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Annual Report

on Macroprudential Supervision Activity of the Financial Stability Committee

2021

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Foreword



Dear Sirs,

It is my pleasure again to present to you a report on the macroprudential supervision activity of the Financial Stability Committee (FSC-M). From the point of view of the implementation of the Committee's mandate, I am positive in my assessment of the year 2021, which was the time of the continuation of macroprudential supervision during the COVID-19 pandemic.

The Committee's work focused on the identification of the sources of risk in the Polish financial system. It also continued to analyse trends in the Polish real estate market, conducted analysis of the outlook for developments of the FX housing loan portfolio and carried out activities aimed at mitigating the impact of the COVID-19 pandemic on the domestic financial system.

The Committee devoted much attention to the sector of cooperative banks and the sector of credit unions. On the basis of an evaluation of the situation, the Committee issued two recommendations on desired action aimed at supporting the functioning of the sectors and directly approached entities of the cooperative banking sector, formulating a statement on the functioning of the sector.

In retrospect, we can assess that the domestic banking sector has gone through the pandemic period in a good condition, which has allowed it to preserve the resilience necessary to face the new challenges for the future related to the macroeconomic effects of the war in Ukraine.

I would like to stress that the conduct of a good macroprudential policy would not be possible without the analytical capital and human resources of all the institutions involved and Narodowy Bank Polski, which provides analytical, legal and organisational services to the Committee.

I am convinced that in the coming years the macroprudential policy conducted by the FSC-M under my guidance will continue to significantly contribute to preserving Poland's financial system stability.

*Adam Glapiński
Governor of Narodowy Bank Polski
Chairperson of the Financial Stability Committee for
macroprudential supervision (FSC-M)*

1. Work of the Financial Stability Committee in its macroprudential capacity in 2021

1.1. Composition of the Committee

The authority competent for the macroprudential supervision of the financial system in Poland is the Financial Stability Committee.

The Committee – acting under the chairmanship of the Governor of Narodowy Bank Polski¹ – is responsible for development of the macroprudential policy in accordance with the provisions of the Act of 5 August 2015 *on macroprudential supervision of the financial system and crisis management*² (hereinafter the “Act on macroprudential supervision”).

The Financial Stability Committee in its macroprudential capacity (FSC-M) is a collegial body composed of representatives of national financial safety net institutions. In 2021, the Committee members included:

- 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.

1.2. Tasks of the Committee

The main tasks of the Committee as the macroprudential supervision authority include:

- activities aimed at strengthening the resilience of the financial system in the event of the materialisation of systemic risk and at supporting long-term and sustainable economic growth;
- use of adequate macroprudential instruments, including presenting statements when sources of systemic risk are identified and issuing recommendations when action is needed to eliminate or mitigate systemic risk, while
- identifying financial institutions significant for the financial system;
- cooperating with the European Systemic Risk Board (hereinafter the “ESRB”) and other international institutions as well as with other macroprudential supervision authorities;

¹ In accordance with the Act on macroprudential supervision, the Financial Stability Committee, in the same composition but chaired by the Minister of Finance, performs crisis management tasks (FSC-C).

² Journal of Laws 2021, items 140, 680, 1598 and 2140.

-
- ensuring an adequate flow of information between the members of the Committee enabling it to perform its tasks³;
 - issuing an opinion on a quarterly basis on the level of lenders' contribution to the Borrowers' Support Fund (hereinafter "the FWK")⁴, which forms the basis for determining the amount of contributions by lenders by the FWK Board.

In addition, as part of its mandate the Financial Stability Committee issues a number of other **opinions**. In principle, the opinions of the Committee are issued at the request of other financial safety net institutions.⁵

1.3. Committee meetings and adopted resolutions

In 2021, in accordance with its scheduled timetable for 2021, the Committee held four meetings (one per quarter) on the following days: **19 March, 18 June, 28 September and 10 December**. **Although the state of epidemic was in force**, the meetings followed the format of in-person meetings held at the NBP head office in compliance with all applicable safety rules.

The standing items on the agenda of each of the meetings were as follows:

- **systemic risk assessment** based on the conclusions from the questionnaire survey⁶, in which all institutions represented in the Committee participate,
- **analysis of developments** in the residential **real estate market**,
- resolutions on the level of the **countercyclical buffer rate (CCB)**⁷,
- monitoring the effects of the work of the **Permanent Working Group**,
- information on macroprudential policy **issues undertaken at the European level**,
- **monitoring the progress of implementation of recommendations** issued by the Committee,
- **monitoring of tasks** implemented by Committee outside meetings, such as the opinion to the Board on the contribution to the quarterly Borrowers' Support Fund.

³ In accordance with Article 5 of the Act on macroprudential supervision.

⁴ 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*.

⁵ E.g. an opinion pursuant to Article 39 of the Act on macroprudential supervision – identification of other systemically important institution (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*.

⁶ A description of the *Systemic risk assessment survey* and the systemic risk assessment and identification methodology is presented in Chapter 6. Systemic risk.

⁷ The recommendation in this resolution is addressed to the Minister of Finance.

In each quarter of 2021, the Committee recommended maintaining the countercyclical capital buffer ratio at an unchanged level of 0%⁸, and the Minister of Finance accepted the recommendation of the Committee.

After each meeting of the Committee, its resolutions concerning the countercyclical buffer were posted on the website of Narodowy Bank Polski and they included explanatory notes and the following information regarding:

- 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 credit to GDP ratio.⁹

Throughout 2021, the Committee focused primarily on actions aimed at safeguarding the stability of the domestic financial sector in the pandemic environment. It focused on the analysis of the sources of risk occurring in the Polish financial system, identifying, classifying and assessing them; it also continued to analyse trends in the domestic real estate market due to the continuous increase in activity recorded in this market, and implemented measures to limit the impact of the effects of the COVID-19 pandemic on the domestic financial system and the real economy.

In addition to the main points of the agenda, the Committee also addressed other important topics at its meetings, the most relevant of which at individual meetings are discussed below.

In the first quarter, the meeting focused in particular on further increase in legal risks associated with the portfolio of FX housing loans, as well as the declining profitability of commercial banks. The Committee discussed proposals of possible measures to be taken in order to support the stable functioning of the cooperative banks sector and the cooperative savings and credit unions sector¹⁰ and adopted the following resolutions:

- on **recommendations** concerning measures supporting the stable functioning of cooperative banks;
- on **recommendations** concerning measures supporting the stable functioning of cooperative savings and credit unions;
- on the **statement** regarding the functioning of the cooperative banking sector.

The **recommendations of the Committee**¹¹ were addressed to the **FSC member institutions** and recommended that appropriate measures – mainly of a legislative nature – should be taken to

⁸ The countercyclical buffer at a level of 0% was introduced under the 2015 Act on macroprudential supervision.

⁹ In accordance with the requirements of Article 25 of the Act on macroprudential supervision.

¹⁰ The proposals resulted from the work of the GRASS, which is presented in the *Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee 2020* and in Chapter 6. Other macroprudential activities.

¹¹ FSC Resolution No 46/2021 of 19 March 2021 on recommendations concerning measures to support the stable functioning of cooperative banks U46.pdf (nbp.pl) and FSC Resolution No 48/2021 of 19 March 2021 on recommendations concerning measures to support the stable functioning of cooperative savings and credit unions U48.pdf (nbp.pl).

support the stable functioning of cooperative banks and cooperative savings and credit unions. On the other hand, **the statement of the Committee¹² was addressed to the cooperative banks sector, to the associating banks and to the institutional protection schemes.** It indicated the need to intensify merger processes in the sector and to enhance the degree of functional integration by centralising in the associating banks functions supporting the improvement in the cost and operational efficiency of cooperative banks. The need to extend the assistance provided to cooperative banks by institutional protection schemes to non-financial forms was also highlighted.

In support of the processes identified in the statement addressed to the cooperative banking sector, the Committee also decided to request:

- the President of the Office of Competition and Consumer Protection for assistance in finding a solution in the legal and regulatory environment that would allow for enhanced cooperation of entities within the association while avoiding suspicion of price collusion;
- Minister of Agriculture and Rural Development to take effective measures aimed at adequate amendment of the rules for the application of subsidies by the Agency for the Restructuring and Modernisation of Agriculture to preferential loans. It was indicated that, in the context of improving the efficiency of cooperative banks, it would be beneficial to introduce amendments for the granting of interest rate subsidies on bank loans for investment and undertakings related to agricultural production and its development, i.e. the so-called preferential loans.

The Committee analysed in detail the NBP-prepared *Polish Payment System Oversight Report 2019*¹³, as well as information on the need to designate a resolution authority in the Polish legal system for insurance and reinsurance undertakings and for central counterparties for the purpose of implementing the obligations resulting from the relevant EU regulations. In accordance with the CCP-RR¹⁴ each Member State shall designate at least one resolution authority authorised to use the instruments and to exercise the powers in the resolution procedure. In the course of the discussion, the Committee welcomed the proposal that the Bank Guarantee Fund should act as the resolution authority for CCPs in Poland. As part of its annual monitoring of the level of exposures, the Committee decided to inform the ESRB on the absence of material exposures of Polish banks to the French sector of non-financial corporations in connection with the obligation to apply the reciprocity mechanism of macroprudential instruments adopted in other countries.

In the second quarter, the Committee studied the *Financial Stability Report, June 2021*, prepared by NBP.

¹² FSC Resolution No 47/2021 of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector U47.pdf (nbp.pl).

¹³ The *Polish Payment System Oversight Report 2019* was discussed by the Committee in December 2020, however, the FSC-M decided that it needed to review the findings of this material in more detail.

¹⁴ Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 (OJ L 22 of 22.1. 2021, p. 1).

At the meeting, the Committee adopted the *Report on Macroprudential Supervision Activity of the Financial Stability Committee 2020* and consented to submit it to the Speaker of the Polish Sejm. The document has also been posted on the NBP website.

In addition, the Committee decided to submit to the ESRB information on the lack of identification of significant third countries for the purposes of determining the countercyclical buffer rate and the lack of the need to reciprocate the instrument introduced in Norway and on the results of monitoring of exposures in Sweden and Belgium in connection with the application of the reciprocity mechanism for macroprudential instruments adopted in those countries.

In the third quarter, in support of the voluntary settlement process between banks and borrowers initiated by the *FSC Resolution of 13 January 2017 on the recommendation regarding the restructuring of the portfolio of FX housing loans*, the Committee decided to address a recommendation to the Minister of Finance and the Polish Financial Supervision Authority (KNF) concerning a temporary change in the risk weights for institutions actively involved in this process.

Acting under Articles 39 and 46 of the Act on macroprudential supervision, at the request of the KNF, the FSC delivered opinions on identifying Other Systemically Important Institutions (O-SII) and on imposing the O-SII buffer.

The Committee analysed the results of monitoring of the Polish banking sector's exposure in Luxembourg and confirmed the lack of grounds for recognising the Luxembourg macroprudential instrument. The Committee also discussed the method of implementing the ESRB recommendation on identifying legal entities (LEI).¹⁵ It considered it advisable to support the recommended gradual expansion of the scope of use of LEI codes by public administration authorities as part of their supervisory tasks or acquisition of the reporting data.

The Committee analysed the progress of the work carried out by the European Commission on the implementing regulation designating replacements for the CHF LIBOR benchmarks.

In the fourth quarter, the Committee took note of the *Financial Stability Report, December 2021* under preparation by NBP. It also discussed the progress of work on the process of implementation of settlements with borrowers by commercial banks regarding FX housing loan agreements.

For the purpose of assessing risks associated with the financial market infrastructure, the *Polish Payment System Oversight Report 2020* was presented to the Committee.

¹⁵ The Legal Entity Identifier (LEI) is a 20-character reference code to uniquely identify legally distinct entities that engage in financial transactions, by authorised licensed entities.

In connection with its statement on the functioning of the cooperative banking sector¹⁶, the Committee took note of the reports of the associating banks and institutional protection schemes on the measures taken to improve the efficiency of cooperative banking. In addition, it reviewed the progress of the relevant entities with the aim to implement the recommendations concerning:

- reducing the burden related to the financing of the bank guarantee fund¹⁷,
- risk weights for exposures secured by mortgage on residential real estate¹⁸,
- measures to support the stable functioning of cooperative banks¹⁹ and the cooperative savings and credit unions sector²⁰.

As part of fulfilment of its notification obligations, the Committee analysed the exposures of the Polish banking sector in France and concluded that reasons existed for not reciprocating the macroprudential instrument introduced in France in 2021. In accordance with the reporting timetable, it also decided to notify the ESRB on the implementation method of the following recommendations:

- on closing data gaps in the real estate sector and
- on identifying legal entities.

Table 1. Resolutions of the Financial Stability Committee adopted in 2021

Resolution No.	Title of Resolution
Resolution taken without a meeting on 18 January 2021	
43/2021	on the recommendation regarding reducing the burden related to the financing of the bank guarantee fund
Resolution taken without a meeting on 23 February 2021	
44/2021	on the opinion on the quarterly level of contribution to the Borrowers' Support Fund
Meeting held on 19 March 2021	
45/2021	on the level of the countercyclical buffer rate and submission of information concerning the countercyclical buffer rate to the European Systemic Risk Board
46/2021	on recommendations concerning measures supporting the stable functioning of cooperative banks
47/2021	on the statement regarding the functioning of the cooperative banking sector
48/2021	on recommendations concerning measures supporting the stable functioning of cooperative savings and credit unions

¹⁶ FSC Resolution No 47/2021.

