

Poland – 2Q21

Macroeconomic Outlook Report



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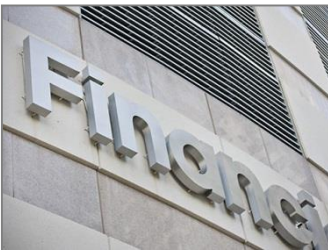
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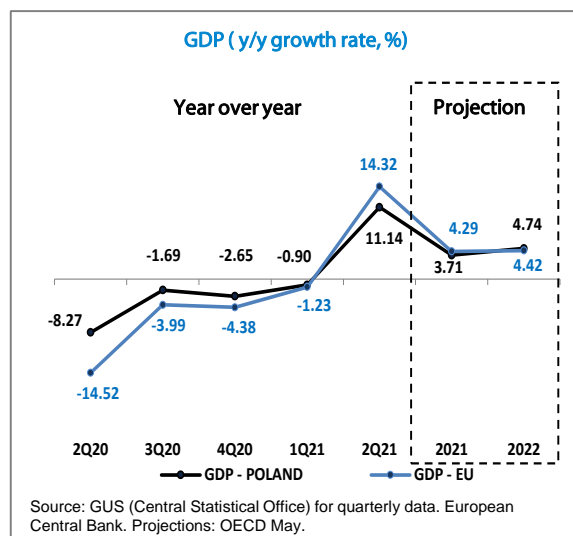
1. General Outlook

Poland macroeconomic overview

Since the end of April 2021 restrictions due to pandemic had been gradually eased, this was reflected in a strong rise of household consumption reinforcing the domestic demand. Moreover, CPI rose sharply, driven by increases in fuel, electricity and food prices. Regarding labor market, it showed interannual positive figures, but employment levels are still running below the pre-pandemic level.

Macroeconomic overview

- ▶ In the second quarter of the year, the y/y GDP growth rate of Poland stood at a 11.14% rate, following a great 12.04 p.p. increase with respect to 1Q21. Furthermore, the growth of Polish economy was slightly lower than that of the average EU countries, which reached 14.32% in 2Q21.
- ▶ The OECD maintain a positive sustain growth for Polish economy, predicting a 3.71% y/y GDP growth rate for 2021 and 4.74% growth for 2022.
- ▶ The performance of the economy was mainly driven by the rise in private consumption. In this context, domestic demand incremented strongly by 11.81 p.p. relative to the previous quarter, up to a 12.81% rate. This increase has its explanation in relaxation of covid containment measures, which improve consumer sentiment, specially during May. Moreover, the external demand showed a growth of imports (24.16%) higher than the exports (21.88%).

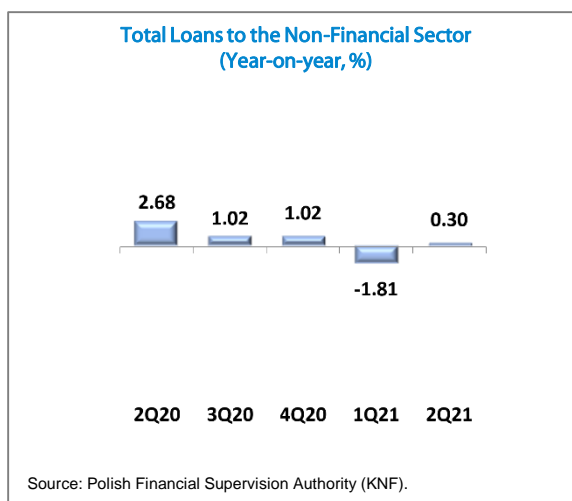


- ▶ During the second quarter of 2021, inflation increased by 1.73 p.p. compared to the previous quarter, recording a 4.47% rate. Until the second quarter, the NBP policy has tended to keep unchanged low interest rates (close to 0.1%).
- ▶ In the second quarter the Polish unemployment rate decreased compared to the previous quarter and stood at a rate of 3.50%, slightly more than immediately before the outbreak of the pandemic, but lower than in previous years.
- ▶ The zloty appreciated against the euro during the second quarter of 2021, with the average exchange rate standing at 4.53 PLN/€, 0.02 PLN/€ lower than the one registered in 1Q21.
- ▶ In the second quarter of 2021, WIG20, the main Polish stock index, registered an increase of 12.00% (+231.74 points) with respect to the previous quarter, up to an average of 2,163 points during the period.

Banking sector

Total loans to the Non-Financial Sector registered a 0.30% growth rate during the second quarter, 2.38 p.p. lower than the y/y growth rate recorded during the second quarter of 2020. Concerning total deposits from the non-financial sector, its y/y growth rate decreased by 6.53 p.p., from 12.37% in 1Q21 down to 5.84% in 2Q21. During the second quarter of 2021, the efficiency ratio in the Polish financial system decreased by 0.57 p.p. when compared to the same quarter of the previous year, standing at 58.52%.

Banking sector



- ▶ During 2Q21, the growth rate of total loans granted to the non-financial sector decreased by 2.38 p.p. compared to 2Q20.
 - ▶ The share of loans conceded for housing represented 51.54% of total loans. The amount of loans granted to corporations accounted for 32.71% in 2Q21. Lastly, the amount of loans granted to consumers stood at 15.66% of total loans in this quarter.
 - ▶ During the second quarter of 2021, the ratio of impaired loans of the total sector decreased by 0.23 p.p. compared to the previous quarter, down to a rate of 6.50%. This performance was motivated by the decrease registered in the impaired loans ratio of all entities.
- ▶ During the second quarter of 2021, deposits from the non-financial sector decreased their y/y growth rate, down to 5.84%, 6.53 p.p. lower than the rate reached in the previous quarter.
 - ▶ This deceleration was driven by the decrease in the y/y growth of commercial banks' (-6.64 p.p.), cooperative banks (-5.18 p.p.) and branches of credit institutions deposits (-9.97 p.p.).
 - ▶ The efficiency ratio of the total financial sector decreased by 0.57 p.p. during the second quarter of 2021 compared to the same quarter of the previous year, standing at 58.52%. The improvement in efficiency was due to a smaller annual decline in gross margin (-1.04%) than in operating expenses (-2.00 p.p.).

2. International Overview

LatAm

During the second quarter of 2021, all the countries analysed consolidated the recovery that began in the second half of 2020, following the fall in GDP in Latin America during the first half of that year due to the pandemic. In fact, the recovery was more dynamic than in the previous quarter and the economic outlook for 2021 improved. On the other hand, the unemployment rate remained at higher levels than before the pandemic and the inflation rate increased in most countries.

Macroeconomic Overview

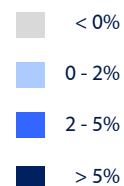
- ▶ During the second quarter of 2021, the economic recovery was consolidated in the countries studied, which experienced increases in their GDP compared to the previous quarter. Thus, all these countries achieved a positive year-on-year GDP growth rate. Peru was the country whose year-on-year growth rate accelerated the most compared to the previous quarter, growing 38.07 p.p. Thus, Peru recorded the highest year-on-year GDP growth rate, reaching a rate of 41.88%.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has upgraded its forecast for Latin American economy for 2021 to 5.20% growth for the region. In addition, growth is expected to reach 2.90% by 2022. This is mainly due to the progress in the global immunisation process that has been developing during the second quarter of 2021. However, this expansion will not be enough to ensure sustained growth as the social impacts of the crisis and the region's structural problems have worsened and will be prolonged during the recovery phase. In the same vein, in its May update, the OECD upgraded its forecasts for Mexico and Argentina for 2021, and slightly for Brazil. However, it placed year-on-year GDP growth of Brazil and Mexico for 2021 below the OECD average.
- ▶ According to ECLAC, the Latin American economy continued its recovery during the second quarter of the year, even with greater strength. However, there is a risk of the reactivation coming to a standstill, due to insufficient investment, employment and further environmental deterioration. In addition, it argues that the fiscal measures adopted by the countries have been important, but insufficient in quantity and duration.
- ▶ In terms of inflation, all countries surveyed recorded increases in their inflation rate from the previous quarter. Peru was the country with the lowest inflation rate, at 2.69%. Argentina was the country that registered the highest increment in its inflation rate compared to 1Q21, with an increase of 10.20 p.p. up to 48.40%, again registering the highest inflation rate in this group of countries.
- ▶ During the second quarter of 2021, the labour market continued to be affected by the economic consequences of the pandemic, although in a more moderate way, as Chile, Mexico, Peru and Argentina recorded slight decreases in their unemployment rate compared to 1Q21. In this context, Colombia, after an increase of 0.43 p.p., positioned itself as the country with the highest unemployment rate, at 14.87%. Mexico registered the lowest unemployment rate within all the countries studied, at 4.25%.

Financial Sector

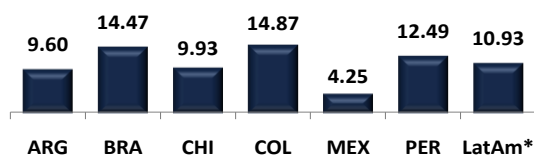
- ▶ In terms of their ratings, all Latin American countries kept their ratings constant in the second quarter of the year, except Colombia, which went from a rating, at S&P and Fitch, of BBB- to BB+ during this period. This rating considers that, while the country has a high capacity to meet its financial obligations, it also faces instability due to uncertainty and exposure to adverse conditions.
- ▶ With regard to economic policies, the introduction of additional stimuli is more limited than in the previous year, in face of the tightening of global financial conditions and the increase in inflation and its expectations in some countries. Thus, despite the effectiveness of the policies promoted, the public accounts of these countries have deteriorated, with increases in their public deficits, Latin America being the region with the highest external debt in GDP.
- ▶ All the countries analysed, except Argentina, Chile and Peru, increased the pace of granting credits compared to the previous quarter. Mexico continued to record the slowest year-on-year growth, with a decrease of -5.77%. Regarding deposits, all countries recorded positive year-on-year growth during the period, although their rate declined compared to the previous quarter, except Chile. Chile's growth rate was 4.17%, after an acceleration of 6.15 p.p. compared to 1Q21.



