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Annual Report

on Macroprudential Supervision Activity of the Financial Stability Committee

2023

Annual Report

on Macroprudential Supervision Activity of the Financial Stability Committee 2023

Warsaw, 2024

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Foreword

Dear Readers,

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

I take a positive view of the year 2023, although it is worth stressing that macroprudential policy continued to be conducted in conditions of uncertainty outside Poland, in the real economy and on financial markets. The Financial Stability Committee for macroprudential supervision did not identify any sources of risks that would constitute a direct threat to financial stability, but monitored and discussed, on a regular basis, the vulnerabilities of the financial system and communicated them to the public.

Over the last year, banks made healthy profits, which allowed them to increase their capital endowment. They have also successfully addressed their main and long-time problem, which is the legal risk of FX housing loans, by creating appropriate provisions and offering settlement arrangements to customers.

In 2023, the Committee initiated work aimed at setting an optimal model of the application of the countercyclical buffer. The experience gained during the COVID-19 pandemic contributed to revising the bank's approach to applying the countercyclical buffer, which has so far been a countercyclical instrument in nature. The Committee's work on the issue has been completed this year. In 2024, the Committee considered that the desired model of building the capital resilience of Poland's banking sector will be to set a positive neutral rate for the countercyclical capital buffer and adopted a new strategy on the application of this instrument.

I would like to stress that the conduct of a proper macroprudential policy requires the coordinated efforts and teamwork of all the financial safety net institutions involved – the Polish Financial Supervision Authority, the Minister of Finance, the Bank Guarantee Fund and Narodowy Bank Polski, both at the decision-making level and working level. I would like to take this opportunity to thank all the members of the Committee and persons involved in its work for their daily efforts in implementing its mandate.

I am convinced that in the coming years the Committee, as a macroprudential supervision authority, will continue to significantly contribute to preserving Poland's financial system stability.

I invite you to read the Annual Report on the Macroprudential Supervision Activity of the Financial Stability Committee in 2023, the document summarising the Committee's work over the last year.

*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 2023

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 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 2023:

Governor of Narodowy Bank Polski	Adam Glapiński
Minister of Finance	<ul style="list-style-type: none"> – Magdalena Rzeczkowska (to 27 November 2023) – Andrzej Kosztowniak (from 27 November to 13 December 2023) – Andrzej Domański (from 13 December 2023)
Chairperson of the Polish Financial Supervision Authority (KNF)	Jacek Jastrzębski
President of the Management Board of the Bank Guarantee Fund (BFG)	Piotr Tomaszewski

¹ In accordance with the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (consolidated text, Journal of Laws 2024, item 559) (hereinafter the “Act on Macroprudential Supervision”).

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 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.

The catalogue of tasks of the FSC-M defined in the Act on Macroprudential Supervision includes:

- use of macroprudential instruments, including presenting statements and issuing recommendations;
- identification of systemically relevant financial institutions;
- cooperation with the ESRB, including reporting on macro-prudential measures taken, and cooperation with other EU bodies, macroprudential supervision authorities as well as international institutions;
- exchange of information relevant to the tasks assigned.

In addition, at the request of the authorities concerned, the Committee issues opinions on, among others:

- identification of other and global systemically important institutions and imposing relevant buffers on them²,
- methodology, criteria for identification and calibration of buffers of other systemically important institutions, as well as procedures for identification of global systemically important institutions and defining subcategories of global systemically important institutions³,
- the target level of funds of the deposit guarantee scheme at banks⁴,
- recommendations on issues of potential concern to the macroprudential supervision⁵,
- delays regarding the public disclosure of inside information under the provisions of the MAR⁶.

² Respectively, pursuant to Article 35(1) and Article 39(1) of the Act on Macroprudential Supervision.

³ Respectively, pursuant to Article 39(6) and Article 36(2) of the Act on Macroprudential Supervision.

⁴ Article 287(2b) of the Act of 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution (consolidated text, Journal of Laws 2024, item 487).

⁵ Article 137(2) of the Act of 29 August 1997, Banking Law (consolidated text, Journal of Laws 2023, item 2488, as amended).

⁶ Article 17(6) of 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.2014.173.1).

Moreover, through its participation in the process of determining a replacement of the key benchmark, the Committee may either make a recommendation or present a statement on this matter.⁷

Box 1. Changes in the regulatory environment in 2023 and their impact on the duties of the Committee

In 2023, an amendment to the Act on Macroprudential Supervision was introduced regarding the disclosure obligations of the FSC-M. In accordance with the amended⁸ wording of Article 25(2), the Committee shall provide the European Systemic Risk Board with information on the countercyclical buffer rate only if a change in the buffer rate has occurred, instead of quarterly reporting. The amendment stemmed from the adequate implementation of the provisions of the CRD.

This amendment is included in the Committee's resolution on the countercyclical buffer rate. Starting from December 2023 (the amendment entered into force on 29 September 2023), the Committee does not take a decision in its resolution to submit information to the ESRB if it leaves the countercyclical buffer rate unchanged.

1.3. Meetings and adopted resolutions

In 2023, in accordance with its work schedule, the Committee held four regular meetings on the following days: 28 March, 16 June, 26 September and 21 December.

The following topics were standing items on the agenda of the Committee's quarterly meetings:

- **systemic risk assessment** based on the conclusions from the systemic risk assessment (ORS) questionnaire survey⁹, in which financial safety net institutions 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**,
- recommendation on the level of the **countercyclical buffer rate (CCyB)**,
- monitoring the effects of the work of the **Permanent Working Group**,

⁷ Article 61b(1) of the Act on Macroprudential Supervision.

⁸ Article 28 of the Act of 16 August 2023 amending certain acts in connection with ensuring the development of the financial market and protection of investors in this market (Journal of Laws 2023, item 1723).

⁹ A more detailed description of the *Systemic risk assessment survey* and the systemic risk assessment and identification methodology is presented in Chapter 3.

-
- 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 of the implementation of recommendations issued by the FSC-M**,
 - monitoring of developments in the implementation of the **borrowers' support programmes** related to the use of the so-called loan repayment holidays and the FWK aid.

In each quarter of 2023, the Committee recommended maintaining the countercyclical capital buffer rate at an unchanged level of 0%¹⁰, and the Minister of Finance accepted the Committee's recommendation. Therefore, no legislative action was necessary in this area. At the same time, work commenced in 2022 continued with the aim to develop a desired model for building banks' capital, including a discussion on changing the approach to the application of the countercyclical buffer in Poland.

In accordance with the provisions of the Act on Macroprudential Supervision, after each meeting the Committee posted its resolutions concerning the countercyclical buffer on the NBP website, including detailed information pertaining to:

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

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

In the first quarter, during the Committee's meeting, potential risks arising from attempts of unjustified undermining of the credibility and representativeness of the WIBOR benchmark. Moreover, the Committee received the NBP material entitled the *Macroprudential Supervision Communication Policy* and discussed the desired directions of communication policy development. The Committee also got acquainted with the work of the EBA regarding changes in the scope of hedging interest rate risk in the banking book.

In the second quarter, the Committee studied the *Financial Stability Report. June 2023*, 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 2022* and submitted it to the Polish Sejm. At the request of the UKNF, the Committee issued an opinion on the draft Recommendation S, in which it addressed the new solutions concerning good practices

¹⁰ The countercyclical buffer at a level of 0% was introduced by the 2015 Act on Macroprudential Supervision.

related to managing mortgage-secured credit exposures covered by the government programme of own contribution guarantees and loan interest rate subsidies. The Committee also decided on the need to extend the effective term of the MF regulation on reduced risk weights for FX housing loans subject to the settlement process.

In the third quarter, the Committee discussed the adequacy of introducing a non-zero neutral countercyclical capital buffer (nCCyB) in Poland, the purpose of which would be to create a releasable macroprudential buffer in the event of an unexpected, difficult-to-predict shock (as in the case of the COVID-19 pandemic). The pandemic risk ceased to be recognised as systemic, which according to the Committee's assessment, paved the way for restoring non-zero capital buffers.¹¹ The Committee members also discussed the results of the review of the identification and calibration of Other Systemically Important Institutions (O-SII) buffers. Due to the lack of changes in the list of institutions and the level of buffers assigned to them, there was no need to issue the Committee's opinion in this case.

In the fourth quarter, the Committee took note of the *Financial System Stability Report. December 2023* under preparation by NBP. For the purpose of assessing financial market infrastructure risks, the Committee was presented with the *Polish Payment System Oversight Report 2022*. Following the 2021 statement on the functioning of the cooperative banking sector¹², the Committee took note of the cyclical reports of the associating banks and institutional protection schemes (IPs) on the measures taken to improve the efficiency of cooperative banking functioning. The Committee also studied a summary of the implementation of the recommendations related to measures supporting the stable functioning of cooperative banks and the cooperative savings and credit unions sector.¹³ The recommendations have been recognised as implemented.

Table 1. Resolutions of the Financial Stability Committee adopted in 2023

Resolution No.	Title of Resolution
Meeting held on 28 March 2023	
66/2023	on the level of the countercyclical buffer rate
Meeting held on 16 June 2023	
67/2023	on the opinion regarding the draft amendments to Recommendation S concerning good practices related to mortgage-secured credit exposures
68/2023	on the level of the countercyclical buffer rate

¹¹ Before March 2020, the applicable systemic risk buffer was lifted in Poland due to the pandemic outbreak.

¹² Resolution No 47/2021 of the Financial Stability Committee of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector.

¹³ Resolution No 46/2021 of the Financial Stability Committee on recommendations concerning measures to support the sustainable functioning of cooperative banks and Resolution No 48/2021 of the Financial Stability Committee on recommendations concerning measures to support the sustainable functioning of cooperative savings and credit unions.

Resolution taken without a meeting on 6 July 2023	
69/2023	on the recommendation regarding risk weights for exposures secured by a mortgage on residential real estate
Meeting held on 26 September 2023	
70/2023	on the level of the countercyclical buffer rate
Meeting held on 21 December 2023	
71/2023	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 Financial Stability Committee, in particular by preparing draft opinions, statements and recommendations as well as systemic risk analyses. 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.

In 2023, the Permanent Working Group held four regular meetings, which preceded the FSC-M meetings. The work of the SGR proceeded throughout the year in line with the operating practice developed so far and largely focused on the systematic implementation of standard tasks providing support to the Committee in the conduct of macroprudential policy.

2. The Role of Narodowy Bank Polski

The organisational and institutional structure of macroprudential supervision in Poland is collegial and is based on the permanent close cooperation between four main institutions of the financial safety net: Narodowy Bank Polski, the Minister of Finance, the Polish Financial Supervision Authority, the Bank Guarantee Fund within the Financial Stability Committee.

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 macroprudential policy decisions. The Governor of NBP also represents the Polish macroprudential supervision authority before external institutions.

Pursuant to the law, Narodowy Bank Polski directly performs tasks supporting the work of the FSC-M.¹⁴ Due to 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 NBP provides adequate analytical facilities to the Committee. Therefore, NBP is also responsible for the organisation of FSC activities, both in the area of analytical and research work, as well as all tasks of an administrative and organisational nature (including legal services, 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 on a regular basis include:

- the *Financial Stability Report* (semi-annual report),
- the *Report on Macroeconomic Stability of the Polish Economy* (annual report),
- the *Polish Payment System Oversight Report* (annual report).

The Financial Stability Committee has also access to analytical and research materials developed by NBP that may be used for the best assessment of systemic risk in the Polish financial system.

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

Moreover, NBP is also responsible for conducting the communication policy of the FSC-M. To this end, NBP maintains the information service on its website on the activities of the Financial Stability Committee in its macroprudential capacity. It also fulfils the disclosure obligations assigned by the Committee in the area of macroprudential supervision towards the ESRB.

¹⁴ Article 11(1) of the Act on Macroprudential Supervision.

