WIBID/WIBOR rates should be regarded as.

- Transactions of domestic banks accounted for around 17% of the turnover in the global fx swap market of the zloty. Domestic banks concluded FX swaps mainly with foreign banks that financed investments in Poland’s capital market, in particular in the Treasury bond market, and speculated on the zloty exchange rate. They often used the transactions in their strategies aimed at mitigating FX risk.

- In 2014, the turnover on the market for conditional transactions continued to grow in Poland. However, the share of repo transactions in the structure of interbank deposits transactions remained low. The domestic post-trading infrastructure for conditional transactions (i.e. the KDPW group’s offer) complies with the standards used in mature financial markets, e.g. in the euro area; therefore, the development of the interbank conditional markets transactions in Poland currently depends on the measures taken by banks and their liquidity management policy. It would be advisable to introduce relevant amendments to the standard master agreement for the conclusion of conditional transactions, contained in the recommendation of the Polish Bank Association. The model should be adjusted to amendments in the domestic bankruptcy law, new solutions in the post-trading infrastructure and the 2011 Global Master Repurchase Agreement. The model should also regulate cross-currency repo transactions that domestic banks may use in managing risk arising from the currency mismatch of assets and liabilities.

- The changes to the pensions system in February 2014 resulted in a 20% decline in the Treasury bond debt and a simultaneous rise (by around 10 percentage points) in non-resident share in the structure of Treasury bond buyers. Exposure of the investor group to the domestic Treasury bond market was relatively stable (it ranged from PLN 180 to 200 billion). The value of the portfolio of Treasury securities held by Asian investors and Polish banks was steadily growing. The importance of variable interest-bearing instruments rose for another year in a row, and at the end of 2014 their share in the structure of domestic Treasury
bonds was over 20%. Liquidity continued to fall in the wholesale market. The average daily value of unconditional transactions dropped by nearly 30% on the 2013 figure and amounted to PLN 11.1 billion.

- The market for non-Treasury long-term debt instruments is relatively poorly developed and not very liquid. In 2014, the value of outstanding instruments in almost all of its segments continued to grow. An almost 40% rise in corporate debt due to long-term debt securities was owed to improved macroeconomic conditions and low interest rates which encouraged enterprises to increase investment outlays. The value of new issue programmes signed in 2014 implies that the debt securities market of enterprises will continue to grow in the upcoming years. The market for municipal bonds was strongly fragmented, which resulted from minor borrowing needs of smaller local government units and splitting issues in a number of series. Banks continued to fund their needs by issuing debt securities to a minor extent.

- The capitalisation of the Polish stock market rose to PLN 1,262.1 billion, mainly on the back of the listing of Spain’s Banco Santander. The market value of domestic companies dropped slightly, and the ratio of their capitalisation to Poland’s GDP amounted to 34.7% at the end of 2014. The liquidity of the domestic stock market remained low as compared with stock exchanges in developed countries. What affects low liquidity is the fact that securities of a relatively large number of companies with low capitalization and low free float continue to be dealt in on the stock exchange. A rise in activity of remote WSE members using high frequency trading may contribute to increasing the trade on the stock market in the coming years. In 2014, the value of shares sold in IPOs and SPOs, which was not only the result of smaller-scale issues prepared by companies but also of investor’s lower interest in buying the instruments, decreased substantially.

- NewConnect shrunk for the first time ever, both in terms of capitalisation and the number of issuers. The decline in value was driven by both price movements of the shares listed on this market, and delisting or transferring equities to the WSE Main Market by some issuers. The liquidity of the NewConnect market was not supported by the low value of shares in original offers. It would be worth considering a further increase in the requirements for issuers of shares to be traded in NewConnect (e.g. setting a minimum size of the share issue of a given company) and enhancement of the market’s information transparency.

- The October 2014 change of the settlement cycle from T+3 to T+2 for shares, rights to shares, depository receipts, ETFs and investment certificates was related to the harmonisation of the Polish market to the provisions of the Regulation of the European Parliament and of the Council improving securities settlement in the European Union and on central Securities depositaries. The switch to T+2 will allow the KDPW participants to receive securities (buyers) and cash (sellers) resulting from the trade sooner.

- Average daily turnover on the global spot market for the Polish zloty increased by 10% in 2014 to around USD 10.5 billion. The vast majority of transactions (over 80%) were concluded in the offshore market. The EUR/PLN exchange rate was largely determined by
developments in the global financial markets and often poorly reflected the flows arising from trading between real economy agents or non-resident investments in the domestic capital market.

- In 2014, the value of transactions in OTC derivatives denominated in the Polish zloty in the offshore market, which involves transactions between non-residents, was significantly higher than in the domestic market, which was primarily tied with a robust activity of London-based banks and hedge funds. In Poland, OTC interest rate derivatives markedly prevailed, in terms of turnover value, despite a substantial rise in market participants’ interest in transactions in derivatives hedging against FX risk observed during the year. Investor activity in the market for exchange derivatives remained considerably lower than in the OTC market and was concentrated on the segment of WIG20 futures.

- In order to mitigate market risk originating from foreign currency housing loans, domestic banks commonly used CIRS basis transactions in their hedging strategies. The current sales on the spot market of foreign currencies received in the initial exchange of the CIRS basis transaction allowed the banks to offset a long currency position.

- The obligation to send reports on the conclusion, modification and an early termination of a derivatives contract to trade repositories of ESMA-registered trades came into force in February 2014. Moreover, as of 12 August 2014, participants in the derivatives market were obligated to send information on the mark to market valuations of contracts and their collateral. The reporting requirement applies to both parties, which are legal persons, to the derivatives contract.

- When using the domestic post-trade infrastructure, financial market participants meet the EU requirement regulation on trading in OTC derivatives. KDPW is an institution authorised by ESMA to collect reports containing data on all types of derivatives transactions. This entity also has the status of a unit responsible for assigning globally unique codes identifying natural persons who are parties to a derivatives transaction. In April 2014, the KNF authorised the clearing house KDPW_CCP to render clearing services as a CCP under the EU Regulation EMIR. It can conduct clearing of, among others, derivatives cleared in PLN (FRAs, IRSs and OISs). Introducing the obligation to clear transactions in standardised derivative instruments by CCP, in particular if it concerns OTC interest rate derivatives in the zloty, may be of great significance for the development of the domestic derivatives market and functioning of KDPW_CCP.

- As data are of poor duality and there is no single standard for making them available, few institutions authorised to use information compiled at trade repositories have decided to get them from all repositories and make a comprehensive analysis. The following are necessary to improve data quality: uniformisation by trade repositories of the rules of verification of whether reports sent are complete, the regular and formalised reconciliation of reports sent by 2 parties to the transaction, separating – on the basis of received reports – the chain of linked transactions and a possible removal of the replicated data by the reporting entities.
1. Directions of the evolution of Poland’s financial system

In 2014, the Polish economy was developing in an environment of diversified growth rates in the major world economies. The US economy rebounded strongly, while in the euro area the GDP growth rate remained at a low level. Poland’s GDP growth rate was 3.3%, compared with 1.7% in 2013. This growth was accompanied by the absence of price growth, and in the second half of the year – deflation. The annual average CPI was 0.0%, and the annual CPI at the end of December 2014 was negative (-1.0%). It was mainly driven by falling commodity prices, including fuel and food prices\(^1\), and subdued demand pressure in the national economy. The Monetary Policy Council (MPC) lowered the NBP interest rates on one occasion, cutting the reference rate by 50 basis points to 2.0% and the Lombard rate by 100 basis points to 3.0% from 9 October 2014. The NBP deposit rate remained unchanged at 1.0%.

In such an environment, the economic condition of enterprises improved and gross fixed capital formation, including machinery and equipment, increased. Corporate investments were partly financed with external sources. The value of long-term loan debt rose substantially.\(^2\) This was supported by low interest rates and a less restrictive policy of banks in the second half of the year, in particular an easing of the standards and terms of granting loans. The financial standing of households improved in 2014. They reported higher income, and monthly available income per capita was 3.2% higher, in real terms, than in 2013.\(^3\) Poland’s unemployment rate dropped to 11.5% from 13.4% in 2013. The total employment rate rose from 60% in 2013 to 61.7% in 2014. Household financial assets also grew (by 8.8%), and the growth of savings (bank deposits) stood at 10.4%.

In the period analysed, the monetary policies of central banks diverged, the global economic growth outlook was bleak and geopolitical risks increased, which had an impact on sentiment in the world financial markets. The global rise in risk aversion was conducive to a depreciation of the currencies of a number of emerging markets. In Poland, share prices fell on the Warsaw Stock Exchange. The yields on Polish government bonds reached their all-time low in response to expectations of an interest rate cut by the MPC and an easing of the ECB monetary policy.

