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Annual Report

on Macroprudential Supervision Activity of the Financial Stability Committee

2022

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2022

Warsaw, 2023

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Foreword



Dear Sirs,

I have the honour to present to you an annual report on the activity of the Financial Stability Committee in its macroprudential capacity.

The year 2022 was the time of the continuation of macroprudential policy amid uncertainty – following the end of the COVID-19 pandemic, Poland has experienced the consequences of the military aggression just across its eastern border. These developments have impacted the situation in the real economy and in financial markets. Despite the adverse macroprudential environment and the rise in geopolitical risk, the Committee has implemented its mandate in a consistent manner, contributing to preserving financial stability in our country.

In accordance with its mandate, the Committee has focused on the identification of the sources of systemic risk in the Polish financial system and continued the domestic real estate market analyses. The Committee has also analysed risk associated with the portfolio of FX housing loans and implemented actions aimed at complying with the European Systemic Risk Board recommendations.

In retrospect, we know that the domestic banking sector has gone through the year 2022 in a good condition, which has allowed it to preserve the necessary resilience to face future challenges related to the macroeconomic effects of the war in Ukraine and internal systemic risk.

I would like to stress that the conduct of a proper macroprudential policy requires the coordinated efforts and teamwork of all the institutions involved – the Polish Financial Supervision Authority, the Minister of Finance, the Bank Guarantee Fund 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 Committee will continue to significantly contribute to preserving Poland's financial system stability.

You are welcome to read the Annual Report on the Macroprudential Supervision Activity of the Financial Stability Committee 2022.

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

1. The Financial Stability Committee in its macroprudential capacity in 2022

1.1. Composition of the Committee

The Financial Stability Committee (FSC-M) is a body responsible for macroprudential supervision in Poland.¹ The Committee is a collegial body composed of representatives of national financial safety net institutions:

- Governor of Narodowy Bank Polski – as Chairperson of the Committee in its macroprudential capacity,
- Minister of Finance,
- Chairman of the Polish Financial Supervision Authority,
- President of the Management Board of the Bank Guarantee Fund.

Composition of the Committee in 2022:

Governor of Narodowy Bank Polski	Adam Glapiński
Minister of Finance	<ul style="list-style-type: none"> – Tadeusz Kościński (to 9 February 2022) – Mateusz Morawiecki – Prime Minister, Minister of Digitisation acting in the capacity of the minister of finance (from 9 February to 26 April 2022) – Magdalena Rzeczkowska (from 26 April 2022)
Chairperson of the Polish Financial Supervision Authority (KNF)	Jacek Jastrzębski
President of the Management Board of the Bank Guarantee Fund (BFG)	Piotr Tomaszewski

1.2. Tasks of the Committee

The Committee as the macroprudential supervision authority is responsible for the identification, assessment and monitoring of systemic risk arising in the financial system and for taking action to eliminate that risk using macroprudential instruments. The objective of these activities is, in

¹ In accordance with the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (hereinafter the “Act on Macroprudential Supervision”).

particular, 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. As part of the implementation of the objectives, the Act on Macroprudential Supervision imposes the following tasks on the Committee:

- use of adequate macroprudential instruments through presenting statements when sources of systemic risk are identified, and issuing recommendations when action is needed to eliminate or mitigate systemic risk;
- identification of systemically relevant entities;
- cooperating with the European Systemic Risk Board (hereinafter the “ESRB”) and other EU bodies and international institutions as well as with other macroprudential supervision authorities;
- informing the ESRB of macroprudential activities undertaken in the country (notifications);
- ensuring an adequate flow of information between the members of the Committee enabling it to perform its tasks.

In addition, the Financial Stability Committee issues opinions in the scope specified by law. In principle, the opinions are usually issued at the request of other financial safety net institutions.²

Box 1. Changes in the regulatory environment in 2022 and their impact on the duties of the Committee

In 2022, the following changes in the Committee’s tasks were introduced:

1. Introduction of an obligation to issue an opinion for the BFG Council on the target level of guaranteed funds

On 7 May 2023, an amendment to the provisions of the BFG Act came into force.³ Paragraph 2b was inserted into Article 287, according to which the **Fund's Council shall consult** the Financial Stability Committee **before determining the target level of funds** of the deposit guarantee scheme in banks.

Pursuant to this provision, in the event that the Fund's Council decides on the need to reduce the statutory target level of funds of the deposit guarantee scheme in banks⁴, it is required to consult the FSC-M. The task is carried out by the Committee when the BFG Council issues the relevant request.

The first request under these provisions was submitted to the Committee on 6 October 2022.⁵

² 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 the 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.

³ Act of 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution (consolidated text, Journal of Laws 2022, item 2253).

⁴ 2.6% of the amount of funds guaranteed in banks and branches of foreign banks covered by the mandatory deposit guarantee scheme.

⁵ More on this issue in Chapter 5.7.

2. Waiver of the obligation to issue an opinion on contributions to the Borrowers' Support Fund

On 29 July 2022, the Act on Crowdfunding entered into force⁶, which amended the provisions of the Act on Borrowers' Support⁷ and the Act on Macroprudential Supervision.

Pursuant to the amended provisions of the Act on Borrowers' Support, **the Committee is no longer required to provide an opinion** in the process of issuing a decision on the quarterly amount of banks' contributions to the Borrowers' Support Fund (FWK). According to Article 16a(4), the quarterly amount of contributions to the Fund is now determined by the Fund Council on the basis of information provided by the Chairman of the Polish Financial Supervision Authority.

The Committee issued its last opinion for the Borrowers' Support Fund Council on 25 May 2022.⁸

3. Participation of the FSC-M in the process of designating a replacement for the critical benchmark

Following the amended provisions of the BMR⁹, which empowered the national authorities to determine a replacement for the national benchmark (Article 23c), it became necessary to regulate this procedure in the Polish legal system.

The procedure for the designation of a replacement for the benchmark is regulated in Chapter 10a of the amendment to the Act on Macroprudential Supervision, which entered into force on 29 July 2022. Currently, the competent national authority empowered to designate a replacement for the benchmark is the **minister competent for financial institutions** who issues a **regulation** taking into account the recommendation of the Financial Stability Committee.

Immediately upon receiving the statement of the KNF, the Committee shall issue a recommendation indicating the necessity to designate a replacement or replacements or present a statement containing information on the refusal to issue such a recommendation, including a rationale.

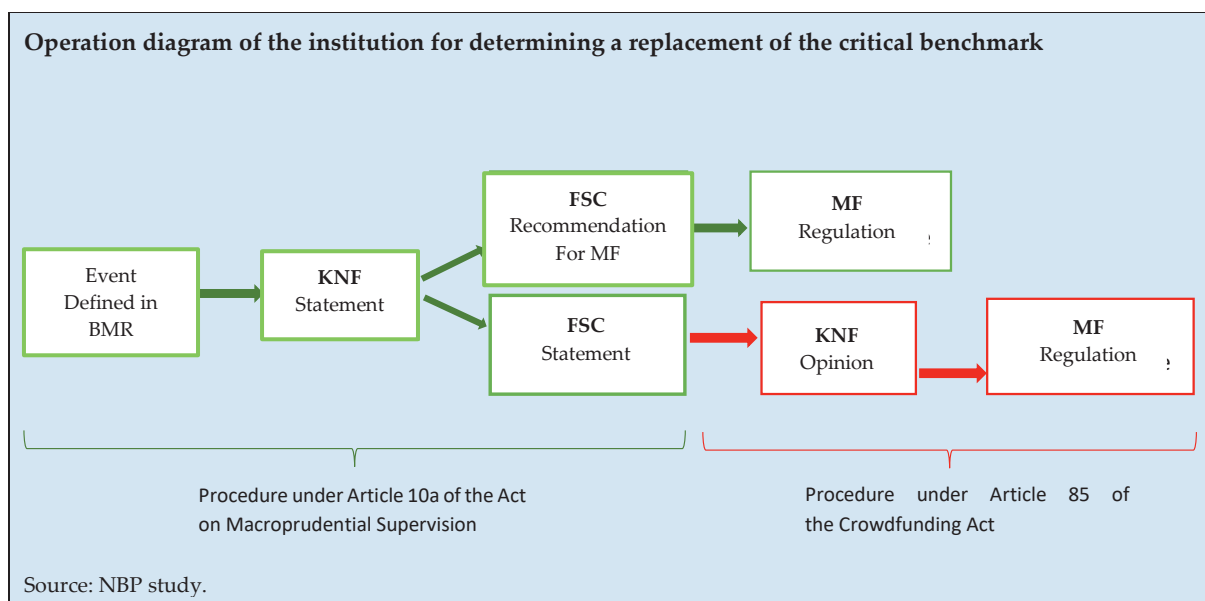
For the WIBOR benchmark, Article 85 of the Crowdfunding Act provides for a specific procedure in the event that the FSC submits a statement indicating that there is no need to designate a replacement for the benchmark. In such a case, a replacement for the WIBOR benchmark may be designated under an alternative procedure involving the FSC (as an initiator of the process) and the Minister of Finance issuing the regulation, without the need to obtain the FSC's opinion in this regard.

⁶ Act of 7 July 2022 on Crowdfunding of Business Projects and Aid to Borrowers (Journal of Laws 2022, item 1488) (hereinafter the "Crowdfunding Act").

⁷ Act of 9 October 2015 on Support to Home Loan Borrowers Who Are in a Difficult Financial Situation (Journal of Laws 2015, item 1925, as amended) (hereinafter the "Act on Borrowers' Support").

⁸ Information on the opinions delivered by the Committee for the FWK Council is described in Chapter 5.5.

⁹ 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.



1.3. Meetings and adopted resolutions

In 2022, in accordance with its scheduled timetable, the Committee held four regular meetings on the following days: 25 March, 10 June, 23 September and 9 December. Moreover, on 28 February 2022 the Committee held an unscheduled meeting which mainly focused on discussing the extraordinary circumstances surrounding Russia's aggression against Ukraine and their potential impact on the stability of the domestic financial system.

The following topics were the regular items on the Committee's meeting agenda:

- **systemic risk assessment** based on the conclusions from the questionnaire survey¹⁰, in which all institutions of the financial safety net represented in the Committee participate,
- analysis of the risk associated with the **portfolio of FX housing loans** and monitoring of the **settlement processes**,
- **analysis of developments** in the residential **real estate** market,
- resolution on the level of the **countercyclical buffer rate (CCyB)**¹¹,
- monitoring the effects of the work of the **Permanent Working Group**,
- implementation of the recommendations of the **European Systemic Risk Board**, including the assessment of Polish banks; exposure for the purpose of applying the reciprocity principle,
- information on **macroprudential policy actions undertaken at the European level**,
- **monitoring the progress of implementation of recommendations** issued by the Committee.

¹⁰ A description of the *Systemic risk assessment survey* and the systemic risk assessment and identification methodology is presented in Chapter 3.

¹¹ The recommendation in this resolution is addressed to the Minister of Finance.

In the second half of 2022, the Committee additionally initiated the monitoring of the implementation of the borrowers' support programmes related to the use of the so-called credit holidays and the FWK aid and their impact on the financial situation of banks.

In each quarter of 2022, the Committee recommended maintaining the countercyclical capital buffer ratio at an unchanged level of 0%¹², and the Minister of Finance accepted the recommendation of the Committee and did not take legislative action in this area.

In accordance with the provisions of the Act on Macroprudential Supervision, after each meeting of the Committee, its resolutions concerning the CCyB were posted on the website of Narodowy Bank Polski including detailed information pertaining to:

- the level of the applicable CCyB 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.

In addition to the standing items of the agenda, the Committee also addressed other topics at its meetings, the most relevant of which are indicated below.

In the first quarter, two FSC-M meetings were held. During the first meeting, the Committee discussed the impact of the circumstances related to the hostilities of the Russian Federation in Ukraine on the stability of the domestic financial system. The Committee assessed that the Polish banking sector had significant capital surpluses and liquidity buffers to ensure resilience to potential shocks. It decided to issue a statement expressing solidarity with the Ukrainian people.

The next meeting took place according to the planned working schedule and focused in particular on an analysis of a further increase in legal risks related to the portfolio of FX housing loans, as well as a discussion of potential risks arising from the geopolitical situation. The methodology for identifying the buffer of other systemically important institutions (O-SII) was also reviewed, which preceded further work of the FSC on this issue.

In the second quarter, the Committee studied the *Financial Stability Report, June 2022*, prepared by NBP and the *Report on Macroeconomic Stability of the Polish Economy*. The Committee adopted the *Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee 2021* and submitted it to the Polish Sejm. Furthermore, the FSC assessed the progress of the long-term development priorities adopted in the *Macroprudential Policy Strategy*.¹³ It also discussed potential forms and premises for the establishment of a macroprudential capital buffer and initiated further analyses in this respect. At the request of the KNF, a resolution on the Committee's opinion regarding proposed amendments to *Recommendation S concerning good practices related to managing mortgage-secured credit exposures* was issued.

¹² The countercyclical buffer at a level of 0% was introduced under the 2015 Act on Macroprudential Supervision.

¹³ <https://nbp.pl/wp-content/uploads/2022/10/Macroprudential-Policy-Strategy-in-Poland.pdf>.

In the third quarter, the Committee discussed possibility of using the systemic risk buffer and other capital buffers to strengthen the resilience of banks in Poland. At the request of the KNF, the Committee issued opinions on the identification of institutions and on imposing buffers of other systemically important institutions (O-SII). The identification of institutions and the calibration of the buffers were performed using a new methodology recommended by the Committee.¹⁴

In the fourth quarter, the Committee took note of the *Financial Stability Report, December 2022* under preparation by NBP. For the purpose of assessing financial market infrastructure risks, the Committee was presented with the *Polish Payment System Oversight Report 2021*.¹⁵ The subject of the discussion was also the phenomenon of undermining the credibility and representativeness of the WIBOR interest rates benchmark. The Committee assessed that the formulation of opinions on irregularities in the preparation of the WIBOR interest rate benchmark has no legal or economic basis and could be a source of risk for the stability of the financial system in the future.

In connection with its 2021 statement on the functioning of the cooperative banking sector¹⁶, the Committee took note of the cyclical reports of the associating banks and institutional protection schemes on the measures taken to improve the efficiency of cooperative banking functioning.

Table 1. Resolutions of the Financial Stability Committee adopted in 2022

Resolution No.	Title of Resolution
Resolution taken without a meeting on 18 February 2022	
57/2022	on the opinion on quarterly level of contribution to the Borrowers' Support Fund
Meeting held on 25 March 2022	
58/2022	on the level of the countercyclical buffer rate
59/2022	on the opinion regarding the proposed amendments to Recommendation S concerning good practices related to managing mortgage-secured credit exposures
Resolution taken without a meeting on 10 May 2022	
60/2022	on the methodology, criteria for the identification and calibration of buffers of other systemically important institutions
Resolution taken without a meeting on 25 May 2022	
61/2022	on the opinion on quarterly level of contribution to the Borrowers' Support Fund
Meeting held on 10 June 2022	
62/2022	on the level of the countercyclical buffer rate

¹⁴ Resolution No 60/2022 of the Financial Stability Committee of 10 May 2022 regarding the recommendation on the methodology, criteria for the identification and calibration of buffers of other systemically important institutions.

¹⁵ <https://nbp.pl/wp-content/uploads/2023/03/Polish-Payment-System-Oversight-Report-for-2021.pdf>.

¹⁶ Resolution No 47/2021 of the Financial Stability Committee of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector.