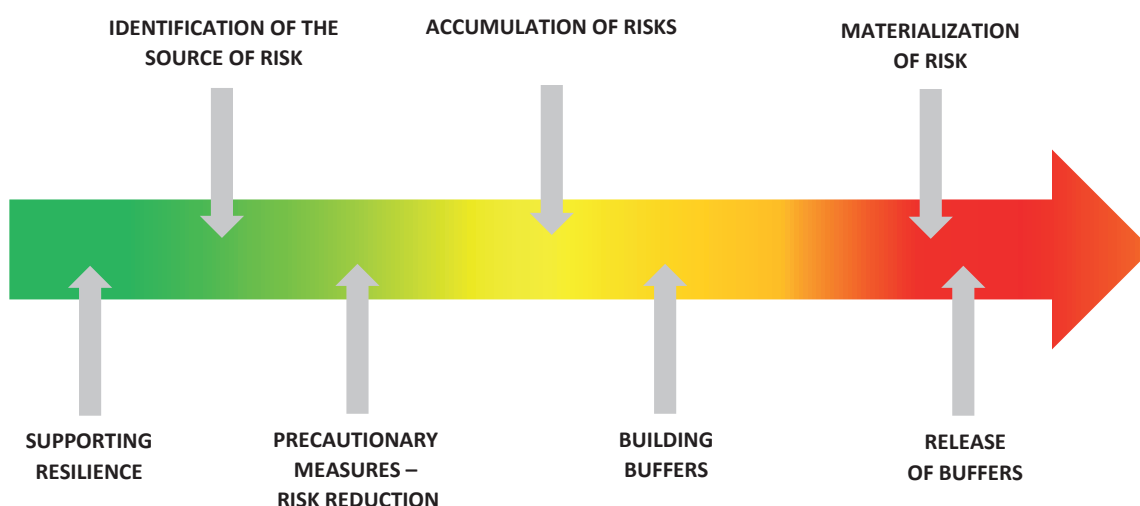
3. Systemic risk

The objective 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 effective application of appropriate risk mitigation tools, the Committee monitors the functioning of the financial system and its interactions with the economic environment in terms of identification of potential sources of risk to financial stability. According to the assumptions defined in the *Macroprudential Policy Strategy in Poland*¹⁵, 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 pose threat to financial stability, the Committee takes measures to build increased resilience of the financial system. Subsequently, it may take measures aimed at impeding the processes that lead to the growth of imbalances. In the case of growth of risk, on the other hand, the Committee may take action by introducing adequate capital buffers. At the phase of systemic risk materialisation, the capital buffers accumulated earlier should be released to cover losses or finance lending.

Diagram 1. Scheme of FSC-M activities



Source: NBP study.

¹⁵ *Macroprudential Policy Strategy in Poland, June 2019*, [Macroprudential-Policy-Strategy-in-Poland.pdf](#) (nbp.pl).pdf.

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

3.1.1. Systemic risk assessment survey

Systemic risk in the Polish financial system is monitored by the Committee on a cyclical basis. The basic tool used for this purpose is the quarterly *Systemic risk assessment by institutions of the financial safety net* survey. Its aim is to collect opinions of institutions represented in the FSC on the sources of systemic risk in the Polish financial system and its environment. Individual systemic risk assessments are jointly analysed and serve as a reference point for the overall assessment presented by the Committee.

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 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 also offer the application 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.

3.1.2. Analysis results – systemic risk assessment in 2023

In 2023, 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 assessment of risk intensity varied due to the changes in the financial system and its environment.

Throughout the year, the overall level of risk recorded in the ORS survey was increasing. Risks associated with FX housing loans continued which resulted, among others, from the growing phenomenon of borrowers challenging the validity of FX loan agreements in court proceedings (among other things, as a consequence of the rulings issued by the CJEU in cases C-520/21¹⁶ and C-287/22¹⁷) in favour of consumers.

¹⁶ CJEU judgement of 15 June 2023 in case C-520/21,

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62021CJ0520>.

¹⁷ CJEU judgement of 15 June 2023 in case C-287/22,

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62022CJ0287>.

At the same time, the Committee recorded the build-up of the new legal risk in the financial system related to unjustified attempts to undermine the credibility and representativeness of the WIBOR interest rate benchmark. In its announcements following the meetings, the Committee emphasised that the claims made both in media reports and in lawsuits had no legal or economic basis. At the same time, it indicated that further escalation of this phenomenon would generate and increase in systemic risk.

In **the first quarter of 2023**, the overall risk assessment increased compared to the last quarter of 2022 due to the addition of a new vulnerability to the list. Their hierarchy has also changed. Legal risk associated with FX housing loans remained the most significant vulnerability of the Polish financial system. All institutions maintained the highest possible ratings regarding: overall assessment, likelihood of risk materialisation and the effects of materialisation of this risk. The new risk of reduced capital surpluses and credit rationing identified by the Committee in December 2022 was ranked second. Another vulnerability in the hierarchy was geopolitical risk resulting from the continuing war in Ukraine. Subsequently, the Committee indicated the risk related to the residential real estate market rated as low or moderate. The weakness of certain institutions and the contagion effect was characterized by the lowest risk.

Moreover, the Committee recognised that the risk of undermining the WIBOR benchmark should be included as a new vulnerability in the hierarchy of systemic risk sources to the extent defined as borrowers challenging the benchmark-based loan agreements and undermining its representativeness and credibility.

In **the second quarter of 2023**, the risk associated with FX housing loans remained the most significant risk in the Polish financial system. The risk of reduced capital surpluses and of credit rationing was ranked second in the hierarchy of vulnerabilities. Geopolitical risk occupied the third place. Another significant weakness was - assessed for the first time as part of the ORS Survey - the risk of questioning the WIBOR in terms of borrowers undermining loan agreements in which the WIBOR reference index is used. Subsequently, the risk related to the residential real estate market rated as low or moderate was indicated. The risk arising from weakness of certain institutions and the contagion effect was the last in the hierarchy of vulnerabilities.

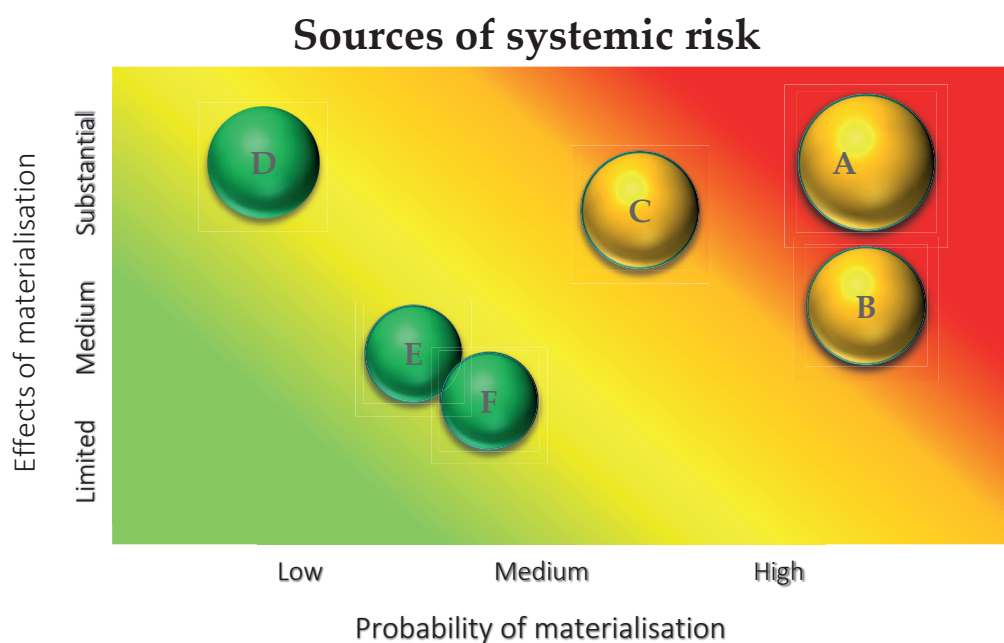
In the **following quarter**, the overall assessment of systemic risk increased, driven by a rise in the rating attributed to the risk of reduced capital surpluses and of credit rationing. However, the hierarchy of risk sources has not changed. The area of FX housing loans remained the key risk.

In the **last quarter of 2023**, a slight decrease in the overall intensity of systemic risk was recorded. The hierarchy of vulnerabilities has changed compared to the previous edition of the survey. The geopolitical risk moved to the second place as a result of reduced overall risk assessment and the likelihood of materialisation of risks *related to reduced capital surpluses and credit rationing*. As a consequence of this change, it ranked third in the hierarchy of risk sources. The legal risk associated

with FX housing loans was again considered as the most significant vulnerability in the Polish financial system. All institutions maintained the highest possible ratings with regard to overall assessment, likelihood of risk materialisation and the effects of materialisation of this risk. The hierarchy in the area of other risk sources has not changed from the third quarter of 2023. Institutions have maintained their overall ratings of the remaining vulnerabilities, i.e. the risk of undermining WIBOR, the situation related to the residential real estate market and the weakness of certain institutions and the contagion effect.

Compared to the situation recorded in 2022, the list of vulnerabilities has been expanded by adding two new risks: (i) reduced capital surpluses and risk of credit rationing and (ii) risk of undermining the WIBOR benchmark. Consequently, the overall level of systemic risk intensity has also increased.

Diagram 2. Map of synthetic systemic risk assessment in 2023 Q4



[A] FX housing loans

[B] Geopolitical risk

[C] Reduced capital surpluses and risk of credit rationing

[D] Risk of undermining the WIBOR benchmark

[E] Residential real estate market

[F] 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 2023 Q4*.

3.1.3. Cyclical reports

In addition to the ORS survey, the Financial Stability Committee also uses other available sources of information and analyses in the process of systemic risk assessment, 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. These include the following documents mentioned in the Act on NBP: (i) the *Financial System Stability Report* and (ii) the *Report on Macroeconomic Stability of the Polish Economy*, which present the assessment of developments in the financial system and the economy from a central bank perspective.

Moreover, for the purposes of assessing risk related to infrastructure the Committee consults the NBP's assessment of the functioning of the Polish payment system and receives a cyclical *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

In 2023, as in previous years, the Committee regularly studied UKNF materials on current developments at banks against the line of judgement on cases concerning FX housing loans.

In 2023, a rise in the number of agreements under litigation to 149.9 thousand agreements was recorded (by 45.5 thousand, i.e. 30% of all agreements under litigation). On a monthly basis, 1 thousand more proceedings were initiated, on average, than in the previous year. The value of the litigation increased respectively by nearly PLN 20 billion, amounting to PLN 58.6 billion at the end of the period. Banks created additional provisions for legal risk in the amount of PLN 21.1 billion; at the end of the period, the value of the provisions reached PLN 57.5 billion, of which the provisions for settlements amounted to PLN 14.9 billion.

Analyses of the situation in the financial system in connection with the persisting legal risk arising from FX housing loans indicated the need for further support of the settlement process at the institutional level. In response to the FSC-M recommendation¹⁸, on 30 September 2023 the regulation of the Minister of Finance came into force, extending the revised risk weight levels for exposures secured by mortgages on immovable property for two years (until 30 September 2025).¹⁹

¹⁸ Resolution No 69/2023 of the Financial Stability Committee of 6 July 2023 on the recommendation concerning risk weights for exposures secured by a mortgage on residential real estate.

¹⁹ Regulation of the Minister of Finance of 28 September 2023 amending the Regulation on higher risk weights for exposures secured by mortgage on immovable property (Journal of Laws 2023, item 2047).

The purpose of these regulations was to sustain conditions conducive to further settlements with borrowers and consequently reduce systemic risk.²⁰

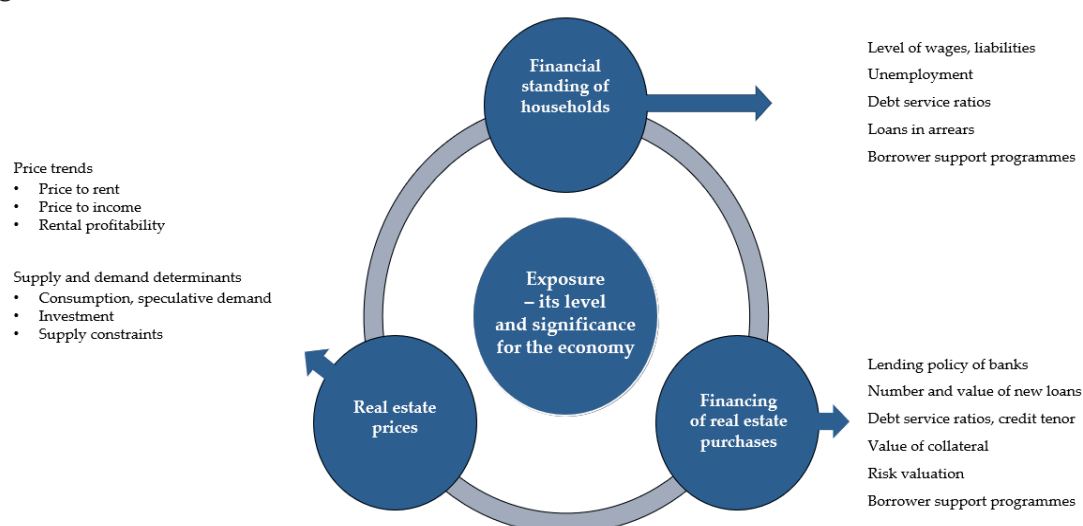
At the end of 2023, the number of disputes conducted as part of lawsuits that were concluded under a settlement, discontinuance of proceedings, issuance of a final judgement by a court of first and second instance or by a judgement of the Supreme Court of the Republic of Poland reached approx. 21.2 thousand. This represented 12.4% of the total number of agreements ever challenged. The number of settlements concluded by banks with borrowers increased significantly, reaching a total of approx. 90 thousand, of which over 40 thousand settlements were concluded in 2023 (more than half of which in accordance with the proposal of the Chairman of the KNF).

Importantly, the legal risk associated with FX housing loans and the related financial standing of banks in 2023 were affected by a series of judgments issued by the Court of Justice of the European Union in favour of borrowers.²¹

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

The FSC-M continued to monitor the risk associated with the residential real estate market on the basis of NBP analyses concerning the developments in the real economy and of financing provided to this market (based on NBP and UKNF data). The assessment of the developments in the real estate market was based on the analytical method adopted by the Committee in 2021, taking into account, among others, the Residential Real Estate Index (RREI).

