NARODOWY BANK POLSKI

Ministerstwo Finansów

KNF KOMISJA NADZORU FINANSOWEGO

BFG Bankowy Fundusz Gwarancyjny

Annual Report

on Macroprudential Supervision Activity of the Financial Stability Committee 2024

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Warsaw, 2025

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Foreword

Dear Readers,

I am pleased to share with you the tenth edition of the annual report on the activity of the Financial Stability Committee in its macroprudential capacity (FSC-M). Through this document, I would like to present information on the Committee's work undertaken to ensure the stability of the financial system in our country in 2024.

Throughout 2024, the overall level of risk in the domestic financial system decreased. Banks effectively managed the longest-standing legal risk related to FX housing loans. In the Committee's opinion, this risk is well managed by banks and can be expected to decline steadily in the coming years, along with the decreasing portfolio of these loans and the appropriate level of provisions.

Over the last year, banks generated high profits, which allowed them to increase their capital endowment and thus strengthen their resilience to new future challenges related to the macroeconomic impact of the geopolitical environment and systemic risk.

In 2024, the Committee developed a new strategy for the use of the countercyclical capital buffer, under which the desired model for building the resilience of the banking sector in Poland will involve establishing a positive neutral rate of the buffer. The target level of the buffer is 2%, but it will be introduced gradually to provide banks with sufficient time to adjust. In response to the Committee's recommendation, the Minister of Finance issued a regulation introducing a countercyclical buffer of 1% from September 2025.

I would like to stress that the conduct of effective macroprudential policy would not be possible without the analytical capital and human resources as well as the cooperation of all the institutions involved, i.e. the Minister of Finance, the Polish Financial Supervision Authority, the Bank Guarantee Fund and Narodowy Bank Polski. I would like to take this opportunity to thank all the members of the Committee and persons involved in its work in individual institutions for their daily efforts in implementing its mandate.

I am pleased to present this document to you and invite you to read the Annual Report on the Macroprudential Supervision Activity of the Financial Stability Committee in 2024.

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 2024

1.1. Composition of the Committee

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

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

Composition of the Committee in 2024:

Governor of Narodowy Bank Polski	Adam Glapiński
Minister of Finance	Andrzej Domański
Chairperson of the Polish Financial Supervision Authority	Jacek Jastrzębski
President of the Management Board of the Bank Guarantee Fund	Piotr Tomaszewski – until 21 May 2024 Maciej Szczęsny – from 22 May 2024

1.2. Tasks of the Committee

The Committee, acting in macroprudential capacity, 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 Act on Macroprudential Supervision confers the following tasks on the Committee:

- use of macroprudential instruments, including presenting statements and issuing recommendations;
- identification of systemically important financial institutions;

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

- cooperation with the European Systemic Risk Board (ESRB), including reporting on macroprudential measures taken, and cooperation with other European Union (EU) bodies, EU 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 them,[2]
- 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 institutions,[3]
- the target level of the deposit guarantee scheme resources at banks,[4]
- recommendations referring to issues of potential concern to macroprudential supervision,[5]
- delays regarding public disclosure of confidential information under the provisions of the MAR.[6]

Moreover, through its participation in the process of determining a replacement for the key benchmark, the Committee may either make a recommendation or provide a stance on this matter.[7]

No regulatory changes occurred in 2024 that would directly affect the Committee's mandate and scope of responsibilities. Nevertheless, the amendments to the CRR[8] that came into force on 1 January 2025, provided a new legal framework for the application of certain prudential instruments.

One of the amendments concerned the rules for assigning higher risk weights to exposures secured by residential and commercial real estate. A significant expansion of the rules of classification of exposures and changes in the risk weights assigned to them had an impact on the Committee's activities in terms of the application of this macroprudential instrument. Detailed information on this subject is presented in Chapter 5.2.

[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).

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

[8] 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.

1.3. Meetings and adopted resolutions

In 2024, in accordance with its work scheduled, the Committee held four regular meetings on the following days: 22 March, 14 June, 20 September and 6 December.

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

- **systemic risk assessment** based on the conclusions from the systemic risk assessment survey (ORS),[9] in which all institutions of the financial safety net represented in the Committee participate,
- analysis of the risk associated with the **portfolio of FX housing loans** and monitoring of the **settlement processes**,
- **analysis of developments** in the residential **real estate market,**
- recommendation on the level of the **countercyclical buffer rate** (CCyB),
- monitoring the effects of the work of the **Permanent Working Group**,
- implementation of the recommendations of the **European Systemic Risk Board**, including the assessment of Polish banks' exposure for the purpose of applying the reciprocity principle,
- information on **macroprudential policy actions undertaken at the European level**,
- monitoring of the situation with regard to the implementation of the **borrower's support programme** funded by the FWK,
- monitoring of the progress of **the National Working Group** for benchmark reform.

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

In the first quarter, the Committee issued a recommendation addressed to the Minister of Finance to maintain the countercyclical buffer rate at 0%. At the same time, the Committee made formal changes to the previous approach to the application of the countercyclical capital buffer by introducing the *Strategy on the application of the countercyclical capital buffer in Poland*[10] and adopting a new methodology for buffer calibration,[11] so as to make it possible to build a positive rate of the countercyclical buffer at an early stage of the financial cycle (neutral rate for the countercyclical capital buffer, nCCyB).[12] The Committee also took note of information on the implementation of MREL requirements by banks.

[9] A more detailed description of the ORS and the systemic risk assessment and identification methodology is presented in Chapter 3.

[10] *Strategy on the application of the countercyclical capital buffer in Poland*, Warsaw 2024, https://nbp.pl/wp-content/uploads/2024/05/Strategia-nBA_EN-fin.pdf.

[11] *Methodology for setting the countercyclical capital buffer*, Warsaw 2024, https://nbp.pl/wp-content/uploads/2024/04/2_Metodyka-kalibracji-bufora-antycyklicznego-1.pdf.

[12] For more on the neutral level of the countercyclical buffer, see Chapter 4.1.

At its meeting in **the second quarter**, the Committee – taking into account the strategy and methodology for applying the countercyclical buffer adopted in March 2024 – issued a recommendation to set the countercyclical buffer at the rate of 1% after the lapse of 12 months, and 2% after the lapse of 24 months from the promulgation of the regulation on this issue by the Minister of Finance. Moreover, at the request of the Office of the Polish Financial Supervision Authority (UKNF), the Committee issued an opinion on the draft WFD Recommendation, in which it referred to new solutions concerning the introduction of a requirement to maintain the relevant level of long-term debt instruments in banks' liabilities relative to the value of mortgage loans granted. The Committee reviewed the results of analyses concerning the practice of applying the sanction of free credit (an instrument provided for in the Act on Consumer Credit).[13] The *Financial Stability Report*. *June 2024*, prepared by NBP, and the *Report on Macroeconomic Stability of the Polish Economy* were also presented at the meeting. Furthermore, the Committee decided to adopt a document entitled *Report on Macroprudential Supervision Activity of the Financial Stability Committee in 2023* and forward it to the Sejm of the Republic of Poland.

In the third quarter, the Committee maintained its recommendation to the Minister of Finance of 14 June 2024 on the level of the countercyclical buffer rate, according to which the target rate for the countercyclical buffer is 2%, with a gradual achievement of this level. The Committee assessed the adequacy of higher risk weights applied in Poland, also in the context of new CRR provisions in this respect. Taking into account the results of the analyses, the Committee issued recommendations addressed to the Minister of Finance and the Polish Financial Supervision Authority concerning the management of risks related to managing mortgage-secured credit exposures, where it recommended abolition of the existing higher risk weights and using microprudential instruments instead. The Committee again discussed the issue of undermining the credibility and representativeness of the WIBOR interest rate benchmark. Recognising the importance of this matter, the Committee decided to issue a separate press release. During the meeting, the Committee also discussed possible measures to be taken by financial institutions and financial safety net institutions to support efforts to combat the effects of the floods that occurred in southern Poland in September 2024. Furthermore, in accordance with the adopted annual work agenda, at the request of the Polish Financial Supervision Authority, the Committee issued opinions regarding the identification and setting of appropriate buffers on other systemically important institutions.

In the fourth quarter, the Committee maintained its recommendation of 14 June 2024 on the level of the countercyclical buffer rate, according to which the desired target rate for the countercyclical buffer is 2%. The Committee reviewed the results of an analysis of the Polish banking sector in comparison to the European Union and concluded that, despite specific challenges in the domestic sector, the situation was favourable, with capital surpluses and high liquidity buffers allowing banks to create credit for the economy. The Committee members took note of the information

[13] Article 45 of the Act of 12 May 2011 on Consumer Credit (Journal of Laws 2011, item 715, as amended)

presented periodically by the UKNF concerning cyber risks in the Polish financial system. The meeting discussed the impact of September floods on the quality of banks' credit portfolios and the costs for insurance companies.

Table 1. Resolutions of the Financial Stability Committee adopted in 2024

Resolution No.	Title of Resolution
Meeting – 28 March 2024	
72/2024	on the adoption of a strategy on the application of the countercyclical capital buffer
73/2024	on the level of the countercyclical buffer rate
Meeting – 14 June 2024	
74/2024	on the level of the countercyclical buffer rate
75/2024	on the opinion on the draft Recommendation on the Long-term Financing Ratio (WFD)
Meeting – 20 September 2024	
76/2024	on the level of the countercyclical buffer rate
77/2024	on recommendations concerning the management of risk associated with exposures secured by mortgages on real estate
Meeting – 6 December 2024	
78/2024	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 whom one acts as the Chairperson of the Group. The collegial nature of the SGR fosters cooperation and exchange of information between the financial safety net institutions.

In 2024, the Permanent Working Group held four regular meetings, which preceded the FSC-M meetings, and three additional meetings, dedicated to discussing in detail the results of the analyses presented to the Committee. The work of the SGR proceeded throughout the year in line with the operating practice developed so far and, in addition to the standard tasks providing support to the Committee, focused on additional analyses related to the current situation in the financial system and the development of macroprudential policy instruments.

2. The role of Narodowy Bank Polski

The Act on Macroprudential Supervision defines the responsibilities of the Governor of NBP and Narodowy Bank Polski with regard to supporting the work of the Financial Stability Committee in the area of macroprudential supervision. Assigning a specific role to NBP is compliant with international recommendations, including the recommendation of the European Systemic Risk Board.[14]

The Governor of NBP chairs the work of the FSC-M. He has the casting vote in the event of a tie during voting on the Committee's resolutions. The Governor of NBP also represents the Polish macroprudential supervision authority before external institutions.

Narodowy Bank Polski directly performs tasks supporting the work of the FSC-M.[15] 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 the Financial Stability Committee activities, both in the area of analytical and research work, as well as all tasks of an administrative and organisational nature.

Narodowy Bank Polski prepares and provides to the Committee analytical materials, studies and opinions on systemic risk assessment, and presents to the Committee on a regular basis:

- 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 responsibilities assigned to Narodowy Bank Polski also include: (i) the organisation of FSC-M meetings, (ii) the coordination of the flow of information and materials between the Committee members, and (iii) operating of its Secretariat, which takes care, among other things, of the cooperation between the FSC-M with the ESRB. NBP also provides legal services by preparing draft resolutions and other legal acts issued by the Committee. NBP performs similar functions for the Permanent Working Group (SGR), established by the Committee.

Moreover, NBP is also responsible for the communication policy of the FSC-M.[16] To this end, NBP maintains the information service on its website on the activities of the Financial Stability Committee in macroprudential capacity. It also fulfils the disclosure obligations assigned by the Committee in the area of macroprudential supervision towards the ESRB.

[14] Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3).

[15] Article 11(1) of the Act on Macroprudential Supervision.

[16] For more on the implementation of the Committee's communication policy, see Chapter 7.