Resolution taken without a meeting on 13 July 2022	
-	decision on the opinion concerning the procedure for the identification of global systemically important institutions and defining subcategories of global systemically important institutions ¹⁷
Meeting held on 23 September 2022	
63/2022	on the level of the countercyclical buffer rate
Resolution taken without a meeting on 20 October 2022	
64/2022	on the opinion on the reduction of the target level of deposit guarantee scheme funds in banks
Meeting held on 9 December 2022	
65/2022	on the level of the countercyclical buffer rate

Source: NBP study.

1.4. Permanent Working Group

The Permanent Working Group (hereafter “SGR”) supports the work of the Committee by analysing and monitoring of systemic risk, 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 undertakes new issues and problems, prepares and consolidates draft input materials and analytical documents which are then presented at the Committee meetings and support the decision-making process by the FSC-M.

In 2022, the Permanent Working Group held eight meetings, of which four meetings were regular and preceded the FSC-M meetings. During the four meetings additionally organised (in January, February, April and October 2022), relevant current topics were taken up that required the initiation of analyses and discussions outside the Group’s standard work schedule.

¹⁷ In accordance with Article 36(3) of the Act on Macroprudential Supervision, the provisions of the Code of Administrative Procedure apply to the issuance of the Committee's opinions on the procedure for identifying global systemically important institutions and defining subcategories of global systemically important institutions. The Committee issues an opinion on this matter in the form of a decision, despite the absence of a party to the proceedings and the lack of the subject matter of the individual case to be resolved by an administrative decision. The decision is addressed to the requesting authority, i.e. the Polish Financial Supervision Authority.

2. The role of Narodowy Bank Polski

Macroprudential supervision in Poland is based on the assumption of close cooperation between four main institutions of the financial safety net, i.e. Narodowy Bank Polski, the Minister of Finance, the Polish Financial Supervision Authority and the Bank Guarantee Fund.

In this group, Narodowy Bank Polski plays a particular role which corresponds to international recommendations assigning a key role in the organisation of macroprudential supervision to central banks. The work of the FSC-M is chaired by the Governor of NBP, who also has the casting vote in taking on macroprudential policy decisions. The Governor of NBP also represents the Polish macroprudential supervision authority before external institutions.

Narodowy Bank Polski performs tasks supporting the work of the FSC-M. The central bank's long-standing experience and participation in research and analytical work on the domestic financial system and its relationship with the real economy also make NBP natural main analytical facilities of the Committee. NBP is also responsible for ensuring adequate services to the Financial Stability Committee, both in the area of analytical and research work, as well as all tasks of an administrative and organisational nature (including legal services to the Committee, coordination of the flow of information and materials between Committee members as well as the organisation and substantive services of FSC-M meetings).

The most important documents presented by NBP to the Financial Stability Committee include:

- the *Financial Stability Report* (published twice a year),
- the *Report on Macroeconomic Stability of the Polish Economy* (prepared once a year)¹⁸ and
- the *Polish Payment System Oversight Report* (published once a year).

In addition, the Committee has access to materials developed in NBP that may affect the assessment of systemic risk in the Polish financial system, which form the basis for the development of macroprudential policy in Poland.

Similar functions are performed by Narodowy Bank Polski towards the Permanent Working Group, established by the Financial Stability Committee.

Narodowy Bank Polski is also responsible for the communication policy of the FSC-M, in addition to maintaining the FSC-M website in its information service. It also fulfils the disclosure obligations assigned by the Committee in the area of macroprudential supervision towards the ESRB.

¹⁸ Article 30a of the Act of 29 August 1997 on Narodowy Bank Polski (Journal of Laws 2022, item 2025).

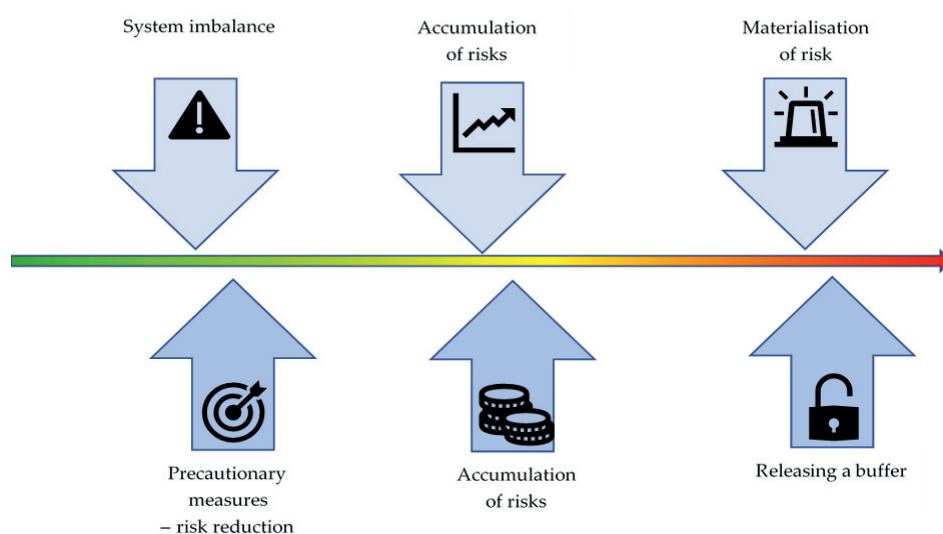
3. Systemic risk

The Financial Stability Committee performs its tasks taking into account the principles and priorities that have been adopted in the *Macroprudential Policy Strategy*.¹⁹ The mission of the macroprudential policy is to act with the aim of maintaining the stability of the financial system by, among others, mitigating systemic risk. In order to enable the application of appropriate risk mitigation tools, the Committee continuously monitors individual elements related to the functioning of the financial system and its environment that may constitute a source of risk to financial stability. According to the assumptions of macroprudential policy implementation adopted by the Committee, 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 the resilience of the financial system.

How systemic risk is reduced depends on the phase of its accumulation (see Diagram 1). At an early stage, when the identified imbalances do not constitute a significant threat to financial stability, the Committee takes measures that impede the processes that lead to the growth of imbalances (i). In the case of substantial growth of risk, on the other hand, the Committee takes action aimed at increasing the resilience of the financial system by introducing adequate capital buffers (ii). In turn, at the phase of systemic risk materialisation (iii), the buffers accumulated earlier should be released in order to provide banks with capital to cover losses or finance credit. This mechanism contributes to reducing the stress related to the inflows of funds into the economy.

Diagram 1. Diagram of FSC-M activities



Source: NBP study.

¹⁹ *Macroeconomic Policy Strategy, June 2019*
<https://nbp.pl/wp-content/uploads/2022/10/Macroprudential-Policy-Strategy-in-Poland.pdf>.

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

3.1.1. Systemic risk assessment survey

The NBP-developed *Systemic risk assessment by institutions of the financial safety net* (ORS) survey is the basic tool for systemic risk assessment conducted by the Committee, allowing for a cross-cutting approach to various perspectives related to the phenomena occurring in the financial system and in its environment. All institutions represented in the FSC are involved in the survey through a cyclical provision of opinions concerning their own 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 survey is conducted on a quarterly basis while the assessments may refer both to vulnerabilities in the financial system identified so far as well as any new sources of systemic risk, if perceived by individual institutions. It should be emphasised that the Committee also monitors and analyses other developments in the financial system that may pose risks to Poland's financial system. However, the ORS survey is only designed to identify and evaluate systemic risks within the meaning of the Act on Macroprudential Supervision. This means that the Committee is in particular closely monitoring the sources of risks whose magnitude and effects of materialisation may create serious threats to the financial system as a whole. The assessment of the nature of the risk (i.e. whether it constitutes a systemic risk) is made on the basis of the average assessments of individual institutions.

In line with the methodology adopted, systemic risk assessment in the Polish financial system is made in two dimensions:

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

The assessments of probability and of the effects of risk source materialisation are used to make an overall assessment of identified risks. In addition to major elements of risk assessment itself, financial safety net institutions also predict the **horizon** of its materialisation, which is the third dimension of risk assessment. They can also offer the use of adequate macroprudential measures aimed at mitigating the negative developments and limiting the risk.

Moreover, the institutions can modify their qualitative assessments of vulnerabilities identified in the financial system through:

- 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 the 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.

Analysis results – systemic risk assessment in 2022

In 2022, the Committee was monitoring risk sources identified in previous years, but also indicated the emergence of new vulnerabilities in the Polish financial system. Throughout the year, the hierarchy and intensity of risk sources varied due to the changes in the financial system and its environment, in particular those related to the shock triggered by the military conflict in Ukraine.

In the Committee's opinion, the sources of risk associated with the COVID-19 pandemic ceased. The macroeconomic situation, in particular rising interest rates, had a positive impact on banks' profits, which gradually mitigated the risk of reduced profitability. At the same time, a build-up of risks related to FX housing loans, geopolitical risks and – in the fourth quarter of 2022 – risks related to the deteriorating macroeconomic outlook and other factors that could lead to a slowdown in lending was observed.

In the first quarter of 2022, the Committee said that the overall magnitude of risk decreased with no significant changes in the hierarchy of vulnerabilities compared to the fourth quarter of 2021. Legal risk associated with the FX loan portfolio remained the most significant vulnerability of the Polish financial system. Emphasising the materiality of this risk, as well as recognising the developing line of judgement according to which abusive clauses in FX housing loan agreements lead to the annulment of the entire agreement, the Committee pointed out that rulings undermining the economic logic of settlements between the parties after such annulment disrupt the functioning of basic market mechanisms and generate very significant burdens for the banking sector. In the Committee's opinion, this could result in a significant weakening of its resilience, with adverse consequences for depositors and the banks' capacity to continue funding the development of the Polish economy.

In FSC-M's judgement, the risks arising from the vulnerability of certain institutions and the possibility of the contagion effect have also increased. In the case of risks related to the residential real estate market, the overall assessment did not change compared to the previous period. However, the risks arising from reduced profitability of banks and the risk of credit losses related to the COVID-19 pandemic have decreased. According to the Committee's assessment, they have lost their systemic impact and have consequently been eliminated from the list of vulnerabilities.

The Committee identified a new source of risk – regional/geopolitical risk, which is a consequence of the aggression of the Russian Federation against Ukraine. This risk was examined in particular in the context of the potential impact on the exchange rate of the zloty, bond valuation, business and economic relations with Ukraine, Russia and Belarus, and the possibility of occurrence and escalation of cyber-attacks. At the same time, the scenario of high inflation and low growth

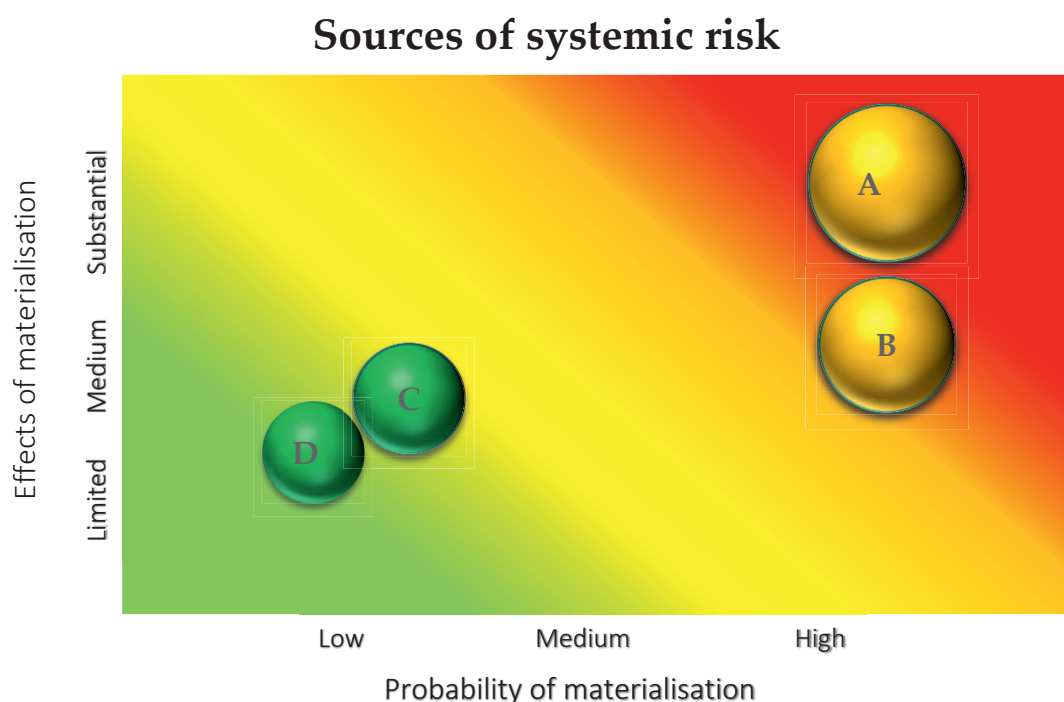
triggered by the military conflict significantly deteriorated the conditions in which the financial system are functioning in Poland and Europe.

In the second quarter, the overall level of risk increased, with a simultaneous change in the hierarchy of risk sources. The legal risk associated with the FX loan portfolio remained the most significant vulnerability. On the other hand, risks arising from the weakness of certain institutions and the contagion effect increased. In the Committee's judgement, further vulnerabilities in the hierarchy, i.e. geopolitical risk and residential real estate market risk, exhibited a lower level of risk.

In the third quarter of 2022, 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 again recognised as the most significant. Similar to the second quarter, vulnerabilities of certain institutions and the potential occurrence of the contagion effect, geopolitical risk and developments related to the residential real estate market were identified as further vulnerabilities. In the second part of the year, the Committee analysed the financial effects of legislative solutions relating to borrower support on the situation of the banking sector.

In the fourth quarter, the overall level of risk assessed by the Committee did not change significantly. The risk associated with the FX loan portfolio remained the most significant vulnerability. The geopolitical risk and the risks associated with the residential real estate market continued to be identified as further risk sources in the hierarchy. The changes in the assessment related in particular to the risk of vulnerability of certain institutions and of contagion, which was significantly mitigated as a result of the effective resolution of Getin Noble Bank S.A. The Committee also noted a new risk in the form of "reduced capital surpluses and credit rationing", stemming from a reduction in capital surpluses in the banking system in excess of regulatory and supervisory requirements, which may contribute in the future to reduced availability of credit through its rationing and ultimately translate into negative effects for GDP growth.

In addition to the risk sources noted in the ORS survey, in the fourth quarter of 2022 the Committee identified a new phenomenon that may pose risk to financial stability in the future. In a press release after its meeting on 9 December 2022, the Committee reported on attempts, both in media reports and in lawsuits, to undermine the credibility and representativeness of the WIBOR benchmark. The Committee emphasised that the formulation and multiplication of claims of alleged irregularities in the development of the WIBOR benchmark is groundless and detrimental to the reliability of trading in the domestic financial market and may represent a source of systemic risk due to the scale of application of this benchmark in financial contracts and financial instruments.

Diagram 2. Map of synthetic systemic risk assessment in 2022 Q4

Circles in the diagram refer to the following vulnerabilities:

[A] FX housing loans

[B] Regional/geopolitical risk

[C] Residential real estate market

[D] Vulnerability of certain institutions and potential occurrence of the contagion effect

The **area** of specific circles relates to materiality of the specific risk within overall risk assessment, while the **colours** mean the horizon of materialisation: yellow colour – short-term (up to a 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 2022 Q4*.

3.1.2. Cyclical reports

In addition to the systemic risk assessment, including the analysis of the situation based on the ORS survey, the Financial Stability Committee also uses other available materials and sources of information, which makes the systemic risk assessment a complex process. Narodowy Bank Polski has been committed to provide the Committee with cyclical analytical and research materials as well as reports listed in the Act on Narodowy Bank Polski, namely: *Financial Stability Report* and *Report on Macroeconomic Stability of the Polish Economy*.

Moreover, the Committee consults the NBP's assessment of functioning of the Polish payment system which is presented in the annual *Polish Payment System Oversight Report*.