Diagram 3. Three dimensions of residential real estate market risk



Source: NBP study.

²⁰ More on risk weights in Chapter 4.4.

²¹ In particular, judgments of the CJEU in cases: C-570/21, C-520/21, C-287/22, C-139/22, C-140/22, C-28/22, C-756/22.

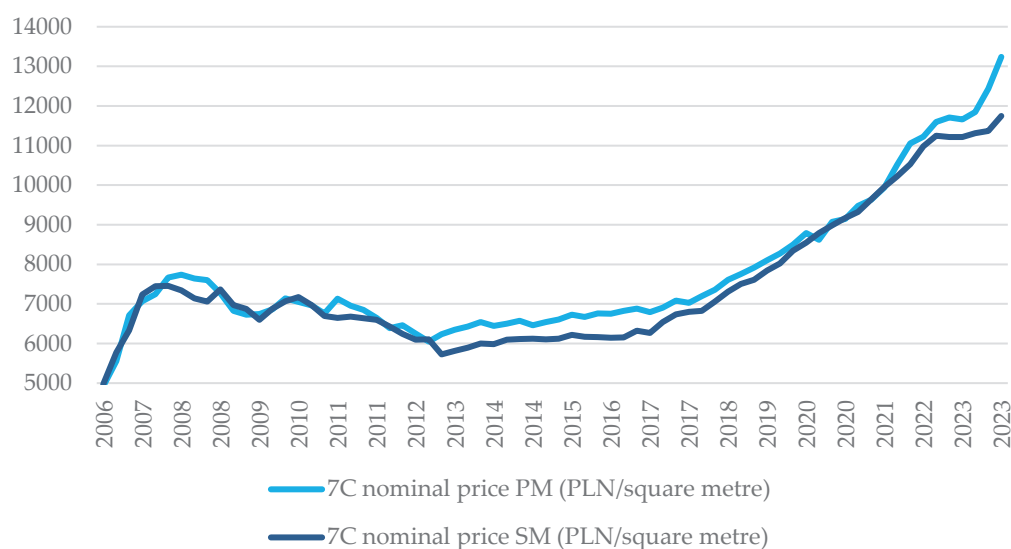
The RREI enables the aggregation of information from various sources and is based on data concerning:

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

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

In 2023 a continued increase in nominal housing prices was observed. In real terms, dwelling prices, both in relation to wages and to the CPI, were falling in the first half of the year before recovering to their upward trend in the third and fourth quarters. The purchase of real estate for investment purposes (rental), especially with a high share of a loan, remained unprofitable throughout the period concerned. The developments in housing prices were mainly affected by supply and demand factors, i.e. (i) the relatively low number of new development projects and (ii) the demand for mortgage loan driven by the government “2% Safe Mortgage” scheme.

Figure 1. Average prices per square metre of dwellings, in nominal terms

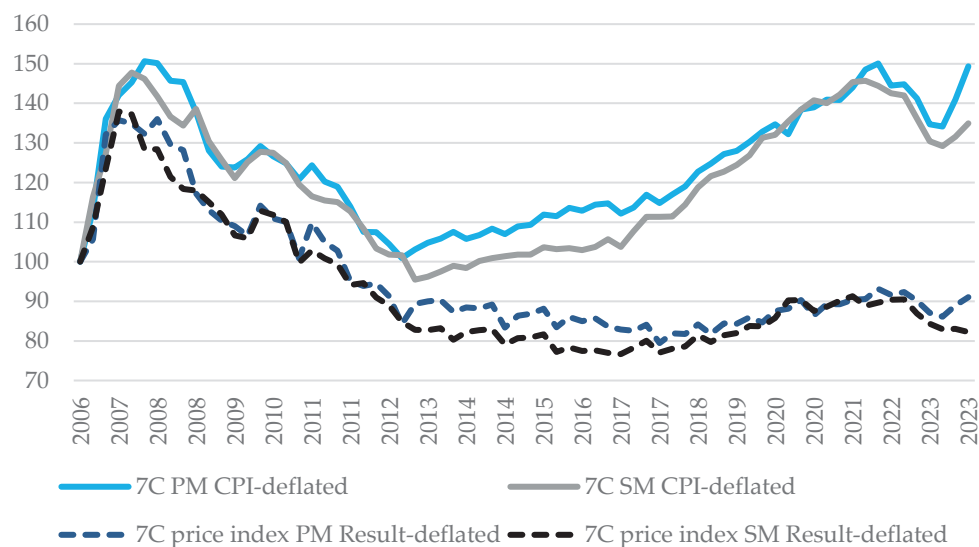


Note: Seven cities: Gdańsk, Gdynia, Kraków, Łódź, Poznań, Warszawa and Wrocław.

PM – primary market, SM – secondary market.

Source: NBP calculations.

An increased demand for mortgage loans was observed as early as in the first half of the year. It was triggered, among others, by concerns of further increases in housing prices as a result of the planned launch of the “2% Safe Mortgage” scheme in July 2023 and the easing of lending standards and terms. However, lending growth remained negative, with a monthly increase in the value of the zloty housing loan portfolio reported only in June 2023.

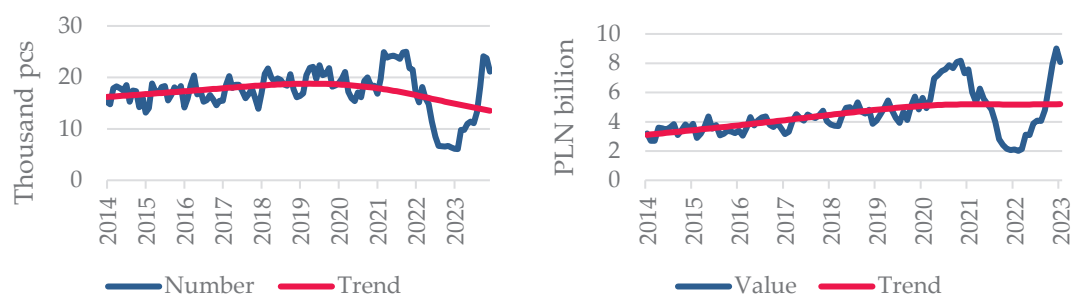
Figure 2. Index of real dwelling prices

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

PM – primary market, SM – secondary market.

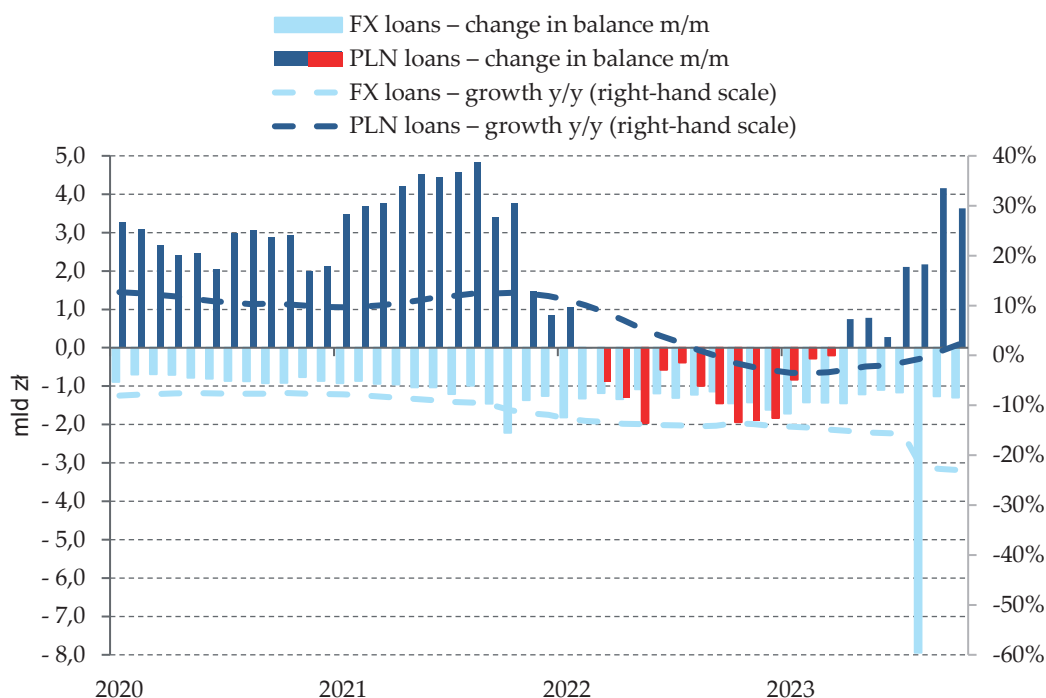
Source: NBP calculations.

Although banks tightened their lending policy in the third and fourth quarters of 2023, lending accelerated and the demand for mortgage loans grew rapidly. By the end of 2023, approx. 100 thousand applications were submitted and almost 60 thousand mortgage loan agreements were concluded under the “2% Safe Mortgage” scheme. Agreements concluded under the scheme accounted for more than half of new loans and were responsible for a significant increase in the value of the zloty loan portfolio. At the same time, the low supply of dwellings offered for sale, recorded throughout the period under review, translated into increases in their nominal and real prices.

Figures 3. and 4. Number and value of new loans

Source: NBP calculations based on NBP and BIK data.

Figure 5. Value of the housing loan portfolio



Source: NBP calculations based on NBP and BIK data.

Data adjusted for FX changes. Decrease in value of FX loans in October 2023 results from the exclusion of Getin Noble Bank in bankruptcy.

In 2023, the situation in the area of settlement of liabilities by borrowers remained stable. The timeliness of housing loan servicing was supported by borrowers' opportunity to take advantage of loan repayment holidays and use the Borrowers' Support Fund (FWK).²²

3.2.3. Situation on the commercial real estate market

In 2023, the situation in the commercial real estate market was still monitored both in real terms (prices, rent rates) and in financial terms (loans). The analyses conducted for the Committee took into account the results of the next edition of the UKNF non-reporting survey of banks related to commercial real estate loans granted to enterprises for 2022.

Poland's commercial real estate sector remains relatively small and is mostly financed by foreign investors. In the face of global tensions and rising interest rates in the euro area, a significant decline in commercial real estate sale transactions was seen. The value of loans granted by Polish

²² More on the Borrowers' Support Fund and the credit holiday scheme, see Chapter 3.2.4.

banks for commercial real estate at the end of 2023 amounted to approx. PLN 62 billion, while for mortgage-secured loans granted to enterprises it reached PLN 139 billion.

The monitoring of the situation, the analysis conducted and the risk assessment process in the commercial real estate sector are consistent with the requirements of the European Systemic Risk Board recommendation of 2016²³ and 2019²⁴ on closing real estate data gaps related to the real estate sector.

3.2.4. Borrowers support programmes

The Financial Stability Committee monitored the implementation of the government aid programme (loan repayment holidays) and the level of borrowers' use of aid under the Borrowers' Support Fund (FWK).

Borrowers' Support Fund

The Borrowers' Support Fund is an aid mechanism introduced by the Act on FWK²⁵ to support borrowers in a difficult financial situation.

At the initial stage of the FWK, i.e. in 2016-2021, the rate of using the FWK's funds remained very low. In this period, the number of agreements for granting support reached 1,286, for the total amount of approx. PLN 37.7 million. The value of the Fund's resources amounted to, on average, approx. PLN 607 million.

Since 2022, a significant increase in the level of borrowers' use of the FWK aid has been visible, primarily due to the increased burden on household budgets by loan instalment repayments as a result of rising interest rates. By 31 December 2022²⁶, banks provided the amount of PLN 1.4 billion to the Borrowers' Support Fund. The resources enabled it to safely continue to support borrowers in the following months of 2023.

²³ ESRB recommendation of 31 October 2016 on closing real estate data gaps related to the real estate sector (ESRB/2016/14).

²⁴ ESRB recommendation of 21 March 2019 amending Recommendation ESRB/2016/14 on closing data gaps related to the real estate sector (ESRB/2019/3).

²⁵ Act of 9 October 2015 on Support to Home Loan Borrowers Who Are in a Difficult Financial Situation (Journal of Laws 2021, items 1516 and 1535).

