Poland
3Q18 Economic and Financial Report
# Index

1. Executive summary 4
2. International overview 6
3. Poland macroeconomic overview 10
4. Banking sector: general overview 14
5. Appendix 26
During 3Q18, the Polish economy recorded the same growth than in 2Q18, of 5.10% y/y. While domestic demand registered an acceleration in its y/y growth rate when compared to 2Q18, external demand suffered a slowdown due to the deceleration of exports and the increase of imports. Regarding inflation, CPI accelerated by 0.20 p.p. to a y/y growth rate of 1.97% in 3Q18, mainly driven by the rise of energy and food prices. As for the labour market, the unemployment rate registered a 0.20 p.p. increase since 2Q18, up to 3.80%. On the other hand, the y/y growth rate of employment recorded a decrease of 0.20 p.p. in the third quarter of 2018, standing at 2.70%.

Macroeconomic overview

- During the third quarter of 2018, Polish GDP stood at a 5.10% rate, unchanged when compared with the previous quarter. The drivers of the GDP behaviour were the increase of domestic demand and the slowdown of external demand.
- On the one hand, internal demand accelerated by 1.80 p.p. when compared to 2Q18, to a rate of 6.20% in 3Q18, boosted especially by the acceleration of gross capital formation.
- On the other hand, external demand suffered a slowdown, as exports decelerated its y/y growth by 2.40 p.p., while imports grew by 0.52 p.p. when compared to the last quarter.
- The OECD forecasted a real GDP growth of 5.22% in 2018 and of 3.98% in 2019.
- Household consumption growth stood at 4.50%, thus registering a decrease of 0.40 p.p. when compared to the second quarter of the year.
- Regarding the labour market, the unemployment rate stood at 3.80% after increasing 0.20 p.p. since 2Q18. The y/y growth rate of employment decelerated by 0.20 p.p. with respect to 2Q18, standing at 2.70% in 3Q18.
- The growth rate of the Polish Consumer Price Index accelerated by 0.20 p.p. to a y/y growth rate of 1.97% in 3Q18. The acceleration experienced was caused mainly by the rise of energy and food prices.
- The zloty depreciated against the euro during the third quarter of 2018, with the exchange rate standing at 4.31 PLN/€, 0.05 PLN/€ higher than the one registered in 2Q18, which entailed a depreciation of 1.25%.
- In the third quarter of 2018, WIG20 registered an increase of 5.81% in comparison with the previous quarter, reaching an average value of 2,322 points during the period.
Banking sector

In the third quarter of 2018, total loans to the non-financial sector registered a 4.54% growth rate in 3Q18, 0.17 p.p. higher than the y/y growth rate experienced in the previous quarter. During the third quarter of 2018, the ratio of impaired claims of the total sector decreased by 0.06 p.p., presenting a rate of 7.07%. Moreover, total deposits increased its year-on-year growth rate by 0.69 p.p., to 7.32% in the third quarter of 2018. The efficiency ratio in the Polish financial system decreased by 0.02 p.p. when compared to 3Q17, standing at 56.58%.

During 3Q18, the growth rate of total loans granted to the non-financial sector registered an increase of 0.17 p.p. when compared to 2Q18, standing at a growth rate of 4.54%.

The main drivers of this performance were the accelerations registered in Commercial Banks (0.17 p.p.) and Branches of Credits Institutions (5.70 p.p.).

During the third quarter of 2018, the ratio of impaired claims of the total sector decreased by 0.06 p.p., presenting a rate of 7.07%. This performance was motivated by the decrease registered by Commercial Banks, despite the increase registered by Cooperative Banks.

During the 3Q18, deposits from non-financial customers increased their y/y growth rate, standing at 7.32% in 3Q18, 0.69 p.p. higher than the rate experienced in 2Q18. By type of entity, this acceleration was driven by the performance of Commercial Banks, as they were the only category to experience an acceleration, increasing their y/y growth from 6.44% in 2Q18 to 7.28% in 3Q18.