3.2. Analysis of financial stability issues

3.2.1. Legal risk associated with the portfolio of FX housing loans agreements

In 2022, the Committee regularly studied UKNF materials on current developments at banks against the line of judgement on cases concerning FX housing loans.

In January 2022, the FSC-M recorded a rise in the number of agreements under litigation by approx. 2.9 thousand, to 85.9 thousand. The value of the litigation increased by PLN 1.2 billion and reached PLN 23.7 billion. Banks created provisions for the risk associated with the portfolio of FX housing loans in the total amount of PLN 23.2 billion, of which the provisions created for settlements amounted to PLN 5.8 billion.

By April, the number of agreements subject to lawsuits increased by 9,200. The value of litigation in this period reached PLN 28.0 billion. The value of provisions created for this purpose amounted to PLN 25.7 billion, of which PLN 6.0 billion were the provisions created for settlements.

At the end of July, the number of agreements subject to lawsuits increased by 7.9 thousand, to 103.0 thousand agreements. The total value of litigation at the end of the period stood at PLN 32.3 billion, of which PLN 27.6 billion related to loans on banks' balance sheets. The value of total provisions for legal risk created by banks amounted to PLN 31.3 billion, of which PLN 7.8 billion were the provisions created for settlements.

As at **December 2022**, the number of loan agreements subject to lawsuits increased to 105.6 thousand, while the total value of litigation at the end of the period was equal to PLN 35.8 billion, of which PLN 30.3 billion related to loans on banks' balance sheets. The number of lawsuits filed per month increased and amounted to approx. 3.0 thousand in the recent period, compared to the previously prevailing level of approx. 2.5 thousand lawsuits per month. The value of total provisions for legal risk created by banks amounted to PLN 37.1 billion, of which PLN 10.7 billion were the provisions created for settlements.

Towards the end of March 2022, the regulation of the Minister of Finance came into force, amending the existing level of risk weights for exposures secured by mortgages on immovable property²⁰, issued in response to the FSC-M recommendation.²¹ The purpose of these regulations was to create conditions for banks to facilitate more settlements with borrowers. According to the regulation, in the period up to 30 September 2023, the amount of risk weights for exposures secured by mortgages on residential real estate, where the amount of the instalment is dependent on changes in the exchange rate, is diversified depending on the amount of specific provisions related

²⁰ 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).

²¹ Resolution No 52/2021 of the Financial Stability Committee of 28 September 2021 on the recommendation concerning risk weights for exposures secured by a mortgage on residential real estate.

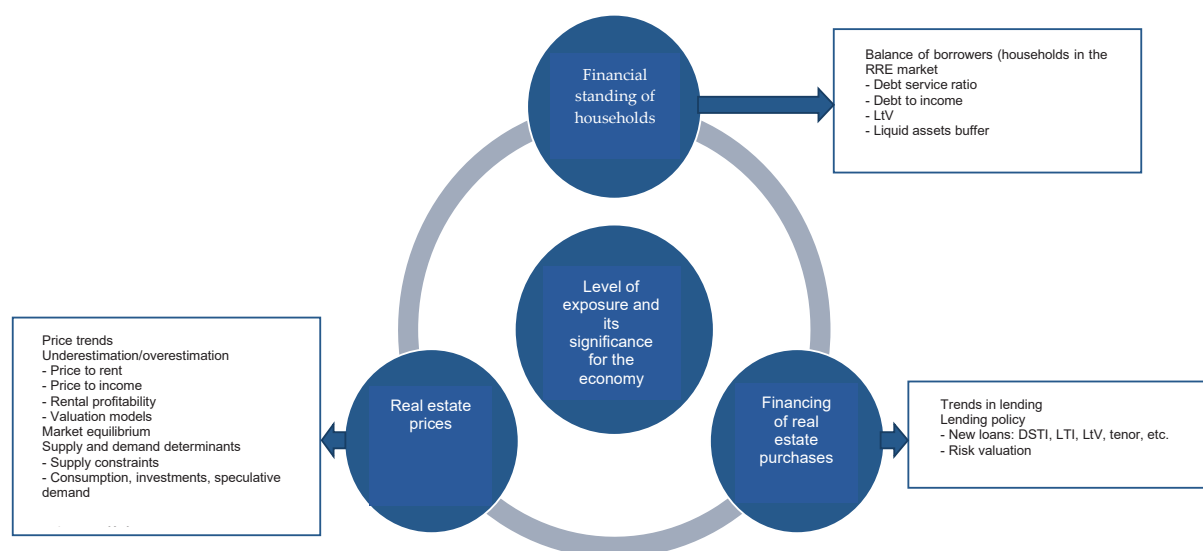
to these exposures and provisions created in view of the intention to conclude settlements with borrowers, resulting in making the amount of the instalment independent of changes in the exchange rate.²²

Compared to 2021, the number of banks offering to conclude settlements resulting in the conversion of FX housing loans into PLN has increased. The number of settlements concluded by banks with borrowers also increased successively. At the end of October 2022, the number of disputes conducted as part of lawsuits that were concluded under a settlement, discontinuance of proceedings, issuance of a final judgement by a court of first and second instance or by a judgement of the Supreme Court of the Republic of Poland reached approximately 5,800. At the same time, in addition to lawsuits almost 40 thousand settlements were concluded, almost half of which were concluded in accordance with the proposal of the Chairman of the KNF.²³

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

In 2022, the FSC-M regularly monitored the risk associated with the residential real estate market on the basis of NBP analyses of the developments in the real economy and of financing provided to this market. The assessment of the developments in the real estate market was based on the analytical method adopted in 2021, taking into account, among others, the Residential Real Estate Stress Index (RREI).

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



Source: NBP study.

²² More on risk weights: see Chapter 4(4.4).

²³ On 12 October 2022, a hearing was held before the Court of Justice of the European Union in Case C-520/21 (request for a preliminary ruling to the CJEU by the District Court for Warsaw-Śródmieście in Warsaw in Case C 1297/21) concerning settlements between the parties to a loan agreement declared invalid in court proceedings due to the inclusion of abusive clauses in the agreement, in particular the possibility for the parties to claim remuneration for the non-contractual use of the loan capital. By the end of 2022, the CJEU did not issue a ruling on this case, the resolution of which will be relevant for the situation of banks and financial stability.

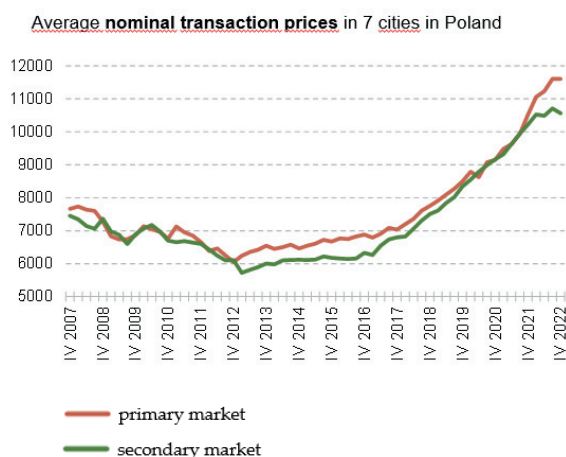
The index enables the aggregation of information from various sources and is based on data concerning:

- real estate prices / the value of collateral,
- financing of real estate purchases, and
- the condition of households.

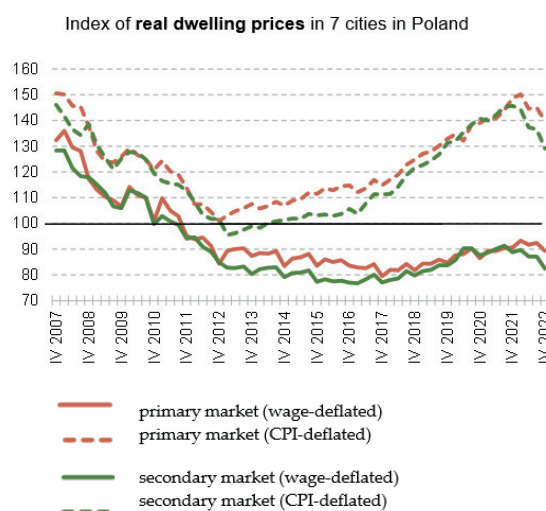
Its design allows for an integrated assessment of **three main dimensions of real estate market-related risk**, i.e. the revaluation of real estate prices, excessive lending and excessive household debt.

In 2022, the FSC-M recorded strong increases in nominal housing prices and a high year-on-year growth in housing prices. In real terms, dwelling prices in relation to wages were stable, while in relation to the CPI they were slightly falling from the beginning of the year.

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



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



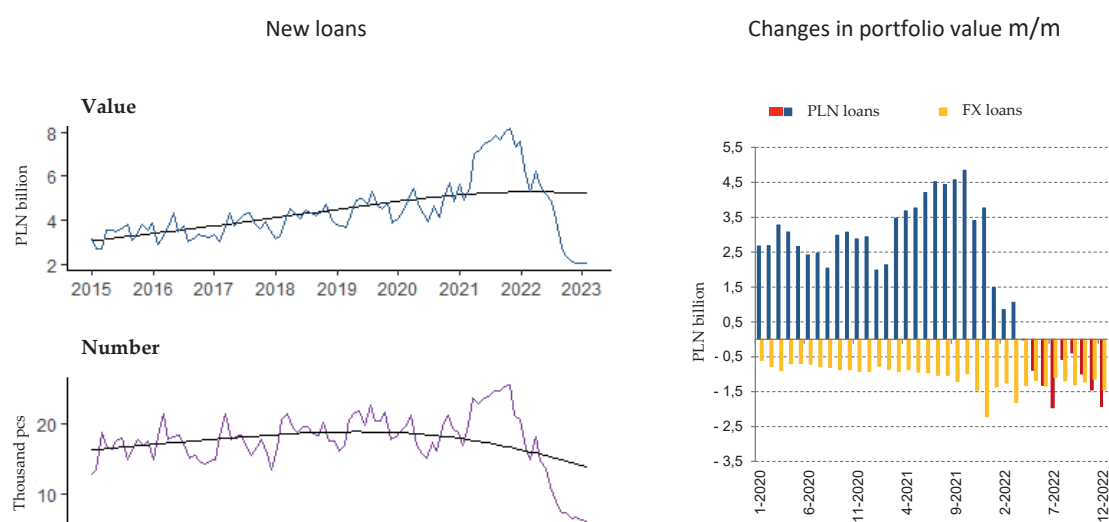
Note: Average transaction prices in Poland's 7 largest cities deflated by wage growth in the enterprise sector (100=average price on the secondary market in 2006 Q3)

Source: NBP calculations.

In the period under review, a decline was recorded in the number of loan-financed dwellings for rent sold and offered for sale and investment. In addition, an increase was noted in the estimated time needed to sell dwellings offered on the primary market. A demand for mortgage loans also saw a strong decline. Not only did the number of loan applications decrease, but also the value of new housing loans, which translated into a significant decline in the growth of the banks' housing loan portfolio.

The trend under discussion was largely the result of a gradual rise in interest rates, the deterioration of the financial standing of households and – as a consequence – much more frequent overpayment or early repayment of loans by borrowers than in previous years. Moreover, banks tightened their lending policies by implementing the recommendations contained in the UKNF position²⁴ modifying, among others, the rules for assessing borrowers' creditworthiness set out in Recommendation S. On the part of households, the lower demand for housing loans was mainly affected by their deteriorating financial situation, changes in the housing market conditions and constraints in household budgets.

Figures 3. and 4. Value of new loans and number of applications, and change in the value of the housing loan portfolio



Source: NBP calculations.

In 2022, the situation in the area of settlement of liabilities by borrowers remained stable. This was supported by the increasing use of the Borrowers' Support Fund and borrowers' opportunity to take advantage of credit holidays.²⁵ Potential problems for households related to the settlement of credit liabilities have been reduced and postponed.

3.2.3. Situation on the commercial real estate market

According to the recommendation of the European Systemic Risk Board of 2016²⁶ and 2019²⁷ on closing real estate data gaps in the real estate sector, national macroprudential supervision

²⁴ Position of the UKNF addressed to Presidents of the Management Boards and directors of branches of credit institutions on measures aimed at reducing the level of credit risk, 7 March 2022.

²⁵ More on the Borrowers' Support Fund and the credit holiday scheme, see Chapter 3(3.2.4).

²⁶ Recommendation of 31 October 2016 on closing real estate data gaps related to the real estate sector (ESRB/2016/14).

²⁷ Recommendation of 21 March 2019 amending Recommendation ESRB/2016/14 on closing data gaps related to the real estate sector (ESRB/2019/3).

authorities are required to monitor the situation in the commercial real estate sector on a regular basis.

In 2022, the Committee regularly monitored the situation in the commercial real estate market. The fourth edition of the non-reporting survey of commercial real estate loans granted to enterprises for 2021 was conducted with the participation of the UKNF. The survey followed the standards required by the updated ESRB recommendation.

The Polish commercial real estate sector remained relatively small during the period under analysis. At the same time, capital inflow to this sector was maintained, resulting in a rapid growth of the assets. Foreign investors continued to prevail on the commercial rental estate market. Therefore, any possible problems in the commercial real estate market were assessed as potentially insignificant for domestic banks. In the case of privately owned commercial real estate, domestic funding prevailed. The value of commercial real estate loans granted by Polish banks amounted to approx. PLN 60 billion, while approx. PLN 87 billion of loans came directly from abroad. At the end of 2021, the value of loans secured by real estate granted to enterprises by Polish banks amounted to approximately PLN 132 billion.

The analysis did not reveal the occurrence of excessive risks for the Polish banking sector arising from commercial real estate funding. Polish banks' exposures to this market were relatively low and the levels of indicators specific to commercial real estate financing were safe. Stability in financing of the commercial real estate sector was also fostered by the relatively high diversification of loans granted, in terms of commercial real estate segments.

3.2.4. Aid programmes for borrowers

Borrowers' Support Fund

In 2022, the FSC-M continued to monitor the level of borrowers' use of funding from the Borrowers' Support Fund (FWK).²⁸

Since the Fund's inception, its use has remained insignificant. In the years 2016-2021 1,286 agreements for granting FWK support were registered with the Bank Gospodarstwa Krajowego - managed Fund, for the total amount of approx. PLN 37.7 million. The value of the Fund's resources in the years 2016-2021 amounted to, on average, approximately PLN 607 million.

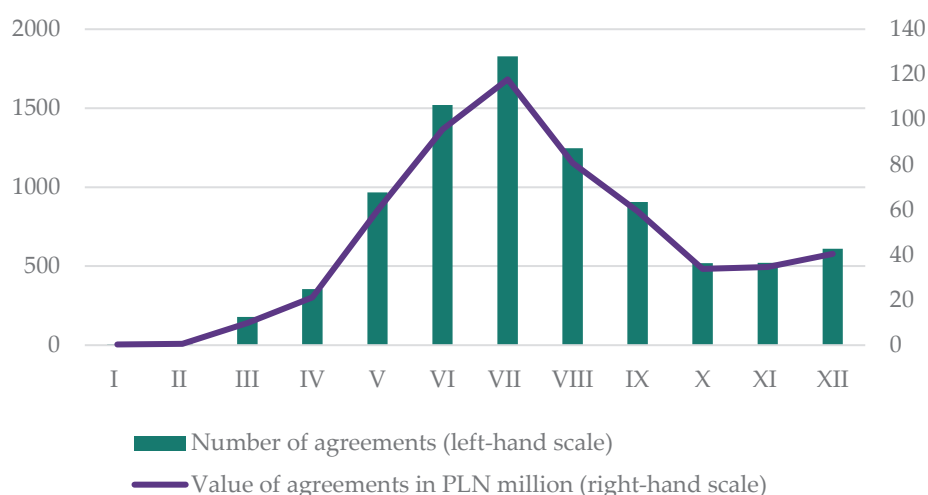
²⁸ The Borrowers' Support Fund (Fundusz Wsparcia Kredytobiorców, FWK) is regulated by the Act on Support to Home Loan Borrowers.

