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# Annual Report

## on Macroprudential Supervision Activity of the Financial Stability Committee 2020



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**Annual Report**  
**on Macroprudential Supervision Activity**  
**of the Financial Stability Committee**  
**2020**

Warsaw, 2021



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# Foreword

*Dear Sirs,*

*The year 2020 was extremely difficult in many dimensions, covering economic, social and financial spheres. The COVID-19 pandemic made it necessary to deal with many months of lockdown of the economy. Initial economic forecasts raised concerns about the further development of the situation and enormous uncertainty in all aspects of social and economic life.*

*Looking back one year on, I believe that in those special circumstances the Financial Stability Committee successfully fulfilled the tasks entrusted to it, taking a series of decisions resulting in the mitigation of risk in the financial system.*

*In immediate response to the pandemic-related crisis, in March 2020 the Financial Stability Committee decided to issue a recommendation on repealing the obligation to apply the systemic risk buffer, which released banks' capital worth approximately PLN 30 billion, providing these institutions the room to continue lending and absorb any possible losses. The recommendation on the lowering of certain risk weights had a similar objective. Towards the end of the year, work was undertaken on a recommendation on reducing the burden related to the financing of the bank guarantee fund, which resulted in the decision of the Bank Guarantee Fund to reduce the banks' contributions in 2021.*

*Responses serving to mitigate the effects of the pandemic on the financial system did not obscure the Committee's need to continue its activities related to responding to challenges of a structural nature. In 2020 the Committee was engaged in preparing a recommendation on measures to support the stable functioning of cooperative banks and the cooperative savings and credit unions sector. The legal risk of FX housing loans and the impact of court rulings on the situation of banks were also regularly analysed by the Committee.*

*I would like to stress that it would not have been possible to conduct macroprudential policy on such a level without the analytical capital and human resources of all the institutions involved, including Narodowy Bank Polski, which provides support to the Committee.*

*I am convinced that in the coming years the macroprudential policy conducted by the Committee will continue to significantly contribute to the maintenance of the stability of the Polish financial system.*

*Adam Glapiński  
Governor of Narodowy Bank Polski  
Chairperson of the Financial Stability Committee  
for macroprudential supervision*

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# 1. Work of the Financial Stability Committee in its macroprudential capacity in 2020

## 1.1. Composition of the Committee

The Financial Stability Committee, a body chaired by the President of Narodowy Bank Polski<sup>1</sup>, has – since December 2015 – performed tasks that shape macroprudential policy<sup>2</sup> under the Act of 5 August 2015 on *macroprudential supervision of the financial system and crisis management*<sup>3</sup> (hereinafter the “Act on macroprudential supervision”).

**The Financial Stability Committee in its macroprudential capacity (FSC-M) is a collegial body composed of the following:**

- Adam Glapiński, the Governor of Narodowy Bank Polski – Chairperson of the FSC-M,
- Tadeusz Kościński, the Minister of Finance,
- Jacek Jastrzębski, the Chairman of the Polish Financial Supervision Authority,
- Piotr Tomaszewski, the President of the Bank Guarantee Fund.

In 2020, in connection with the change at the position of President of the Bank Guarantee Fund (BFG), the composition of the ESC changed accordingly after Piotr Tomaszewski was appointed President of the BFG on 9 March 2020.

### FSC tasks

**The Committee, as a body competent for macroprudential policy matters, has continued to fulfil the statutory objective**, contained in Article 1(2) of the Act on macroprudential supervision, to *“strengthen the resilience of the financial system in the event of materialisation of systemic risk, and, in consequence, to support long-term and sustainable economic growth of the country.”*

A new cyclical obligation was added to the list of the Committee’s statutory tasks in 2020. In addition to tasks specified in Article 5 of the Act on macroprudential supervision, since 2020 the FSC is required to prepare **an opinion on a quarterly basis on the level of lenders’ contribution to the Borrowers’ Support Fund** (hereinafter “the FWK”), which forms the basis for determining

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<sup>1</sup> In accordance with the act, the Financial Stability Committee, in the same composition but chaired by the Minister of Finance, performs crisis management tasks (FSC-C).

<sup>2</sup> The terms “macroprudential policy” and “macroprudential supervision”, as synonyms, are used in this text interchangeably.

<sup>3</sup> Journal of Laws 2021, items 140 and 680.

the quarterly amount of the contribution by the FWK Board. This obligation is imposed on the FSC-M by the Act of 9 October 2015 *on support to home loan borrowers who are in a difficult financial situation*.<sup>4</sup>

As part of its mandate, the FSC also delivers a number of other **opinions**; however, they are issued on request of a financial safety net institution.<sup>5</sup>

## 1.2. Committee meetings and adopted resolutions

In 2020, the FSC-M held six meetings, including four scheduled and two unscheduled ones.

### 1.2.1. Scheduled meetings

Meetings **scheduled** in the annual timetable of FSC-M work were held on the following days: **16 March, 15 June, 21 September and 11 December 2020**. The standing items on the agenda of each of the meetings were as follows:

- **systemic risk assessment** based on the conclusions from the questionnaire survey<sup>6</sup> in which all institutions represented in the Committee participate,
- **analysis of developments in the residential real estate market** (continued from September 2017),
- **a resolution on the level of the countercyclical buffer rate** and submission of information of the countercyclical buffer to the ESRB (a recommendation in this resolution is addressed to the Minister of Finance),
- information on the work of the **Permanent Working Group**,
- **an information document entitled** A Review of European Macroprudential Policy Affairs,
- **monitoring the progress of implementation of recommendations** issued by the Committee.

Following the announcement of the state of epidemic threat and entry into force of the Act of 2 March 2020 *on specific solutions related to the prevention, counteraction and eradication of COVID-19*,

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<sup>4</sup> Journal of Laws 2019, item 2138 and Journal of Laws 2021, item 11.

<sup>5</sup> E.g. an opinion pursuant to Article 39 of the Act on macroprudential supervision (identification of O-SII), pursuant to Article 137(2) of the Banking Act – issuing a recommendation by KNF after consulting the FSC or pursuant to Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 *on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC*.

<sup>6</sup> A description of the systemic risk assessment survey and the systemic risk assessment and identification methodology is presented in Chapter 6. Systemic risk.

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*other infectious diseases and crisis situations caused by them*<sup>7</sup>, the Minister of Finance received the delegated power to change the deadlines arising from the Act on macroprudential supervision for, among others, fulfilment of the obligation to set the value of the countercyclical buffer guide and for assessment of the level of the countercyclical buffer rate, as both should be carried out by the Committee on a quarterly basis. As result of changes introduced by the regulation of the Minister of Finance<sup>8</sup>, the deadline for performance of the obligation was postponed to the third quarter of 2020. Therefore, in that quarter the Committee issued a recommendation on the countercyclical buffer rate for two quarters. In the first and fourth quarters of 2020, the FSC recommendation concerned, as usual, only one quarter. In all the cases, the Committee recommended maintaining the countercyclical buffer rate at an unchanged level of 0%. At each of the meetings, the Minister of Finance accepted the recommendations of the Committee and acknowledged that there was no need to take legislative measures in this area.

After each meeting of the FSC-M, its resolutions were posted on the NBP website under the “Macroprudential supervision” tab and they included explanatory notes and the following information<sup>9</sup>:

- the level of the applicable countercyclical buffer rate,
- the value of the countercyclical buffer guide,
- the credit to GDP ratio,
- the indicator of deviation from the long-term trend of change in the credit to GDP ratio.

Acting in accordance with the FSC-M authorisation, after each meeting Narodowy Bank Polski also immediately communicated to the ESRB the level of the applicable countercyclical buffer rate.

In addition to fulfilment of the standing items on the meeting agenda, in 2020 the Committee focused primarily on remedial action aimed at mitigating the impact of the COVID-19 pandemic on Poland’s financial system and economic environment.

**In the first quarter, the 16 March meeting** concerned in particular the discussion of current developments and possible remedial actions to mitigate the impact of the spread of the pandemic on domestic financial institutions and economic environment. The Committee members acquainted themselves with a document entitled *Review of the systemic risk buffer with regard to COVID-19 pandemic*. According to the Committee, given the circumstances it was necessary to take urgent action aimed at reducing the negative impact of the COVID-19 pandemic on the domestic banking sector. The Committee decided to submit to the Minister of Finance a recommendation to

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<sup>7</sup> Journal of Laws 2020, items 1842, 2112, 2113, 2123, 2157,2255, 2275, 2320, 2327, 2338, 2361 and 2401, and Journal of Laws 2021, items 11, 159 and 180.

<sup>8</sup> The postponement of deadlines, referred to in Article 23(1) and Article 24(2) of the Act on macroprudential supervision, by one quarter was made by § 7 paragraph. 2 of the Regulation of the Minister of Finance of 7 April 2020 *on determining other deadlines for performing certain reporting and information obligations* (Journal of Laws 2020, item 622 and 1243).

<sup>9</sup> In line with the requirements of Article 25 of the Act of 5 August 2015 *on macroprudential supervision of the financial system and crisis management*.

immediately repeal the obligation to apply the systemic risk buffer by financial institutions. The Committee found that repealing the obligation to keep capital to cover the buffer reduces the risk of credit crunch and will support the economy and financial stability.

**In the second quarter, at its 15 June meeting,** the Committee studied conclusion from NBP's regular reports:

- *Financial Stability Report – Special Issue: impacts of the Covid-19 pandemic* and
- *Report on Macroeconomic Stability of the Polish Economy.*

The Committee approved the annual *Report on Macroprudential Supervision Activity of the Financial Stability Committee 2019* and consented to submit the document to the Speaker of the Polish Sejm. Like every year, the report is made available to the public on the NBP website.

Members of the Committee became familiar with the assessment of the possible impact of the introduction of legal solutions related to credit holidays on the condition of the banking sector. The Committee said that even when credit holidays are used by clients to a small extent, this may contribute to worsening the liquidity position of banks, and pointed out that it is important for banks to take an approach intended to mitigate the effects of the crisis sparked by COVID-19.

The Committee agreed with the request to postpone until 30 June 2021 the deadline for banks to implement the provisions of the amended Recommendation S due to the fact that the amendment does not affect systemic risk and may reduce the range of operational burdens on banks during the COVID-19 pandemic.

The Committee accepted a new version of the methodology of identifying the Systemically Relevant Entities (PSI). According to the methodology, all credit institutions identified as O-SII are at the same time members of the group of PSI.

To analyse the situation in the sector of cooperative banks and sector of credit unions and draft the necessary solutions for these sectors and to support their stable functioning, the Committee set up a working group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector (GRASS – see Chapter 1.4)

In the fulfilment of its obligations related to the implementation of ESRB recommendations, the Committee studied the results of monitoring of French, Finnish, Swedish and Estonian exposures associated with the mechanism of reciprocating macroprudential instruments applicable in EU countries. In the case of French, Finnish and Swedish exposures, the FSC-M judged that there are still reasons justifying non-reciprocity of such instruments. For Estonian exposures, due to the release of the systemic risk buffer in Estonia in May 2020, the Committee released NBP of the obligation to continue to monitor Polish banks' exposures in this country. The Committee also took note of the results of an annual analysis aimed at identifying and monitoring material third countries for the purposes of recognizing and setting countercyclical buffer rates, in line with the ESRB recommendation on *recognising and setting countercyclical buffer rates for exposures to third*

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*countries* (ESRB/2015/1). The analysis confirmed the absence of material third countries for the Polish financial system.

**In the third quarter, at its 21 September 2020 meeting,** the Committee took note of an overview of current analyses on trends on the domestic residential real estate market. The residential real estate market was hit by the COVID-19 pandemic at the peak of economic trends and contributed to a drop in activity on the market. According to members of the Committee, this potential market turmoil on the market will not affect the banking sector. They also assessed that the risk of a credit crunch in the segment of housing loans is lower than in other credit categories.

The Committee got acquainted with the information on the progress of work and further plans of the GRASS.

Acting on the request of the Polish Financial Supervision Authority (KNF), the FSC delivered opinions on identifying O-SIIs and on imposing the O-SII buffer on the identified institutions. As part of the implementation of ESRB recommendations, members of the Committee concluded that there are reasons justifying non-reciprocation of the Belgian macroprudential instrument and communicated this to the ESRB.

The Committee studied proposals to change the methodology of determining the MREL following the implementation of an amended BRRD II that regulates the issues of resolution.

The Committee members also acquainted themselves with the UKNF-prepared "Legal risk resulting from the portfolio of RRE(FX) in the sector of commercial banks". The document presents the situation of commercial banks with the highest share of the FX loan portfolio in assets in the context of legal risk resulting from the ruling practice of Polish courts now developed for such cases.

**In the fourth quarter, at a meeting held on 11 December 2020,** members of the Committee – seeing that risk associated with a direct influence of judicial rulings in FX loan cases on the situation is growing – studied the latest analyses and data on legal risk resulting from the fact that provisions in credit agreements are challenged and on the impact of the line of judgement in such cases being developed by Polish courts on the banking system.

The Committee discussed proposals of potential changes in the level of banks' contributions to the BFG deposit guarantee and resolution funds and of changing the target levels of these funds and their impact on reducing the burden on banks.<sup>10</sup>

The Committee studied current analytical work on trends in the residential real estate market. It pointed out that the main tensions and risks stemming from the COVID-19 pandemic affected

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<sup>10</sup> The Committee issued a recommendation on the issue on 18 January 2021. For more information on the issue, see Chapter 5.2.5.

the developer and construction sectors. The Committee concluded that potential turmoil on the developer market has an insignificant impact on the banking sector, which provides loans to this sector to a minor extent.

The Committee studied the results of the work of the working group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector. The Committee members were presented with two reports that diagnosed the situation in the cooperative banks sector and the cooperative savings and credit unions sector. The Committee accepted the list of proposals made by the group and extended its mandate till March 2021.

As part of its notification responsibilities, the Committee decided to submit to the ESRB reports on the implementation of the following recommendations:

- (1) on recognising and setting countercyclical buffer rates for exposures to third countries,
- (2) on closing real estate data gaps,
- (3) on monitoring the financial stability implications of debt moratoria and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic,
- (4) on the exchange and collection of information for macroprudential purposes on branches of credit institutions,
- (5) on monitoring the effects on financial stability of fiscal measures taken in response to the pandemic-related crisis.

### **1.2.2. Unscheduled meetings**

The unscheduled meetings of the Financial Stability Committee were held on the following days:

- 1 July 2020 – a meeting on considering the KNF request to deliver an opinion in accordance with Article 17 of the Market Abuse Regulation, addressed to the FSC-M as part of administrative proceedings,
- 13 July 2020 – a meeting on the discussion on decreasing the risk weights applicable to banks for certain loans secured on real estate. The Committee issued a recommendation to the Minister of Finance on decreasing from 100% to 50% of the risk weights for exposures secured on commercial real estate used by the borrower to conduct own business.

**Table 1. Resolutions of the Financial Stability Committee issued in 2020**

<b>Resolution No.</b>	<b>Title of Resolution</b>
<b>Meeting held on 16 March 2020</b>	
35/2020	on the systemic risk buffer
36/2020	on the level of the countercyclical buffer and submission of information concerning the countercyclical buffer rate to the ESRB
<b>Meeting held on 15 June 2020</b>	
37/2020	on setting up of the working group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector
<b>Meeting held on 13 July 2020</b>	
38/2020	on a recommendation on risk weights for exposures secured by mortgage on commercial real estate
<b>Resolution taken without a meeting – 25 August 2020</b>	
39/2020	on an opinion on the quarterly level of contributions to the Borrowers' Support Fund
<b>Meeting held on 21 September 2020</b>	
40/2020	on the level of the countercyclical buffer and submission of information concerning the countercyclical buffer rate to the ESRB
<b>Resolution taken without a meeting – 24 November 2020</b>	
41/2020	on an opinion on the quarterly level of contributions to the Borrowers' Support Fund
<b>Meeting held on 11 December 2020</b>	
42/2020	on the level of the countercyclical buffer and submission of information concerning the countercyclical buffer rate to the ESRB

Source: NBP study.

### 1.3. Permanent Working Group

The Permanent Working Group (SGR) was set up to support the work of the Committee on a daily basis. A working exchange of information and opinions takes place at the SGR level between the SGR stakeholders. It also prepares and consolidates analyses and input material supporting the decision-making process by the Committee. The collegial nature of the Group enables smooth information sharing and fosters cooperation and engagement of all financial safety net institutions in the area of macroprudential policy at an early stage of work on specific projects.

The SGR is composed of nine permanent members. The Ministry of Finance, the UKNF and the Bank Guarantee Fund are each represented by two persons, and NBP is represented by three persons, of which one acts as chairman of the SGR.

In 2020, the SGR held seven meetings which preceded the regular quarterly meetings of the FSC-M. The remaining meetings were devoted to additional topics indicated by the Committee.

From April 2020 onwards, meetings of the SGR were held exclusively via electronic communication channels.

#### **1.4. Working group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector**

The Working Group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector (GRASS) was set up by the Committee on 15 June 2020. The Committee tasked the Working Group with analysing the situation in the cooperative banks sector and the cooperative savings and credit unions sector and preparing a draft recommendation containing a set of necessary activities for competent entities to support the stable functioning and development of the sectors. The Working Group was set up for a definite period of time, until 31 December 2020, with the possibility of extending its mandate.

The Group met six times during the year to develop analytical material in a report entitled *Analysis result and proposed actions*, in which in two separate parts it presented the situation of: (1) the cooperative banks sector and (2) the cooperative savings and credit unions sector.