3. Systemic risk

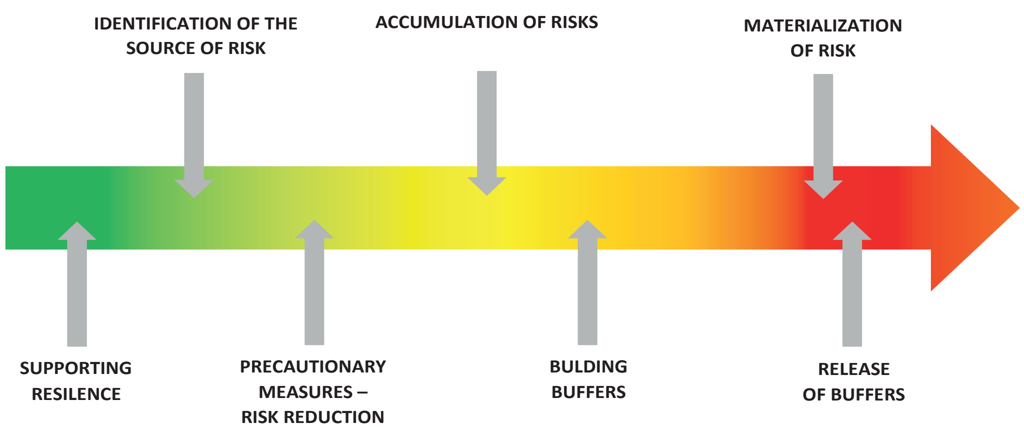
3.1. Monitoring and identification of changes in systemic risks based on analyses and regular reports

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 *Macroprudential Policy Strategy*,[17] counteracting the materialisation of systemic risk may be a two-pronged action by:

- taking measures to reduce the build-up and accumulation of excessive imbalances in the financial system, and
- strengthening the resilience of the financial system.

The stage of systemic risk accumulation determines the method of its mitigation (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 respond by taking measures aimed at impeding the processes that lead to the growth of imbalances. On the other hand, in the case of risk growth the Committee may apply macroprudential instruments, i.e. adequate capital buffers which, at the phase of systemic risk materialisation, may be released to cover losses or finance lending.

Diagram 1. Scheme of FSC-M activities



Source: NBP study.

[17] *Macroprudential Policy Strategy*, June 2019 http://www.nbp.pl/nadzormakroostroznosciowy/publikacje/strategia-polityki-makroostroznosciowej.pdf.

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 survey *Systemic risk assessment by institutions of the financial safety net*. 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 the following dimensions:

- probability of risk materialisation,
- effects of risk materialisation,
- horizon of risk materialisation.

The assessments of probability and of the effects of risk materialisation are used to make an overall assessment of identified risks. The institutions can also offer the application of adequate macroprudential measures aimed at mitigating the negative developments and limiting the risk.

3.1.2. Analysis results – systemic risk assessment in 2024

In 2024, the Committee was monitoring risk sources identified in previous years. Due to changes in the financial system and its environment throughout the year, the hierarchy of vulnerabilities and assessment of risk intensity varied.

During the year, the overall level of risk recorded in the ORS survey was decreasing, mainly as a result of systematic downgrading of the risk of *reduced capital surpluses and credit rationing*, the risks of *weaknesses of certain institutions and of the contagion effect* as well as risks *related to the residential real estate market.* On the other hand, the risk associated with *FX housing loans*, the most significant source of risk in the Polish financial system in the whole of 2024, remained unchanged.

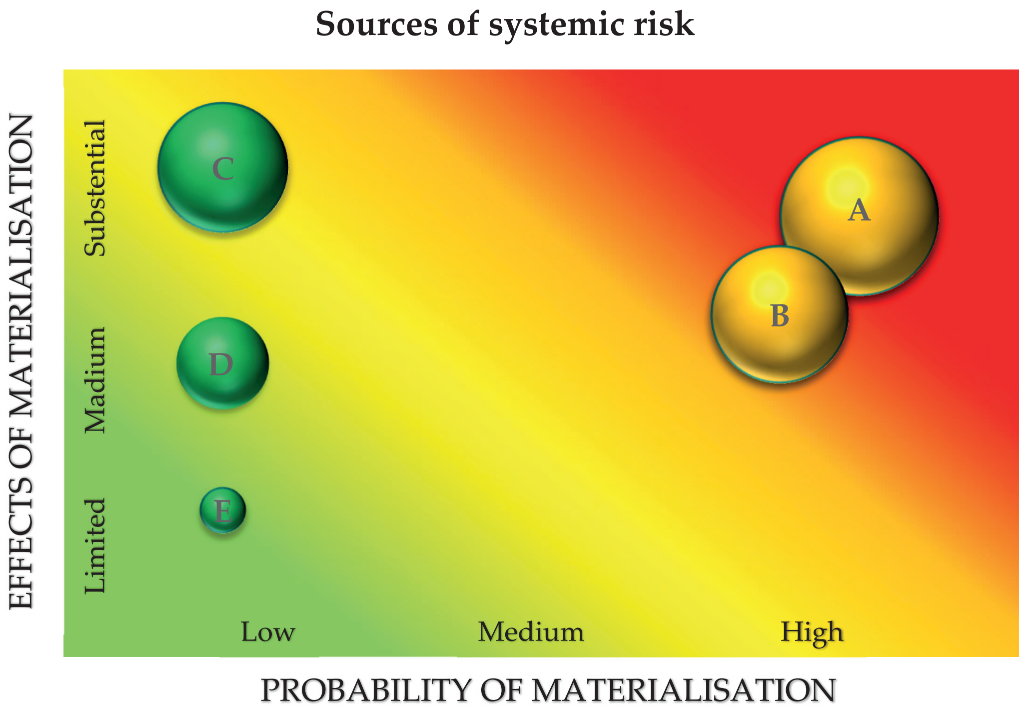
In the **first quarter of 2024,** the overall risk assessment decreased compared to 2023 Q4 due to the decline in risk intensity related to *reduced capital surpluses and credit rationing*. The hierarchy of risk sources also changed. *Legal risk associated with the FX housing loans* remained the most 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 *regional/geopolitical risk* resulting from the ongoing war in Ukraine was ranked second. Subsequently, the Committee indicated *the risk of undermining the WIBOR benchmark* as borrowers challenge WIBOR benchmark-based loan agreements. As a result of the rating change in the first quarter of 2024, the risk of *reduced capital surpluses and credit rationing* ranked fourth. The lowest risk was identified for the *residential real estate market* and the phenomenon of *weaknesses of certain institutions and of the contagion effect*.

In **the second quarter,** the *risk associated with FX housing loans* remained the most significant risk in the Polish financial system. However, the hierarchy of vulnerabilities changed compared to the previous edition of the survey. The subsequent places in the hierarchy were occupied by *geopolitical risk*, *the risk of undermining WIBOR* and *RRE risk.* As a result of a substantial decrease, the risk associated with *reduced capital surpluses and credit rationing* dropped to the last place in the hierarchy of vulnerabilities. The change in the perception of this risk resulted from recovering capital surpluses and lending expansion.

In the **third quarter**, the overall assessment of systemic risk declined again, as a result of the downgrading of the risks of *weaknesses of certain institutions and of the contagion effect* and *reduced capital surpluses and credit rationing*. In the Committee's opinion, in view of the improving position of the banking sector, the risk of *reduced capital surpluses and credit rationing* ceased to be systemic and was removed from the list of vulnerabilities of the Polish financial system. The hierarchy of the remaining risk sources did not change. The area of *FX housing loans* remained the key risk.

In **the fourth quarter of 2024,** systemic risk intensity decreased again due to the downgrading of risks associated with the *residential real estate market* and *weaknesses of certain institutions and of the contagion effect*. According to the Committee, the latter risk was significantly reduced as a result of the conclusion of the resolution of Getin Noble Bank S.A. The hierarchy of vulnerabilities remained unchanged compared to the previous quarter. The institutions maintained their overall ratings on the remaining vulnerabilities, i.e. the *risk of FX housing loans, geopolitical risk* and *the risk of undermining the WIBOR benchmark*. However, for the first time, a decline was recorded for the assessment of the impact of materialisation of risks related to *FX housing loans,* due to the steady reduction of this type of loan portfolio and banks setting aside significant provisions for this purpose.

Diagram 2. Map of synthetic systemic risk assessment in 2024 Q4



[A] FX housing loans
[B] Regional/geopolitical risk
[C] Risk of undermining the WIBOR benchmark
[D] Residential real estate market
[E] 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 – short-term (up to a year), green – 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 2024 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, which makes the systemic risk assessment is of a comprehensive nature. Narodowy Bank Polski has been committed to provide the Committee with cyclical analytical and research materials as well as reports listed in the Act on NBP, namely: the *Financial Stability Report* and the *Report on Macroeconomic Stability of the Polish Economy*.

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*.

Box 1. Developments in systemic risk assessment over the recent years

For nearly a decade, the Committee has developed instruments to assess systemic risk in the Polish financial system. The most significant element of this process is the ORS questionnaire survey which helps to structure the identification of risk areas, perception and assessment of its intensity.

Diagram 3 shows the sources of risk identified by the Committee in the Polish financial system and the changes in their hierarchy in 2016-2024.[18] The comparison of the risk areas identified in the context of the years of FSC-M work helps to analyse the evolution of the threats faced by macroprudential policy in Poland.

In the first years of the Committee's activity, the catalogue of risk sources did not change much, both in terms of the number of sources identified and the hierarchy of their significance. Since 2019, the pace of identification of new vulnerabilities in the financial system and assessing their significance has accelerated. During its nine years of operation, the Committee identified fourteen sources of systemic risk, with the highest number – eight vulnerabilities – in 2019. In the remaining years, there were usually six vulnerabilities identified.

Many categories remained on the list of vulnerabilities longer, while some were identified as risks for only one or two years. The risk sources that the Committee assessed as significant in the several-year perspective [and important from the market perspective, which were mitigated relatively fast] are presented below.

The most significant risk, which has remained on the list of weaknesses for the longest time, since 2016, has been the area of **FX housing loans.** This risk was assessed virtually throughout the period as a major vulnerability in the financial system (excluding 2019-2020, when it slightly decreased due to the emergence of other significant sources of risk related to the COVID-19 pandemic). Initially, the Committee assessed this risk in the context of the potential impact of the statutory solutions advocated in the public debate. In subsequent years, it evolved into a kind of legal risk due to the increasing number of litigation cases and the gradual development of the line of jurisprudence. The issue of FX housing loans remains a key risk to the Polish financial system.

The residential real estate market has also been covered by systemic risk analysis and assessment almost since the beginning. Although its materiality in the hierarchy of risk sources remained relatively low, it is one of the Committee's main areas of concern due to the potential significant effects of its materialisation for both the real economy and the banking sector.

[18] Data from 2016, when the methodology for the *Systemic Risk Assessment* survey was developed.

Since 2019, the Committee has identified the **risk of weaknesses of certain institutions and of the contagion effect**. At the beginning, this risk mainly applied to the cooperative sector, where individual credit institutions carried on operations with relatively low capital ratios, which limited their resilience and ability to absorb any further losses. In subsequent years, this risk also spilled over to commercial banks due to the situation of two entities and the risk of the contagion effect. In 2021, the Committee adopted recommendations and a statement[19] concerning measures to support the stable functioning of cooperative banks and cooperative savings and credit unions. Changes in the regulatory environment triggered by these recommendations supported favourable processes in the cooperative banking sector and the cooperative savings and credit unions sector. Moreover, synergy between the activities of the Committee and other public institutions (e.g. the restructuring measures successfully carried out in the banking sector) and credit institutions (e.g. the establishment of the Commercial Bank Protection Scheme) allowed for a significant reduction of systemic risk in this area.