¹⁷ FSC Resolution No 43/2021.

¹⁸ FSC Resolution No 52/2021.

¹⁹ FSC Resolution No 46/2021.

²⁰ FSC Resolution No 48/2021.

Resolution taken without a meeting on 24 May 2021	
49/2021	on the opinion on the quarterly level of contribution to the Borrowers' Support Fund
Meeting held on 18 June 2021	
50/2021	concerning the level of the countercyclical buffer rate
Resolution taken without a meeting on 25 August 2021	
51/2021	on the opinion on the quarterly level of contributions to the Borrowers' Support Fund
Meeting held on 28 September 2021	
52/2021	on the recommendation regarding risk weights for exposures secured by mortgage on residential real estate
53/2021	concerning the level of the countercyclical buffer rate
54/2021	on the methodology, criteria for the identification and calibration of buffers of other systemically important institutions
Resolution taken without a meeting on 25 November 2021	
55/2021	on the opinion on the quarterly level of contribution to the Borrowers' Support Fund
Meeting held on 10 December 2021	
56/2021	concerning the level of the countercyclical buffer rate

Source: NBP study.

1.4. Working groups

1.4.1 Permanent Working Group

The Permanent Working Group (hereinafter “SGR”) supports the work of the Committee by preparing draft opinions, statements and recommendations. The SGR is composed of nine permanent members: the Ministry of Finance, the Office of the Polish Financial Supervision Authority and the Bank Guarantee Fund are each represented by two persons, and NBP is represented by three persons, of which one acts as the Chairperson of the Group. The collegial nature of the SGR fosters cooperation and engagement between the financial safety net institutions. As part of its meetings, the SGR prepares and consolidates draft input materials and analytical documents which are then presented at Committee meetings and support the decision-making process by the FSC-M. From 2020 onwards, due to the pandemic threat, the SGR meetings are exclusively held remotely using electronic communication channels.

In 2021, the Permanent Working Group held five meetings, of which four meetings were regular and preceded the FSC-M meetings.

1.4.2 Working group on the analysis of the situation in the cooperative banks sector and the cooperative savings and credit unions sector (GRASS)

The Working Group on the analysis of the situation in the cooperative banks sector and the cooperative savings and credit unions sector (GRASS) was set up by the Committee on 15 June 2020. It consisted of representatives of all the institutions gathered in the Committee. The task of the group was to analyse the situation in the cooperative banks sector and the cooperative savings and credit unions sector and to prepare a draft recommendation containing a set of activities to be undertaken by competent entities to support the stable functioning and development of the sectors. The Group was originally set up for a definite period of time, until 31 December 2020. At the end of 2020, the Committee took note of the analytical report of the work entitled *Analysis result and proposed action* and extended the mandate of the GRASS until March 2021. The Group completed its activities within the time limit set, presenting to the Committee draft recommendations on actions to support the stability of the cooperative banks sector and the cooperative savings and credit unions sector, including the statement concerning the expected direct actions by the institutions concerned.

2. Changes in the regulatory environment

In 2021, the Committee fulfilled its tasks in a changing regulatory environment. These activities were affected, among others, by the persisting state of the epidemic and by the significant change in the macroprudential policy framework resulting from the implementation into national legislation of the new solutions introduced by the Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRDV).²¹

Changes resulting from the amendment of the CRD

In connection with the revision of the CRD, which took place in 2019, the regulations which changed the regulatory environment of the macroprudential policy pursued by the Committee were transposed into Polish law in 2021. The start of the legislative process also provided an opportunity for other practical adjustments to the existing legislation.

From the point of view of macroprudential supervision, the most significant changes were introduced as part of the amendment to the Act on macroprudential supervision.²²

The amended provisions can be divided into two categories. **The first category** comprises the legislation governing the procedures and rules related to the imposition, calibration and review of macroprudential instruments. Changes in this area are described in detail in Chapter 6.

The second area of changes involves the provisions of a formal nature, regulating institutional and procedural issues related to the functioning of the Committee. In accordance with the new wording of Article 5(3) of the Act on macroprudential supervisions, the Committee has gained general competence to provide information concerning any macroprudential activities taken by Polish authorities and institutions to the ESRB. The notification competence of the Committee relates, in particular, to the provision of information concerning:

- introduced macroprudential instruments,
- decisions taken in connection with the application of the voluntary reciprocity mechanism,
- macroprudential measures taken in connection with the implementation of ESRB recommendations.

This change enables appropriate coordination at national level of the circulation and exchange of information on macroprudential policy measures taken by individual institutions. At the same time, the regulation concerning the provision of information to the ESRB is consistent with the changes that have taken place in the functioning of that body. As a result of amending the

²¹ Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ L 150 of 7.6. 2019 p. 253).

²² Act of 25 February 2021 on amending the Act on Banking Law and certain other acts (Journal of Laws 2021, item 680).

CRD/CRR package, in 2019, the European Systemic Risk Board became the central entity responsible for:

- 1) the coordination of macroprudential policy (**coordination hub**) at the EU level, and
- 2) the exchange of information on measures taken by individual countries (**notification hub**).

The new coordination framework results, inter alia, in the introduction of the principle that the notification of macroprudential activities requires the submission of information only to the ESRB, which makes it available to the other authorities concerned.²³ In addition, the notification process itself currently takes place only electronically via the adequate ICT system with a limited access to its resources, thus ensuring uniformity and consistency between the information provided by individual Member States. As part of the process of standardising the information provided, new notification forms have also been prepared.

Changes resulting from legislation introduced in connection with the pandemic threat

In 2021, the state of epidemic persisted, with a number of regulations affecting the operation and *modus operandi* of administrative bodies and public entities.

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*²⁴, the Minister of Finance was, among others, delegated to change – by way of regulation²⁵ the deadlines for performing certain reporting and information obligations. As part of the adaptation of the deadlines for performing information obligations to the conditions of the pandemic, in 2020 the Minister of Finance made a permanent change to the deadlines resulting from the Act on the Borrowers' Support Fund²⁶, relevant to the work of the Committee. In accordance with these changes, all deadlines related to determining the level of contributions to the FWK were extended by approximately three months:

- 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 Board of 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 deadline for submitting information to borrowers on the level of the FWK contribution by the Board of the Fund was also extended to the 15th day of the sixth month following the quarter for which the payment is due.

²³ Earlier solutions provided for the submission of notifications, among others, to the ESRB, EBA and FISMA.

²⁴ Journal of Laws 2020, item 1842, as amended.

²⁵ 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).

²⁶ Act of 9 October 2015 *on support to home loan borrowers who are in a difficult financial situation* (Journal of Laws 2019, item 2138; 2021, item 11).

Considering the formula of implementing provisions, the extension of the deadlines related to the issue by the Committee of the opinion to the FWK Board is permanent and will be valid until the regulation is repealed. Accordingly, in 2021 the Committee continued to fulfil its tasks arising from the Act on the Borrowers' Support Fund within the deadlines amended by the Regulation of the Minister of Finance.²⁷

²⁷ The task is described in more detail in Chapter 7.1.

3. The Role of Narodowy Bank Polski

Narodowy Bank Polski plays a special role in the conduct of macroprudential supervision. The Governor of NBP acts as Chairperson of the Committee, has the casting vote and represents the Polish macroprudential supervision authority before external institutions. NBP was also entrusted with the task of providing services to the FSC-M in two areas: (1) analytical and research support and (2) administrative and organisational support. Such a role of NBP was assigned in response to the recommendation of international bodies and organisations²⁸ to give the central bank a key role in exercising macroprudential supervision. The significant participation of Narodowy Bank Polski 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.

Narodowy Bank Polski is responsible for organising the Committee's work, i.e. providing legal services, coordinating the flow of information and materials between all members of the Committee, including the organisation of technical facilities. NBP provides the Committee with the majority of the analytical material underlying the decisions taken and forming the basis for discussion. Narodowy Bank Polski provides the same functions to the Permanent Working Group and other working groups appointed by the Committee to carry out specific *ad hoc* tasks.

The key documents, which NBP makes available to the Committee include the *Financial Stability Report* (published twice a year) and the *Report on Macroeconomic Stability of the Polish Economy* (prepared once a year).²⁹ The Committee is 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, consequently, on exercising of the macroprudential policy. Moreover, the Committee has the opportunity to use the analytical resources of NBP whenever it needs to prepare analyses of current topics of interest on request.

Narodowy Bank Polski is also responsible for the implementation of the Committee's communication policy which is aimed, in particular, at informing the participants of the financial system of identified threats to financial stability, explaining the decisions taken and disseminate knowledge about the macroprudential supervision and its importance. NBP runs the FSC-M website in its information service. It also implements the disclosure obligations assigned to it by the Committee related to the performance of macroprudential supervision of other European Union institutions.

NBP's work for the Committee in a pandemic environment

2021 was another year of coping with the COVID-19 pandemic, during which the performance of tasks in support of the FSC-M was a special challenge for NBP. As in the previous year,

²⁸ Including the ESRB and the IMF.

²⁹ Pursuant to Article 30a of the Act on Narodowy Bank Polski.

the Committee's meetings were held in person. Therefore, for the purpose of protecting the FSC-M members, organisational changes developed in the context of the experience already gained and all security measures were applied to ensure that the Committee could meet without any risk. 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 protection and special protective barriers.

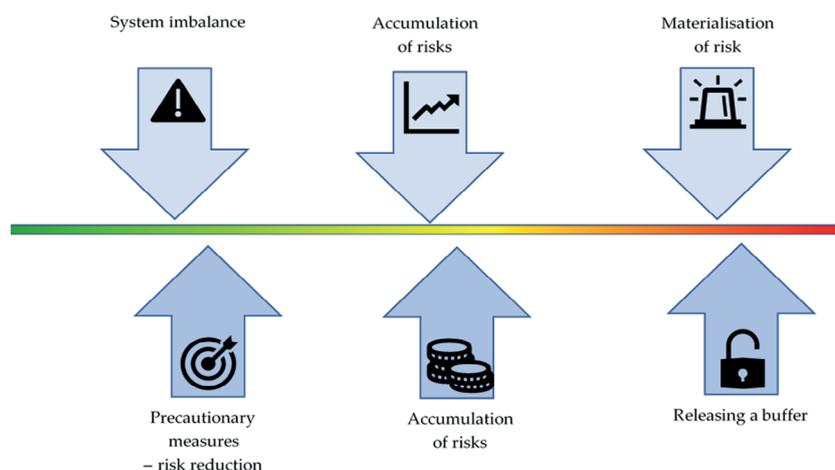
4. Systemic risk

According to the assumptions adopted by the Committee in the *Strategy*³⁰, **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 (i). In the case of substantial accumulation of risk, the Committee focuses on action aimed at building adequate capital buffers to increase resilience of the financial system (ii). At a later stage, at the phase of systemic risk materialisation, such buffers accumulated earlier should be released in order to reduce the stress related to the inflows of funds into the economy and thus reduce the depth of the crisis (iii) (see Diagram 1).

Diagram 1. Diagram of FSC-M activities



Source: NBP study.

³⁰ *Macroeconomic Policy Strategy*, 2019,
<http://www.nbp.pl/nadzormakroostroznosciowy/publikacje/strategia-polityki-makroostroznosciowej.pdf>.

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

4.1.1. Systemic risk assessment survey

Systemic risk is monitored by the Committee on a regular basis. All financial safety net institutions represented in the FSC are involved in the process through a cyclical provision of opinions concerning the perception of current risk levels. Individual systemic risk assessments are jointly analysed and serve as a reference point for the overall assessment presented by the Committee.

The NBP-prepared and developed *Systemic risk assessment by institutions of the financial safety net* survey is the basic tool enabling confronting individual risk assessments presented by institutions. Its aim is to collect opinions of institutions expressed by the FSC members on the sources of systemic risk in the Polish financial system and its environment. The survey is conducted on a quarterly basis. In addition to assessing the vulnerabilities in the financial system identified so far, the institutions can identify any perceived new sources of systemic risk.

Starting from September 2020, systemic risk assessment in the Polish financial system has been made in two dimensions:

1. probability of risk materialisation, and
2. effects of risk materialisation.

The assessments of probability and of the effects of risk 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, which is the third dimension of risk assessment. They can also offer adequate remedial (macroprudential) measures when they deem it necessary at a given stage.

Moreover, the institutions 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.

By combining these elements in a joint analysis, it is possible to provide an overall aggregate risk assessment that takes into account all relevant dimensions in a synthetic way.

Analysis results – systemic risk assessment in 2021

In 2021, the Committee was monitoring risk sources identified in previous years, but also indicated new vulnerabilities in the Polish financial system. In monitoring potential sources of systemic risk, it was necessary to change the hierarchy and intensity of risk sources due to the changes in the financial system and its environment.