Table 2. Number of applications and total value of FWK agreements

Year	Number of agreements	Value of agreements (PLN million)
2016	481	10.7
2017	278	6.1
2018	129	2.7
2019	59	1.4
2020	214	10.6
2021	125	6.2
2022	8,674	553.4

Source: NBP study based on BGK data.

In 2022, along with changes in interest rates, the level of inflation and an increase in loan instalments, the financial situation of households deteriorated and the need for FWK aid increased. As a consequence, since the beginning of 2022 an increase has been recorded in the number of concluded agreements for the support from the Fund. In the first quarter of 2022 alone, more agreements were concluded than in the entire 2021 (195 agreements). The most dynamic growth in the number of agreements concluded occurred until the end of the second quarter of 2022, with approx. 3 thousand agreements concluded. June - August 2022 was the period of the most intensive interest in the Fund's support, when almost 5 thousand agreements were concluded. Approximately 4 thousand and 1.6 thousand agreements for FWK support, respectively, were concluded in the third and fourth quarter of the year. Following the introduction of an additional aid programme (credit holidays) interest in the Fund began to stabilise, although it was still higher than in previous years, with 500-600 agreements concluded per month in the fourth quarter.

Figure 5. Number and value of agreements for granting FWK support in 2022

Source: NBP estimates based on BGK data.

In total, in 2022, borrowers registered more than 8.6 thousand agreements for granting FWK support with BGK with the total value of approx. PLN 553 million. The amount of support disbursed by the Fund in 2022 reached approx. PLN 73.3 million, accounting for 76% of the FWK support disbursed to date.

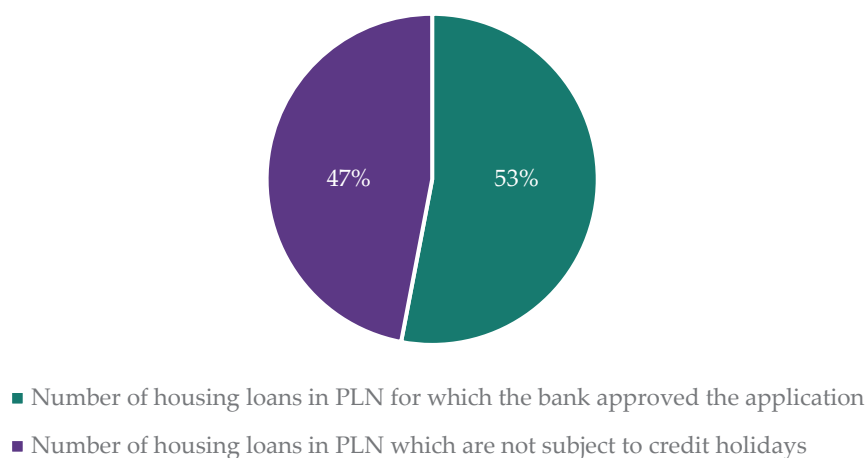
Moreover, due to the expected considerable interest of borrowers in obtaining the support from the Fund, banks had been committed to make additional contributions to the FWK totalling PLN 1.4 billion by 31 December 2022.²⁹

Credit holidays

At the end of July 2022, the Crowdfunding Act came into force, which introduced a new government aid scheme, the so-called credit holidays. Under the programme consumers with a mortgage loan denominated in PLN taken out to meet own housing needs were able to suspend the repayment of loan instalments. The borrower can only benefit from the scheme in relation to one loan and has an option to suspend repayment of up to eight monthly loan instalments, four in 2022 and 2023, each.

According to the data as at the end of December 2022, the number of PLN housing loans for which the bank approved the application for credit holidays amounted to 1.05 million units with the total value of PLN 262.5 billion. Loans subject to credit holidays accounted for more than a half of all PLN housing loans and 68% of the value of all PLN housing loans. The total overpayments of the principal for loans subject to credit holidays amount to PLN 7.3 billion, which represents 98% of the total value of instalments that had been suspended and would have been due by 31 December 2022.

Figure 6. Structure of PLN housing loans – as at the end of November 2022



Source: NBP estimates based on UKNF data.

²⁹ In accordance with Article 89(1) of the Crowdfunding Act.

4. Macroprudential instruments

4.1. Countercyclical capital buffer

The counter-cyclical capital buffer is a macroprudential instrument which is imposed on all banks and serves to reduce the pro-cyclical effect, i.e. to neutralise the impact of the economic cycle on lending. The mechanism for the application of the CCyB is related to cyclical changes of systemic risk in the economy: the periodic easing of lending terms and the increase in the scale of risk taken and the potential underestimation of risk and the occurrence of adverse effects in the downward phase of the financial cycle. 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, contribute to reducing 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 is released, which allows banks to use previously accumulated capital to cover potential losses in the downturn phase and has the effect of reducing the risk of a credit crunch, i.e. banks reducing the availability of credit in the economy. As a result, imposition of a buffer has a countercyclical and two-pronged effect: it allows to increase the resilience of the financial system and reduces the likelihood and the likely magnitude of the crisis.

The Financial Stability Committee is required to issue a quarterly recommendation addressed to the Minister of Finance defining the level of the countercyclical capital buffer. Such recommendation is formulated on the basis of the value of the countercyclical buffer guide.³⁰ Assessment of the level of the CCyB, which takes into account the Committee' recommendation, remains within the remit of the Minister of Finance.

In 2022, due to the low risk of excessive lending, the Committee recommended to the Minister of Finance that the countercyclical buffer in subsequent quarters be maintained at 0%. The Minister of Finance accepted the recommendations and, consequently, the countercyclical buffer is kept at the 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 the analytical materials³¹ which presented current information concerning the developments in the credit cycle indicators.

³⁰ In accordance with Article 23 of the Act on Macroprudential Supervision, the guide is a variable which reflects the credit cycle and risk associated with excessive growth in lending in the national economy, taking into account the specific nature of the Polish economy and its financial system.

³¹ Analytical materials discussed at FSC-M meetings are available on the NBP website: <https://nbp.pl/en/financial-system/macroprudential-supervision/publications-ms>.

The recommended rate of the CCyB was set, among other things, based on the credit gap (a deviation of the ratio of credit for the private non-financial sector to GDP³² 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.

Table 3. Summary of key indicators monitored in the CCyB analysis

Indicator
Credit for private non-financial sector to GDP (broad credit aggregate)
Credit for private non-financial sector to GDP (narrow credit aggregate)
Standardised credit gap (broad credit measure)
Standardised credit gap (narrow credit measure)
Credit gap taking into account the characteristics of the financial cycle in Poland (broad credit measure)
Credit gap taking into account the characteristics of the financial cycle in Poland (narrow credit measure)
Dwelling prices to income
Hedonic housing price index
Current account balance as % of GDP
DSR – debt service ratio
Contribution of the financial sector to GDP
Growth of a broad credit measure (y/y)
Growth of a narrow credit measure (y/y)
VIX (Volatility Index) – a measure of the implied volatility of options for the S&P 500 index
CISS (Composite Indicator of Systemic Stress) – an indicator of current stresses in the financial system

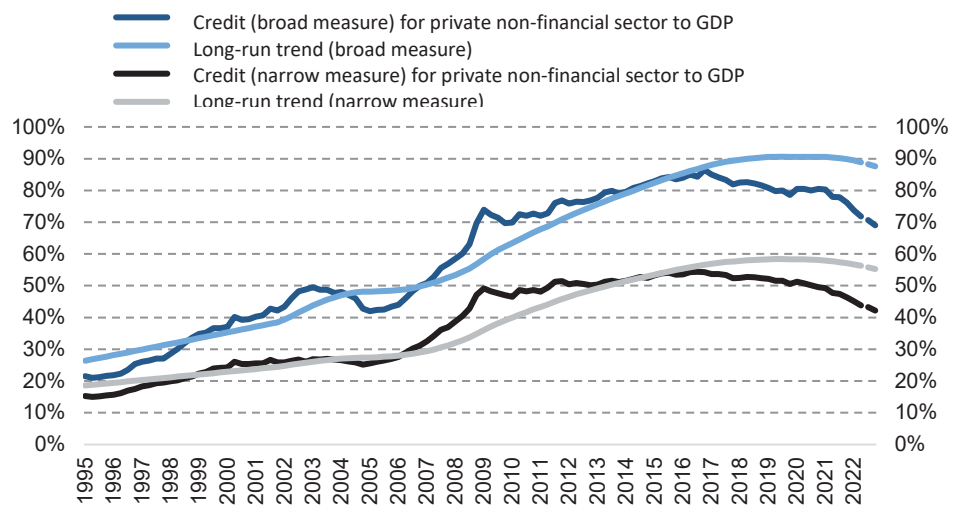
The credit cycle indicators analysed by the Committee showed that the risk associated with credit expansion was very low.³³ The credit to GDP ratio³⁴ (a broad measure) indicated a downward trend, from a level of approx. 78% in the first quarter of 2022 to approx. 72% by the end of 2022. The recovery in credit growth after the pandemic shock was not accompanied by an increase in the value of private non-financial sector debt to GDP. In the third quarter of 2022, due to the high level of interest rates and the deteriorating economic outlook, residential and consumer loans showed a negative growth trend. The positive credit growth for the whole non-financial sector was only sustained due to a high growth in corporate lending, which mainly consisted of an increase in working capital loans to companies recovering from the pandemic.

³² The non-financial sector debt is provided, taking account of the issue of debt instruments, by non-financial corporations.

³³ That risk would be high in the situation when the country was in the expansion phase for a long time.

³⁴ 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.

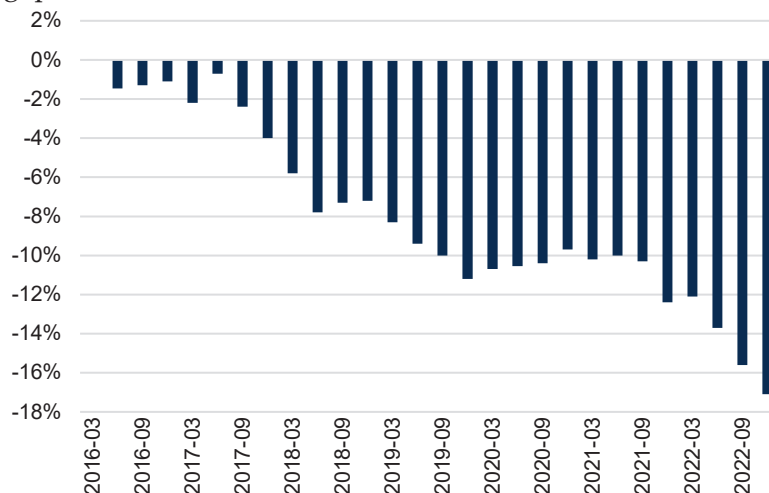
Figure 7. Credit-to-GDP ratio



Source: NBP calculations.

In 2022, the credit gap³⁵ widened, which also implied no risk associated with excessive lending. In the subsequent quarters of 2022, it was running at -12.1%, -13.7%, -15.6% and -17.1%, respectively. For comparison, in line with the assumptions and methodology used, the rationale for creating a countercyclical buffer (taking into account other indicators) is a positive credit gap of more than 2%.

Figure 8. Credit gap



Source: NBP calculations.

The indications of the early warning models remained similar to those of previous periods where a decrease in the risk of a crisis in medium term was noted, i.e. between 1 year and 4 years. This

³⁵ The indicator of deviation from the long-term trend of change in the credit to GDP ratio.

risk returned to levels recorded before the outbreak of the COVID-19 pandemic. The models confirmed that there were no premises to apply a countercyclical buffer.

Moreover, the level of the Composite Indicator of Systemic Stress (CISS) has remained at record high levels since Russia's invasion of Ukraine. In the current environment, with the very low risk of excessive lending, this was an additional prerequisite for maintaining the countercyclical buffer at the current level of 0%.

4.2. 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. When making assessments of O-SII banks, the KNF also takes into consideration the EBA guidelines³⁶ and the FSC recommendation of 2022 on the bank assessment methodology.³⁷

In accordance with Article 39(1) of the Act on Macroprudential Supervision, the KNF 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,
- 2) importance (including the substitutability of services),
- 3) the complexity of cross-border activity,
- 4) linkages of a given institution or a group with the financial system.

It should be emphasised that the level of the O-SII buffer should depend on an institution's contribution to the creation of systemic risk arising from inadequate incentives and moral hazard (including the use of the too big to fail argument in its operations). This assessment ignores the microprudential assessment (the current financial situation of the particular bank) or cyclical phenomena (the level of buffers should not depend on the phase of the credit cycle). An increase in the buffer level following an increase in the systemic importance should provide an incentive for the bank to limit the process of increasing its importance.

The KNF administrative decision takes into account the Committee opinion 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.

³⁶ 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).

³⁷ Resolution No 60/2022 of the Financial Stability Committee of 10 May 2022 regarding the recommendation on the methodology, criteria for the identification and calibration of buffers of other systemically important institutions.

Box 2. Overview of the methodology, identification criteria and calibration of O-SII buffers

In 2021, the Act amending the Banking Law³⁸ came into force, which, among others, also amended the provisions of the Act on Macroprudential Supervision.³⁹ The Act introduced two significant modifications to the calibration of the O-SII buffer. First of all, the maximum buffer rate that can be imposed under the ordinary procedure has raised to 3% (previously 2%). Moreover, in the case of banks owned by capital groups recognised as systemically important institutions, a constraint (the so-called cup) in the form of a systemically important institution buffer (O-SII or G-SII) was imposed on the group, increased by 1 percentage point. These amendments have paved the way for setting buffer rates at levels higher than those previously in force.

Pursuant to the amended wording of Article 39(6) of the Act on Macroprudential Supervision, the KNF, when issuing a decision on the identification and imposition of the O-SII buffer, takes into account the Committee's recommendation regarding the methodology, criteria for the identification and calibration of the buffers of other systemically important institutions. Consequently, the scope of the Committee's recommendations has been expanded and now it covers not only the methodology, but also the criteria for identifying O-SIIs and the issues related to buffer setting, where appropriate.

In view of the above amendments, in May 2022 the Committee issued a recommendation on the methodology for identification and calibration of the buffers of other systemically important institutions (FSC Resolution No 60/2022). The solutions proposed by the Committee include:

- 1) in the O-SII identification process:
 - the application of a two-stage scoring process for assessing the systemic importance based on mandatory indicators resulting from the EBA guidelines and optional indicators,
 - the application of the optional indicators defined in the recommendation,
 - the possibility of identifying an institution as an O-SII in the case of institutions affiliated to institutional protection schemes;
- 2) in the process of defining the buffer calibration criteria:
 - increasing the maximum buffer level to 3%,
 - setting a minimum buffer at a level higher than 0%,
 - adopting a compartmental approach to the determination of the O-SII buffer and including scoring ranges as part of the institution identification process with corresponding O-SII buffer levels assigned to them,
 - assigning the O-SII buffer of no less than 0.25% to institutions identified as O-SII on the basis of the optional criterion for institutions identified on the basis of materiality to the institutional protection system only.

³⁸ Act of 29 August 1997 Banking Law (consolidated text, Journal of Laws 2022, item 2324, as amended).

³⁹ Act of 25 February 2021 amending the Act on Banking Law and Certain Other Acts (Journal of Laws 2021, item 680).