In 2019, the Committee also identified risk arising from the late adjustment of the WIBOR benchmark to the BMR requirements.[20] It issued a statement on this matter and monitored the progress of the benchmark administrator. In the subsequent year, this risk was significantly reduced as GPW Benchmark SA finalised the work and the KNF took an appropriate decision.

On the other hand, 2020 provides an example of the Committee's proactive response to the current situation caused by extraordinary events. As a result of the COVID-19 pandemic, the Committee revised its macroprudential policy and identified new sources of risk, i.e. **the risk related to the potential occurrence of increased credit losses at banks** caused by the expected deterioration of household standing and the risk of **credit crunch,** i.e. reduced credit availability of as a consequence of uncertainty caused by the impact of the pandemic. In the subsequent year, the significance of these risks decreased as a result of the banking sector's healthy condition and extensive protective measures taken by economic policymakers and the Committee, which in March 2020 issued a recommendation on the release of the systemic risk buffer to ensure that banks were able to cover potential losses and provide room for credit creation.

The analysis of the evolution of systemic risk in Poland indicates that there are no significant long-term sources of cyclical risk in the Polish financial system. On the other hand, the persistence of legal risks is observed, which manifested itself primarily in the area of the FX

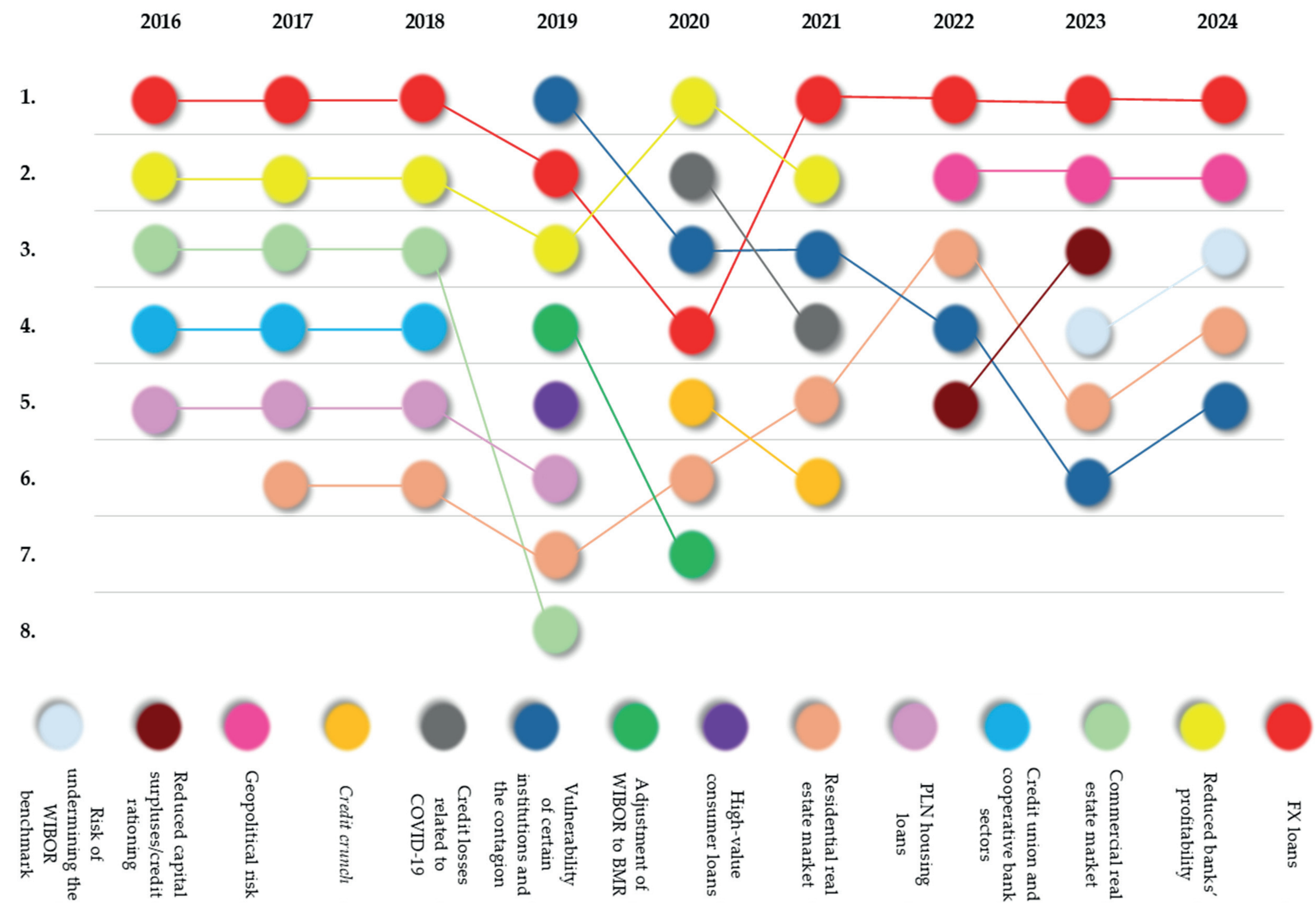
[19] Resolution No. 46/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative banks.
Resolution No. 48/2021 of the Financial Stability Committee of 19 March 2021 on recommendations concerning measures supporting the stable functioning of cooperative banks.
Resolution No 47/2021 of the Financial Stability Committee of 19 March 2021 on the statement regarding the functioning of the cooperative banking sector.

[20] Regulation (EU) 2016/1011 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.

housing loan portfolio. Since 2022, the Committee has also observed the risk of undermining WIBOR benchmark-based loan agreements, which is also of a legal nature. In connection with this risk, the Committee has on several occasions presented its statement supporting the existing benchmark in its press releases.[21]

[21] Press releases of the FSC-M relating to the risk of undermining WIBOR benchmark-based agreements were published in December 2022, March 2023 and September 2024.

Diagram 3. Sources of systemic risk and changes in their hierarchy in 2016-2024



Source: NBP study based on the results of the *Systemic Risk Assessment by institutions of the financial safety net* survey in the last quarter of each year.

3.2. Analysis of financial stability issues in 2024

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

Legal risk associated with the portfolio of FX housing loans, which has long been the most significant threat to the stability of the Polish financial system, is constantly monitored by the Committee. The Committee also regularly studies UKNF analyses on current developments at banks against the line of judgement on cases concerning FX housing loans.

Litigation predominantly relates to loans taken out in Swiss francs (97.5% of all agreements under litigation). An increasing share of court proceedings related to euro housing loans has also been recorded recently.

In 2024, the number of agreements under litigation reached nearly 166 thousand, which corresponds to more than 56% of the FX housing loan portfolio in terms of value, including approx. 162 thousand agreements in Swiss francs, and 4 thousand in euros.

The increase in the number of court proceedings was slower than in the previous year, with a y/y increase of 18 thousand, more than twice as low as in 2023. From January to September 2024, the monthly average increase in the number of court cases was approx. 1.3 thousand lower than in the corresponding period in 2023. On the other hand, a net decrease was recorded in the number of loans under litigation since October, on average, by approx. 1 thousand per month, reversing a multi-annual trend of litigation case growth. This resulted from a higher number of cases concluded at courts compared to the number of new lawsuits filed.

The value of litigation increased by PLN 13.7 billion to PLN 70 billion, with PLN 1.8 billion relating to agreements in euros. Banks created additional provisions for legal risk in the amount of PLN 4.3 billion. At the end of 2024, the value of the provisions reached PLN 61.8 billion, of which - provisions for settlements accounted for PLN 12.9 billion and the provisions for the portfolio in euros amounted to PLN 1.7 billion.

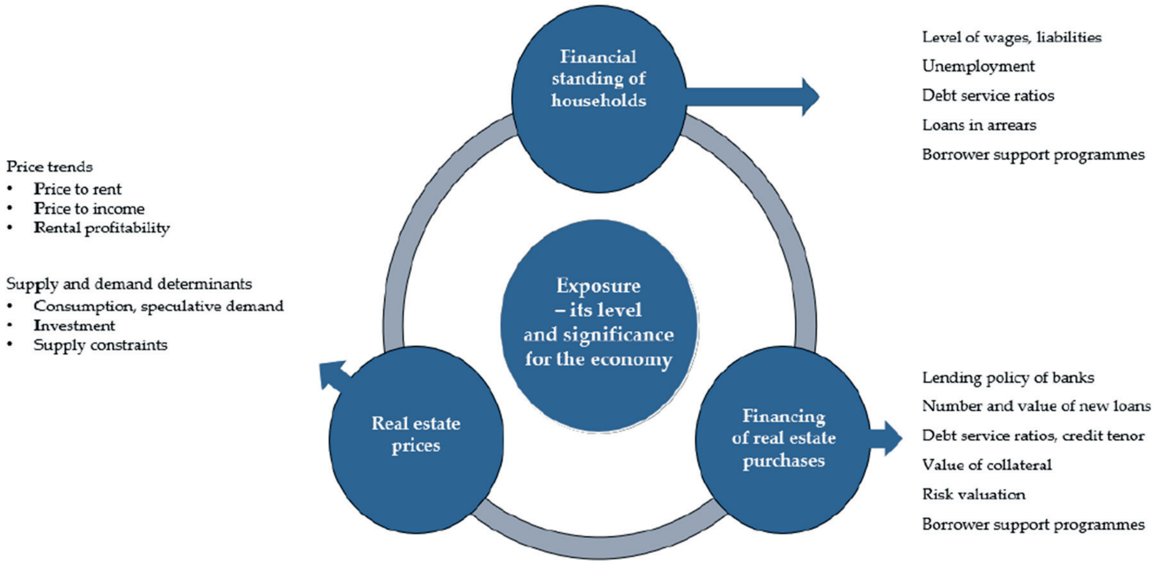
At the end of 2024, the number of disputes conducted as part of lawsuits that were concluded under a settlement, discontinuance of proceedings, issuance of a final judgement by a court of first and second instance or by a judgement of the Supreme Court of the Republic of Poland reached approx. 59.5 thousand (up by 38 thousand y/y). This represents 26.9% of the total number of agreements ever challenged.

At the same time, banks redoubled efforts to **reach settlements with borrowers**. In 2024, a total of 45 thousand settlements were concluded (accounting for 34% of all settlements reached to date) and, unlike in previous two years, more than a half were settlements reached on terms other than the KNF Chairman’s proposal. More than 99% are settlements related to Swiss franc loans and only 0.28% to euro loans.

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.[22] The assessment of the developments in the real estate market has been carried out since 2021 using, among others, the three-component *Residential Real Estate Index* (RREI).

Diagram 4. Three dimensions of residential real estate market risk



Source: NBP study.

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

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

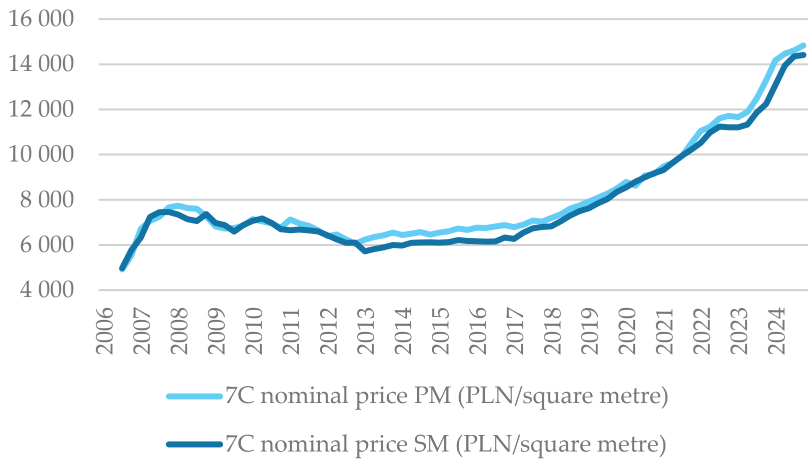
The index design allows for an integrated assessment **of the three main dimensions of the real estate market-related risk**, i.e. the revaluation of real estate prices, excessive lending and excessive household debt.