\(^2\) Sytuacja finansowa sektora przedsiębiorstw w IV kw. 2014 r. [Financial situation in the enterprise sector in 2014 Q4], Warsaw, April 2015, NBP, p. 5.
\(^3\) Sytuacja gospodarstw domowych w 2014 r. w świetle wyników badania budżetów gospodarstw domowych. [The situation of households in 2014 as evidenced by the results of the household budget survey], Information note, Warsaw 26 May 2015, GUS, p. 1.
When assessing trends of the size of Poland’s financial system, one has to take into account the impact of a one-off development related to the open pension system reform in 2014, which led to a transfer of over 50% of open pension funds (OFEs) to the Social Security Institution (ZUS). As a result, the ratio of domestic financial system assets to GDP decreased by 4.5 percentage points when compared with the end of 2013 and amounted to 121.4% at the end of December 2014 (Table 1.1.). If, in order to preserve comparability with the year 2013, the amounts transferred from the OFEs to ZUS were taken into account in the value of financial system assets, then the ratio of domestic financial system assets to GDP in 2014 would stand at 130.5%. This would imply a substantial increase against the year 2013.

### Table 1.1. Assets of the financial system as a percentage of GDP in selected Central and Eastern European countries and in the euro area, 2011-2014 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>116.4</td>
<td>121.2</td>
<td>125.9</td>
<td>121.4</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>147.6</td>
<td>153.3</td>
<td>165.0</td>
<td>164.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>148.6</td>
<td>135.1</td>
<td>132.9</td>
<td>133.3</td>
</tr>
<tr>
<td>Euro area</td>
<td>481.5</td>
<td>487.1</td>
<td>470.6</td>
<td>493.8</td>
</tr>
</tbody>
</table>

Notes: Data for the euro area refer to 17 countries in 2011-2013 and 18 countries in 2014. Due to the change of the source of data, inclusion of assets of money market funds in the financial system assets and adjustments sent by central banks, the data are not comparable with the data released in previous editions of the report.

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

In Poland, similarly to other Central and Eastern European (CEE) countries, the development of financial intermediation, measured by the ratio of financial system assets to GDP, still exhibited a low level compared with the ratio’s average value in the euro area countries (Figure 1.1.). Given the extent and room for further development of the domestic financial system, it can be expected that it will have a positive effect on economic growth (Box 1.2). At the end of 2014, assets of institutions comprising the Polish financial sector amounted to PLN 2,098.3 billion, i.e. they were 0.2% higher than a year earlier. The minor increase was primarily caused by a fall in the value of assets of open pension funds. On the other hand, assets of investment funds rose substantially – by 12.6%, and assets of commercial banks – by 9.3%.

The analysis of financial institutions and markets of various countries against the level of economic development implies that some segments of Poland’s financial system, including the banking sector, remain relatively poorly developed (Figure 1.2).
Figure 1.1. Financial system assets in selected EU countries at the end of 2014

Sources: Calculations based on data provided by the ECB, Eurostat, GUS and NBP.

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

Sources: NBP calculations based on data provided by the International Monetary Fund (World Economic Outlook, 04/2013), the World Bank (Financial Structure Dataset, 04/2013) as well as GUS, Office of the Polish Financial Supervision Authority (UKNF), Warsaw Stock Exchange (WSE), Fitch Polska and NBP.

Note: Values of the regression function presented in the figure were estimated for panel data which included information on the financial systems of 203 countries for the years 1991-2012.

The following development measures of the individual sectors of the financial systems were used:

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


The regression function was estimated using the Fixed Effects GLS method 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 Polish financial system is also characterised by a relatively low level of stock market capitalisation and a low value of outstanding private sector debt securities, including corporate and bank bonds. At the same time, evidence from the recent global financial crisis shows that banking sectors, being a main element of a number of financial systems, were too large in some countries and inadequate for the needs of the real economy.\(^4\)

In Poland, as in the majority of other countries of the region, the banking sector continued to play a major role in financial systems, although the Polish financial system can be viewed as the least banking-oriented in CEE (Figure 1.3). This results from a larger sector of collective investment undertakings, i.e. pension and investment funds and insurance companies.

**Figure 1.3.** Composition of financial systems in Central and Eastern European countries at the end of 2014, by value of assets

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

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

The year 2014 saw a significant rise in the value of assets of banks and investment funds in Poland (Tables 1.3 and 1.4). The balance sheet total of investment firms decreased for the second year in a row, and the biggest fall in the value of assets was registered in the open pension funds and credit unions sectors. In 2014, assets of the banking sector grew by 9.3% and their growth rate was substantially higher than in 2013.

Table 1.2. Banking sector development levels (commercial and cooperative banks) in selected CEE countries and in the euro area, 2012-2014 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Assets/GDP</th>
<th>Loans/GDP</th>
<th>Deposits/PKB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>83.5</td>
<td>84.5</td>
<td>88.5</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>116.0</td>
<td>129.4</td>
<td>131.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>110.1</td>
<td>104.4</td>
<td>102.7</td>
</tr>
<tr>
<td>Euro area</td>
<td>334.1</td>
<td>308.3</td>
<td>309.9</td>
</tr>
</tbody>
</table>

1 Loans and advances from the banking sector to the non-financial sector in domestic and foreign currency.
2 Deposits of the non-financial sector in the banking sector in domestic and foreign currency.
3 The data also include loans to non-bank financial institutions and deposits of those entities.
4 Assets, loans and deposits of the monetary financial institutions sector. Data for the euro area refer to 17 countries for the years 2012–2013 and 18 countries for the year 2014. Due to the change of the source of data and adjustments sent by central banks, the data are not fully comparable with the data published in previous versions of the report.

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

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

Table 1.3. Assets\(^1\) of financial institutions in Poland, 2007-2014 (PLN billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,213.3</td>
<td>1,409.3</td>
<td>1,494.4</td>
<td>1,670.0</td>
<td>1,808.3</td>
<td>1,958.9</td>
<td>2,093.9</td>
<td>2,098.0</td>
</tr>
</tbody>
</table>

1 Net asset value for banks, investment funds and open pension funds.
2 Banks that conduct operating activity. Commercial banks also included branches of credit institutions.
3 Data for 2014 include assets of operating unions.
4 Due to the change of the source of data, data on assets of investment funds since 2010 differ from data published in previous editions of this report. Data starting from 2010 are not fully comparable with data concerning earlier periods.
5 Up to and including 2009, assets of investment firms included assets of brokerage houses and offices. Starting from 2010, assets of investment firms include exclusively assets of brokerage houses after the obligation to financially separate the brokerage activity of banks was lifted.

Sources: NBP, UKNF, Analizy Online, KSKOK.

Banks continued to focus on lending to households. The value of housing loans denominated in the Polish zloty rose by 14.2% in 2014, which represents a slowdown in lending compared with previous years. The value of foreign currency loans, which accounted for 46% of the housing loan portfolio in 2014, declined for the third year in succession. A further recovery was observed in the market for consumer loans (a 6.2% increase), which was driven by banks easing their lending...
policies and favourable macroeconomic conditions. Also in 2014, the value of loans taken by enterprises rose by almost 7%, especially investment loans (by over 10%). The trend towards a stable share of corporate loans in total loans, observed as early as in 2013, continued.

Table 1.4. Growth in assets\(^1\) of financial institutions in Poland, 2011-2014 (y/y, %)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks(^2)</td>
<td>11.8</td>
<td>3.9</td>
<td>3.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Cooperative and affiliating banks(^2)</td>
<td>10.1</td>
<td>9.1</td>
<td>11.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Credit unions</td>
<td>11.4</td>
<td>7.7</td>
<td>11.3</td>
<td>-26.7</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>0.6</td>
<td>11.4</td>
<td>3.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Investment funds</td>
<td>-3.3</td>
<td>28.4</td>
<td>28.9</td>
<td>12.6</td>
</tr>
<tr>
<td>Open pension funds</td>
<td>1.5</td>
<td>19.8</td>
<td>11.1</td>
<td>-50.2</td>
</tr>
<tr>
<td>Investment firms</td>
<td>9.8</td>
<td>-10.9</td>
<td>-4.4</td>
<td>-8.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8.3</td>
<td>8.3</td>
<td>6.9</td>
<td>0.2</td>
</tr>
</tbody>
</table>

\(^1\) Net asset value for banks, investment funds and open pension funds.
\(^2\) Banks that conduct operating activity. Commercial banks also included branches of credit institutions.

Sources: NBP, UKNF, Analizy Online and KSKOK.

Assets of investment funds rose by 12.6% and for the first time ever their value exceeded the PLN 200 billion mark. The asset growth was lower than in previous years and came mainly on high net inflows. The ratio of assets accumulated by investment funds to bank deposits of households increased again (Figure 1.4).

The NBP interest rate cut was followed by a cut in the interest on bank deposits, which made households seek more attractive forms of investing their savings than deposits. Households invested most savings in units of domestic bond funds. Compared with 2013, households showed less interest in equity funds, which was related to falling share prices on the WSE.

Figure 1.4. Assets of investment funds as a percentage of bank deposits from households, 2007-2014

Sources: NBP and Analizy Online.
In the period under analysis, assets of open pension funds slumped by over 50%, mainly on account of changes in the law. The trends mentioned earlier in the text led to an increase in the banking sector’s share in the structure of financial sector assets, while the share of non-credit financial institutions declined (Figures 1.5 and 1.6).