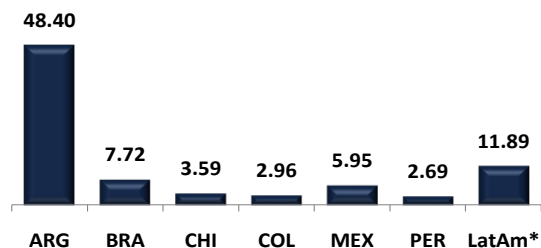
GDP 2Q21 (% year-over-year growth rate)



UNEMPLOYMENT RATE 2Q21 (%)

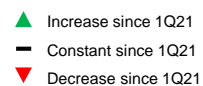


INFLATION RATE 2Q21 (%)

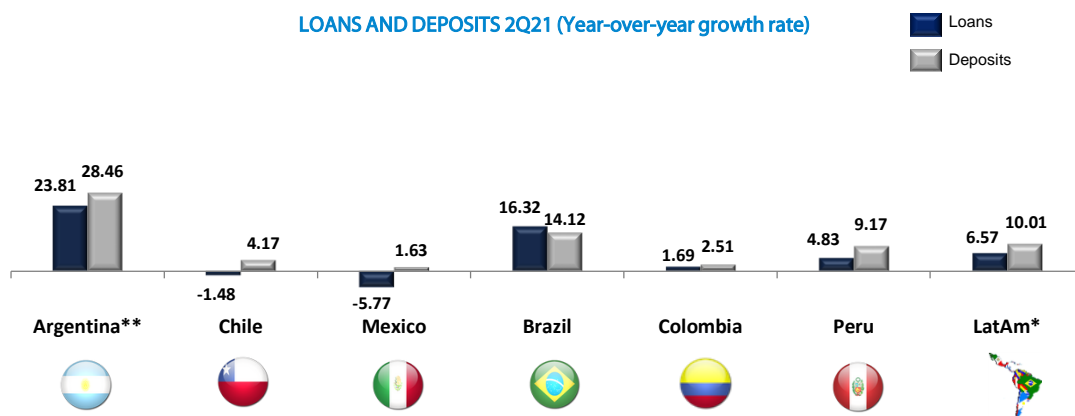


LONG TERM RATINGS 2Q21

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A1	—	A	—	A-	—
Colombia	Baa2	—	BB+	▼	BB+	▼
Mexico	Baa1	—	BBB	—	BBB-	—
Peru	Baa1	—	BBB+	—	BBB+	—



LOANS AND DEPOSITS 2Q21 (Year-over-year growth rate)



*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Most updated figures available at the date of the release correspond to 1Q21.

2. International Overview

OECD & China

In the second quarter of 2021, the recovery in economic activity in OECD countries strengthened. The progress in the Eurozone's vaccination process led its GDP growth rate to reach positive values, as did Japan's. For its part, the USA consolidated its recovery, presenting a positive GDP rate for the second consecutive quarter. On the other hand, China's rate slowed down compared to 1Q21.

Macroeconomic Overview

- ▶ In the second quarter of 2021, the Eurozone saw the recovery accelerate with a positive GDP rate, due to the progress of immunisation in the Eurozone against Covid-19. Consequently, the European Commission expects a positive evolution of the economy marked by an effective virus containment strategy and progress with vaccines. In the same vein, the OECD in its September forecast expects year-on-year GDP growth for 2021 and 2022 to be 5.29% and 4.63%, respectively, improving on its May forecast. Among the countries analysed in the region, all recorded positive year-on-year growth rates during the second quarter of the year. As a result, from the European countries analysed in 2Q21, France and Spain registered the highest year-on-year GDP growth rates (18.65% and 17.55%, respectively).
- ▶ USA consolidated the recovery of its economic activity in this period, reaching a year-on-year GDP growth rate of 6.60%, thus remaining positive after an increase of 6.20 p.p. compared to 1Q21. Moreover, the OECD revised upwards its forecast for 2021 and expects the US economy to grow by 5.96% in 2021 and 3.94% in 2022.
- ▶ The UK recorded the largest change in GDP during this period compared to the same quarter of the previous year at 23.58%. As a result, growth is estimated at 6.67% in 2021 and 5.22% in 2022.
- ▶ On the other hand, Japan's GDP growth in 2Q21 was 0.50%, 2.00 p.p. higher than in 1Q21. In turn, the OECD estimates GDP growth of 2.53% and 2.08% for 2021 and 2022, respectively.
- ▶ China recorded a lower GDP growth rate during the second quarter of the year compared to 1Q21, with a growth rate of 17.03%, after a decrease of 1.27 p.p. compared to the previous quarter, however it increased by 13.83 p.p. compared to the same quarter of 2020. In its September forecast, the OECD estimates growth of 8.53% and 5.78% for 2021 and 2022, respectively.
- ▶ In terms of international trade, despite the pandemic, political and trade tensions remained present. China, to mitigate the effects of the tensions it has been dragging with the US since 2018, implemented trade agreements in Asia and Europe. The EU-China CAI would allow for an unprecedented level of investment in China by the EU, helping to level the playing field for Europeans to invest in China. However, the European Parliament agreed in May to freeze the ratification of this agreement.
- ▶ Year-on-year inflation growth in 2Q21 increased for all the economies in question compared to 2Q20, with the exception of Japan and China. The EMU recorded an acceleration of 1.60 p.p. compared to the same period of the previous year. Japan was the only country with a negative inflation rate (-0.40%).
- ▶ The labour market improved slightly during this period, with all countries analysed recording lower unemployment rates compared to the same quarter of the previous year, except Italy, the UK, France and China. Moreover, compared with the previous quarter, all countries except China and Japan, experienced falls in their unemployment rates.

Financial Sector

- ▶ In terms of their ratings, all the countries analysed kept their ratings constant during 2Q21.
- ▶ In regard to the economic policies of the different countries, it seems that the shared objective of the Fed and the ECB to keep interest rates close to 0.00% will not be maintained in the coming months. While the ECB has reiterated its intention to keep interest rates stable and continue with the PEPP, the Fed expects interest rates to rise in 2022.
- ▶ During this period, year-on-year credit growth slowed down in all countries, except in Canada and Italy, compared to the same quarter of the previous year, China being the country with the highest growth rate (11.85%). Deposit growth declined for all countries compared to 2Q20, with the exception of Italy, which also recorded the second highest year-on-year growth rate (7.88%) after China (9.49%).

**Germany**

9.41%

**Canada**

13.53%

**China**

17.03%

**France**

18.65%

**Spain**

17.55%

**Italy**

17.20%

**Japan**

0.50%

**EMU**

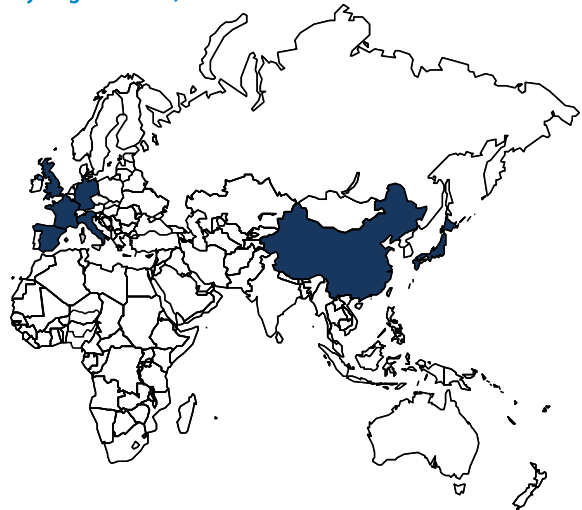
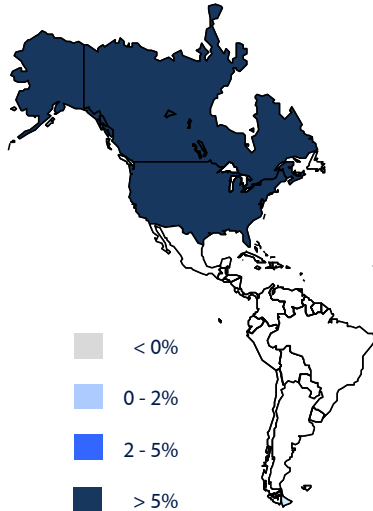
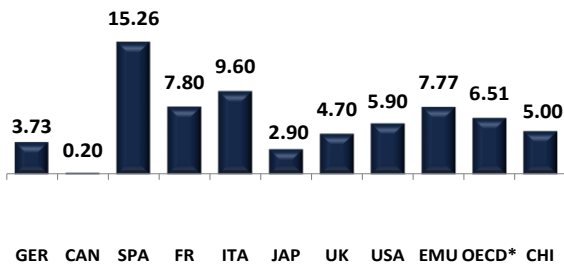
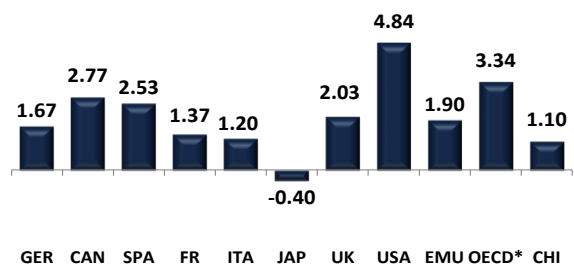
14.32%

**UK**

23.58%

**USA**

6.60%

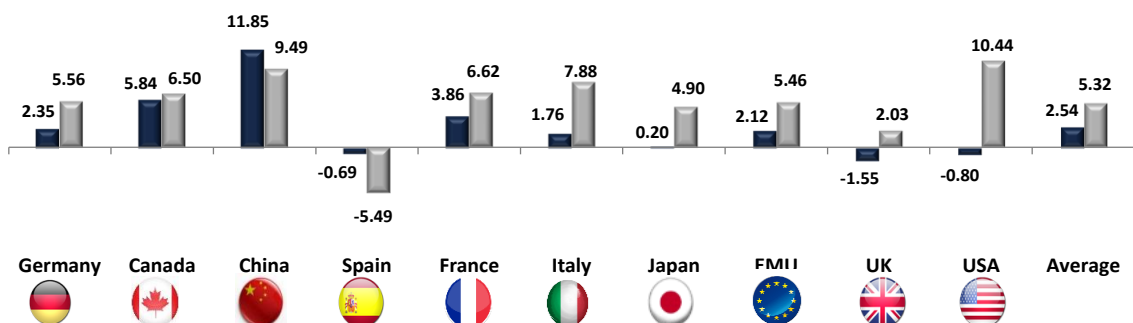
GDP 2Q21 (% year-over-year growth rate)**UNEMPLOYMENT RATE 2Q21 (%)****INFLATION RATE 2Q21 (%)****LONG TERM RATINGS 2Q21**

	MOODY'S	S&P	Fitch
Germany	Aaa -	AAA -	AAA -
Canada	Aaa -	AAA -	AA+ -
China	A1 -	A+ -	A+ -
Spain	Baa1 -	A -	A- -
France	Aa2 -	AA -	AA -
Italy	Baa3 -	BBB -	BBB- -
Japan	A1 -	A+ -	A -
UK	Aa3 -	AA -	AA- -
USA	Aaa -	AA+ -	AAA -

- ▲ Increase since 1Q21
- Constant since 1Q21
- ▼ Decrease since 1Q21

LOANS AND DEPOSITS 2Q21 (year-over-year growth rate)

Loans
Deposits



3. Polish Macroeconomic Overview

As a result of the eased of Covid-19 restrictions, Poland continued with its economic recovery. GDP growth was mainly driven by internal demand, boosted by a household consumption that reached pre-pandemic levels in certain sectors.