The price developments in the residential real estate market in 2024 were significantly affected by the government-funded “2% Safe Mortgage” scheme (BK2) terminated in December 2023 and announcements concerning the launch of a new scheme the following year. In 2023, the BK2-driven demand for housing translated into significant increases in nominal and real prices. The price increase continued during most of 2024, although the growth rate started to decrease.

[22] The real estate market analyses are based on NBP and UKNF data.

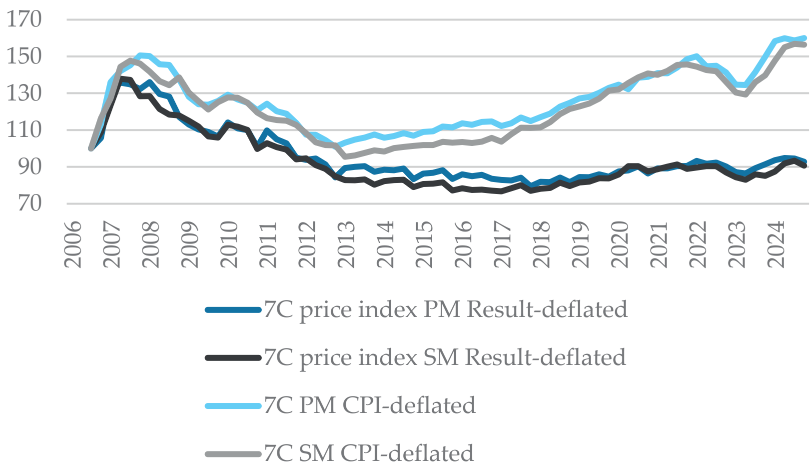
This was a result of a gradual rebuilding of the housing offer and a decline in demand due to the government's failure to launch a new scheme in 2024. In 2024 Q4, growth was observed only in nominal prices in the primary market.

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



Note: 7 cities: Gdańsk, Gdynia, Kraków, Łódź, Poznań, Warszawa and Wrocław
PM – primary market, SM – secondary market.
Source: NBP calculations.

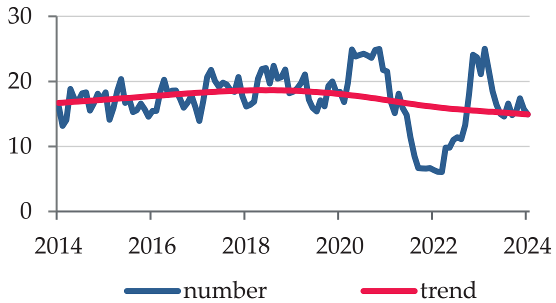
Figure 2. Index of real dwelling prices

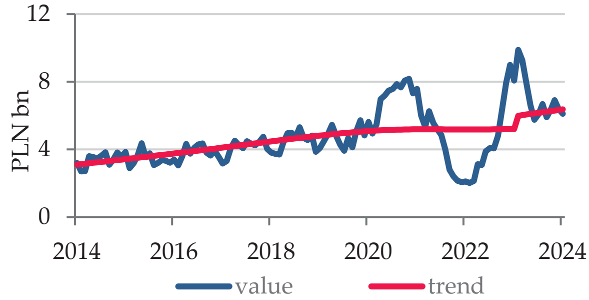


Note: Average transaction prices in Poland's 7 largest cities deflated by wage growth in the enterprise sector and CPI (100=average price on the secondary market in 2006 Q3).
PM – primary market, SM – secondary market.
Source: NBP calculations.

Compared to 2023, both the demand for housing and the demand for housing loans in 2024 was substantially lower following the termination of BK2 and the government's failure to launch the new scheme. In the first half of the year, loans granted under the BK2 scheme continued to account for approx. 30% of all housing loans. Thus, loan growth was initially observed, then it remained at a relatively high level in 2024 Q3 and slightly decreased in 2024 Q4. However, the rate of loan growth remained at a safe level throughout the period.

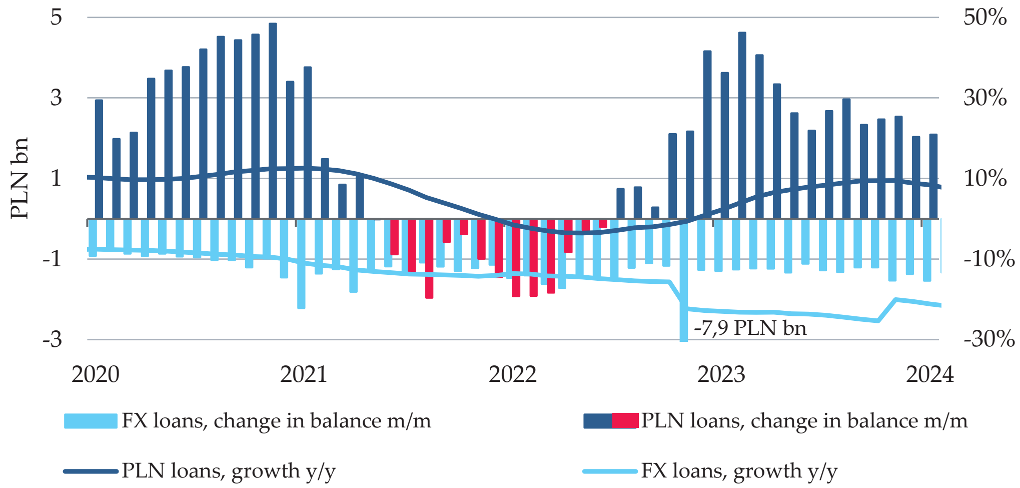
Figures 3. and 4. Number and value of new loans





Source: NBP calculations.

Figure 5. Value of the housing loan portfolio



Source: NBP calculations.
Note: data after eliminating the impact of exchange rate changes. The decline in FX loans in October 2023 results from the removal of Getin Noble Bank in bankruptcy from the reporting population.

In 2024, no significant problems with repayment by borrowers were recorded. The timeliness of housing loan servicing was also positively influenced by a possibility for borrowers to use the Borrowers' Support Fund (FWK).[23] In the period under review, the systemic risk associated with the housing market was assessed as relatively low.

[23] For more on the Borrowers' Support Fund, see Chapter 3.2.4.

3.2.3. Situation on the commercial real estate market

The Committee regularly reviews the situation on the commercial real estate market (CRE) in real terms (prices, rental rates) as well as 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 2023.

Poland's CRE sector has a relatively low share in GDP and credit exposures of domestic banks. Moreover, the involvement of Polish entities shows a high diversification of lending (in terms of commercial real estate market segments), which has a positive effect on maintaining the stability of the financial market. The sector is mostly funded by foreign investors who raise funds abroad. Global tensions and rising interest rates in the euro area contributed to a decline in the number of commercial real estate sale transactions in 2023. The value of loans granted by Polish banks for commercial real estate at the end of 2023 amounted to approx. PLN 57 billion, while the value of mortgage-secured loans granted to enterprises reached PLN 144 billion. At the end of 2023, foreign exposures to the Polish CRE market stood at PLN 123 billion. The data analysis shows that no excessive risk arises in the commercial real estate sector.

The monitoring of the situation, the analysis conducted and the risk assessment process in the CRE sector are consistent with the requirements of the European Systemic Risk Board recommendation of 2016[24] and 2019[25] *on closing real estate data gaps related to the real estate sector* and the 2022 recommendation[26] *on vulnerability in the commercial real estate sector*.

3.2.4. Use of Borrowers' Support Fund aid

The Borrowers' Support Fund (FWK) is an aid mechanism introduced to support borrowers in a difficult financial situation. The Committee monitors the level of use of the FWK funds by borrowers.

In the first period of operation, the use of the FWK aid by borrowers remained very low. 2022 saw a significant increase in the level of the aid, primarily in connection with the increased burden of loan instalment repayments on household budgets as a result of rising interest rates. By 31 December 2022,[27] banks had allocated PLN 1.4 billion to the Fund, which enabled it to safely continue to support borrowers in the following years.

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

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

[26] ESRB recommendation of 1 December 2022 on vulnerability in the commercial real estate sector in the European Economic Area (ESRB/2022/9). For more on the implementation of this recommendation, see Chapter 6.3.

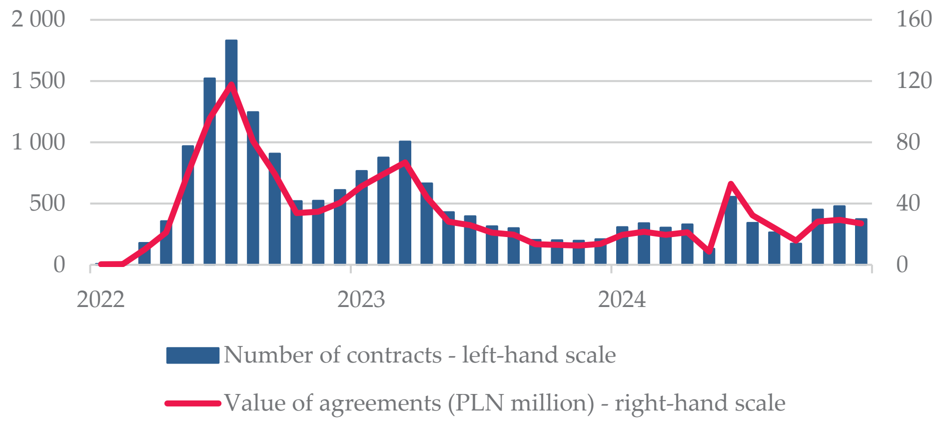
[27] In accordance with Article 89(1) of the Act of 7 July 2022 on Crowdfunding of Business Projects and Aid to Borrowers (consolidated text, Journal of Laws 2024, item 984, as amended).

Table 2. Number of applications and value of FWK agreements

Year(s)	Number of agreements	Value of agreements (PLN million)
2016-2021	1,268	37.7
2022	8,674	553.4
2023	5,559	369.0
2024	4,043	300.5

Source: NBP study based on BGK data.

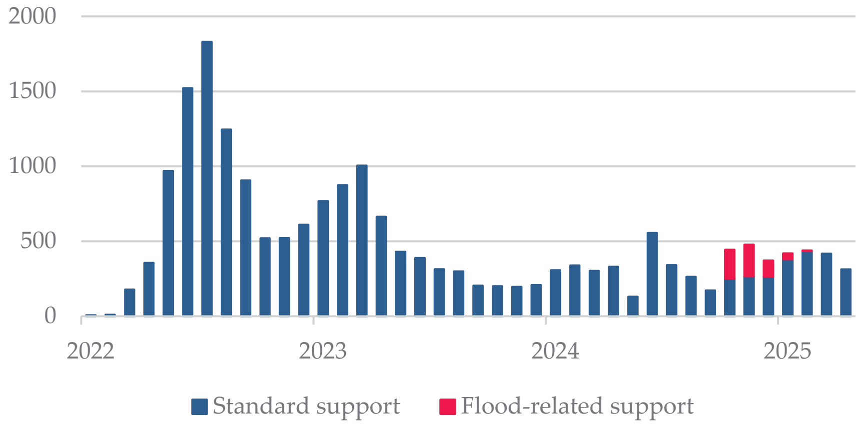
Figure 6. FWK support in 2022-2024



Source: NBP study based on BGK data.