**Figure 1.5. Asset structure of the Polish financial system, 2007-2014**

![Asset structure of the Polish financial system, 2007-2014](image)

Sources: NBP, UKNF, Analizy Online and KSKOK.

**Figure 1.6. Share of individual financial institutions in the asset structure of the Polish financial system in 2013 and 2014**

![Share of individual financial institutions in the asset structure of the Polish financial system in 2013 and 2014](image)

Sources: NBP, UKNF and Analizy Online.

At the end of 2014, 64 commercial banks, including 28 branches of credit institutions, carried on operations in Poland. Also 565 cooperative banks and 2 affiliating banks operated on the domestic market. A further consolidation in the banking sector, insurance sector and the sector of pension fund management companies was accompanied by a marked increase in the number of investment funds (Table 1.5). This stemmed mainly from the establishment of private equity investment funds (in the form of closed-end investment funds) that serve to provide customized...
investment solutions for companies and affluent individuals. For the first time in its history, the Polish Financial Supervision Authority revoked a licence an investment fund management company to conduct business in Poland.

In 2014, the capitalisation of the Polish stock market rose to PLN 1,262.1 billion, maintaining its significance in Poland’s financial system and in the region (Table 1.6). Although the financial results of companies listed on the WSE Main Market improved, the negative sentiment of investors towards emerging markets caused the broad market index WIG to fall by 3.5%. Shares of 21 new companies (23 companies in 2013) were admitted to trading in the regulated market, but in the non-regulated organised market NewConnect the number of listed companies dropped by 14. The value of new shares issued by the companies was PLN 0.4 billion (vs. PLN 0.6 billion in 2013). The liquidity of the domestic stock market was still low compared with stock exchanges in developed countries. A rise in non-residents’ share was observed in the WSE capitalisation, which stood at 46.5% at the end of 2014.

Table 1.5. The number of financial institutions in Poland, 2007–2014

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks²</td>
<td>61</td>
<td>67</td>
<td>64</td>
<td>67</td>
<td>66</td>
<td>68</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Affiliating banks²</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Cooperative banks²</td>
<td>581</td>
<td>579</td>
<td>576</td>
<td>576</td>
<td>574</td>
<td>572</td>
<td>571</td>
<td>565</td>
</tr>
<tr>
<td>Credit unions</td>
<td>67</td>
<td>62</td>
<td>62</td>
<td>59</td>
<td>59</td>
<td>55</td>
<td>55</td>
<td>50</td>
</tr>
<tr>
<td>Insurance companies³</td>
<td>67</td>
<td>66</td>
<td>64</td>
<td>63</td>
<td>61</td>
<td>59</td>
<td>58</td>
<td>57</td>
</tr>
<tr>
<td>Investment funds (investment fund management companies)⁴</td>
<td>277</td>
<td>319</td>
<td>369</td>
<td>407</td>
<td>482</td>
<td>580</td>
<td>635</td>
<td>676</td>
</tr>
<tr>
<td>Open pension funds (pension fund management companies)⁵</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Investment firms⁶</td>
<td>53</td>
<td>58</td>
<td>59</td>
<td>50</td>
<td>51</td>
<td>53</td>
<td>57</td>
<td>54</td>
</tr>
</tbody>
</table>

1 The table presents the number of institutions whose assets were taken into account in Table 1.1.3. It does not include foreign entities which may pursue cross-border activity (without their legal and organisational presence in Poland), branches of insurance companies and branches of foreign investment companies.

2 Banks that conduct banking activity. The number of commercial banks also includes branches of credit institutions. In 2007, there were 14, in 2008 and 2009 – 18, in 2010 and 2011 – 21, in 2012 – 25, and in 2014 – 28 branches of credit institutions.

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

4 In 2007, the number of established investment funds and investment fund management companies (pursuant to the decision of the Polish Financial Supervision Authority (KNF)); in 2008 and 2009 – the number of entities registered with the Investment Fund Register kept by the Regional Court in Warsaw; since 2010, the number of operating funds.

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

6 Up to and including 2009, the number of investment firms included the number of brokerage houses and offices. Since 2010, the number of investment firms applies exclusively to brokerage houses.

Sources: NBP, UKNF and KSKOK.

The value of new issues pertains to domestic and foreign companies that conducted IPOs on the WSE Main Market and NewConnect.
The money bills market remained the largest segment of the short-term debt securities market in 2014. However, a drop in the value of these instruments came on the back of falling excess liquidity in the banking sector. The Ministry of Finance was consistently pursuing a strategy to extend the maturity of the public debt. Enterprises and banks used their short-term debt securities only to a minor extent to finance their needs.

The size of the Treasury bond market decreased in 2014 after PLN 130.2 billion worth of the instruments, transferred from OFEs to ZUS in the pension system reform, had been redeemed. Despite this, the Polish Treasury bond market was the largest market for this instrument in CEE and the 9th largest market in the EU. At the same time, it remained the dominant and most liquid segment of the domestic debt securities market (Table 1.7).

**Table 1.6. Characteristics of stock markets in selected Central and Eastern European countries and in the euro area, 2012-2014**

<table>
<thead>
<tr>
<th></th>
<th>Domestic companies capitalisation (EUR billion)</th>
<th>Domestic companies capitalisation to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Poland</td>
<td>130.7</td>
<td>145.6</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>28.2</td>
<td>22.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>15.7</td>
<td>14.4</td>
</tr>
<tr>
<td>Euro area</td>
<td>5,049.4</td>
<td>6,077.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Liquidity ratio (%)</th>
<th>Number of listed companies (including new companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Poland</td>
<td>37.2</td>
<td>41.5</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>35.4</td>
<td>30.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>53.6</td>
<td>54.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area</td>
<td>95.5</td>
<td>79.6</td>
<td>89.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of listed companies</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 All values also include alternative trading systems, if such platforms were run by the operator of a given stock exchange.
2 Calculations of indices 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, Deutsche Börse, Euronext, Irish Stock Exchange, Ljubljana Stock Exchange, Luxembourg Stock Exchange, NASDAQ OMX Nordics & Baltics (formerly NASDAQ OMX Helsinki), Spanish Exchanges (BME), Wiener Börse, Cyprus Stock Exchange, Malta Stock Exchange and Bratislava Stock Exchange.
4 The ratio of net turnover value of the shares of domestic companies to stock market capitalisation.
5 Includes domestic and foreign companies.

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

In 2014, the average daily turnover of unconditional transactions in Treasury bonds amounted to PLN 11.1 billion. The market for non-Treasury long-term debt instruments was still relatively
poorly developed, although the value of instruments outstanding in each of its segments continued to grow markedly. As a result, the share of non-Treasury instruments in the domestic debt securities market grew by 15.7% at the end of 2013 to 20.9% at the end of 2014.

In the deposit transactions market, which is used mainly by financial institutions to manage liquidity, an increase in turnover was observed, except for the category of unsecured interbank market. The most liquid segment of the Polish money market was the conditional transactions market, where SBB operations collateralised with Treasury bonds prevailed. The average daily value of conditional transactions went up by almost 5%, while at the same time the trade in the market for FX swaps was up by almost 9% (Table 1.8).

Table 1.7. Outstanding value of individual instruments of money and capital markets as of year-end, 2011–2014 (PLN billion)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury bills</td>
<td>12.0</td>
<td>6.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>NBP bills</td>
<td>93.4</td>
<td>127.5</td>
<td>131.4</td>
<td>110.6</td>
</tr>
<tr>
<td>Short-term bank debt securities</td>
<td>7.7</td>
<td>5.9</td>
<td>4.2</td>
<td>5.1</td>
</tr>
<tr>
<td>Short-term corporate bonds</td>
<td>15.9</td>
<td>18.5</td>
<td>16.2</td>
<td>13.5</td>
</tr>
<tr>
<td>Marketable Treasury bonds</td>
<td>495.2</td>
<td>520.0</td>
<td>565.7</td>
<td>482.9</td>
</tr>
<tr>
<td>BGK bonds for National Road Fund</td>
<td>22.6</td>
<td>25.6</td>
<td>25.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Long-term corporate bonds</td>
<td>29.7</td>
<td>32.3</td>
<td>37.8</td>
<td>52.7</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>14.4</td>
<td>15.6</td>
<td>18.6</td>
<td>19.1</td>
</tr>
<tr>
<td>Long-term bank debt securities¹</td>
<td>9.5</td>
<td>17.2</td>
<td>20.0</td>
<td>25.1</td>
</tr>
<tr>
<td>Covered bonds</td>
<td>2.9</td>
<td>3.1</td>
<td>3.3</td>
<td>4.1</td>
</tr>
</tbody>
</table>

¹ The data include only bonds and bank securities, denominated in 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, the data may differ from the data presented in previous editions of the report.
Sources: Ministry of Finance (MF), NBP, (Central Depository Securities of Poland (KDPW) and Fitch Polska.