In carrying out the tasks, the GRASS held five meetings with persons representing institutions of the sectors : management of the associating banks – BPS SA, SGB-Bank and institutional protection schemes – SOZ BPS, SSO SGB as well as with the management of the National Association of Cooperative Savings and Credit Unions. The demands proposed by representatives of the two sectors were used as input material in the work of the Group.

The GRASS report was approved at a meeting of the Committee on 11 December 2020 and now provides the basis for further work of the Group, which aims to prepare proposals of specific actions using the tools available to it. At the same time, the FSC-M decided to extend the mandate of the GRASS till March 2021, arguing that the preparation of such actions to be implemented by the Committee and competent entities requires additional time.

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## 2. The Role of Narodowy Bank Polski

The exercise of macroprudential supervision in Poland assumes close cooperation of institutions of the financial safety net. NBP plays a special role in the conduct of macroprudential supervision. The President of NBP acts as Chairperson of the Committee and has the casting vote. As Chairperson of the Committee, the President of NBP also represents the Committee before external institutions. On the other hand, NBP carries out the task of providing services to the FSC-M in the areas of analytical and research support and organizational and administrative support. Such a role of NBP was assigned in response to the recommendation of international and organisations<sup>11</sup> to give the central banks an important role in exercising macroprudential supervision. This assignment also results from NBP's long-lasting engagement and experience in carrying out analysis of the financial system and its ties with the real economy.

The documents, which NBP is required by law to submit to the FSC-M and which were discussed by the Committee during 2020, were *Financial Stability Report* (published twice a year) and *Report on Macroeconomic Stability of the Polish Economy* (prepared one a year and unpublished).

The Committee was also provided with access to the results of studies, analyses reports and other NBP documents that may have an influence on systemic risk assessment and macroprudential policy conducted in 2020. An example is *Polish Payment System Oversight Report* provided to the Committee. Including the risk assessment of the Polish payment and clearing system to the assessment made by the Committee is related to the analysis of the resilience of the financial infrastructure and results from the *Macroprudential Policy Strategy* adopted by the FSC-M in 2019. This issue was also the subject of the International Monetary Fund (IMF) recommendation under the Financial Sector Assessment Program (FSAP).<sup>12</sup>

Narodowy Bank Polski organises the Committee's work, i.e. it provides legal services, arranges the flow of information and materials, and also prepares the meetings. NBP provides the same functions to the Permanent Working Group appointed by the FSC and other groups appointed by the FSC to carry out specific tasks (e.g. GRASS in 2020).

Due to the risk of the COVID-19 pandemic in 2020, providing services to the FSC-M posed a special challenge. In order to protect FSC-M members and persons who closely cooperate with the body, all available security measures were taken to enable Committee members to participate directly in meetings. To this end, the meetings were moved to a room in the NBP Head Office where the persons were able to keep the required distance and were provided with sanitary

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<sup>11</sup> Including the ESRB and the IMF.

<sup>12</sup> International Monetary Fund, *Technical note – macroprudential policy framework - Poland*, IMF Country Report No. 19/119, May 2019.

protection and special protective barriers. The number of meeting participants was also limited to the minimum necessary.

In 2020, Narodowy Bank Polski continued to implement its communication policy by informing financial system participants about identified threats to financial stability, and ensured the appropriate transparency of its macroprudential policy and FSC's remedial actions aimed at containing the impact of the COVID-19 pandemic on the domestic banking sector and the economic environment. NBP also smoothly implemented its disclosure obligations related to the performance of macroprudential supervision of other EU institutions and bodies.

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### 3. Macroprudential policy strategy of the FSC-M

The Financial Stability Committee carries out its tasks, taking into account the principles and priorities that were included in *Macroprudential Policy Strategy*.<sup>13</sup> In accordance with the document, the mission of macroprudential policy is to act to preserve financial stability by limiting systemic risk and, by doing so, to support long-term sustainable economic growth. In order to prevent systemic risk, understood as a potential occurrence of a serious disruption in the functioning of the financial system and in the national economy as a whole, the Committee monitors such risk and takes measures to limit it.

In order to carry out its mission, the Committee has adopted the following intermediate objectives, which constitute a more specific expression of the risk dimensions in the Polish financial system. Specifying the objectives facilitates systemic risk area analysis and determines action if a specific risk is identified.<sup>14</sup>

**Table 1. Dimensions of systemic risk**

Risk dimension	Description
Risk stemming from excessive growth or level of debt or leverage	<b>Risk arising from the pro-cyclical behaviour of financial institutions</b> reflected in the credit cycle/financial cycle/debt cycle; this risk manifests itself in, among others, excessive leverage, level and growth of debt (including lending), and credit risk, which may be accompanied by price bubbles in asset markets. The risk may also manifest itself in lending standards and terms.
Risk arising from excessive mismatch between assets and liabilities or from the risk of illiquidity of financial markets	<b>Risk of unstable funding models</b> arising from the structure and sources of funding and excessive funding costs. <b>Liquidity risk</b> as a result of excessive maturity mismatch of assets and liabilities (as well as off-balance-sheet operations) and their degree of liquidity. <b>Risk of illiquidity of financial markets</b> as a consequence of, among others, the materialisation of the two above-mentioned risk categories and structural changes in financial markets.
Risk arising from excessive concentration of exposures and linkages between entities of the financial system	<b>Risk arising from large exposures</b> to individual financial and non-financial entities (concentration of exposures towards entities) or homogenous groups of exposures (concentration of exposures towards risk factors). <b>Risk of contagion</b> as a result of the existence of networks of mutual exposures or interdependencies of asset prices or a similar balance-sheet structure of financial institutions (resulting in increased sensitivity of the whole system to disruption).

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<sup>13</sup> <http://www.nbp.pl/nadzormakroostroznosciowy/publikacje/strategia-polityki-makroostroznosciowej.pdf>

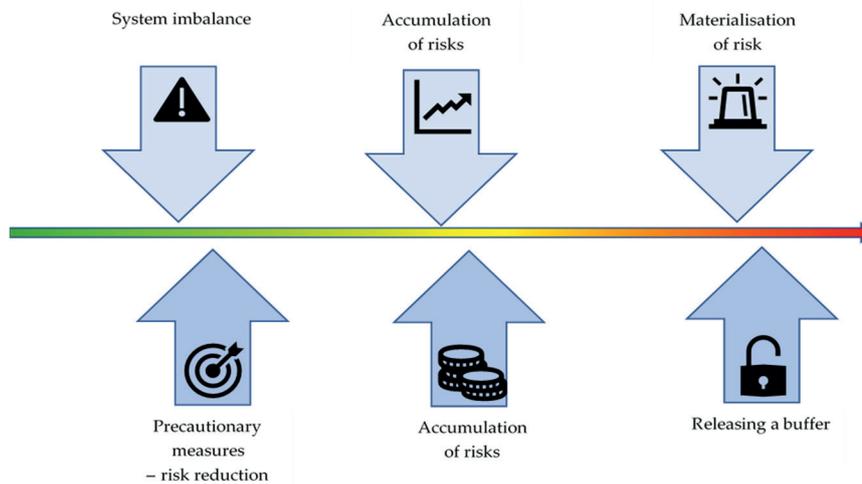
<sup>14</sup> The risk dimensions adopted by the Committee are consistent with the methodology recommended by the Recommendation of 4 April 2013 on intermediate objectives and instruments of macroprudential policy (ESRB/2013/1).

<p><b>Risk arising from misaligned incentives</b></p>	<p><b>Excessive risk-taking by managers</b> (management boards, owners) <b>of financial institutions</b>, in particular risk associated with the excessive size and complexity of their business models as a result of their specific role or the lack of substitution of their services (the aspect of incentives to increase the size and role in the financial system, the aspect of market structure).  <b>Risk of misaligned incentives leading to increased moral hazard</b> among depositors or investors as a result, among others, of the legal framework concerning the protection of depositors and certain investor groups, the lack of / inadequate resolution system for financial institutions of financial infrastructure entities or the lack of oversight of certain sectors.</p>
<p><b>Risk arising from insufficient resilience of the financial infrastructure</b></p>	<p><b>Risk of instability of entities of the financial market infrastructure:</b> risk of cessation of key services for many financial institutions (e.g. the operation of payment and settlement systems and clearing houses), inappropriate institutional solutions (e.g. risk management rules at clearing houses) or inadequate resilience to risk materialisation.</p>

Source: *Macroprudential Policy Strategy*, Financial Stability Committee, 2019.

Taking into account the indicated systemic risk dimensions, the FSC-M conducts analytical work and takes action at an early stage of the emerging risks to financial stability. Activities at the stage of crisis management in the financial system remain outside the remit of the FSC-M.<sup>15</sup>

**Diagram 1. Diagram of FSC-M activities**



Source: NBP study.

<sup>15</sup> Competences in this area have been conferred upon the Financial Stability Committee which performs crisis management tasks (FSC-C).

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Acting in its macroprudential capacity, the Committee takes measures necessary to safeguard the stability of the financial system as a whole or of its key components.

The Committee assumed that **counteracting the materialisation of systemic risk** may be a two-pronged action by:

- (i) taking measures to **reduce** the build-up and accumulation of excessive **imbalances** in the financial system and
- (ii) **strengthening** its **resilience**.

How systemic risk is reduced depends on the phase of its accumulation. At an early stage, when the identified imbalances do not constitute a significant threat to financial stability, the Committee seeks to contain their build-up by using, first of all, measures that impede the processes that lead to the growth of imbalances. In the case of substantial accumulation of risk, the Committee takes action aimed at building adequate capital buffers to increase resilience. At a later stage, at the phase of systemic risk materialisation, such buffers should be released. The use of this capital in times of crisis serves to enable the economy to maintain access to credit and reduces the depth of the crisis. Such an approach proved itself in practice when in the face of the COVID19 pandemic-caused shock, the Committee deemed it right to release the systemic risk buffer and reduce risk weights to exposures secured on some real estate. In this way, the Committee's macroprudential policy was procyclical.

## 4. Activities and functioning of the Financial Stability Committee during the COVID-19 pandemic

### 4.1. Legislative changes initiated in connection with the performance of duties during the COVID-19 pandemic

#### Amendments to the Act on macroprudential supervision<sup>16</sup>

In the face of the Covid-19 pandemic, the need arose to introduce special solutions aimed at counteracting the economic and social fallout. The catalogue of legal actions taken in 2020<sup>17</sup> included amendments to the provisions of Articles 7 and 8 of the Act on macroprudential supervision enabling the organization of FSC meetings remotely by using the electronic channels of communication. This amendment, applicable since 18 April 2020, allowed FSC members to meet remotely when the restrictions introduced by law made it impossible to organize meetings in person. This amendment also allowed the Committee to continue to perform its duties irrespective of the state of the epidemic and restrictions.

In 2020, the Committee did not take advantage of the amended provisions concerning the organisation of meetings; however, special security measures, required during the state of a pandemic, were applied (see Chapter 2).

#### Change of deadlines for performance of obligations arising from the Act on macroprudential supervision

Following the announcement of the state of epidemic threat and entry into force of the Act of 2 March 2020 *on specific solutions related to the prevention, counteraction and eradication of COVID-19, other infectious diseases and crisis situations caused by them*<sup>18</sup>, the Minister of Finance was, among others, delegated to change – by way of regulation<sup>19</sup> – the deadlines for performing certain reporting and information obligations arising from the Act on macroprudential supervision. As a result of the changes, in the second quarter of 2020:

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<sup>16</sup> Act of 15 August 2015 *on macroprudential supervision* (Journal of Laws 2021, items 140 and 680).

<sup>17</sup> Amendments to the Act on macroprudential supervision were introduced by Article 55 paragraph 1 and paragraph 2 of the Act of 16 April 2020 *on special support measures related to the spread of SARS-CoV-2 virus* (Journal of Laws 2020, item 695).

<sup>18</sup> Journal of Laws 2020, items 1842, 2112, 2113, 2123, 2157, 2255, 2275, 2320, 2327, 2338, 2361 and 2401, and Journal of Laws 2021, items 11, 159 and 180.

<sup>19</sup> Regulation of the Minister of Finance of 7 April 2020 *on determining other deadlines for performing certain reporting and information obligations* (Journal of Laws 2020, item 622).

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- performance of obligations arising from Article 23(1) and Article 24(2) of the Act on macroprudential supervision concerning the calculation of the countercyclical buffer guide and assessment of the level of the countercyclical buffer rate was postponed by a quarter. This meant that the calculation and publication by the Committee of the countercyclical buffer guide for the second quarter were made only in the third quarter. Also, the obligation to assess the level of the countercyclical buffer rate, made by the minister competent for matters of financial institutions – performed based on the Committee recommendation on the level of the countercyclical buffer rate – was postponed by a quarter, which means that it was performed only in the third quarter of 2020.

In connection with the above changes, in the second quarter the Committee decided to issue one resolution containing only information on the countercyclical buffer rate for the second quarter (historical data) and a recommendation to the Minister of Finance on the current level of the countercyclical buffer rate for the third quarter and on the submission of information concerning the countercyclical buffer for the third quarter to the ESRB.

- the 31 July 2020 deadline for submission by the Chairperson of the FSC-M of the *Annual Report on Macroprudential Supervision Activities of the Financial Stability Committee 2019* was postponed till 30 September 2020. However, the Committee did not take advantage of the extended deadline, and at the 15 June meeting it approved the document and, then on 7 July 2020, the Chairperson of the Committee handed it to the Speaker of the Polish Sejm.

### **Change of deadlines for performing FSC obligations arising from the Act on the Borrowers' Support Fund (the Act on FWK)**

In § 10 of the Regulation of the Minister of Finance of 7 April 2020 *on determining other deadlines for performing certain reporting and information obligations*<sup>20</sup>, the Minister of Finance made a permanent change of the deadlines resulting from the Act on the Borrowers' Support Fund.<sup>21</sup>

According to the changes:

- the deadline for the KNF to submit to the FSC data which provide the basis for an opinion to be delivered by the Committee was extended by 12 weeks, the submission by the FSC of the opinion to the Borrowers' Support Fund was postponed till the last day of the fifth month following the quarter for which the payment amount is due. The first FSC opinion on the level of contributions to the FWK was submitted by the Chairperson of the Committee to the FWK Board in August 2020,
- the deadline for submitting information to borrowers on the level of the FWK contribution by the FWK Board was extended to the 15th day of the sixth month following the quarter for which the payment is due, that is till 15 September 2020.

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<sup>20</sup> (Journal of Laws 2020, item 622).

<sup>21</sup> Act of 9 October 2015 *support to home loan borrowers who are in a difficult financial situation* (Journal of Laws 2019, item 2138, and Journal of Laws 2021, item 11).

Considering the formula of implementing provisions, the extension of the deadline related to the issue by the Committee of the opinion to the FWK Board is permanent (unlike the change of deadlines for performing obligations arising from the Act on macroprudential supervision, which is a one-off change) and will be valid until the regulation is repealed.

## **4.2. Macroprudential activities taken in response to the pandemic**

### **Systemic risk buffer**

As the COVID-19 pandemic was spreading in the first quarter of 2020, the hierarchy and intensity of the sources of risk to Poland's banking system changed. Moreover, a lot of information pointed to a materialisation of the risk of a strong slowdown in the global economy.

As part of remedial action aimed at containing the impact of the pandemic on the domestic banking sector, on 16 March 2020 the Committee issued a resolution with a recommendation addressed to the Minister of Finance to immediately repeal the obligation to apply the systemic risk buffer by financial institutions. The aim of this resolution was to allow banks to use the buffer funds to cover a potential increase in credit risk and reduce the risk of a credit crunch, and at the same time to support the economy and financial stability. The measures and their immediate implementation by the Minister of Finance of the Committee recommendation led to the creation a surplus at banks; it was more than PLN 30 billion higher than the regulatory requirements, which provided banks with the funds to cover potential losses or gave them the opportunity to create new credit.

At the same time, the Committee made a reservation that it is important that the funds released from the buffer will not be earmarked for making higher dividend payments and rather retained to provide lending to the economy and cover losses in the forthcoming quarters.

### **Risk weights**

Another type of measure employed to fight the spread of the persisting pandemic-related economic slowdown was the Committee's resolution in July 2020 to recommend to the Minister of Finance a decrease from 100% to 50% of risk weights for exposures secured on commercial real estate, located in Poland, used by the borrower to conduct own business and not generating rental income or profits from its sale.

The proposal was made to decrease risk weights for exposures secured on commercial real estate used for the purposes of industrial production and agricultural production. The market of real estate used for industrial and agricultural production was free from imbalances that would justify

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higher risk weights. According to the Committee, a decrease in the risk weights in this area would lead to a drop in capital intensiveness and could enhance banks' willingness to grant loans to farmers and entrepreneurs<sup>22</sup> for production business. The Committee argued that lending for such purposes will be favourable from the point of view of maintaining the production capacity and potential of the Polish economy. The implementation of the recommended proposal was aimed at reducing the scale of the economic fallout of the COVID-19 pandemic and obtaining an additional element of state support of lending to farmers and entrepreneurs.

### **4.3. Cooperation with the ESRB as part of COVID-19 pandemic response**

In response to challenges, the European financial system faced in view of the COVID-19 pandemic, the ESRB issued four recommendations aiming to reduce systemic risk whose intensity was on the rise as a result of the pandemic-related restrictions:

- Recommendation of the European Systemic Risk Board of 6 May 2020 *on liquidity risks in investment funds* (ESRB/2020/4)<sup>23</sup>,
- Recommendation of the European Systemic Risk Board of 25 May 2020 *on liquidity risks arising from margin calls* (ESRB/2020/6)<sup>24</sup>,
- Recommendation of the European Systemic Risk Board of 27 May 2020 *on restriction of distributions during the COVID-19 pandemic* (ESRB/2020/7)<sup>25</sup>,
- Recommendation of the European Systemic Risk Board of 27 May 2020 *on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic* (ESRB/2020/8)<sup>26</sup>.