The efficiency ratio of the total sector decreased by 0.02 p.p. during the third quarter of 2018, standing at 56.58%. This was due to the slower growth of operating costs, 5.60% y/y, against the 5.64% y/y increase in gross margin.
2. International Overview

OECD & China

In 3Q18, GDP growth decelerated from 2Q18 in all countries except Canada. In the OECD as a whole, growth fell to 2.21% (-0.34 p.p.), while China slowed by 0.20 p.p. Unemployment generally declined while inflation intensified.

Macroeconomic Overview

- The world economy continued to expand this quarter, but growth has been disappointing in some regions. 3Q18 data showed strong results in the US (3.40%), but slower growth in China (6.50%), the Eurozone (1.62%) and Japan (0.09%). There were idiosyncratic factors (new fuel emission standards in Germany, natural disasters in Japan) that influenced the activity of advanced economies. But this development took place against a context of weakening financial market confidence and trade policy uncertainty.

- Both the IMF and the OECD expect growth in developed economies to slow in subsequent periods, mainly because of the slower pace expected in the Eurozone, particularly in Germany (low private consumption, weak industrial production), Italy (weak domestic demand and rising cost of financing as sovereign bond yields remain high) and France (negative effects of street protests and strikes).

- However, the key systemic risks to the global economy are twofold: the outcome of trade negotiations and the direction of financial conditions. The signing in November of the US-Mexico-Canada trade agreement and the announcement in December of a 3-month truce between the US and China in their trade dispute were positive developments, but subject to the uncertainty of deeper future negotiations and ratification processes. On the other hand, the main financial tensions endangering global growth are concentrated in the high spread of Italian sovereign debt, the possibility of a Brexit without agreement, the uncertainty regarding the 2019 European elections and the risk of a deeper slowdown than expected in China, with negative consequences for trading partners and world commodity prices.

- Upward pressure on oil prices eased during the summer as OPEC increased production levels, but intensified again in September, with Brent crude rising to 86 USD/bbl following concerns about US sanctions against Iran that pushed the market higher. Thus, inflation accelerated during 3Q18 in all the countries considered, except in the USA where it remained practically constant (2.63%), maintaining the highest rate after Canada (2.68%).

- Unemployment generally fell with respect to 2Q18, with Spain showing the greatest reduction (-0.73 p.p.) but the highest rate, 14.55%. Japan remained the second economy with the lowest unemployment rate in the OECD, at 2.40%.

Financial Sector

- During 3Q18 and compared to 3Q17, S&P upgraded Italy’s rating to BBB. On the other hand, Spain received improvements from Moody’s, S&P and Fitch, rising to Baa1, A- and A-, respectively.

- The Fed raised the target range for the federal funds rate by 25 b.p. to 2.25%-2.50% in December, and set a more gradual rate of growth in 2019 and 2020. The ECB ended its net asset purchases in December, confirming that monetary policy would remain broadly accommodative, without raising the official interest rate until at least the summer of 2019, and with the reinvestment of debt securities continuing well beyond the first rate hike.

- Year-over-year growth in lending accelerated in 3Q18 compared to 2Q18 in all the countries analysed except Spain (which also recorded the lowest rate at -2.86%), Japan and the UK. Italy increased its rate by 1.63 p.p. but remained negative (-2.54%). The highest rate of the period corresponded to China (12.76%), with France in second place (5.69%). Deposits decelerated in all countries in the sample, except Canada and China. After China (8.26%), France recorded the highest growth of 5.45%, practically constant compared to 2Q18.
Economic and Financial Report 3Q18

**GDP 3Q18 (% year-over-year growth rate)**

**UNEMPLOYMENT RATE 3Q18 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
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</thead>
<tbody>
<tr>
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<td>Canada</td>
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<td>Spain</td>
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<td>UK</td>
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<td>USA</td>
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**INFLATION RATE 3Q18 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
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</tr>
<tr>
<td>Canada</td>
<td>2.23</td>
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<tr>
<td>Spain</td>
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<td>2.06</td>
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**LONG TERM RATINGS 3Q18**