The turnover also rose in the market for spot FX transactions and in the OIS market. The IRS market was the most liquid OTS derivatives market. As in previous years, the majority of zloty exchange transactions and OTC FX derivatives operations were concluded in the offshore market, mainly in London. This means that the zloty exchange rate is largely determined by operations executed between non-residents. Investor activity in the exchange-traded derivatives market continued to concentrate on the segment of WIG20 futures.
### Table 1.8. Average daily net turnover in the domestic financial market, 2011-2014 (PLN million)

<table>
<thead>
<tr>
<th>Equity and debt instruments market</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares and allotment certificates</td>
<td>1,076.1</td>
<td>820.0</td>
<td>1,041.8</td>
<td>941.0</td>
</tr>
<tr>
<td>Treasury bonds</td>
<td>29,555.3</td>
<td>28,491.7</td>
<td>30,113.8</td>
<td>27,158.9</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>1,250.3</td>
<td>522.0</td>
<td>286.9</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Deposit transactions market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TFX swap transactions</td>
<td>12,928.0</td>
<td>11,520.8</td>
<td>9,508.6</td>
<td>10,336.4</td>
</tr>
<tr>
<td>Repo/SBB transactions</td>
<td>11,572.5</td>
<td>12,557.5</td>
<td>14,508.2</td>
<td>15,249.9</td>
</tr>
<tr>
<td>Unsecured interbank deposits</td>
<td>6,195.4</td>
<td>5,874.2</td>
<td>5,833.4</td>
<td>4,925.8</td>
</tr>
<tr>
<td><strong>Derivatives transactions market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX forwards</td>
<td>1,379.6</td>
<td>1,210.7</td>
<td>1,396.1</td>
<td>1,795.0</td>
</tr>
<tr>
<td>CIRS transactions</td>
<td>113.3</td>
<td>200.9</td>
<td>188.3</td>
<td>183.5</td>
</tr>
<tr>
<td>Currency options</td>
<td>321.5</td>
<td>220.6</td>
<td>273.3</td>
<td>399.2</td>
</tr>
<tr>
<td>FRAs</td>
<td>5,572.6</td>
<td>5,116.4</td>
<td>5,772.7</td>
<td>4,404.8</td>
</tr>
<tr>
<td>IRSs</td>
<td>2,218.8</td>
<td>1,698.4</td>
<td>2,100.0</td>
<td>2,422.4</td>
</tr>
<tr>
<td>OISs</td>
<td>1,215.0</td>
<td>633.5</td>
<td>441.4</td>
<td>520.8</td>
</tr>
<tr>
<td>WIG20 futures</td>
<td>1,381.6</td>
<td>832.8</td>
<td>813.8</td>
<td>850.1</td>
</tr>
<tr>
<td><strong>Spot FX market</strong></td>
<td>5,219.1</td>
<td>5,179.9</td>
<td>5,106.8</td>
<td>5,549.3</td>
</tr>
</tbody>
</table>

**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). In 2013, the average daily value of unconditional transactions in the market amounted to PLN 14.3 billion for bonds and PLN 70 million for bills. In 2014, the value of such transactions for Treasury bonds was PLN 11.1 billion (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.

**Sources:** NBP study based on data from WSE, MF and NBP.
Box 1.1. Financial system in Poland – from the perspective of 25 years of transformation

Size of financial system

In the last 25 years major changes have occurred in the scale and scope of activities of financial institutions and the structure of Poland’s financial system. The ratio of financial institutions’ assets to GDP showed the growth in the role of financial institutions in a synthetic manner. Following the initial decline in this ratio to 48.3% in 1995, its rapid growth occurred in the following years, exceeding 120% of GDP in 2012-2014 (Figure I). Growth in assets of financial institutions in the period of 25 years was 2.3-fold higher than the GDP growth rate. The development of the finance sector was significantly faster as compared to the real economy. Nevertheless, the Polish financial system remained relatively small in comparison with euro area countries. With the ratio of financial institutions’ assets to GDP for Poland amounting to 121.4% in 2014, for euro area countries it reached 493.8% (757.9% for the Netherlands, 409.2% for Germany, 342.6% for Spain, 365.3% for Finland, 365.1% for Austria and 389.8% for Belgium). On the other hand, for Hungary and the Czech Republic this ratio reached a level only slightly higher than for Poland (see Table 1.1).

Figure I. Assets of financial system institutions in Poland, 1990-2014

Sources: NBP, GUS.

The financial system structure – institutions

Since the beginning of the transformation period, the banking sector has prevailed in Poland (Figure II). Despite the fast growth of other financial institutions, the share of banks in the structure of financial system assets remained at a relatively high level, reaching 72.9% in 2014 (in the 1990s, it exceeded 90%, e.g. amounting to 94.5% in 1996). As compared to countries of the euro area, it was, for example, higher than in the Netherlands – 49.3% and in Germany – 65.7%, similar to the level recorded in Austria – 73.4% and lower than in Italy – 79.5% and Spain – 82.0%. In Hungary (77.1%) and the Czech Republic (79.7%), the share of the banking sector was higher than in the case of Poland.

The value of assets of other financial institutions at the end of 2014 amounted to PLN 555.1 billion, which constituted 26.5% of total financial system assets and 32.1% of GDP. For comparison, at the end of 2014 the value of assets of those institutions in Germany reached EUR 4,079.0 billion, which made up 34.3% of total financial system assets and 140.5% of GDP. In the Netherlands, it amounted to EUR 2,516.0 billion, constituting over 380% of GDP (Figure III).
Directions of the evolution of Poland’s financial system

Figure II. Asset structure of the Polish financial system institutions in 1996 and 2014

A 1996 r. B 2014 r.

Sources: NBP, UKNF, Analizy Online.

Figure III. Assets of other financial institutions in selected EU countries – December 2014

Note: Other financial institutions comprise: investment funds (including investment firms), insurance companies and pension funds.
Source: ECB.

The asset structure of non-bank financial institutions in EU member states was very diversified and reflected, to a large extent, the historically determined role of financial institutions and the adopted social security solutions, including pension systems. In Germany, assets of insurance companies – 46.2%, and investment funds – 40.5%, had the highest share in assets of non-bank financial institutions in 2014. Pension funds played a lesser role, with the share of 13.3%. The structure of assets of those institutions in the Netherlands was different. Pension funds with the share of 49.9% and investment funds – 29.8%, prevailed. On the other hand, investment funds – 40.9%, and insurance companies - 32.2%, had the highest share in Poland. The contribution of pension funds amounted to 26.9% (Figure IV).

In Poland, in the years 1996-2014 the growth rate in assets of financial institutions other than banks (i.e. credit unions, insurance companies, investment funds, open pension funds and investment firms) was diversified (Figure V). The most stable growth in assets, although at a moderate pace, was recorded in the sector of insurance companies. Investment funds and open pension funds demonstrated the highest growth rate. In the case of investment funds, a decline in the value of assets was recorded in 2008 and 2011 in connection with turbulences in financial markets. Assets of open pension funds were growing continuously until 2013. The 50% decline in the value of assets in 2014 resulted from the introduction of statutory changes in the functioning of open pension funds.
Directions of the evolution of Poland’s financial system

Figure IV. Asset structure of other financial institutions in selected EU countries as at the end of December 2014

Note: Other financial institutions comprise: investment funds (including investment firms), insurance companies and pension funds.
Source: ECB.

Figure V. Assets of non-bank financial institutions in Poland, 1996-2014

Sources: NBP, UKNF, Analizy Online and KSKOK

Financial system structure – banking sector and financial markets

The financial system may be analysed not only in terms of the share of individual financial institutions. Interrelations of the banking sector and capital market are also important (the ratio of banking sector assets to capitalisation of domestic companies listed on the WSE (Warsaw Stock Exchange) and the outstanding value of corporate bonds, i.e., the so-called financial system structure ratio). The higher the ratio, the higher the role of the banking sector in the financial system. A decrease in this ratio means the increasing importance of capital markets.

The financial system structure ratio for Poland in the years 1996 – 2014 showed a downward trend until 2007 (with a slower decline in the years 2001-2002 associated with a decrease in the capitalisation of domestic companies) (Figure VI). As a consequence of the global financial crisis, the year 2008 brought a sharp decline in the valuation of companies listed on the WSE and a decrease in stock exchange capitalisation by almost 50%. In subsequent years, those losses were recovered; however, the capital market has never returned to the fast growth path (Figure VII). As a consequence, the financial system structure ratio stabilised at a level slightly exceeding 2. This confirms a strengthening of the leading role of the banking sector in the Polish financial system.
Directions of the evolution of Poland’s financial system

Figure VI. Financial system structure ratio in Poland, 1996-2014

Note: The financial system structure ratio is the relation of financial system assets to capitalisation of domestic companies listed on the WSE and the outstanding value of corporate bonds.
Sources: NBP, WSE, MF

Figure VII. Number of domestic companies and their capitalisation against GDP on the WSE Main Market, 1991-2014

Source: WSE.

Banking sector – size and structure

The ratio of Polish banking sector assets to GDP, despite the dominant role of banks in the financial system, was not high (in 2014 it amounted to 88.5%). For euro area countries, this ratio was several times higher, reaching 309.9%.