In subsequent years, the use of aid from the Fund was gradually decreasing: 36% fewer agreements were concluded in 2023 with the value 33% lower than in the previous year. In 2024, borrowers registered slightly more than 4 thousand agreements on FWK support in BGK (-27% y/y) for the total amount of approx. PLN 300 million (-18.5% y/y). In 2024, a significant increase in interest in the Fund was recorded twice: in June, following the entry into force of regulations extending a possibility to use the FWK-provided solutions, and in 2024 Q4, following the extension of non-refundable aid from the Fund to borrowers affected by the flooding.

Figure 7. Number of agreements for FWK support



Source: NBP study based on BGK data.

The value of support disbursed to borrowers under the FWK in 2024 amounted to almost PLN 300 million. The Fund's resources decreased by PLN 195 million to PLN 1,651 million at the end of the period.

The Fund provides support primarily to borrowers repaying złoty housing loans – they account for 97% of all borrowers receiving support from the FWK.

3.2.5. The practice of applying the sanction of free credit

The year 2024 saw an increase in borrowers claiming the sanction of free credit (SKD), which is an entitlement provided for in the Act on Consumer Credit.[28] Although the sanction is a legal institution that has existed in Polish legislation since 2001, an increase in consumer interest in this instrument has been recorded in recent years, affected by: (i) the development of pro-consumer interpretation in the doctrine and the line of judgement; and (ii) high activity of law firms in attracting new clients.

The SKD is a specific consumer protection mechanism stemming from the Polish legislation. It is a borrower's claim against the bank for reimbursement of the credit instalments paid so far, commissions, insurance and other costs related to the liability if the bank, when concluding the agreement, breached the requirements set out in the Act on Consumer Credit.

The Committee analysed the legal solutions provided for in other EU Member States and assessed the potential systemic impact of the increased use of the rights arising from the SKD. In Poland, the line of jurisprudence on this issue has not yet developed. In the course of court proceedings

[28] Act of 12 May 2011 on Consumer Credit (Journal of Laws 2011, item 715, as amended).

concerning SKD, questions were referred to the CJEU for a preliminary ruling in order to resolve doubts regarding the application of EU consumer protection rules.

Pursuant to Article 23 of the CDD (Article 44 of the CDD II), Member States lay down rules on sanctions applicable in the event of breaches of national laws, which shall be effective, proportionate and deterrent. The provision of Article 23 has been reflected, among other things, in various solutions adopted in other countries, such as: loss of the right to interest in whole or in part as determined by a judge (France), reimbursement of unduly charged costs (Italy), non-transferable consumer rights (Slovakia), a free credit sanction applicable only for the duration of the infringement and deactivated once the infringement has been remedied (United Kingdom).

Analyses carried out by the Committee in June 2024 indicated that, in the event of a massive influx of cases before the courts and the formation of an extremely pro-consumer line of jurisprudence, the potential costs for the banking sector could be significant, posing a systemic risk.

At present, the banking sector has surplus capital in place which would enable banks to operate safely and extend lending to the economy. However, risk materialisation, depending on the assumptions adopted, could mean high costs and a significant depletion of capital surpluses.

In the Committee's opinion, the misuse of free credit sanction, which is supported by activities of buyers of customer claims, is another element that undermines the basic principles of contract law and the certainty of business transactions.

In the Committee's view, a recommended measure to mitigate the risks associated with the SKD would be the modification of the statutory provisions on SKD. In December 2024, the Committee recognised that an analysis of potential macroprudential policy measures was necessary and entrusted this task to the Permanent Working Group.

The work on the SKD risk was concluded in March 2025, when the Committee adopted a statement on this issue.[29] The published statement indicates that the lack of the possibility to mitigate the sanction creates a system of incentives that encourages the instrumental use of the SKD and undermining loan agreements, regardless of whether or not the infringement has economically affected the borrower. The Committee stressed the need to take into account the principle of proportionality in the area of consumer protection regulation.

3.2.6. Impact of the flood on activities of the banking and insurance sectors

In autumn 2024, a flood wave passed through the south of Poland, causing massive damage. The Committee monitored the impact of its effects on the financial sector and analysed the measures

[29] Statement of the Financial Stability Committee on the Sanction of Free Credit, 25 March 2025, https://nbp.pl/en/statement-of-the-financial-stability-committee-on-the-risk-associated-with-a-free-credit-sanction/.

taken and the burden on the financial sector, focusing in particular on the banking sector, including cooperative savings and credit unions and the insurance sector.

Insurance companies disbursed claims for losses caused by the disaster due to their flood risk capital requirements and high level of reinsurance. A preliminary data analysis showed that the effects of the flood did not pose a threat to the stability of the sector or its individual entities.

In the flood-affected area, the **banks** maintained their business continuity in terms of customer service during the flooding. In order to provide support to borrowers affected by the flood, the provisions of the Special Act on Flood were amended,[30] under which a possibility of receiving support from the FWK was introduced for borrowers in a financial difficulty:

- whose loan-financed house or dwelling was damaged and rendered unusable, at least temporarily, or
- who lost their means of livelihood as a result of the flood.

3.2.7. Cyber risk

As information technology develops and geopolitical tensions grow, financial institutions, and consequently the financial system, are increasingly targeted by cyber-attacks.

At the EU level, cybersecurity is governed by a number of legislative acts that commit financial entities to manage the information technology and security areas of the ICT environment with associated risks and impose supervision by national and EU authorities.[31] In 2023, the ESRB also issued a recommendation on building the foundations for a sound response system in the event of a cyber incident.[32]

At the national level, competence for cybersecurity matters for the banking sector and financial market infrastructures has been entrusted to the KNF.[33] Due to the potential impact of ICT

[30] Act of 1 October 2024 amending the Act on special solutions related to elimination of the effects of floods and certain other acts (Journal of Laws, item 1473, as amended).

[31] Among others: Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011. (OJ L of 2022, no. 333, as amended), the so-called DORA Regulation applicable from 17 January 2025, Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972 and repealing Directive (EU) 2016/1148 (NIS Directive 2) (OJ L of 2022, no 333).

[32] Recommendation of the European Systemic Risk Board of 2 December 2021 for the establishment of a pan-European systemic cyber incident coordination framework (ESRB/2021/17).

[33] Pursuant to the Act of 5 July 2018 on the National Cybersecurity System the KNF, for the purpose of performing the tasks defined in the Act, 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 KNF as well as the sectoral cybersecurity team under Directive (EU) 2016/1148 with a single point of contact designated in Poland.

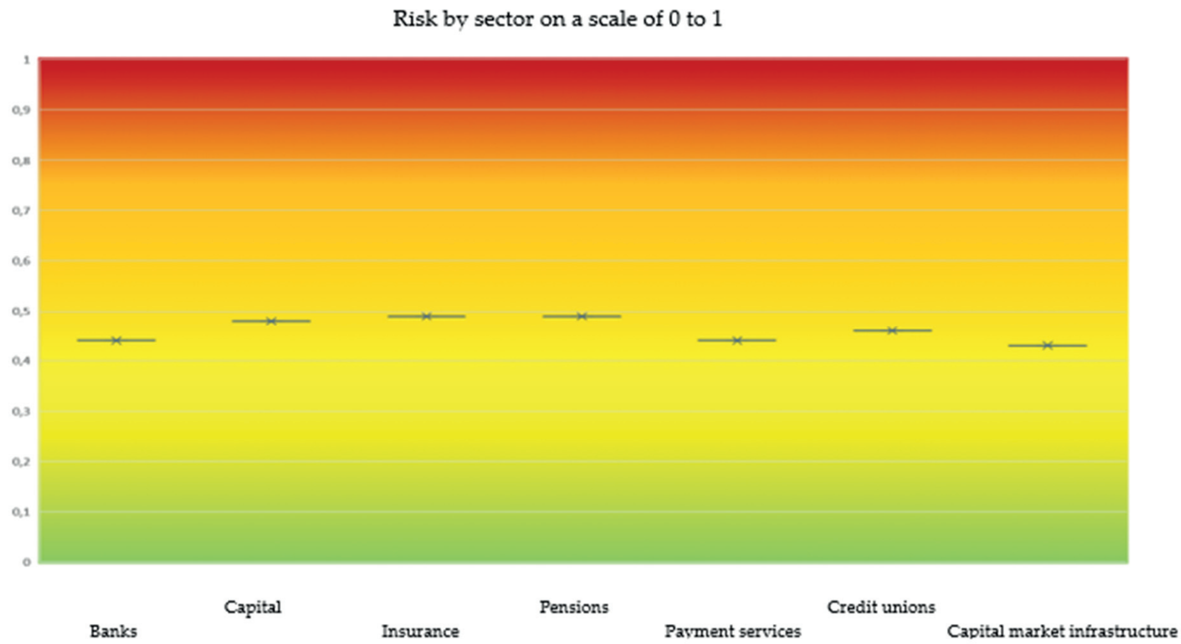
(Information and Communications Technology) risks[34] on financial stability, the FSC-M regularly monitors the situation in this area and takes note of the UKNF's analyses in the area of cyber risk in the Polish financial system and related risks.

The UKNF’s ICT risk analysis covers six financial market sectors: banking, capital (including capital market infrastructure), insurance, pensions, payment services and cooperative savings and credit unions. The analysis takes into account the results of a quarterly survey of key risk indicators for the ICT area (KRI, *Key Risk Indicators survey)*, information on payment incidents reported by entities and the results of UKNF inspections.[35]

[34] In accordance with the definition provided in the *Methodology for the supervision and assessment of commercial, associate and cooperative banks* by the UKNF, ICT risk means any reasonably identifiable circumstances related to the use of IT networks and systems which, if materialised, may pose a threat to the security of IT networks and systems, any technology-dependent tool or process, the security of operations and processes, or the provision of services by causing adverse effects in the digital or physical environment.

[35] The supervision survey is carried out behind the desk and/or at supervised entities and comprises an analysis of: ICT area management, ICT security, strategic planning, continuity, availability, ICT environment security and change management, information resources management, data architecture and quality, outsourcing of ICT services, e-banking and ICT auditing.

Diagram 6. ICT risk analysis



Source: UKNF.

The ICT risk analysis conducted in 2024 showed that the risk in individual sectors was on a similar and moderate level. Attacks on banks' IT systems, including DDoS attacks,[36] and attacks on service or software supply chains were the most common threats recorded.

In 2024, no major cyber phenomena affecting financial stability were recorded. The increase in threats resulting from military operations on the eastern border was systematically monitored and mitigated. Financial market entities appeared to be well-prepared for the attacks, applied adequate and effective defence mechanisms and generally responded well to the threats.

3.2.8. Monitoring of the process of reforming the benchmarks

The Committee is formally involved in the process of reforming the benchmarks at its final stage, i.e. the designation of a replacement for the key benchmark.[37] The involvement is envisaged in the form of issuing, in response to the KNF's request, of a recommendation or a statement on the need to designate a replacement benchmark within the meaning of the BMR.

The benchmark reform process is coordinated on an ongoing basis by the National Working Group (NWG) for Benchmark Reform. The aim of these activities is to select a risk-free rate (RFR)

[36] DDoS (Distributed Denial of Service) – attacks aimed at causing temporary unavailability of IT systems.
[37] In accordance with Article 61b of the Act on Macroprudential Supervision.

benchmark alternative to WIBOR. The Committee is regularly informed of the Group's work and the progress of the reform.

During the work on the reform of benchmarks, opinions were publicly voiced that that the measures taken resulted from irregularities in the benchmark currently in use. The Committee has repeatedly assured financial market participants of the safety of using WIBOR in commercial transactions. In its communications, the Committee emphasised that there were no grounds to question its credibility and representativeness. WIBOR meets the requirements of the BMR while its administrator is subject to supervision by the KNF. In the Committee’s opinion, questioning the reliability of the WIBOR index is unfounded and constitutes a source of risk to the stability of the financial system due to the scale of contracts and financial instruments in which it is used. On the other hand, the reform is part of a widespread global process of abandoning the previously used - IBOR-type benchmarks and replacing them with new ones. While supporting the work to determine a risk-free rate benchmark, the Committee noted that the method of setting WIBOR is compliant with all formal requirements. Therefore, WIBOR can be used in agreements and financial instruments until it is systematically replaced by a new benchmark, according to a schedule under development by the NWG. The Committee's assessment in this regard was reflected, among others, in the communication[38] on the application of the WIBOR benchmark, published on 20 September 2024 where, once again[39] the Committee pointed out that there was no rationale for undermining the reliability of this benchmark.