The Financial Stability Committee, as a macroprudential authority, was the direct addressee of the last of the recommendations. The aim of Recommendation ESRB/2020/8 is to collect information on the financial stability implications of measures of a fiscal nature, taken in response to the effects of COVID-19, both domestically and at the EU level. Therefore, the Committee submits to the ESRB every three months and on a regular basis respective qualitative and quantitative information on instruments taken in Poland to protect the real economy and also assesses its impact on financial stability.<sup>27</sup>

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<sup>22</sup> The term "entrepreneurs" used in this report includes both a natural person, a legal person (and units having legal capacity) which pursuing economic activity in their own name. Entrepreneur is defined in this way by Article 4 of the Act of 2 July 2004 on freedom of establishment (Journal of Laws 2004, items 173 and 1807).

<sup>23</sup> 15/6.2020 Official Journal of the European Union C 200, p. 1.

<sup>24</sup> 20.7.2020 Official Journal of the European Union C 238, p. 1.

<sup>25</sup> 26.6.2020 Official Journal of the European Union C 212, p. 1.

<sup>26</sup> 29.7.2020 Official Journal of the European Union C 249, p. 1.

<sup>27</sup> For more information on the implementation of Recommendation ESRB/2020/8, see Chapter 8.5.

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## 5. Systemic risk

### 5.1. Monitoring and identification of current changes in risk based on analyses and cyclical reports

#### 5.1.1. Systemic risk assessment survey

Systemic risk is monitored by the Committee on a quarterly basis. All financial safety net institutions represented in the FSC are involved in the process when they provide cyclical assessments of changes in risk in the financial system. Individual systemic risk assessments from these institutions are jointly analysed and subject to broad-based assessment of their significance.

The NBP-prepared and developed *Systemic risk assessment by institutions of the financial safety net* survey is the tool used as the basis for a structured debate on systemic risk. The aim of this survey is to collect opinions expressed by the FSC members on the sources of systemic risk (vulnerabilities) in the Polish financial system or in its environment. Participants in the survey assess the previously identified sources of risk and identify new risk sources, and also propose macroprudential measures that the Committee may take.

In June 2020, the Committee accepted a new form of the survey and, by doing so, it can make risk assessment methodology in Poland more consistent with the ESRB approach. Therefore, starting from September 2020, systemic risk assessment in the Polish financial system has been made in two dimensions:

- 1) probability and
- 2) effects of the materialisation of risk sources.

The assessments of probability and of the effects of risk source materialisation are used to make an overall assessment of identified risks. In addition to major elements of risk assessment, financial safety net institutions also assess the horizon of materialisation and can offer macroprudential measures when they deem it necessary at a given stage.

Moreover, the institutions represented in the FSC can modify their qualitative assessments of vulnerabilities identified in the financial system that take into account:

- a description of vulnerability, i.e. a description of the size of exposure and its sensitivity to shocks,
- a description of risk triggers, i.e. a description of those factors whose occurrence will most likely lead to risk materialisation,
- a description of risk amplifiers and risk mitigators or of factors that increase resilience to materialisation of the risk.

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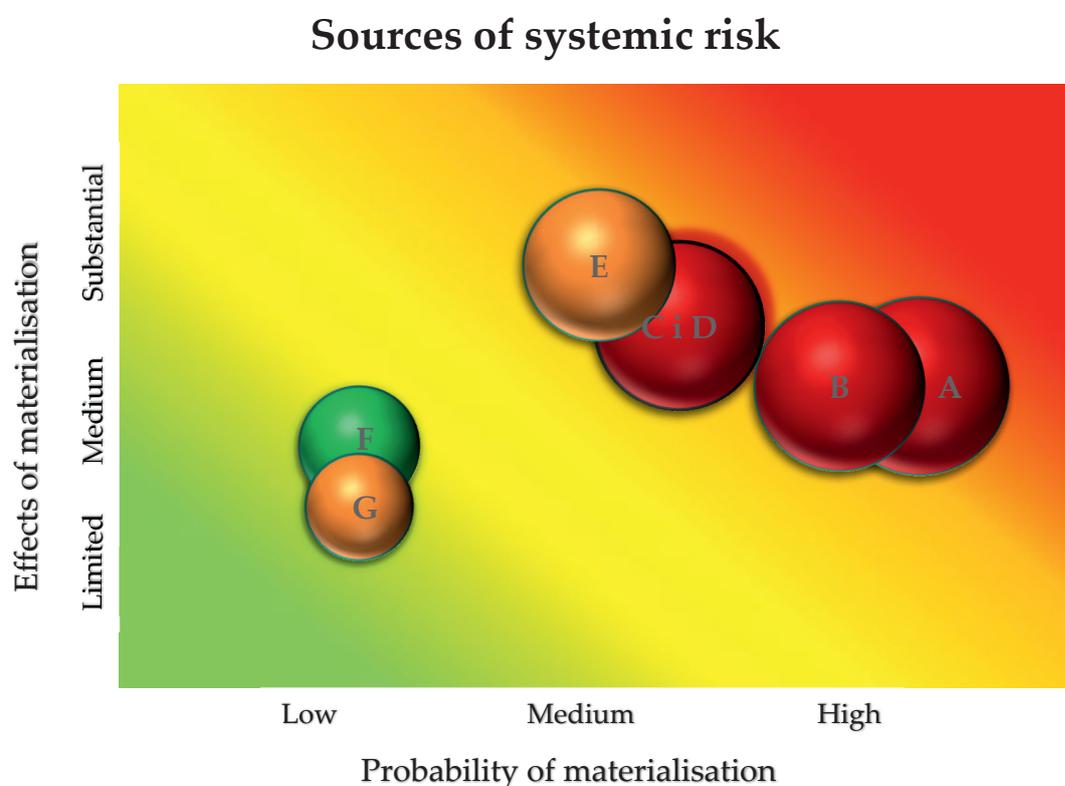
## Analysis results – systemic risk assessment in 2020

In 2020, the Committee was monitoring risk sources identified in previous years, but also identified new vulnerabilities in the domestic financial system. Throughout the year, the hierarchy and intensity of risk sources changed due to the change in the financial system and its environment, specifically related to the COVID-19 pandemic-sparked shock. As the Committee found it necessary to take special measures, during the year under consideration the survey was conducted three times, in February, August and November.

In the first quarter of 2020 – until the day sanitary restrictions were introduced in March – the sources of risk identified towards the end of 2019 remained relevant. Their hierarchy slightly changed from the previous quarter – a risk associated with the untimely adjustment of the critical WIBOR benchmark to the BMR requirements became the least significant source of risk in the Polish financial system. The following were deemed the major sources of risk: the vulnerability of certain institutions and the potential occurrence of the contagion effect as well as FX mortgage portfolios.

In the third quarter of 2020, the Committee judged that the COVID-19 pandemic had resulted in a change of the nature and hierarchy of risk sources in the domestic financial system. New vulnerabilities were identified and they were potential credit losses that may arise as a consequence of the deteriorating financial condition of borrowers in connection with the potential risk of a credit crunch due to banks' potential willingness to use free funds in lower risk assets (specifically in bonds issued or guaranteed by the State Treasury) and, to a lesser extent, in lending. At the same time, the hierarchy of vulnerabilities identified in previous surveys changed. The reduced profitability of banks became the major source of risk in the Polish financial system. In the Committee's opinion, other significant vulnerabilities of the Polish financial system still included weaknesses of certain institutions and a potential occurrence of the contagion effect and also risk associated with FX loans. Vulnerabilities related to the need of compliance for the WIBOR benchmark to the BMR requirements and to the residential real estate market continued to be less risky. Moreover, the Committee judged that the risk of high-value consumer loans in the light of the COVID-19 pandemic had altered and was no longer directly tied to overlending, but to the likely deterioration of the consumer loan portfolio. This led to the conclusion that this vulnerability is an element of new risk, i.e. the risk of credit losses related to COVID-19 pandemic.

Diagram 2. Map of synthetic risk assessment in 2020 Q4



Individual points relate to the following vulnerabilities:

- [A] Reduced bank profitability
- [B] Credit losses related to COVID-19 pandemic
- [C] Vulnerability of certain institutions and potential occurrence of the contagion effect
- [D] FX loans
- [E] Potential occurrence of a credit crunch
- [F] Real estate market
- [G] Untimely adjustment of benchmarks to the BMR.

The area of specific circles relates to materiality of risk within overall risk assessment, while the colours mean the horizon of materialization: red colour – risk has begun to materialize, orange colour – short-term (up to a year), green colour – short-term (1-3 years).

Source: NBP study based on the results of the questionnaire survey *Systemic risk assessment by institutions of the financial safety net in 2019 Q4*.

In the fourth quarter, the Committee judged that the reduced profitability of banks remained the major source of risk. This effect was amplified by the likely occurrence of credit losses from the COVID-19 pandemic fallout. Moreover, the vulnerabilities of certain institutions and the potential occurrence of the contagion effect of the remaining market participants were still assessed as material risk sources. The Committee also noted the growing risk associated with the portfolio of

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FX mortgage loans, stemming from a higher number of litigations concerning FX loan agreements. Towards the end of 2020, the intensity of risk of a credit crunch, of an untimely adjustment of the WIBOR benchmark to the BMR requirements, and of the situation in the real estate market diminished.

### **NBP report-based systemic risk analysis**

In addition to the risk assessment survey, the Committee also uses other sources of information and analysis, which makes risk assessment a complex and broad-based process. In compliance with its statutory obligations, Narodowy Bank Polski is required to provide the Committee with analytical and research materials: *Financial Stability Report* and *Report on Macroeconomic Stability of the Polish Economy*.

Moreover, the Committee indicated in the 2019 *Macroeconomic Policy Strategy* that one of systemic risk dimensions analysed by the FSC-M is the risk of financial infrastructure resilience. As part of this risk assessment from the point of view of macroprudential policy, the Committee studied the *NBP Polish Payment System Oversight Report*.

### **Financial Stability Report**

*Financial Stability Reports* are presented to the Committee twice a year. In 2020, as part of the presentation of conclusions from the special issue of the *Report* containing preliminary assessments of the impact of the COVID-19 pandemic, the Report indicated that Poland's banking sector had entered the period of the pandemic in good condition and without significant imbalances. However, the COVID-19-related shock negatively affected the perception of the sources of systemic risk previously identified by NBP. Also, in NBP's view, new risk areas emerged in the financial system: credit risk of the entire loan portfolio had grown and risk associated with the reduced profitability of banks and vulnerabilities of certain institutions and the potential occurrence of the contagion effect had also been on the rise.

The December issue of the Report presented an in-depth assessment of the COVID-19 pandemic related effects. According to this assessment, although risks are elevated, the COVID-19 pandemic-caused shock poses no threat to financial stability. NBP softened its preliminary assessment of the potential occurrence of credit crunch. At the same time, it pointed out that the pandemic-related shock exacerbates the pre-pandemic vulnerabilities of the financial system but does not put financial system at risk. On the other hand, NBP took note of the fact that irrespective of the pandemic fallout, the legal risk of the portfolio of FX mortgages is on the rise.

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## Report on Macroeconomic Stability of the Polish Economy

In June 2020, the Committee studied the *Report on Macroeconomic Stability of the Polish Economy* prepared annually by NBP for macroprudential supervision purposes. The report says that at the time of the pandemic shock, the Polish economy remained in the phase of expansion, while preserving stability externally and domestically.

## Polish Payment System Oversight Report

In December 2020, the Committee studied conclusions from the *Polish Payment System Oversight Report 2019*. The report presented the rules and current information on the exercise by Narodowy Bank Polski of system oversight of payment systems, payment schemes and securities clearing and settlements systems and on the provision of *acquiring* services.

According to the information provided by NBP, the functioning of the payment systems, payment schemes and securities clearing and settlement systems in Poland in 2019 was stable, and the action taken by system operators and payment scheme operators was appropriate and ensured a smooth and safe operation of the payment system.

## 5.2. Analysis of certain financial stability issues

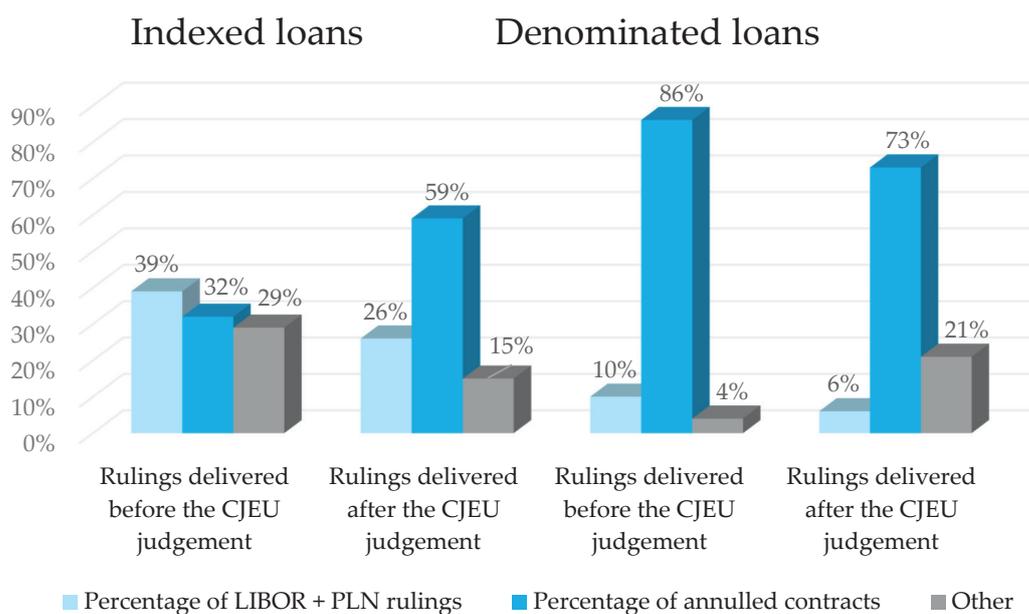
### 5.2.1. Legal risk associated with the developing line of judgment on cases concerning FX housing loan agreements

In 2020, the Committee discussed the issue of the developing line of judgement on cases concerning FX housing loans. To do so, it read UKNF and NBP analyses and studied the demands of the banking community.

In September and December 2020, the Committee reviewed data on the number of cases brought to courts and the value of provisions created by banks. According to the data, the value of the portfolio of FX loans has been successively declining but remains high. At the same time, after the publication of the CLEU judgement of 3 October 2019 in Case C-260/18 the number of agreements subject to lawsuit before civil courts and the total value of the litigation has risen substantially. The analysis of the line of judgments has shown that following the publication of the CJEU judgement, courts have more often begun to rule in favour of borrowers on FX housing loan cases, of which most sought an annulment of their loan agreements. However, a uniform line of judgement is yet to develop, and the percentage of proceedings in which the courts ruled in favour of borrowers varied greatly across banks. At the same time, the last quarter of 2019 saw a surge in the value of provisions that banks created for the legal risk of the FX housing loan portfolio. The Committee

noted that assuming that the number of lawsuits will rise as the line of judgement is maintained, the amount of legal risk provisions that have to be created in relation to banks' regulatory capital, may be significant at certain banks.

**Figure 1, 2. Percentages of decisions of a given type among decisions favourable to borrowers**

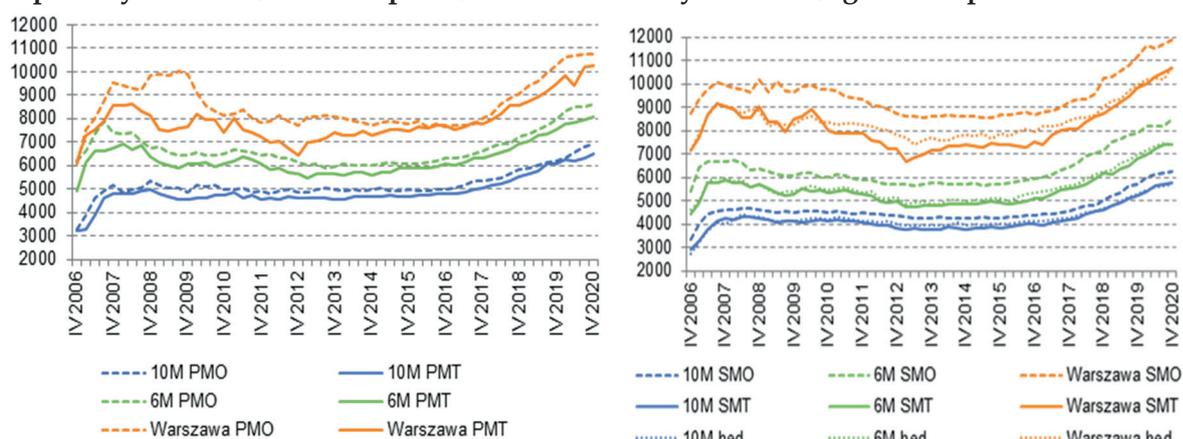


Source: NBP estimates based on a sample of rulings delivered by common courts and the Supreme Court of the Republic of Poland from 2016 to September 2020.

### 5.2.2. Trends in the residential real estate market and housing loan growth

In 2020, the Committee monitored risk associated with the residential real estate market. The monitoring was based both on analyses of developments in the real economy and of financing provided to the market.