In particular, the assessment of the sources of risk that emerged from the COVID-19 pandemic changed during the year. The risk of credit losses and the risk of a credit crunch was gradually decreasing. At the same time, the Committee observed a growing risk associated with FX housing loans, which resulted, among others, from the increasing phenomenon of borrowers challenging the validity of FX loan agreements in court proceedings.

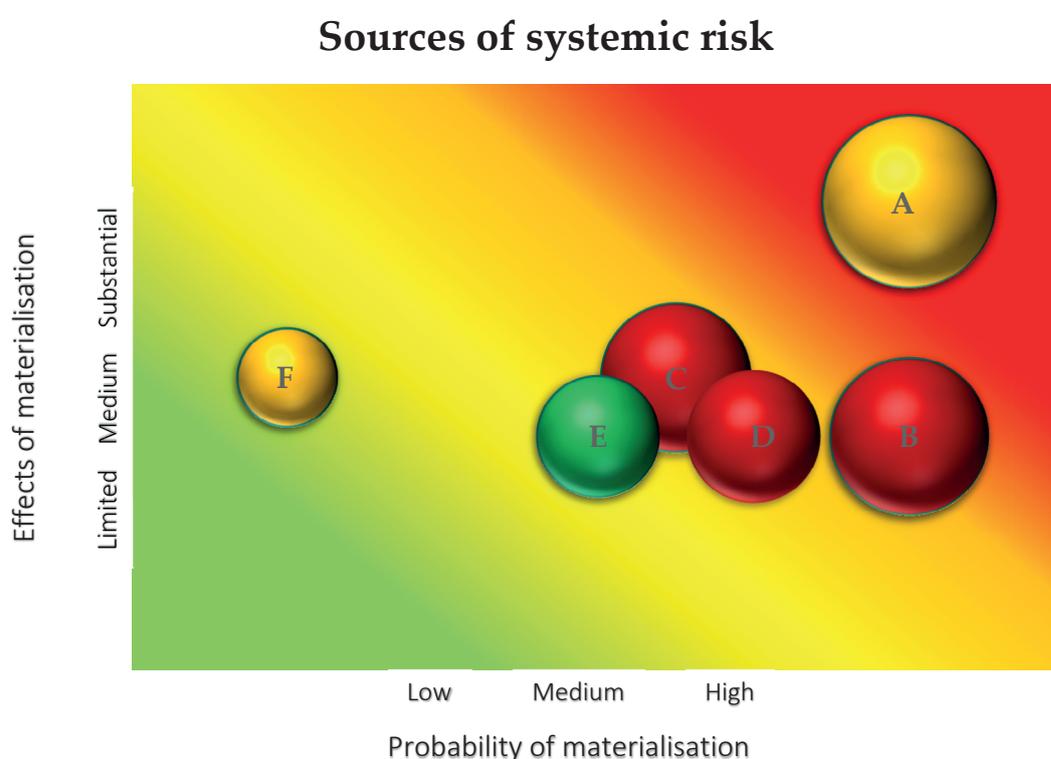
In the first quarter of 2021, the Committee judged that the hierarchy of risk sources had changed compared to the last quarter of 2020. The reduced profitability of banks became the major vulnerability in the Polish financial system. Moreover, the risk associated with the FX loan portfolio has increased, becoming the second most significant *vulnerability* in the Polish financial system. Other significant vulnerabilities included credit losses from the COVID-19 pandemic fallout and the vulnerability of certain institutions and the potential occurrence of the contagion effect. On the other hand, according to the assessment of the Committee, the intensity of risk of a credit crunch and the risk related to the situation in the real estate market diminished. In addition, as a result of issuing a licence by the KNF for the GPW Benchmark S.A. to operate as a reference index administrator, the Committee recognised that the risk associated with the failure to adjust the WIBOR benchmark to the legal regulations on time was no longer of a systemic nature and eliminated it from the list of analysed sources of risk.

In the second quarter of 2021, the hierarchy of risk sources changed again. The Committee assessed that, in view of a higher number of litigations challenging the provisions of FX loan agreements, the risk associated with the portfolio of these loans had become the most significant vulnerability. Reduced profitability of banks was still recognised as the significant source of risk. The assessment of the Committee indicated that the vulnerabilities of certain institutions and the potential occurrence of the contagion effect as well as credit losses related to the COVID-19 pandemic remained other important risk sources. According to the assessment of the institutions, the possibility of occurrence of a credit crunch and the risk associated with the situation in the real estate market diminished.

In the third quarter, the Committee did not notice any changes in the financial system that would change the hierarchy of vulnerabilities. The risk associated with the FX loan portfolio was recognised as the most significant. Similar to the second quarter, reduced profitability of banks, vulnerabilities of certain institutions and the potential occurrence of the contagion effect as well as credit losses related to the COVID-19 pandemic were identified as further vulnerabilities. On the other hand, the possibility of occurrence of a credit crunch and the phenomena associated with the situation in the real estate market diminished.

In the fourth quarter, the overall level of risk decreased while there was no significant change in the hierarchy of vulnerabilities compared to the previous quarter. The risk associated with the FX loan portfolio remained the most significant vulnerability. The reduced profitability of banks, vulnerabilities of certain institutions and the potential occurrence of the contagion effect as well as credit losses related to the COVID-19 pandemic continued to be identified as further material risk sources. Due to the gradual recovery of lending after the 2020 shock, the risk of a credit crunch has significantly decreased. Consequently, it has been concluded that this phenomenon ceased to generate systemic risk and was therefore removed from the list of risks.

Diagram 2. Map of synthetic systemic risk assessment in 2021 Q4



Circles in the diagram refer to the following vulnerabilities:

- [A] FX housing loans
- [B] Reduced bank profitability
- [C] Vulnerability of certain institutions and potential occurrence of the contagion effect
- [D] Credit losses related to COVID-19 pandemic
- [E] Residential real estate market
- [F] Potential occurrence of a credit crunch

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

Source: NBP study based on the results of the questionnaire survey *Systemic risk assessment by institutions of the financial safety net in 2021 Q4*.

In addition to the risk assessment survey, the Committee also uses other available sources of information and analysis in the process of systemic risk assessment, which makes risk assessment a complex process. Narodowy Bank Polski has been committed to provide the Committee with cyclical analytical and research materials from its library. These include the following documents mentioned in the NBP Act: *Financial Stability Report* and *Report on Macroeconomic Stability of the Polish Economy*.

In addition, the Committee consults the NBP's assessment of the functioning of the Polish payment system and receives a cyclical *Polish Payment System Oversight Report*.

4.2. Analysis of financial stability issues

4.2.1. Legal risk associated with the developing line of judgement on cases concerning FX housing loan agreements

In 2021, the Committee was periodically briefed by representatives of the Office of the Polish Financial Supervision Authority on the development of the line of judgement on cases concerning FX housing loans, recognising the growing risks associated with its direct impact on banks' standing.

In January 2021, the Committee noted an increase of nearly 3,000 in agreements under litigation. During this time, the total value of the litigation increased by PLN 0.8 billion and reached PLN 10.2 billion. Accordingly, the total value of provisions created by the banks rose by PLN 1.2 billion and amounted to PLN 6.7 billion. April 2021 saw a rise in the number of agreements subject to lawsuit by approximately 2.8 thousand to 55.9 thousand. During this time, the total value of the litigation increased to PLN 12.7 billion. The total value of provisions created by banks for this purpose amounted to PLN 13.5 billion, most of which were portfolio provisions. In July 2021, a rise in the number of agreements subject to lawsuit by approx. 4 thousand was recorded. At that time, the total value of the litigation reached PLN 16.8 billion while the value of the provisions created amounted to PLN 16.3 billion. The ratio of the value of the provisions to the value of the litigation oscillated around 96.9%. In October 2021, the total number of agreements subject to lawsuit reached 77.3 thousand while the value of the litigation amounted to PLN 20.3 billion. On the other hand, the value of provisions created amounted to PLN 18.5 billion, including PLN 5 billion of provisions created for settlements. The number of agreements with a final court judgement at the end of October 2021 reached 1,283.

The Committee also took note of the guiding mechanisms of the proposal of the Chairman of the KNF to address the issue of FX housing loans through concluding settlements between banks and borrowers. The Committee also reviewed the estimated benefits of these settlements for borrowers and the costs for the banking sector.

It was also indicated that in the period between the announcement of the scheme and the conclusion of the settlement, i.e. in the so-called transition period, banks advocate a reduction of

the existing risk weights on the FX loan portfolio and the corresponding modification of the methodology for determining the additional capital requirement under Pillar 2. To address this issue, in support of the settlement process between banks and borrowers, the Committee decided to submit a recommendation to the Minister of Finance and the Polish Financial Supervision Authority concerning a temporary change (reduction) of risk weights for exposures secured by a mortgage on residential real estate for banks that decide to launch the settlement process. It was recognised that a reduction in risk weights should encourage the readiness of banks to actively participate in the process of concluding settlements with borrowers.

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

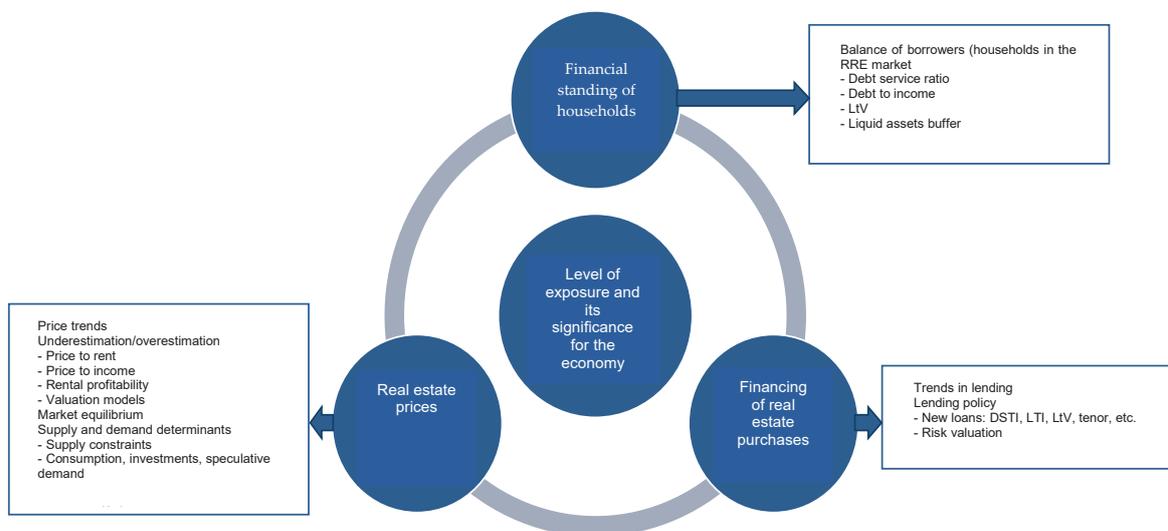
In 2021, the Committee continued to monitor the risk associated with the residential real estate market both on the basis of analyses of developments in the real economy and of financing provided to the market.

In September 2021, the Committee took note for the first time of the results of the real estate market assessment carried out based on the new method of analysis. One of its components is the Residential Real Estate Index (RREI). This index enables the aggregation of information from various sources. It is based on data concerning:

- i. the value of the collateral,
- ii. financing of real estate purchases and
- iii. the condition of households.

It comprises variables in real and nominal terms and takes into account the dynamics of the phenomena. The RREI allows for an integrated assessment of three main dimensions of risk to financial stability associated with the real estate market: (i) revaluation of real estate prices, (ii) excessive lending and (iii) excessive household debt.

Diagram 3. Diagram showing three dimensions of residential real estate risk

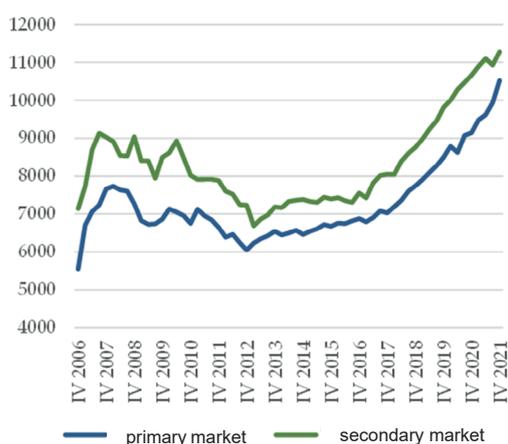


Source: NBP study.

The analyses demonstrated an increase in activity on the real estate market in 2021 after the earlier slowdown in 2020 caused by the COVID-19 pandemic. According to the assessment of the Committee, the housing market tensions at that time were not of a systemic risk nature.

Figure 1, 2. Average prices per square metre of dwellings in nominal terms and index of real dwelling prices

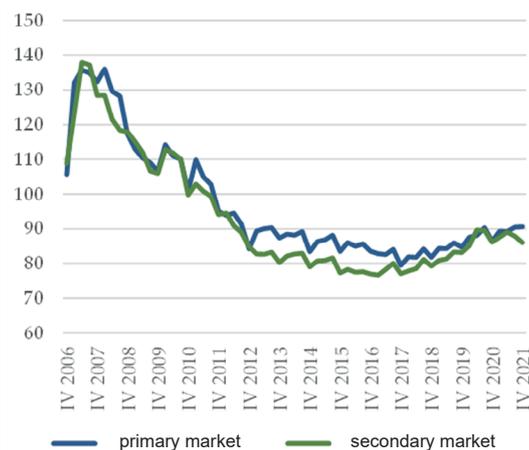
Average nominal transaction prices in 7 cities in Poland



Note: Seven cities comprise Gdańsk, Gdynia, Kraków, Łódź, Poznań, Warszawa and Wrocław.