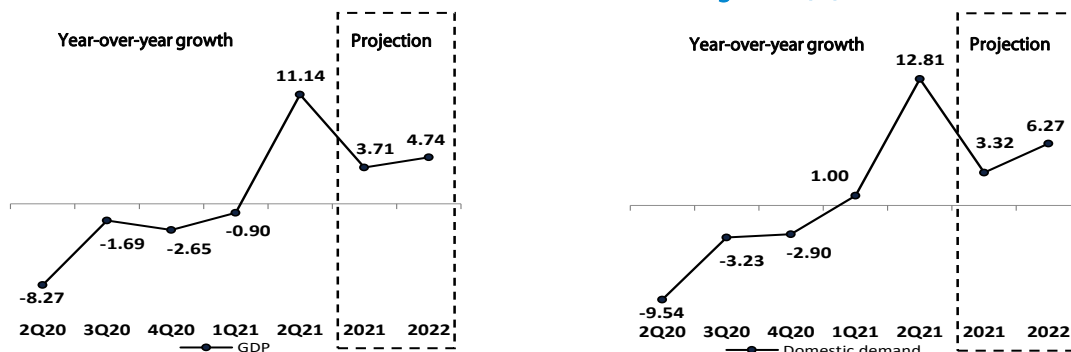
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	2Q20	3Q20	4Q20	1Q21	2Q21	2021	2022
GDP	-8.27	-1.69	-2.65	-0.90	11.14	3.71	4.74
DOMESTIC DEMAND	-9.54	-3.23	-2.90	1.00	12.81	3.32	6.27
HOUSEHOLD CONSUMPTION	-10.75	0.40	-3.25	0.20	13.34	4.28	8.42
PUBLIC CONSUMPTION	5.97	6.81	10.95	4.94	8.45	3.56	1.22
GROSS FIXED CAPITAL FORMATION	-17.03	-17.34	-11.07	0.40	21.90	-3.34	4.59
EXTERNAL DEMAND							
EXPORTS	-13.46	2.38	8.08	7.32	29.20		
IMPORTS	-15.59	0.48	8.45	10.34	34.50		
INFLATION							
CPI	3.20	3.03	2.83	2.73	4.47	3.83	3.26
LABOUR MARKET							
UNEMPLOYMENT	3.10	3.30	3.10	4.00	3.50	3.37	3.37
EMPLOYMENT	-0.70	-0.70	-0.70	-1.20	0.30	0.13	0.82

Source: : GUS (Central Statistical Office) , OECD May and September forecast.

- During the second quarter of 2021, Poland's GDP interannual growth stood at 11.14%, rising 12.04 p.p. compared to the previous quarter. This sustained recovery is due to the continued policy easing of pandemic measures, which had allowed domestic demand to rise strongly.
- Regarding this increase in household consumption, retailing sector was highly benefited from the relaxation of measures, exceeding pre-pandemic levels in May. Sales in goods, such as clothing, footwear, furniture and household appliance should be highlighted. In addition, year-on-year investment increased considerably due to improved economic expectations.
- Regarding external demand, in April 2021, both import and export growth accelerated sharply as a result of the statistical base effect related to the sharp fall in foreign trade in April 2020. Stronger export growth was driven, to a larger extent, by higher growth in sales to the euro area. The recovery of industrial activity in the euro area translated into higher sales of intermediate goods and parts for car production. At the same time, strong growth in private consumption boosted exports of consumer goods, especially durables.
- Year-on-year import growth continued rising another consecutive quarter, up to 24.16 p.p. compared to 1Q21. For the fourth consecutive quarter imports outpaced exports, causing a negative external demand. According to the National Bank of Poland (NBP), the improving economic conditions will further boost the volume of exports. However, due to a stronger cyclical response of imports, the contribution of net exports to GDP growth will be negative in the years 2021-2023.

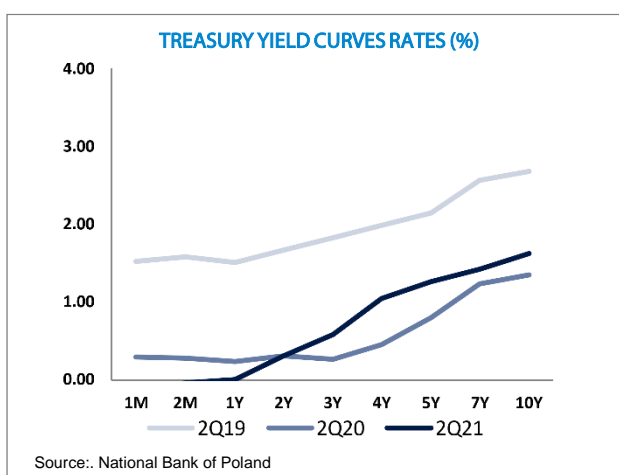
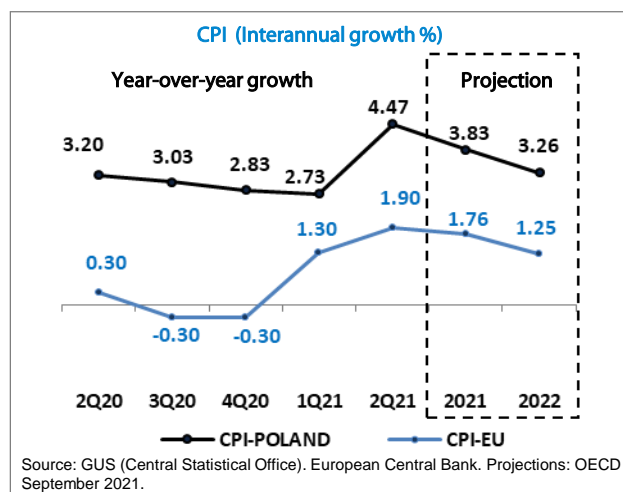
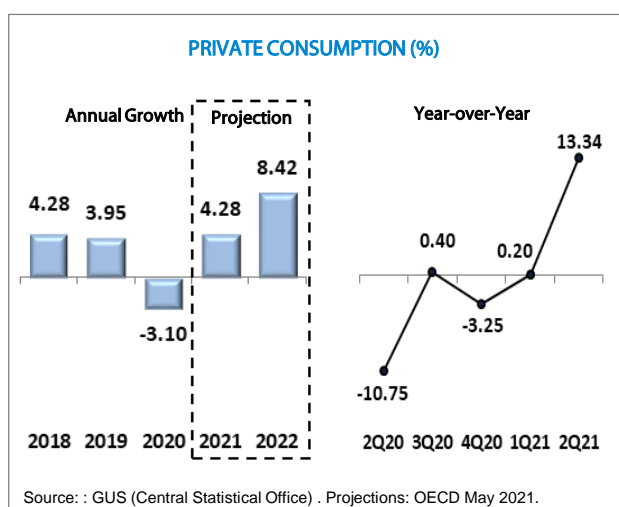
GDP and domestic demand interannual growth (%)



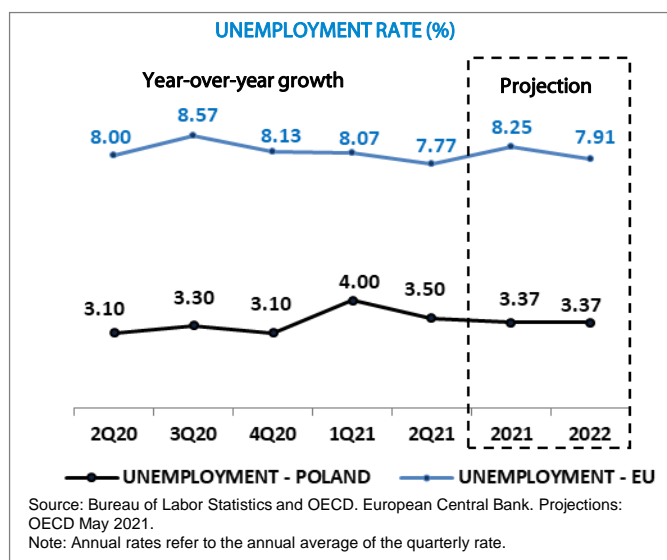
Source: GUS (Central Statistical Office) from the OECD May 2021.

In the second quarter of 2021, private consumption recorded an increase in its y/y growth rate compared to the previous quarter and OECD project a good scenario for the next years. In turn, inflation rate continued its raising trend, reaching a 4.47% rate. Regarding bond yields, long term yields stood higher than in 2020. As in the previous quarters Polish National Bank seem prone to maintain low interest rates.