<table>
<thead>
<tr>
<th>Country</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<tr>
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<td>AAA –</td>
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</tr>
<tr>
<td>China</td>
<td>A1 –</td>
<td>A+ –</td>
<td>A+ –</td>
</tr>
<tr>
<td>Spain</td>
<td>Baa1 ▲</td>
<td>A- ▲</td>
<td>A- ▲</td>
</tr>
<tr>
<td>France</td>
<td>Aa2 –</td>
<td>AA –</td>
<td>AA –</td>
</tr>
<tr>
<td>Italy</td>
<td>Baa2 –</td>
<td>BBB ▲</td>
<td>BBB ▲</td>
</tr>
<tr>
<td>Japan</td>
<td>A1 –</td>
<td>A+ –</td>
<td>A –</td>
</tr>
<tr>
<td>UK</td>
<td>Aa2 –</td>
<td>AA –</td>
<td>AA –</td>
</tr>
<tr>
<td>USA</td>
<td>Aaa –</td>
<td>AA+ –</td>
<td>AAA –</td>
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**LOANS AND DEPOSITS 3Q18 (year-over-year growth rate)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Loans</th>
<th>Deposits</th>
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<tr>
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<td>Italy</td>
<td>3.36</td>
<td>2.88</td>
</tr>
<tr>
<td>Japan</td>
<td>3.41</td>
<td>2.70</td>
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<tr>
<td>EMU</td>
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<tr>
<td>UK</td>
<td>3.88</td>
<td>3.36</td>
</tr>
<tr>
<td>USA</td>
<td>3.88</td>
<td>3.36</td>
</tr>
<tr>
<td>Average</td>
<td>3.88</td>
<td>3.36</td>
</tr>
</tbody>
</table>
During 3Q18, average year-over-year GDP growth in the Latin American countries analysed slowed by 0.53 p.p. compared to 2Q18 to 1.35%, due to decelerations in Chile and Peru. Inflation increased by an average of 2.29 percentage points, while average unemployment fell after falling in Argentina and Brazil.

Macroeconomic Overview

- During 3Q18, the region experienced net capital outflows as investors reduced their exposure to riskier assets. Greater aversion to global risk, caused by factors such as the normalisation of monetary policy in the USA and the protectionist threat, led to an increase in financial tensions, despite the fact that prices of most commodities remained high. Virtually all countries in the region recorded exchange rate depreciations, losses on stock markets (except the Mexican and Colombian stock exchanges) and increases in risk premia. The region is expected to record a combined GDP growth of 1.30% in 2018.

- Argentina (-3.54%) and Brazil (1.27%) were the most affected by financial volatility, while the impact on other economies was limited. In Mexico (which experienced the greatest acceleration, of 1.06 p.p. to 2.61%), concerns centered on the signing of the trade agreement with the USA and Canada, and the July presidential elections.

- In Argentina, the need for external financing and the lower risk tolerance of global markets led to a sharp depreciation of the peso. In addition, the drought generated a sharp reduction in soybean production, with important effects on GDP, which increased the weakness of the exchange rate. As the increase in local interest rates and fiscal measures were not sufficient to calm the markets, the government requested at the beginning of June the granting of a loan of 50 billion dollars to the IMF. This loan and the measures taken to reduce both the public deficit and inflation helped to reassure the markets to some extent.

- In Brazil, the region’s main economy, growing concern over the deterioration of its public accounts and political uncertainty over the October general elections fuelled volatility, with the real depreciations being strong.

- In the other countries of the region, the depreciation generated by external factors was not reinforced by internal factors, and the perception of the solidity of the macroeconomic environment prevented turbulence such as that seen in Argentina and Brazil from reproducing in these countries.

- Inflation increased overall, as a result of the effects of exchange rate depreciation, higher oil and food prices and the recovery process of domestic demand. In most countries, inflation was under control, except in Argentina, with 35.44% (+11.24 p.p. since 2Q18), higher than the new target of 27% by 2018 established in the agreement with the IMF.

- Unemployment fell in Argentina and Brazil (-0.60 p.p. and -0.50 p.p., respectively), while the lowest rate corresponded to Mexico with 3.46%.

Financial Sector

- In terms of rating, there have been some year-on-year changes in the ratings of several Latin American countries. Argentina was the only country to record an improvement, with Moody’s raising its rating from B3 to B2 and S&P from B to B+. Brazil suffered rating downgrades from S&P and Fitch, both of which left their rating at BB-. Chile also experienced downgrades from Moody’s, receiving A1. S&P downgraded Colombia’s debt rating from BBB to BBB-.