Source: NBP.

Index of real dwelling prices in 7 cities in Poland

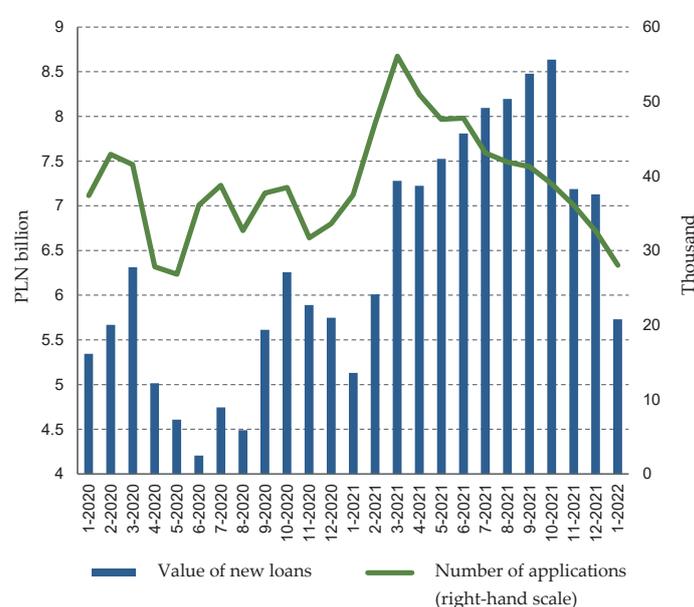


Note: Average transaction prices in 7 largest cities in Poland deflated by wage growth in the enterprise sector (100=average price on the secondary market in 2006 Q3).

Residential real estate prices in the primary and secondary markets grew dynamically, in nominal terms, with moderate growth in real terms. The high demand for dwellings resulted from the structural housing shortage, rising construction costs and the low cost of credit. On the other hand, the apparent constraints on the supply side of the real estate market were related to factors such as rising prices of materials, lack of suitable labour and difficult access to building land.

From the second half of 2021, rental prices on the secondary market in most major cities showed a general upward trend. However, the observed acceleration in rental rate growth did not result in a full recovery from levels at the time of marked declines during a downturn triggered by the pandemic.

Figure 3. Value of new loans and number of loan applications



Source: NBP study based on BIK data.

At the beginning of 2021, banks' lending activity rebounded. The number of loan applications was increasing, while the average value of new loans also rose. In 2021, the value of new housing loan disbursements in Poland was higher than loan disbursements in the corresponding period of 2020. The average value of new loans was gradually increasing until the beginning of 2021 Q4, when the demand for housing loan declined markedly. When analysing the risk factors related to the level of lending and its growth, the Committee did not note any alarming symptoms. It was observed that further rise of interest rates and the tightening of lending by banks reduced the risk of excessive lending, while the applicable KNF recommendations (including those concerning the LtV³¹) limited the possibility of undesirable developments in the area under discussion. On the other hand, no significant problems were reported in relation to the servicing of loan instalments

³¹ Loan to value (LtV) is the indicator expressing the ratio between the value of the loan exposure and the value of the collateral. The requirements for determining the level of the LtV ratio for loans are determined in Recommendation S of the KNF.

by borrowers. The percentage of households that took out a loan at the lowest interest rate levels in 2020 and early 2021, i.e. those who may have been particularly affected, accounted for around 17% of the banks' housing loan portfolio.

5. Macprudential instruments

5.1. Countercyclical capital buffer

The countercyclical capital buffer (CCB), imposed on all banks, is used with the aim of neutralizing the impact of the economic cycle on bank's lending activity. Its mechanism is based on the assumption that, in the good times (i.e. when there is lending growth) the banks are required to accumulate an adequate holding of top quality capital so that it can be used to continue lending to the real economy in bad times. The countercyclical buffer is an instrument that is based on a two-pronged action: on the one hand, it reduces systemic risk resulting from the credit cycle, while on the other hand, it provides greater capital resilience in the banking system.

The CCB effect results from 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 is associated with a decrease in return on equity. As a consequence, this should cause lending constraints for banks and reduce the supply of credit in the economy, thus cooling down the economic situation. On the other hand, 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 Financial Stability Committee 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 guide³², which is also calculated on a quarterly basis. Assessment of the level of the CCB, which takes into account the Committee recommendation, remains within the remit of the Minister of Finance.

In 2021, due to the low risk of excessive domestic lending, the Committee recommended to the Minister of Finance that the CCB in all quarters be maintained at 0%. The Minister of Finance accepted the recommendations issued and, consequently, the countercyclical buffer is kept at the

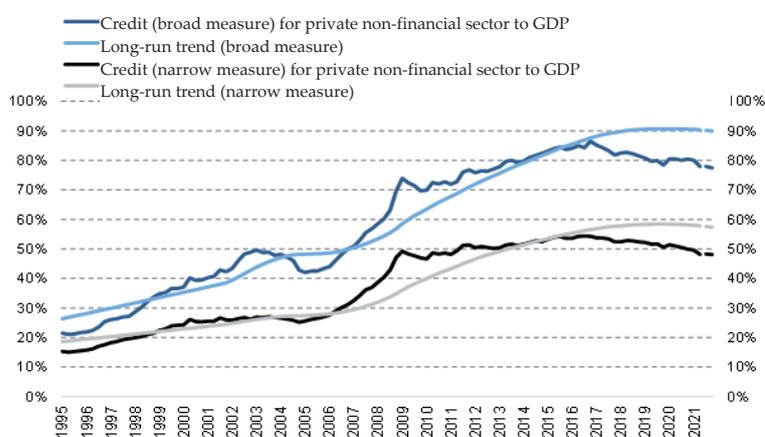
³² In accordance with Article 23 of the Act on macroprudential supervision, the guide is a variable which reflects the credit cycle and risk associated with excessive growth in lending in the national economy, taking into account the specific nature of Poland's economy and its financial system.

level of 0% throughout the year, i.e. unchanged in relation to the level set in the Act on macroprudential supervision in 2015.

When issuing the recommendations, the Committee took into account analytical materials³³ which presented current information concerning the developments in the credit cycle indicators. 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 GDP³⁴ 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 showed that deviations from the long-term trend were relatively insignificant, which meant that risk associated with credit expansion was low.³⁵ The credit to GDP ratio³⁶ in the first quarter of the year was running around 80% while in subsequent periods it decreased by around 2 percentage points. Starting from 2021 Q2, a gradual recovery of credit growth after the pandemic shock occurred, but this was not accompanied by a marked increase in the value of private non-financial sector debt relative to GDP, as a result of relatively higher nominal GDP growth.

Figure 4. Credit-to-GDP ratio



Source: NBP calculations.

³³ Analytical materials discussed at FSC-M meetings are available on the NBP website:

<http://www.nbp.pl/nadzormakroostroznościowy/publikacje.aspx>.

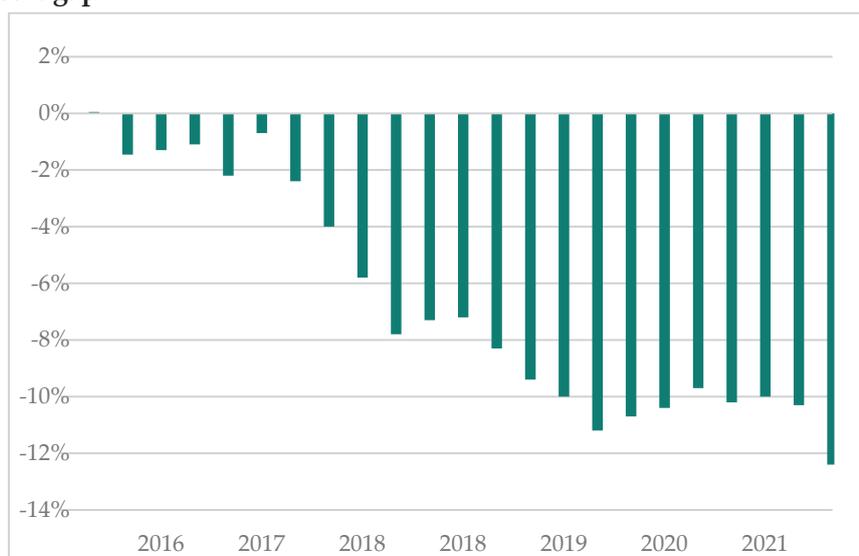
³⁴ The non-financial sector debt is provided, taking account of the issue of debt instruments, by non-financial corporations.

³⁵ That risk would be high primarily in the situation when the country was in the expansion phase for a long time.

³⁶ Credit to the private non-financial sector is the total debt of the non-financial sector, including the issue of debt instruments by non-financial corporations.

As in the previous year, in 2021 the credit gap remained profoundly negative, which also implied no risk associated with excessive lending.³⁷ 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 2021 at -10.2%, -10.0%, -10.3% and -12.4%, respectively. This means that during the first three quarters of the year, the deviation from the trend remained at a similar level, whereas in the fourth quarter it increased significantly.

Figure 5. Credit gap



Source: NBP calculations.

The results of the early warning models have indicated that in the horizon of 1 year to 4 years the threat of excessive lending remains 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.

5.2. O-SII buffer

The identification and use of the Other Systemically Important Institutions (O-SII) buffer remains within the remit of the Polish Financial Supervision Authority. In accordance with Article 39(1) of the Act on macroprudential supervision, the Polish Financial Supervision Authority identifies other systemically important institutions and imposes on them respective buffers which are subject to annual review. When assessing the systemic importance of other systemically important institutions, the KNF takes into account the following categories:

- 1) size,

³⁷ In line with recommendations of the Basel Committee on Banking Supervision and the ESRB, creating a CCB should be considered in a situation when the value of the credit gap is positive and exceeds 2%. However, this should not be the only factor considered.

-
- 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 guidelines³⁸ and the FSC recommendations of 2016³⁹ and 2021⁴⁰.

The 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.

In 2021, the Act amending the Banking Law and certain other acts, which amended the provisions of the Act on macroprudential supervision, entered into force. The Act introduced two significant modifications to the calibration of the O-SII buffer. In accordance with the first modification, the maximum buffer rate that can be imposed is 3% (previously 2%), while the second modification refers to banks owned by banking groups recognised as O-SII, where the cap is the buffer rate imposed on the group, increased by 1 percentage point. These legal changes have created space to set buffer rates at levels higher than those previously in force.

Given the uncertainty in terms of the future situation in the Polish economy and the Polish financial sector in connection with the COVID-19 pandemic, as well as in the regulatory environment of the banking sector, it was reasonable to maintain the existing O-SII buffer calibration rules. Accordingly, the Committee decided to keep in force the existing recommendation concerning the methodology for identifying O-SII and recommended that the existing approach be used to compute the proposed O-SII buffer rates for 2021.

Review of the adequacy of the Other Systemically Important Institutions buffer in 2021

In September 2021, the Financial Stability Committee received the following requests from the Polish Financial Supervision Authority:

- to submit a notification of its intention to impose a buffer of other systemically important institution to the European Commission, the European Systemic Risk Board, the European

³⁸ 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).

³⁹ Resolution No 8/2016 of the FSC of 13 May 2016 concerning the recommendation regarding the systemic importance of other systemically important institutions.

⁴⁰ Resolution No 54/2021 of the FSC concerning the methodology, criteria for the identification and calibration of buffers of other systemically important institutions.

Banking Authority and competent authorities for macroprudential supervision of the Member States concerned, and subsequently

- to issue an opinion on setting the buffer for ING Bank Śląski, previously identified as O-SII.

In 2021, ten banks meeting the criteria for recognition as other systemically important institution were identified: PKO BP, Pekao, Santander Bank Polska, ING Bank Śląski, mBank, Bank Handlowy, BNP Paribas Bank Polska, Bank Millennium, Bank Polskiej Spółdzielczości and SGB-Bank. **List of banks identified as systemically important institutions in 2021 remained unchanged in relation to 2020.**

Table 2. Banks identified as O-SII in 2017-2021

Bank	Level of the O-SII buffer (%)				
	2017	2018	2019	2020	2021
PKO Bank Polski	0.75	1.00	1.00	1.00	1.00
Bank Polska Kasa Opieki	0.50	0.75	0.75	0.75	0.75
Santander Bank Polska (BZ WBK)	0.50	0.50	0.75	0.75	0.75
ING Bank Śląski	0.50	0.50	0.50	0.50	0.75
mBank	0.75	0.50	0.75	0.50	0.50
BNP Paribas Bank Polska (BGŻ BNP Paribas)	0.25	0.25	0.25	0.25	0.25
Bank Millennium	0.25	---	---	0.25	0.25
Bank Handlowy w Warszawie	0.25	0.25	0.25	0.25	0.25
Deutsche Bank Polska	0.25	0.25	---	---	---
Alior Bank	---	0.25	---	---	---
Getin Noble Bank	0.25	---	---	---	---
Bank Polskiej Spółdzielczości	0.0	0.0	0.1	0.1	0.1
SGB - Bank	0.0	0.0	0.1	0.1	0.1

A change from the previous year is highlighted in blue.