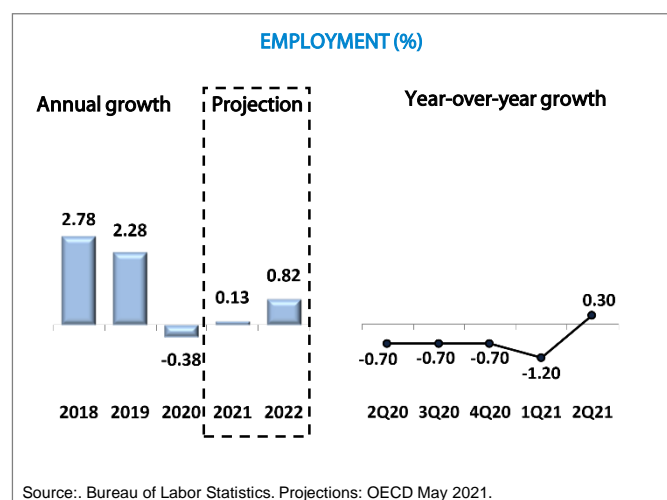
- During the second quarter of the year, private consumption continued its recovery, reaching a 13.34% y/y growth rate, increasing by 13.14 p.p. when compared to the previous quarter.
- The OECD forecast for private consumption predicts a boost on the year-over-year growth rate of 4.28% for 2021 and 8.42% for 2022. This results comes alongside accumulated savings derived from pandemic restrictions which are currently well above their pre-pandemic levels.
- In 2Q21, the year-on-year growth rate of Poland Consumer Price Index rose by 1.73 p.p., breaking the sustained downtrend of the past quarters, up to a 4.47%. Poland's CPI was above the EU average inflation rate in the second quarter of 2021 (1.90%).
- The NBP appointed that its monetary policy will continue to focus on achieving a sustained inflation. However the NBP authorities stressed that there are some factors beyond the scope of monetary policy control, such as the increase in global oil and fuel prices or another regulatory factors such as the rise in the price of electricity and in waste disposal charges.
- According to the OECD, the inflation rate will decrease during 2021 and 2022, but standing above 2020 levels.
- All bond yields of Polish Treasury bonds with maturities lower than 4 years presented interest rates in 2Q21 lower than 1%.
- When compared to 2Q19, bond yields declined for all maturities, with the largest variation corresponding to 1M, 2M and 1Y maturities.
- When compared to the same quarter of 2020, bond yields increased for maturities higher than 2Y.
- Some NBP Council members think that Central Bank should exert greater impact on the longer end of yield curve in order to improve the effectiveness of monetary policy in limiting the increase in treasury yields.



Regarding the labour market, during the second quarter of 2021, the unemployment rate decreased compared to the previous quarter, standing at a 3.50% rate. Yet, in year-over-year terms, unemployment decreased by 0.40 p.p. Concerning the y/y growth rate of employment, it grew powerfully reaching a 0.30% rate in the second quarter of 2021 as Covid-19 restrictions eased during April and May.

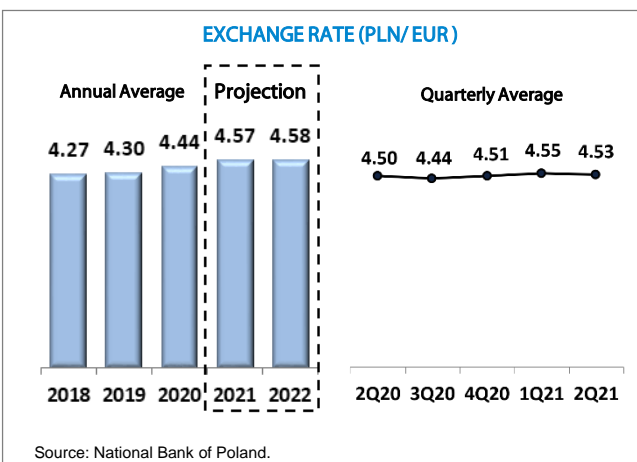


- ▶ In the second quarter of the year, the unemployment went down to more positive levels standing at a 3.50%. Furthermore, it fell by 0.40 p.p. relative to the same quarter of the previous year. The unemployment rate was lower than that of the average EU countries (7.77%) in 2Q21, following the trend of the last quarters.
- ▶ According to the NBP, the unemployment rate is expected to fall and wage growth to remain high, supported by favourable economic conditions that will stimulate increased demand for labour in a context of a shortage of employable human resources.
- ▶ According to the OECD, the labour market is expected to remain robust and projects an unemployment rate of 3.37% during 2021 and 2022.
- ▶ This projected levels of unemployment would mean that the unemployment rate of Poland will continue to be lower than the one of the average of the countries of the EU.
- ▶ Regarding the employment growth rate, it boosted up to a 0.30% interannual rate.
- ▶ The main reason for this improvement was the relaxation of the pandemic containment measures relative to the third Covid-19 wave.
- ▶ Despite this improvement, the number of registrations and deregistrations from the unemployment register continued markedly lower than a year earlier. This was due to the increase in the share of people remaining without work for longer than 6 months.
- ▶ In its May projections, the OECD has improved its forecast for Poland employment growth rate in 2021, predicting a 0.13% growth. For 2022, they expect the y/y employment growth rate to stand at 0.82%.

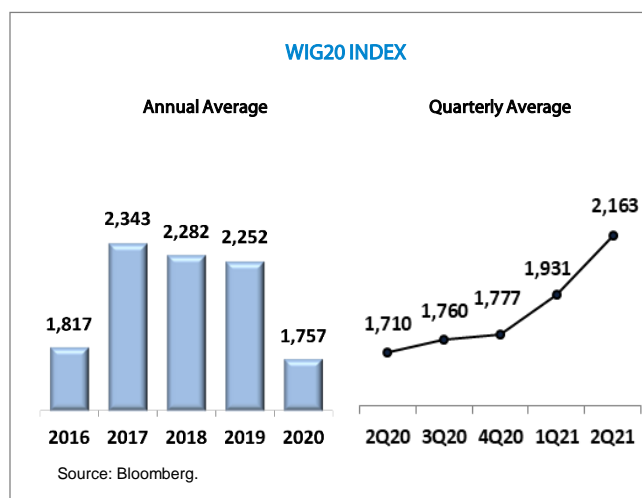




- During the second quarter of 2021, the Polish Zloty appreciated against the Euro when compared to the previous quarter. Therefore, the average quarterly exchange rate stood at 4.53 PLN/EUR.
- According to NBP, the relatively favourable economic situation of Poland compared to that of many other economies contributed to the appreciation of the Zloty.
- The OECD expects the annual average PLN/EUR exchange rate to stand at 4.57 PLN/EUR for 2021 and slightly higher for 2022 standing at 4.58 PLN/EUR, with the Zloty depreciating against the euro with respect to 2020.
- For certain members of NBP, the pace of the economic recovery in Poland would depend on developments in the Zloty exchange rate.



- In the second quarter of 2021 the Polish main reference Index, WIG20, recorded a quarterly average of 2,163 points. Therefore, the Index increased 231.74 points relative to the previous quarter.
- In the second quarter of the year, equity prices on the Warsaw Stock Exchange rose markedly. The equities rose on the back of improved sentiment in global financial markets, the favorable financial condition of domestic enterprises and expectations about continued recovery in the economy. As a result, at the end of June 2021, the WIG index achieved a record high.

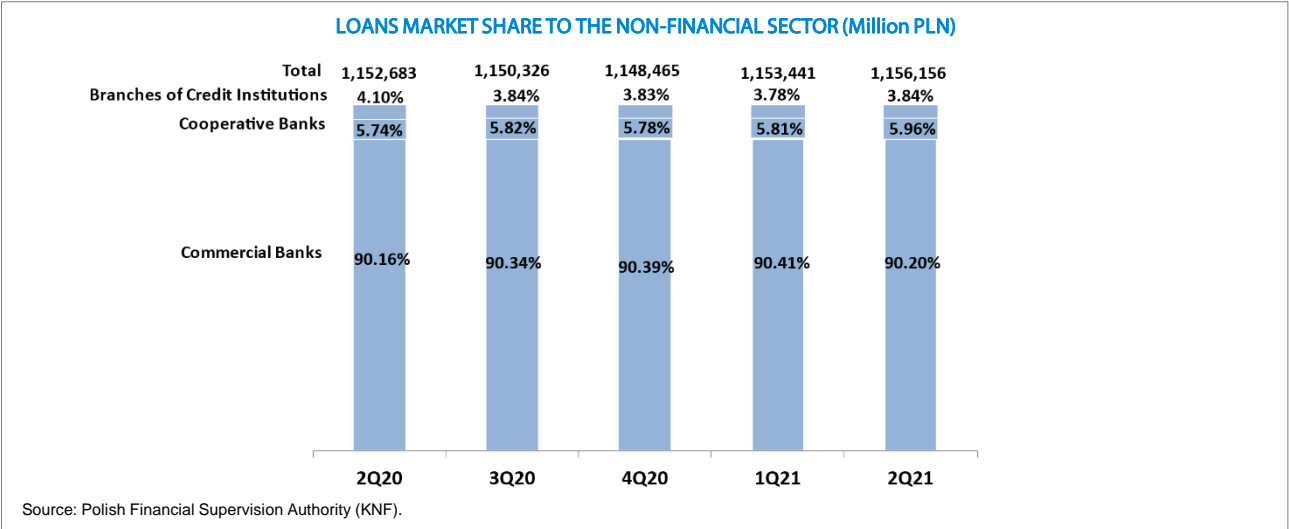
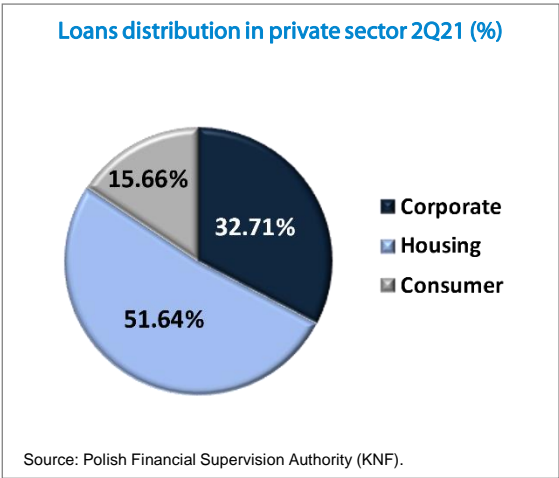


4. Banking sector: general overview

Loans and leases

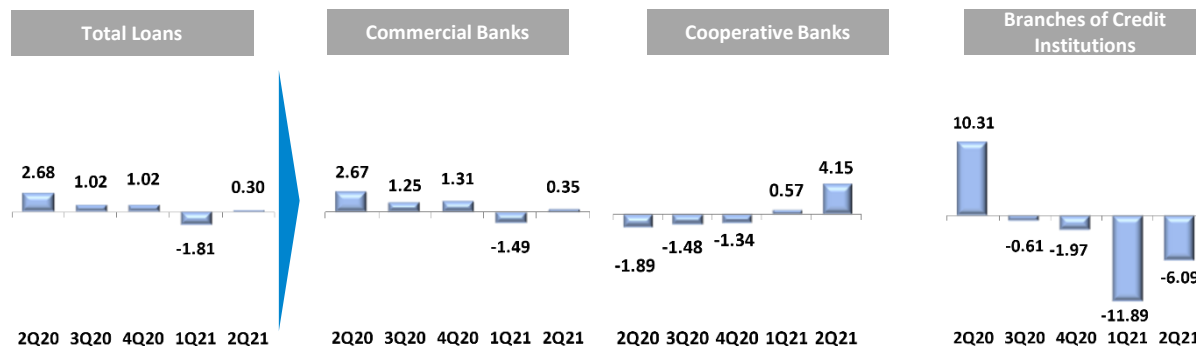
During the second quarter of 2021, the mix of loans in the private sector showed a decrease with respect to the previous quarter. Housing loans represented the largest segment (51.64%), followed by corporate loans (32.71%) and consumer loans (15.66%). Regarding the market structure within the non-financial sector, commercial banks remained as the segment with the highest share (90.20%), followed by cooperative banks (5.96%) and finally branches of credit institutions (3.84%).