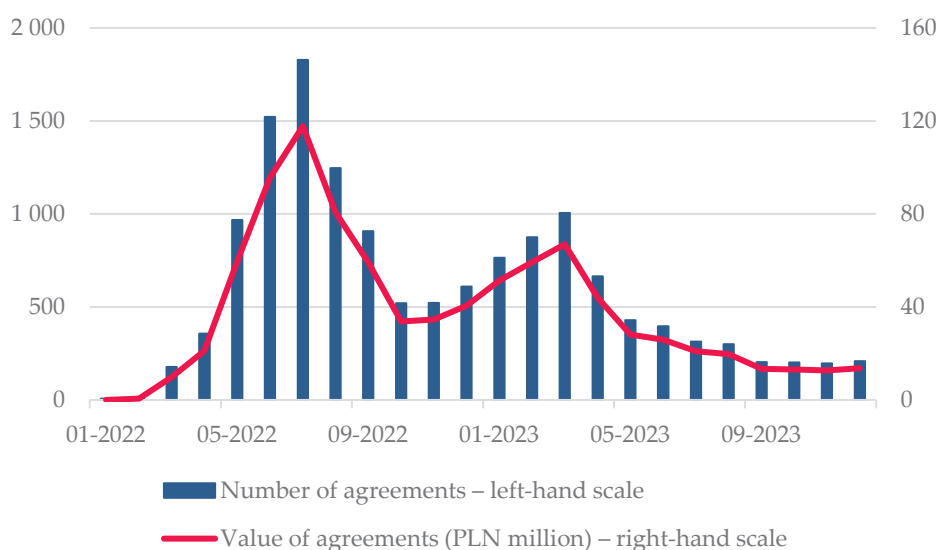
²⁶ In accordance with Article 89(1) of the Act of 7 July 2022 on Crowdfunding of Business Projects and Aid to Borrowers (Journal of Laws 2023, item 414) hereinafter the "Crowdfunding Act".

Table 2. Number of applications and 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
2023	5,559	369

Source: NBP study based on BGK data.

The first quarter of 2023 saw the highest increase in the number of agreements concluded throughout 2023, i.e. 2.6 thousand agreements. Starting from the second quarter of 2023, the borrowers' demand for FWK assistance was steadily diminishing. The number of agreements concluded was gradually decreasing: almost 1,500 agreements were concluded in the second quarter of 2023, approx. 800 agreements in the third quarter and over 600 agreements in the fourth quarter. The reduction in the level of FWK support observed in individual quarters of the year resulted mainly from the gradually improving financial standing of households in this period, which consequently reduced the eligibility of potential borrowers for aid granted under the FWK.

Figure 6. FWK support in 2022-2023

Source: NBP study based on BGK data.

In 2023, borrowers registered more than 5.5 thousand agreements for granting FWK support with Bank Gospodarstwa Krajowego (36.8% less than in the previous year) for the total value of approx. PLN 369 million (33.5% less than in 2022). On the other hand, the value of support disbursed to borrowers under the FWK in 2023 amounted to approx. PLN 246.1 million. The balance of resources of the Borrowers' Support Fund decreased slightly compared to 2022 and stood at approx. PLN 1.847 billion at the end of 2023.

Loan repayment holidays

The government program to support borrowers in the form of loan repayment holidays was valid from July 2022 to the end of 2023²⁷. It was addressed to borrowers with a mortgage loan denominated in PLN taken out to meet own housing needs. It offered a possibility to suspend the repayment of loan instalments. The option to suspend repayment applied to one loan only and covered a period of up to eight monthly loan instalments, four in 2022 and 2023, each.

The analysis of the figures indicated that throughout 2023, loan repayment holidays were very popular among borrowers and eagerly used by them.

According to BIK data, approximately 1.9 million borrowers took advantage of loan repayment holidays. In the entire period, approx. 1.157 million credit accounts were covered by the scheme, for the total amount of PLN 286 billion. The total cost of the scheme for banks was approx. PLN 14 billion. Loan repayment holidays primarily related to high-value loans taken out mainly during the period when interest rates were low (2020-2021). The analyses show that a substantial part of households participating in the scheme used the money saved in this way to overpay their mortgage loan. The value of loan overpayments in 2022 and 2023 was therefore significantly higher than in previous years. Polish Bank Association (ZBP) data shows that the value of housing loan repayments and overpayments over the last few years was as follows: in 2020 – PLN 18.4 billion, in 2021 – PLN 26.7 billion, in 2022 – PLN 52.4 billion, in January-October 2023 – PLN 33.1 billion.²⁸

3.2.5. Cyber risk

Financial institutions, and consequently the financial system as a whole, are particularly vulnerable to cyber risks and are increasingly becoming targets of cyber-attacks.

Within the EU, the European Systemic Risk Board issued a recommendation on building the foundations for the efficient response system in the event of a cross-border ICT incident.²⁹ The

²⁷ The scheme introduced by the Crowdfunding Act.

²⁸ ZBP opinion on the draft amendment to the Act of 9 October 2015 on Support to Home Loan Borrowers Who Are in a Difficult Financial Situation and the Act on Crowdfunding of Business Projects and Aid to Borrowers of 4 January 2024.

²⁹ More on Recommendation on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17), see Chapter 6.3.

Committee also monitors the situation in this regard. Accordingly, in 2023 the FSC-M read the UKNF's conclusions of analyses in the area of cyber risk in the Polish financial system, the risks associated with it and included these issues in its annual work schedule.

The ICT (Information and Communication Technology) risk analysis is carried out by the UKNF in six financial market sectors (banking, capital, insurance, pensions, payment services and cooperative savings and credit unions) based on a quarterly survey, inspection results and information on payment incidents. The analysis presented to the Committee in December 2023 shows that the risks are at a similar, moderate level across individual sectors. No developments affecting the financial market stability have been recorded.

According to the UKNF, the domestic financial market in 2023 remained stable with regard to ICT and cyber risks. No major incidents posing threat to the stability of the domestic financial market have been recorded.

3.2.6. Monitoring of the process of reforming the benchmarks

The reform of the WIBOR and WIBID benchmarks in 2023 remained the subject of interest to FSC-M. At its meetings, the Committee was updated by UKNF representatives on the progress of work carried out by the National Working Group (NWG). For most of the year, NWG's work on the benchmark reform followed the plan adopted in the Roadmap.³⁰ However, in October 2023 the NWG Steering Committee decided to postpone until the end of 2027 the maximum implementation dates for the Roadmap.

This issue remains of interest to the Committee both due to its impact on the stable functioning of the financial market and because of the Committee's involvement in the process related to the designation of a replacement for the key benchmark at the legislative level^{31,32}.

3.2.7. Analysis of the proposal to introduce a long-term financing ratio

The Committee studied the assumptions of the UKNF's concept on the introduction of a new requirement for long-term mortgage loan funding and the long-term financing ratio (WFD).

The introduction of the new instrument is aimed at improving the structure of banks' mortgage loan financing, i.e. it will serve to encourage banks to extend the maturity of their liabilities used

³⁰ Roadmap – a schedule for the safe and coherent replacement of the WIBOR and WIBID interest rate benchmarks, published on the UKNF website, https://www.knf.gov.pl/knf/en/komponenty/img/mapa_drogowa_ang.pdf.

³¹ Article 61b(1) of the Act on Macroprudential Supervision.

³² See more in Chapter 5.8 of the *Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee 2022*, <https://nbp.pl/wp-content/uploads/2023/08/Annual-Report-on-Macroprudential-Supervision-Activity-of-the-Financial-Stability-Committee-2022.pdf>

for mortgage loan financing by issuing long-term debt instruments (such as covered bonds), with the consequent reduction of both interest rate risk and liquidity risk in the bank portfolio. It is also expected to provide a strong impetus to strengthen the development of the covered bond market as an alternative (to bank deposits) and a stable source of financing for bank activities.

The Committee held a preliminary discussion on the UKNF proposal. A consensus was reached on the diagnosis that the Polish banking sector demonstrates a high maturity mismatch between assets and liabilities. It results from the significant share of deposits in the financing of lending. From a macroprudential policy perspective, the aspect important to the Committee is the relationship of the WFD ratio with other micro- and macro-prudential instruments, including in particular the banks' capital buffer requirements (e.g. as a result of the introduction of the macroprudential buffer), which will result in a decline of the level of the WFD. The issue of increased financing costs associated with the issuance of covered bonds and the exchange rate risk in the case of foreign issues was also indicated. It was agreed that in due course, at the request of the KNF and in accordance with the provisions of the Banking Law, the Committee would issue an adequate opinion on the WFD project.

4. Macroprudential instruments

4.1. Countercyclical capital buffer

The countercyclical buffer (CCyB) serves to strengthen the resilience of the banking system and to reduce the cyclical risk in such a way as to, on the one hand, maintain the adequate condition of the financial system in the event of unforeseen shocks and, on the other hand, counteract excessive bank lending expansion, which in the long term could result in its collapse and a financial crisis. The obligation to apply a countercyclical capital buffer has been commonly applied in the EU since 1 January 2016. In accordance with the Act on Macroprudential Supervision, the countercyclical capital buffer rate introduced in Poland is 0% and will remain in force until formally amended by the Minister of Finance. It can be determined in the range from 0% to 2.5%. If the buffer rate is determined within this range, it is automatically reciprocated by other EU countries. Consequently, financial institutions are required to maintain an institution-specific countercyclical buffer rate, which is a weighted average of the buffer rates associated with individual credit exposures (domestic and foreign).

The Financial Stability Committee is required to calculate the countercyclical buffer guide on a quarterly basis³³ and submit a recommendation on cyclical systemic risk intensity and the level and adequacy of the buffer to the Minister of Finance. Assessment of the level of the CCyB, which takes into account the Committee's recommendation, remains within the remit of the Minister of Finance. The Minister of Finance specifies the countercyclical buffer rate and the date from which institutions should apply it in the relevant regulation. As a standard, banks have 12 months to prepare for meeting this requirement.

In accordance with Article 25 of the Act on Macroprudential Supervision, the Committee publishes information on the countercyclical buffer rate on a quarterly basis. The Committee is also obliged to provide detailed information to the European Systemic Risk Board in the event of a change in the buffer rate.

In all quarters of 2023, the Committee recommended that the Minister of Finance should maintain the countercyclical capital buffer rate at 0%. The Minister of Finance accepted the recommendations

³³ The countercyclical buffer rate guide is defined in Article 23(1) and (2) of the Act on Macroprudential Supervision.

The buffer guide is a variable reflecting the credit cycle and the risk associated with excessive lending growth in the national economy, taking into account the specific nature of the Polish economy and its financial system. It is based on the indicator of deviation from the long-term trend of change in the credit to GDP ratio.

and, consequently, the countercyclical buffer was kept at the level of 0% throughout the year, i.e. unchanged in relation to the level set in the Act on Macroprudential Supervision.³⁴

When issuing the recommendations, the Committee took into consideration analytical materials³⁵ which presented current information on the developments in the credit cycle indicators. The recommended rate of the buffer was set, among other things, based on the credit gap (a deviation of the ratio of credit for the private non-financial sector to GDP³⁶ from its long-term trend), early warning models and other indicators.

Table 3. Summary of key indicators monitored in 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

Source: NBP study.

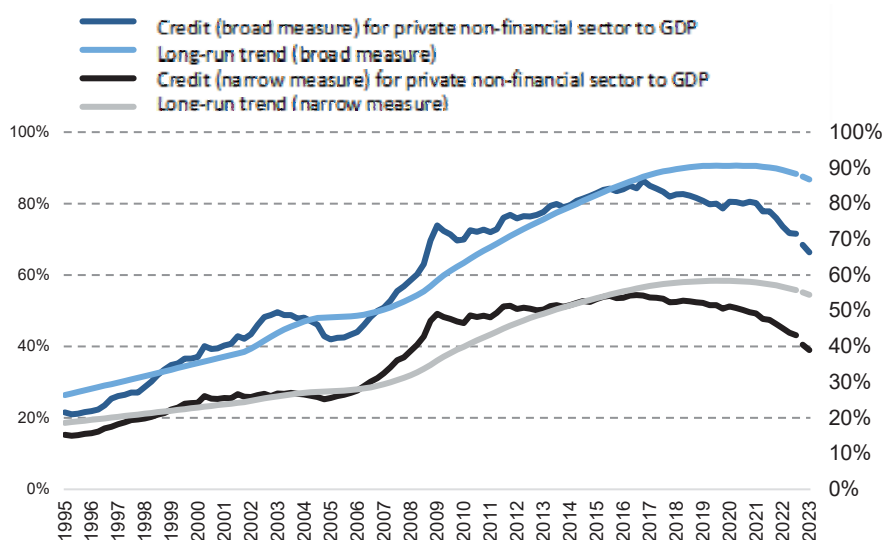
³⁴ In accordance with Article 83 of the Act on Macroprudential Supervision, from 1 January 2016 the level of the countercyclical buffer been 0%.

³⁵ Analytical materials discussed at FSC-M meetings are available on the NBP website:
<http://www.nbp.pl/en/financial-system/macprudential-supervision/publications-ms>

³⁶ The non-financial sector debt is provided, taking account of the issue of debt instruments, by non-financial corporations.

The credit cycle indicators analysed by the Committee showed that the risk associated with credit expansion was very low.³⁷ As measured by early warning models, it has remained relatively stable since 2005. The credit³⁸ to GDP ratio (a broad measure) indicated a downward trend, from a level of 62.9% at the end of 2023. The macroeconomic conditions, i.e. the relatively high level of interest rates, the deterioration of the economic outlook and high uncertainty, meant that in 2023 credit growth remained low in Poland.

Figure 7. Credit-to-GDP ratio



Source: NBP calculations.