[38] Communication of the Financial Stability Committee on the application of the WIBOR benchmark, 20 September 2024, https://nbp.pl/en/press-release-of-the-financial-stability-committee-concerning-the-use-of-the-wibor-benchmark/.

[39] Communication of the Financial Stability Committee following its meeting on macroprudential oversight of the financial system, 9 December 2022, https://nbp.pl/en/press-release-after-the-meeting-of-the-financial-stability-committee-on-macroprudential-supervision/. Communication of the Financial Stability Committee following its meeting on macroprudential oversight of the financial system, 28 March 2023, https://nbp.pl/en/press-release-after-the-meeting-of-the-financial-stability-committee-on-macroprudential-supervision-10/.

4. Macroprudential instruments

4.1. Countercyclical capital buffer

The countercyclical buffer (CCyB) serves to strengthen the resilience of the banking system and reduce the cyclical risk in order 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. The buffer 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 (domestic and foreign) credit exposures. Until 2024, the countercyclical buffer rate in Poland was 0% of the total risk exposure of institutions with credit exposures in the territory of the Republic of Poland.

The Financial Stability Committee is required to calculate the countercyclical buffer guide on a quarterly basis[40] and present a recommendation concerning the intensity of the cyclical systemic risk 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 determines the countercyclical buffer rate and the date from which institutions should apply it in the relevant regulation. According to the standard, banks have 12 months to prepare for meeting this requirement.

The Committee publishes information on the countercyclical buffer rate on a quarterly basis.[41] 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.

Change in the approach to the application of the countercyclical buffer

In 2023, the Committee analysed the rationale for re-activating the macroprudential capital buffer,[42] after the systemic risk buffer had been released in 2020. Recognising that there was room for such action, work was initiated with the aim to determine the optimal model for activating the buffer.

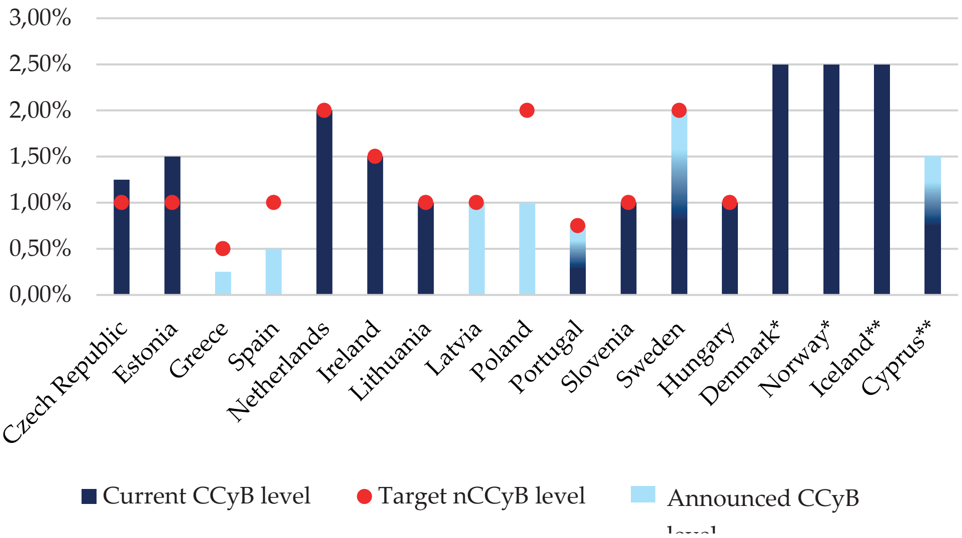
[40] The countercyclical buffer rate guide is defined in Article 23(1) and (2) of the Act on Macroprudential Supervision. The buffer guide is a variable reflecting the credit cycle and the risk associated with excessive lending growth in the national economy, taking into account the specific nature of the Polish economy and its financial system. It is based on the indicator of deviation from the long-term trend of change in credit to GDP ratio.

[41] In accordance with Article 25 of the Act on Macroprudential Supervision.

[42] Annual Report on Macroprudential Supervision Activity of the Financial Stability Committee 2023.

The systemic risk buffer, effective in Poland from January 2018 to March 2020, and the countercyclical capital buffer (CCyB) were taken into account.

Figure 8. Application of the nCCyB in other countries



Notes:
* Denmark and Norway do not determine a target nCCyB rate.
** Iceland and Cyprus have determined a minimum nCCyB rate of 2% and 0.5%, respectively.
Latvia has announced a 1% buffer rate to enter into force in the second quarter of 2025.
Spain and Greece have announced the gradual introduction of nCCyB, with initial buffer levels of 0.5% and 0.25%, respectively, from October 2025, before subsequent increasing further to target nCCyB levels. In Portugal, a buffer of 0.75% will apply from January 2026, corresponding to the nCCyB target value.
Source: NBP study based on ESRB and ECB data, *Using the countercyclical capital buffer to build resilience early in the cycle. Joint ECB/ESRB report on the use of the positive neutral CCyB in the EEA*, January 2025.

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 could have been miscalculated and not covered by the buffer. 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, the financial system may not have sufficient capital as a source to cover potential losses and allow the continuation of lending.

Taking into account the evolution of the countercyclical buffer application observed in other countries, in March 2024, the Committee adopted *The Strategy on the Application of the Countercyclical*

Buffer in Poland,[43] which complements the existing *Macroprudential Policy Strategy*.[44] In its new approach, the Committee has recognised that it is advisable to determine **a neutral rate for the countercyclical buffer**, which would be of a prudential nature and would also apply to banks at a standard risk level, i.e. during most of the financial cycle. The purpose of such an instrument is to strengthen the resilience of the banking sector and to prepare it for a potential crisis conditions resulting from the materialisation of risks that are difficult to predict or unpredictable (such as a pandemic).

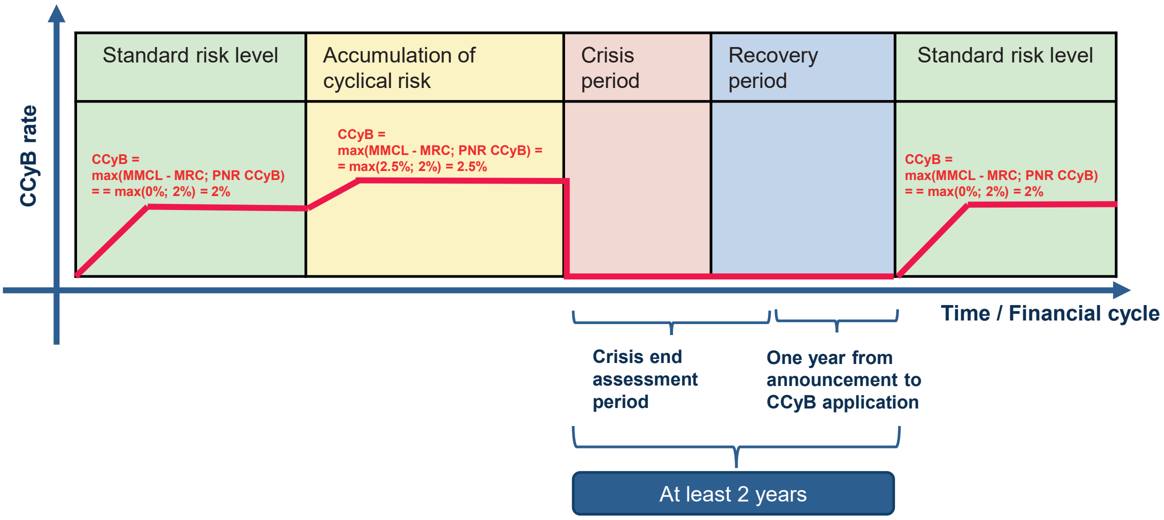
On the basis of the analyses performed, the Committee concluded that from the point of view of the responsiveness of the macroprudential policy to the materialisation of cyclical systemic risk, **the desired neutral rate for the countercyclical buffer amounts to 2%**. At the same time, the Committee considered it reasonable to reach this level gradually in order to give the banking sector adequate time to prepare**:** at the first stage, setting the buffer at a level of 1% and then raising it to 2%.

It is important to emphasise that under the new approach, the countercyclical buffer continues to be an instrument aimed to mitigate cyclical risk. However, it applies at an early stage of the financial cycle to prevent potential underestimation of cyclical risk (model risk) and to make the banking system more resilient to shocks that are difficult to predict (similar to COVID risk or the war in Ukraine). If the parameters used for the assessment of cyclical risk intensity signal its rise, the Committee may recommend an increase in the applicable countercyclical buffer level. However, it will only be raised when indicators reflecting the cyclical risk suggest that the buffer above the existing nCCyB level is necessary.

Alongside the new *Strategy…*, the Committee also adopted a new methodology for buffer calibration,[45] which is primarily based on early warning indicators of crisis in the banking system (EWI).

[43]https://nbp.pl/wp-content/uploads/2024/05/Strategia-nBA_EN-fin.pdf
[44] Macroprudential Policy Strategy, https://nbp.pl/wp-content/uploads/2022/08/strategia-polityki-makroostroznosciowej-2.pdf.
[45] *Methodology for setting the countercyclical capital buffer*,
https://nbp.pl/wp-content/uploads/2024/07/Methodology-for-setting-the-countercyclical-capital-buffer.pdf.

Diagram 7. Diagram of changes in the countercyclical buffer rate in the financial cycle phases



Source: NBP study.

Presented above is a diagram of the application of the nCCyB over the financial cycle, envisaging the following stages of application of the neutral rate of the countercyclical buffer:

1) **Introduction - the first activation**
   The buffer is activated at a neutral rate (initially 1% and ultimately 2%) when the parameters analysed indicate the presence of standard cyclical risk intensity, i.e. there are no elevated stresses, the financial condition of banking sector entities is good and lending growth is sustainable.

2) **Risk monitoring**
   If any signals of growing cyclical risk intensity emerge in early warning model indications or other indicators, the Committee may recommend raising the CCyB rate above the neutral rate.

3) **Release**
   The release of the buffer (total or partial) is envisaged in the crisis phase of the cycle as a result of:
   - the occurrence of unexpected/extraordinary events that could result in major bank losses and disruption of the economy financing,
   - materialisation of the cyclical systemic risk.

4) **Rebuilding**
   The Committee assesses the feasibility of restoring the neutral rate of the countercyclical buffer based on the available data and information concerning the situation of the financial sector, indicating that the crisis phase has ended. The restoring of the buffer should, in principle, start no earlier than 2 years after its previous release, maintaining a one-year period after the announcement of the reintroduction.