- During 3Q18, the margin for the maintenance of expansive monetary policies in the region was reduced. The BCRA maintained its interest rate at 40%, while the BCB set the Selic rate at 6.50%.

- The average pace of lending by the countries concerned slowed down, accelerating only in Brazil (2.27 p.p.) and Chile (0.85 p.p.). The granting of deposits accelerated on average, after increasing in Argentina (21.21 p.p.), Brazil (4.30 p.p.) and Colombia (2.48 p.p.). Argentina recorded the highest rates, 59.29% for loans and 67.65% for deposits.
**GDP 3Q18 (% Year-over-year growth rate)**

- **Argentina**: -3.54%
- **Brazil**: 1.27%
- **Chile**: 2.82%
- **Colombia**: 2.61%
- **Mexico**: 2.61%
- **Peru**: 2.27%
- **LatAm***: 1.35%

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**UNEMPLOYMENT RATE 3Q18 (%)**

- **Argentina**: 9.00%
- **Brazil**: 11.90%
- **Chile**: 7.17%
- **Colombia**: 9.50%
- **Mexico**: 3.46%
- **Peru**: 6.18%
- **LatAm***: 7.87%

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**INFLATION RATE 3Q18 (%)**

- **Argentina**: 35.44%
- **Brazil**: 4.40%
- **Chile**: 2.81%
- **Colombia**: 3.23%
- **Mexico**: 4.91%
- **Peru**: 1.32%
- **LatAm***: 8.69%

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**LONG TERM RATINGS 3Q18**

<table>
<thead>
<tr>
<th>Country</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<tr>
<td>Perú</td>
<td>A3</td>
<td>BBB+</td>
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</tbody>
</table>

* Increase from 3Q17
* Remains from 3Q17
* Decrease from 3Q17

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**LOANS AND DEPOSITS 3Q18 (Year-over-year growth rate)**

- **Argentina**: 59.29%
- **Chile**: 9.83%
- **Mexico**: 8.21%
- **Brazil**: 9.32%
- **Colombia**: 9.51%
- **Peru**: 13.59%
- **LatAm***: 4.54%

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*LatAm figures calculated including Argentina, Brazil, Chile, Colombia, Mexico and Peru.*
3. Poland macroeconomic overview

In the third quarter of 2018, the Polish economy registered a 5.10% y/y GDP growth rate, which was exactly the same rate recorded in the previous quarter. Domestic demand registered an acceleration of 1.80 p.p. in its y/y growth rate when compared to 2Q18, standing at 6.20% during the third quarter of the year. External demand suffered a slowdown due to the deceleration of exports and the increase of imports.

- During the third quarter of 2018, Polish GDP registered the same y/y growth when compared to 2Q18, standing at 5.10%.
- The drivers of the GDP behaviour were the increase of domestic demand growth and the slowdown of external demand.
- On the one hand, internal demand accelerated by 1.80 p.p. when compared to 2Q18, boosted especially by the acceleration of gross capital formation.
- On the other hand, external demand suffered a slowdown, as exports decelerated its y/y growth by 2.40 p.p., while imports grew by 0.52 p.p. when compared to the last quarter.
- The OECD forecasted a real GDP growth of 5.22% in 2018 and a subsequent deceleration in 2019 with a GDP growth rate of 3.98%.
- The domestic demand accelerated 1.80 p.p. when compared to the previous quarter, to a growth rate of 6.20% in 3Q18.
- The main driver of this performance was the acceleration of gross capital formation, which increased its y/y growth rate by 10.40 p.p. from 2Q18, to a rate of 14.60% in 3Q18. This growth offset the deceleration in final consumption(1), of 0.30 p.p. to a rate of 4.20%.
- The OECD forecasted a y/y domestic demand growth rate of 5.72% in 2018, and a later decrease to 4.50% in 2019.

(1) Final consumption: Private (households + NPISH) consumption + government consumption.
In the third quarter of 2018, household consumption growth stood at 4.50%, thus registering a decrease of 0.40 p.p. when compared to the second quarter of the year.

The OECD expected an acceleration of household consumption growth for 2018, to 4.58%, decelerating afterwards to a rate of 4.23% in 2019.