**Figure 3, 4. Average offer and transactions prices of a square metre of dwellings in primary markets (left-hand panel) and in secondary markets (right-hand panel)**

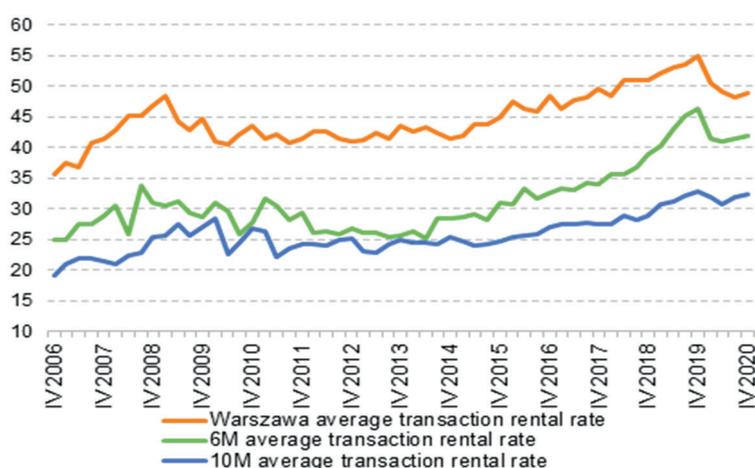


Note: Six cities are Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław, and 10 cities include Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra.

Source: NBP.

The Committee judged that in the second quarter of 2020 activity in the residential market fell and that the fall was driven by the restrictions related to the outbreak and spread of the COVID-19 pandemic. This effect began to weaken in the third quarter after the economy was partially unlocked. Construction output in the housing sector decreased, but its level remained high during the whole year. Real estate price falls were observed in the period, more specifically in the primary market.

**Figure 5. Average offer and transaction rental rates per square metre of dwellings in the primary market**



Note: Six cities are Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław, and 10 cities include Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra.

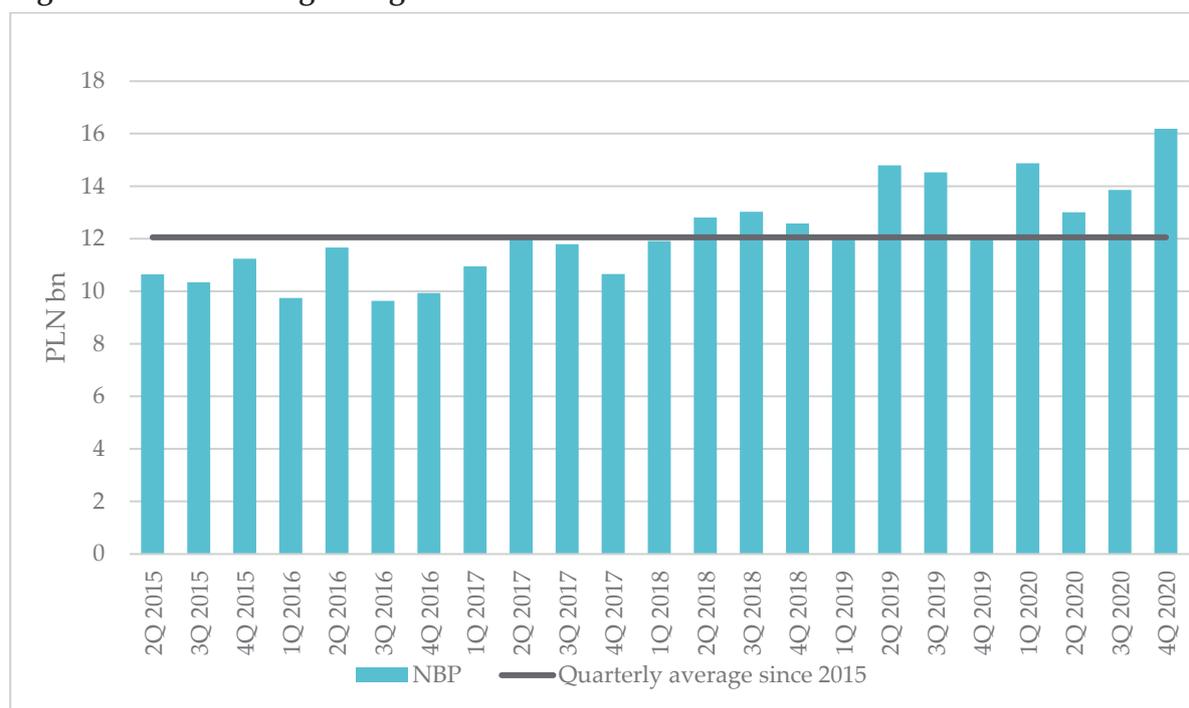
Source: NBP.

At the same time, the first half of 2020 saw a substantial decline in the average rental prices of housing in Poland’s largest cities. In the fourth quarter of 2020, the prices began to rise steadily. Very low interest rates on housing loans for Polish households after the first quarter of 2020 were a stimulating factor for credit and housing demand. Despite a slump in rental prices, the environment of record low interest rates was also conducive to investment in residential real estate.

The Committee also monitored housing loan growth. In the second quarter of 2020, the introduction of pandemic-related restrictions led to a decline in the demand for housing loans as banks tightened their lending policy.

In the third quarter, lending activity in the segment of housing loans rebounded after some restrictions put in place during the first wave of the pandemic had been lifted. The number of loan applications was higher than in the corresponding period of 2019. On the other hand, the value of new loans rose steadily, reducing the gap to the previous month’s values to exceed levels recorded in the previous year towards the end of 2020.

**Figure 6. New housing loan growth**



Source: Study based on NBP data.

When monitoring risk related to Poland’s residential real estate market, the Committee did not register a rise in risk intensity in connection with the COVID-19 pandemic fallout. The results of

analyses of this sector were at the same time coherent with the overall systemic risk assessment set out in the *Systemic risk assessment survey*.

### **5.2.3. Assessment of the potential impact of the “credit holidays” solution on the situation of the banking sector**

The outbreak of the COVID-19 pandemic led to a temporary loss of income for many borrowers, which made it impossible to repay instalments according to the loan repayment schedule. Already in March 2020, some banks responded to the ZBP and government requests by offering solutions allowing a deferral of loan instalment payments under credit holidays; the solution consisted in:

- facilitating a deferral of interest and principal instalment payments or loan instalments for three months,
- providing aid to those entrepreneurs who were hit by the pandemic fallout for a period of six months,
- refraining from charging fees and commission for accepting and considering applications seeking a suspension of loan instalment repayment,
- providing clients who are businessmen better access to short-term credit in order to stabilize the financial situation of the pandemic fallout-hit client.

In June 2020, credit holidays were implemented into Polish law under the Anti-Crisis Shield programme, which meant that upon request of a borrower, the term of the loan agreement was suspended in the event of the loss of job or other major source of income, which allowed borrowers to re-take the opportunity to defer payments up to three months.

The Financial Stability Committee discussed the effects of credit holidays introduced by some institutions from the potential systemic risk standpoint. This assessment was based on the results of a preliminary analysis of the consequences of a temporary suspension of interest and principal instalment payments for the banking sector.

Under the scenarios analysed, three-month credit holidays will have a limited impact both on banks' earnings and their capital position. On the other hand, even a small extent of the use of the credit holidays' solution by clients may have a significant influence on banks' liquidity position; however, this effect will be temporary. The liquidity position of banks was positively affected by the release of funds of the reserve requirement by Narodowy Bank Polski.

The Committee stressed in its assessment that it is important for banks to use an approach oriented towards mitigating the COVID-19 pandemic fallout. Credit institutions, as beneficiaries of support measures implemented by the Committee and public institutions, should treat the funds from the release of buffers and regulatory facilities as an incentive to provide lending to the economy. Banks cannot only take advantage of relief solutions, but should also take measures that benefit the economy.

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#### **5.2.4. Impact of the implementation of a new directive governing *resolution* on the methodology for setting the MREL**

In September 2020, the Committee became acquainted with the BFG analysis on the change of the methodology for setting the MREL (minimum requirement for own funds and eligible liabilities), following the implementation of a new BRRD II.<sup>28</sup>

In line with the provisions of BRRD II, which was in the course of implementation in Polish law during 2020, domestic entities will have to comply with the intermediate target level of MREL as of 1 January 2022. According to the assumptions, the intermediate target level should ensure a linear build-up of own funds and eligible liabilities towards the requirement. After the implementation of BRRD II to Polish law, the deadline for compliance with the MREL requirement will be extended by a year, i.e. till 1 January 2024.

In line with the assumptions presented by the BFG, the updated methodology for setting the MREL will take into account the following issues: the exclusion of double counting of Common Equity Tier 1 capital for purposes of CET1 and MREL expressed as a percentage of total risk exposure (MREL-TREA), a necessary adjustment of the methodology for setting the loss-absorption amount and the recapitalization amount in the MREL-TREA, as well as the introduction of the other measure of the MREL determined on the basis of the leverage ratio and expressed as a percentage of the total exposure amount.

The BFG-analysed solutions aim to help avoid a sharp increase in MREL and combined buffer requirement burden after the entry into force of new provisions and also to maintain compliance with the arrangements adopted in cooperation with the FSC-M.

#### **5.2.5. Setting contributions for the BFG deposit guarantee funds and resolution funds**

In 2020, the COVID-19 pandemic-caused shock contributed to a slump in banks' earnings in Poland, primarily through the need to create higher credit risk provisions. An overwhelming majority of entities of the banking sector saw their earnings fall. The negative consequences of reduced profitability of a cyclical nature may have been mitigated by the temporary reduction in external burdens on banks. The external burdens are, among others, contributions paid into the Bank Guarantee Fund, including the bank's deposit guarantee fund.

In December 2020, the Committee carried out an analysis of possible changes in the level of contributions to the bank deposit guarantee fund and the resolution fund and delaying the target

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<sup>28</sup> Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorption and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (7.6.2019 Official Journal of the European Union L 150/296).

levels of the funds. The need to address the issue was prompted by the COVID-19 pandemic, which led to a decrease in banks' earnings. The analysis presents the possibility of a reduction of the level of contributions to the bank guarantee fund in 2021 and the scenarios of reaching the target level.

The analysis showed that it is possible to reduce contributions to the bank guarantee funds only temporarily as the possibilities of a change of the glide paths to the minimum target level for the resolution fund provided for in law are limited. A reduction of contributions to the bank guarantee fund in 2021 will affect the further glide path to the target level for the guarantee fund (2.6% of guaranteed funds). One of the possibilities is to raise the level of contributions in the years to come so that the target level is reached – in accordance with the Act on the Bank Guarantee Fund, the deposit guarantee scheme and resolution<sup>29</sup> – (the Act on BFG) in 2030.

The other scenario assumed an extension of a glide path to the target level to four years, which spreads the burden on banks for a longer period. The analysis has shown that this solution can be implemented by amending the Act on BFG or by way of a regulation of the Minister of Finance to (pursuant to Article 287(10) of the Act on BFG).

The Committee found that in the period of significant deterioration in the operating conditions of banks it is advisable to implement such a change in order to periodically reduce the burden on banks. The discussion led the Committee to start work on a respective recommendation which could be grounds for the Minister of Finance to commence work on amendments (to an act or a regulation) in 2021. The Committee decided that such a recommendation should be delivered as soon as possible for the BFG to take it into account when determining the level of contributions for 2021. Therefore, a decision was taken to pass a resolution without a meeting. The recommendation on the issue was issued by the Committee by way of a resolution No 43/2021 of 18 January 2021 on recommendations regarding burdens related to the financing of the bank guarantee fund.

### **5.2.6. Impact of a risk to cyber security on systemic risk**

In September 2020, the Committee studied the NBP text on *Cyber risk and systemic risk in finance*. This analysis showed that over recent years a number of international institutions has considered the increasing risk to cyber security to be a source of a possible disruption of the functioning of financial institutions. For several quarters, the ESRB has identified cyber risk as a source of systemic risk of a structural nature in the EU. The sensitivity of the financial system to this risk is gradually increasing.

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<sup>29</sup> Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (Journal of Laws 2020, item 842, and Journal of Laws 2021, item 680).

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It was pointed out that the range of the Polish cyber security network is compliant with the requirements of the NIS directive<sup>30</sup> and the provisions of the Act on the domestic cyber security system.<sup>31</sup> As cyber security affects various areas of economic life, Poland has an organised system of institutions whose operations support cyber security, also regarding the banking sector and the financial infrastructure. The Committee analysed whether the negative financial stability implications that may arise from cyber risks should also be the subject of Committee's analysis of its overall systemic risk assessment in the financial system. It was clearly indicated that the KNF is the competent authority for cyber security of the banking sector. Therefore, there is no need to integrate the FSC-M in the domestic cyber security structure. Moreover, the FSC agreed that the KNF will submit to the Committee information on critical events when they may have potential systemic implications.

### 5.2.7. Monitoring of the development of the Libra project

The Committee dealt with the concept of the Libra *stablecoin* project created by Facebook Inc. as early as in September 2019. In June 2019 Facebook Inc. announced it was beginning to create a new cryptocurrency called Libra. The Libra project originally aimed to create a new commonly accessible blockchain-based payment system that could be used on a cross-border basis as well as at a country level. This system would use a payment token to be backed by a basket of low investment risk assets denominated in major currencies of international significance.

It was found that the launch of the Libra virtual project may pose significant challenges for the economic policy of many countries due to its impact on the circulation of money, potential currency substitution and an increase in the role of non-regulated institutions in the provision of financial services and international payments. The committee also added that the announcement of the Libra project gave rise to more intense discussion on proposals to issue CBDC by central banks.

In September 2020, the Committee acquainted themselves with the changes in the functioning of the new Libra cryptocurrency that Facebook introduced in its original proposal during the last year. Major changes apply to the product structure. The idea of a uniform payment token of the stablecoin digital currency whose value is set by a basket of official currencies has been abandoned. At present the concept under development assumes that several various stable coins exist, of which each is pegged to an official value of one currency area. A single currency stablecoin will be backed by a reserve composed of cash and cash equivalent and short-term government securities denominated in a given currency. The project still assumes that Libra can be used as a cross-border unit of account of low volatility for persons and businesses in the countries where no single currency stablecoin is in use.

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<sup>30</sup> Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union.

<sup>31</sup> The Act of 5 July 2018 on the domestic cyber security system (Journal of Laws 2018, item 1560).

It has been pointed out that the newly proposed structure of Libra is close to the concept of an electronic money within the meaning of EU law. However, EU officials argue that Libra should be granted an operating licence in no EU country until relevant regulatory user protection solutions are adopted. According to the Committee's assessment, the room for Libra's use on the Polish market is limited by the smoothly operating payment system, the high level of financial inclusion, and the availability of numerous other solutions for retail, cross-border money transfers.

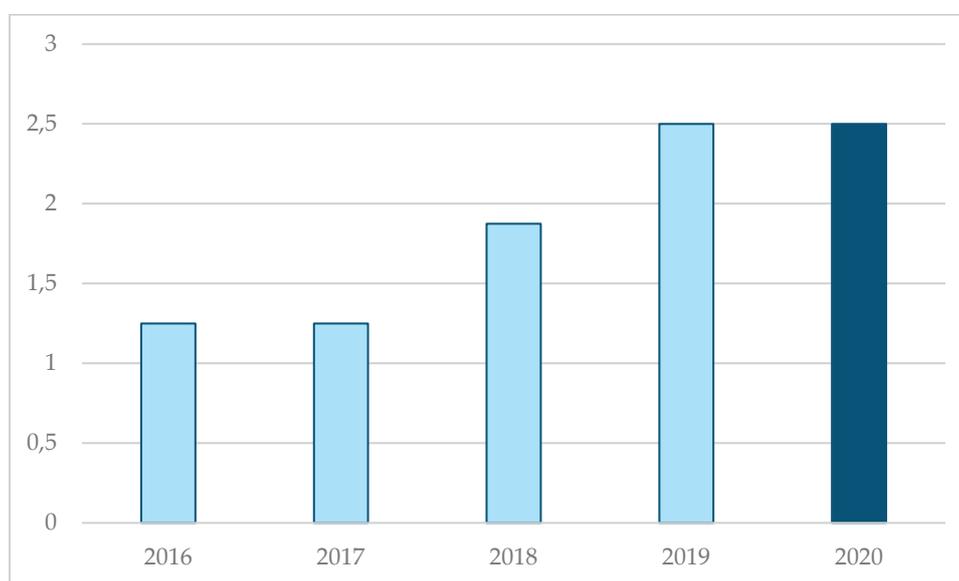
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## 6. Macroprudential instruments

### 6.1. Conservation buffer

The conservation buffer is the basic capital add-on which is the first level of protection of banks' capital resources. Banks are required to maintain the conservation buffer at a level of 2.5% of the total risk exposure amount, calculated in accordance with Article 92(3) of the CRR.<sup>32</sup> The conservation buffer is composed of top quality capital and all banks are bound by it.

**Figure 7. Required level of conservation buffer (%)**



Source: NBP study.

In Poland, the implementation of the buffer was phased in so that banks were not required to accumulate the whole required amount at once. The Act on macroprudential supervision introduced a four-year transitional period for the use of the buffer. In the first two years, the buffer was 1.25% of the total risk exposure. In 2018, its level increased to 1.875% and in 2019 it reached the target level of 2.5%.

Banks accumulated the required amount of capital under the conservation buffer and continue to maintain it.<sup>33</sup>

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<sup>32</sup> Article 19 of the Act on macroprudential supervision.

<sup>33</sup> If no changes in the level of the buffer to be maintained by financial institutions is recorded, its description will be omitted from the subsequent issue of the Report.