Source: NBP study based on KNF data.⁴¹

⁴¹ 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_KNF_ws_buforow_innej_instytucji_o_znaczeniu_systemowym_67416.pdf
https://www.knf.gov.pl/knf/pl/komponenty/img/Przegląd_adekwatności_wskaznika_bufora_innej_instytucji_o_znaczeniu_systemowym_71357.pdf

The KNF notified the intention to impose on identified O-SIIs buffers ranging from 0.1% to 1% of the total amount of risk exposures, simultaneously raising the level of the buffer for one of the institutions identified earlier. An increase in the buffer from 0.50% to 0.75% was foreseen for ING Bank Śląski . For the remaining banks, the O-SII buffer in 2021 was maintained at a level unchanged in relation to the previous year.

The analysis of the current situation of the banks and their role in the system helped the Committee to deliver a positive opinion on the KNF requests. The opinion was submitted to the Polish Financial Supervision Authority and to the interested bank in a timely manner in accordance with the applicable procedures of the Code of Administrative Procedure.

In October 2021, following the completion of the administrative process, the Polish Financial Supervision Authority requested the Committee to submit notifications about the outcome of the review of the O-SII institutions and buffers. In accordance with the currently applicable procedures, the notification form has only been submitted to the ESRB in digital form via the dedicated information exchange platform.

5.3. G-SII buffer

The identification and application of the Global Systemically Important Institutions (G-SII) buffer, similarly to the O-SII buffer, remains within the remit of the Polish Financial Supervision Authority. In accordance with Article 35(1) of the Act on macroprudential supervision, the Polish Financial Supervision Authority identifies global systemically important institutions and imposes on them respective buffers which are subject to annual review.

Due to the new legal environment which arose in 2021 (CRDV/CRRII, amendment of the Act on macroprudential supervision), a need to update the G-SII identification procedure occurred. Based on the FSC recommendation concerning the O-SII methodology, analogically – due to unfavourable economic conditions – no changes were also introduced in the G-SII identification methodology. The change in the legislation did not affect the list of G-SIIs subject to Polish supervision.

In 2021, the KNF informed the Financial Stability Committee that none of Poland's 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 and such information was also provided to the ESRB.

5.4. Risk weights

The risk weights which have been in force in Poland since 2017⁴², increased compared to the standard weights applicable under the EU regulations, provided a response to the Committee's recommendations issued in the same year.⁴³ It was a regulatory measure designed to encourage banks and borrowers to take decisions on voluntary restructuring of FX housing loans. By increasing the relevant risk weights, an incentive to reduce their value was introduced, in particular through settlements with borrowers.

In view of the active support of the settlement process by the Chairman of the KNF and the acceleration of work towards a more conducive environment for taking such actions in 2021, the Committee found it reasonable to change the risk weight for exposures secured by a mortgage on residential real estate where the amount of the principal or interest instalment is dependent on changes in the exchange rate of a currency other than the currency of the income earned by the debtor. The reduction of risk weight is temporary and its purpose is to reduce the capital burden on banks involved in the settlement programme. In the Committee's opinion, the temporary reduction of risk weights on a scale dependent on the identified settlement costs should encourage banks to offer such settlements. The reduction of the FX housing loan portfolio is beneficial in the long term for the stability of banks and the national financial system as a whole. After a period of 18 months from the introduction of the relevant legislation, which in the Committee's opinion is sufficient to finalise the settlement programme, the risk weight for FX housing loans should return to the currently applicable increased level of 150%.

In view of the need to support the settlement processes, the Committee issued a recommendation concerning the reduction of risk weights.⁴⁴ It was addressed to the Polish Financial Supervision Authority with the aim of preparing detailed solutions related to the instrument and to the Minister of Finance to implement them. The Committee's recommendation was implemented by the recipients – the Regulation of the Minister of Finance was issued in 2022.⁴⁵

5.5. 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 countercyclical buffer (CCB), the buffer of global

⁴² Regulation of the Minister of Development and Finance of 25 May 2017 concerning the higher risk weights for exposures secured by a mortgage on immovable property (Journal of Laws, item 1068).

⁴³ FSC Resolution No 14/2017 of 13 January 2017 on the recommendation regarding the restructuring of the portfolio of FX housing loans.

⁴⁴ FSC Resolution No 52/2021 of 28 September 2021 on the recommendation concerning risk weights for exposures secured by a mortgage on residential real estate.

⁴⁵ Regulation of the Minister of Finance of 18 March 2022 amending the Regulation on higher risk weights for exposures secured by a mortgage on immovable property (Journal of Laws, item 687).

systemically important institutions (G-SII) and the buffer of other systemically important institutions (O-SII) or the systemic risk buffer (SRB).⁴⁶

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).

The year-on-year changes in the combined buffer requirement are shown below.

Table 3. Combined buffer requirement parameters in 2019-2021

Year	Conservation Buffer	Countercyclical Buffer	O-SII Buffer ⁴⁷	Systemic risk buffer	COMBINED BUFFER REQUIREMENT
2019	2.5%	0%	9 banks: 0.1 % - 1%	3%	5.5% - 6.5%
2020	2.5%	0%	10 banks: 0.1% - 1%	-	2.5% - 3.5%
2021	2.5%	0%	10 banks: 0.1% - 1%	-	2.5% - 3.5%

Source: NBP study.

⁴⁶ Wherein the systemic risk buffer 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.

⁴⁷ The table does not include the G-SIIs because no such institution has been identified in the Polish financial system.

6. Other macroprudential activities

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

Pursuant to the Act *on support to home loan borrowers who are in a difficult financial situation* (the Act on FWK)⁴⁸, the Financial Stability Committee is required to issue opinions on a quarterly basis, based on which the Board of the Borrowers' Support Fund sets the level of lenders' contributions to the FWK. In accordance with the provisions of the Act on FWK, quarterly lenders' contributions should be 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. Within six weeks following the quarter for which the contribution is due, the Chairperson of the KNF submits to the Chairperson of the FSC and to the FWK Board data concerning the size of housing loan portfolios as at the end of the quarter for which the contribution is due. The Chairperson of the Committee submits the opinion to the FWK Board by the end of the second month following the quarter for which the contribution to the Fund is due.

Following the announcement of the state of epidemic 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*⁴⁹, the Minister of Finance was, among others, delegated to change the deadlines arising from the Act on FWK. Pursuant to § 10(2) of the Regulation of the Minister of Finance of 7 April 2020 *on determining other deadlines for performing certain reporting and information obligations*⁵⁰, this deadline was permanently postponed to the last day of the fifth month following the quarter for which the contribution is due. Consequently, since 2020 the submission of the FSC opinion to the Fund Board is delayed by three months on a case-by-case basis.

In 2021, the Committee issued four opinions concerning the level of contributions to the Borrowers' Support Fund on the following dates: 23 February, 24 May, 25 August and 25 November. In 2021, opinions on these matters – in accordance with the adopted procedure – were delivered by the FSC-M without a meeting.

⁴⁸ Act of 9 October 2015 *on support to home loan borrowers who are in a difficult financial situation* (Journal of Laws 2021, items 1516 and 1535).

⁴⁹ Journal of Laws 2021, item 2095. Amendments to the consolidated text of the above-mentioned Act were published in Journal of Laws 2021, items 2120, 2133, 2262, 2269, 2317, 2368 and 2459.

⁵⁰ (Journal of Laws 2021, item 1816).

In all opinions issued in 2021, the Financial Stability Committee has assessed that the Fund holds sufficient funds to carry out its tasks. Therefore, the Committee did not determine the amount of the contribution to the FWK, since – according to its assessment – it was not necessary.

6.2. Recommendations on reducing the burdens related to the financing of the bank guarantee fund

On 18 January 2021, the Financial Stability Committee adopted the resolution concerning the recommendations on reducing the burdens related to the financing of the bank guarantee fund.⁵¹ The FSC-M recommended that:

- the Bank Guarantee Fund should take steps to determine contributions to the bank guarantee fund in 2021 at a level lower than in 2020,
- the Minister of Finance should extend the deadline for reaching the target level of deposit guarantee scheme funds in banks by 31 December 2034.

The decision of the Committee as based on the effects of the COVID-19 pandemic shock, which contributed to a decline in the earnings of banks in Poland, primarily through the need to create increased provisions for credit risk.

For banks, the main risk related to the COVID-19 pandemic at that time was the risk of a further sharp increase in loan losses resulting from a deterioration in the borrowers' ability to service their debt. The analyses performed by NBP⁵² indicated a continued decline in earnings of the banking sector in 2021. In accordance with the analysis, the reduced earnings of the banking sector may have limited banks' ability to further strengthen their capital base and raise external funding in the form of debt.

The negative consequences of the decline in banks' earnings may have been mitigated by a temporary reduction in banks' external burdens, which include contributions paid to the BFG, including to the bank guarantee fund.⁵³ The Act on BFG provides for a target level of deposit guarantee scheme funds of 2.6% of the amount of funds guaranteed in banks, which should be achieved by 30 July 2030. However, the Minister of Finance may extend the above deadline, taking into account the level of deposit guarantee scheme funds in banks, the phase of the business cycle as well as the financial standing of banks covered by the mandatory deposit guarantee scheme.

⁵¹ FSC Resolution No 43/2021 concerning the recommendations on reducing the burdens related to the financing of the bank guarantee fund.

⁵² *Financial Stability Report. COVID-19 Pandemic Impact Assessment, December 2020*, <https://www.nbp.pl/systemfinansowy/rsf122020.pdf>.

⁵³ Journal of Laws 2020, item 842.

In view of the foregoing, the Financial Stability Committee judged that recommending to the Minister of Finance the extension by 31 December 2034 of the deadline for reaching the target level of the deposit guarantee scheme funds would provide an opportunity of a temporary reduction in burdens on banks due to contributions to the guarantee fund, which was particularly important in the context of the current and expected effects of the COVID-19 pandemic on the financial situation of banks. Implementing the Committee's recommendation:

- a) in February 2021 the BFG Board set⁵⁴ the total amount of contributions to the bank guarantee fund for 2021 at a level PLN 1 billion, while in 2020 it amounted to PLN 1.575 billion.
- b) in November 2021 the Minister of Finance decided⁵⁵ to extend the deadline for achieving the target level of contributions.

6.3. Recommendation regarding risk weights for exposures secured by mortgage on residential real estate

The recommendation regarding the restructuring of the portfolio of FX housing loans was issued by the Committee in 2017. It initiated a process of implementation of the legal and supervisory solutions aimed at creating the conditions for banks and borrowers to decide on voluntary restructuring of FX housing loans. The catalogue of instruments introduced in response to the Committee's recommendation includes the regulation concerning a higher risk weight for exposures secured by a mortgage on immovable property⁵⁶, which assigns a risk weight of 150% to the exposure secured by a mortgage on residential real estate, where the amount of the principal or interest instalment depends on changes in the exchange rate of the currency or currencies other than the currencies of income earned by the debtor.

The higher risk weight for these exposures was to provide an incentive to reduce the value of FX housing loan portfolios. Over the following years, banks did not demonstrate an increased propensity to restructure this type of loans. At the same time, borrowers were increasingly challenging the provisions of FX loan agreements in litigation. The highlight event, which significantly increased the number of lawsuits of this type, was the judgement of the Court of Justice of the EU in Case C-260/18 in 2019. The consequence of the significant increase in litigation concerning the validity of FX mortgage loan agreements was the gradual development of a line of judgement which, in the Committee's opinion, was one of the factors affecting systemic risk resulting from the portfolios of FX housing loans.

⁵⁴ BFG Resolution No 9/2021 of 17 February 2021 on determining the total amount of contributions to the bank guarantee fund for 2021, the deadline for their payment and the share of contributions paid in the form of a payment obligation.

⁵⁵ Regulation of the Minister of Finance of 23 November 2021 on the extension of the deadline for achieving the target level of deposit guarantee scheme funds in banks.

⁵⁶ Regulation of the Minister of Development and Finance of 25 May 2017 concerning the higher risk weights for exposures secured by a mortgage on immovable property.

In 2021, the Committee regularly reviewed the data and analyses concerning this risk. It also analysed the proposal presentation by UKNF regarding out-of-court solutions for the FX loan portfolio, according to which banks offering borrowers settlements resulting in the conversion of loans into zloty could benefit from the support of the Mediation Centre of the Arbitration Court at the KNF.

In September 2021, bearing in mind the need to support the settlement processes initiated, the Committee issued a recommendation concerning risk weights for exposures secured by a mortgage on residential real estate.⁵⁷ The recommendation indicated the relevance of making the risk weights of FX housing loans dependent on the amount of specific provisions and write-downs related to these exposures, created in connection with the intention to conclude settlements with borrowers, resulting in the principal and interest instalments becoming independent of exchange rate volatility. The purpose of the recommended changes was to support and encourage banks to enter into settlement processes. At the same time, the Committee recommended that the change should be temporary. The risk weight of 150% shall be restored after a lapse of 18 months from the date of entry into force of the Regulation of the Minister of Finance establishing the system of reduced weights.