- During the second quarter of 2021, the distribution of total loans by segment decreased compared to the previous quarter by -2.11 p.p..
- The share of loans conceded for housing represented 51.64% of total loans. The amount of loans granted to corporations accounted for 32.71% in 2Q21. Lastly, the amount of loans granted to consumers stood at 15.66% of total loans in this quarter.
- In terms of market share by type of lending institution, commercial banks continued as the largest segment (90.20%), after decreasing 0.21 p.p. with respect to their share in 1Q21.
- Cooperative banks’ loans amounted to 5.96% of total loans, after increasing their share by 0.16 p.p. with respect to 1Q21.
- Regarding loans from branches of credit institutions, they recorded a share of 3.84% after a decrease of 0.05 p.p. when compared to the previous quarter.
- Total loans in the private sector amounted to PLN 1,156,156 million during the second quarter, after increasing by 0.24% with respect to the previous quarter.



Total loans in the Polish financial system registered a 0.30% growth rate in 2Q21. All types of entities recorded accelerations in their loan y/y growth rates when compared to the previous quarter. Moreover, Cooperative banks continued presenting the highest ratio of impaired loans standing at 8.48%, after a decrease with respect to 1Q21. Branches of credit institutions experienced a decrease in their impairment ratio, and achieved once more the lowest ratio among the segments analysed (4.17%).

TOTAL LOANS TO THE NON-FINANCIAL SECTOR (Year-on-year, %)

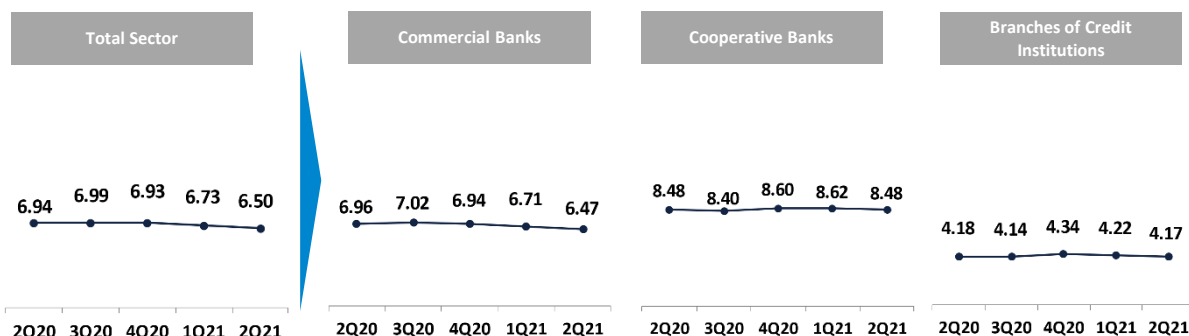


Source: Polish Financial Supervision Authority (KNF).

- During 2Q21, the growth rate of total loans granted to the non-financial sector increased by 2.11 p.p. compared to the previous quarter.
- Commercial banks recorded an acceleration of 1.83 p.p. when compared to the previous quarter standing at a y/y growth rate of 0.35%.
- Moreover, branches of credit institutions recorded negative growth rates (-6.09%) for the fourth consecutive quarter despite its increase of 5.80 p.p. during the period, meanwhile cooperative banks presented a positive growth rate (4.15%) after a great acceleration of 3.58 p.p..

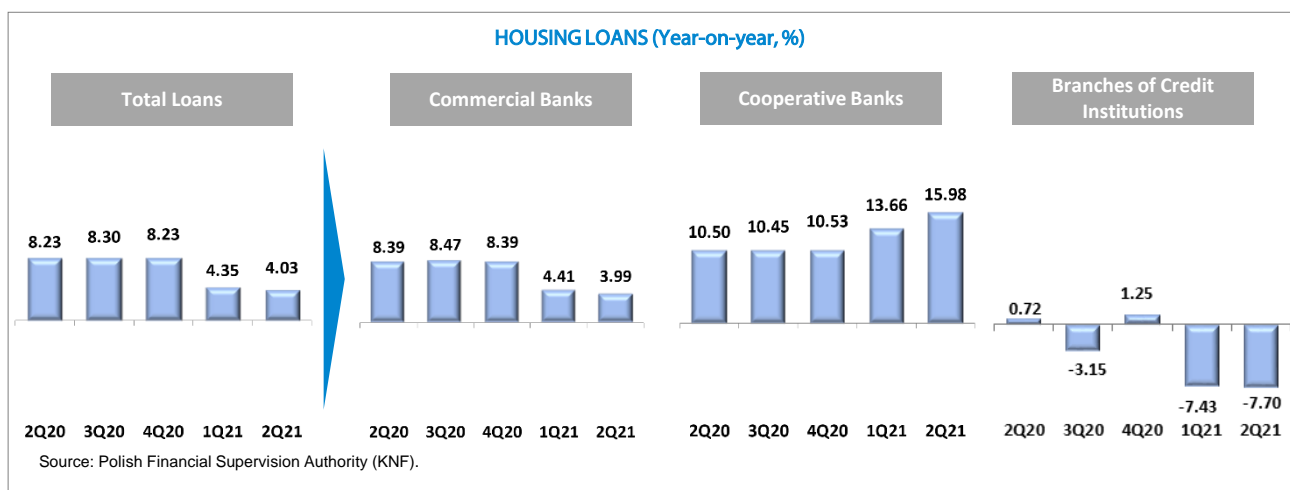
- During the second quarter of 2021, the ratio of impaired loans of the total sector decreased by 0.23 p.p., down to a rate of 6.50%. This performance was motivated by the decrease registered in the impaired loans ratio of commercial banks, cooperative banks and branches of credit institutions.
- Commercial banks experienced a decrease in their impairment ratio of 0.24 p.p. down to 6.47%, when compared to 1Q21. Cooperative banks slowed down their impairment ratio by 0.14 p.p. to a rate of 8.48%. Branches of credit institutions registered the lowest impairment ratio of all three segments, standing at 4.17%, after a decrease of 0.06 p.p..

RATIO OF IMPAIRED LOANS (%)



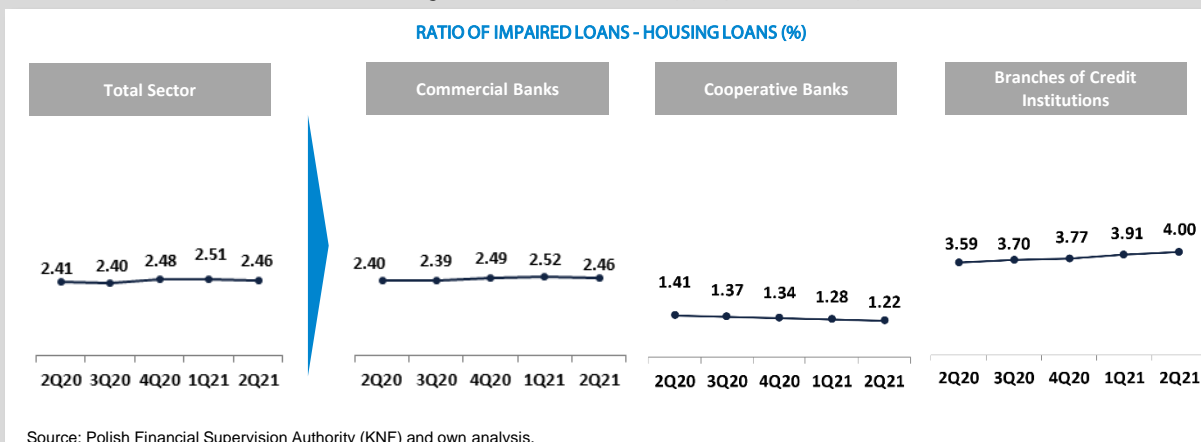
Source: Polish Financial Supervision Authority (KNF) and own analysis.

During the second quarter of 2021, housing loans registered a decrease of 0.32 p.p. in their y/y growth rate when compared to the previous quarter. This performance was explained by the decrease recorded in loans granted by commercial banks and branches of credit institutions. Total housing impaired loans ratio registered a slight decrease in the ratio of impaired loans, recording during the period a ratio of 2.46%.