## 6.2. Countercyclical capital buffer

The countercyclical capital buffer (CCB) is a macroprudential tool introduced with the aim of neutralizing the impact of the economic cycle on bank's lending activity. This is how the CCB works: in the times of good times (i.e. when there is lending growth) the bank is required to maintain an adequate holding of top quality capital so that it can be used to continue lending to the real economy in bad times. It is a horizontal buffer – it is imposed on all banks (similarly to the conservation buffer). The CCB is a tool which, in addition to reducing systemic risk resulting from the credit cycle, at the same time increases capital resilience in the banking system.

The role of this buffer is related to cyclical changes in systemic risk occurring in the economy, which are associated with the periodical easing of lending terms and with the increasing scale of risks that banks tend to take, as well as with a potential underestimation of risk related to problems in measuring it. The use of the countercyclical capital buffer to mitigate systemic risk is based on the imposition of capital in the upswing phase of the financial cycle, which increases the capital requirement of banks. The increased requirement means a decrease in return on equity, which as a consequence should cause lending constraints for banks and reduce the supply of credit in the economy, thus cooling down the economic situation. In the downturn phase of the cycle (including a crisis) the buffer and the related capital is released as part of implemented macroprudential policy, which in turn mitigates the risk of banks' procyclical behaviour and reduces the risk of a credit crunch in the economy. As a result, imposition of a buffer increases at the same time the resilience of the financial system and reduces the likelihood and the likely magnitude of the crisis.

The FSC is required to recommend, on a quarterly basis, the level of the countercyclical capital buffer to the Minister of Finance. Such recommendation is formulated on the basis of the value of the countercyclical buffer guide<sup>34</sup>, which is also computed quarterly. Assessment of the level of the CCB, which takes into account a Committee recommendation, remains within the remit of the Minister of Finance.

In 2020, the Committee recommended to the Minister of Finance that the CCB in all quarters be maintained at 0%.<sup>35</sup> The Committee's recommendations were based on the assessment of low risk associated with excessive lending in Poland. The Minister of Finance accepted all the recommendations and – as no need for changes was signalled – refrained from legislative action in that matter. For the banking system it meant that for another year the CCB is kept at the level of 0%, set in the Act on macroprudential supervision in 2016.

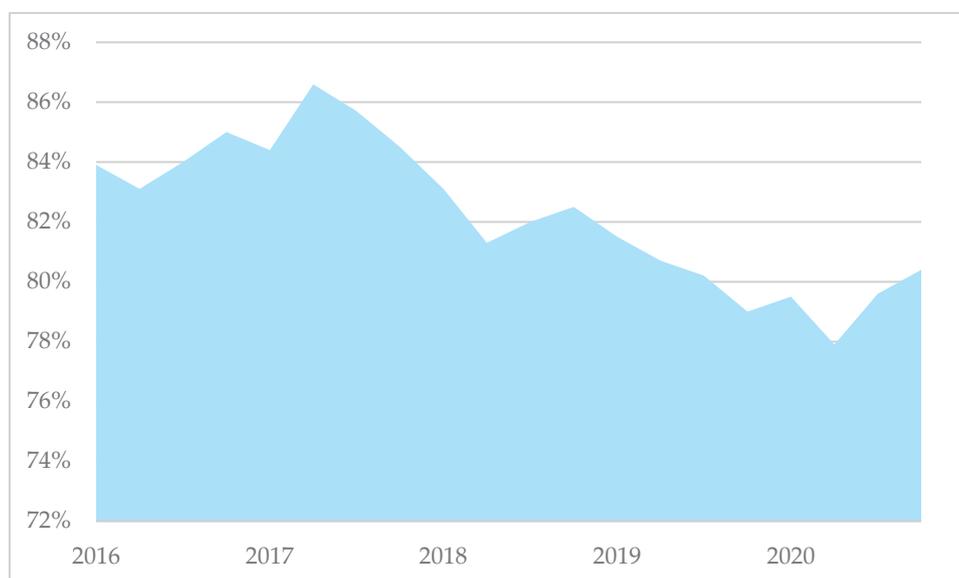
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<sup>34</sup> In accordance with Article 23 of the Act on macroprudential supervision, the guide is a variable which reflects the credit cycle and risk associated with excessive growth in lending in the national economy, taking into account the specific nature of the Polish economy and its financial system.

<sup>35</sup> In September 2020, the FSC resolution applied to the CCB in the second and third quarters.

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**Figure 8. Credit to GDP ratio (broad credit aggregate)**



Source: NBP calculations.

During its meetings, the Committee studied analytical materials<sup>36</sup> with current information on how the credit cycle indicators developed. The recommended rate of the CCB was set, among other things, based on the credit gap (a deviation of the ratio of credit for the private non-financial sector to GDP<sup>37</sup> from its long-term trend), a phase of the financial cycle in Poland and other indicators which reflect systemic risk stemming from excessive growth of non-financial sector debt in Poland.

The credit indicators analysed by the Committee during 2020 showed that deviations from the long-term trend were relatively insignificant, which meant that risk associated with credit expansion was low.<sup>38</sup> The credit to GDP ratio<sup>39</sup> declined in the second quarter on the back of the pandemic-related lockdown, but it was running around 80% during the year

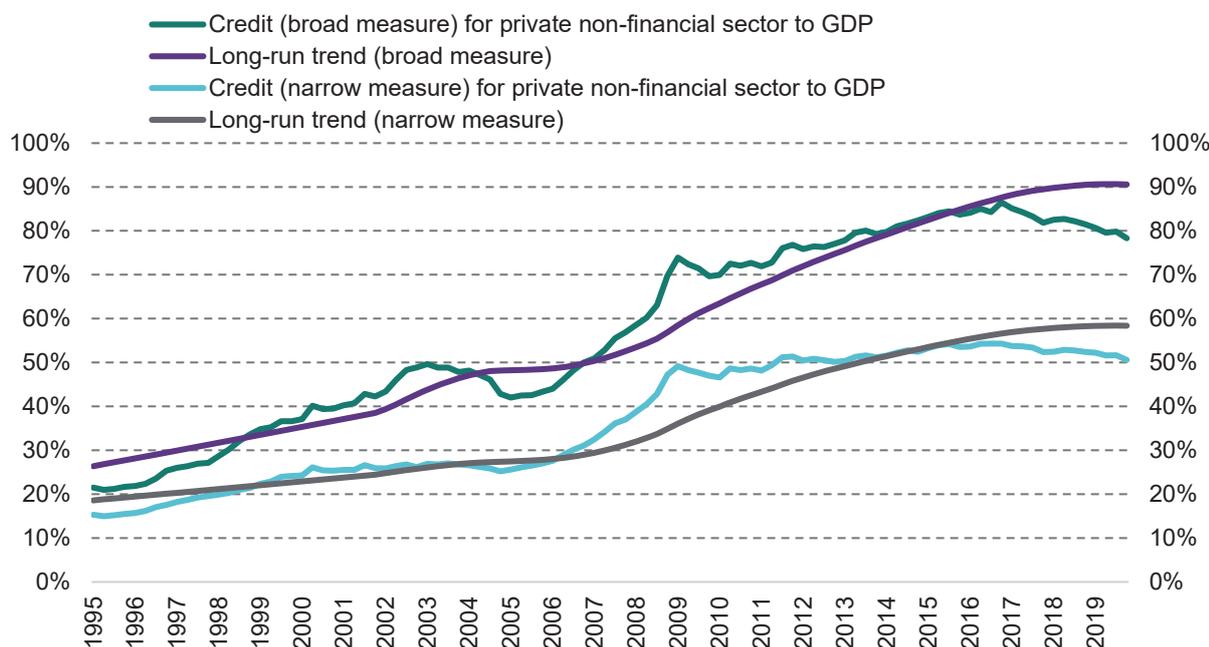
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<sup>36</sup> Analytical materials discussed at FSC-M meetings are available on the NBP website:  
<http://www.nbp.pl/nadzormakroostroznosciowy/publikacje.aspx>

<sup>37</sup> The non-financial sector debt is provided, taking account of the issue of debt instruments by non-financial corporations.

<sup>38</sup> That risk would be high primarily in the situation when the country was in the expansion phase for a long time.

<sup>39</sup> Credit to the private sector is the total debt of the non-financial sector, including the issue of debt instruments by non-financial corporations.

**Figure 8. Credit to GDP ratio and credit gap**

Source: NBP calculations.

The credit gap remained profoundly negative, which also implied no risk associated with excessive lending.<sup>40</sup> The indicator of deviation from the long-term change in the credit to GDP ratio (credit gap), which was used by the Committee to formulate its assessment, was running in the individual quarters of 2020 at -10.7%, -12.3%, -10.4% and -9.7%, respectively. This means that during the year the deviation from the trend increased significantly in the second quarter and it gradually decreased in subsequent quarters. Early warning models have indicated that in the horizon of 1 year to 4 years the threat of excessive lending will remain low. Other variables reflecting, among other things, lending growth, developments in the housing market and the price of risk also did not point to a rise in systemic risk to the level which requires the imposition of the buffer.

### 6.3. O-SII buffer

The use of the Other Systemically Important Institutions (O-SII) buffer remains within the remit of the Polish Financial Supervision Authority. It identifies O-SIIs and imposes on them respective buffers which are subject to annual review. An assessment of the systemic importance of an institution is based on the following categories laid down in the Act on macroprudential supervision:

<sup>40</sup> In line with recommendations of the Basel Committee on Banking Supervision and the European Systemic Risk Board, creating a CCB should be considered in a situation when the value of the credit gap is positive and over 2%; however, this should not be the only factor considered.

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- 1) size;
  - 2) importance for the Polish economy;
  - 3) the importance of cross-border activity;
  - 4) linkages of a given institution or a group with the financial system.

When making assessments of O-SII banks, the KNF also takes into consideration the EBA guidelines<sup>41</sup> and FSC recommendations of 2016.<sup>42</sup> A KNF administrative decision takes into account the Committee decision on recognising a given bank as O-SII and imposing on it a specific capital requirement for credit risk associated with the institution's importance in the financial system.

### **Review of the adequacy of the Other Systemically Important Institutions buffer in 2020**

In September 2020, the Financial Stability Committee was requested by the KNF to issue opinions on banks identified as O-SIIs and on buffers imposed on them, which concerned:

- a reduction of the O-SII buffer for mBank S.A. and
- an identification of Millennium Bank S.A. as O-SII and imposition of a buffer on it.

Compared to 2019, nine institutions were re-identified as O-SII, a new institution was established, and none were removed from the list of significant banks. The KNF signalled the intention to impose on identified O-SIIs buffers ranging from 0.1% to 1% of the total amount of risk exposures, lowering the level of the buffer for one of the identified institutions. For eight institutions, the buffer rate remained unchanged.

The FSC-M assessment confirmed that it was appropriate to change the list of O-SIIs according to the KNF proposal and that the proposed buffers are close to the minimum levels of buffers obtained from various calibration methods. The analysis of the situation of the banks and their role in the system helped the Committee to deliver positive opinions on the KNF requests. The opinions were submitted to the KNF and interested banks in a timely manner in accordance with the applicable procedures of the Code of Administrative Procedure.

In October, the KNF requested the Committee to submit notifications about the intention to impose a O-SII buffer to the European Commission, ESRB, the EBA and bodies competent for macroprudential supervision matters from interested Member States.

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<sup>41</sup> Guidelines of the European Banking Authority of 16 December 2014 on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (EBA/GL/2014/10).

<sup>42</sup> Resolution No 8/2016 of the FSC of 13 May 2016 concerning the recommendation regarding the systemic importance of other systemically important institutions.

Table 2. Banks identified as O-SII

Bank	Level of O-SII buffer (%)			
	2017	2018	2019	2020
Powszechna Kasa Oszczędności Bank Polski SA	0.75	1.00	1.00	1.00
Bank Polska Kasa Opieki SA	0.50	0.75	0.75	0.75
Santander Bank Polska SA (BZ WBK SA)	0.50	0.50	0.75	0.75
ING Bank Śląski SA	0.50	0.50	0.50	0.50
mBank SA	0.75	0.50	0.75	0.50
BNP Paribas Bank Polska SA (BGŻ BNP Paribas SA)	0.25	0.25	0.25	0.25
Bank Millennium SA	0.25	---	---	0.25
Bank Handlowy w Warszawie SA	0.25	0.25	0.25	0.25
Deutsche Bank Polska SA	0.25	0.25	---	---
Alior Bank SA	---	0.25	---	---
Getin Noble Bank SA	0.25	---	---	---
Bank Polskiej Spółdzielczości SA	0.0	0.0	0.1	0.1
SGB – Bank SA	0.0	0.0	0.1	0.1

A change from the previous year is highlighted in blue.

Source: NBP study based on KNF data.<sup>43</sup>

Following the review of the adequacy of the O-SII buffer rate and administrative proceedings, on 29 October 2019 the KNF issued administrative decisions in which it identified banks as O-SIIs and imposed relevant buffers on them. In the course of further procedure, the KNF informed the FSC about it and at the same time asked the FSC-M to notify the results of the review of O-SIIs and O-SII buffers to the European Commission, the ESRB and EBA. The required notifications were, in line with the KNF request and the Act on macroprudential supervision, submitted by the FSC-M Chairperson to the addressees.

<sup>43</sup> [https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat\\_OSII\\_PL\\_8\\_08\\_2018\\_62553.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_OSII_PL_8_08_2018_62553.pdf),

[https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat\\_OSII\\_2017.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_OSII_2017.pdf),

[https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat\\_KNF\\_ws\\_buforow\\_innej\\_instytucji\\_o\\_znaczeniu\\_systemowym\\_67416.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_KNF_ws_buforow_innej_instytucji_o_znaczeniu_systemowym_67416.pdf)

[https://www.knf.gov.pl/knf/pl/komponenty/img/Przeglad\\_adekwatnosci\\_wskaznika\\_bufora\\_innej\\_instytucji\\_o\\_znaczeniu\\_systemowym\\_71357.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Przeglad_adekwatnosci_wskaznika_bufora_innej_instytucji_o_znaczeniu_systemowym_71357.pdf)

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## 6.4. G-SII buffer

The use of the G-SII buffer, similarly to the O-SII buffer, remains within the remit of the KNF. It identifies G-SIIs and imposes on them the relevant buffers which are subject to annual review.

In 2020, the KNF informed the FSC that none of Poland's five largest financial institutions met the adopted threshold of EUR 200 billion for the exposure measure of a credit institution operating under a licence granted in Polish territory. Therefore, the KNF did not identify any G-SII in Poland.

## 6.5. Systemic risk buffer

The systemic risk buffer (SRB) was introduced in Poland in 2017 by the regulation of the Minister of Finance<sup>44</sup> and applied to banks from 1 January 2018. The implementation of this macroprudential instrument was a direct fulfilment of the FSC Recommendation of 2017 regarding the restructuring of the portfolio of FX housing loans.<sup>45</sup>

The systemic risk buffer was imposed on all domestic banks at the level of 3% of the total amount of risk exposures. The implementation of the instrument aimed to prevent and mitigate long-term non-cyclical risk which may result in strong adverse consequences for the financial system and the economy of the country. In Poland, the systemic risk buffer was designed to support the preservation of banks' resilience to negative phenomena associated with the situation in the environment of the Polish economy and to potentially negative external shocks. The catalogue of reasons was spelled out by the Committee in the Recommendation in a broad sense, factoring in a number of potential sources of risk.

In December 2019, the Committee carried out a review and made an assessment of the adequacy of the SRB imposed.<sup>46</sup> The Committee judged that maintaining the buffer substantially improves the resilience of the banking sector to shocks as the accumulated capital helps the banking system to absorb higher losses. At the same time, it reduces the risk of a strong deleveraging in the system and of a credit crunch, as in the event of materialization of risk the capital covering the requirement (then at the level of PLN 30 billion) does not have to be additionally raised. On the other hand, in times of crisis it can be used directly to cover the losses or to generate lending.

The situation changed significantly in March 2020 with the outbreak of the COVID-19 pandemic. The circumstances of the pandemic led to a materialisation of the risk of a downturn (or even

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<sup>44</sup> Regulation of the Minister of Economic Development and Finance of 1 September on the systemic risk buffer (Journal of Laws 2017, item 1776).

<sup>45</sup> Resolution No 14/2017 of the Financial Stability Committee of 13 January 2017 on the recommendation regarding the restructuring of the portfolio of FX housing loans.

<sup>46</sup> The FSC recommendation was a fulfilment by the Committee of the provisions of Article 50(7) of the Act on macroprudential supervision. In accordance with the provisions of the article, the minister competent for matters on financial institutions is required to, at least once in two years, carry out an assessment of the adequacy of the SRB and types of exposures to which it applies, taking into consideration FSC-M recommendations.

recession) globally and of a surge in risk premium. The pandemic fallout in Poland and the side-effects of measures aimed to contain the pandemic compounded the external shock effect. As a result, the probability of a strong slowdown in the Polish economy rose substantially, which might have triggered the risk of a credit crunch in the economy and the risk related to vulnerabilities of certain financial institutions.

In view of the materialisation of risk whose potential occurrence was one of the reasons why the buffer was imposed and of the scale of the shock the economy experienced, it was reasonable to release the SRB. According to the Committee, the scale and nature of the pandemic-related shock warranted the total release of the SRB, which was to contribute reducing the risk of a credit crunch and to support economic growth in the circumstance of the shock and to increase financial stability. Limiting the scale of the slowdown in the economy through the SRB release also reduced the risk of higher losses in the financial system. According to preliminary estimates, a release of the applicable SRB would allow banks to earmark up to around PLN 30 billion in capital for other purposes and could help banks to create an additional PLN 40 billion in lending to small and medium-sized enterprises (SMEs). It was also stressed that it is important that the funds released from the buffer do not increase the value of dividends scheduled by banks, and that they are used to provide lending to the economy and cover losses in the coming quarters. The buffer release also automatically reduced the MREL.