In July 2022, the KNF introduced the criteria recommended by the FSC in the revised Procedure for the identification of Other Systemically Important Institutions (O-SIIs) and the calibration of the O-SII buffer rate.⁴⁰

Review of the adequacy of the Other Systemically Important Institutions buffer in 2022

The list of banks identified as systemically important institutions in 2022 remained unchanged from 2021.

In September 2022, the Polish Financial Supervision Authority requested six opinions from the Financial Stability Committee on imposing another O-SII buffer (recalibration) on the following banks: PKO BP, Pekao, Santander Bank Polska, ING Bank Śląski, Bank Polskiej Spółdzielczości and SGB-Bank.

The KNF proposed to impose buffers at a level from 0.25% to 2% of total risk exposure on the identified banks, while increasing the buffer amount for the five systemically important institutions identified earlier (PKO BP, Pekao, Santander Bank Polska Bank Polskiej Spółdzielczości and SGB-Bank). An decrease in the buffer level from 0.75% to 0.50% was proposed for ING Bank Śląski. For the remaining banks, the O-SII buffer in 2022 was maintained at a level unchanged in relation to the previous year.

The application of the criteria set out in the methodology and the assessment of various actors' role in the financial system allowed the Committee to issue positive opinions concerning the proposals of the KNF. The opinions were submitted to the KNF and to the interested bank in a timely manner in accordance with the applicable procedures of the Code of Administrative Procedure. Taking into account the Committee's opinions, on 21 December 2022 the KNF issued decisions on the imposition of the relevant O-SII buffers.

In October 2022, the KNF requested the Committee to submit notifications about the outcome of the review of the O-SII institutions and buffers. In accordance with the procedures in force, the notification form was submitted via an online platform used for information exchange with the ESRB. The final notification on imposing the specified O-SII buffers was submitted to the ESRB in December 2022, after issuance of the decisions concluding the proceedings.

⁴⁰ https://www.knf.gov.pl/knf/pl/komponenty/img/Wyci%C4%85g_z_procedury_O-SII_79015.pdf.

Table 4. Banks identified as O-SII in 2019-2022

Bank	Level of the O-SII buffer (%)			
	2019	2020	2021	2022
Powszechna Kasa Oszczędności Bank Polski SA	1.00	1.00	1.00	2.00
Bank Polska Kasa Opieki SA	0.75	0.75	0.75	1.00
Santander Bank Polska SA	0.75	0.75	0.75	1.00
ING Bank Śląski SA	0.50	0.50	0.75	0.50
mBank SA	0.75	0.50	0.50	0.50
BNP Paribas Bank Polska SA	0.25	0.25	0.25	0.25
Bank Millennium SA	---	0.25	0.25	0.25
Bank Handlowy w Warszawie SA	0.25	0.25	0.25	0.25
SGB – Bank SA	0.1	0.1	0.1	0.25
Bank Polskiej Spółdzielczości SA.	0.1	0.1	0.1	0.25

A change from the previous year is highlighted in blue.

Source: NBP study based on KNF data.⁴¹

4.3. 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) and (1a) 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.

The Polish Financial Supervision Authority identifies global systemically important institutions and assigns them to the adequate categories in accordance with the procedure adopted.

⁴¹ https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_KNF_ws_buforow_innej_institucji_o_znaczeniu_systemowym_67416.pdf,
https://www.knf.gov.pl/knf/pl/komponenty/img/Przegląd_adekwatności_wskaznika_bufora_innej_institucji_o_znaczeniu_systemowym_71357.pdf,
https://www.knf.gov.pl/knf/pl/komponenty/img/Przegląd_adekwatności_wskaznika_bufora_innej_institucji_o_znaczeniu_systemowym_75726.pdf,
https://www.knf.gov.pl/knf/pl/komponenty/img/Przegląd_adekwatności_wskaznika_bufora_innej_institucji_o_znaczeniu_systemowym_80606.pdf.

Box 3. Overview of the G-SII identification procedure

The Polish Financial Supervision Authority is obliged, pursuant to Article 36(2) of the Act on Macroprudential Supervision, to obtain the opinion of the Financial Stability Committee when it adopts procedures for the identification of global systemically important institutions.

In June 2022, the KNF presented the document entitled “The procedure for the identification of global systemically important institutions and defining subcategories of global systemically important institutions” to the Committee, with a request for opinion. In the new G-SII identification procedure, the KNF has taken into account the changes that occurred as a result of the amendment to the CRD/CRR package and their implementation in the Act on Macroprudential Supervision.

In July 2022, the Committee issued a decision⁴² positively assessing the KNF procedure finding that it is adequate to identify global systemically important institutions. In particular, the set of indicators and the use of a compartment-based method, allowing both the appropriate identification of global systemically important institutions and the assignment of identified entities to appropriate categories, were positively assessed.

In line with the amended provisions of the Act on Macroprudential Supervision, the FSC opinion was issued in the form of a decision under the provisions of the Code of Administrative Procedure.

The changes introduced in the G-SII identification procedure did not affect the list of global systemically important institutions under Polish supervision. In 2022, 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 global systemically important institution in Poland.

4.4. Risk weights

The Minister of Finance, after consulting the FSC⁴³, may determine a higher risk weight for exposures secured by real estate mortgages. The CRR sets basic risk weights of 35% for exposures secured by mortgages on residential real estate and 50% for exposures secured on commercial real estate. Competent authorities may increase national risk weights up to the maximum level of 150%. The basis for determining higher risk weights may be an assessment of losses incurred on exposures secured by real estate and future trends in the real estate market. Increasing risk weight

⁴² <https://nbp.pl/wp-content/uploads/2022/10/postanowienie-KSF-ws-G-SII.pdf>.

⁴³ Pursuant to Article 128(6a) of the Banking Law.

may also be determined by financial stability considerations. The Financial Stability Committee, if the accumulation of risk associated with exposure is found, may also initiate the process, i.e. issue a recommendation in this regard, in accordance with Article 18 of the Act on Macroprudential Supervision.

The higher risk weights applicable in Poland since 2017⁴⁴ provided a response to the Committee's recommendations issued in response to the risks associated with the portfolio of FX housing loans. A higher risk weight for these exposures was to provide an incentive for reducing the value of these portfolios. In 2020, it recommended that the Minister of Finance should reduce the risk weights from 100% to 50% for exposures secured on commercial real estate used for the borrower's own business activities that do not generate income from rent or profits from their sale. The relevant regulation was issued by the Minister of Finance in October 2020.⁴⁵

In September 2021, the Committee – against the backdrop of the emerging phenomenon of the provisions of FX loan agreements challenged in court proceedings and bearing in mind the need to support the settlement processes initiated by the UKNF to resolve borrower-bank disputes out of court – issued a recommendation on risk weights for exposures secured by a mortgage on residential real estate.⁴⁶ The recommendation indicates the legitimacy of linking the level of risk weights of FX housing loans to the amount of related exposures to specific provisions and write-downs created in the settlement process. The regulation of the Minister of Finance, incorporating the Committee's recommended approach, came into force on 29 March 2022.⁴⁷ The risk weights introduced by these regulations are temporary and apply until 30 September 2023, when the 150% risk weight previously assigned to these exposures will be reinstated. The levels of risk weights applicable in Poland for individual types of exposure are presented below.

⁴⁴ 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 2017, item 1068).

⁴⁵ Regulation of the Minister of Finance, Funds and Regional Policy of 8 October 2020 amending the Regulation on higher risk weights for exposures secured by a mortgage on immovable property (Journal of Laws 2020, item 1814).

⁴⁶ Resolution No 52/2021 of the Financial Stability Committee of 28 September 2021 on the recommendation regarding risk weights for exposures secured by a mortgage on residential real estate.

⁴⁷ 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).

Table 5. Applicable risk weight levels

Exposure type	Weight assignment	Legal basis	Valid from
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 or currencies other than the currency of the income earned by the debtor	150%	Regulation of the Minister of Development and Finance of 25 May 2017	2 December 2017
Exposures secured by a mortgage on offices or other commercial real estate located in the Republic of Poland	100%	Regulation of the Minister of Development and Finance of 25 May 2017	2 December 2017
Exposures secured by a mortgage on commercial real estate used for the borrower's own business activities and not generating income through rent or gains on their sale	50%	Regulation of the Minister of Finance, Funds and Regional Policy of 8 October 2020	16 October 2020
Exposures secured by a mortgage on residential real estate for which the amount of the principal or interest instalment is dependent on changes in a currency or currencies other than the currency of the debtor's income, in the case of banks entering into a settlement process aimed at making the principal or interest instalment independent of currency rate fluctuations	50%, 75%, 100% depending on the value of the total provisions created	Regulation of the Minister of Finance of 18 March 2022	from 29 March 2022 to 30 September 2023

Source: NBP study.

4.5. Combined buffer requirement

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 (CCyB), the buffer of global systemically important institutions (G-SII) and the buffer of other systemically important institutions (O-SII) or the systemic risk buffer (SRB).⁴⁸

The combined buffer requirement is not an additional macroprudential instrument, but a parameter used for internal assessment of banks' compliance with the macroprudential capital requirements. Financial institutions are required to conduct an internal assessment to check, among others, 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 6. Combined buffer requirement parameters in 2021-2022.

Year	Conservation Buffer ⁴⁹	Countercyclical Buffer	O-SII Buffer ⁵⁰	Systemic risk buffer	COMBINED BUFFER REQUIREMENT
2021	2.5%	0%	10 banks: 0.1% - 1%	–	2.5% - 3.5%
2022	2.5%	0%	10 banks: 0.25% - 2%	–	2.5% - 4.5%

Source: NBP study.

⁴⁸ Pursuant to Article 55(4) of the Act on Macroprudential Supervision.

⁴⁹ The conservation buffer is the basic macroprudential capital surcharge, constituting the first level of securing banks' capital holdings, and applicable to all banks. From 2019, banks are bound to maintain the conservation buffer at a level of 2.5% of the total risk exposure amount, calculated in accordance with Article 92(3) of the CRR. The capital conservation buffer consists of the highest quality capital (CET1) and is determined above the minimum required capital.

If the buffer falls below 2.5%, automatic restrictions on capital distribution (i.e. dividend payments, share buy-backs) follow in order to rebuild the required buffer level. The scale of the restrictions increases as the capital covering the buffer continues to be consumed, i.e. the minimum capital requirement is approached.

⁵⁰ The table does not include the G-SIIs because no such institution has so far been identified in the Polish financial system and no such buffer has been imposed.

5. Other macroprudential activities

5.1. FSC-M opinions issued in the course of administrative proceedings conducted by the KNF under MAR

The Market Abuse Regulation (MAR)⁵¹ obliges issuers to publish inside information directly related to them.⁵² The aim of these provisions is to protect investors and enable them to make fully informed investment decisions. There are some exceptions to this rule for issuers that are financial institutions. In order to preserve its own financial stability and the stability of the financial system, the issuer may delay the public disclosure of inside information subject to the approval of the supervision authority which examines in advance whether the premises set out in the MAR are met. In the process of issuing its opinions, the supervisory authority may consult the central bank or the macroprudential supervision authority.

In 2022, the Financial Stability Committee issued four opinions pursuant to Article 17 of MAR at the request of the Polish Financial Supervision Authority. These opinions are issued under the Code of Administrative Procedure in the form of decisions and, due to the obligation of confidentiality, are not published.

5.2. Review of the EU macroprudential policy framework

The European Commission is required to review, in consultation with the ESRB and the EBA, the EU macroprudential policy framework contained in the CRR and the CRD. The main objective of this exercise is to analyse whether current macroprudential regulations are adequate to mitigate systemic risks across sectors and EU member states. The EC is obliged to carry out such a review every five years. The deadline for completion of the last assessment fell in June 2022.⁵³

The subject of the review of the EU macroprudential policy framework covered areas such as:

1) Capital buffers:

It was emphasised that the capital buffer system works effectively. However, the need to take into account additional cyclical indicators when activating or increasing the level of the countercyclical buffer was suggested. The possibility of increasing the amount of releasable capital, by imposing the countercyclical buffer earlier and more actively, introducing a positive neutral level of the countercyclical buffer or applying the systemic

⁵¹ Regulation of the European Parliament and of the Council (EU) No 596/2014 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 (OJ L 173 of 12.06.2014, p. 1, as amended).

⁵² Article 17(1) of MAR.

⁵³ In order to obtain a broad assessment for reviewing purposes, between 30 November 2021 and 18 March 2022 the EC conducted public consultations which collected experience from the application of the current macroprudential policy framework.

risk buffer, was indicated. At the same time, it was assessed that it would be recommended to exclude a possibility of using capital from the buffers to meet other binding standards by introducing a partially releasable leverage buffer.

2) Missing instruments

The need to introduce a minimum harmonised set of borrower-based measures (BBMs) into EU law while retaining decisions on their activation, abolition and calibration at the national level (common standards of operation of these instruments, maintaining some flexibility at the national level) was identified. In addition, it was proposed to consolidate into a single article the provisions on changes in risk weights for real estate exposures secured by a mortgage on real estate.

3) Single market

Simplification of procedures for the implementation and reciprocation of macroprudential policy instruments was proposed. The importance of a systematic review of the rules on systemic risk buffer levels for all exposures (including sectoral), the waiver of the restriction for mandatory reciprocation of the countercyclical buffer and the introduction of a holistic approach to the identification of O-SIIs and buffer calibration methodologies for this group of credit institutions were highlighted.

4) Global risk

It was recognised that the current arrangements are effective in preventing and mitigating risks to financial stability arising from banks' exposures to third countries. The need to create a macroprudential policy framework for the financial sector as a whole, the need to address climate risk as well as the development of tools to address cyber systemic risk was highlighted. The need to ensure efficient cooperation, coordination and data exchange between micro- and macroprudential authorities was also identified.

At the FSC-M meeting in March 2022, the position of Narodowy Bank Polski was presented after it had participated in the public consultation on the review of EU macroprudential regulations.

The position of NBP, taking into account the perspective of the macroprudential supervision authority, highlights the need for continued action in the following areas:

- a possibility of determining a non-zero, releasable capital buffer in the event of unexpected, difficult-to-predict external shocks (e.g. a positive, neutral CCyB – already used in some EU Member States);
- expansion and clarification of the regulations concerning capital buffer releases without the need to reduce the overall level of financial system resilience;
- increasing the flexibility in the process of imposing the CCyB to allow the buffer to be introduced early in the financial cycle and gradually increased thereafter;

-
- taking into account the interaction of capital buffers and other regulatory requirements in order to avoid the consequences of overlapping macroprudential requirements;
 - cooperating in the development of instruments to address systemic cyber risks and building a pan-European cyber security network.

5.3. Monitoring the progress of implementation of the recommendations concerning the support to the sustainable functioning of cooperative banks and the cooperative savings and credit unions sectors

In 2021, the Committee adopted recommendations concerning measures to support the stable functioning of cooperative banks⁵⁴ and cooperative savings and credit unions.⁵⁵ The recommendations were addressed to all relevant entities – the MF, KNF, NBP and the BFG. The FSC-M also adopted a resolution on a statement concerning the functioning of the cooperative banking sector⁵⁶ addressed to cooperative banking entities.

In 2022, the FSC-M monitored the progress of work carried out by various recipients of the recommendations and the statement, adopting current information on the status of legislative work. At the end of the year, the legislative process for one of the recommended actions was completed and the recommendation to exempt non-refundable assistance provided to participants of the protection schemes from corporate income tax⁵⁷ was thus implemented.