The dominant role of banks in the financial system in Poland resulted mainly from historical conditions, habits and client preferences as well as the range of products and services adjusted to clients’ needs. Other factors significant for the development of the banking sector included the liberalisation of legal regulations as well as the ultimately adopted form of privatisation through the sale of banks to a strategic investor and the use of various incentives towards foreign investors. The banking sector in Poland has become predominated by foreign capital due to the privatisation process and foreign capital inflow. In this respect, the years 1998-2000 were decisive, when the share of foreign investors in banking sector assets increased from 16.6% in 1998 to 69.6% in 2000, remaining at the same high level until 2008 (72.3%). After 2008, as a consequence of the global financial crisis and a higher growth of banks with domestic capital, the share of foreign investors was gradually decreasing. At the end of 2014, it reached 61.5% (Figure VIII).
During the transformation period, the banking sector was undergoing consolidation comprising both commercial banks and cooperative banks sectors. Despite those processes, within a long-term horizon the concentration of the banking sector remains relatively stable (the peak occurred in 2001–2003). This is indicated by the developments of C5 and C10 ratios (Figure IX) and the HHI.

The decline in the number of banks that conduct operating activity did not affect the level of banking sector diversification in terms of business model, forms of the provision of services or ownership structure. Besides commercial banking, Poland has a well-developed network of cooperative banks, having changed significantly over the recent 25 years. The number of independently operating cooperative banks decreased by approximately 2/3 (from 1,612 cooperative banks in 1989 to 574 in 2014). The share of cooperative banks in the banking sector (in assets, deposits and lending) was stable, not exceeding 10%. At the beginning of 1990s, the share of the cooperative banking sector (cooperative banks and BGŻ SA) in the total banking sector balance sheet stood at a level of 8.5%. At the end of 2014, the share of the cooperative banking sector (cooperative banks and affiliating banks) in banking sector assets amounted to 8.9%. In many EU countries, such as Italy, the Netherlands, France and Austria, cooperative banking played a more significant role, which is confirmed by the share of this sector in the market of deposits and lending exceeding 30%.

Note: CR5 and CR10 mean, respectively, the share of the five and ten largest banks in assets, deposits and lending of the banking sector.

Source: UKNF.
Banking sector — credits and loans

In the years 1990-2014, lending activity of banks changed profoundly. At the beginning of the transformation period, the majority of loan debt referred to the so-called socialised entities, according to the terminology used at that time (January 1990 – over 96%). In this period, lending to households constituted 2.5% of total outstanding lending. In January 1992, almost 63% of outstanding loans were those from state-run economic entities, 27.5% – from private economic entities, and 3.7% – from households. In subsequent years, the share of lending to state economic entities steadily decreased (e.g. to 37.2% in January 1996) and increased in relation to private economic entities and households (reaching, respectively, 34.5% and 10.1% in January 1996). The tendency showing a decline in the share of corporate lending and growth in the role of lending to consumers is visible in the data for the period from December 1996 to December 2014 (Figure X). The share of corporate lending (enterprises, individual entrepreneurs and individual farmers were classified in this category), aimed at financing business operations as well as investment and development projects, decreased systematically from 84.2% in December 1996 to 39.5% in December 2010. Since then it has remained at a more or less stabilised level, fluctuating around 40% (December 2014 – 41%). At the same time, there was a systematic, rapid growth in the share of lending to consumers (this category comprises credits and loans offered to private individuals) from 15.6% in December 1996 to 60% in December 2010 as well as its stabilisation at a level exceeding 58% (58.3% in December 2014).

Banking sector – housing loans

In the years 1996-2004, housing loans represented the fastest growing category of credit to consumers. In December 1996, the share of housing loans in lending to consumers amounted to only 8.9% (Figure XI). In practice, it comprised only loans granted in zlotys (98%). After almost four years, this share doubled and housing loans amounted to 18.1% of the share in consumer loans (July 2000). At that time, the share of foreign currency-denominated loans was insignificant – only 2.5% of consumer loans. A very fast growth of outstanding housing loans occurred in subsequent months.

Figure X. Share of credits and loans granted to entrepreneurs and consumers in lending to the non-financial sector in Poland, 1996–2014

Note: The category of “entrepreneurs” comprises credits and loans to enterprises (SMEs and large enterprises), individual entrepreneurs and individual farmers. The category of “consumers” comprises credits and loans granted to private individuals.

Source: NBP.

Only 35 months was needed for the share to double to 36.2%. This sharp increase was possible, inter alia, due to the development of lending in foreign currency. The share of housing loans in consumer
loans showed a permanent upward trend, even under the circumstances of a significant limitation of lending in foreign currency, to stabilise at a level of 71% as of May 2013 (December 2014 – 71.1%).

**Figure XI.** Share of housing loans in lending to consumers in Poland, 1996-2014

While analysing the foreign currency structure of debt arising from housing loans in 1996-2004, several characteristic periods can be distinguished (Figure XII). The first period is the dominance of lending in zlotys (December 1996 – April 2000). The following period is the high growth of foreign currency-denominated loans (May 2000 – June 2003) and the sharp increase in their share in housing loans, from 11.4% (May 2000) to 68.4% (June 2003).11 Subsequent years demonstrated the stabilisation of foreign currency-denominated loans at a high level, ranging from 57% to 71.8% (July 2003 – March 2009). As of April 2009, a declining trend and a steady decrease in the share of foreign currency-denominated loans was observed.12 The share of foreign currency and zloty loans levelled off in February 2014. In December 2014, the outstanding foreign currency-denominated loans accounted for 46.3% of total outstanding housing loans.

**Figure XII.** Foreign currency structure of outstanding housing loans, 1996–2014

Source: NBP.

**Banking sector – funding gap**

The rapid development of lending and insufficient growth of the deposit base resulted in a gradual decline in the surplus of liabilities (deposits) over receivables (loans). Consequently, in 2008 the funding gap of the non-financial sector emerged, which meant that the value of receivables from the non-
financial sector exceeded the value of liabilities towards this sector. Following its rapid growth, from 2009 until mid-2012 the funding gap stabilised at a level exceeding 10%. Subsequently, it started to decrease gradually, which fostered the strengthening of banking sector stability (Figure XIII).

Figure XIII. Funding gap in the banking sector, 1996-2014

Note: The funding gap is defined as the difference between total receivables from the non-financial sector and the general government sector, and total liabilities received from the non-financial sector and the general government sector, expressed as a percentage of the value of such receivables.
Source: NBP.

The emergence of the funding gap in the Polish banking sector was not unique, since this phenomenon also occurred in other countries of Central and Eastern Europe. Given the low savings rate characteristic for those countries, the fast growth in demand for lending resulted in a deepening of the funding gap at banks. A factor fostering its strengthening was the development of financial system institutions, in particular, investment funds and insurance companies, or the capital market which, by competing for savings of households, limited the growth opportunities of the deposit base at banks.\textsuperscript{13}

Summary

The financial system is not excessively developed in relation to the real economy. It also comprises all types of financial institutions and financial markets typical for well-developed market economies. Results of the IMF studies on the synthetic measure of financial system development confirm this conclusion. The financial development (FD) index of Poland at a level of 0.5 indicates an optimum value and structure in terms of its positive effect on economic growth.\textsuperscript{14}

\textsuperscript{1}The analysis covers the years 1990–2014. Due to the limited availability and comparability of data, arising from methodological changes and changes in statistical standards, it was not possible to include data for the whole period in each case.
\textsuperscript{2}Data source for EU countries: ECB Statistical Data Warehouse.
\textsuperscript{3}In this category, we do not take monetary financial institutions into account, i.e. the central bank, banks and credit unions. In compliance with the sectoral classification of the economy, it comprises the so-called other financial sector institutions. In the report, the following institutions were taken into account: investment funds (including brokerage houses), insurance companies and pension funds. At the end of 2014, the value of assets of non-bank financial institutions, i.e. including credit unions, amounted to PLN 569.3 billion, which accounted for 27.1% of total financial system assets and 32.9% of GDP.
\textsuperscript{4}In the case of Poland, changes related to open pension funds resulting in the reduction of pension funds’ assets had a significant impact on the structure of assets of other financial institutions. In 2013, prior to the reform of open pension funds, the asset structure of other financial institutions was as follows: pension funds – 44.6%, investment funds (including brokerage houses) – 30.4%, insurance companies – 25.0%.
\textsuperscript{5}See Financial system in Poland 2013, Warsaw 2014, NBP, pp. 107-108.
\textsuperscript{6}Two acts which changed the shape of the cooperative banking sector in Poland had a significant impact on the operating and internal organisation of the cooperative banking sector. Act on the Restructuring of Cooperative Banks and Bank
The provisions of the Act introduced a three-tier organisational structure of the cooperative banking sector, comprising cooperative banks, 9 regional banks and the national bank, namely, BGŻ SA. The second act is the Act on the Operation of Cooperative Banks, their Association and Associating Banks, (Journal of Laws of 2000, No 119 item 1252), whose provisions introduced the possibility to create a two-tier organisational structure of the cooperative banking sector, consisting of cooperative banks and affiliating banks.