### Reducing capital buffers in EU countries

In the circumstance of the COVID-19 pandemic, many macroprudential authorities in Europe took decisions to release macroprudential capital buffers.

With a view to counteracting the pandemic fallout for the banking sector and the economy, a number of macroprudential authorities decided in March and April to release the countercyclical capital buffer (Belgium, Bulgaria, France, Germany, Iceland, Ireland, Lithuania, Norway and Sweden). Several other countries took a similar decision later in the year. In 2020, the countercyclical capital buffer rate was finally lowered by 13 countries.

At the same time, in the statement of 12 March 2020<sup>47</sup> of the EBA it explicitly indicated that it is possible to release liquidity and capital buffers, including macroprudential buffers, in order to absorb losses and ensure continued lending to the economy during a downturn.<sup>47</sup>

Eight countries (Estonia, Finland, the Netherlands, Poland, the United Kingdom and Hungary) exercised this opinion in 2020 when they decided to release the SRB.<sup>48</sup>

<sup>47</sup> The EBA statement: <https://eba.europa.eu/eba-statement-actions-mitigate-impact-covid-19-eu-banking-sector>.

<sup>48</sup> Changes in the macroprudential policy of EU countries discussed in Chapter 8.6.

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On 16 March 2020, the Committee passed a resolution in which it issued a recommendation to the Minister of Finance to immediately repeal the obligation to apply the SRB by institutions. On 18 March 2020, the Minister of Finance issued a regulation in which it repealed – as of 19 March – the previous provisions pertaining to the SRB and also the obligation to maintain it.<sup>49</sup>

## 6.6. Risk weights

Increased risk weights for exposures secured by a mortgage on immovable property, introduced in 2017<sup>50</sup>, were applicable in the first half of 2020.

Higher risk weights were applied for credit exposures subject to the standard method of setting the capital requirement for credit risk, which are in the class of exposures secured on immovable property subject to the provisions of Article 124 of the CRR. Under the provisions of the regulation, banks were required to assign to exposures secured by mortgage on:

- residential property financed with an FC loan
  - a risk weight of 150%,
- commercial property located in Poland
  - a risk weight of 100%.

In line with the intention of the FSC-M, an increase in risk weights for FX housing loans meant a collateral for banks in the event of potentially higher losses, which may arise from the high levels of LTV (loan to value) and LGD (loss given default) of a significant portion of the older loan portfolio.

Since the entry into force of the regulation on increasing risk weights for FX housing loans, no significant circumstances pointing to a marked reduction in the level of risk associated with the portfolio of the loans have occurred which would justify a reduction in risk weights for such exposures. At the same time, both the number of lawsuits brought against banks as well as court decisions against banks in connection with finding abusive clauses in FX housing loan agreements was already observed to increase in 2019.

In its risk weight analysis of mid-2020, the Committee pointed out the absence of an imbalance on the market of real estate used for industrial and agricultural production. A reduction of risk weights for the exposures could serve to increase banks' willingness to provide credit to farmers and entrepreneurs to support their production activity by reducing the capital requirement for new credit, which – from the point of view of banks – enhances its profitability. Providing such credit was considered favourable from the point of view of preservation of the production capacity and

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<sup>49</sup> Regulation of the Minister of Finance of 18 March 2020 repealing the regulation on the systemic risk buffer

<sup>50</sup> Higher risk weights have been applicable since 2 December 2017. They were introduced by the Regulation of the Minister of Economic Development and Finance of 25 May 2017 (Journal of Laws 2017, item 1068), which fulfilled the FSC-M Recommendation of 13 January 2017.

the potential of the Polish economy, as this could limit the magnitude of the economic fallout of the epidemic and additionally support state lending to farmers and entrepreneurs.

In the Committee's view, the circumstances of the COVID-19 epidemic required action supporting capacity of banks to lend and maintain economic activity in Poland. In view of the above, the Committee recommended the Minister of Finance a reduction from 100% to 50% of the current risk weights for exposures secured on commercial property used to conduct own business and not generating rental income or profits from its sale.<sup>51</sup> In the Committee's opinion, the reduction of risk weights along with other measures taken by financial safety net institutions should have a positive impact on the strength of banks' regulatory capital, thus counteracting lending constraints. The minister implemented the FSC-M recommendation in October 2020.<sup>52</sup>

## 6.7. Combined buffer requirement

In accordance with Article 55(4) of the Act on macroprudential supervision, the combined buffer requirement is a total Common Equity Tier 1 capital that is required to cover the conservation buffer, increased by the institution-specific CCB, G-SII buffer, the O-SII buffer or the SRB buffer.<sup>53</sup>

It should be stressed that the combined buffer requirement is not an additional macroprudential instrument, but a parameter used for internal assessment of banks' compliance with the capital requirements. Financial institutions are required to conduct an internal assessment to check whether they comply with the combined buffer requirement. In the case of non-compliance, an institution cannot make payments related to Common Equity Tier 1 (e.g. dividend payments) and is required to submit to the KNF its capital conservation plan.

**Table 3. Combined buffer requirement parameters in 2019 and 2020**

Year	Conservation buffer	Countercyclical buffer	O-SII buffer <sup>54</sup>	Systemic risk buffer	COMBINED BUFFER REQUIREMENT
2019	2.5%	0%	11 banks: 0% - 1%	3%	5.5% - 6.5%
2020	2.5%	0%	10 banks: 0.1% - 1%	-	2.5% - 3.5%

Source: NBP study.

<sup>51</sup> Resolution No 38/2020 of the Financial Stability Committee of 13 July 2020 on a recommendation on risk weights for exposures secured by mortgage on commercial property.

<sup>52</sup> Regulation of the Minister of Finance, Funds and Regional Policy of 8 October 2020 amending the regulation on a higher risk weight for exposures secured by mortgages on property.

<sup>53</sup> Wherein the SRB is added to the G-SII or O-SII only when it was imposed on domestic exposures. In other cases, the higher of the indicated buffers is taken into account.

<sup>54</sup> The table does not include the G-SIIs because no such institution has been identified in the Polish financial system.

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In 2020, following the decision to repeal the obligation to maintain the SRB, the level of the combined buffer requirement was also changed. Changes in the level of the combined buffer requirement are shown in the table below.

## 7. Other macroprudential activities

### 7.1. Opinions on the level of contributions to the Borrowers' Support Fund

On 1 January 2020, the *Act of 4 July 2019*<sup>55</sup> amending the *Act of 9 October 2015 on support to home loan borrowers who are in a difficult financial situation*, hereinafter referred to as the "Act on FWK", entered into force. It concerned the rules on providing aid to borrowers from the Borrowers' Support Fund, hereinafter "FWK" and set for the Financial Stability Fund a new cyclical obligation to deliver opinions that will be used by the FWK Board to set the level of lenders' contributions to the Fund.<sup>56</sup>

Lenders' quarterly contributions are made in proportion to the gross carrying value of the housing loan portfolio they hold, where arrears in the repayment of principal or interest is more than 90 days. The Chairperson of the Financial Stability Committee on macroprudential supervision is required to submit to the FWK Board an opinion by the end of the second month following the quarter for which the contribution to the Fund is due.

The first opinion of the Committee should have been submitted by the end of May 2020. Following the announcement of the state of epidemic and the entry into force of the *Act of 2 March 2020 on specific solutions related to the prevention, counteraction and eradication of COVID-19, other infectious diseases and crisis situations caused by them* (Journal of Laws, item 374, as amended<sup>57</sup>), the Minister of Finance, by way of regulation<sup>58</sup>, postponed, among others, the deadline for submitting opinions to the FWK Board by the Committee. In view of the above changes, the first opinion of the FSC-M on the level of contribution to the FWK was prepared three months later, i.e. in August 2020.

Changes regarding the postponement of the deadline for an opinion remained in force throughout the whole of 2020, therefore the Committee delivered an opinion on the level of FWK contributions for the second quarter on 24 November 2020.

In 2020, opinions on these matters, in accordance with the adopted procedure, were delivered by the FSC-M without a meeting.

<sup>55</sup> Act of 4 July 2019 on amending the Act on support to home loan borrowers who are in a difficult financial situation and certain other acts (Journal of Laws 2019, item 1358).

<sup>56</sup> Article 16a(4) and (7) of the Act of 9 October 2015 on support to home loan borrowers who are in a difficult financial situation (Journal of Laws 2019, item 2138, Journal of Laws 2021, item 11).

<sup>57</sup> Journal of Laws 2020, items 1842, 2112, 2113, 2123, 2157, 2255, 2275, 2320, 2327, 2338, 2361 and 2401, Journal of Laws 2021, items 11, 159 and 180.

<sup>58</sup> § 10 paragraph 2 of the Regulation of the Minister of Finance of 7 April 2020 on determining other deadlines for performing certain reporting and information obligations (Journal of Laws, items 622 and 1243).

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In both opinions, the FSC has indicated that the Fund holds sufficient funds to carry out its tasks and it was not necessary for lenders to make payments into the Fund for the first and second quarter of 2020.

## **7.2. Opinion of the Committee on delaying the implementation date of the amendment to Recommendation S**

In 2019, the Financial Stability Committee, acting under its macroprudential supervision mandate and in accordance with Article 137(2) of the Banking Act, issued an opinion on the draft amendment to Recommendation S on good practices with regard to managing mortgage-secured credit exposures.<sup>59</sup>

In the published recommendation, the KNF<sup>60</sup> stated that it is expected to be introduced by:

- cooperative banks by 31 December 2022,
- other banks and branches of credit institutions not later than by 31 December 2020.

The Chairperson of the KNF informed the FSC-M about the intention to delay the implementation of Recommendation S to 30 June 2021. The reason behind this change was the need to reduce the regulatory burden for banks in connection with COVID-19 pandemic-related developments.

At a meeting on June 15, the Committee discussed the proposal to postpone to 30 June 2021 the deadline for implementation of the amended Recommendation S by banks. It indicated that the expected implementation dates mentioned in Recommendation S had not been the subject of opinions by the FSC-M as it has only delivered an opinion on substantive issues having an impact on the functioning of the financial sector. However, bearing in mind that the change of the implementation date of Recommendation S may have decreased the scope of operational burden for banks during the COVID-19 pandemic, the Committee accepted the UKNF proposal.<sup>61</sup>

## **7.3. MAR administrative procedure**

In 2019, the Financial Stability Committee issued, upon KNF's request, one opinion under Article 17 of Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (the Market Abuse Regulation).<sup>62</sup>

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<sup>59</sup> Resolution No 31/2019 of the Financial Stability Committee of 17 October 2019 on the opinion on the draft amendment to Recommendation S on good practices with regard to managing mortgage-secured credit exposures.

<sup>60</sup> [https://www.knf.gov.pl/knf/pl/komponenty/img/Nowelizacja\\_Rekomendacja\\_S\\_23-07-2020\\_70340.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Nowelizacja_Rekomendacja_S_23-07-2020_70340.pdf)

<sup>61</sup> On 3 December 2019, the KNF passed a resolution on adopting the amended Recommendation S.

<sup>62</sup> Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 *on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC* (Official Journal of the European Union, L 173 of 12.06.2014, p. 1, as amended).

In the course of the administrative proceeding on giving consent to delay the disclosure of inside information concerning issuers<sup>63</sup>, the Polish Financial Supervision Authority requesting an opinion of the Financial Stability Committee as the macroprudential supervision authority, used the right resulting from Article 17(6) second sentence of the MAR. The Chairperson of the Committee received the request on 19 June 2021, and in accordance with the provisions of the Code of Administrative Procedure the Committee was required to issue an opinion by 3 July 2021 at the latest. In view of the above, at an unscheduled meeting held on 1 July 2020, the Committee – following the scope of the request – delivered an opinion in which it assessed whether the disclosure of inside information within the meaning of the MAR will entail 1) a risk of undermining the stability of a financial institution as an issuer and 2) a risk to financial stability. An opinion is delivered under the Code of Administrative Procedure in the form of an administrative decision, therefore an FSC opinion is always addressed to the entity filing a request with the KNF. The KNF receives an opinion only for information.

Due to the duty of confidentiality, in accordance with Article 17 of the MAR, the opinions of the Committee on these matters are not published.

#### **7.4. Monitoring the progress of NBP's work on the implementation of FSC recommendation on ensuring the availability of data and information on the real estate market**

In 2016, the ESRB issued a recommendation on closing real estate data gaps<sup>64</sup> which was addressed to national macroprudential supervisory authorities<sup>65</sup>, which was addressed to the Financial Stability Committee in Poland. The recommendation results from the identification of significant residential and commercial real estate statistical data gaps and a wide diversity of definitions of indicators used for analysing the markets at the EU level. According to the ESRB, the unavailability of comparable and reliable data may have a negative impact on the possibility of identifying the sources of systemic risk arising from the real estate market and, consequently, may limit the efficiency of macroprudential policy.

In its original recommendation, national macroprudential authorities were required to notify the ESRB and the European Union Council about the implementation of the recommendation by

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<sup>63</sup> In accordance with Article 17(1) of the MAR, the issuer is required to inform the public as soon as possible of inside information which directly concerns the issuer. However, there are exceptions to the rule, which concern issuers that are a credit institution or a financial institution. Under Article 17(5) in order to preserve the stability of the financial system, an issuer that is a credit institution or a financial institution may delay the public disclosure of inside information, provided that the supervisory authority has consented to the delay on the basis that the following conditions are met: (i) the disclosure of the inside information entails a risk of undermining the financial stability of the issuer and of the financial system, (ii) it is in the public interest to delay the disclosure and (iii) the confidentiality of that information can be ensured.

<sup>64</sup> Recommendation of 31 October 2016 on closing real estate data gaps (ESRB/2016/14).

<sup>65</sup> Sub-recommendations A, B, C, D are addressed to national macroprudential authorities, and sub-recommendation E – to European Supervisory Authorities.

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submitting a final report by 31 December 2020. Due to significant difficulties in accessing the demanded data and discrepancy in definitions adopted by individual EU countries, the ESRB extended – under ESRB Recommendation (ESRB/2016/14) – the deadline for implementing specific recommendations until the year 2020, and in special cases – even until 2024.

The Financial Stability Committee was required to carry out tasks defined in the Recommendation; they include establishing a framework for the monitoring of risk for domestic real estate markets based on defined indicators. This task translates into, among others, the need to obtain relevant data. The scope of information necessary for complying with the Recommendation concerns mainly the banking sector, but also insurance undertakings, pension funds, investment funds and companies from the real estate sector. Considering that Narodowy Bank Polski is in possession of a substantial portion of information necessary to make an ESRB Recommendation-compliant assessment, relating specifically to banking sector exposures, the FSC made a recommendation<sup>66</sup> to NBP to provide the Committee with access to the information and data which are significant from the point of view of assessment of risk associated with the domestic residential and commercial real estate market.

Since 2018, Narodowy Bank Polski has worked on meeting the Committee's recommendation. Progress in the implementation of the recommendation takes into account the state of play related to the acquisition of suitable data at the EU level. At the EU forum arrangements are underway on how to implement the ESRB recommendation within the ESCB Statistics Committee. At the domestic level, consensus has been reached between the stakeholders over the scope of data to be included in the system under construction.

In December 2020, the Committee submitted to the ESRB the required information, which shows that – in the FSC-M's view – the macroprudential supervision authority complied the recommendations on time. Analysis of this information at the EU level will be carried out by the ESRB and made public. During a transition period, i.e. before data are available in a regular report to NBP, data are collected in a UKNF post-reporting examination among banks.

## **7.5. Monitoring the progress of the reform of benchmarks**

Taking into account the scale of the challenges related to the risk of untimely adjustment of the interest rate reference indicator in Poland – WIBOR benchmark – to the BMR<sup>67</sup> requirements, on 25 January 2019 the Committee issued a statement to GPW Benchmark S.A. and the Warsaw Stock

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<sup>66</sup> The FSC Resolution No 23/2018 on a recommendation to Narodowy Bank Polski on ensuring the availability of data and information on the real estate market.

<sup>67</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council (EU) of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Official Journal of the European Union L 171/1 of 2016), p. 1).

Exchange which are both responsible for elaborating the method of calculating the benchmarks in compliance with the BMR.

In 2020, the Committee continued to monitor systemic risk associated with the untimely adjustment of the method of elaborating the WIBOR benchmark, and to this end, studied current information on the evolution of the process of granting GPW Benchmark the authorization to act as administrator of the benchmarks. Information provided by the KNF – as a body in charge of the administrative process – has confirmed that the proceedings on granting an authorization for the administrator are going well and on time.

In the Committee's opinion, the efforts made significantly reduced risk associated with the untimely adjustment of the benchmarks, which was reflected in a systemic risk assessment made during the year 2020, where the Committee steadily reduced the assessment of the materiality of such risk. Finally, in December 2020, following the issue of the KNF decision on the authorisation for GPW Benchmark to act as an administrator of the benchmarks, the systemic risk of the WIBOR benchmark expired.

## 7.6. Review of systemically relevant entities

In 2019, the Financial Stability Committee accepted a new version<sup>68</sup> of the methodology of identifying systemically relevant entities (PSI)<sup>69</sup>, according to which the group of PSI includes, among others, all credit institutions which are each time identified as O-SIIs. Thanks to this rule, the results of the annually revised list of O-SIIs carried out by the KNF are automatically reflected in the list of Systemically Relevant Entities.