The KNF did not amend Recommendation S to the extent required by the FSC-M recommendation⁵⁸, nor, as expected by the Committee, did it extend the adjustment period for cooperative banks. In view of the foregoing, since the beginning of 2023, cooperative banks – in accordance with the unamended Recommendation S – have been obliged to offer loans secured by mortgage with a fixed or periodically fixed interest rate. At the beginning of 2023, the UKNF announced that no decision had been taken to exclude cooperative banks from being recommended to hold fixed or periodically fixed rate loans. It indicated that in response to customer demand the cooperative banking sector has already introduced fixed rate mortgage loans. Therefore, the extension of the period provided for in the wording of Recommendation S for the adjustment of cooperative banks to the requirement to offer loans at a fixed or periodically fixed interest rate was also waived. In addition, the cooperative banking sector adapted to the

⁵⁴ Resolution No 46/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative banks.

⁵⁵ Resolution No 48/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative savings and credit unions.

⁵⁶ Resolution No 47/2021 of the Financial Stability Committee of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector.

⁵⁷ Act of 7 April 2022 amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts (Journal of Laws, item 872).

⁵⁸ For more information on this issue see Chapter 5.6.

provisions of Recommendation S within the timeframe indicated in the original wording, hence both the exclusion of cooperative banks and further postponement of the deadline for compliance became unnecessary.

The FSC-M also monitored the measures taken to improve the efficiency of cooperative banking functioning by the associating banks and Institutional Protection Schemes (IPS). The reports provided showed that consolidation efforts in the cooperative banking sector were continued in 2022. Increasingly, these were mergers aimed at improving the efficiency based on economies of scale and synergies. The associating banks were also gradually introducing solutions to centralise certain IT and back-office solutions and to standardise business processes and internal rules and regulations, (e.g. in risk management). The institutional protection schemes continued to declare their interest in expanding a possibility to support participants in non-financial forms, with the use of aid funds.

5.4. Review of the implementation of long-term development priorities of the Macroprudential Policy Strategy

In accordance with the assumptions adopted in the *Macroprudential Policy Strategy*, the Committee reviews progress in the implementation of long-term development priorities on a three-yearly basis. The aim of the review is to assess the progress made in developing tools to enable the conduct of the macroprudential policy in Poland and to diagnose areas that require an in-depth analysis or potential change due to the new developments in the financial sector environment.

The long-term macroprudential policy development priorities identified by the Financial Stability Committee in the *Macroprudential Policy Strategy* are as follows:

- strengthening the Committee's capacity to identify, measure and assess systemic risk,
- enhancing the capacity of the FSC-M to mitigate systemic risk effectively,
- developing methods of analysis to assess the impact of structural changes in the financial system and its environment on systemic risk,
- developing the Committee's approach with regard to the interaction and relationship of macroprudential policy with other economic policies,
- development and elaboration of new communication methods of the Committee with the public.

In 2022, the Committee reviewed the actions taken to date to deliver the set long-term development priorities. The results of the review showed that the institutions represented in the Committee over the past three years have taken many measures to expand their capacity to assess the developments in the financial system and to apply adequate response tools. Above all, the stock of analytical tools for systemic risk assessment has been significantly developed and the scope and quality of the

analyses carried out on the calibration of macroprudential tools has been expanded. On the other hand, the FSC communication policy has undergone some changes towards extended disclosure of decisions and the content, with the aim of promoting macroprudential oversight activities more broadly.

Table 7. Implementation of long-term development priorities of the macroprudential policy strategy

Development priorities	Measures undertaken
<p style="text-align: center;">Enhancing the Committee's capacity to identify, measure and assess systemic risk</p>	<p>Increasing the frequency and level of detail of the UKNF's non-reporting surveys related to housing and consumer loans granted by banks to households. Use: Analysis of the real estate market.</p>
	<p>Conducting UKNF non-reporting studies on financing the commercial real estate market. Use: Analysis of the real estate market.</p>
	<p>Development and implementation of a model to analyse contagion effects based on direct links between banks. Use: ORS questionnaire.</p>
	<p>Development and implementation of a model to analyse contagion effects based on indirect links between banks in connection with higher costs of contributions to the BFG. Use: ORS questionnaire, Recommendation on reducing contributions to the BFG.</p>
	<p>Development of early warning models used for early identification of building-up cyclical stresses in the financial system. Use: Analysis for the purposes of calibrating the countercyclical capital buffer.</p>
	<p>Development of a methodology for assessing the risks associated with the residential property market - the real estate market stress index. Use: Analysis of the real estate market.</p>
	<p>Development of a methodology for regular systemic risk assessment (changes in the ORS questionnaire - introduction of a risk description taxonomy and a new risk scoring scheme). Use: ORS questionnaire.</p>
	<p>Development of a system for forecasting loan growth and loan quality for the purpose of assessing lending and credit risk (the subject of the forecasts was the total loan growth and growth broken down into consumer loans, corporate loans and housing loans). Use: <i>Financial Stability Report</i> – assessing the risk of excessive lending and, among others, credit crunch during the pandemic.</p>
	<p>Development of a methodology for identification of Systemically Relevant Entities (PSIs). Adoption of a two-step methodology to assess the systemic importance of entities based on quantitative analysis and expert judgement. Waiver of the assumption that a PSI can only come from the significant or critical sector. Use: PSI identification.</p>
	<p>Development of credit risk models used in stress testing to estimate credit losses. Use: Systemic risk assessment presented in the <i>Financial Stability Report</i>.</p>
	<p>Development of a methodology for conducting sensitivity analyses of the banking sector, in particular capital (other comprehensive income) and solvency, to changes in market interest rates through the valuation of securities in the FVOCI portfolio. Use: Systemic risk assessment presented in the <i>Financial Stability Report</i>.</p>
	<p>Development of a methodology for calculating the potential deficit in capital to meet the MREL requirement in macroeconomic scenarios and inclusion of the MREL requirement in stress tests. Use: Systemic risk assessment presented in the <i>Financial Stability Report</i>.</p>

	<p>Development and implementation of a methodology for estimating the impact of the pandemic on credit losses of the banking sector under the scenarios of deterioration in financial standing of enterprises.</p> <p>Use: Systemic risk assessment presented in the <i>Financial Stability Report</i>.</p>
	<p>Development and implementation of a methodology for estimating the impact of legal risk of FX housing loans on the financial position and solvency of the banking sector under scenarios of legal risk materialisation.</p> <p>Use: FX credit risk assessment, ORS Survey, <i>Financial Stability Report</i>.</p>
	<p>Presenting the <i>Polish Payment System Oversight Report</i> prepared by NBP to the Committee.</p> <p>Use: Financial market infrastructure risk assessment.</p>
Enhancing the capacity of the FSC-M to mitigate systemic risk effectively	<p>Calibration of the systemic risk buffer based on macroeconomic stress tests and VAR (2019)</p> <p>Use: Review of the systemic risk buffer in terms of adequacy of its level.</p>
	<p>Preliminary cost-benefit analysis of introduction of the systemic risk buffer based on microeconomic models (2022).</p> <p>Use: Review of the systemic risk buffer in terms of adequacy of its level and the need to restore non-zero capital buffers.</p>
	<p>Analysis of various methods for buffer calibration of other systemically important institutions.</p> <p>Use: KNF recommendation concerning the O-SII methodology.</p>
	<p>Development of a methodology enabling direct linking of the indications of early warning models used to identify in advance the build-up of cyclical stresses in the financial system to the size of the countercyclical buffer that mitigates systemic risk, while minimising the cost of supervisory action to the banking sector.</p> <p>Use: Analysis for the purposes of calibrating the countercyclical capital buffer.</p>
	<p>Development and implementation of a methodology for assessing the amount of quarterly contributions by lenders to the Borrowers' Support Fund as the substantive basis for the Committee's opinion for the Fund Council.</p> <p>Use: Analysis for the purposes of adopting resolution on the level of FWK contributions.</p>
Development of analytical methods allowing to assess the impact of structural changes in the financial system	<p>Quantification of the value of banks' exposures to climate-sensitive sectors based on NB300 data.</p> <p>Use: Systemic risk assessment presented in the <i>Financial Stability Report</i>.</p>
	<p>Analysis of long-term determinants of changes in the profitability of the Polish banking sector and the impact of these developments on financial stability.</p> <p>Use: ORS questionnaire, <i>Financial Stability Report</i>.</p>
Developing the approach with regard to the interaction and relationship of macroprudential policy with other economic policies	<p>A systematic approach has not been developed. In some cases, the relationship between decisions on different policies was taken into account (e.g. during the resolution of the systemic risk buffer in 2020, attention was paid to the need for the KNF to impose restrictions on dividend payments by banks)</p> <p>Use: The systemic risk assessment (ORS questionnaire) takes into account actions in the scope of other economic policies as factors affecting reducing of risk intensity.</p>
Development and elaboration of new communication methods of the Committee with the public	<p>Increasing the frequency and scope of publication of the FSC-M decisions. Announcements concerning these decisions appearing on the NBP website and in the tab dedicated to macroprudential supervision.</p> <p>Use: Cyclical publication of resolutions on opinions for the FWK and other decisions of the Committee.</p>

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

The task of the FSC-M was the periodical issuing of opinions based on which the Council of the Borrowers' Support Fund determined the quarterly contributions of lenders to the Fund.

In the first half of 2022, the FSC-M continued to fulfil this obligation by issuing opinions to the Fund Council, respectively: on 18 February for the third quarter of 2021⁵⁹ and on 25 May for the fourth quarter of 2021.⁶⁰ The opinions were issued by circulation, in accordance with the established procedure and within the timeframe set by the regulations introduced in connection with the announcement of the state of epidemic threat.⁶¹ The opinions of the FSC-M opinions were based on data received from the UKNF concerning the size of housing loan portfolios and information from Bank Gospodarstwa Krajowego on the current level of resources at the Fund's disposal and concluded that the Fund's resources were sufficient to fulfil its statutory tasks and that there was no need for lenders to make contributions to the Fund.

In July 2022, the Act on Crowdfunding entered into force⁶² which repealed the obligation of the FSC-M to provide opinions to the Fund Council and thus the Committee was excluded from the process of determining the quarterly amount of contributions to the FWK.

5.6. Opinion on proposed amendments to Recommendation S

In March 2022, the FSC-M issued the opinion⁶³ regarding the proposed amendments to Recommendation S⁶⁴ concerning good practices related to managing mortgage-secured credit exposures.⁶⁵

The amendments submitted by the KNF for the Committee's opinion covered two issues. The first issue concerned changes aimed at implementing the 2021 recommendation of the Financial Stability Committee to exclude cooperative banks from the group of entities recommended to offer fixed or periodically fixed interest rate loans.⁶⁶ The second group of changes addressed the

⁵⁹ Resolution No 57/2022 of the Financial Stability Committee of 18 February 2022 on the opinion on quarterly level of contributions to the Borrowers' Support Fund.

⁶⁰ Resolution No 61/2022 of the Financial Stability Committee of 25 May 2022 on the opinion on quarterly level of contributions to the Borrowers' Support Fund.

⁶¹ Regulation of the Minister of Finance of 7 April 2020 on determining other deadlines for performing certain reporting and disclosure obligations (consolidated text, Journal of Laws 2021 item 1816).

⁶² The regulatory changes are discussed more broadly in Box 1.

⁶³ Resolution No 59/2022 of the Financial Stability Committee of 25 March 2022 on the opinion regarding the proposed amendments to Recommendation S concerning good practices related to managing mortgage-secured credit exposures.

⁶⁴ https://www.knf.gov.pl/knf/pl/komponenty/img/Nowelizacja_Rekomendacja_S_23-07-2020_70340.pdf.

⁶⁵ Pursuant to Article 5 of the Act on macroprudential supervision in conjunction with Article 137(2) of the Act on Banking Law.

⁶⁶ Resolution No 46/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative banks.

inclusion of a guaranteed housing loan introduced by the regulations on the guaranteed housing loan⁶⁷, expected to come into force on 26 May 2022.

The FSC-M issued a positive opinion on the amendments to Recommendation S proposed by the KNF, further recognising that Recommendation S fulfils an important role in creating safe risk management principles in banks and thus contributes to the mitigation of systemic risk.

The FSC-M supported the amendment to Recommendation S to exclude cooperative banks from the group of entities recommended to offer fixed or periodically fixed interest rate loans, since such an amendment to Recommendation S would fulfil the FSC-M recommendation addressed to the KNF, expressed in FSC Resolution No 46/2021.

In addition, the FSC-M considered it necessary for maintaining the consistency of the regulatory environment in which banks operate, to amend Recommendation S accordingly in connection with the entry into force of the regulations on the guaranteed housing loan.

At the same time, the FSC-M has emphasised that – compared to financing the purchase of a real estate by a housing loan with own contribution, there are some additional factors associated with the construction of a guaranteed housing loan:

- the burden on borrowers (e.g. a longer repayment period, higher burden on household budget) as well as
- risks on the part of the lender (including the persistence of a high LtV over an extended period of time).

In addition, the guaranteed housing loan scheme may adversely affect the exercise of macroprudential supervision by limiting the ability to respond effectively to developments in the housing market, particularly in situations of excessive lending.

In addition, the Committee proposed the modification of the way interest rate risk is taken into account in the creditworthiness assessment process by defining a countercyclical interest rate growth risk buffer against the central bank's main interest rate.

⁶⁷ Act of 1 October 2021 on the Guaranteed Housing Loan (consolidated text, Journal of Laws 2022 item 2008), amended by: Journal of Laws 2023, item 28).

5.7. Opinion on the reduction of the target level of the deposit guarantee scheme funds in banks

In October 2022, at the request of the Chairman of the BFG Council, the Committee issued a positive opinion⁶⁸ on the reduction of the target level of deposit guarantee scheme funds at banks from 2.6% to 1.6%.⁶⁹

The national requirement of the target amount of deposit guarantee scheme funds in banks at a level of 2.6% of the amount of guaranteed funds compared to other Member States was one of the highest. It significantly exceeded the obligation introduced in the EU legislation⁷⁰ to maintain a minimum level of funds of the deposit guarantee scheme of 0.8% of the guaranteed funds at banks covered by the mandatory deposit guarantee scheme, which has already been achieved in Poland.

The average target level for Member States was 1.0%⁷¹, whereas the majority of Member States decided to adopt 0.8% of guaranteed funds as the target level for the financial resources of the deposit guarantee scheme.

In its opinion, the Committee took into account the effectiveness of the resolution processes to date, indicating that the financial safety net authorities have tools in place to mitigate the risk of an uncontrolled bankruptcy of the bank, which reduces the risk of guaranteed deposit payouts. Moreover, the functioning of the IPS and the Commercial Bank Protection Scheme (SOBK) partially mitigates the potential impact of the materialisation of risks associated with the difficult financial situation of certain institutions and the associated possibility of contagion effects.

In the FSC-M's view, the application of a higher target level of deposit guarantee scheme funds would entail additional costs for banks, which in the long term would undermine their ability to generate profits and build capital and consequently translate into a reduction in the availability of credit in the economy.

5.8. Reform of benchmarks

In 2019, the WIBOR benchmark was entered in the list of key benchmarks⁷² and the GPW Benchmark S.A. – in the register of benchmark administrators of the European Securities and Markets Authority. In December 2020, GPW Benchmark received a licence from the KNF to operate

⁶⁸ Pursuant to Article 5 of the Act on Macroprudential Supervision in conjunction with Article 287(2b) of the Act on BFG.

⁶⁹ Resolution No 64/2022 of the Financial Stability Committee of 20 October 2022 on the opinion on the reduction of the target level of the deposit guarantee scheme resources at banks.

⁷⁰ Directive of the European Parliament and of the Council 2014/49/EC of 16 April 2014 on deposit guarantee schemes.

⁷¹ A target of more than 1% of deposit guarantee scheme funds has been set in Poland, Bulgaria, Estonia, Greece, Croatia, Luxembourg, Malta, Romania (as of 2023).