The Committee's recommendation was addressed to the Minister of Finance and the Polish Financial Supervision Authority. The institutions have taken appropriate measures to adopt the relevant legislation. This Regulation of the Ministry of Finance entered into force on 29 March 2022.⁵⁸

6.4. Monitoring the progress of implementation of the recommendations concerning the support to the stable functioning of the cooperative banks sector and the cooperative savings and credit unions sector

In March 2021, the FSC concluded the work of the GRASS⁵⁹ by issuance of recommendations addressed to the FSC member institutions concerning taking measures to support the stable functioning of the cooperative banks sector and the cooperative savings and credit unions sector, and the statement addressed to the cooperative banking sector regarding the functioning of the cooperative banking sector.

⁵⁷ FSC Resolution No 52/2021 of 28 September 2021 on the recommendation regarding risk weights for exposures secured by mortgage on residential real estate.

⁵⁸ Regulation of the Minister of Finance of 18 March 2022 amending the Regulation on higher risk weights for exposures secured by a mortgage on immovable property (Journal of Laws 2022, item 687).

⁵⁹ For more on the work of GRASS, see Chapter 1.4.2. Working group on the analysis of the situation in the cooperative banks sector and cooperative savings and credit unions sector (GRASS).

Throughout the remaining part of the year, the FSC monitored the progress of the work carried out by the individual recipients of the recommendations on a cyclical basis. At each meeting, the Committee was informed by representatives of the Ministry of Finance and the UKNF on the progress of work of a legislative nature aimed at development of legal acts incorporating FSC recommendations – both those concerning structural and organisational changes in the system of cooperative banks and cooperative savings and credit unions and those in the scope of tax exemptions relating to the cooperative savings and credit unions system.

At the December FSC meeting, in response to the statement addressed to the sector, the results of reports from the associating banks (BZs) and institutional protection schemes (IPSs) on measures taken to improve the efficiency of cooperative banking were presented.

The Committee took note of the conclusions of the reports presented by BZ and IPS. The main findings indicated that the merger processes in the sector intensified in 2021. The associating banks have undertaken intensive efforts to centralise certain IT and back-office solutions and to standardise business processes and internal rules and regulations, e.g. in risk management. Increasing their use by cooperative banks still requires intensive information and education activities, as still not all the cooperative banks are interested in participation in joint projects. It has also been indicated that the IPSs are interested in expanding their capacity to support participants in non-financial forms, with the use of aid funds. However, at present, the implementation of this type of assistance by the IPS is prevented by the term imposed on the amount of participants' accumulated contributions.

On the part of the cooperative banks, the need for amendment to Recommendation S was indicated, involving their exclusion from the group of entities that are recommended to offer housing loans at a fixed or periodically fixed interest rate.

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

In 2018, the Committee addressed a recommendation to Narodowy Bank Polski⁶⁰ on ensuring the availability of data and information on the residential and commercial real estate market. The scope of the data to be acquired by NBP was linked to the requirements set out in the ESRB Recommendation on closing data gaps related to the real estate sector (ESRB/2016/14).⁶¹

⁶⁰ FSC resolution No 23/2018 of 11 June 2018 concerning the recommendation to Narodowy Bank Polski on ensuring the availability of data and information on the real estate market.

⁶¹ The recommendation was amended in March 2019 – Recommendation of the European Systemic Risk Board of 21 March 2019 amending Recommendation ESRB/2016/14 on closing real estate data gaps (ESRB/2019/3)).

Following the revision of the ESRB Recommendation which, among others, extended the reporting deadlines regarding its implementation, the Committee adopted the resolution on extending the deadlines set out in the recommendation addressed to NBP.⁶²

As a consequence of the extension of the reporting deadlines in the recommendation due to the complexity of the task, the Committee's expectations in this regard have also changed. In accordance with the resolution amended in December 2019, NBP was committed to provide the relevant data in compliance with the following deadlines:

- by 31 December 2020 – for information concerning residential real estate market (RRE), and
- by 31 December 2021 – for information concerning commercial real estate market (CRE).

The first stage of implementation of the ESRB recommendation and the FSC recommendation concerning the RRE market data acquisition expired in December 2020. Based on the report on monitoring the residential real estate market submitted on time, in the ESRB report⁶³ summarising the progress of work across the EU published in June 2021, Poland received the highest possible rating for the implementation of this part of the recommendation (fully compliant), which demonstrates the completeness of the data acquired by NBP to monitor risks in the RRE market.

At the second stage – in 2021 – the Committee received information from NBP indicating that all RRE and CRE market data, as specified in the ESRB Recommendation, is now available and collected accordingly. The data originate from the following sources:

- Public Statistics Research Programme,
- FINREP reporting,
- non-reporting studies carried out with the participation of the UKNF.

The information resources obtained are now used to monitor systemic risk related to the RRE and CRE market and to prepare materials for the FSC-M. The Committee therefore recognised that the recommendation addressed to NBP to ensure the availability of data and information on the real estate market had been fully implemented within the timeframe set out in the resolution.

⁶² FSC resolution No 33/2019 of 13 December 2019 amending the Resolution concerning the recommendation to Narodowy Bank Polski on ensuring the availability of data and information on the real estate market.

⁶³ Summary Compliance Report on the Recommendation of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps as amended by Recommendation ESRB/2019/3 (ESRB/2016/14), ESRB, June 2021, https://www.esrb.europa.eu/pub/pdf/recommendations/2021/esrb.report.20210701_summary_compliance_report_aeab61bc61~aeab61bc61.en.pdf?58540806b3b7b3e70f518594f6df0d59.

6.6. Review of systemically relevant entities

Each year, based on the identification methodology adopted in 2019⁶⁴, the Committee updates the list of Systemically Relevant Entities (PSI).⁶⁵

After the KNF review of the adequacy of the Other Systemically Important Institutions buffer⁶⁶, the list of Systematically Relevant Entities now includes:

1. banks identified as O-SII in 2021:
 - Powszechna Kasa Oszczędności Bank Polski,
 - Bank Polska Kasa Opieki,
 - Santander Bank Polska,
 - ING Bank Śląski,
 - mBank,
 - Bank Handlowy w Warszawie,
 - BNP Paribas Bank Polska,
 - Bank Millennium,
 - Bank Polskiej Spółdzielczości,
 - SGB- Bank;

and entities the list of which in 2021 was supplemented by PZU Życie in relation to the previous year's assessment:

2. systemically important payment systems, securities clearing and settlement systems⁶⁷,
3. PZU,
4. PZU Życie,
5. GPW Benchmark,
6. SKOK im. F. Stefczyka,
7. National Association of Cooperative Savings and Credit Unions.

6.7. Participation in the work on the planned termination of the LIBOR rate quotation

The British Financial Conduct Authority (FCA) announced in March 2021 that some of the reference indices in the LIBOR family would cease to be developed and published after 31 December 2021. The Committee recognised that from the point of view of the Polish financial system, it is crucial to regulate the further functioning of agreements containing reference to the CHF LIBOR family reference rates.

⁶⁴ The first version of the methodology of identification of PSI was approved by the FSC-M on 15 September 2017.

⁶⁵ The obligation to identify financial institutions that generate relevant risk to the financial system (hereinafter referred to as systemically relevant entities, PSI) results from the amended Article 5(2) of the Act on macroprudential supervision (Journal of Laws of 2021, item 680).

⁶⁶ The results of the O-SII bank review were published on 8 November 2021.

⁶⁷ Service delivery systems and not necessarily their owners are identified as PSIs.

In the BMR⁶⁸, the European Commission acquired the authorisation to designate a replacement for the benchmark. In 2021, the Committee analysed the progress of the work carried out by the European Commission on the implementing regulation defining replacements for the benchmarks of the CHF LIBOR family. The Committee members judged that the failure of the European Commission to designate substitutes for the CHF LIBOR-type benchmarks would create a risk of significant disruption to the functioning of the financial system in Poland. As part of the work continued at the EU level, other EU countries (e.g. Austria, Germany and Slovenia) reported the need to regulate this issue.

In April 2021, the Committee addressed a letter to the EC indicating the need for the Commission to designate a substitute for the CHF LIBOR benchmark due to the issue of legal securing of the sustainability of contracts in Poland. In the course of the consultations conducted by the EC, individual financial safety net institutions presented their statements on this matter and also indicated the need to determine a substitute for CHF LIBOR. As a consequence, on 22 October 2021 the European Commission implementing regulation determining statutory replacements for the CHF LIBOR family of benchmarks was published in the Official Journal of the EU. Selected benchmarks from the SARON Compound Rate family were indicated as replacements, with the appropriate adjustment stemming from historical differences between these rates and CHF LIBOR.

6.8. Participation in the process of appointing a resolution authority for insurance and reinsurance undertakings in Poland and for central counterparties

In 2021, in connection with a request of the Minister of Finance, the Financial Stability Committee addressed the issue of designation of the competent resolution authority for insurance and reinsurance undertakings in Poland and the designation of the competent national resolution authority for central counterparties (CCPs).

The obligation to designate a national resolution authority for the Polish CCP results from Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020, published on 22 January 2021 (CCP-RR Regulation)⁶⁹, which requires Member States to establish at least one resolution authority for CCPs (Article 3 of CCP-RR).

In the case of the resolution authority of insurance and reinsurance undertakings, the obligation to designate such an authority is the key issue subject to the review of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the

⁶⁸ 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, L171, 2016, p. 1).

⁶⁹ Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014.

business of Insurance and Reinsurance (Solvency II). It should be expected that, as a result of the review, the resolution issues of insurance and reinsurance undertakings will be subject to the harmonisation process due to the increasing cross-border activities of the European insurance companies.

The Financial Stability Committee recognised that the designation and establishment of resolution authorities for insurance and reinsurance undertakings and for central counterparties (CCPs) was significant for financial system stability. As a result of its analyses and discussions, the Committee agreed that the appropriate authority for the resolution process for both insurance and reinsurance undertakings and CCPs shall be the Bank Guarantee Fund. However, it was indicated that the performance of this function and the taking of structural measures within the BFG must be initiated by the adoption of arrangements of a formal and legal nature.

6.9. Assessment of the provisions of the Act on the Guaranteed Housing Loan

After the Act on the Guaranteed Housing Loan by the Sejm of the Republic of Poland⁷⁰ was passed towards the end of 2021, the FSC-M was requested to review the prudential regulations in order to adjust them to the solutions of the Act on the Guaranteed Housing Loan, in particular Recommendation S.⁷¹

The Act on the Guaranteed Housing Loan defined the terms and conditions under which a housing loan, secured by mortgage and guaranteed by Bank Gospodarstwa Krajowego, will be granted differently compared to the procedure previously applied by banks, i.e. by omitting the requirement for the borrower to hold own share of 20%, the term resulting from Recommendation S. In the framework of its statutory powers, the FSC-M considered it necessary to monitor the impact of the instruments provided for in the Act on the Guaranteed Housing Loan on the situation on the real estate market and in the financial sector. Taking into account the need to mitigate systemic risk, the Committee judged that it would assess and, if necessary, decide on the feasibility and scope of macroprudential measures.

⁷⁰ Act of 1 October 2021 on the Guaranteed Housing Loan (Journal of Laws 2021, item 2133).

⁷¹ Recommendation S concerning good practices with regard to managing of mortgage-secured credit exposures – the document of the Polish Financial Supervision Authority, December 2019.

7. International cooperation

As part of its statutory tasks, the Financial Stability Committee closely cooperates with the EU authorities and institutions as well as with macroprudential authorities of other EU Member States. This cooperation includes, in particular, actions aimed at implementing the recommendations of the European Systemic Risk Board and fulfilling other obligations arising from EU acts of law.

7.1. Modification of the rules of cooperation with the ESRB

In fulfilment of the statutory obligation contained in the Act on macroprudential supervision, the Financial Stability Committee in its macroprudential capacity regularly informed the ESRB on a quarterly basis of the level of the applicable countercyclical buffer rate. This obligation was implemented from December 2015 and involved the provision of information on:

- 1) the level of the applicable countercyclical buffer rate;
- 2) the value of the countercyclical buffer guide;
- 3) the credit to GDP ratio;
- 4) the date from which the institutions apply the increased rate – in the case of an increase in the countercyclical buffer rate;
- 5) the expected duration of the reduced rate – if the countercyclical buffer rate is reduced.

In addition, in accordance with national and EU regulations, the Committee sent notifications regarding other macroprudential policy instruments on the established forms by traditional mail or electronic mail.

As a consequence of the changes to the provisions of the CRDV, changes in the information procedures concerning the cooperation with the ESRB occurred. Since March 2021, a simplified procedure for notifying the ESRB of the applicable countercyclical capital buffer rate and accompanying information via the *Epsilon* system has been introduced. It was a consequence of the adjustment of the notification regime to the CRDV rules requiring authorities to assess the countercyclical buffer rate on a quarterly basis, however, the notification should only be submitted if the countercyclical buffer rate changes, i.e. in the case of its increase or decrease.⁷² Other notifications are accepted on new forms sent only electronically and only to the ESRB which now acts as the information hub for the EU macroprudential policy.