After the KNF review of the adequacy of the Other Systemically Important Institutions buffer, the results of which were made public on 9 November 2020, the list of Systematically Relevant Entities now includes:

1. Banks identified as O-SII in 2020:
  - Powszechna Kasa Oszczędności Bank Polski,
  - Santander Bank Polska,
  - Bank Polska Kasa Opieki,
  - mBank,
  - ING Bank Śląski,
  - Bank Handlowy w Warszawie,
  - BNP Paribas Bank Polska,

<sup>68</sup> The first version of the methodology of identification of PS was approved by the FSC-M on 15 September 2017.

<sup>69</sup> The obligation to identify financial institutions that generate relevant risk to the financial system (PSI) results from Article 5 subparagraph 2 of the Act of 5 August 2015 on macroprudential supervision (Journal of Laws 2019, item 483.).

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- Bank Millennium,
  - Bank Polskiej Spółdzielczości,
  - SGB-Bank;

and entities the list of which remained unchanged in 2020:

2. systemically important payment systems, securities clearing and settlement systems;
3. PZU;
4. GPW Benchmark;
5. Warsaw Stock Exchange;
6. SKOK im. F. Stefczyka;
7. National Association of Cooperative Savings and Credit Unions.

## 8. International cooperation

The Financial Stability Committee cooperates on an ongoing basis with the EU authorities and institutions as well as with macroprudential authorities of other EU Member States. In this area, it takes actions aimed, among others, at implementing the ESRB recommendations and fulfilling other obligations arising from other EU acts of law.

### 8.1. Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2)

As macroprudential instruments in various EU countries produce cross-border effects, in accordance with the Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2)<sup>70</sup>, Member States are required to assess potential cross-border effects of the instruments they apply, and also may request the ESRB to recommend to other Member States to reciprocate the instrument by using the same or similar instruments (*reciprocity*). The rules are meant to help avoid regulatory arbitrage and ensure consistency of the macroprudential policy in the EU. The reciprocity mechanism for macroprudential policy measures provides for the use of the so-called materiality threshold, which provides the basis for non-reciprocity of a macroprudential instrument of the other country due to insignificant exposures and the absence of an impact on the efficiency of the instrument in the implementing country. The proposal of the materiality threshold is presented by the authority activating the individual instrument in the application for reciprocity.

No new ESRB recommendations on reciprocating macroprudential instruments adopted in other countries were issued in 2020. Up till now, the FSC-M has not taken decisions on reciprocating any instruments implemented in other countries due to the lack of material exposures. At the same time, the Committee continues to monitor Polish banks' exposures in connection with the use of the reciprocity mechanism in compliance with the materiality thresholds defined in the Recommendation ESRB/2015/2 and submits relevant information to the ESRB. The results of monitoring under the reciprocity mechanism in 2019 are shown in the table below.

#### Results of monitoring French exposures

In December 2018 the ESRB issued a Recommendation<sup>71</sup> on reciprocating a macroprudential instrument applicable in France by other EU Member States. The instrument was introduced by

<sup>70</sup> Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2), Official Journal of the European Union 2016/C 97/02.

<sup>71</sup> Recommendation of the European Systemic Risk Board of 5 December 2018 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2018/8).

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Article 458 of the CRR (it provides for a decrease to 5% of the limit on large exposures to highly indebted non-financial corporations headquartered in France and applied to G-SIIs and O-SIIs).

As the value of Polish exposures to the French sector on non-financial corporations was insignificant, in March 2019 the FSC-M decided not to reciprocate the French measure and at the same time obligated NBP to monitor, on an annual basis, exposures of Polish banks to specific exposures in case the situation were to change.

The analysis carried out in February 2020 showed that no Polish bank classified as systemically important had total and individual Polish exposures to the French sector of non-financial corporations in excess of the threshold defined in the Recommendation. Therefore, the Committee considered that there was no need to reciprocate the French instrument in Poland.

### **Results of monitoring of Finnish exposures**

In January 2018, the ESRB issued a Recommendation<sup>72</sup> on reciprocating a macroprudential instrument applicable in Finland by other EU Member States. The instrument was introduced by Article 458 of the CRR (a 15% minimum floor for the average risk weight on residential mortgage loans secured by a mortgage on housing units in Finland for credit institutions active in the country and using the IRB approach).

As the value of Polish exposures in Finland was insignificant, in March 2019 the FSC-M decided not to reciprocate the Finnish measure and at the same time obligated NBP to monitor, on an annual basis, exposures of Polish banks to that country, in case the situation were to change.

The February 2020 analysis led the Committee to conclude that no Polish bank had exposures in Finland in excess of the materiality threshold defined in the Recommendation. Therefore, no need arose to reciprocate the Finnish instrument in Poland.

### **Results of monitoring Swedish exposures**

In January 2019, the ESRB recommended<sup>73</sup> other EU Member States to reciprocate the Swedish macroprudential instrument. It was introduced by Article 458 of the CRR (a minimum risk-weighted exposure of 25% for portfolios of retail exposures to debtors who are residents in Sweden, secured on mortgages on immovable property; the instrument applied to banks using the IRB approach to calculate their regulatory capital requirements).

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<sup>72</sup> Recommendation of the European Systemic Risk Board of 8 January 2018 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2018/1).

<sup>73</sup> Recommendation of the European Systemic Risk Board of 15 January 2019 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2019/1).

As the value of Polish exposures in Sweden was insignificant, in June 2019 the FSC-M decided not to reciprocate the Swedish measure and at the same time obligated NBP to monitor, on an annual basis, exposures of Polish banks to that country, in case the situation were to change.

The analysis of reporting data at the end of December 2019 showed that total exposures of the Polish banking sector to Sweden did not exceed the specific materiality threshold. Therefore, the Committee concluded in 2020 that there were no reasons to reciprocate the Swedish instrument in Poland.

### **Results of monitoring Estonian exposures**

In June 2016, the ESRB issued a Recommendation<sup>74</sup> on reciprocating Estonia's systemic risk buffer by other EU Member States.

In response to the ESRB Recommendation, at its meeting on 10 August 2016, the FSC took the decision not to reciprocate a macroprudential instrument introduced in Estonia as Polish banks had no significant exposures to that country. At the same time, the FSC-M imposed on NBP the obligation to monitor exposures of Polish banks to Estonia's financial sector KSF-M, in case the situation were to change.

The analysis performed in May 2020 led the Committee to conclude that Polish banks still had no exposures to Estonia in excess of the specific materiality threshold and therefore there were still reasons justifying the non-reciprocity of Estonia's SRB in Poland. At the same time, following the decision of the central bank of the Republic of Estonia to reduce the SRB from 1% to 0% and the repealing by the ESRB of its recommendation to reciprocate the instrument in accordance with the rules of the reciprocity mechanism, the Committee decided to discontinue monitoring Estonia's exposures in the future.

### **Results of monitoring Belgian exposures**

In July 2018, the ESRB issued a Recommendation<sup>75</sup> on reciprocating Belgium's higher risk weights, introduced under Article 458 of the CRR, for exposures secured by a mortgage on housing property located in Belgium by other Member States.<sup>76</sup>

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<sup>74</sup> Recommendation of the European Systemic Risk Board of 24 June 2016 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2016/4).

<sup>75</sup> Recommendation of the European Systemic Risk Board of 16 July 2018 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2018/5).

<sup>76</sup> In accordance with the procedure provided for in Article 458 of the CRR, macroprudential instruments implemented by the article remain applicable for up to two years. In line with the provisions of the article, the Belgian instrument should expire on 30 April 2020. However, the central bank of Belgium notified the ESRB about the intention to extend the application of the instrument until 30 April 2021. The ESRB took the decision to extend the application of the reciprocity principle for

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In response to the ESRB recommendation, at its meeting on 21 September 2018, the FSC took the decision not to reciprocate Belgium's instrument, citing lack of significant exposures of Polish banks to that country. At the same time, the FSC-M imposed on NBP the obligation to monitor Polish banks' exposures to the Belgian financial sector.

The analysis performed in August 2020 showed that Polish banks still had no exposures to Belgium in excess of the materiality threshold. Therefore, the Committee concluded that there were still reasons not to reciprocate the Belgian macroprudential instrument.

## **8.2. Implementation of the recommendation on recognising the countercyclical buffer rates for exposures to third countries (ESRB/2015/1)**

In 2016, the ESRB published the *Recommendation on recognising and setting countercyclical buffer rates for exposures to third countries* (ESRB/2015/1). The aim of the recommendation is to harmonise in the EU the principles of recognising and setting countercyclical buffer rates in relation to third countries and to notify the ESRB about it.

In line with Sub-recommendation B material third countries should be identified once a year and the list of such countries should be submitted to the ESRB by the end of the second quarter of each year. Risk associated with excessive lending in material countries should also be monitored.<sup>77</sup>

In 2016, the Committee approved the methodology of identification of material third countries and established that NBP will be an institution responsible for monitoring Polish exposures to third countries. NBP was also obligated to communicate decisions on recognising or establishing countercyclical buffer rates for exposures to third countries on the FSC-M website and to submit relevant notifications to the ESRB.

### **Identification of the countries to which the Polish banking sector had material exposures in 2020**

The table below presents the five countries to which Polish banks had the largest exposures, identified by the adopted methodology according to end-of-Q4-2019 data. The analysis showed that none of the countries met the third country criteria. At the same time, no third country complied with the thresholds specified in the methodology adopted by the Committee. Therefore,

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macroprudential instruments, in the case of which countries have notified their intention to extend their application (Belgium, Finland and France), without issuing new recommendations in this area.

<sup>77</sup> In line with the Committee decision, an analysis on the third countries which are directly monitored by the ESRB (Brazil, China, Hong Kong, Russia, Singapore, Switzerland, Turkey and the United States) is not carried out at national level.

[https://www.esrb.europa.eu/pub/pdf/other/esrb\\_list\\_of\\_material\\_third\\_countries.en.pdf?d811c2a6924b954a3322c49c18afdc57](https://www.esrb.europa.eu/pub/pdf/other/esrb_list_of_material_third_countries.en.pdf?d811c2a6924b954a3322c49c18afdc57)

based on the available data, the Committee concluded that there was still no basis to identify any third as material from the point of view of the need to recognise and set countercyclical buffer rates.

**Table 4. The largest exposures of Polish banks, according to June 2020 review**

Country	Average share in 8 quarters	Is exposure over 1% in each of the last two quarters <sup>78</sup>	Exposure qualification
United Kingdom	1.7%	No	Immaterial
Luxembourg	0.5%	No	Immaterial
Italy	0.4%	No	Immaterial
France	0.3%	No	Immaterial
Germany	0.3%	No	Immaterial

Source: NBP study based on FINREP and COREP data.

### Report on the implementation of Recommendation ESRB/2015/1

In line with the timetable of communicating the implementation of Recommendation ESRB/2015/1, a report on its implementation (sub-recommendations A1 and A2, B1 and B2, C1, C2 and C3) was to be submitted to the ESRB by 31 December 2020.

Only one of the indicated recommendations required regular involvement of the FSC-M. While carrying out the tasks entrusted to it by the Committee, NBP employed the methodology compliant with Decision ESRB/2015/3 and has not yet identified material third countries to the Polish banking sector.

Implementation of the remaining recommendations hinged on the action taken by authorities of a third country.<sup>79</sup> The conditions specified in Recommendations A and C have not materialised, therefore it was not necessary to take Recommendation-defined actions.

<sup>78</sup> Exposure is considered material if the average share of a given country in the exposure of the Polish banking sector calculated over the horizon of eight quarters is over 1% and, at the same time, the share of a given country in the exposure of the Polish banking sector in each of the last quarters is over 1%.

<sup>79</sup> In line with Recommendation A, in the situation where the authority of a third country established the countercyclical buffer rate at a level higher than 2.5%, the designated authorities should immediately notify the ESRB about it, and the ESRB will issue guidelines on the uniform application of the reciprocity principle for the CCB of a third country.

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Having familiarised itself with the information on the implementation of the recommendation, the Committee instructed the Permanent Working Group to prepare a report and submit it to the ESRB.

### **8.3. Implementation of the Recommendation on exchange of information for macroprudential purposes on branches of credit institutions (ESRB/2019/18)**

As the scale of cross-border activity via the intermediation of branches of credit institutions in EU Member States increases, certain foreign branches may have a significant impact on financial stability of the hosting state and also affect the effectiveness of the conduct of macroprudential policy. Therefore, on 26 September 2019 the General Board of the ESRB adopted the Recommendation on exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country (ESRB/2019/18). The actions recommended by the ESRB are intended to allow the exchange of information for macroprudential purposes on branches of credit institutions. Previously, obtaining information on foreign branches was **explicitly** regulated for microprudential supervision purposes. The exchange of information for macroprudential purposes was not regulated by EU.

Recommendation A was addressed to relevant authorities, and the remaining two – to the European Commission and the European Banking Authority. In September 2020, the Committee concluded that the FSC-M will perform the role of an organ competent for the purposes of implementing Recommendation ESRB/2019/18. At the same time, the Committee – in connection with the implementation of the recommendation – approved the schema for the purposes of an exchange of information once a request is submitted by the relevant hosting organ of the member state and if the need arises to obtain data on a branch of credit institution active in Poland. The schema was not used in 2020.

### **8.4. Implementation of the Recommendation on closing real estate data gaps (ESRB/2016/14)**

In 2016, the ESRB issued a recommendation on closing real estate data gaps (ESRB/2016/14), which recommends that national macroprudential supervision authorities monitor risk to the residential real estate sector and the commercial real estate sector.

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In line with Recommendation C, in the situation where the CCB set in a third country has been recognised on the basis of an ESRB recommendation, and then the third country decreased the rate, the designated authorities should immediately communicate this fact to the ESRB, which will issue guidelines on the application of the reciprocity principle toward the new lower level of the CCB in the third country.

The ESRB addressed to national macroprudential supervision authorities the following recommendations:

- A – on monitoring the sources of risk arising from the residential real estate sector,
- B – on material information on the residential real estate sector,
- C – on monitoring the sources of risk arising from the commercial real estate sector,
- D – on material information on the commercial real estate sector.

In June 2018, the Committee addressed a recommendation to NBP on providing the Committee with access to the information and data on the real estate market. At the same time, the Committee itself was obligated to submit a report on the implementation of the recommendation in late 2018.

### **Report on the implementation of Recommendation ESRB/2016/14**

In compliance with the ESRB Recommendation amended in March 2019, the deadline for submitting to the ESRB a final report on the implementation of Recommendations A and B was 31 December 2020.

Ultimately, in line with the FSC-M recommendation, the data required to comply with the ESRB recommendation will be collected by the National Credit Register (KRK). When implementing the FSC-M recommendation, NBP took into account the scope of data indicated in the amended Recommendation (ESRB/2016/14)<sup>80</sup> and included the recommended data into the prepared draft of the National Credit Register, which will allow to aggregate individual data to relevant indicators together with their distributions indicated in the ESRB Recommendation, thus implementing the Committee recommendation.

However, considering that the work on implementing the KRK has not been finished yet, a UKNF post-reporting examination is temporarily the source of data indicated by the ESRB Recommendation. The scope of the examination currently complies with the ESRB recommendation requirements to a large extent.

Having studied the indicated information, the Committee entrusted NBP, the institution responsible for implementing Recommendation ESRB/2016/14, with filling in and submitting the relevant information to the ESRB.

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<sup>80</sup> Recommendation of the European Systemic Risk Board of 21 March 2019 amending Recommendation ESRB/2016/14 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2019/3).

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## 8.5. Implementation of the Recommendation on monitoring and exchange of information on fiscal measures taken in response to the COVID-19 pandemic (ESRB/2020/8)

On 27 May 2020, the General Board adopted the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic (ESRB/2020/8). This Recommendation is addressed to national macroprudential authorities. It aims to collect information on the financial stability implications of fiscal measures taken in response to the impacts of COVID-19, both at the domestic and EU level. Moreover, attention is drawn in this Recommendation to the need to share information between individual financial safety net institutions and other entities responsible for implementing anti-crisis measures.

The recommendation is composed of:

- **Recommendation A:** national macroprudential authorities should monitor and assess the financial stability implications of public guarantee schemes and other measures of a fiscal measure taken by their Member States to protect the real economy in response to the COVID-19 pandemic;
- **Recommendation B:** national macroprudential authorities should regularly report to the ESRB information necessary for the ESRB to monitor and assess the implications of the national measures referred to in Recommendation A for financial stability in the Union.

The Committee entrusted the implementation of this Recommendation to the permanent Working Group. Moreover, due to the wide scope of data kept by the Ministry of Finance, the Committee obligated the Ministry to cooperate in this area.

### Report on the implementation of Recommendation ESRB/2020/8

In 2020, the Permanent Working Group, in cooperation with the Ministry of Finance, filled in and submitted two information forms with data on the fiscal instruments implemented in Poland.

In July 2020, the SGR submitted to the ESRB a final report on the implementation of Recommendation A. In the report, the ESRB's assessment of the actions of the Polish macroprudential authority in the implementation of the ESRB/2020/8 was very good.

The SGR was required to submit to the ESRB and the EU Council a final report on the implementation of Recommendation B by 31 December 2020. Having studied information on the implementation of the recommendation, the Committee instructed the SGR to fill in and submit the report to the ESRB.

### Decision of the European Systemic Risk Board on the extension of reporting deadlines

In 2019, the ESRB adopted the decision to extend the deadlines to submit reports on the implementation of:

1. Recommendation on guidance on setting countercyclical buffer rates (ESRB/2014/1),
2. Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2).