During this quarter, the growth rate of the Polish Consumer Price Index kept on the upward trend started on the previous quarter, accelerating by 0.20 p.p. to a y/y growth rate of 1.97% in 3Q18.

According to the National Bank of Poland, the acceleration experienced in prices was caused mainly by the rise of energy and food prices.

Despite wages increased faster than in the previous year, consumer price growth remained moderate.

In contrast, core inflation(2), remained low, running at 1.10% y/y in 3Q18.

The OECD forecasted an inflation rate of 1.94% in 2018 to a posterior increase in the annual growth of prices of 2.69% in 2019.

(2) Core inflation: Change in costs of goods and services, not including those from the food and energy sectors (because their prices are much more volatile).
In the third quarter of 2018, the unemployment rate in Poland registered an increase of 0.20 p.p. since 2Q18, up to 3.80%. On the other hand, the y/y growth rate of employment recorded a decrease of 0.20 p.p. when compared to the rate recorded in the second quarter of 2018, standing at 2.70%. 

- The Polish unemployment rate stood at 3.80% in the third quarter of 2018, registering a 0.20 p.p. rise from 2Q18.
- This quarter broke the downward trend registered during eight consecutive quarters of continued decreases in the unemployment rate; although, according to the National Ban of Poland, it still remained below its long-term average.
- The OECD forecasted a reduction in the unemployment rate for 2018 and 2019, down to 3.69% in 2018 and 3.22% in 2019.
- During the third quarter of 2018, the y/y growth rate of employment decreased by 0.20 p.p. to 2.70%.
- The National Bank of Poland claimed that many companies faced recruitment difficulties, as reflected in the relatively high share of firms reporting vacancies.
- Furthermore, the National Bank of Poland considered that the steady growth of the economy drove up the demand for labor, which translated into increases in employment, though slightly decelerating, due to a lesser supply of labor.
- High demand of employees and faster wage growth than in previous years encouraged to enter and remain in the labor market.
During the third quarter of 2018, Polish bond interest rates decreased compared to those registered in the third quarter of 2017, except for the shorter durations, and generally increased with respect to 3Q16 with the exception of 2M-2Y bonds. The Polish Zloty (PLN) depreciated in comparison with 2Q18, registering a quarterly average of 4.31 PLN/€, an increase of 0.05 PLN/€. WIG20 registered an escalation of 127 points compared to the previous quarter, reaching 2,322 points in 3Q18.

- During the third quarter of 2018, the Polish sovereign bond yield curve was flatter than the one registered in 3Q17, due to increased rates in the shorter durations bonds and falls in the longer ones.
- According to the National Bank of Poland, government bond yields in Poland have been relatively stable, although participation of non-residents in the domestic sovereign bond market has declined since the beginning 2Q18.
- The zloty depreciated against the euro during the third quarter of 2018, with the exchange rate standing at 4.31 PLN/€, 0.05 PLN/€ higher than the one registered in 2Q18 and the one registered in 3Q17, which entailed a depreciation of 1.25%.
- However, when compared to the US dollar, the depreciation was greater, primarily due to the weakening of the euro against the American currency(3).
- In the third quarter of 2018, WIG20, the main stock index of Poland, registered an increase of 5.81% (+127 points) in comparison with the previous quarter, reaching 2,322 points during the period.
- Compared to 3Q17, WIG20 decreased by 5.13%.
- Contrasting with the general behaviour of emerging economies during the period, Poland has remained resilient to the turmoil in the financial markets.

(3) The zloty depreciated against the USD by 3.60% when compared to 2Q18 (-0.13 PLN/$), to an average exchange rate of 3.70 PLN/$ during 3Q18.
During 3Q18, the loan mix within the private sector registered a similar distribution when compared to the previous quarter. Housing loans represented the largest segment (43.33%), followed by corporate loans (38.79%) and consumer loans (17.88%). As for the loan market share to the non-financial sector, Commercial Banks remained as the segment with the highest share (92.95%).

During the third quarter of 2018, the mix of loans within the private sector recorded a similar distribution in its composition when compared to the previous quarter.

The share of loans conceded for housing dropped to 43.33%. The amount of loans granted to corporations over total loans rose to 38.79% in 3Q18. Lastly, the amount of loans granted to consumers stood at 17.88% in this quarter.