⁷² CRD IV had a fixed quarterly reporting requirement, while CRD V introduces a simplification of data reporting.

7.2. Recommendation on recognising and setting 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. At its meeting on 10 August 2016 the Financial Stability Committee approved the methodology of identification of material third countries and established that there were no relevant third countries for the Polish financial system. Moreover, NBP was also obligated to present the list of relevant third countries to the Committee in the second quarter of each year.⁷³

As of 2016, when analysing the issue of third countries, the Committee has not identified countries meeting the criteria of eligibility as relevant third countries for the Polish banking system for the purposes of applying the countercyclical buffer.

The table below presents the countries to which Polish banks had the largest exposures, identified by the adopted methodology according to the data as at the end of 2020 Q4.

Table 4. The largest exposures of Polish banks

Country	Average share of exposures in 8 quarters	Is exposure over 1% in each of the last two quarters ⁷⁴ ?	Exposure qualification
Luxembourg	0.9%	No	Immaterial
United Kingdom	0.9%	No	Immaterial
France	0.6%	No	Immaterial
Germany	0.4%	No	Immaterial
Czech Republic	0.4%	No	Immaterial

Source: NBP study based on FINREP and COREP data.

An analysis conducted by NBP in 2021 showed that there were still no relevant third countries identified for the Polish banking system. Therefore, based on the available data, the Committee

⁷³ In line with the Committee decision, an analysis on the third countries which are directly monitored by the ESRB (Brazil, China, Hong Kong, Mexico, Russia, Singapore, Switzerland, Turkey, the United Kingdom and the United States) is not carried out at national level.

⁷⁴ 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%.

concluded that there was still no basis to identify any third country as material from the point of view of the need to recognise and set countercyclical buffer rates. At the same time, it agreed to provide the adequate information to the ESRB.

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

7.3.1. Implementation of reporting obligations

On 15 December 2015 the ESRB issued the recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2). In accordance with the sub-recommendations, the competent authorities are required to:

A – assess the cross-border implications before adopting a specific macroprudential policy measure,

B – notify the ESRB of macroprudential policy measures adopted immediately after their adoption,

C – reciprocate macroprudential instruments adopted in other Member States in accordance with Recommendation ESRB/2015/2,

D – provide information on the reciprocation of the macroprudential instrument.

Poland has so far applied two instruments that required a cross-border impact assessment under sub-recommendation A, i.e. Other Systemically Important Institution (O-SII) buffer and the systemic risk buffer. By submitting the notifications provided by the UKNF and the Ministry of Finance, the Committee provided the ESRB with information on the instruments introduced and an assessment of their cross-border impact. Moreover, the countercyclical buffer is applicable in Poland, however, due to the buffer's level (i.e. 0%) it neither triggers cross-border effects nor requires reciprocity.

In accordance with sub-recommendation B, the Committee, acting on the request of the competent activating authorities, shall provide the ESRB with notifications on the macroprudential instruments put in place.

On the other hand, in accordance with sub-recommendation C, whenever a new ESRB recommendation (put in place in another EU country) on the reciprocation of the macroprudential instrument emerges (reciprocity), the Committee decides on the need to reciprocate such an instrument and then cyclically analyses the underlying indicators. Any information on the measures taken in this regard is shared with the ESRB.

In June 2017, the Committee submitted its first report to the ESRB on the actions taken in response to Recommendation ESRB/2015/2. The deadline for submission of the next report on the implementation of Recommendation ESRB/2015/2 was 30 June 2021. The Committee provided information on the implementation of the recommendation on the relevant reporting form by the deadline indicated. The summary of the implementation of the recommendation is not yet available.

Report on the implementation of Recommendation 2015/2 based on the 2017 report.

In December 2021, the ESRB published a report⁷⁵ concerning the implementation of Recommendation ESRB/2015/2, based on reports submitted in 2017.

The activity of the Polish macroprudential supervision was assessed at a very good level (fully compliant). Poland received the highest possible score in terms of the implementation of each of the sub-recommendations assessed.

The high rating confirms the due, timely and compliant performance of the measures aimed at implementation of the recommendation by the Committee.

7.3.2. Monitoring of exposures in connection with the mechanism of recognising macroprudential instruments

Due to the cross-border effects of country-specific macroprudential instruments, in line with the Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures⁷⁶, Member States are required to assess the potential cross-border effects of the instruments they put in place and may request the ESRB to issue a guideline recommending that other Member States reciprocate the instrument put in place by applying with the same or similar measures. 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.

⁷⁵ Summary Compliance Report, 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), European Systemic Risk Board, December 2021, https://www.esrb.europa.eu/pub/pdf/recommendations/2021/esrb.SummaryComplianceReport2112_Recommendation2015-97546bd46f.en.pdf?52e08ff5924397c526b4eb1c54193311.

⁷⁶ 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).

In 2021, three new ESRB recommendations were issued recommending reciprocity of the macroprudential instrument introduced in a given country.⁷⁷ So far, the FSC-M has not decided to reciprocate any of the macroprudential measures introduced in other countries due to the lack of material exposures of Polish banks in individual countries. At the same time, the Committee regularly monitors the exposures of Polish banks in connection with the application of the reciprocity mechanism and submits the relevant information to the European Systemic Risk Board. The implementation of individual ESRB recommendations and the results of the reciprocity monitoring in 2021 are presented below.

Conclusions concerning the reciprocation of macroprudential instruments

France

In 2021, the Committee assessed exposures related to the French sector of non-financial corporations two times. For the first time in March, in connection with the monitoring for the purposes of implementing the 2018 ESRB recommendation.⁷⁸ In July 2021, the ESRB issued another recommendation⁷⁹ concerning the recognition by EU countries of the macroprudential instrument applicable in France introduced under Article 458 of the CRR. The instrument applied in France assumes reducing the limit of large exposures⁸⁰ to highly indebted non-financial corporations headquartered in France to 5% of Common Equity Tier 1 capital. The measure is applied in relation to global (G-SII) and other (O-SII) systemically important institutions at the highest level of consolidation in prudential banking. Both instruments applied in France were related to mitigating the same risk and were identical in terms of the legal solutions applied. The French authority's proposal concerning reciprocity and the consequent amendment to the recommendation resulted from the need to adapt the instrument to the new CRR provisions.

In December 2021, the Committee assessed the range of the exposure of Polish institutions in France and again concluded that none of the conditions for reciprocity set out in the recommendation had been met and therefore Poland is not obliged to reciprocate this instrument. On behalf of the Committee, NBP provided the ESRB with the relevant information.

⁷⁷ Recommendation of the European Systemic Risk Board, such as: ESRB/2021/2, ESRB/2021/3, ESRB/2021/6.

⁷⁸ In December 2018, the ESRB issued a recommendation concerning the recognition by EU countries of the existing macroprudential instrument introduced under Article 458 of the CRR applicable in France (ESRB/2018/8). The instrument introduced in France was in force, in compliance with the provisions of Article 458 of the CRR, for 2 years, from 1 July 2018. On 30 June 2020, the French macroprudential authority extended the application of this instrument. At the same time, on the basis of the so-called pragmatic approach adopted, the ESRB automatically maintained the recommendation to apply the reciprocity principle to the French instrument.

⁷⁹ Recommendation of the European Systemic Risk Board of 26 July 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/6).

⁸⁰ Article 395 (1) of Regulation (EU) No 575/2013.

Luxembourg

On 24 March 2021, the ESRB issued a recommendation⁸¹ on the recognition by other EU countries of the instrument launched in Luxembourg to introduce legally binding LtV limits for new mortgage loans for residential real estate located in Luxembourg.

These limits have been diversified by the category of borrowers:

- the LtV limit of 100% has been set for first-time buyers of a real estate to meet their own housing needs;
- the LtV limit of 90%⁸² for those buying a property again but for their own housing needs, and
- the limit of 80% for other borrowers, including those purchasing a real estate for rental (buy-to-let).

The ESRB Recommendation sets out an aggregate materiality threshold to place limits on the application of the *de minimis* rule by the relevant reciprocal authorities.

The analyses carried out by Narodowy Bank Polski and the Office of the Polish Financial Supervision Authority showed that none of the Polish banks reported exposure to the real estate market in Luxembourg. Therefore, it was concluded that grounds existed for non-reciprocation of the Luxembourg macroprudential instrument. In October 2021 NBP, acting on behalf of the Committee, provided the ESRB with the relevant information.

Norway

On 30 April 2021, ESRB issued a recommendation⁸³ on reciprocating the following instruments introduced in Norway by other EU Member States:

- the systemic risk buffer of 4.5% applicable to all exposures located in Norway⁸⁴,
- the average risk weight of 20% for exposures secured by residential real estate, applicable to institutions using the internal ratings-based approach,
- the average risk weight of 35% for exposures secured by commercial real estate, applicable to institutions using the internal ratings-based approach.

The ESRB Recommendation sets materiality thresholds at the level of institutions that allow for non-reciprocation of Norwegian macroprudential instruments if certain values are not exceeded.

⁸¹ Recommendation of the European Systemic Risk Board of 24 March 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/2); the recommendation pending publication in the Official Journal of the European Union (status as at 10 June 2021).

⁸² With this limit being applied proportionally to the structure of the loan portfolio. Up to 15% of this portfolio may comprise loans with the LtV limit above 90%, but not exceeding the level of 100%.

⁸³ Recommendation of the European Systemic Risk Board of 30 April 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/3).

⁸⁴ With the buffer set at 3% until 31 December 2022 for institutions which do not use the internal ratings-based approach to assess credit risk. After that date, the systemic risk buffer of 4.5% will also apply to these institutions.

The analyses conducted by Narodowy Bank Polski in June 2021 showed that no Polish credit institution has exposures in Norway exceeding the thresholds indicated in the recommendation. It was therefore considered that there was no rationale for reciprocating the Norwegian macroprudential instruments. On the other hand, NBP has committed to monitor Polish exposures in Norway and provide information on this issue to the FSC-M on an annual basis.

Results of exposure monitoring in relation to the reciprocity mechanism

France

In December 2018, the ESRB issued a recommendation on reciprocating a macroprudential instrument introduced under Article 458 of the CRR, applicable in France by other EU Member States (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 analyses carried out in February 2021 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 still no need to reciprocate the French instrument in Poland.

Sweden

In January 2019, the ESRB recommended⁸⁵ that other EU Member States should reciprocate the Swedish macroprudential instrument introduced under 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 Internal Ratings-Based Approach (IRB) to calculate their regulatory capital requirements).

As the value of Polish exposures in Sweden was insignificant, in June 2019 the FSC-M decided not to reciprocate the Swedish instrument 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 analyses conducted in June 2021 showed that total exposures of Poland's banking sector to Sweden did not exceed the specific materiality threshold determined in the recommendation. Therefore, the Committee concluded that there still were no reasons to reciprocate the macroprudential instrument introduced in Sweden.

Belgium

⁸⁵ 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).

In July 2018, the ESRB issued a Recommendation⁸⁶ on reciprocating Belgium's higher risk weights, introduced under Article 458 of the CRR for exposures secured by a mortgage on residential real estate located in Belgium by other Member States.⁸⁷

In 2018, the Financial Stability Committee took the decision not to reciprocate Belgium's instrument, because of the 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 analyses conducted in June 2021 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.

7.4. Recommendation on closing real estate data gaps (ESRB/2016/14)

In 2016, the European Systemic Risk Board 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.

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 NBP⁸⁸ on providing the Committee with access to the information and data on the real estate market. Details concerning the implementation of the FSC recommendations are described in Chapter 6.5.

Report on the implementation of Recommendation ESRB/2016/14

Following the amendment to Recommendation ESRB/016/14⁸⁹ which, among others, extended the reporting deadlines regarding its implementation, the Committee adopted the resolution on

⁸⁶ 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).

⁸⁷ On 22 January 2021, the Belgian central bank again notified the ESRB of the plan to extend the application of the instrument under Article 458 of the CRR. The proposal of Belgium received a favourable opinion of the ESRB. In line with the pragmatic approach, the recommendation concerning the reciprocity of the Belgian instrument was maintained in the recommendation on reciprocity adopted by the ESRB General Board (ESRB/2021/2).

⁸⁸ FSC Resolution No 23/2018 of 11 June 2018 concerning the recommendation to Narodowy Bank Polski on ensuring the availability of data and information on the real estate market.

⁸⁹ The recommendation was amended in March 2019 (Recommendation of the European Systemic Risk Board of 21 March 2019 amending Recommendation ESRB/2016/14 on closing real estate data gaps (ESRB/2019/3)).

extending the deadlines set out in the recommendation addressed to NBP.⁹⁰ In accordance with the resolution amended in December 2019, NBP was committed to provide the relevant data in compliance with the following deadlines:

- by 31 December 2020 – for information concerning residential real estate market (RRE) – recommendations A and B, and
- by 31 December 2021 – for information concerning commercial real estate market (CRE) – recommendations C and D.

In December 2021, the final report on the implementation of Recommendations C and D concerning the commercial real estate (CRE) market was submitted to the ESRB through NBP, in accordance with the deadline set.