In both cases, the deadline to submit successive reports was 30 June 2020.<sup>81</sup>

In connection with the COVID-19 pandemic fallout and the resulting need to shift analytical resources towards work in other areas, in 2020 the ESRB adopted another decision<sup>82</sup> on the cancellation of the requirement to submit the afore-mentioned reports in 2020. In the subsequent years, reports should be submitted according to the deadlines set in the recommendations, i.e.:

- a report on the implementation of Recommendation (ESRB)/2014/1) until 30 June 2022,
- a report on the implementation of Recommendation (ESRB/2015/2) until 30 June 2021.

The Committee read this decision and will submit the relevant reports, in line with the deadlines.

## 8.6. Review of macroprudential policy in the European Union in 2020

The European Systemic Risk Board performs annual reviews of macroprudential policy of the EU Member States. In 2020, the macroprudential policy of all EU states was aimed at mitigating the impacts of the COVID-19 pandemic shock. The analysis presented in this issue of *A Review of Macroprudential Policy in the EU*<sup>83</sup> shows that in 2020 the prevailing trend in the EU was to ease macroprudential policy.

Although the Member States took a uniform approach to mitigating macroprudential policy, the methods they applied aimed at reducing systemic risk by supporting banks, and as a consequence, their lending capacity, varied. Easing most often concerned such instruments as: the countercyclical buffer, the systemic risk buffer and systemically important institution buffers. The FSC-M's macroprudential policy was coherent with the general trends in the EU.

The table below presents changes in individual macroprudential instruments applied by EU states compared to 2019.

<sup>81</sup> Decision ESRB/2019/15 on the postponement of certain reports on actions and measures taken pursuant to Recommendation ESRB/2014/1 and Recommendation ESRB/2015/2.

<sup>82</sup> Decision ESRB/2020/10 on the cancellation of certain reports on actions and measures taken pursuant to Recommendation ESRB/2014/1 and Recommendation ESRB/2015/2 of the European Systemic Risk Board.

<sup>83</sup> *Review of Macroprudential Policy in the EU in 2020*, ESRB, June 2020 – Report awaiting publication (as of 10 June 2021).

**Table 5. Changes in macroprudential instruments applied in 2020**

Country	Countercyclical buffer	Systemic risk buffer	O-SII and G-SII buffers	Instruments related to the real estate market	Other instruments
Austria	→	→	→	→	→
Belgium	↓	N/A	→	↑	→
Bulgaria	↓	→	→	N/A	→
Croatia	→	↓	→	→	N/A
Cyprus	→	N/A	↓	→	→
Czech Republic	↓	→	→	↓	N/A
Denmark	↓	→	→	→	→
Estonia	→	↓	→	→	→
Finland	→	↓	↓	↓	↓
France	↓	N/A	→	→	→
Greece	→	N/A	↓	N/A	N/A
Spain	→	N/A	→	N/A	N/A
Netherlands	→	↓	↓↑	→	N/A
Ireland	↓	→	→	→	→
Lithuania	↓	N/A	↓	→	N/A
Latvia	→	N/A	→	→	→
Luxembourg	↑	N/A	→	↑	→
Malta	→	N/A	↓	↓	→
Germany	↓	N/A	↓	N/A	N/A
Poland	→	↓	→	↓	→
Portugal	→	N/A	↓	→	↓↑
Romania	→	→	→	→	→
Slovakia	↓	→	→	→	→
Slovenia	→	N/A	→	↓	→
Sweden	↓	→	↓	→	→
Hungary	→	↓	↓	→	↓↑
United Kingdom	↓	↓	↑	→	→
Italy	→	N/A	→	N/A	N/A

↑ Refers to a tightening  
 ↓↑ Simultaneously tightening and loosening  
 → Refers to no change  
 ↓ Refers to a loosening

The table compares the status before and after the introduction of a specific instrument. The table comprises instruments introduced in 2020, however some of them may enter into force at a later date. Changes relating to G-SII and O-SII buffers refer to changes in the methodology of the identification or calibration of a buffer and changes related to the phasing-in of a buffer. N/A means that a country has not notified the ESRB about the introduction of a given instruments or changes in the instrument.

Source: NBP study based on the table from the ESRB report *A Review of Macroprudential Policy in the EU in 2020*.

## 9. Communication

Communication of the Financial Stability Committee constitutes an important and integral part of macroprudential policy. It was the Committee's view that awareness of risk incidents among market participants is raised by communication of identified systemic risk and its assessment by the FSC-M, which – as assumed – should lead to taking self-corrective measures mitigating risk spontaneously.

### 9.1. Domestic communication

*Macroprudential Policy Strategy*, in which the Committee declared that it will do everything in its power to conduct macroprudential policy in a transparent manner, while at the same time preserve the necessary confidentiality requirements, reflects the Committee's approach to communication issues. The FSC-M principle of transparency is demonstrated by communicating to the public the decisions significant for the realisation of the macroprudential supervision objectives and publishing analytical material used in the decision-making process. This allows market participants to better understand and assess developments in the financial system and also familiarise themselves with the approach and opinions of the Committee on various macroprudential supervision issues.

Press releases after FSC-M meetings and documents and publications posted on the NBP website are the Committee's main communication policy tools.

#### Press releases after FSC-M meetings

A press release of the FSC-M is the basic tool of communicating the activities of the Committee to the public. In its press releases, the FSC-M communicates its decisions and issues raised during the meetings, delivers synthetic assessment of the developments discussed during the meetings in the context of their impact on financial stability, and presents issues relevant from the point of view of systemic risk assessment. After the meeting, a press release adopted by the FSC-M is immediately posted on the home page of Narodowy Bank Polski and under the *Macroprudential supervision* tab.<sup>84</sup>

#### Annual report of the FSC-M

The *Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee* is an important communication policy tool of the Committee. It is a periodical report that discusses all the work and measures taken by the FSC in a given year. The document serves to implement the statutory obligation and communicate to the public how the tasks conferred upon the Committee

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<sup>84</sup> <http://www.nbp.pl/nadzormakroostroznosciowy/index.aspx>

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are implemented. The report contains, among others, the main principles of the Committee's work, the macroprudential supervision strategy, the results of key systemic risk assessment analyses in a given year and also the decisions on the use of macroprudential instruments and the FSC's international cooperation activities.

This is the sixth issue of the *Report*. The Committee pays great attention to the *Annual Report* and makes every effort to make it a key document of the Polish macroprudential supervision authority.

## **Website**

The news service of the FSC-M is run in Polish and English on the Narodowy Bank Polski website.

The *Macroprudential Supervision* tab contains information on the FSC-M and its activities. The *Home page* of the tab includes press releases after FSC meetings. Basic institutional and regulatory information (membership, tasks, competences of the Committee) and basic information, terms and definitions related to macroprudential supervision, can be found in the Section *Financial Stability Committee*. Information on *Macroprudential instruments* applied in Poland can be found on the website together with a specially separated and elaborated part on the *Countercyclical buffer*. The annual report on the Committee's activity is available under the tab *Publications*. Moreover, documents on macroprudential supervision that the FSC-M has considered important from the point of view of its policy are also available. To enhance the transparency of its activities, the Committee also includes in this section *Analytical materials* that form the basis for FSC-M recommendations on macroprudential instruments. This specifically refers to materials providing the basis for findings on the level of the countercyclical buffer rate.

## **9.2. Foreign communication**

### **Notifications addressed to EU institutions and authorities**

In accordance with Article 5(3) of the Act on macroprudential supervision, the FSC-M's tasks include cooperation with the European Systemic Risk Board, other bodies of the European Union, macroprudential supervision authorities of Member States or third countries as well as international institutions. To comply with the obligation, the Committee notifies the relevant institutions about domestic macroprudential policy decisions.

The sharing of such information is of vital importance as the decisions of individual countries in the EU may have an influence on the financial markets of a number of other jurisdictions. At the same time, information sharing is used for gaining experience and creating a knowledge base on the application of macroprudential tools and their effectiveness.

Table 6. Notifications by the FSC-M in 2020

Subject of notification	Addressee	Notification date
Information on the level of the CCB rate	ESRB	March, September, December
Notification on a release of the systemic risk buffer	ESRB	March
Information on the results of monitoring Finnish exposures	ESRB	June
Information on the results of monitoring French exposures	ESRB	June
Information on the results of monitoring Estonian exposures	ESRB	June
Information on the results of monitoring Swedish exposures	ESRB	June
List of third countries to which institutions operating under the licence granted in Poland have material exposures	ESRB	June
Report on the implementation of the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19	ESRB	August
Forms where information compliant with the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic is submitted to the ESRB	ESRB	August
Information on the results of monitoring Belgian exposures	ESRB	September
Information on the intention to impose the O-SII buffer	EC, ESRB, EBA, O-SII	October
Results of a review of Identification of O-SIIs	EC, ESRB, EBA	December
Report on the implementation of the recommendation on recognising and setting countercyclical buffer rates for exposures to third countries	ESRB	December
Final report on the implementation of the recommendation on closing real estate data gaps	ESRB	December
Periodical report on the exchange and collection of information for macroprudential purposes on branches of credit institutions	ESRB	December
Report on the implementation of the Recommendation on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19	ESRB	December

Source: NBP study.

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## Glossary of terms and abbreviations

<b>BMR</b>	Benchmark Regulation; Regulation (EU) 2016/1011 of the European Parliament and of the Council (EU) of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014. (Official Journal of the European Union, L 171 of 2016).
<b>BRRD</b>	Bank Recovery and Resolution Directive, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EC, 2012/30/EU and 2013/36/EU and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.
<b>CRR</b>	Capital Requirement Regulation, Regulation of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
<b>Global Systemically Important Institutions buffer</b>	an additional capital requirement maintained by global systemically important institutions (G-SIIs) to strengthen their resilience to economic shocks.
<b>Other Systemically Important (domestic) Institutions buffer</b>	an additional capital requirement maintained by other systemically important institutions (O-SIIs) to strengthen their resilience to economic shocks.
<b>Systemic risk buffer (SRB)</b>	an additional capital requirement serving to prevent and mitigate non-cyclical systemic risk to strengthen the resilience of financial institutions and their capacity to absorb losses in the event of systemic shocks. It may be imposed on all or selected financial institutions or on their specific exposures.

<b>Conservation buffer</b>	an additional capital requirement of a maximum 2.5% of the total risk exposure. It is maintained by financial institutions to allow them to absorb losses without defaulting the minimum capital requirements.
<b>CCP</b>	a central counterparty is a legal person that carries out the function of a clearing house based on the CCP rule. The task of that legal person is to clear transactions in the regulated market and in the alternative trading system and to operate a clearing liquidity guarantee system.
<b>Ultimate objective</b>	specifies the defined ultimate objective of macroprudential supervision. In Poland, in accordance with the Act on macroprudential supervision, the ultimate objective of macroprudential supervision is to “strengthen the resilience of the financial system in the event of materialisation of systemic risk, and, in consequence, to support long-term and sustainable economic growth of the country.”
<b>Intermediate objectives / risk dimensions</b>	intermediate objectives constitute a more specific expression of the ultimate objective of the macroeconomic policy pursued. Specifying the intermediate objectives serves to define particular risk areas in the financial system whose mitigation is necessary to ensure financial stability.
<b>Cyber risk</b>	a risk of the occurrence of harmful events in electronic systems, causing disruptions in the operation of a business or leading to financial losses.
<b>Financial cycle</b>	periodical fluctuations of the levels of lending, leverage and financial asset prices in the economy.
<b>Economic cycle</b>	consecutive periods of growth and recession, which in economics are divided into four phases: recovery, expansion, slowdown and recession.
<b>Credit cycle</b>	periodical fluctuations of debt levels in the economy.
<b>Deleveraging</b>	the process of reducing the excessive or dangerous level of debt

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**Global Systemically Important Institution (G-SII)**

a financial institution identified at the international level as particularly significant for financial system stability. Any disruption to the functioning of such institutions – due to their size, value or linkages with other financial institutions – could cause adverse and substantial problems for the whole financial system globally.

**Other Systemically Important Institution (O-SII)**

a financial institution identified at the national level as particularly significant for financial system stability. Any disruption in the functioning of such institutions – due to their size, value or linkages with other financial institutions – could cause adverse and substantial problems for the whole financial system nationally.

**Macroprudential instruments**

instruments that serve to mitigate systemic risk and are used by a macroprudential supervision authority. They include, among others, a counter-cyclical capital buffer, a systemic risk buffer or buffers imposed on G-SIIs and O-SIIs. Other available instruments, calibrated from a systemic perspective and considering identified risks to financial stability, can also be used in macroprudential policy.

**Cryptocurrency**

also a crypto asset; a digital representation of factual economic value or a value not reflected in the real underlying instrument, but accepted contractually between parties to a transaction, saved with the use of cryptographic safeguards based on blockchain technology

**Libra**

a designed cryptocurrency with features of a stablecoin (secured with assets in the form of official currencies or other digital assets) which is intended to be used for making payments in transactions executed via Facebook, WhatsApp and Messenger portals

**MAR**

Market Abuse Regulation; Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (Official Journal of the European Union, L 173 of 2014).

<b>Resolution mechanism</b>	the procedure used for financial institutions (banks) facing bankruptcy, in which, in principle, no public assistance is provided and the effects of bad management of the bank are borne by both its shareholders and creditors.
<b>Internal ratings-based approach</b>	(Internal ratings-Based Approach – IRB) the method of assessment of the scale of credit risk used by banks which independently define the regulatory capital requirements on the basis of internal calculations of the extent to which their exposures are exposed to credit risk.
<b>Supervisory Review and Evaluation Process (BION methodology)</b>	assessment of banks performed on a periodical basis by the UKNF. This methodology is the process of identification of the size and nature of risk that banks are exposed to, and assessment of risk management quality, and evaluation of the level of capital to cover risk arising from bank management and banking business, including compliance of the latter with the provisions of law.
<b>MREL</b>	minimum requirement for own funds and eligible liabilities was enacted in the Bank Recovery and Resolution Directive; the requirement introduced in the EU under which each bank is required to hold the minimum value of its <i>bail-in-able</i> financial instruments for loss coverage or recapitalisations. MREL allows to ensure the preservation of critical functions after resolution without adversely affecting financial stability and without recourse to public financial support.
<b>Macroprudential supervision</b>	comprises identification, assessment and monitoring of systemic risk and measures aimed at eliminating or reducing this risk through the application of macroprudential tools, in other words, macroprudential policy.
<b>Notification</b>	is an official notification, information transmitted to an EU institution or an entity referred to in the provisions of law that impose the obligation of notification.
<b>Third countries</b>	countries outside the European Economic Area.
<b>Macroprudential policy</b>	see <b>Macroprudential supervision</b> .

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<b>Recommendation</b>	issued by the FSC if necessity arises to undertake actions aimed at reducing systemic risk. Recommendations can be addressed to institutions represented in the FSC, i.e. NBP, MF, the KNF and the BFG. The addressees are obliged to take recommended measures or explain the reasons for non-compliance.
<b>Systemic risk</b>	the risk of a disruption in the functioning of the financial system, which if materialised, distorts the operation of the financial system and the national economy as a whole.
<b>Financial safety net</b>	a group of public institutions whose goal is to protect and support financial stability by seeking to reduce the frequency and scale of disruptions in the functioning of the financial system and by cushioning the effects of such disruptions. These public institutions usually comprise a central bank, the government, a financial supervision authority and the deposit guarantee scheme. In Poland, these include: Narodowy Bank Polski, the Minister of Finance, the Polish Financial Supervision Authority, the Bank Guarantee Fund and the Financial Stability Committee.
<b>Statement</b>	presented by the FSC when the source of systemic risk is identified in the financial system or its environment. The purpose of statements is to draw attention to identified risks to financial stability. They can be addressed to all or some entities comprising the financial system and to institutions represented in the FSC.
<b>Credit holidays</b>	means that the payment date is deferred
<b>ESRB recommendations</b>	are instructions(recommendations) that are not legally binding on the need to take remedial action, either general or specific, issued by the European Systemic Risk Board when the sources of significant risks to financial stability in the EU are identified. The institutions to which recommendations are addressed should either comply or explain the reasons for non-compliance (an "act or explain" mechanism).
<b>Credit crunch</b>	a macroeconomic phenomenon characterised by an abrupt reduction in the availability of credit or a substantial tightening of credit terms, which results in serious difficulties in borrowing funds.

**The reciprocity principle**

in macroprudential policy means that macroprudential policy measures activated in one Member State are reciprocated in other Member States. The symmetrical application of macroprudential policy measures is aimed at achieving coherent and effective risk-mitigating actions in the financial market.

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## ABBREVIATIONS

BION	Supervisory Review and Evaluation Process (Badanie i Ocena Nadzorcza)
BMR	Benchmark Regulation
BRRD	Bank Recovery and Resolution Directive
CCB	Countercyclical capital buffer
CCP	Central counterparties
CRR	Capital Requirements Regulation
CRD IV	Capital Requirements Directive
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ESRB	European Systemic Risk Board
FSC	Financial Stability Committee
FSC-C	Financial Stability Committee for crisis management
FSC-M	Financial Stability Committee as a macroprudential authority
KNF	Polish Financial Supervision Authority
FWK	Borrower's Support Fund (Fundusz Wsparcia Kredytobiorców)
LGD	(Loss given default) – part of a bank's credit exposure which in the event of the borrower's insolvency will be lost
MAR	Market Abuse Regulation
MF	Minister of Finance
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRiF	Minister of Economic Development and Finance
NBP	Narodowy Bank Polski
NPL	non-performing loans are loans that are in default or close to being in default
O-SII	Other Systemically Important Institution
PSI	Systemically relevant entities
SGR	Permanent Working Group
SRB	systemic risk buffer
SKOK	cooperative savings and credit unions (Spółdzielcze Kasy Oszczędnościowo-Kredytowe)
EU	European Union
UKNF	Office of the Polish Financial Supervision Authority

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