In terms of market share by type of institution, Commercial Banks continued as the largest segment (92.95%), after an increase of 0.17 p.p. of their share with respect to 3Q17.

Cooperative banks’ loans supposed 6.23% of total loans, after decreasing their share by 0.10 p.p. with respect to 3Q17.

For its part, loans from Branches of Credit Institutions recorded a share of 0.82% after a decrease of 0.07 p.p. when compared to 3Q17.

According to the National Bank of Poland, banks tightened credit standards of corporate and housing loans, specially on the latter ones. On the other hand, banks eased lending standards on consumer loans, with respect the previous quarter.
Total loans registered a 4.54% growth rate in 3Q18, 0.17 p.p. higher than the y/y growth rate experienced in the previous quarter. The main drivers of this performance were the accelerations registered in Commercial Banks (0.17 p.p.) and Branches of Credit Institutions (5.70 p.p.). Cooperative Banks continued presenting the highest ratio of impaired loans at 8.83%, 0.07 p.p. above the previous quarter’s figure. Branches of credit institutions continued to register the lowest impairment ratio, registering the same rate obtained in 2Q18, 1.22%.

- During 3Q18, the growth rate of total loans granted to the non-financial sector registered an increase of 0.17 p.p. when compared to 2Q18, standing at a growth rate of 4.54%.
- This performance was driven by the increases registered in the loans’ growth rates of Commercial Banks and Branches of Credit Institutions. These categories registered escalations of 0.17 p.p. and 5.70 p.p. respectively over the last quarter. The rates registered by these sections where of 4.73% and -3.82%.
- On the other hand, Cooperative Banks suffered a fall of 0.64 p.p., registering a growth rate of 2.90%.

- During the third quarter of 2018, the ratio of impaired claims of the total sector decreased by 0.06 p.p., presenting a rate of 7.07%. This performance was motivated by the decrease registered by the impaired loans of Commercial Banks, despite the increase registered by the ratio of Cooperative Banks.
- Commercial Banks decreased their impairment ratio by 0.07 p.p. while Cooperative Banks experienced an increase of 0.07 p.p. Meanwhile, Branches of Credit Institutions registered the lowest impairment ratio in the third quarter of the year, of 1.22%, which was the same rate recorded in 2Q18.
During the third quarter of 2018, housing loans registered an increase of 0.66 p.p. in their year-over-year growth rate when compared to the previous quarter. This performance was explained by the increases registered in Commercial Banks and Branches of Credit Institutions categories. Total housing loans registered a decrease in the ratio of impaired loans, which was 0.12 p.p. lower than the value registered in 2Q18, standing at a 2.50% rate.

- In 3Q18, loans granted for house purchases stood at a growth rate of 3.68%, which was 0.66 p.p. higher than the growth rate observed in 2Q18.
- Both Commercial Banks and Branches of Credit Institutions categories registered accelerations on their growth rates with respect to the previous quarter. Commercial Banks’ growth rate stood at 3.52% after an increase of 0.68 p.p. Branches of Credit Institutions continued to reduce their housing loans, albeit at a slower pace: the y/y growth rate was -64.82% in 3Q18 compared with -65.12% in 2Q18.
- On the other hand, Cooperative Banks recorded a deceleration of 0.75 p.p., placing the rate at 14.57%.

- The impairment ratio of housing loans decreased during this quarter 0.12 p.p. compared to the previous quarter, standing at 2.50%, the lowest among all loan segments to the non-financial sector.
- This performance was due to the decreases of 0.13 p.p. in Commercial Banks and of 0.03 p.p. in Cooperative Banks, despite the increase of 1.10 p.p. registered by Branches of Credit Institutions.
- Cooperative Banks remained as the category with the lowest ratio of impaired loans.

Source: Polish Financial Supervision Authority (KNF).
During the third quarter of 2018, consumer loans growth decelerated to a rate of 6.46%. Although all institutions decreased their growth rate when compared to 2Q18, only Branches of Credit Institutions registered a negative consumer loans rate. Total ratio of impaired consumer loans recorded a decrease of 0.16 p.p., driven by the reductions experienced by Commercial Banks and Branches of Credit Institutions.