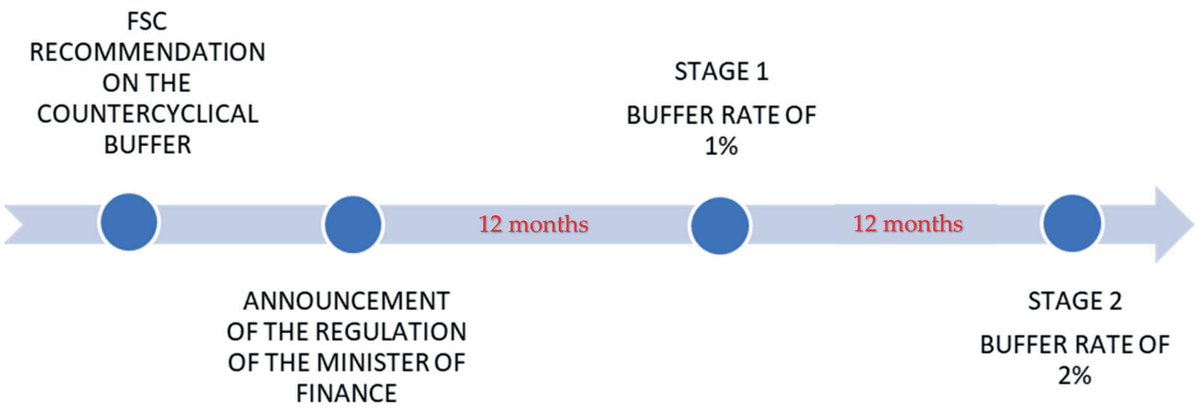
Recommended buffer level

With a view to the changes in the approach to the application of the countercyclical buffer indicated earlier in the text, in June 2024, for the first time, the Committee issued a resolution on the change of the countercyclical buffer rate,[46] recommending that the rate should be determined at a level of:

1) 1% – after the lapse of 12 months,
2) 2% – after the lapse of 24 months

from the announcement of a regulation on the issue by the Minister of Finance.

Diagram 8. Timeline of introduction of nCCyB in Poland



Source: NBP.

The Minister of Finance accepted the Committee's recommendation and initiated legislative work to implement the first stage of the Committee's resolution by setting the countercyclical buffer rate at 1%. Taking into account the need to increase the capital resilience of the banking sector in the event of materialisation of shocks that are difficult to predict, the Committee reiterated its recommendation in this regard in the next quarters, i.e. on 20 September and on 6 December 2024.

The first stage of activation of the buffer was implemented by way of a relevant regulation,[47] pursuant to which, from 25 September 2025, the countercyclical buffer rate applicable to banks for credit exposures in the territory of the Republic of Poland will be 1%.

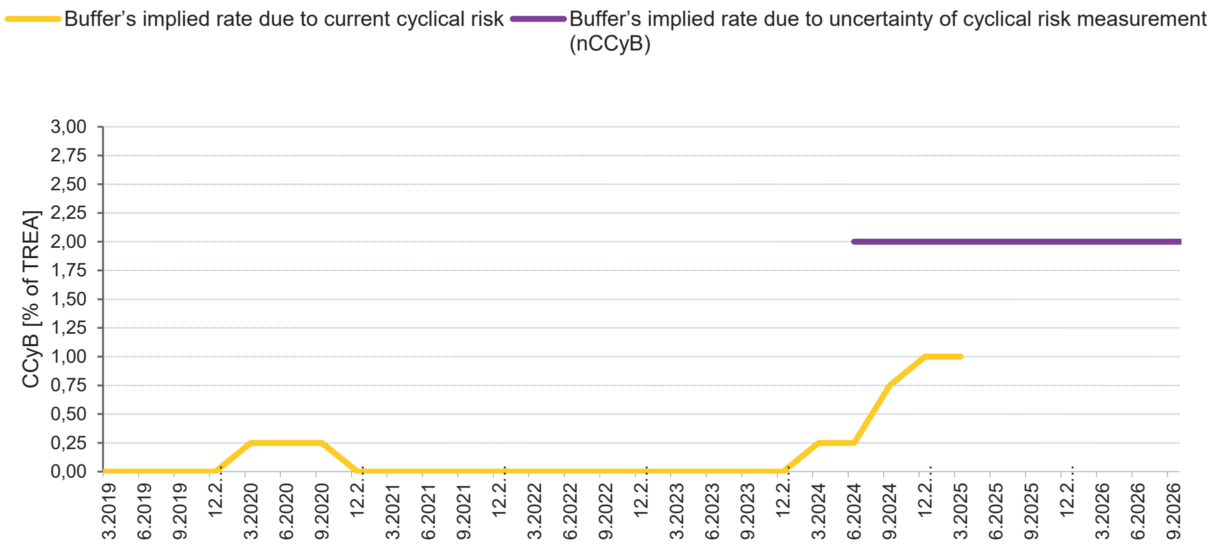
In accordance with the requirements of the Act on Macroprudential Supervision, the Committee has communicated the relevant information on the change in the countercyclical buffer rate to the European Systemic Risk Board.

[46] Resolution No. 74/2024 of the Financial Stability Committee of 14 June 2024 on the level of the countercyclical buffer rate.
[47] Regulation of the Minister of Finance of 18 September 2024 on the countercyclical buffer rate (Journal of Laws 2024, item 1400).

Analyses on the countercyclical buffer

Since the application of the new methodology, the results of the analyses have indicated a systematic increase in cyclical risk, driven by global factors and signals from the residential real estate market. However, its intensity did not justify determining the buffer at a level higher than 2%, therefore, no additional measures were required and the pace of reaching the recommended 2% buffer was maintained.[48]

Figure 9. Adequate value of the countercyclical buffer



Comments: Data presented since 2019, as the conservation buffer at its current rate of 2.5% became effective at that time. The latest reading is based on the data for the end of 2024 Q2.
Source: NBP.

Despite the change in approach to the application of the countercyclical buffer, the Committee continued to monitor the standard indicators recommended by the ESRB on a quarterly basis,[49] such as the *Composite Indicator of Systemic Stress* (CISS).

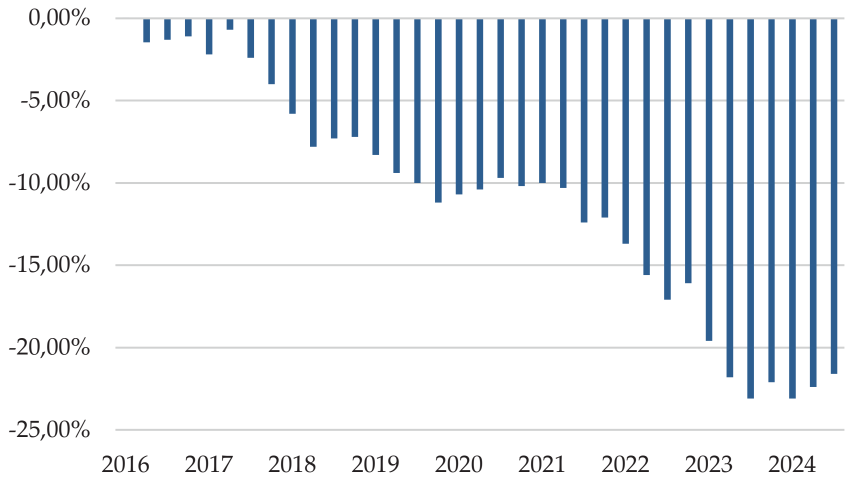
In 2024, the credit gap[50] remained deeply negative, which also implied no risk associated with excessive lending. In the subsequent quarters, it ran at: -22.1%, -23.1%, -22.4% and -21,6%, respectively.

[48] Materials containing detailed analyses on the adequacy of the buffer rate were published on the NBP website on a quarterly basis under the FSC-M analytical materials tab: https://nbp.pl/en/financial-system/macroprudential-supervision/publications-ms/.

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

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

Figure 10. Credit gap



Source: NBP calculations.

Tensions in the financial system, as measured by the CISS index, continued throughout the year below the average level of the period identified by the ESRB as a period of elevated risk. This information indicates that there was no contraindication to establishing a positive buffer.

4.2. O-SII buffer

The process of identifying and calibrating the Other Systemically Important Institutions (O-SII) buffer rates remains within the remit of the Polish Financial Supervision Authority (KNF). The Polish Financial Supervision Authority, by way of an administrative decision and after consulting the Financial Stability Committee, identifies other systemically important institution (O-SII) and imposes an appropriate level of the buffer.[51] Both the list of identified institutions and the level of buffer imposed are subject to regular annual review.[52] When assessing the O-SII, the KNF also takes into consideration the EBA guidelines[53] and the FSC recommendations on the assessment methodology of 2022.[54]

The assessment of the systemic importance of an institution is based on the following criteria:

- size of the institution,
- importance for the Polish economy,
- importance of cross-border activity,

[51] Article 39(1) of the Act on Macroprudential Supervision.

[52] Article 46(1) of the Act on Macroprudential Supervision.

[53] 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).

[54] Resolution No. 60/2022 of the Financial Stability Committee of 10 May 2022 concerning the recommendation pertaining to the methodology, criteria for the identification and calibration of buffers of other systemically important institutions.

- linkages of a given institution with the financial system.

Review of the adequacy of the Other Systemically Important Institutions (O-SII) buffer rate in 2024

In September 2024, the Polish Financial Supervision Authority carried out its cyclical review of financial institutions, in which it identified ten entities that met the criteria to be recognised as other systemically important institutions. The group of entities identified as O-SII in 2024 remained unchanged compared to 2023 and 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, Bank Polskiej Spółdzielczości.

The KNF proposed buffer rates unchanged from the previous year in the range of 2% to 0.25% for eight banks and an increase in the requirements for two entities (ING Bank Śląski and BNP Paribas Bank Polska) to 1% and 0.5%, respectively. In the case of ING Bank Śląski, the increase in systemic importance resulted from a growth in the market share of cross-border claims and the value of derivatives, while at BNP Paribas the highest growth in market share occurred in liabilities to the financial system.

The application of the criteria specified in the methodology and the assessment of the role of individual entities in the financial system provided the basis for the Committee to issue positive opinions on the KNFs requests. The opinions were submitted to the Polish Financial Supervision Authority and to the banks concerned in due time in accordance with the applicable procedures of the Code of Administrative Procedure. Taking into account the Committee's opinions, on 11 December 2024, the KNF issued decisions on imposing appropriate O-SII buffers.

In September 2024, the Polish Financial Supervision Authority requested the Committee to notify the ESRB of 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 FSC to the ESRB on 23 December 2024.

Table 3. Banks identified as O-SII

Bank	Level of the O-SII buffer (%)					
	2019	2020	2021	2022*	2023	**2024**
Powszechna Kasa Oszczędności Bank Polski SA	1.00	1.00	1.00	2.00	2.00	2.00
Bank Polska Kasa Opieki SA	0.75	0.75	0.75	1.00	1.00	1.00
Santander Bank Polska SA	0.75	0.75	0.75	1.00	1.00	1.00
ING Bank Śląski SA	0.50	0.50	0.75	0.50	0.50	**1.00**
mBank SA	0.75	0.50	0.50	0.50	0.50	0.50
BNP Paribas Bank Polska SA	0.25	0.25	0.25	0.25	0.25	**0.50**
Bank Millennium SA	---	0.25	0.25	0.25	0.25	0.25
Bank Handlowy w Warszawie SA	0.25	0.25	0.25	0.25	0.25	0.25
SGB-Bank SA	0.10	0.10	0.10	0.25	0.25	0.25
Bank Polskiej Spółdzielczości SA.	0.10	0.10	0.10	0.25	0.25	0.25

A change from the previous year is highlighted in blue.

* Since 2022, the new O-SII bank identification methodology applies.
Source: NBP study based on KNF data.[55]

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.

In September 2024, the Polish Financial Supervision Authority informed the Financial Stability Committee that, like in the previous years, 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.

[55] https://www.knf.gov.pl/knf/pl/komponenty/img/Przeglad_adekwatnosci_wskaznika_bufora_innej_instytucji_o_znaczeniu_systemowym_91741.pdf

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 KNF,[56] may determine a higher risk weight for exposures secured by real estate mortgages. The CRR sets basic risk weights of:

- 35% for exposures secured by mortgages on residential real estate, and
- 50% for exposures secured by commercial real estate;

which can be increased at a national level to the maximum level of 150%.