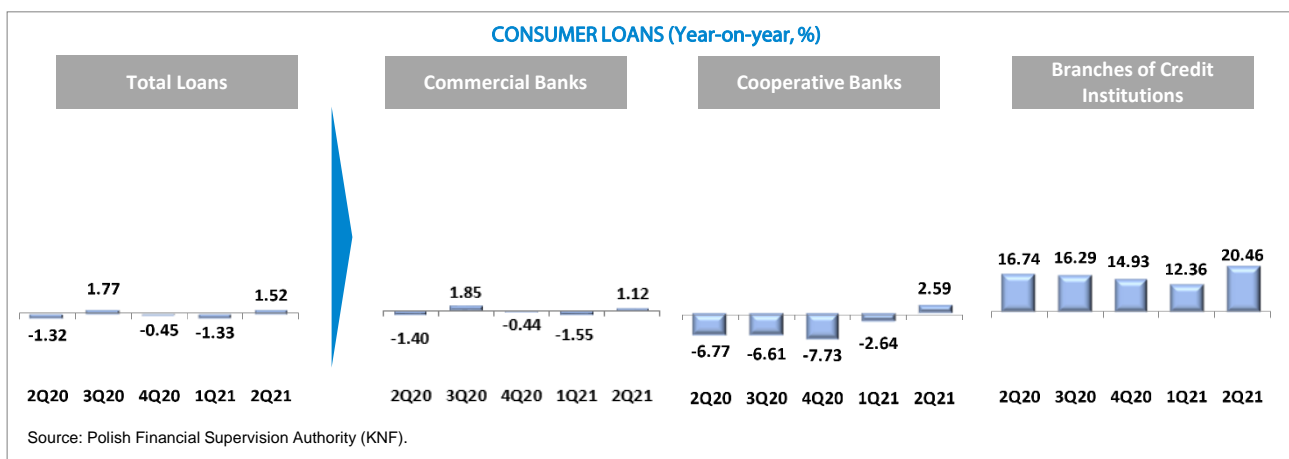


- ▶ In the second quarter of the year, loans granted for house purchases slowed to a y/y rate of 4.03%, which was 0.32 p.p. lower than the growth rate observed in 1Q21.
- ▶ This performance was mainly driven by the deceleration in the growth rate of housing loans granted by commercial banks and branches of credit institutions, which were of 0.42 p.p. and 0.27 p.p., down to 3.99% and -7.70%, respectively.
- ▶ On the other hand, cooperative banks recorded accelerations in their housing loans' growth rate, of 2.32 p.p. up to a rate of 15.98%.

- ▶ The impairment ratio of housing loans decreased vaguely during this quarter by 0.05 p.p. when compared to the previous quarter, standing at 2.46%, the lowest among all loan segments to the non-financial sector.
- ▶ This performance was due to the 0.05 p.p. decrease recorded by commercial banks, down to an impairment ratio of 2.46%, and a 0.07 p.p. deceleration by cooperative banks. The latter remained as the entities with the lowest ratio of housing impaired loans (1.22%).
- ▶ In turn, branches of credit institutions registered an increase of 0.10 p.p. up to ratio of impairment of 4.00%.

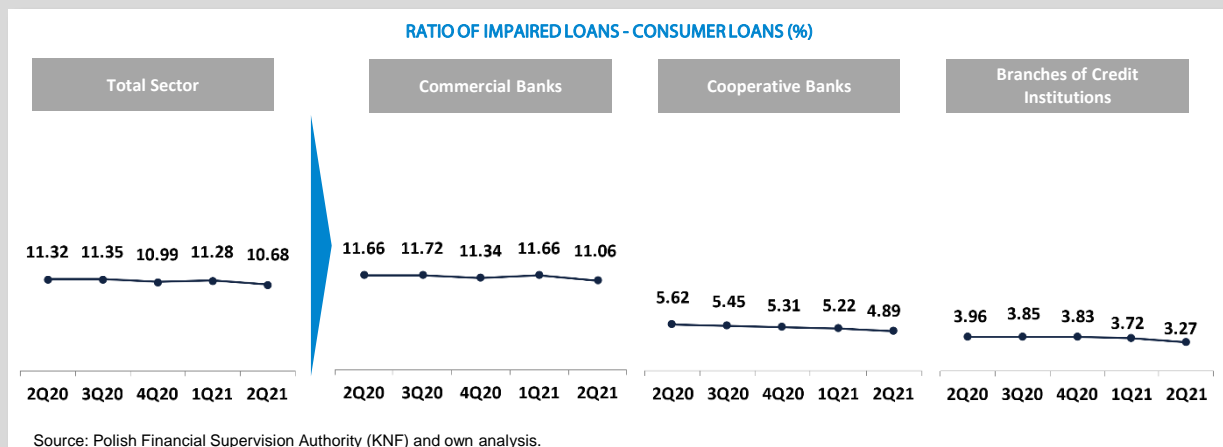


During the second quarter of 2021, consumer loans growth rate accelerated to a rate of 1.52% when compared to the previous quarter. After a deceleration total ratio of impaired consumer loans recorded a ratio of 10.68%.



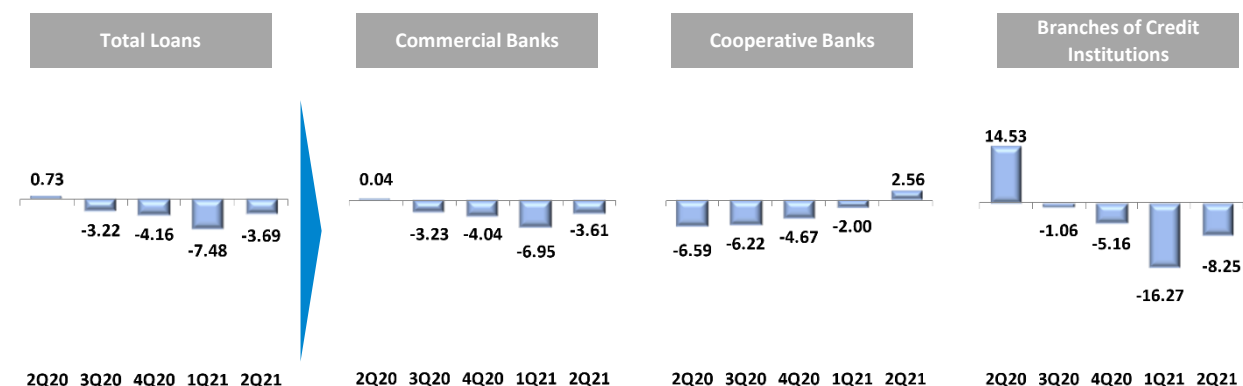
- ▶ The growth rate of consumer loans increased by 2.85 p.p., up to a positive y/y growth rate of 1.52% in the second quarter of 2021.
- ▶ In 2Q21, commercial banks accelerated their growth rate of consumer loans by 2.67 p.p., up to a final rate of 1.12%, and cooperative banks' loan growth accelerated (5.23 p.p.), reaching positive growth levels (2.59%).
- ▶ Finally, branches of credit institutions increased their growth rate by 8.10 p.p. up to 20.46%.

- ▶ The impairment ratio of consumer total loans registered a 0.60 p.p. decrease during the second quarter of the year when compared to the previous quarter, standing at 10.68%.
- ▶ By segments, commercial banks decreased their ratio of impaired loans when compared to the previous quarter, standing at 11.06% (-0.60 p.p.). In turn, cooperative banks recorded a decrease of 0.33 p.p. down to 4.89%. Branches of credit institutions also decreased their ratio of impaired loans by 0.44 p.p. down to 3.27%.



Total corporate loans registered an acceleration in their y/y growth rate during the second quarter of the year, thus standing at -3.69% in 2Q21. This was due to the acceleration experienced in the growth rates of all types of entities. The impairment ratio of corporate loans stood at 8.47%, which was 0.28 p.p. lower than the ratio recorded in the previous quarter.

CORPORATE LOANS (Year-on-year, %)

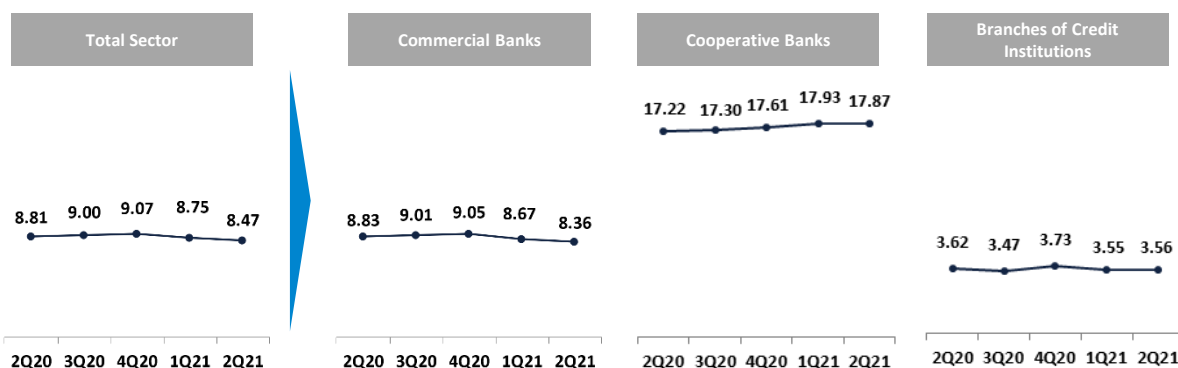


Source: Polish Financial Supervision Authority (KNF).

- During the second quarter, corporate loans growth rate increased up to a rate of -3.69%, 3.79 p.p. higher than the -7.48% rate registered in the previous quarter. All types of institutions showed negative growth rates in their corporate loans during this period, except Cooperative Banks.
- Commercial banks recorded an increase of 3.34 p.p. when compared to the growth rate recorded in the previous quarter, standing at -3.61%. Cooperative banks increased by 4.56 p.p. up to 2.56%. Meanwhile, branches of credit institutions registered an acceleration in their y/y growth rate of 8.02 p.p., up to -8.25%.

- The impairment ratio of corporate loans of the total sector decreased during this quarter. Impaired loans accounted for 8.47% of total corporate loans, showing a decrease of 0.28 p.p. with respect to the previous quarter.
- Commercial banks decreased their impairment ratio of corporate loans by 0.31 p.p. reaching a ratio of 8.36%. Additionally, cooperative banks recorded a decrease of 0.06 p.p. reaching a ratio of 17.87%, during 2Q21, standing as the type of institution with the highest ratio of impaired corporate loans.
- Branches of credit institutions recorded a ratio of 3.56%, after increasing by 0.01 p.p. with respect to the previous quarter.