- Consumer loans’ growth rate decreased by 1.30 p.p., standing at 6.46% in the third quarter of 2018, as all kind of Institutions decelerated the loans granted to consumers when compared to the previous quarter.
- In 3Q18, Commercial Banks registered a deceleration of 1.32 p.p. to a final growth rate of 7.42%. Cooperative Banks and Branches of Credit Institutions behaved similarly, after decreasing both of them 0.27 p.p. their growth rates, standing at 1.12% and -50.98%, respectively.

- The impairment ratio of consumer total loans registered a 0.16 p.p. decrease during the third quarter of the year when compared to the previous quarter, standing at 10.93%. Consumer loans recorded the highest impairment ratio of all loan types in the non-financial sector.
- By segments, Commercial Banks and Branches of Credit Institutions decreased their ratio of impaired loans when compared to the previous quarter, down by 0.17 p.p. to 11.17% and 0.09 p.p. to 2.77%, respectively. Cooperative Banks increased its ratio up to 6%, which represented an escalation of 0.13 p.p.
Total corporate loans registered a shrinkage in their y/y growth rate during the third quarter of the year, decreasing from 6.03% in 2Q18 to 5.97% in 3Q18. This was due to the decelerations experienced by the growth rates of Commercial and Cooperative Banks, despite the acceleration in the growth of Branches of Credit Institutions. The impairment ratio of corporate loans stood at 8.95%, which was only 0.03 p.p. below the ratio recorded in the previous quarter.

During 3Q18, Commercial and Cooperative Banks drove the deceleration of total corporate loans. The former registered a decrease of 0.13 p.p., when compared to the growth rate recorded in the previous quarter, standing at 6.22%, and the later registered a decrease of 1.59 p.p., standing at a 1.89% growth rate.

Meanwhile, Branches of Credit Institutions registered an acceleration in their y/y growth rate of 2.44 p.p., expanding to 5.96%.

The impairment ratio of corporate loans of the total sector decreased during this quarter. Impaired loans represented the 8.95% of total corporate loans, showing a decrease of 0.03 p.p. with respect to the previous quarter.

Commercial Banks and Branches of Credit Institutions drove this behavior, as they decreased their impairment ratio of corporate loans by 0.03 p.p. and 0.01 p.p., respectively. Commercial Banks impaired loans ratio stood at 8.98% while Branches of Credit Institutions recorded a ratio of 0.29%. On the other hand, Cooperative Banks increased their impairment ratio by 0.16 p.p. up to 17.55%.
Total deposits from the Polish non-financial sector registered an increase in their volume of PLN 75,184 million with respect to 3Q17. In terms of market share, Commercial Banks decreased their share (-0.03 p.p.), which stood at 89.50%. They remained as the category with the largest portion of deposits from the non-financial sector.

- During the third quarter of 2018, 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 volume of PLN 1,102,159 million.

- In terms of market share, Commercial banks continued to register the highest share, representing the 89.50% of the total of deposits. This supposed a decrease of 0.03 p.p. with respect to the share of the previous year. Meanwhile, Branches of Credit Institutions decreased their share by 0.08 p.p. (to a share of 0.77%), while Cooperative Banks increased by 0.11 p.p. their market share, to 9.73%.
Total deposits increased its year-on-year growth rate by 0.69 p.p., from 6.63% in 2Q18 to 7.32% in the third quarter of 2018. This performance was mainly driven by the increase in the growth of Commercial Banks, which registered a rise of 0.84 p.p. when compared to 2Q18, despite the decelerations in the growth rates of Cooperative Banks and Branches of Credit Institutions, registering the last a negative rate of -2.45%.

- During the third quarter of the year, deposits from non-financial customers increased their y/y growth rate, standing at 7.32% in 3Q18, 0.69 p.p. higher than the rate experienced in 2Q18.
- By type of entity, this acceleration was driven by the performance of Commercial Banks, as they were the only category to experience an acceleration, increasing their y/y growth from 6.44% in 2Q18 to 7.28% in 3Q18. Cooperative Banks and Branches of Credit Institutions saw their growth rates fall with respect to the previous quarter: down by 0.08 p.p. to 8.52% and 7.35 p.p. to -2.45%, respectively.
Regarding the type of customer, the increase experienced in total deposits in 3Q18 was driven by the positive performance of the household segment.