⁷² The list referred to in Article 36 of the BMR.

as an administrator of interest rate benchmarks, including key benchmarks, which concluded the process of compliance with the BMR and confirmed that the WIBOR benchmark, its method of determination and its administrator meet the requirements set out in the Regulation and guarantee the credibility and reliability of this benchmark. The Committee, within its remit, monitored the progress of the reform under implementation.

In 2022, the FSC-M examined the process for determining the alternative index and the procedure under which a replacement for the key benchmark should be determined, given the significant importance of the reform of the WIBOR and WIBID benchmarks for the stability of the financial system and the statutory role assigned to the Committee in this process.⁷³ The FSC-M regularly reviewed updates on the progress of the National Working Group and analysed the sources of risk to the financial system associated with the transition process.

From the Committee's point of view, in addition to the formal aspects of the designation of an alternative index and a substitute for the key benchmark, the attempts to undermine the credibility and representativeness of the WIBOR interest rate benchmark which appeared in media reports and lawsuits, were also significant in the process. The Committee found no legal or economic grounds to challenge the accuracy and reliability of the determination of this benchmark. The Committee's opinion was presented in the announcement after the December 2022 meeting.⁷⁴

5.9. Review of systemically relevant entities

The Financial Stability Committee identifies financial institutions relevant to the financial system. Each year, based on the methodology adopted in 2019, it analyses financial system entities and updates the list of Systemically Relevant Entities (PSI).

The following entities were included in the list of Systemically Relevant Entities in 2022:

- 1) Banks recognised as O-SIIs:
 - 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;
- 2) systemically important payment systems, securities clearing and settlement systems⁷⁵;

⁷³ In accordance with Article 61b of the Act on macroprudential supervision.

⁷⁴ <https://nbp.pl/en/press-release-after-the-meeting-of-the-financial-stability-committee-on-macroprudential-supervision>.

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- 3) PZU;
 - 4) PZU Życie;
 - 5) GPW Benchmark;
 - 6) SKOK im. F. Stefczyka;
 - 7) National Association of Cooperative Savings and Credit Unions.

5.10. Review of the premises for imposing the capital buffer

Following the dissolution of the systemic risk buffer (SRB) in response to pandemic risks in 2020⁷⁶, banks in Poland were not burdened with any other capital buffer imposed by the macroprudential policy they pursue. In 2022, as the premises for its dissolution had ceased, the Committee reviewed the adequacy of applying the SRB buffer again.

The preliminary assessment indicated that it would be reasonable to impose a systemic risk buffer in the range of 0.5%-1.5% for the risks identified by the Committee regarding the vulnerability of certain institutions and contagion effects and a general buffer for unexpected risks. Recent experience, such as the COVID-19 pandemic or the hostilities in Ukraine have shown that there are shocks difficult to predict, hence the importance for the domestic banking sector to have a solvable capital buffer which would provide a form of security and could be released in a crisis situation due to the necessity to ensure the financial stability of the banking sector. At the European forum on macroprudential policy and now also at the national level, there is an ongoing discussion regarding the introduction of a new (or modified) macroprudential instrument in the form of a non-zero neutral countercyclical capital buffer (nCCyB).

However, further analysis has shown that in determining the legitimacy and level of non-zero buffers for risks difficult to identify, it is important to consider the desired overall level of resilience in the financial system. This requires the determination of the macroprudentially justified level of capital in the banking system⁷⁷, as well as the determination of the relationship between macroprudential capital buffers and the requirements resulting from other regulations (such as microprudential requirements and the MREL).

Summarising the economic conditions analysed, the Financial Stability Committee has recognised that no clear premises currently exist concerning the legitimacy of activating macroprudential instruments and imposing a capital buffer. This is primarily due to the fact, that the current level of overall (micro and macro) capital requirements in the financial system is close to the desired macroprudential level of capital.

⁷⁵ The entities identified as PSIs also include service provision systems, not necessarily owners of these systems.

⁷⁶ The waiver of the obligation to maintain the systemic risk buffer followed the issuance by the Minister of Finance of the Regulation of 18 March 2020 recommended in Resolution No 35/2020 of the Financial Stability Committee of 16 March 2020 on the systemic risk buffer.

⁷⁷ The macroprudentially justified level of capital in the banking system is understood as the level of capital that meets the macroprudential policy objective of reducing systemic risk.

6. International cooperation

The Financial Stability Committee cooperates permanently and closely with the authorities and institutions of the European Union. This cooperation includes, among others, actions aimed at the proper implementation and execution of the recommendations of the European Systemic Risk Board (ESRB), as well as other activities resulting from the acts of the EU law and initiatives taken at the European forum.

6.1. Recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1)

In 2014, the ESRB issued a recommendation on guidance for setting countercyclical buffer rates.⁷⁸ In it, the ESRB recommended that the competent authorities of the EU Member States should take action to establish a common framework for the application of the countercyclical buffer. The recommendation has formulated the principles relating to the application of the CCyB, the method for calculation and monitoring of selected indicators that form the basis for assessing the nature and extent of the risk in the financial system and thus for deciding whether to impose or dissolve this buffer. At the same time, a three-year cycle was determined for the submission of a report informing on the measures taken in order to comply with the above recommendation.

Recommendation ESRB/2014/1 contains the following sub-recommendations:

- **Recommendation A** – addresses the principles when assessing and setting the appropriate countercyclical buffer rates applicable in the respective Member State;
- **Recommendation B** – relates to guidance on the measurement and calculation of the credit-to-GDP gap, calculation of the benchmark buffer rate and the buffer guide;
- **Recommendation C** – concerns guidance on the calculation and measurement of variables that indicate the build-up of system-wide risk associated with periods of excessive credit growth;
- **Recommendation D** – refers to guidance on variables that indicate that the countercyclical buffer should be maintained, reduced or fully released.

In 2016, the Committee approved a methodology for the calibration of the countercyclical capital buffer which took into account the guidelines resulting from the recommendation, as well as additional indicators whose monitoring allows for the analysis of the current situation taking into account the specific features of the Polish financial system.

⁷⁸ Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1).

The Financial Stability Committee is required to recommend to the Minister of Finance, on a quarterly basis, a decision on the appropriate amount of the countercyclical buffer rate. The recommendation is designed on the basis of the quarterly reference value of the countercyclical buffer guide. On the other hand, the assessment of the level of the countercyclical buffer, which takes into account the Committee's recommendation and its potential adoption, remains within the remit of the Minister of Finance.

The Committee's decisions on the CCyB are preceded by a detailed analysis of areas such as:

- macroeconomic conditions and tensions in the financial system,
- position in the credit cycle, including the size of the credit gap,
- early warning models.

In 2022, the Financial Stability Committee conducted systematic analyses of the areas and indicators monitored for the purposes of recommendation and concluded that there was no basis or justification for changing the existing countercyclical buffer rate. Accordingly, it recommended that the Minister of Finance should maintain the countercyclical buffer at a 0% level in each quarter of 2022. Consequently, the CCyB guide has remained stable in Poland since 2016.

The first report for the purposes of the above-mentioned recommendation was submitted by the Committee to the ESRB in June 2016. All actions taken in Poland under the implementation of the ESRB/1014/1 recommendation were positively assessed in the ESRB report as adequate, effective and meeting the requirements included in the regulations (the FSC received the rating of fully compliant, FC).

Further reports on the implementation of the recommendation in Poland were submitted to the ESRB in June 2022.⁷⁹ In 2023, the publication of the second report is scheduled to present an updated assessment of the level of implementation of the ESRB/2014/1 recommendation on guidance for setting countercyclical buffer rates.

6.2. Recommendation on recognising and setting countercyclical buffer rates for exposures to third countries (ESRB/2015/1)

Material exposures of domestic banking sectors towards third countries can be a source of risk to financial stability. In order to harmonise the law and develop a consistent approach in the EU on the recognition and setting of CCyB guides in relation to third countries, in 2016, the ESRB published the Recommendation on recognising and setting countercyclical buffer rates for exposures to third countries (ESRB/2015/1).

⁷⁹ The deadline for submission of the report on the implementation of this recommendation was postponed to 2022 pursuant to Decision ESRB/2020/10.

The FSC-M accepted the methodology for identification of relevant third countries in 2016. The analysis using this methodology by NBP showed that no relevant third countries were still identified for the Polish banking system in 2022.⁸⁰ The table below presents the countries⁸¹, to which Polish banks had the largest exposures.

Table 8. 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?	Is the exposure material ⁸² ?
Luxembourg	0.99%	NO	NO
United Kingdom	0.74%	NO	NO
Sweden	0.63%	NO	NO
France	0.52%	NO	NO
Germany	0.49%	NO	NO

Source: NBP study based on FINREP and COREP data.

Therefore, based on the available data, the FSC-M 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. The relevant information was forwarded to the ESRB.

Box 5. Report on the implementation of Recommendation ESRB/2015/1

In May 2022, the ESRB published the Summary Compliance Report⁸³ of the study on the compliance of implementation of Recommendation ESRB/2015/1 based on the reports submitted in December 2016 and 2020.

The activity of the Polish macroprudential supervision was assessed at a very good level (fully compliant). Poland received the highest possible score in the assessment 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.

⁸⁰ 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.

⁸¹ Countries were identified using the methodology adopted at the end of the first quarter of 2022.

⁸² 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%.

⁸³ *Summary Compliance Report*, May 2022. Recommendation of the European Systemic Risk Board of 11 December 2015 on recognising and setting countercyclical buffer rates for exposures to third countries (ESRB/2015/1), ESRB, 2022, https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.SummarycomplianceReport_RecommendationESRB.2015.1~24d3bd5a44.en.pdf?a58207ac02c2362b886b5353cd83f7ed.

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

In 2015, the ESRB issued a recommendation⁸⁴ on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures. The recommendation consists of four sub-recommendations:

- **Recommendation A** – on assessing the cross-border implications of own macroprudential policy measures;
- **Recommendation B** – on notifying the ESRB and requesting reciprocity in relation to own macroprudential policy measures as soon as they are adopted;
- **Recommendation C** – on reciprocity with respect to macroprudential policy measures adopted in other Member States;
- **Recommendation D** – on notification of reciprocity in relation to macroprudential policy measures of other macroprudential authorities.

Recommendation ESRB/2015/2 requires all EU Member States to assess the potential cross-border implications of the macroprudential policy instruments they put in place and creates rules for the recognition of national macroprudential instruments in other Member States.

In 2022, the ESRB issued three new recommendations of reciprocity of a macroprudential instrument introduced in a given country on instruments introduced by the Netherlands and Lithuania, Belgium and Germany.⁸⁵ As in previous years, 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, which was communicated to the ESRB in accordance with the applicable rules. 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 2022 are presented below.

⁸⁴ 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), OJ 2016/C 97/02.

⁸⁵ Recommendation of the European Systemic Risk Board, such as: ESRB/2022/1, ESRB/2022/3, ESRB/2022/4.

Conclusions concerning the reciprocation of macroprudential instruments

Netherlands

On 16 February 2022, the ESRB issued a recommendation⁸⁶ on the reciprocation of the macroprudential instrument introduced in the Netherlands. The new macroprudential instrument involves imposing a minimum average risk weight on exposures to individuals secured by mortgages on residential real estate located in the Netherlands for credit institutions applying the Internal Ratings Based (IRB) approach to calculate regulatory capital requirements. In accordance with the instrument applied, each individual exposure was assigned a risk weight of 12% for the part of the loan not exceeding 55% of the market value of the real estate securing the loan, while the remaining part of the loan was assigned a risk weight of 45%. The instrument has been effective since 1 January 2022.

The recommendation additionally sets a materiality threshold to determine the limit for the application of the *de minimis* rule by the relevant national reciprocating authorities, which allows the Dutch macroprudential facility not to be reciprocated if the value of an institution's exposures to individuals secured by mortgages on residential real estate located in the Netherlands does not exceed EUR 5 billion.

Analyses carried out by Narodowy Bank Polski show that no domestic credit institution has exposures in the Netherlands exceeding the materiality threshold indicated. Thus, it was concluded that there were indications of a lack of need to reciprocate the Dutch macroprudential instrument.

Lithuania

In line with the recommendation issued by the ESRB on 16 February 2022 (ESRB/2022/1), a new macroprudential facility was introduced in the territory of Lithuania from 1 July 2022 and its reciprocation was recommended. The instrument involves imposing a systemic risk buffer of 2% on all retail exposures to individuals in Lithuania that are secured by residential real estate.

The materiality threshold at the level of institutions for non-reciprocation of the Lithuanian macroprudential facility is the value of their respective sectoral exposures not exceeding EUR 50 million.

Analyses carried out by Narodowy Bank Polski showed that no Polish credit institution had exposures in the Republic of Lithuania exceeding the materiality threshold determined. This allowed the Committee to conclude that at present there was no indication that the Lithuanian macroprudential instrument should be reciprocated.

⁸⁶ Recommendation of the European Systemic Risk Board of 16 February 2022 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2022/1).

Belgium

On 30 March 2022, the ESRB issued Recommendation ESRB/2022/3⁸⁷ to reciprocate the new macroprudential instrument, the systemic risk buffer, introduced in Belgium. The SRB of 9% has been applied to all retail exposures to individuals secured by residential real estate located in Belgium, for which the risk is estimated on an IRB basis.

The recommendation sets a materiality threshold at the level of institutions that allows them for non-reciprocation of the Belgian macroprudential measure when their respective sectoral exposures do not exceed the value of EUR 2 billion.

The analysis of Narodowy Bank Polski showed that no Polish credit institution had exposures exceeding the materiality threshold indicated in Belgium. The Committee therefore recognised that none of the conditions for reciprocity set out in the Recommendation had been met and that Poland was therefore not obliged to reciprocate this instrument.

Germany

In June 2022, the ESRB issued Recommendation ESRB/2022/4⁸⁸ on the reciprocation of the macroprudential instrument introduced in Germany. The new German macroprudential instrument involves introducing of a systemic risk buffer rate of 2% for all exposures (retail and non-retail) to natural and legal persons secured by residential real estate located in Germany. According to the recommendation, the SRB should be applied to national credit institutions for exposures where the risk is estimated on the basis of both the IRB method and the standardised approach.⁸⁹

The recommendation sets a materiality threshold that exempts the German macroprudential instrument from reciprocity if the relevant sectoral exposures at the level of the institution do not exceed EUR 10 billion.

Analyses carried out by Narodowy Bank Polski showed that no domestic credit institution had exposures in Germany exceeding the materiality threshold indicated. Thus, the Committee concluded that there were indications of a lack of need to reciprocate the German macroprudential instrument.

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

With a view to the principles of application of the reciprocity mechanism for macroprudential instruments, NBP periodically monitors the exposures of Polish credit institutions in accordance with the ESRB recommendations in force.

⁸⁷ Recommendation of the European Systemic Risk Board of 30 March 2022 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2022/3).

⁸⁸ Recommendation of the European Systemic Risk Board of 2 June 2022 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2022/4).

⁸⁹ Compliant with Article 125(2) of Regulation (EU) No 575/2013.

Box 6. Results of exposure monitoring for the purposes of the reciprocity mechanism**France**

In July 2021, the ESRB recommended⁹⁰ the EU Member States to reciprocate the existing French macroprudential measure introduced under Article 458 of the CRR. The instrument applied in France involves reducing to 5% of Common Equity Tier 1 capital of the limit on large exposures to highly indebted non-financial corporations headquartered in France, for G-SIIs and O-SIIs.

The analysis of reporting data as at the end of June 2022 showed that one Polish O-SII bank had total exposures in France exceeding PLN 11 billion (EUR 2.36 billion at the exchange rate as at 30 June 2022), i.e. exceeding the EUR 2 billion threshold defined in the recommendation. The majority of these exposures were the exposures to the financial sector. Exposures to the non-financial sector (including the entire corporate sector) amounted to approx. PLN 380 million, i.e. approx. EUR 81 million. Therefore, it meant that none of the banks in Poland exceeded the aggregate materiality threshold set out in recommendation ESRB/2021/6.