RATIO OF IMPAIRED LOANS - CORPORATE LOANS (%)

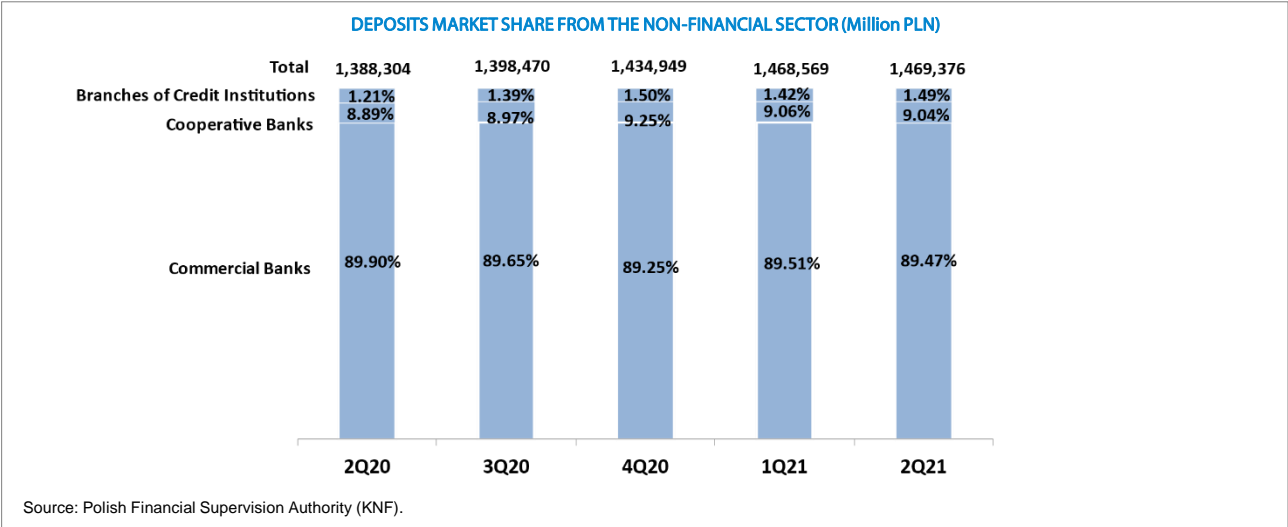


Source: Polish Financial Supervision Authority (KNF) and own analysis.

Deposits

In the second quarter of 2021, the volume of total deposits from the Polish non-financial sector increased by PLN 807 million with respect to 1Q21. In terms of market share, commercial banks decreased their share (0.05 p.p.), which stood at 89.47% when compared to the previous quarter. They remained as the institution segment with the largest portion of total deposits from the non-financial sector.

- ▶ During the second quarter of 2021, the amount of total deposits from the non-financial sector increased in the Polish financial system when compared to the same quarter of the previous year, registering a total volume of PLN 1,469,376 million.
- ▶ In terms of market share, commercial banks continued to register the largest share, representing 89.47% of total deposits. This reflected a decreased of 0.05 p.p. with respect to the share recorded during the previous quarter. On the other hand, cooperative banks decreased their share by 0.02 p.p. (down to 9.04%), while branches of credit institutions increased it by 0.07 p.p. with respect to the previous quarter, up to a share of 1.49%.

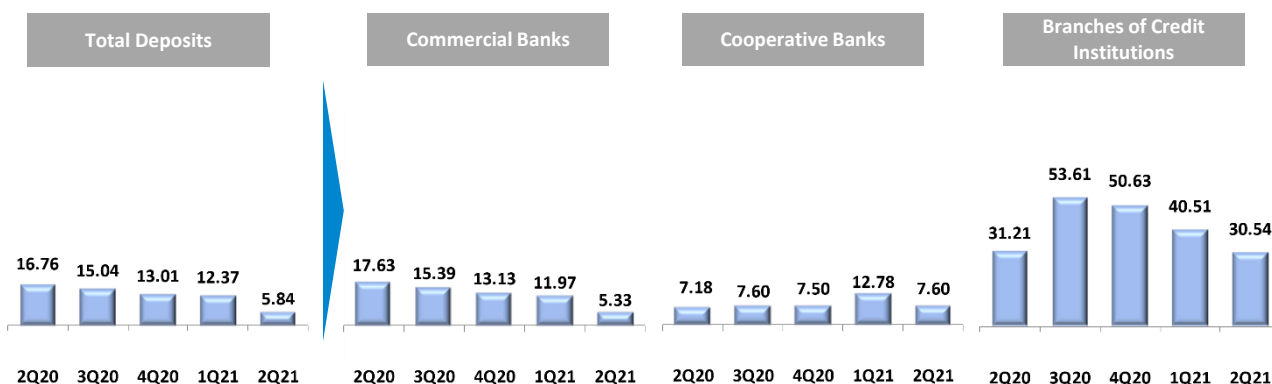


Deposits

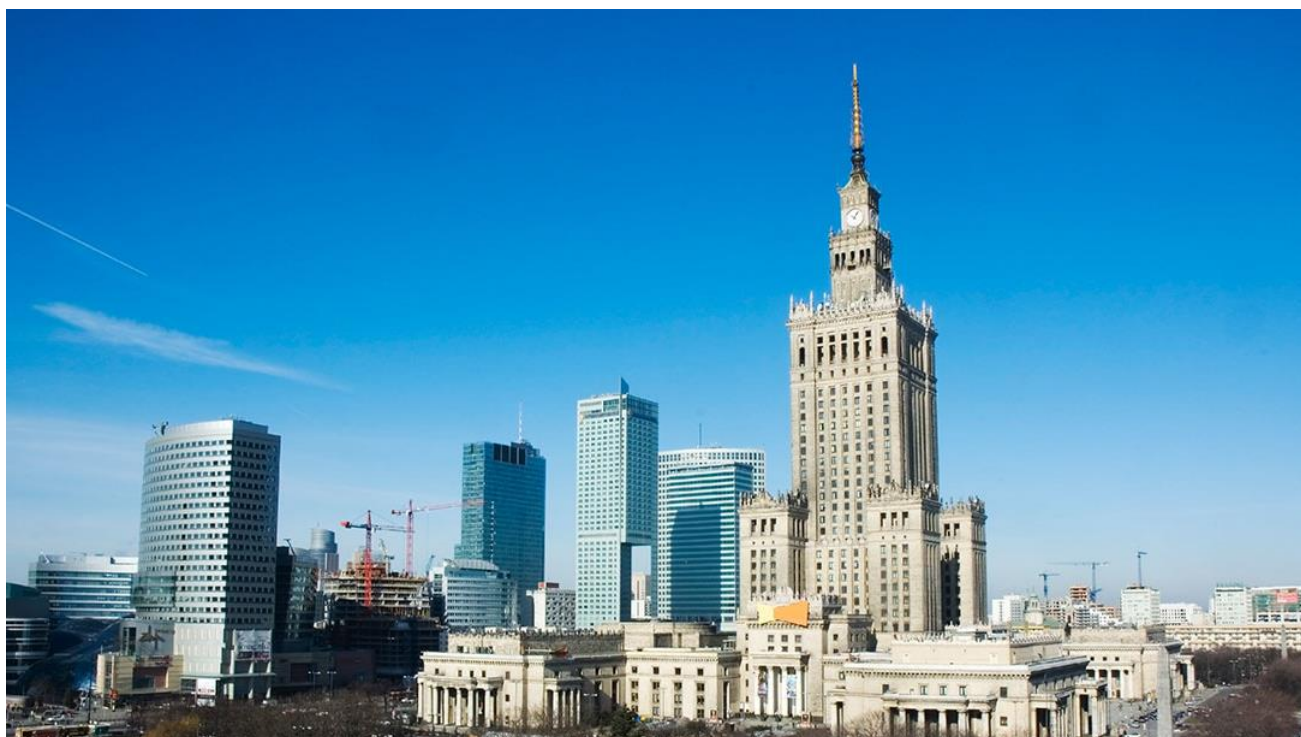
Total deposits decelerated its y/y growth rate by 6.53 p.p., from 12.37 % in 1Q21 to 5.84% in the second quarter of 2021. This performance was mainly driven by the decrease in the growth rate of all type of institutions.

- During the second quarter of 2021, deposits from the non-financial sector decreased their y/y growth rate, down to 5.84%, 6.53 p.p. lower than the rate reached in the previous quarter.
- This deceleration was driven by the decrease in the y/y growth of commercial banks' deposits, cooperative Banks and Branches of Credit Institutions by 6.64 p.p., 5.18 p.p. and 9.97 p.p. when compared to the previous quarter, down to 5.33%, 7.60% and 30.54% respectively.

DEPOSITS TAKEN FROM NON-FINANCIAL CUSTOMERS (Year-on-year, %)



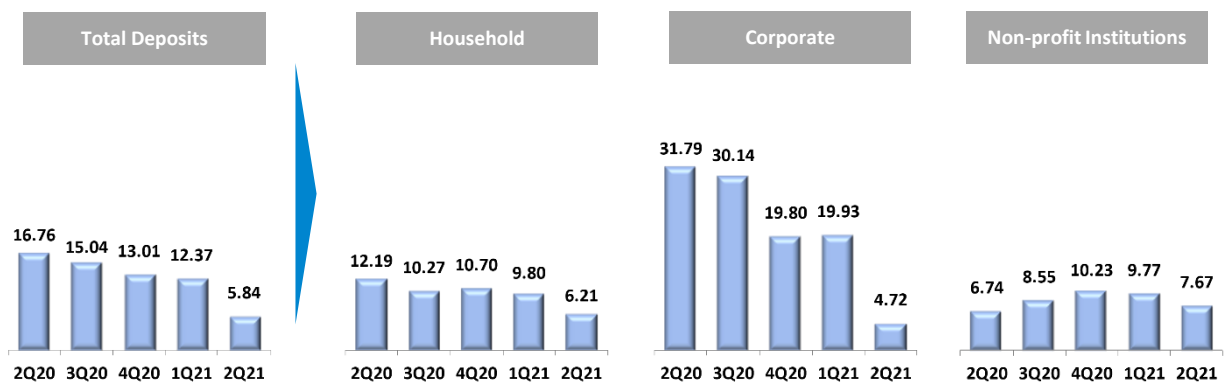
Source: Polish Financial Supervision Authority (KNF).





- ▶ Regarding the type of customer, the decrease experienced in total deposits down to 5.84% in 2Q21 was driven by the behavior of household, Corporate and non-profit institutions.
- ▶ Households' deposits experienced a decrease of 3.58 p.p. in their y/y growth rate compared to 1Q21, registering a growth of 6.21%. As for corporate institutions, they experienced a great fall in their growth rate of 15.21 p.p. down to 4.72%. Furthermore, non-profit institutions experienced a decrease of 2.11 p.p., registering a rate of 7.67%.