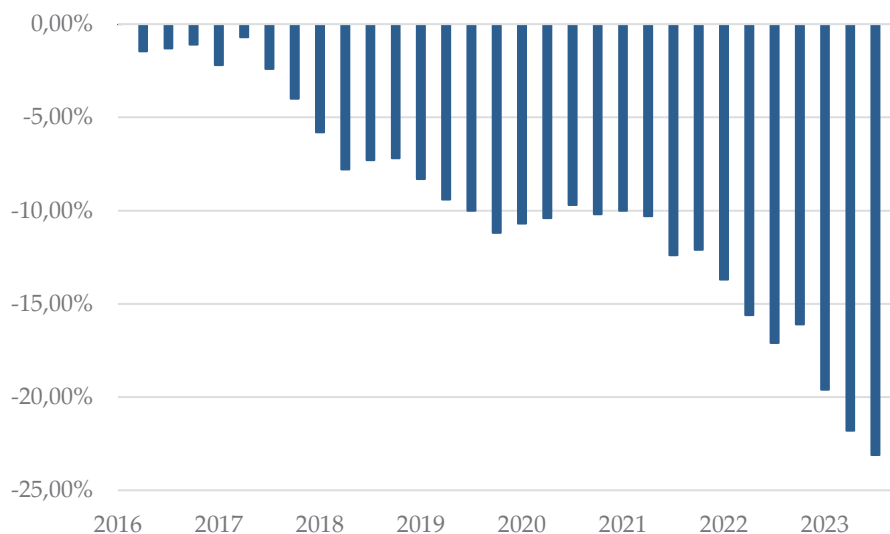
In 2023, the credit gap³⁹ widened, which also implied no risk associated with excessive lending. In the subsequent quarters of 2022, it was running at: -16.1%, -19.6%, -21.8% and -23.1%, respectively. For comparison, in line with the assumptions and methodology used, the rationale for activating a countercyclical buffer (taking into account other indicators) is a positive credit gap of more than 2%.

Tensions in the financial system as measured by the Composite Indicator of Systemic Stress (CISS) remained at record high levels. One of significant reasons for the increases is the war in Ukraine. With the very low risk of excessive lending, this was an additional prerequisite for maintaining the countercyclical buffer at the current level of 0%.

³⁷ The risk would be high if the country was in the expansion phase for a long time.

³⁸ 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.

³⁹ The indicator of deviation from the long-term trend of change in the credit to GDP ratio.

Figure 8. Credit gap

Source: NBP calculations.

Box 2. Work on revising the methodology for determining the countercyclical buffer rate

In 2023, the Committee analysed the rationale for re-activating the macroprudential capital buffer. Recognising that there is room for such action, work was initiated with the aim to determine the optimal model for activating the buffer. The systemic risk buffer (SRB), effective in Poland from January 2018 to March 2020, and the so-called positive neutral rate for the countercyclical capital buffer (nCCyB)⁴⁰ were taken into account. In 2023, the international experience was reviewed, the legal aspects from a national and EU regulatory perspective were analysed and work on building a relevant model to determine the adequate level of capital buffers in the banking sector was carried out.

After the experience of the COVID-19 pandemic, some EU countries decided to change their approach to the application of the countercyclical buffer, which previously used to serve as a countercyclical instrument closely linked to the credit cycle. It was not possible to identify all sources of risk well in advance, while the scale of the identified risk itself may be miscalculated. This is due to both the complexity of the economic system and the potential occurrence of crisis situations in the financial system even despite the lack of financial imbalances. Such a situation created a risk that if certain shocks materialise, no releasable capital buffers would be available or the level of buffers available would be too low. Under such circumstances, the macroprudential authority may be deprived of a significant response tool. Consequently,

⁴⁰ In foreign publications, the buffer is usually referred to as the *non-zero neutral countercyclical capital buffer* (nCCyB).

the financial system may not have sufficient capital as a source to cover potential losses and allow continued lending.

In accordance with the new approach to the application of the countercyclical buffer, it could also apply in the period of standard risk environment, i.e. also outside periods of the build-up of financial imbalances. At the same time, its aim is both to act counter-cyclically and to build resilience against hard-to-predict shocks.

In December 2023, the Committee concluded that a desirable model for building the capital resilience of Poland's banking sector would be the establishment of a neutral level of the countercyclical buffer. However, the change in the approach to the application of the countercyclical buffer required a number of changes to the FSC policy and analytical documents. This work was carried out at the end of 2023 and at the beginning of 2024 (more in Chapter 5.2).

4.2. O-SII buffer

The process of identifying and calibrating the Other Systemically Important Institution (O-SII) buffer rates remains within the remit of the Polish Financial Supervision Authority. The KNF, by way of an administrative decision and after consulting the FSC, identifies other systemically important institution (O-SII) and imposes an appropriate level of buffer⁴¹, subject to review on an annual basis.⁴² When assessing O-SII banks, the KNF also takes into consideration the EBA guidelines⁴³ and the FSC recommendation of 2022 on the bank assessment methodology.⁴⁴

The assessment of the systemic importance of an institution is based on the following categories defined in the Act on Macroprudential Supervision:

- size of the institution,
- importance for the Polish economy,
- importance of cross-border activity,
- linkages of a given institution with the financial system.

⁴¹ Article 39(1) of the Act on Macroprudential Supervision.

⁴² Article 46(1) of the Act on Macroprudential Supervision.

⁴³ 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).

⁴⁴ Resolution No 60/2022 of the Financial Stability Committee of 10 May 2022 concerning the recommendation on the methodology, criteria for the identification and calibration of buffers of other systemically important institutions.

Review of the adequacy of the Other Systemically Important Institutions (O-SII) buffer rate in 2023

The list of banks identified as systemically important institutions and their assigned O-SII buffers in 2023 remained unchanged from 2022.

In September 2023, the KNF carried out its cyclical review of financial institutions, in which it identified the ten entities that met the criteria to be recognised as other systemically important institutions and proposed buffer rates unchanged from the previous year in the range of 2% to 0.25%. The group of entities identified as O-SII in 2023 included: PKO Bank Polski, Bank Polska Kasa Opieki, Santander Bank Polska, ING Bank Śląski, mBank, BNP Paribas Bank Polska, Bank Millennium, Bank Handlowy, SGB-Bank and Bank Polskiej Spółdzielczości.

Table 4. Banks identified as O-SII:

Bank	Level of the O-SII buffer (%)				
	2019	2020	2021	2022	2023
Powszechna Kasa Oszczędności Bank Polski SA	1.00	1.00	1.00	2.00	2.00
Bank Polska Kasa Opieki SA	0.75	0.75	0.75	1.00	1.00
Santander Bank Polska SA	0.75	0.75	0.75	1.00	1.00
ING Bank Śląski SA	0.50	0.50	0.75	0.50	0.50
mBank SA	0.75	0.50	0.50	0.50	0.50
BNP Paribas Bank Polska SA	0.25	0.25	0.25	0.25	0.25
Bank Millennium SA	---	0.25	0.25	0.25	0.25
Bank Handlowy w Warszawie SA	0.25	0.25	0.25	0.25	0.25
SGB-Bank SA	0.1	0.1	0.1	0.25	0.25
Bank Polskiej Spółdzielczości SA.	0.1	0.1	0.1	0.25	0.25

A change from the previous year is highlighted in blue.

Source: NBP study based on KNF data⁴⁵.

⁴⁵https://www.knf.gov.pl/knf/pl/komponenty/img/Przegląd_adekwatności_wskaznika_bufora_innej_instytucji_o_znaczeniu_sys_temowym_86896.pdf.

The lack of changes in the list of banks classified as other systemically important institutions and in the amount of the O-SII buffer rates implied that there was no need to amend the decisions issued by the Polish Financial Supervision Authority in 2022. Accordingly, there was also no need for the Financial Stability Committee to issue its opinions on this matter in 2023.

In September 2023, the Polish Financial Supervision Authority requested the Committee to notify its intention to impose O-SII buffers. Subsequently, in accordance with the procedure in place, the notification form closing the O-SII institutions and buffer review process was submitted by the Financial Stability Committee to the ESRB on 22 November 2023.

4.3. G-SII buffer

The process of identifying a global systemically important institution (G-SII) and applying a buffer adequate to that institution, like the O-SII, remains within the remit of the Polish Financial Supervision Authority. The KNF identifies global systemically important institutions and imposes on them respective buffers at annual frequency.

In September 2023, the Polish Financial Supervision Authority informed the Financial Stability Committee that none of Poland's largest financial institutions met the adopted threshold of EUR 200 billion for the measure of exposure of a credit institution operating under a licence granted in the Polish territory.

Consequently, the KNF has not identified a global systemically important bank in the territory of Poland.

4.4. Risk weights

The Minister of Finance, after consulting the KNF⁴⁶, may determine a higher risk weight for exposures secured by real estate mortgages. The CRR sets the 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 of future trends in the real estate market. Increasing risk weight may also be determined by financial stability considerations. If the accumulation of risk

⁴⁶ Pursuant to Article 128(6a) of the Banking Law.

associated with exposure is found, the Financial Stability Committee may also initiate the process, i.e. issue a recommendation in this regard.⁴⁷

The higher risk weights applicable in Poland since 2017⁴⁸ provided a response to the risk associated with the portfolio of FX housing loans. The instrument was to provide an incentive for reducing the value of these portfolios. In 2020, in a bid to reduce fallout from the COVID-19 pandemic, the Committee 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.⁴⁹ In September 2021, the Committee issued another recommendation on risk weights for exposures secured by a mortgage on residential real estate⁵⁰, with the aim of supporting the settlement process for resolving disputes concerning FX housing loans. 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 specific rules for determining risk weights for FX loans subject to settlement proceedings were intended to be temporary, to encourage banks to enter into settlement processes as soon as possible.

In 2023, recognising settlement processes as an important element towards addressing and mitigating risks arising from FX housing loans and supporting the banking sector's strive for out-of-court resolution of FX loan disputes, while remaining in line with the earlier FSC recommendation of 13 January 2017⁵¹, the Committee recommended to the MF to extend by two years the effective term of these specific rules for determining risk weights⁵², i.e. by 30 September 2025, as reflected in the Ministry of Finance regulation of 22 September 2023.⁵³ The levels of risk weights applicable in Poland for individual types of exposure are presented in Table 5.

⁴⁷ In accordance with Article 18 of the Act on Macroprudential Supervision.

⁴⁸ 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).

⁴⁹ Resolution No 38/2020 of the Financial Stability Committee of 13 July 2020 on the recommendation regarding risk weights for exposures secured by mortgages on commercial real estate.

⁵⁰ 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.

⁵¹ Resolution No 14/2017 of the Financial Stability Committee of 13 January 2017 on the recommendation regarding the restructuring of the portfolio of FX housing loans.

⁵² Resolution No 69/2023 of the Financial Stability Committee of 6 July 2023 on the recommendation concerning risk weights for exposures secured by a mortgage on residential real estate.

⁵³ Regulation of the Minister of Finance of 22 September 2023 amending the Regulation on higher risk weights for exposures secured by mortgage on real estate (Journal of Laws 2023, item 2047).

Table 5. Applicable risk weight levels

Exposure type	Risk weight	Legal basis	Valid from
Exposures secured by a mortgage on residential real estate where the principal or interest instalment is dependent on changes in the exchange rate of the 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 08 October 2020	16 October 2020
Exposures secured by a mortgage on residential real estate for which the principal or interest instalment is dependent on changes in the 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 and of 22 September 2023	from 29 March 2022 to 30 September 2025

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).⁵⁴

⁵⁴ Pursuant to Article 55(4) of the Act on Macroprudential Supervision.

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 whether they comply with the combined buffer requirement. In case of non-compliance, an institution cannot make payments related to Common Equity Tier 1 (e.g. dividend payments).

Table 6. Combined buffer requirement parameters in 2023

Year	Conservation Buffer ⁵⁵	CCyB Buffer	O-SII Buffer ⁵⁶	Systemic risk buffer	COMBINED BUFFER REQUIREMENT
2023	2.5%	0%	10 banks: 0.25% – 2%	-	2.5% – 4.5%

Source: NBP study.

The combined buffer requirement means that banks in Poland are charged from 2.5% (systemically irrelevant) to a maximum of 4.5% under the highest level of the imposed O-SII buffer on account of macroprudential instruments. This level has remained unchanged compared to 2022.

⁵⁵ The conservation buffer is the basic macroprudential capital surcharge, constituting the first level of securing banks' capital resources. 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 repurchases) follow, 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.

⁵⁶ The table does not include the G-SIIs because no such institution has been identified in the Polish financial system.

5. Other macroprudential activities

5.1. Development of a methodology for analysis and assessment of cross-border effects

Pursuant to Recommendation ESRB/2015/2 (sub-recommendation A), national authorities implementing macroprudential instruments are required to assess their cross-border effects. This assessment should focus on two channels of transmission:

- potential regulatory arbitrage and potential undesired effects (leakages),
- cross-border effects for other EU Member States (cross-border risk adjustment, i.e. changes in banks' international exposures, including both direct cross-border exposures and exposures through branches or subsidiaries).

An assessment of cross-border effects should take place both before the implementation of the macroprudential instrument (ex-ante) and during its lifetime, with a frequency of at least one year (ex-post).