11 In analytical materials of GINB (General Inspectorate of Banking Supervision) from this period it is pointed out that the popularity of foreign currency-denominated loans resulted from their relatively low interest rate as compared with loans denominated in the Polish zloty and exchange rate relations. Activities which were undertaken in order to reduce the expansion of such loans are indicated. In the material evaluating the financial situation of banks in 2003, it was stated, inter alia, that the growth of foreign currency-denominated loans was halted 'also due to (…) communicating multiple supervision instructions to management boards of banks, indicating the necessity of particular control of borrowers’ exposure to currency risks'. See Sytuacja finansowa banków w 2003 r. Synteza [Financial situation of banks in 2003. Synthesis], Warsaw, May 2004, GINB, p. 12. The identification of risks associated with housing loans denominated in foreign currency was also contained in NBP’s Financial Stability Reports. For example, in the 2005 Report hazards associated with the risk of depreciation of the Polish zloty rate were presented, as well as failures of banks related to the assessment of the impact of currency risk on the creditworthiness of clients, as identified by supervision inspections. See Financial Stability Report 2005, Warsaw, June 2006, NBP, pp. 63-69.

12 The various measures undertaken by supervision institutions and NBP aimed at limiting lending in foreign currency were of key importance, in connection with excessive risks generated by such loans. Among others, the issuing of Recommendation S by the KNF (Polish Financial Supervision Authority), limiting the granting of foreign currency-denominated loans, in March 2006 can be mentioned here. The successive issues of Recommendation S – S(II) – December 2008, and S(III) – January 2011, published by the KNF, contained more restrictive solutions.


14 More in Box 1.2.
Box 1.2. Assessment of the level of financial system development in Poland based on the IMF studies

Studies carried out by experts of the International Monetary Fund, related to the elaboration of a synthetic measure of financial system development, provide an important input into the discussion concerning the role of the financial system and its impact on the economy. The proposed Financial Development Index (FD) consists of the following: development measures of Financial Institutions (FI) and development measures of Financial Markets (FM). Each of these measures contains three components for which sub-indices are calculated: Depth, Access and Efficiency. However, individual sub-indices are created based on the set of selected sub-measures (Table 1).

Table 1. Construction of the Financial Development Index (FD)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Financial institutions (FI)</th>
<th>Financial markets (FM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Depth</strong></td>
<td>1. Private sector credit (% of GDP)</td>
<td>1. Stock market capitalisation to GDP</td>
</tr>
<tr>
<td></td>
<td>2. Pension fund assets (% of GDP)</td>
<td>2. Stocks traded to GDP</td>
</tr>
<tr>
<td></td>
<td>3. Mutual fund assets (% of GDP)</td>
<td>3. International debt securities government (% of GDP)</td>
</tr>
<tr>
<td></td>
<td>4. Insurance premiums, life and non-life (% of GDP)</td>
<td>4. Total debt securities of non-financial corporations (% of GDP)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Total debt securities of financial corporations (% of GDP)</td>
</tr>
<tr>
<td><strong>Access</strong></td>
<td>1. Branches (commercial banks) per 10,000 adults</td>
<td>1. Percent of market capitalization outside of top 10 largest companies</td>
</tr>
<tr>
<td></td>
<td>2. ATMs per 10,000 adults</td>
<td>2. Total number of issuers of debt (domestic and external, non-financial corporations and financial institutions)</td>
</tr>
<tr>
<td><strong>Efficiency</strong></td>
<td>1. Net interest margin</td>
<td>1. Stock market turnover ratio (stocks traded/capitalisation)</td>
</tr>
<tr>
<td></td>
<td>2. Lending-deposits spread</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Non-interest income in total income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Overhead costs to total assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. ROA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. ROE</td>
<td></td>
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</tbody>
</table>


On the basis of the analysis conducted, the following conclusions were formulated:

First of all, by applying a new broad measure of financial system development, it is stressed that the majority of emerging market countries may gain benefits from the continued development of the financial system. Financial system development is defined as the combination of depth (size and liquidity of markets), access (the possibility to use financial services) and efficiency (institutions’ capacity to render low-cost financial services and gain sustainable revenue, and the level of activity in capital markets).

Secondly, the impact of financial system development on economic growth is of a non-linear nature and may be mapped in the inverted U-shape: it weakens at higher level of financial system development (Figure I). In terms of impact on economic growth, the optimum level of financial development index
(FD) ranges from 0.4 to 0.7. The weakening effect arises from the growth of the financial system depth and is not associated with an increased access or a higher efficiency. It means that countries which gained the maximum benefits arising from the financial system depth, through increased access, may achieve positive effects on growth.

Thirdly, the rate of financial system development matters. If it is too fast, the growth in the depth of financial institutions may lead to economic and financial instability. In the case of poor regulations and weak supervision, it encourages to take on a higher risk and apply a high financial leverage. This indicates an important role of effective supervision and good regulations.

Fourth, no conflict exists between regulations aimed at protection of financial stability and regulations supporting financial system development. Better regulations foster both financial stability and financial system development.

Fifth, no “one-size-fits-all” solutions exist which would be suitable for each country while determining the sequence of development of financial institutions and financial markets. However, it should be stressed that as the economy grows, benefits gained from the development of financial institutions decrease, while benefits arising from the development of markets increase. It means that in the case of creating the financial system development policy, at the initial stage, more attention should be paid to the development of institutions whereas alongside the growth of per capita income, more attention should be paid to the development of markets.

The IMF study also allows for positioning of the Polish financial system. In 2013, the financial development index for Poland amounted to 0.5. It means that the financial system in Poland provides optimum support of economic development (Figure I).

Figure I. Financial development effect on growth


The analysis of the Polish financial system structure, taking into consideration financial development indices (FD), development of financial institutions (FI) and development of financial markets (FM) in the years 1996-2013 shows that until 2000 the development level of financial markets was higher than the development level of financial institutions, which was associated with the high growth rate of
financial markets in that period. In 2001, the FI index exceeded the FM index and in subsequent years financial institutions developed much faster than markets. The years 2012-2013 saw a decline in the development of financial markets’ value. This may indicate that the stagnation trend in relation to financial markets strengthened (Figure II).

**Figure II.** Financial development index (FD), indices of development of financial institutions (FI) and development of financial markets (FM) in Poland, 1991-2013

The level of financial system development in Poland is explicitly lower than in highly developed countries (Figure III).

**Figure III.** Financial development index (FD) in Poland, Germany, United Kingdom and United States, 1991-2013

The role of financial institutions and financial markets is changing depending on the level of financial system development. The lower the level of financial system development, the higher the role of financial institutions and the more marginal the role of financial markets (Figure IV).
Directions of the evolution of Poland’s financial system

**Figure IV.** Financial development index (FD) and index of development of financial institutions (FI) in the financial development index (FD) in EU countries in 2013


2 Ibidem, p. 5.

3 The use of the financial development index (FD), including the multi-dimensional nature of the financial system, to study the relationship between economic growth and financial system development, helped to gain results of a universal nature applicable to countries at various development levels.

4 A broad confidence band around the turning point means that no single, optimum financial development index (FD), universal for all countries, can be determined after exceeding of which the positive impact of the financial system on economic growth becomes weaker. It depends on the characteristics of a given country, including the level of income, institutions, the quality of regulations and supervision.
2. Households and enterprises in the financial market in Poland

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

2.1. Financial assets of households

The choice of the form of saving made by households is determined by both microeconomic (e.g. their financial standing) and macroeconomic factors (the economic situation of 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 important for economic growth and financial system development.

The CBOS survey on debts and savings shows that 40% of the survey respondents said they kept savings in 2014. The number of persons convinced that it was worth saving for the future rose to 75% in 2014 compared with 61% in 2013. The percentage of persons declaring that they save on a regular basis also increased from 10% in 2013 to 12% in 2014 and of persons making savings occasionally – from 34% to 37%. According to GUS data, the financial condition of households improved in 2014. The average monthly available income per capita in the household grew by 3.2% (to PLN 1,340). Despite the expenditure growth, the surplus of available income over expenditures, and savings’ increase. See: Methodological notes on household budget surveying, Warsaw, 2011, GUS, p. 32.

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6 CBOS, Survey communiqué, Polacy o swoich długach i oszczędnościach [Poles on their debts and savings], Warsaw, April 2014, p. 2.
7 According to the results of the survey Postawy Polaków wobec oszczędzania [The Poles’ Attitudes’ towards Saving], a report by the Kronenberg Foundation at Citi Handlowy, PBS, October 2014, pp. 37, 38.
8 Household’s available income is understood as a sum of household’s current incomes from various sources reduced by prepayments on personal income tax made of behalf of a tax payer by tax-remitter, by tax on income from property, taxes paid by self-employed persons, including those in free professions and individual farmers and by social security contributions and health insurance premiums. Available income is allocated to expenditures, and savings’ increase. See: Methodological notes on household budget surveying, Warsaw, 2011, GUS, p. 32.
expenditures increased, which should boost savings’ growth. Consumer sentiment improved both with regard to the current financial position and forecasted saving trends (Figure 2.1).