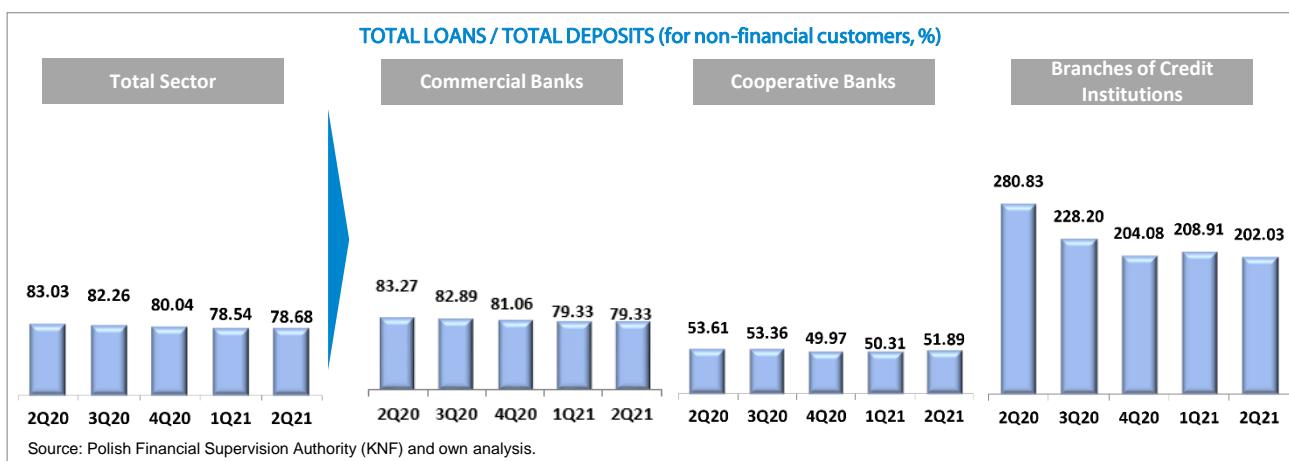
CUSTOMER DEPOSITS (Year-on-year, %)



Source: Polish Financial Supervision Authority (KNF).

LTD Ratio

During the second quarter of 2021, the LTD ratio of the total sector experienced an increase of 0.14 p.p. with respect to 1Q21, standing at 78.68%. Moreover, the LTD registered a decrease of 4.35 p.p. when compared to the same quarter of the previous year. The whole system stood as a net borrower, influenced by commercial and cooperative banks.



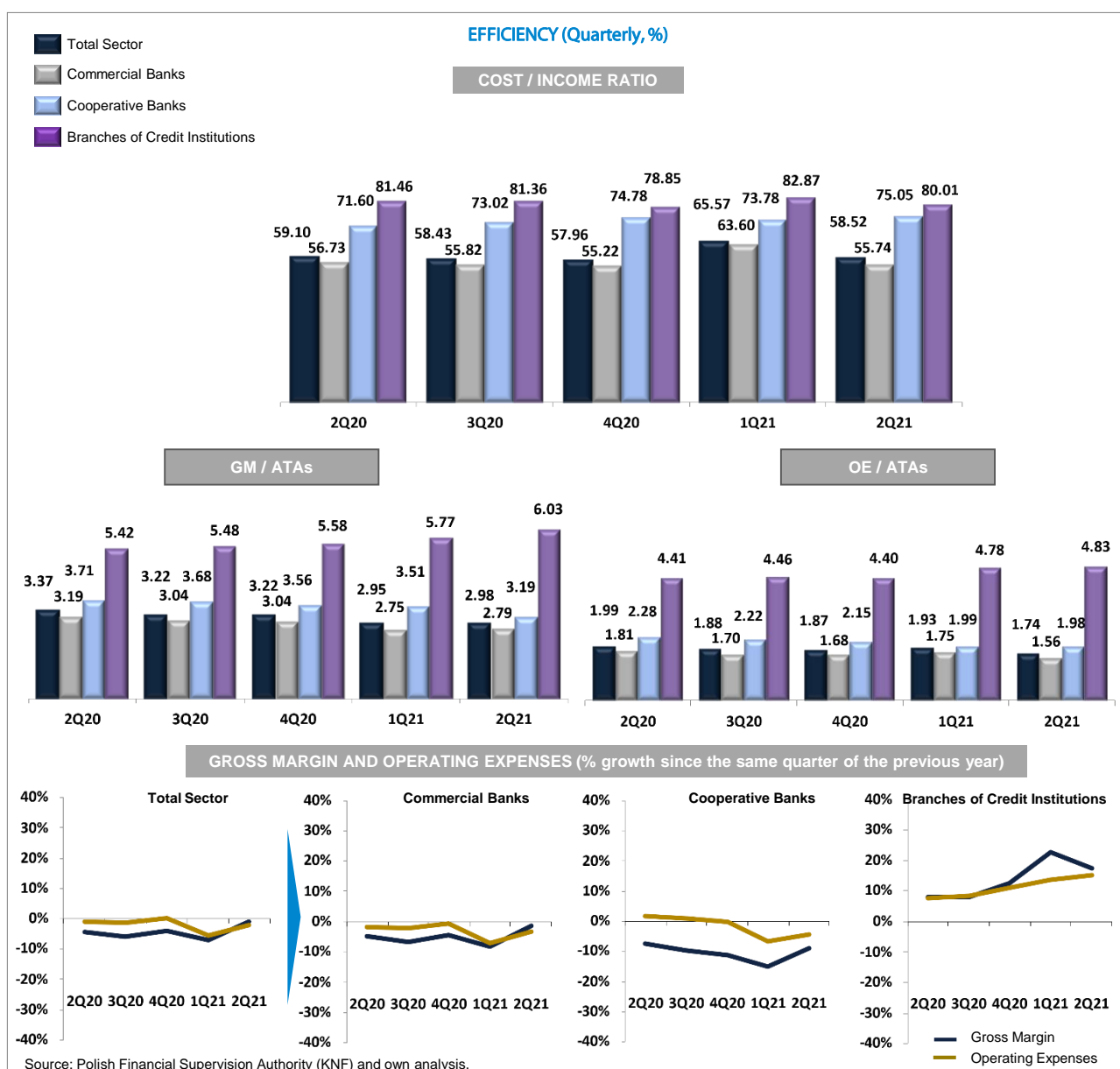
- ▶ During the second quarter of 2021, the LTD ratio of non-financial customers registered a decrease of 4.35 p.p. down to 78.68% when compared to the same quarter of the previous year.
- ▶ All types of institution decreased their loans-to-deposits ratios in this period when compared to 2Q20. Commercial banks recorded a decrease of 3.94 p.p. standing at 79.33% while cooperative banks registered a 1.72 p.p. decrease, standing at 51.89%. Finally, branches of credit institutions ratio decreased by 78.81 p.p. down to a ratio of 202.03%.
- ▶ Thus, the whole system stood as net borrower with a ratio of 78.68%, driven by commercial and cooperative banks which registered a larger volume of deposits than loans. On the other hand, branches of credit institutions were the only type of entity to register a ratio above 100%, thus standing as net lenders (larger volume of loans than deposits).



Efficiency

During the second quarter of 2021, the efficiency ratio in the Polish financial system decreased by 0.57 p.p. when compared to 2Q20, standing at 58.52%. In y/y terms, gross margin stood at -1.04%, whilst operating expenses reached -2.00%.

- ▶ The efficiency ratio of the total financial sector decreased by 0.57 p.p. during the second quarter of 2021 compared to the same quarter of the previous year, standing at 58.52%. The improvement in efficiency was due to a smaller annual decline in gross margin (-1.04%) than in operating expenses (-2.00%).
- ▶ By type of entity, this performance was driven by the decreased experienced by all type of entities except Cooperative Banks. Commercial banks remained the most efficient entity (55.74%).
- ▶ Moreover, when compared with the previous quarter, the total efficiency ratio decreased by 7.04 p.p..
- ▶ Total sector GM/ATA decreased its ratio by 0.39 p.p. with respect to 2Q20, while OE/ATA decreased to a lesser extent, by 0.25 p.p.. Gross margin over assets stood at 2.98% in 2Q21, whilst operating expenditure over average total assets stood at 1.74%.



5. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- ▶ National Bank of Poland (NBP):
<http://www.nbp.pl>
- ▶ Central Statistical Office (GUS):
<http://www.stat.gov.pl/gus>
- ▶ Eurostat:
<http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>
- ▶ World Bank: <http://www.worldbank.org/>
- ▶ International Monetary Fund (IMF):
<http://www.imf.org>
- ▶ Organisation for Economic Co-operation and Development, OECD:
<http://www.oecd.org/home/>
- ▶ European Central Bank:
<http://www.ecb.int/ecb/html/index.es.html>
- ▶ Central Bank of the Republic of Argentina:
www.bcra.gov.ar
- ▶ Central Bank of Chile:
www.bcentral.cl
- ▶ Bank of Mexico:
www.banxico.org.mx
- ▶ Central Bank of Brazil:
www.bcb.gov.br
- ▶ National Administrative Department of Statistics of Colombia (DANE):
<http://www.dane.gov.co/>
- ▶ Bank of the Republic of Colombia:
<http://www.banrep.gov.co/>
- ▶ Central Bank of Venezuela:
www.bcv.org.ve
- ▶ Central Reserve Bank of Peru:
www.bcrp.gob.pe
- ▶ BBVA Research:
<http://www.bbvarresearch.com/KETD/ketd/es/index.jsp>

FINANCIAL SECTOR

- ▶ KNF (Polish Financial Supervision Authority):
<http://www.knf.gov.pl/en/>

GLOSSARY

Cost / income ratio: Operating expenses / operating income.

Gross margin: Net interest income + Net fee and commission income + Dividend income + Net trading income and revaluation + Gains (losses) from other financial securities + Other operating income (expenses).

Ratio of impaired loans: Impaired claims / Total loans.

Return on equity (ROE): Net profit after tax / total equity.

Return on assets (ROA): Net profit after tax / total assets.





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