In order to systematise the analyses of cross-border effects assessments, in 2023 the Committee adopted a methodology for conducting assessments from the perspective of national macroprudential instruments and the procedure for its application. The methodology is built on indicators suggested by the ECB Financial Stability Committee and the ESRB and takes into account the analysis of (1) inward transmission, and (2) outward transmission.

- 1) Inward transmission – the impact of domestic macroprudential policy on the national economy through the activities of foreign actors:

These effects relate in particular to the potential existence of regulatory arbitrage and the impact of domestic regulations on the cross-border activities of foreign institutions, i.e. the size and structure of exposure of foreign entities to a country. For example: (i) an increase in sectoral capital requirements related to real estate financing may encourage foreign financial institutions to reduce their exposure to domestic real estate financing (impact on cross-border activities), (ii) an increase in capital requirements, e.g. by imposing a buffer, may result in an increase in direct financing from abroad or the transformation of a subsidiary into a branch (regulatory arbitrage resulting in a lower capital burden at unchanged exposure).

- 2) Outward transmission – the impact of domestic macroprudential policy on foreign economies:

These effects are primarily related to the cross-border activities of domestic financial institutions. For example, as a result of imposing of a capital buffer on a Polish bank, it may

limit its foreign activity by reducing, among other things, the financing of enterprises in other countries.

The methodology for an assessment of cross-border effects of Polish macroprudential instruments will be used:

- **prior to the implementation of the instrument (ex-ante):** at the stage of analytical work preceding the issuance of the recommendation by the FSC on the application of the specific macroprudential instrument; the analytical results will provide the basis for the submission of the required information in the notification form addressed to the ESRB,
- **during the effective term of the instrument/requirement (ex-post):** the analysis will be carried out annually; the identification of changed circumstances and the occurrence of cross-border effects will require measures aimed at submitting a request for reciprocity by other EU countries.

The assessment carried out on the basis of the developed method allows for systematising and objectifying to a greater extent of the activities undertaken by the FSC and ensures consistency with Recommendation ESRB/2015/2. Moreover, it has contributed to extension of the analytical instruments used for assessing the materiality of third countries in accordance with Recommendation ESRB/2015/1.

It should be indicated that the results of the analysis conducted on 2022 data using the adopted new analytical scheme confirmed that the impact of Polish macroprudential instruments on other jurisdictions is insignificant. This is mainly related to the low scale of cross-border activity of Polish financial institutions.

5.2. Analysis of the rationale for activating a positive neutral rate for the countercyclical capital buffer

Following the 2020 release of the systemic risk buffer⁵⁷, banks in Poland were not burdened with any other capital buffer imposed as a result of the macroprudential policy they pursue. In 2022, as the rationale for releasing the SRB had ceased, the Committee initiated the discussion concerning a re-activation of the buffer.

In 2023, a new advanced early warning model was developed for the purposes of assessing the intensity of systemic risk, also providing the opportunity to determine the adequate level of capital buffers in the banking sector.

⁵⁷ 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, which happened as a consequence of the occurrence of the pandemic risk.

In this context, the Committee considered the introduction of a capital buffer in Poland in two possible legal forms: (i) a countercyclical capital buffer (CCyB) or (ii) a systemic risk buffer (SRB). The work included a review and a comparative analysis of current trends in the use of macroprudential policy instruments and the scope of application of the CCyB and the SRB in other European countries. The application of these buffers in 25 cases was analysed and the following aspects were assessed: (i) the rationale for introducing additional capital requirements, (ii) the stages and pace of introduction, (iii) the target level of the buffers, the structure of the applicable capital buffers, (iv) the nature of the activities undertaken to introduce the buffers (amendments to national law, a methodology for application and calibration of the buffers).

Diagram 4. nCCyB in the European countries



Source: NBP study based on ESRB data.

The analysis of formal and legal considerations from the perspective of national regulations in the context of the differences between the two buffers showed the potential advantage of introducing a countercyclical buffer in the Polish financial system. The choice was also determined by the nature of the risks against which the capital buffer would be activated. The requirement is intended to significantly strengthen the banking sector's resilience to unexpected and difficult-to-predict shocks that may adversely affect the developments associated with the credit cycle. Moreover, the

12-month adjustment period set out in the Act on Macroprudential Supervision was assessed as optimal to ensure that the banking sector adapts appropriately to the new capital requirement. In 2023, the Committee carried out a full range of analytical work on the desired approach to setting the countercyclical capital buffer. At the December 2023 meeting, it was concluded that the documentation for the new strategy in this area would be adopted in 2024 and that the strategy would be employed to determine the desired level of the CCyB for the domestic banking system.

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 sector

In 2021, the Committee adopted recommendations concerning measures to support the stable functioning of cooperative banks⁵⁸ and cooperative savings and credit unions.⁵⁹ 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 sector⁶⁰ addressed to cooperative banking entities.

In 2023, as in previous years, FSC-M monitored the progress of work carried out by various recipients of the recommendations and took note of the progress of activities undertaken by cooperative banking entities.

In September 2023, the Act on the pan-European Personal Pension Product came into force.⁶¹ It includes regulations responding to the majority of the Committee's recommendations addressed to the MF and the KNF regarding measures to support the stable functioning of cooperative savings and credit unions.

As part of the measures undertaken by the associating banks and Institutional Protection Schemes (IPS) to improve the efficiency of cooperative banking in 2023, integration processes continued, increasingly driven by banks' partnership rather than the necessity related to the poor financial standing of one of the banks. The support activities of the IPSs involved, among other things, supporting the banks in developing and taking independent merger decisions and preparing the banks to operate effectively and safely after the merger. On the other hand, the associating banks carried out projects related to the development of digital services, remote access channels and

⁵⁸ Resolution No 46/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative banks.

⁵⁹ 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.

⁶⁰ Resolution No 47/2021 of the Financial Stability Committee of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector.

⁶¹ Act of 7 July 2023 on the pan-European Personal Pension Product (Journal of Laws 2023, item 1843).

mobile functionalities for customers as well as to the design of a modern product offer. The measures served to diversify and make the offer more attractive.

Recent changes in the regulatory environment have provided the support for the positive processes taking place in the cooperative banking and credit union sectors. In the case of cooperative banks, the recommendations contributed to intensifying the consolidation processes and increasing cost effectiveness, as well as optimising support measures within the system. On the other hand, the sector of cooperative savings and credit unions has gained access to new potential sources of capital (the so-called investor shares), which can be used to strengthen its capital base. The legal framework created for increasing the functional integration of the system will improve the sector's cost-effectiveness.

In December 2023, the Committee assessed the actions taken and accepted the recommendations as implemented.

5.4. Opinion on the amendment to Recommendation S

In June 2023, the FSC-M issued an opinion⁶² regarding the draft amendment to Recommendation S⁶³ concerning good practices related to the management of mortgage-secured credit exposures. The draft included, among other things, regulations concerning a loan with a guaranteed own contribution (already reviewed by the Committee in 2022⁶⁴), the "2% Safe Mortgage" and changes in the way the interest rate buffer is determined when assessing creditworthiness.

The Committee found the proposed amendments as justified and issued a positive opinion on the draft.

As part of its opinion on Recommendation S, the Committee also proposed the introduction of a countercyclical interest rate buffer mechanism, which would have a positive impact on fluctuations in the level of lending and consequently on financial stability.

5.5. Review of systemically relevant entities

The Financial Stability Committee annually updates the list of financial institutions relevant to the financial system, the so-called Systemically Relevant Entities (PSI).⁶⁵

⁶² Resolution No 67/2023 of the Financial Stability Committee of 16 June 2023 on the opinion regarding the proposed amendments to Recommendation S concerning good practices related to mortgage-secured credit exposures.

⁶³ https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_S_nowelizacja_czerwiec_2023_82872.pdf.

⁶⁴ 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 mortgage-secured credit exposures.

⁶⁵ Article 5(2) of the Act on Macroprudential Supervision.

The cyclical review of the PSI list was carried out on the basis of the 2019 methodology.⁶⁶

In 2023, as in the previous year, the Financial Stability Committee recognised the following entities as Systemically Relevant Entities:

1. banks identified as O-SIIs⁶⁷:
 - Powszechna Kasa Oszczędności Bank Polski SA,
 - Bank Polska Kasa Opieki SA,
 - Santander Bank Polska SA,
 - ING Bank Śląski SA,
 - mBank S.A.,
 - BNP Paribas Bank Polska SA,
 - Bank Millennium SA,
 - Bank Handlowy w Warszawie SA,
 - SGB-Bank SA,
 - Bank Polskiej Spółdzielczości SA;
2. systemically important payment systems, securities clearing and settlement systems⁶⁸,
3. PZU SA,
4. PZU Życie SA,
5. GPW Benchmark SA,
6. SKOK im. F. Stefczyka,
7. National Association of Cooperative Savings and Credit Unions,
8. Bank Gospodarstwa Krajowego.

⁶⁶ PSI identification methodology adopted by the Committee in June 2019.

⁶⁷ In accordance with the adopted methodology, the group of PSIs includes all institutions identified by the KNF as O-SII.

⁶⁸ Service provision systems, not necessarily the owners of the above systems, are also identified as PSIs.

6. International cooperation

6.1. 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 rates 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). In the same year, the FSC-M adopted its own methodology for identifying relevant third countries for the purposes of implementing this recommendation.

The analysis using this methodology conducted by NBP showed that no relevant third countries were still identified for the Polish banking system in 2023.⁶⁹ The table below presents the countries to which Polish banks had the largest exposures. None of the countries to which the Polish banking sector had material exposures (Luxembourg and France) are third countries from an EU perspective.

Table 7. The largest exposures of Polish banks

Country	Average share of exposures in 8 quarters in 2022	Average share of exposures in 8 quarters in 2023	Is exposure over 1% in each of the last two quarters?	Is the exposure material ⁷⁰ ?
Luxembourg	0.99%	1.09%	YES	YES
France	0.52%	1.06%	YES	YES
United Kingdom	0.74%	0.80%	NO	NO
Germany	0.49%	0.67%	NO	NO
Sweden	0.63%	0.56%	NO	NO

Source: NBP study based on FINREP and COREP data.

⁶⁹ Based on the Committee's decision at the national level, third countries that are directly monitored by the ESRB are not analysed. In 2023, in accordance with the published list, they included: Brazil, China, Hong Kong, Mexico, Russia, Singapore, Switzerland, Turkey, the United Kingdom and the United States. The list of third countries monitored by the ESRB is reviewed annually in consultation with all EU countries.

⁷⁰ Exposure is considered material if the average share of a given country in the Polish banking sector's exposure calculated over the horizon of eight quarters is over 1% and, at the same time, the share of a given country in the Polish banking sector's exposure in each of the last quarters is over 1%.

Therefore, based on the available data the FSC-M decided that there was still no basis to identify any third country as relevant from the point of view of the need to recognise and set countercyclical buffer rates. The relevant information was forwarded to the ESRB.

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

Given the need to ensure the effectiveness and consistency of macroprudential policy in place and to take due account of the cross-border effects of macroprudential measures undertaken by individual countries of the European Union, in 2015 the European Systemic Risk Board issued Recommendation ESRB/2015/2 on the reciprocity for the aforementioned measures by EU Member States.⁷¹ The recommendation requires all EU Member States to assess the potential cross-border implications of the macroprudential policy measures they put in place and, at the same time, creates a procedural framework for the reciprocity of national macroprudential instruments as instruments applicable in other EU countries.

Recommendation ESRB/2015/2 consists of four sub-recommendations:

- **Recommendation A** – assessment of the cross-border implications of the specific macroprudential policy measure prior to its adoption,
- **Recommendation B** – notification of the ESRB of adopted macroprudential policy measures as soon as they are adopted,
- **Recommendation C** – reciprocation of macroprudential measures adopted in other Member States,
- **Recommendation D** – notification of the reciprocation of the macroprudential measure of other authorities.

Member States have the right to request the ESRB to require other EU countries to reciprocate the macroprudential instrument introduced, applying the same or similar macroprudential measure. Such rules aim to eliminate regulatory arbitrage as well as serve to ensure macroprudential policy coherence across the EU. In addition, the mechanism of mutual recognition of macroprudential measures (reciprocity) includes the application of the so-called materiality threshold, which constitutes the basis for deciding whether another country's macroprudential instrument needs to be reciprocated due to immaterial exposures.

In 2023, two new recommendations of the European Systemic Risk Board issued, recommending reciprocity of the new macroprudential instruments introduced.

⁷¹ 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.

Due to the lack of material exposures of Polish banks in EU countries, materialised by not exceeding the materiality thresholds set, the Financial Stability Committee so far has not issued any recommendation that Poland should reciprocate any of the macroprudential instruments introduced in other countries.

At the same time, the Committee regularly monitors the exposures of Polish banks in connection with the application of the reciprocity mechanism and submits the relevant information to the European Systemic Risk Board. The implementation of ESRB recommendations and the results of the reciprocity monitoring in 2023 are presented below.