Figure 2.1. Public sentiment surveys on savings and dynamics of disposable income, 2007-2014

Notes: Quarterly values of disposable income were deflated by the quarterly CPI. 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.


In 2014, household financial assets grew by 8.8% and amounted to PLN 968.1 billion at the end of December 2014. They represented 56.0% of GDP, i.e. 2.5 percentage points more than compared with the previous period (Figure 1.2.). The asset growth was primarily driven by changes in the value of cash in circulation and, as a year earlier, of bank deposits and investment fund units. The decline in value was registered in the case of deposits at credit unions, shares listed on the WSE and non-Treasury securities held in household portfolios.

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9 Sytuacja gospodarstw domowych w 2014 r. w świetle wyników badania budżetów gospodarstw domowych [The situation of households in 2014 as evidenced by the results of the household budget survey], Information note, Warsaw, 26 May 2014, GUS.

10 In this analysis, household financial assets include the following items: deposits at banks and credit unions, investment fund units purchased by households, unit-linked assets and life insurance saving premiums corresponding to the value of technical provisions in life insurance, Treasury securities, stocks quoted on the WSE-organised markets, cash in circulation (excluding vault cash) and non-Treasury debt securities. Funds kept on accounts at open pension funds are different in their nature than the above categories of financial assets, in which households invest their savings, as it is not possible to freely use the funds.
Figure 2.2. Households’ financial assets, 2007-2014

Note: Due to adjustments, data for 2011-2013 may differ from data presented in the report’s previous editions.

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

The structure of household financial assets is derived from the declared goals of saving (in Poland, these are primarily current consumption needs and unexpected events\(^\text{11}\)). The methods of financial surplus management most preferred by households in Poland are those that enable them to use funds instantly or withdraw them easily, and are at the same time regarded as the safest funds.\(^\text{12}\) Poles mostly deposit their savings at banks as 24% say their funds are kept at current accounts, 13% – at savings accounts, 10% – at term deposit accounts and 9% of savers say their cash is kept at home.\(^\text{13}\)

Statistical data on financial assets confirm the preferences expressed by households in the surveys (Figure 2.3). At the end of 2014, deposits at banks and credit unions, and cash accounted for a total of 75.5% of household financial assets (Table 2.1). The value of cash accumulated by households totalled PLN 125.9 billion. In 2014, the value of bank deposits placed by households increased by 10.4%, i.e. 4 percentage points more than in 2013. A substantial rise in the cash in circulation growth rate (14.7%) was also observed.

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\(^\text{11}\) According to the results of the survey *Postawy Polaków wobec oszczędzania*, op. cit., p. 34.

\(^\text{12}\) The CBOS surveys show that just 7% of the survey respondents would choose financial investments with a high rate of return and also carrying a potentially high loss. See: *Płeć a podejmowanie decyzji inwestycyjnych*, the survey report, Warsaw, May 2014, CBOS, p. 7.

\(^\text{13}\) Data based on the survey *Postawy Polaków wobec oszczędzania*, op. cit., p. 52.
Figure 2.3. Structure of household financial assets, 2007-2014, as at period-ends

Notes: Units of unit-linked funds include life insurance saving premiums.
Source: NBP estimates based on UKNF, Analizy Online and NBP data.

Table 2.1. Value of household financial assets and their structure, 2011–2014, as at period-ends

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value of household financial assets (PLN billion)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>467.8</td>
<td>504.2</td>
<td>536.5</td>
<td>592.4</td>
</tr>
<tr>
<td>Deposits at credit unions</td>
<td>14.7</td>
<td>15.7</td>
<td>17.6</td>
<td>12.7</td>
</tr>
<tr>
<td>Units of investment funds</td>
<td>62.4</td>
<td>72.5</td>
<td>90.4</td>
<td>103.2</td>
</tr>
<tr>
<td>Units of unit-linked funds and life insurance saving premiums</td>
<td>69.9</td>
<td>77.8</td>
<td>80.1</td>
<td>82.7</td>
</tr>
<tr>
<td>Treasury securities</td>
<td>8.8</td>
<td>8.5</td>
<td>9.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Non-Treasury securities</td>
<td>2.2</td>
<td>1.8</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Shares listed on the WSE</td>
<td>38.7</td>
<td>37.2</td>
<td>44.6</td>
<td>40.5</td>
</tr>
<tr>
<td>Cash in circulation (excluding bank vault cash)</td>
<td>96.9</td>
<td>97.7</td>
<td>109.8</td>
<td>125.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>761.4</td>
<td>815.5</td>
<td>889.6</td>
<td>968.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structure of household financial assets (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank deposits</td>
<td>61.4</td>
<td>61.8</td>
<td>60.3</td>
<td>61.2</td>
</tr>
<tr>
<td>Deposits at credit unions</td>
<td>1.9</td>
<td>1.9</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Units of investment funds</td>
<td>8.2</td>
<td>8.9</td>
<td>10.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Units of unit-linked funds and life insurance saving premiums</td>
<td>9.2</td>
<td>9.5</td>
<td>9.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Treasury securities</td>
<td>1.2</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Non-Treasury securities</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Shares listed on the WSE</td>
<td>5.1</td>
<td>4.6</td>
<td>5.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Cash in circulation (excluding bank vault cash)</td>
<td>12.7</td>
<td>12.0</td>
<td>12.3</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Note: Due to adjustments, data for 2013 may differ from the data presented in the report’s previous edition.
Sources: The study based on UKNF, Analizy Online and NBP data.
The value of units of investment funds in the household portfolio rose by 14.2%. The change in value of this part of the household deposit portfolio resulted primarily from net capital inflow to these financial institutions. Households that sought alternative forms of saving to term deposits, choose primarily investment funds with a low risk profile, purchasing mostly units of funds investing in debt securities, and cash and money funds. Unlike in 2013, households withdrew money from equity funds after they had reported poor results related to the downturn in the WSE. The highest inflow of funds to investment funds was reported in the fourth quarter of 2014, when it amounted to net PLN 3.2 billion (Figure 2.4.).

Figure 2.4. Net inflow of funds from households to investment funds and the change in value of household bank deposits in PLN, 2013-2014

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

The year 2014 saw a slight increase in the value of unit-linked funds and life insurance saving premiums in the household portfolio. The growth of this household financial asset category resulted from profits from deposits of unit-linked funds as well as an inflow of funds to unit-linked funds, which was driven by lower interest rates and low profits from alternative financial products. At the same time, the sale of short-term life insurance products (the so-called polisolokata, the quasi-deposit product) in the period under analysis was limited, which was related to Recommendation U issued by KNF.

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


16 Unlike Polish stock funds, foreign stock funds turned out to be more competitive as they were promoted by a boom in local stocks markets. Their share in the whole segment of stock funds rose from 18% in 2013 to over 25% in 2014. See Annual Report for 2014 by Chamber of Fund and Asset Management, op. cit., pp. 18-19.

17 More information on Recommendation U of KNF can be found in Chapter 2.
The value of shares in the investment portfolio of Poles decreased by 9.2% (to PLN 40.5 billion) in the period analysed. The change in the portfolio’s value was primarily associated with the falling prices of equity instruments on the WSE-organised markets.

The value of treasury bonds in the portfolio of households remained unchanged and amounted to PLN 9.3 billion at the end of 2014.

2.2. External sources of financing of Polish enterprises

The economic condition of non-financial enterprises, despite an observed drop in the return on revenue indicator, remained good in 2014. Their growth of revenues was higher (by 2.1%) than in 2013 and profit on sales of products, goods and materials improved (by 6.2%). The financial liquidity indicators of non-financial enterprises were still high.\(^\text{18}\)

In the period analysed, enterprises substantially increased (by 16.8% to PLN 120 billion) expenditures on tangible fixed assets, and compared with 2013, this resulted, to a larger extent, from the development of their production potential than modernisation investments.\(^\text{19}\) The expenditures remained, to a large extent, financed with own funds, which is evidence of the fact that enterprises prefer to use a conservative funding strategy.\(^\text{20}\) As NBP surveys of Polish non-financial enterprises show, in the past two years 40% of the survey-responding entities consciously did not use bank credit and chose to finance their activity with own funds.\(^\text{21}\) The results of another survey conducted among small and medium-sized enterprises (SMEs) in 2014 indicate that major factors behind their reluctance to use loans and advances are the following: lack of borrowing needs, sufficient own funds, and also fear of default risk and the company owner’s funding strategy.\(^\text{22}\)

According to data received by NBP from banks, the value of loans granted to enterprises at the end of 2014 was by 6.9% higher than a year earlier. The growth in interest in this funding form was driven by low market interest rates as well the lending policy of banks which – due to the

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\(^{19}\) Sytuacja finansowa sektora przedsiębiorstw w IV kw. 2014 r. [Financial situation in the enterprise sector in 2014 Q4], NBP, Warsaw 2015, p. 25.


\(^{21}\) Ibidem, p. 29. Data from the NBP annual survey of enterprises conducted on a group of around 1,200 non-financial entities and data from F-01/01 and F-02 financial reports collected by GUS from around 15 thousand enterprises were used.