Household deposits experimented an increase of 1.39 p.p. in their year-on-year growth rate, registering a variation of 8.03%. On the other hand, Corporate deposits stood at 5.12% after decreasing by 1.11 p.p. Lastly, with regards to Non-profit Institution deposits, their registered a deceleration of 1.61 p.p., thus standing at 9.16% in 3Q18.

### CUSTOMER DEPOSITS (Year-on-year, %)

<table>
<thead>
<tr>
<th></th>
<th>Total Deposits</th>
<th>Household</th>
<th>Corporate</th>
<th>Non-profit Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q17</td>
<td>5.15</td>
<td>5.50</td>
<td>3.70</td>
<td>10.35</td>
</tr>
<tr>
<td>4Q17</td>
<td>4.11</td>
<td>4.18</td>
<td>3.64</td>
<td>7.73</td>
</tr>
<tr>
<td>1Q18</td>
<td>4.86</td>
<td>4.79</td>
<td>4.54</td>
<td>10.79</td>
</tr>
<tr>
<td>2Q18</td>
<td>6.63</td>
<td>6.64</td>
<td>6.23</td>
<td>10.77</td>
</tr>
<tr>
<td>3Q18</td>
<td>7.32</td>
<td>8.03</td>
<td>5.12</td>
<td>9.16</td>
</tr>
</tbody>
</table>

Source: Polish Financial Supervision Authority (KNF).
During the third quarter of 2018, the LTD ratio of the total sector experienced a decrease of 2.57 p.p. with respect to 3Q17, standing at 96.49%. This performance was driven by the reduction in all type of institutions, with respect to the same quarter of the previous year, as total deposits grew faster than total loans.

![Total Loans vs Total Deposits](chart.png)

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

- During the third quarter of 2018, the LTD ratio for non-financial customers registered a decrease of 2.57 p.p. when compared to the same quarter of the previous year. This reflected the higher y/y growth of deposits (7.32%) than the registered in loans (4.54%).

- This performance was driven by a 2.45 p.p. reduction in Commercial Banks (to 100.21%), a drop of 3.38 p.p. in Cooperative Banks (to a ratio of 61.79%) and a fall of 1.46 p.p. (registering a 102.22%) in Branches of Credit Institutions.

- Thus, the whole system stood as net borrower with a ratio 96.49%, as Cooperative Banks registered a ratio well below from 100%.

- The LTD ratio for non-financial costumers decreased during 2017, therefore continuing the downward trend initiated in 2013, as the ratio stood at 94.81% at the end of the year. This performance was driven by the annual LTD ratio decrease experienced in all of the three segments.

- As for Commercial Banks, they reduced their ratio by 0.44 p.p., when compared to the previous year, to 98.43%. Cooperative Banks stood at a 60.77% rate after decreasing 2.92 p.p., whilst Branches of Credit Institutions experienced the highest fall of the non-financial costumers, of 157.02 p.p., reaching a rate of 108.98% by the end of 2017.

**Source:** Polish Financial Supervision Authority (KNF) and own analysis.
During the third quarter of 2018, the efficiency ratio in the Polish financial system decreased by 0.02 p.p. when compared to 3Q17, standing at 56.58%. The gross margin grew at a year-over-year rate of 5.64%, whilst operating expenses had a variation of 5.60%.

- The efficiency ratio of the total sector decreased by 0.02 p.p. during the third quarter of 2018, standing at 56.58%. This was due to the slower growth of operating costs, 5.60% y/y, against the 5.64% y/y increase in gross margin.
- This performance was driven by the decrease of 0.35 p.p. experienced by Commercial Banks, despite the increases recorded by Cooperative Banks and Branches of Credit Institutions.
- Total sector GM/ATA and OE/ATA ratio remained the same when compared with 3Q17. Gross margin over assets stood at 3.78% in 3Q18, whilst operating expenditure over average total assets was 2.14%, remaining constant with respect to the same quarter of the previous year.
5. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- National Bank of Poland (NBP): http://www.nbp.pl
- International Monetary Fund (IMF): http://www.imf.org
- 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 Reserve Bank of Peru: www.bcrp.gob.pe

FINANCIAL SECTOR


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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