6.2.1. Reciprocation of macroprudential instruments

Sweden

In July 2023, the European Systemic Risk Board issued Recommendation ESRB/2023/4⁷², recommending EU Member States to reciprocate the new macroprudential instrument introduced by the Swedish macroprudential authority. All EU countries were required, subject to the *de minimis* principle, to reciprocate the following instruments applied in Sweden for the nearest two years:

- specific to the credit institution applying the IRB method:
 - (i) the minimum exposure-weighted average risk weight of 35% applied to the portfolio of corporate exposures secured by mortgages on commercial real estate (real estate located in the territory of Sweden, held for commercial purposes, i.e. generating rental income); and
 - (ii) the minimum exposure-weighted average risk weight of 25% applied to the portfolio of corporate exposures secured by mortgages on residential real estate (residential buildings located in the territory of Sweden, held for commercial purposes, i.e. generating rental income, provided that the number of dwellings in the building exceeds three).

Moreover, until 31 December 2023, in accordance with Recommendation ESRB/2019/1⁷³ the following rules were still in force:

- (iii) the minimum risk weight value of 25% applied to the portfolio of retail exposures secured by mortgages on real estate to debtors being Swedish residents, relevant to the specific credit institution (applying the IRB approach).

⁷² Recommendation of the European Systemic Risk Board of 6 July 2023 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2023/4).

⁷³ 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).

Non-reciprocation of Swedish macroprudential instruments is possible, if two conditions are jointly met:

- no domestically authorised credit institution (using the IRB approach) has exposures exceeding the materiality threshold of SEK 5 billion, and
- the relevant national authorities monitor the materiality of exposures related to the Swedish real estate market and recognise the macroprudential measure introduced in Sweden if such exposures arise.

The analysis of the reporting data conducted by NBP at the end of June 2023 has shown that the total exposures of Polish banks in Sweden did not exceed the materiality threshold specified in the recommendation.⁷⁴

In connection with the foregoing, the Financial Stability Committee has concluded that there are indications that there is no need to reciprocate the Swedish macroprudential instrument in Poland.

Belgium

In 2023, the National Bank of Belgium reassessed the sectoral systemic risk buffer (sSRB) rate in Belgium and recalibrated it from 9% to 6%. The buffer was applied to all retail exposures on individuals, secured by residential real estate located in Belgium, for which the risk is estimated on an IRB basis. The 6% systemic risk buffer will come into force on 1 April 2024.

In October 2023, the ESRB issued recommendation ESRB/2023/9⁷⁵ on the voluntary reciprocation of the instrument introduced in Belgium. The materiality threshold setting the limit that enables non-reciprocation remains unchanged and amounts to EUR 2 billion.

In December 2023, NBP verified the size of Polish credit institutions' exposures in Belgium and found that none of them had exposures exceeding the indicated materiality threshold. Consequently, the Financial Stability Committee concluded that there were no indications that there is the need for Poland to reciprocate the Belgian macroprudential instrument.

6.2.2. Monitoring of exposures in connection with the mechanism of recognising macroprudential instruments (reciprocity)

In order to implement the ESRB recommendation on the reciprocity mechanism for macroprudential instruments properly, the Financial Stability Committee required NBP to

⁷⁴ The total exposure of Polish banks using the IRB approach in Sweden amounted to approx. PLN 1 billion (SEK 2.7 billion at the exchange rate of 30 June 2023).

⁷⁵ Recommendation of the European Systemic Risk Board of 3 October 2023 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2023/9).

regularly monitor the size of exposures of Polish credit institutions in EU countries to verify against the materiality thresholds set in each country.

The results of monitoring of Polish banks' exposures in 2023 are presented below.

Box 3. Results of exposure monitoring in connection with the reciprocity mechanism (chronologically)

Netherlands

In 2022, the ESRB issued recommendation ESRB/2022/1⁷⁶ on the recognition of the macroprudential instrument introduced in the Netherlands. The new 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 IRB method. 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 materiality threshold amounts to EUR 5 billion.

Analysis of the reporting data showed that no Polish credit institution had exposures in the Netherlands exceeding the recommended materiality threshold. At the end of December 2022, the Polish banks' exposures in the Netherlands totalled PLN 8 billion, which corresponded to EUR 1.7 billion.⁷⁷

In March 2023, the Committee recognised again that there were still indications of a lack of the need to reciprocate the Dutch macroprudential instrument.

Lithuania

In 2022, ESRB, in its recommendation ESRB/2022/1⁷⁸, required EU Member States to recognise the macroprudential instrument introduced in Lithuania in the form of a systemic risk buffer of 2% on all retail exposures secured by residential real estate. The materiality threshold for a single institution was set at a level of EUR 50 million.

The results of the March 2023 analysis of the reporting data by NBP showed that still no Polish credit institution had exposures in the Republic of Lithuania exceeding the indicated materiality threshold. At the end of 2022, the Polish banks' exposures in Lithuania totalled PLN 250 million, corresponding to EUR 41 million.⁷⁹

In view of the foregoing, there was still no need for Poland to recognise the Lithuanian macroprudential instrument.

⁷⁶ 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).

⁷⁷ According to the exchange rate of 30 December 2022.

⁷⁸ 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).

⁷⁹ According to the exchange rate of 30 December 2022.

Sweden

In 2019, the ESRB, in Recommendation ESRB//2019/1⁸⁰, recommended reciprocating the instrument introduced in Sweden in the form of a minimum exposure-weighted average risk weight of 25% applied to retail exposures secured by mortgages on real estate to resident debtors in Sweden. Exemption from the reciprocity obligation was possible when two conditions occurred jointly: (i) retail exposures secured by mortgages on real estate held by banks, not exceeding the materiality threshold of SEK 5 billion, and (ii) monitoring of the materiality of exposures related to the Swedish real estate market, and recognising of the macroprudential measure when material exposures arise.

In 2023, the analysis of the reporting data showed that all credit institutions operating in Poland and applying the IRB method had total exposures in Sweden in the amount of approx. PLN 681 million (SEK 1.64 billion).⁸¹ They therefore did not exceed the thresholds set out in the recommendation.

Accordingly, the Committee decided that the rationale for reciprocating the Swedish macroprudential instrument still did not exist.

Norway

In 2021, the ESRB, in its recommendation ESRB/2021/3⁸², pointed to the need to reciprocate the following macroprudential instruments introduced in Norway: (i) the systemic risk buffer of 4.5% applicable to all exposures in Norway, (ii) the 20% average risk weight for exposures secured on residential real estate for institutions using the IRB method, (iii) the 35% average risk weight for exposures secured on commercial real estate for institutions applying the IRB method. Relevant materiality thresholds have been defined at the level of the institutions: (i) for the systemic risk buffer: a risk-weighted exposure in the amount of NOK 32 billion; (ii) for the risk weight for exposures secured by residential real estate: the gross value of loans of this portfolio in the amount of NOK 32.3 billion; (iii) for the risk weight for exposures secured by commercial real estate: the gross value of loans of this portfolio in the amount of NOK 7.6 billion.

In December 2022, the ESRB again recommended reciprocating all instruments introduced in Norway with a reduced materiality threshold for the systemic risk buffer to NOK 5 billion.

The analysis of the data as at the end of March 2023 indicated that the total exposure of Polish credit institutions in Norway amounted to PLN 1.8 billion, i.e. NOK 4.04 billion.⁸³

As Polish banks' exposures in Norway remained below materiality thresholds, the Committee decided that it would not reciprocate Norwegian macroprudential instruments.

⁸⁰ 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).

⁸¹ According to the exchange rate of 31 March 2023.

⁸² 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).

⁸³ According to the exchange rate of 31 March 2023.

Belgium

In 2022, the ESRB issued Recommendation ESRB/2022/3⁸⁴ on the reciprocation of the Belgian macroprudential instrument in the form of a systemic risk buffer of 9% for all retail exposures to individuals secured by residential real estate located in Belgium for which the risk is estimated based on the IRB method.

The materiality threshold at a level of institutions allows them for non-reciprocation of the Belgian instrument when the value of their respective sectoral exposures does not exceed EUR 2 billion.

According to data as at the end of March 2023, the Polish banking sector's total exposures in Belgium amounted to PLN 7.21 billion, i.e. EUR 1.54 billion⁸⁵, which meant that no Polish credit institution had exposures in Belgium exceeding the indicated materiality threshold.

As a consequence, the Committee concluded that there was still no indication that Poland should reciprocate the Belgian macroprudential instrument.

Luxembourg

In 2021, the ESRB issued Recommendation ESRB/2021/2⁸⁶ on the reciprocation of the macroprudential instrument introduced in Luxembourg in the form of loan-to-value (LTV) limits on new mortgage loans on residential real estate located in Luxembourg. LTV limits differ across categories of borrowers: (i) an LTV limit of 100% for first time-buyers to meet their own housing needs; (ii) an LTV limit of 90% for borrowers buying a real estate again but to meet their own housing needs; (iii) an LTV limit of 80% for other borrowers, including those buying to let. Moreover, the recommendation defines materiality thresholds: (i) the country-specific threshold for all retail mortgage exposures of the particular country in Luxembourg exceeding EUR 350 million; (ii) the institution-specific threshold for all retail mortgage exposures in Luxembourg exceeding EUR 35 million. The reciprocation of the instrument is required when both thresholds are exceeded.

The analyses conducted by NBP in 2023 showed that the Polish banking sector's mortgage exposures in Luxembourg totalled EUR 1.3 million, which meant that no materiality threshold was exceeded.

When assessing the size the Polish banking sector's exposure in Luxembourg, the Committee concluded that there were still no grounds indicating that Poland should reciprocate the Luxembourg macroprudential instrument.

⁸⁴ 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).

⁸⁵ According to the exchange rate of 31 March 2023.

⁸⁶ 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).

Germany

In 2022, in its recommendation ESRB/2022/4⁸⁷ the ESRB committed to reciprocate a 2% systemic risk buffer rate introduced in Germany on all exposures secured by residential real estate located in Germany.

The recommendation set an institution-specific materiality threshold that allows the institutions concerned for non-reciprocation when relevant sectoral exposures did not exceed EUR 10 billion. After the analysis conducted by NBP in 2023, it turned out that still no Polish credit institution had exposures in Germany exceeding the materiality threshold indicated in the recommendation. As at the end of June 2023, the Polish banking sector's total exposures in Germany amounted to EUR 6.4 billion.

Consequently, the Committee recognised that there was still no indication that Poland would be required to reciprocate the German macroprudential instrument.

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

Reports on the implementation of the recommendation on the assessment of cross-border effects and the application of the reciprocity mechanism should be submitted to the ESRB every two years. In June 2023, the Committee submitted another report to the ESRB in June 2023 (previous reports in 2017 and 2021) on the measures taken in response to Recommendation ESRB/2015/2 from 1 July 2021 to 30 June 2023.

The report provided information on how each of the recommendations was implemented:

Sub-recommendation A

In Poland, three instruments have been applied so far that required an assessment of cross-border effects: (i) O-SII buffer, (ii) a systemic risk buffer (SRB) and (iii) higher risk weights.

In accordance with the Recommendation, an assessment of cross-border effects is carried out by the instrument-activating authority. Moreover, the relevant instrument-activating authorities are required to monitor the cross-border effects of the instrument at least once a year.

Information on the results of the assessment of the cross-border effects of instruments introduced was provided to the ESRB in a notification on the intention to apply a particular instrument (ex-ante notification). Such notifications are provided to the ESRB under relevant CRD/CRR provisions. Upon the receipt from the activating authority, i.e. the UKNF and the MF, the

⁸⁷ 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).

Committee communicated to the ESRB relevant information on the instruments introduced and the assessment of their cross-border effects.

Sub-recommendation B

The Committee, acting on a request of the relevant activating authorities, provides the ESRB with notifications on macroprudential instruments already in place (ex-post notification). The Recommendation requires the activating authorities to provide appropriate notification of the macroprudential instruments put in place within 2 weeks of their adoption. The notification should include information on an assessment of cross-border effects and the potential need for the instrument to be reciprocated by other countries.

Sub-recommendation C

Whenever another ESRB recommendation on the reciprocation of a new macroprudential instrument put in place in another EU country appears, the Committee decides on the need (or absence of the need) to reciprocate such an instrument and then cyclically analyses the underlying indicators. Information on the measures taken in this regard is provided to the ESRB.⁸⁸

Sub-recommendation D

To date, the Committee has not reciprocated any macroprudential instrument put in place in another EU country under the reciprocity mechanism. Therefore, no need existed to communicate this information to the ESRB.

Box 4. Summary of the Report on the implementation of Recommendation ESRB/2015/2

In September 2023, the ESRB published another Report⁸⁹ summarising the implementation of the Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures from 1 July 2017 to 30 June 2021, which was based on the reports submitted to the ESRB in June 2021.

The Report indicated that the activities of the EU countries are to a large extent compliant with the provisions of the Recommendation. Twenty five out of 30 countries received the highest possible overall score (fully compliant, FC) and the remaining five received a very good score (largely compliant, LC).

Poland received the highest possible overall rating of fully compliant with the Recommendation. For some sub-recommendations, however, the activities of the Polish authorities were described as “largely compliant”. Accordingly, the Committee, striving to

⁸⁸ More on the implementation of this recommendation, see Chapter 6.3.1.