Consequently, the Committee recognised that in 2022 there was still no need to reciprocate the macroprudential instrument introduced in France.

Sweden

At the beginning of 2019, the ESRB recommended⁹¹ EU Member States to reciprocate the macroprudential instrument introduced in Sweden pursuant to Article 458 of the CRR against credit institutions applying the IRB method for the calculation of regulatory capital requirements. The instrument involves introducing a minimum exposure-weighted average risk weight of 25% on portfolios of retail exposures in relation to debtors being Swedish residents, secured by mortgages on real estate. At the same time, the recommendation has indicated that non-reciprocation of the Swedish macroprudential measure is possible if two conditions are jointly met: the relevant exposures do not exceed the materiality threshold of SEK 5 billion and the competent national authorities monitor the materiality of exposures related to the Swedish real estate market and, if material exposures arise, recognise the macroprudential measure introduced in this country.

The analysis of the reporting data in June 2022 showed that none of the credit institutions in Poland using the IRB approach to calculate retail exposures secured by mortgage exceeded the materiality threshold defined in the recommendation.

The Committee once again concluded that there was no indication that the Swedish macroprudential instrument should be reciprocated.

Norway

In April 2021, the ESRB issued a recommendation⁹² on reciprocating the following macroprudential instruments introduced in Norway by other EU Member States:

⁹⁰ 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).

⁹¹ 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).

⁹² 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).

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- (i) the systemic risk buffer of 4.5% applicable to all exposures located in Norway⁹³,
 - (ii) the average risk weight of 20% for exposures secured by residential real estate, applicable to institutions using the IRB method,
 - (iii) the average risk weight of 35% for exposures secured by commercial real estate, applicable to institutions using the IRB approach.

The recommendation furthermore sets materiality thresholds at the level of institutions that allow for non-reciprocation of Norwegian macroprudential measures by other EU countries when the values indicated in the recommendation are not exceeded.

Another analysis conducted by NBP showed that the total exposure of Polish credit institutions in Norway amounted to PLN 1.2 billion (NOK 2.5 billion at the exchange rate of 31 March 2022). The largest exposure of a single credit institution amounted to PLN 0.5 billion, i.e. approximately NOK 1 billion.

Accordingly, the Committee recognised that there were still no premises for reciprocating the macroprudential instruments applied in Norway.

Luxembourg

In March 2021, the ESRB issued a recommendation⁹⁴ on the recognition of the instrument launched in Luxembourg to introduce legally binding LTV limits for newly granted mortgage loans for residential real estate located in Luxembourg. The recommendation sets out an aggregate materiality threshold consisting of:

- (i) country-level materiality threshold: the total value of a country's mortgage exposures in Luxembourg exceeds EUR 350 million,
- (ii) institution-level materiality threshold: the total value of a mortgage exposures in Luxembourg exceeds EUR 35 million.

According to the analyses conducted by NBP, the Polish banking sector's total exposures in Luxembourg amounted to EUR 6.3 billion (at the exchange rate of 30 June 2022). On the other hand, information on the size of Polish credit institutions' exposures to the real estate market in Luxembourg showed that none of the banks had exposures in excess of EUR 35 million and that the Polish banking sector's total exposures did not exceed EUR 350 million.

The Committee assessed the scale of the Polish banking sector's exposure and concluded that there were still no grounds for Poland to reciprocate the Luxembourg macroprudential instrument.

⁹³ For institutions that do not apply the IRB method for credit risk assessment, the level of the buffer was set at 3% until 31 December 2022. After that date, the systemic risk buffer of 4.5% will also apply to this type of institutions.

⁹⁴ 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).

6.4. Recommendation on a pan-European systemic cyber incident coordination framework (ESRB/2021/17)

On 2 December 2021, the ESRB adopted a recommendation on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17).⁹⁵ As recommended the actions aim to lay the foundations for an effective EU-level coordinated response in the event of a major cross-border information and communication technologies (ICT) related incident or related threat having a systemic impact on the Union's financial sector as a whole.⁹⁶ This process is expected to lead to establishing a pan-European systemic cyber incident coordination framework (EU-SCICF)⁹⁷ for relevant authorities in the European Union.

Recommendation ESRB/2021/17 consists of three sub-recommendations:

- **Recommendation A** – establishment of a pan-European systemic cyber incident coordination framework which recommends that the European Supervisory Authorities (ESAs), together with the ECB, the ESRB and the relevant national authorities, start preparing for the gradual development of an effective EU-level coordinated response in the event of a cross-border major cyber incident or related threat that could have a systemic impact on the EU's financial sector. At the same time, the ESAs, in cooperation with the ECB and the ESRB, were committed to work on identifying and assessing existing legal and operational barriers for the effective development of a pan-European coordination framework in relation to systemic cyber incidents
- **Recommendation B** – establishment of points of contact of the pan-European coordination framework in relation to systemic cyber incidents - according to which Member States, the ESAs and the ECB should designate main points of contact and exchange information in this regard with the ESRB in the event of a major cyber incident. Coordination between the pan-European coordination framework in relation to systemic cyber incidents and the designated point of contact should also be envisaged to ensure cross-border cooperation with other Member States and the Network and Information Systems Security Cooperation Group
- **Recommendation C** – appropriate measures at Union level requires the EC to take appropriate measures needed to ensure effective coordination of the response to systemic cyber incidents (identified based on the results of the analysis conducted under Recommendation A).

⁹⁵ The recommendation was published in the Official Journal of the European Union on 25 March 2022 (C 134/01).

⁹⁶ Activities under the DORA (Digital Operational Resilience Act) - in line with the Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EU) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014 (COM/2020/595).

⁹⁷ EU-SCICF – European Systemic Cyber Incident Coordination Framework: Mitigating systemic cyber risk, ESRB, January, 2022.

The above recommendation sets out responsibilities at national level and commits the relevant authorities to cooperate at EU level. It introduces the commitment to establish an institution to act as a contact point at the national level. In accordance with the recommendation, the establishment of an appropriate contact point should refer to the solution that the Member State has adopted for the implementation of the NIS Directive.⁹⁸ The analysis of the recipients of the above recommendation led to the conclusion that the function of the relevant national authority within the meaning of Recommendation ESRB/2021/17 in Poland should be fulfilled by the KNF.

In March 2022, the FSC-M, also bearing in mind the role that the KNF plays in the national cybersecurity system⁹⁹, agreed that the KNF would be the point of contact and the authority responsible for communication in the framework of cooperation on cyber incidents in Poland.

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

In 2022, the Committee continued the implementation of Recommendation ESRB/2020/8 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 Committee assigned the task of obtaining relevant data in accordance with the Recommendation to the Permanent Working Group (SGR). On the basis of information acquired from the MF, the UKNF and NBP, the SGR informed the ESRB on a quarterly basis on the impact of the fiscal measures taken in response to the COVID-19 pandemic shock on financial stability.

The scope of the data collected and actions taken covered the areas identified in the following sub-recommendations:

- **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 information necessary for the ESRB to perform analyses in the scope of monitoring and assessment of the implications of the national measures for financial stability at the EU level.

In 2022, the ESRB decided to cease collecting and monitoring data related to the COVID-19 pandemic. The process of submitting data to the ESRB was concluded in July 2022. A summary of the actions undertaken in the EU was presented by the ESRB in the form of a report.

⁹⁸ Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union.

⁹⁹ For the purposes of performing the tasks set out in the Act of 5 July 2018 on the national cyber security system, the KNF acts as the competent authority for cyber security for the banking sector and the financial market infrastructure.

Box 7. Results of the ESRB report *Fiscal support and macroprudential policy – Lessons from the COVID-19 pandemic*¹⁰⁰

In November 2022, the ESRB published a report summarising the actions taken by countries and institutions of the EU in response to the shock triggered by the COVID-19 pandemic. Both macroprudential measures and fiscal instruments used by countries were evaluated. The evaluation relied primarily on data provided in connection with the implementation of Recommendation ESRB/2020/8.

The main findings of the Report indicate that the fiscal support measures introduced quickly and extensively have sustained liquidity and solvency in the real economy. The instruments put in place allowed for avoiding the scenario of mass insolvency and business failures. Indirectly, this has helped to ensure the stability of the financial system by protecting banks' balance sheets from the effects of restrictions introduced in response to the pandemic threat.

Liquidity support measures remained the prevailing form of fiscal support for non-financial businesses throughout the pandemic. However, a gradual shift away from general solutions was observed and their replacing by more targeted support instruments. In most cases, guarantees and loans were provided to support the liquidity of non-financial entities. However, during the pandemic, the scale of non-refundable aid aimed at protecting companies from insolvency increased significantly.

The report highlights the impact of the support provided on future credit risk assessment. Due to the extraordinary fiscal support, the downturn in the real economy did not translate into losses on banks' balance sheets. This may affect the reliability of risk pricing models that are calibrated using historical time series. It is difficult to assess the extent to which the macroeconomic risks associated with the pandemic are underestimated. As the fiscal guarantees provided mature, the level of provisions may prove too low, given the elevated corporate debt and high macroeconomic risks.

Support by instruments of a fiscal nature was also reinforced by actions taken by macroprudential authorities. The predominant form of action was the dissolution of capital buffers, primarily CCyBs. At present, after the major risks of the pandemic have subsided, an impetus to create capital buffers again has appeared. In an environment of significant economic and financial uncertainty, a tendency is generally perceived to impose and reconstruct capital buffers. EU countries' countercyclical capital buffer levels have increased, with most Member States returning to or further tightening pre-pandemic CCyB levels. More than 40% of countries

¹⁰⁰ *Fiscal support and macroprudential policy – Lessons from the COVID-19 pandemic*, ESRB, November 2022, <https://www.esrb.europa.eu/pub/pdf/reports/esrb.2022.11.21.note.on.fiscal.support.and.macroprudential.policy~e5abc993e9.en.pdf>.

are considering taking action related to the imposition of the CCyB, while 20% want to use instruments on credit exposures, such as decreasing the LTV parameter.

As assessed in the report, building adequate capital buffers is important, but this should proceed taking into account the macroeconomic situation and outlook of individual countries and the need to mitigate pro-cyclical risks.

7. Communication

Communication of the Financial Stability Committee with the public is perceived as an important and integral part of macroprudential policy. It is the Committee's view that the awareness of risk incidents among market participants is raised by 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. It also increases public understanding of the policy and the actions taken as part of it. It is one of the priorities defined in the *Macroprudential Policy Strategy* and it is the subject of the Committee's work.

7.1. Domestic communication

The Committee conducts macroprudential policy in accordance with the principle of transparency. It communicates to the public macroprudential supervision decisions and analytical material used in the decision-making process. According to the Committee's judgement, 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. They also have a basis for anticipating further macroprudential actions.

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. The Committee analyses the current scope and manner of communication and endeavours to improve and enhance the communication policy in the perspective of its action.

Press releases after FSC-M meetings

A press release is the basic and fastest 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.¹⁰¹ Similarly, information on the Committee's activities between meetings (e.g. resolutions on opinions on FWK contributions) is published as soon as the decision is taken.

¹⁰¹ <https://nbp.pl/en/financial-system/macroprudential-supervision>.

Annual report of the FSC-M

The annual activity report entitled *Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee* is an important communication policy tool of the Committee. It describes all the work, topics and 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. It also includes information on matters broadly related to macroprudential supervision policy which were undertaken by the Committee during the year. This is the eighth 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. It contains data of institutional and regulatory nature (membership, tasks, competences of the Committee) and basic information, terms and definitions related to macroprudential policy. Press releases after FSC meetings and details concerning the macroprudential instruments currently in use in Poland are published with a dedicated section on the countercyclical buffer including analytical materials.

The Committee makes available the annual report on its activities and, in addition, presents documents on macroprudential supervision it has recognised as important from a macroprudential policy perspective.

7.2. Foreign communication

An important area of communication conducted by the Financial Stability Committee in the macroprudential formula is the foreign communication.

The tasks of Financial Stability Committee defined in legal regulations¹⁰² include close cooperation with the European Systemic Risk Board, other European Union authorities, macroprudential supervision authorities of Member States or third countries as well as international institutions. This cooperation mainly takes place through the fulfilment by the Committee of all disclosure obligations towards the relevant EU authorities related to the country's macroprudential supervision.

¹⁰² Article 5(4) of the Act on Macroprudential Supervision.

In 2022, Narodowy Bank Polski, on behalf of the Committee, efficiently and smoothly performed all tasks related to foreign communication, thus ensuring a high level of transparency and consistency in the scope of macroprudential policy activities.

Notifications addressed to EU institutions and authorities

While implementing its tasks and responsibilities, the Committee submits regular notifications to the relevant European institutions regarding decisions taken as part of Poland's macroprudential policy. Since June 2019 the ESRB is the main information hub for the EU macroprudential supervisory institutions, it is the main recipient and source of information in this area.

The notifications submitted by the Financial Stability Committee in the consecutive months of 2022 are summarised below.

Table 9. List of notifications by the FSC-M in 2022

Subject of notification	Addressee	Notification date
Forms for the recommendation on monitoring of 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	January, July 2022
Information on the reciprocation of the Dutch instrument	ESRB	March 2022
Information on the reciprocation of the Lithuanian instrument	ESRB	March 2022
Information on the reciprocation of the Belgian instrument	ESRB	June 2022
List of third countries to which institutions operating under the licence granted in Poland have material exposures	ESRB	June 2022
Report on the implementation of the Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures	ESRB	June 2022
Information on the results of monitoring of Belgian exposures	ESRB	June 2022
Information on the results of monitoring of Swedish exposures	ESRB	June 2022
Information on the results of monitoring of Norwegian exposures	ESRB	June 2022
Information on the results of monitoring of Luxembourg exposures	ESRB	September 2022
Information on the reciprocation of the German instrument	ESRB	September 2022
Information on the intention to impose the O-SII buffer	ESRB	September 2022
Information on the results of monitoring of the French exposures	ESRB	December 2022
Results of a review of identification of O-SIIs	ESRB	December 2022

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 OJ L 176, 2016).
Countercyclical buffer (CCyB)	An additional capital requirement imposed on institutions (banks) in order to increase the resilience of the banking system to cyclical fluctuations of the systemic risk. In the English-language version, the abbreviation CCyB is used to refer to the countercyclical buffer.
Global Systemically Important Institution buffer	An additional capital requirement maintained by global systemically important institutions (G-SIIs) to strengthen their resilience to economic shocks.
Other Systemically Important (domestic) Institution 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 noncyclical 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.
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	Periodical 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 the 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 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 noncompliance.
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 noncompliance (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 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

BFG	Bank Guarantee Fund
BMR	Benchmark Regulation
BRRD	Bank Recovery and Resolution Directive
CCyB	Countercyclical Capital buffer
CRR	Capital Requirements Regulation
CRD IV	Capital Requirements Directive
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ESRB	European Systemic Risk Board
EU	European Union
FSC	Financial Stability Committee
FSC-C	Financial Stability Committee for crisis management
FSC-M	Financial Stability Committee as a macroprudential authority
FWK	Borrowers' Support Fund
G-SII	Global Systemically Important Institution
IRB	Internal Ratings-Based Approach
KNF	Polish Financial Supervision Authority
LtV	the ratio of the loan amount to the value of its collateral
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
SKOK	Cooperative savings and credit unions (Spółdzielcze Kasy Oszczędnościowo-Kredytowe)
SOBK	Commercial Banks' Protection System (System Ochrony Banków Komercyjnych)
SRB	Systemic risk buffer
UKNF	Office of the Financial Supervisory Authority

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