**Report on the implementation of Recommendation ESRB/2020/14
based on the 2020 reporting**

In December 2020, the final report on the implementation of Recommendations A and B was submitted to the ESRB. On the basis of the information submitted by the macroprudential authorities, the ESRB report was prepared⁹¹ and published in June 2021. In the report, Poland received the highest rating in terms of implementation of Recommendations A and B (fully compliant), which confirms the completeness of the data acquired by NBP to monitor risks in the residential real estate market (RRE).

7.5. 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, Recommendation ESRB/2020/8 was issued 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. The Recommendation is addressed to national macroprudential authorities and 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.

⁹⁰ FSC Resolution No 33/2019 of 13 December 2019 amending the Resolution concerning the recommendation to Narodowy Bank Polski on ensuring the availability of data and information on the real estate market.

⁹¹ Summary Compliance Report on the Recommendation of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps as amended by Recommendation ESRB/2019/3 (ESRB/2016/14), ESRB, June 2021, https://www.esrb.europa.eu/pub/pdf/recommendations/2021/esrb.report.20210701_summary_compliance_report_aeab61bc61~aeab61bc61.en.pdf?58540806b3b7b3e70f518594f6df0d59_

The recommendation is composed of two parts:

- **Recommendation A:** national macroprudential authorities should monitor and assess the financial stability implications of public guarantee schemes and other instruments of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic;
- **Recommendation B:** national macroprudential authorities should regularly report to the ESRB the information necessary for the ESRB to perform analyses concerning the monitoring and assessment of the implications of the national measures for financial stability at the EU level.

Required information obtained in cooperation with public institutions in Poland is submitted to the ESRB on a regular quarterly basis. It follows from announcements received from the ESRB that the data collection process will be completed in 2022.

Report on the implementation of Recommendation ESRB/2020/8 based on the 2020 reporting

The final report on the implementation of Recommendation B was due to be submitted to the ESRB and the EU Council by 31 December 2020. At that time, the Committee instructed the SGR to complete and submit a report in this area. In its July 2021 report⁹² the ESRB included a very good assessment of activities of the Polish macroprudential authority as part of the implementation of Recommendation B, assigning it the highest possible rating (fully compliant).

7.6. Recommendation on identifying legal entities (ESRB/2020/12)

On 24 September 2020, the ESRB General Board adopted the Recommendation on identifying legal entities (ESRB/2020/12).⁹³ The objective of the measures recommended by the ESRB is to standardise the issue of an obligation on authorities to identify by way of the LEI (Legal Entity Identifier) and use it in the framework of the currently applicable provisions of law.⁹⁴ The LEI identifier is a 20-character alphanumeric reference code to uniquely identify legally distinct entities that engage in financial transactions and is imposed by authorised licensed entities.

⁹² *Compliance report on 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)*, Recommendation B, ESRB, July 2021, https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.202108.recommendation_of_the_european_systemic_risk_board_of_27_May_2020_on_monitoring_the_financial_stability_implications_of_debt_moratoria~0365cd6715.en.pdf?cf1d14ecb186250805a7f4e2bfb59d5e.

⁹³ Official Journal of the European Union, C 403 of 26.11. 2020).

⁹⁴ So far, the obligation to use the LEI code for selected entities has resulted from the provisions of, among others, Directive 2014/65/EU of the European Parliament and of the Council (MIFID II), Regulation of the European Parliament and of the Council (EU) No 600/2014 (MIFIR), Regulation of the European Parliament and of the Council (EU) No 648/2012 (EMIR), Regulation of the European Parliament and of the Council (EU) 2015/2365 (SFTR), Regulation of the European Parliament and of the Council (EU) No 1227/2011 (REMIT), Regulation of the European Parliament and of the Council (EU) No 909/2014 (CSDR).

The recommendation shall contribute to:

- (i) ensuring that all legal entities established in the EU that are involved in financial transactions obtain and maintain the LEI;
- (ii) ensuring the systematic and comprehensive use of the LEI for identification of entities for in the reporting of financial information.

Recommendation ESR/2020/12 consists of two sub-recommendations:

- **Recommendation A (addressed to the European Commission)** refers to the development of the draft EU legal framework relating to the use of a LEI;
- **Recommendation B (addressed to the authorities)** refers to expanding the scope of the LEI code, pending the adoption of any EU legislation.

In the case of Recommendation B, its implementing authority may comprise one or more entities meeting the relevant criteria. In the case of Poland, it is addressed, among others, to the FSC-M, the KNF, the Ministry of Finance and the BFG and each of the authorities, in the implementation of obligations set out in the Recommendation, should apply the principles provided therein to promote the use of the LEI code in the implementation of activities with the use of financial information.

Report on the implementation of Recommendation ESRB/2020/12

The deadline for submission of the final report on the implementation of Recommendation B expired on 31 December 2021. Each of the institutions addressed was required to complete a separate reporting form.

During its meeting in September 2021, the Committee – as one of the entities implementing the Recommendation – decided to support the process of promoting the use of the LEI code. This was reflected in the published announcement in which the need was indicated to extend the use of LEI codes by public administration authorities as part of their supervisory tasks or acquisition of the reporting data.

At the same time, it was considered that due to the fact that the Committee does not fulfil a direct supervisory function with respect to legal entities involved in financial transactions and is not responsible for the collection and disclosure of reporting data on these entities, it is beyond its competence to take more far-reaching measures aimed at the implementation of the Recommendation.

In December 2021, Narodowy Bank Polski, on behalf of FSC-M, submitted to the ESRB the relevant reporting form on the implementation of Recommendation B .

7.7. Recommendation on exchange of information for macroprudential purposes on branches of credit institutions (ESRB/2019/18)

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).⁹⁵ The actions recommended are intended to allow the exchange and collection of information for macroprudential purposes on foreign branches of credit institutions.

In September 2020, the Committee decided that the FSC-M will perform the role of a body competent for the purposes of implementing Recommendation ESRB/2019/18. At the same time, in connection with the implementation of the recommendation, the Committee set the mechanism of the exchange of information once a request is submitted by the relevant hosting authority of the Member State and if the need arises to obtain data on a branch of credit institution operating in Poland.

Report on the implementation of Recommendation ESRB/2019/18 based on the 2020 reporting

In accordance with the implementation criteria of the Recommendation, the inaction of the relevant authorities is deemed sufficiently explained (in accordance with the principle of comply or explain), if there are no branches significant for financial stability in their Member State or the competent authorities have the necessary information to perform their tasks. Furthermore, the failure to take action with a view to implementing the Recommendation is considered sufficiently explained, if the competent authorities have not received any request for information from the relevant host State authority.

So far, the Committee has not received any request for information regarding a branch of a credit institution from the competent host State authority. The Committee has also recognised that there are no branches of foreign financial institutions in Poland that are significant for stability.

In October 2021, the European Systemic Risk Board published a report⁹⁶ on the implementation of **Recommendation A** under Recommendation ESRB/2019/18, according to which the failure of FSC-M to take action, was sufficiently explained (inaction sufficiently explained).

⁹⁵ The recommendation was published in the Official Journal of the European Union on 9 December 2019 (C 412/1).

⁹⁶ Summary Compliance Report, October 2021, Recommendation A of the Recommendation of the European Systemic Risk Board of 26 September 2019 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), https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.20210806_recommendation~6d13b4dfb3.en.pdf?4e76584bb087931f3beea57d20d424e6.

8. Communication

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

8.1. Domestic communication

The declaration to conduct macroprudential policy in a transparent manner found in the *Macroprudential Policy Strategy* reflects the Committee's approach to communication. The adopted principle of transparency is demonstrated by communicating to the public the decisions significant for the implementation of the macroprudential supervision objectives and publishing analytical material used in the decision-making process. Owing to direct access to information, market participants can better understand and assess developments in the financial system and also familiarise themselves with the approach and perspective of the Committee on various macroprudential supervision issues.

Press releases after FSC-M meetings, resolutions and analytical materials posted on the website of Narodowy Bank Polski are the main documents used by the Committee to pursue its communication policy.

Press releases after FSC-M meetings

A press release of the Committee 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 the stability of the financial system and presents current 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.⁹⁷ Similarly, information concerning the Committee's opinion on FWK contributions was published immediately after the decisions were taken.

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. This report describes all the work and

⁹⁷ <http://www.nbp.pl/nadzorkmakroostroznosciowy/index.aspx>

activities taken by the Financial Stability Committee in a given year. The document serves to implement the statutory obligation and communicate to the public how the tasks conferred upon the Committee are implemented. The report presents, 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 Committee's international cooperation activities. The report also includes information on matters related to macroprudential supervision policy which were undertaken by the Committee during the year.

This is the seventh issue of the *Report*. The Committee endeavours to ensure that the presented report is an important study of the Polish macroprudential supervisory authority for a wide public.

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 the Committee 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* currently 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 presented. 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.

8.2. Foreign communication

Notifications addressed to EU institutions and authorities

The tasks of FSC-M 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. As part of compliance with this obligation, the Committee notifies the relevant institutions – and since 2021 it has notified the ESRB – about domestic macroprudential policy decisions.

The sharing of information on macroprudential policy is of vital importance as the decisions of individual countries in the EU may have an influence on the financial markets 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. It is also the primary and easiest tool of international and inter-institutional cooperation.

Table 5. Notifications by the FSC-M in 2021

Subject of notification	Addressee	Notification date
Forms for 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 pandemic crisis	ESRB	February, April, July, October 2021
Information on the results of monitoring of French exposures	ESRB	March 2021
List of third countries to which institutions operating under the licence granted in Poland have material exposures	ESRB	June 2021
Report on the implementation of the Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures	ESRB	June 2021
Information on the results of monitoring of Swedish exposures	ESRB	June 2021
Information on the results of monitoring of Belgian exposures	ESRB	June 2021
Information on the reciprocation of the Norwegian instrument	ESRB	June 2021
Information on the reciprocation of the Luxembourg instrument	ESRB	October 2021
Information on the intention to impose the O-SII buffer	ESRB	October 2021
Information on the reciprocation of the French instrument	ESRB	December 2021
Final report on the implementation of the recommendation on closing real estate data gaps	ESRB	December 2021
Report on the implementation of the LEI recommendation	ESRB	December 2021
Results of a review of identification of O-SIIs	ESRB	December 2021

Source: NBP study.

Glossary of terms and abbreviations

BMR	<i>Benchmark Regulation</i> ; 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 176, 2016).
Countercyclical buffer (CCB)	An additional capital requirement imposed on institutions (banks) in order to increase the resilience of the banking system to cyclical fluctuations of systemic risk.
Global Systemically Important Institutions buffer	An additional capital requirement maintained by global systemically important institutions (G-SIIs) to strengthen their resilience to economic shocks.
Other Systemically Important (domestic) Institutions buffer	An additional capital requirement maintained by other systemically important institutions (O-SIIs) to strengthen their resilience to economic shocks.
Systemic risk Buffer (SRB)	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.
Conservation Buffer	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.
CCP	A central counterparty is a legal person that carries out the function of a clearing house based on the CCP (central counterparty) 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.

Ultimate objective	It 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”.
Intermediate objectives / risk dimensions	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.
CRR	<i>Capital Requirement Regulation</i> ; Regulation of the European Parliament and of the Council (EU) no 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012.
Cyber risk	A risk of the occurrence of harmful events in electronic systems, causing disruptions in the operation of a business or leading to financial losses.
Financial cycle	Periodic fluctuations of the levels of lending, leverage and financial asset prices in the economy.
Economic cycle	Consecutive periods of growth and recession, which in economics are divided into four phases: recovery, expansion, slowdown and recession.
Credit cycle	Periodic fluctuations of debt levels in the economy.
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.
MAR	<i>Market Abuse Regulation</i> ; 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 176, 2014).
Resolution mechanism	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.
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.
MREL	Minimum requirement for own funds and eligible liabilities was enacted in BRR Directive; the requirement introduced in the EU under which each bank is required to hold the minimum value of its bail-in-able financial instruments for loss coverage or recapitalisations. MREL allows to ensure the preservation of critical functions after resolution public without adversely affecting financial stability and without recourse to public financial support.

Macroprudential supervision	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.
Notification	It 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.
Third countries	Countries outside the European Economic Area.
Macroprudential policy	See Macroprudential supervision.
Recommendation	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.
Systemic risk	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.
Financial safety net	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.
Statement	It is 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.

ESRB Recommendations	They 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).
Credit crunch	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 it 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.

ABBREVIATIONS

BMR	Benchmark Regulation,
BRRD	Bank Recovery and Resolution Directive
CCB	Countercyclical capitalbuffer
CCP	Central counterparties
CRR	Capital Requirements Regulation
CRD IV	Capital Requirements Directive
ECB	European Central Bank
ESRB	European Systemic Risk Board
EBA	European Banking Authority
GRASS	Working group on the analysis of the situation in the cooperative banks sector and the cooperative savings and credit unions sector
G-SII	Global Systemically Important Institution
IRB	Internal Ratings-Based Approach
EC	European Commission
KNF	Polish Financial Supervision Authority
FSC	Financial Stability Committee
FSC-M	Financial Stability Committee as a macroprudential authority
FSC-C	Financial Stability Committee for crisis management
MAR	Market Abuse Regulation
MF	Minister of Finance
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NBP	Narodowy Bank Polski
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 Financial Supervisory Authority

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