⁸⁹ ESRB, *Summary compliance report*, September 2023. 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).

comply as far as possible with the provisions of the Recommendation, has taken appropriate steps to eliminate doubts as to the correctness of the implementation of the Recommendation in the future.

6.3. Recommendation on a pan-European systemic cyber incident coordination framework for relevant authorities (ESRB/2021/17)

In 2021, the European Systemic Risk Board issued Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework for relevant authorities.

The recommendation is aimed at laying 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 an impact on the European Union's financial sector as a whole. The mechanism built is expected to increase the level of preparedness of relevant EU and national authorities by responding to cyber incidents in a coherent manner, thereby reducing the risk of coordination failure.

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

- **Recommendation A** – establishment of a pan-European systemic cyber incident coordination framework,
- **Recommendation B** – establishment of points of contact of the pan-European coordination framework in relation to systemic cyber incidents,
- **Recommendation C** – development of appropriate measures at the Union level by the EC required to ensure effective coordination of the response to systemic cyber incidents (identified based on the results of the analysis conducted in accordance with Recommendation A).

In March 2022, the Financial Stability Committee, bearing in mind the role that the KNF plays in the national cyber-security system⁹⁰, agreed that the KNF would be the point of contact and the authority responsible for communication under the scope of cooperation on cyber incidents in Poland.

It has thus implemented the provisions of the recommendation, as communicated in its report on the implementation of sub-recommendation B of ESRB/2021/17 to the ESRB in July 2023.

⁹⁰ Pursuant to the Act of 5 July 2018 on the National Cyber Security System, for the purposes of performing the tasks set out in the act, the KNF acts as the competent authority for the banking sector and the financial market infrastructure. The provisions of the act provided for the cooperation of the said competent authority as well as the sectoral cybersecurity team under Directive (EU) 2016/1148 with a single point of contact designated in Poland.

6.4. Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9)

In 2016 and 2019, the ESRB issued recommendations (ESRB/2016/14 and ESRB/2019/3) to establish a harmonised framework for monitoring developments in the residential and commercial real estate markets in all EU countries. The implementation of these recommendations resulted in significant improvements in the availability and quality of reported data. It also recognised the need to further improve the information compilation process and fill data gaps, resulting in the issuing of Recommendation on *vulnerabilities in the commercial real estate sector in the European Economic Area* (ESRB/2022/9).⁹¹

Recommendation ESRB/2022/9 consists of four sub-recommendations:

- **Recommendation A** – Improving the monitoring of systemic risk stemming from the CRE market – according to which regular (at least annual) and in-depth monitoring of current and potential sources of vulnerabilities in the CRE sector was recommended. The Recommendation furthermore clearly indicates that the recipients of the Recommendation (here: institutions involved in supporting financial stability) should cooperate in a coordinated manner and exchange the necessary information;
- **Recommendation B** – Ensuring sound CRE financing practices – which recommended, after taking into account the results of the monitoring carried out pursuant to Recommendation A, to ensure that banks providing financing for CRE develop good risk management practices;
- **Recommendation C** – Increasing resilience of financial institutions – it is recommended to continuously verify the instruments used to address risks and vulnerabilities in the CRE sector and to take further macroprudential actions, as deemed necessary, to build and maintain the resilience of financial sector institutions;
- **Recommendation D** – Development of activity-based tools for CRE in the EU – the European Commission was recommended to assess the current macroprudential framework in the EU and ensure that consistent rules for addressing risks stemming from CRE sector exposures are applied.

The analysis of the list of recipients defined in the Recommendation in the context of their specific competence in Poland allowed assigning the responsibility to the Committee as a macroprudential body and to all its component institutions, namely NBP, the KNF, the MF and the BFG, for the implementation of Recommendation A and Recommendation C. In turn, the Recommendation set out the responsibilities, the effective implementation of which requires broadened cooperation between the institutions represented in the Committee, in particular with regard to the exchange of data and information.

⁹¹ Recommendation of the European Systemic Risk Board of 1 December 2022 on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9).

7. Communication

Communication of the Financial Stability Committee with the public and the information policy are perceived as an important 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 risk-mitigating measures 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. Communication is one of the priorities defined in the *Macroprudential Policy Strategy in Poland* which the Committee is working on a permanent basis.

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 Committee's approach and perspective on various macroprudential supervision issues. In the environment of transparent communication, a common rationale for anticipating further macroprudential policy action also remains available to all market participants.

The main documents used regularly to conduct the information policy by the Financial Stability Committee include: (i) press releases after FSC-M meetings, (ii) resolutions, and (iii) analytical material posted on the Narodowy Bank Polski website in the macroprudential supervision tab linked to financial system issues.⁹²

7.1.1. 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 (issued recommendations) 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. The FSC-M press releases are published immediately after the meeting and, simultaneously, posted on the NBP home page and under the *Macroprudential supervision* tab. The press releases are also published in English.

⁹² <https://nbp.pl/en/financial-system/macroprudential-supervision/>.

7.1.2. 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 both to implement the statutory obligation and communicate to the public how the tasks conferred upon the Committee are implemented. The report features, among others, the main principles of the Committee's work, the macroprudential policy strategy, the results of key systemic risk assessment analyses in a given year and also the decisions on the application of macroprudential instruments and the Committee's international cooperation activities. The document also includes information on matters broadly related to macroprudential supervision policy which were undertaken by the Committee during the year under review.

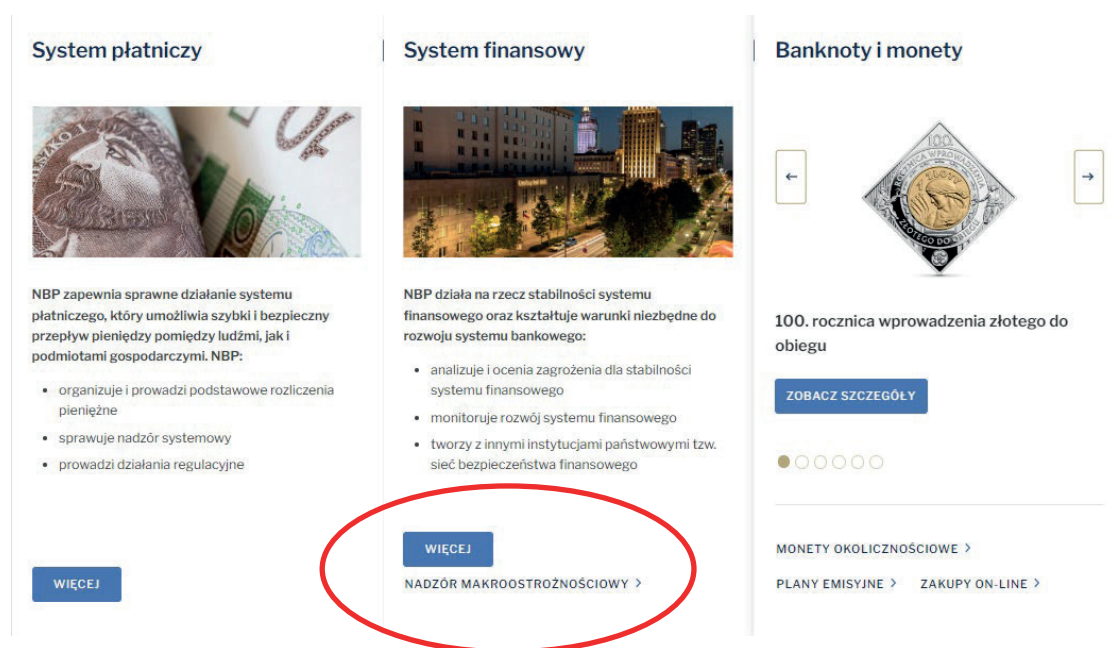
The current document is the ninth issue of the *Annual Report*. It is a key study of the Polish macroprudential supervisory authority and is the most comprehensive source of policy information for a wide audience. It is published electronically and simultaneously issued in the analogue version.

7.1.3. Website

The news service of the FSC-M is run as part of the communication policy of Narodowy Bank Polski and presented as an element directly linked to the central bank's tasks.

The NBP website which redesigned in 2023 – in line with the requirements of a modern website and needs of modern internet users – contains all available information and data on macroprudential supervision: of an institutional and regulatory nature (composition, tasks, powers of the Committee) and basic information, concepts and definitions related to macroprudential policy. Press releases after FSC meetings and details of the macroprudential instruments currently in place in Poland are published with a dedicated section on the countercyclical buffer (as the primary macroprudential instrument applicable to all EU countries without exception) together with analytical material underlying the recommendations issued on this buffer and documents underpinning other decisions of the Committee. As part of its publications, the Committee makes available on its website the annual report on its activity and presents various documents on macroprudential supervision it has considered important from a macroprudential policy point of view, systematically increasing the resources and catalogue of publicly available material.

Diagram 5. Macroprudential supervision tab on the NBP website



Source: www.nbp.pl

7.1.4. Review of the communication policy arrangements of the Polish macroprudential supervision authority

With a view to the tasks that Narodowy Bank Polski performs for the FSC-M⁹³ as part of its research activities, NBP has undertaken work towards an analysis of issues related to the conduct of communication policy on macroprudential supervision. The project has taken into account the experience of other countries, recommendations and guidelines issued by the ESRB and other international institutions, as well as the latest trends and research in this and corresponding areas of central bank policy. The aim of the analysis was to review the solutions used in conducting the communication policy of macroprudential supervisors and to formulate lessons for practice in Poland. The material formed the basis for discussions on the development of FSC-M communication policy tools. It was also a response to the development priorities adopted by the FSC-M in its *Macroprudential Policy Strategy in Poland* one of which is: “developing and elaborating new communication methods of the Committee with the public in order to influence a better understanding of systemic risk and measures undertaken by the Committee by politicians, public opinion and the general public.”.

⁹³ More information on this issue, see Chapter 2.

In 2023, the Committee members adopted the following directions for communication policy development, contributing to:

- increasing the range of published analyses on the Committee's agenda;
- making the Committee's press releases and other publications more accessible to a wide audience, including simplifying the language of communication;
- using some social media for communication;
- translating most of the publications into English.

The inclusion of the above elements is considered on an ongoing basis by the Committee in communication with the public.

7.2. Foreign communication and ESRB notifications

Important tasks of the Financial Stability Committee include permanent cooperation with the European Systemic Risk Board, other European Union bodies, macroprudential supervision authorities of other Member States or third countries, as well as other international institutions, and the fulfilment of responsibilities.

As part of this cooperation, the Committee is required to provide the ESRB with information related to its decisions on domestic macroprudential policy.

Notifications addressed to EU institutions and authorities

Since 2019, the European Systemic Risk Board has become the main information hub for all macroprudential supervision institutions at the EU level, therefore it is both the main recipient and the source of information in this respect.

The table below summarises the notifications submitted by the Financial Stability Committee (via NBP) to the European Systemic Risk Board in 2023.

Table 8. Summary of notifications submitted in 2023

Subject of notification	Notification date
Information on the results of monitoring of Dutch exposures	March
Information on the results of monitoring of Lithuanian exposures	March
List of third countries to which banks have a material exposure	June
Information on the results of monitoring of Belgian exposures	June
Information on the results of monitoring of Swedish exposures	June

Subject of notification	Notification date
Information on the results of monitoring of Norwegian exposures	June
Report on the implementation of the Recommendation on systemic cyber incident coordination framework for authorities	July
Report on the implementation of the Recommendation on the assessment of cross-border effects of and reciprocity for macroprudential instruments	July
Information on the intention to temporarily extend the reduction of higher risk weights	August
Information on the results of monitoring of Luxembourg exposures	September
Information on the results of monitoring of German exposures	September
Information on the reciprocation of the Swedish instrument	September
Information on the intention to impose the O-SII buffer	October
Information on the introduction of the temporary extension of reduction of higher risk weights	October
Results of a review of identification of O-SIIs	December

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) to increase the resilience of the banking system to cyclical fluctuations of the systemic risk.
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 on 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 of 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 countercyclical 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 (OJ 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	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 communicated 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, the financial safety net comprises: 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 not legally binding instructions (recommendations) 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 it means that macroprudential policy measures activated in one Member State are reciprocated in other Member States. The symmetrical application of macroprudential policy measures is aimed at achieving coherent and effective risk-mitigating actions in the financial market.

ABBREVIATIONS

BFG	Bank Guarantee Fund
BMR	Benchmark Regulation
BRRD	Bank Recovery and Resolution Directive
CCyB	Countercyclical Capital Buffer
CJEU	Court of Justice of the European Union
CRE	Commercial Real Estate
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	Loan-to-Value, 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
NGR	National Working Group for Benchmark Reform
O-SII	Other systemically important institution
PSI	Systemically relevant entities
SGR	Permanent Working Group
SKOK	Cooperative savings and credit unions (PL: Spółdzielcze Kasy Oszczędnościowo-Kredytowe)
SRB	Systemic risk buffer
UKNF	Office of the Financial Supervisory Authority
WFD	Long-term financing ratio

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