\(^{22}\) M. Starczewska-Krzysztoszek, Finansowanie działalności i rozwoju. Curriculum vitae mikro, małych i średnich przedsiębiorstw 2014, Warsaw 2014. The survey by the CBOS Public Opinion Research Center was commissioned by Konfederacja Lewiatan. It was conducted with a direct interview method from 6 May to 18 July 2014 on a sample of 1,111 enterprises with employment from 2 to 249.
improved growth outlook for Poland and a better financial condition of borrowers – eased their standards and terms of granting loans, in particular long-term loans, from the second quarter of the year. Loans were mostly used by enterprises from industry, trade and construction.

Leasing was the main non-banking external source of financing for domestic non-financial enterprises, especially in the SME sector (Figure 2.5). The year 2014 saw a further dynamic growth in turnover in Poland’s leasing market and an increase in the number of enterprises that entered into leasing contracts to around 152.1 thousand. The segment of road transport modes was responsible for an over 75% growth in value of assets leased.

Figure 2.5. Selected non-banking external sources of financing of Polish enterprises, 2011-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Stock issues on the WSE</th>
<th>Long-term bond issues on the domestic market</th>
<th>Private equity</th>
<th>Leasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>8.2</td>
<td>2.7</td>
<td>5.6</td>
<td>19.9</td>
</tr>
<tr>
<td>2012</td>
<td>5.6</td>
<td>12.9</td>
<td>6.1</td>
<td>2.6</td>
</tr>
<tr>
<td>2013</td>
<td>2.5</td>
<td>15.8</td>
<td>1.6</td>
<td>6.1</td>
</tr>
<tr>
<td>2014</td>
<td>2.0</td>
<td>21.0</td>
<td>1.0</td>
<td>31.1</td>
</tr>
</tbody>
</table>

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

The value of capital raised by enterprises on the domestic long-term bond market was again substantially higher than in 2013. Investors’ great interest in these instruments helped organise new issues as, in an environment of low market interest rates, they were seeking higher rates of return than on investments in Treasury bonds. The growth in popularity of this form of external financing is evidenced by a further development of the debt instruments trading platform Catalyst.

The value of new share issues by non-financial enterprises admitted to trading in the WSE-organised markets (WSE Main Market and NewConnect) amounted to PLN 2.0 billion in 2014. Initial offers on the WSE-organised markets were conducted by a total of 50 domestic enterprises, of which 22 floated their shares on NewConnect. The fall in the value of shares sold under IPOs and SPOs was the consequence not only of a smaller scale of issues prepared by enterprises but also of investors’ lower interest in the instruments. Periodic significant increases of price volatility of quoted instruments were not conducive to share issue placements. The period of price volatility was driven by structural factors, among others, low liquidity of NewConnect, and business factors, e.g. Ukraine-Russia conflict-related developments.
Polish enterprises also used financing from private equity funds to finance their development. In 2014, the funds invested just over PLN 1 billion in Poland; however if one takes a look at the ratio of capital raised by enterprises in that way to the value of capital raised via new share issues on the WSE-organised markets (WSE Main Market and NewConnect), then in 2011-2014 the ratio was always above 25%. This shows that despite the small size of the market, capital from private equity funds is an important source of financing own funds of Polish enterprises.

Polish enterprises were more willing to raise funds in foreign bond markets than in previous years. The increased interest in organising issues of debt securities denominated in the euro was primarily related to lower market interest rates in the euro area than in Poland. In 2014, such instruments were issued, via specific purpose vehicles registered outside Poland, by several domestic entities.
Box 2.1. External financing of enterprises in Poland and other European Union countries

Financing of enterprises is the subject of the Pan-European study carried out by the European Commission and the European Central Bank. The survey of entrepreneurs’ opinion, mainly small and medium-sized enterprises (SMEs), was performed in mid-2014, covering 16,875 enterprises from 28 EU member states, including 1,305 companies from Poland. The method applied in the study allows a comparison of preferences and financing methods of enterprises in Poland and in other EU countries.

External methods of financing companies’ activity preferred by entrepreneurs

Asked about the activity financing methods most suitable for their companies, among the many external financing opportunities, Polish entrepreneurs indicated leasing (54% of responses), overdraft and credit lines and/or credit card (53%), followed by bank loans (50%). In terms of their preferences, they slightly differ from entrepreneurs in other EU countries, where bank lending was recognised as the most suitable activity financing method (57% of responses), followed by overdraft and credit lines and/or credit card (53%). The next indication was leasing (47%) (Figure I). In Poland, entrepreneurs recognise trade credit as the activity financing source most suitable for them much more frequently than the EU average (44% against 33% in the EU). This method is much more preferred in Ireland, Greece, Portugal and the United Kingdom, where over 50% of surveyed companies would like to finance their activity in such a way. In other countries it is not common, e.g. in Germany only 11% of companies are willing to fund their activity by trade credit, and in practice 3% of companies use them. The next possibility to acquire funds are grants and subsidised bank loans perceived as the optimum source of financing by many entrepreneurs, not only in Poland (36%), but also in Greece, Italy and Portugal, where over 50% of enterprises express such an opinion. It is several times more than in Denmark (12%), the Netherlands (11%) or in Sweden (15%). Less well-known financing sources, such as the issue of equity or debt securities, are less frequently indicated as the potential optimum source of funding in Poland, as compared with the EU.

Figure I. Relevance of financing types for SMEs

Source: Developed according to the data derived from the Survey on the access to finance of enterprises (SAFE). Analytical Report 2014, Brussels 2014, European Commission.

As asked to indicate the financial instrument most suitable for their company, Polish entrepreneurs are less confident in their assessment than European entrepreneurs. Several times more entrepreneurs in Poland than in other EU countries (from 5 to 8-fold, depending on the instrument) are unable to evaluate whether a given financing instrument is suitable in their case. The assessment of the role of debt securities and equity capital raises major difficulties.
External financing sources used by entrepreneurs

Entrepreneurs’ preferences related to the optimum activity financing method are verified in practice. The external financing instrument most commonly used by enterprises in Poland was the overdraft and/or credit lines, instead of leasing, as indicated by the declared preferences. Almost 40% of enterprises surveyed in Poland used the overdraft and credit lines over 6 months prior to the date of the survey. The most common non-bank financing source was leasing, which was used by 32.7% of enterprises. Use of overdraft and leasing in Poland was more popular than the average in the EU. In addition, as compared with the overall number of enterprises surveyed in the European Union, Polish entrepreneurs reach for trade credit more often, using bank loans less frequently (Figure II). 11% of enterprises in Poland used bank loans, against 13% in the EU. Both in Poland and in other EU countries, the number of companies actually using this instrument is almost 5-fold lower than the number of enterprises declaring this financial instrument as appropriate for their business. However, it turns out that the rejection rate of loan applications was, for example, in Greece, Ireland, Slovenia and Italy over two-fold higher than in Poland, where only 11% of enterprises applying for a loan were refused credit by the bank. 80% of applying enterprises received a loan at the level requested or lower. The remaining 9% of companies withdrew their loan applications.

Figure II. Most commonly used external financing sources of Polish and European enterprises in 2014

Grants and subsidised loans were used for enterprise funding at a similar level in Poland and in the EU (9.1% and 9.4% of surveyed companies, respectively). In Poland, four times more companies perceived subsidies as a source of optimal financing than the number that used this type of funding. In Poland, equity market instruments were used less frequently than in the EU – such as acquisition of financial resources from the issue of shares or taking up new shares. This method was used only by one per 100 surveyed enterprises and only two companies per 1,000 used the issue of debt securities to acquire funds.

The difficulties associated with fund raising were by Polish entrepreneurs ranked only as the sixth barrier to their enterprises’ development in 2014, in terms of significance (in the EU – the fifth). In Poland, every tenth company surveyed admitted that access to financing was its most important problem, whereas in other EU countries this opinion was shared by 13% of companies. Both in Poland and in other EU countries, enterprises mainly use the services of banks offering various financing instruments. The indicator for Poland was equal to the EU average amounting to 68%. The highest indicator of bank offer use (over 75% of responses) was recorded, inter alia, in France, Portugal,
Belgium, Ireland and Italy. The lowest level of bank offer use was noted for enterprises in Sweden (32%), in the Baltic States and in Finland (45%).

2Leasing in the main non-banking external source of enterprise financing, particularly for SMEs. See subsection 1.3.2.
3Survey on the access to finance of enterprises (SAFE), op.cit., p. 36.
4Ibidem, p. 144. Polish SMEs most commonly recognised lending financial terms as a barrier to using bank loans: the level of interest rate (58.1% of respondents), amount of fees (35.8%) and the requirement to hold collateral, including its amount. More in: M. Starczewska-Krzysztofek, Finansowanie działalności i rozwoju. Curriculum vitae mikro, małych i średnich przedsiębiorstw 2014 [Financing of activity and development. Curriculum vitae of micro, small and medium-sized enterprises 2014], Warsaw 2014, Konfederacja Lewiatan, p. 66.