The basis for determining higher risk weights may be an assessment of losses incurred on exposures secured by real estate and future trends in the real estate market. Increasing risk weights may also be determined by financial stability considerations. The Financial Stability Committee, if the accumulation of risk associated with exposure is found, may also initiate the process, i.e. issue a recommendation in this regard.[57]

The higher risk weights applicable in Poland since 2017[58] provided a response to the risk associated with the portfolio of FX housing loans. The instrument was to provide an incentive for banks for reducing the value of these portfolios. On several occasions, the Committee recommended[59] modifications in the area of risk weights established in 2017, resulting in amendments to the regulation issued by the Minister of Finance.

The levels of risk weights applicable in Poland are presented below.

[56] Pursuant to Article 128(6a) of the Banking Law.

[57] In accordance with Article 18 of the Act on Macroprudential Supervision.

[58] 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) – Regulation of the Minister of Development and Finance.

[59] 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.
Resolution No 52/2021 of the Financial Stability Committee of 28 September 2021 on the recommendation regarding risk weights for exposures secured by a mortgage on residential real estate.
Resolution No 69/2023 of the Financial Stability Committee of 06 July 2023 on the recommendation regarding risk weights for exposures secured by a mortgage on residential real estate.

Table 4. Risk weight levels applicable in 2024

Exposure type	Risk weight	Legal basis
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
Exposures secured by 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
Exposures secured by 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[60]
Exposures secured by mortgage on a **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[61] and of 22 September 2023[62]

Source: NBP study.

In September 2024, the Committee assessed the adequacy of the higher risk weights applied in Poland. The following issues were taken into account as part of the analyses performed:

- the evolution of risks associated with both the FX loan portfolio and loans for commercial real estate,
- the application of the amended CRR rules significantly modifying the existing approach to the application of risk weights as of January 2025.

Taking into account the results of the analyses, the Committee issued recommendations, addressed to the Minister of Finance and the KNF, on the risk management of exposures secured by mortgages on real estate, where it proposed to repeal the Regulation of the Minister of Development and Finance and to update the KNF's methodology for determining banks' additional capital requirements for own funds (more on this issue, see Chapter 5.2.).

[60] Regulation of the Minister of Finance, Funds and Regional Policy of 8 October 2020 amending the Regulation on higher risk weights for exposures secured by mortgage on real estate (Journal of Laws 2020, item 1814)

[61] Regulation of the Minister of Finance of 18 March 2022 amending the Regulation on higher risk weights for exposures secured by mortgage on real estate (Journal of Laws of 2022, item 687).

[62] 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)

4.5. Combined buffer requirement

The combined buffer requirement is the 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).[63]

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 the case of non-compliance, an institution cannot make payments related to Common Equity Tier 1 (e.g. dividend payments).

Table 5. Combined buffer requirement parameters in 2024

Year	Conservation Buffer[64]	CCyB Buffer	O-SII Buffer[65]	Systemic risk buffer	COMBINED BUFFER REQUIREMENT
2024	2.5%	0%	10 banks: 0.25%-2%	-	**2.5%-4.5%**

Source: NBP study.

The combined buffer requirement indicates that banks in Poland are charged between 2.5% (systemically insignificant) and a maximum of 4.5% under the highest level of the imposed O-SII buffer on account of macroprudential instruments. This level remained unchanged compared to 2023.

[63] Pursuant to Article 55(4) of the Act on Macroprudential Supervision.

[64] 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, in order to rebuild the required buffer level. The scale of the constraints increases as the capital covering the buffer continues to be consumed, i.e. the minimum capital requirement is approached.

[65] 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. Opinion on the KNF Recommendation on the Long-Term Financing Ratio

In response to a request from the Polish Financial Supervision Authority, the Committee issued an opinion on the draft recommendation on the **Long-Term Funding Ratio (WFD).**[66] The obligation to obtain an opinion from the KNF[67] arises when the recommendations issued by the KNF on good practices of prudent and sound bank management relate to matters that may involve macroprudential supervision.

The draft presented to the Committee addressed the issue of introducing a new supervision requirement, the Long-Term Funding Ratio, aimed at reducing the risks associated with the current funding structure of mortgage loans by increasing the scale of their funding with long-term debt instruments.

The FSC assessed the introduction of the new WFD recommendation as an anticipatory and prudential measure. At the same time, it highlighted certain issues of significance in the development of the new solution which, in the Committee's opinion, should be considered by the KNF. The Committee's main concerns are presented below:

1. The objective of introducing the WFD recommendation defined in its draft, i.e. to mitigate systemic risk arising from the current bank financing model for mortgage loans, had not been recognised as a systemic risk by FSC-M thus far and the Committee had not found sufficient arguments from a macro-prudential perspective for the introduction of this requirement.
2. The WFD structure provided for a temporary inclusion of surplus own funds above the total capital requirement in the numerator. Assuming such a structure of the indicator, macroprudential policy measures (creating an additional buffer or increasing risk weights) imply an automatic reduction of the capital surplus in the WFD numerator, and thus a reduction of the entire indicator. This may consequently have a negative impact on the perception of banks' resilience and the consistency of the measures taken by the safety net authorities, and generate undesirable systemic effects, such as reduced lending. The Committee proposed modifying the structure of the WFD by including all own funds in the ratio's numerator. Such a formula could ensure greater consistency between individual

[66] Resolution No. 75/2024 of the Financial Stability Committee of 14 June 2024 on the opinion on the draft WFD recommendation on the Long-term Financing Ratio,
https://nbp.pl/wp-content/uploads/2024/06/Uchwala-75-KSF-ws.-rekomendacji-WFD_do-publikacji.pdf
[67] Article 137(2) of the Act on Banking Law (consolidated text, Journal of Laws 2023, item 2488, as amended).

macroprudential instruments and reduce potential negative consequences affecting the effectiveness of the instruments applied.

3. The Committee proposed a change to the selection of liabilities included in the WFD numerator by including stable deposit base and the method of their weighting. In the FSC-M's opinion, the failure to include retail deposits in the design of the WFD might lead to the development of other risk categories, i.e. wholesale debt refinancing risk, foreign exchange risk and intra-sectoral linkage risk.
4. The Committee welcomed the reduction of the group of entities to which the requirement may apply, i.e. to banks with assets over PLN 2 billion (and a share of the net carrying amount of the portfolio of loans to households secured by residential real estate in assets of more than 10%). At the same time, it pointed out that despite the introduction of this threshold, some cooperative banks might still be subject to the WFD obligation. In the Committee's view, the principle of proportionality and the specific nature of the activities of cooperative banks in Poland should be more strongly reflected in the WFD recommendation, which would be consistent with the intention of the FSC recommendation of 2021 on measures supporting the stable functioning of cooperative banks.
5. The Committee took note of the specific nature of the WFD indicator (no explicit definition of the WFD as a micro- or macroprudential instrument) and the procedure for its introduction. In particular, it recognised that the issue whether the WFD indicator was intended to mitigate identified systemic risks or whether it was part of the Pillar II instruments needed to be clarified. It should be noted that the supervision powers applied under Pillar II were of micro-prudential nature and could only be applied in well-defined cases and to the situation of individual banks.

In July 2024, the Polish Financial Supervision Authority adopted a recommendation[68] consistent with the draft presented to the Committee.

5.2. Recommendation on the management of risk associated with exposures secured by mortgages on real estate

In accordance with Article 124(2) of the CRR, the designated authorities are required to assess the adequacy of the risk weights applied on a cyclical basis (at least annually). If the risk weights do not reflect the actual risks associated with the exposures and if it is considered that their inadequacy may adversely affect financial stability, their appropriate adjustment should be

[68] https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_WFD_pdf.pdf

considered. The assessment of the adequacy of applying higher risk weights was also recommended to Poland by the ESRB in its opinion of 2023.[69]

The following issues were singled out as part of the analyses performed in 2024:

1) the adequacy of applying higher risk weights in the context of the **evolution of risks** associated with both the FX loan portfolio and loans for commercial real estate:
   - the risk of FX housing loans has evolved and assumed a principally legal character. This has been accompanied by a decline in the value of the FX mortgage loan portfolio and an increase in provisions created by banks. The impact of higher risk weights is limited to the risks associated with the portfolio of FX housing loans that remain on banks' balance sheets, ignoring the issue of legal risk associated with fully or substantially repaid loans. The analysis in this area has shown limited effectiveness in maintaining higher risk weights to reduce systemic risk.
   - with regard to higher risk weights for exposures secured by mortgages on commercial real estate, it was assessed that the macroprudential rationale for applying this requirement had ceased. The commercial real estate market was not identified as an area that poses systemic risk.

2) the validity of maintaining the applicable regulation on higher risk weights in the context of **the CRR amendment**:
   - the CRR amendment has significantly modified the existing rules of application of risk weights for exposures secured by real estate by, among other things, introducing an additional classification of exposures. Moreover, a risk-weight multiplier of 1.5 has been introduced for currency mismatch exposures. The mechanism aims to provide adequate capital protection for this type of exposure, but also creates an incentive to reduce the portfolio. The regulations included in the CRR amendment were therefore deemed similar to the solutions adopted in the regulation of the Minister of Development and Finance.
   - The CRR also introduces changes in the area of determining risk weights for commercial real estate, while taking into account the specific nature of exposures secured by income-generating real estate. It was recognised that the objectives behind the regulation of the Minister of Development and Finance, under the new legal status, could be achieved by directly applying the provisions of the CRR.

Taking into account the results of the analyses, the Committee issued recommendations, addressed to the Minister of Finance and the KNF, on the risk management of exposures secured by

[69] *Assessment of the extension of higher risk weights for exposures secured by residential real estate applied in Poland under Article 124 of the Capital Requirements Regulation*, ESRB, 4 September 2023.

mortgages on real estate,[70] where it proposed to repeal the regulation of the Minister of Development and Finance and to update the KNF's methodology for determining banks' additional capital requirements for own funds.

As a result, the previous higher risk weights for both residential and commercial real estate exposures were repealed in accordance with the Regulation of the Minister of Finance of 12 November 2024.[71] The regulation entered into force on 1 January 2025 and the standard risk weights defined in the CRR have applied in Poland since that date.

In the Committee's opinion, the change in the nature of risk associated with the FX loan portfolio required the application of microprudential policy tools. Therefore, the Committee recommended that the KNF should modify its approach to the application of the methodology for determining additional capital requirements. Regulating of this issue at a micro-supervision level was intended to adequately take into account the standing of individual banks, in particular their risk exposure, as well as the track record of restructuring of the FX housing loan portfolio and estimates of the expected costs of materialisation of this risk.

5.3. Review of the list of systemically relevant entities

The Financial Stability Committee updates the list of financial institutions relevant to the financial system, the so-called Systemically Relevant Entities (PSI) on an annual basis.[72]

In 2024, as in the previous year, the Financial Stability Committee recognised the following entities as Systemically Relevant Entities:[73]

1. O-SII banks:[74]
    - Powszechna Kasa Oszczędności Bank Polski SA,
    - Bank Polska Kasa Opieki SA,
    - Santander Bank Polska SA,
    - ING Bank Śląski SA,
    - mBank SA,
    - BNP Paribas Bank Polska SA,
    - Bank Millennium SA,
    - Bank Handlowy w Warszawie SA,
    - SGB-Bank SA,

[70] Resolution No 77/2024 of the Financial Stability Committee of 20 September 2024 on the recommendation regarding risk weights for exposures secured by a mortgage on real estate.

[71] Regulation of the Minister of Finance of 12 November 2024 repealing the Regulation on higher risk weights for exposures secured by a mortgage on real estate (Journal of Laws 2024, item 1723).

[72] Article 5(2) of the Act on Macroprudential Supervision.

[73] Based on the methodology adopted in 2019.

[74] The PSI group includes all institutions identified by the KNF as O-SIIs.

- Bank Polskiej Spółdzielczości SA;

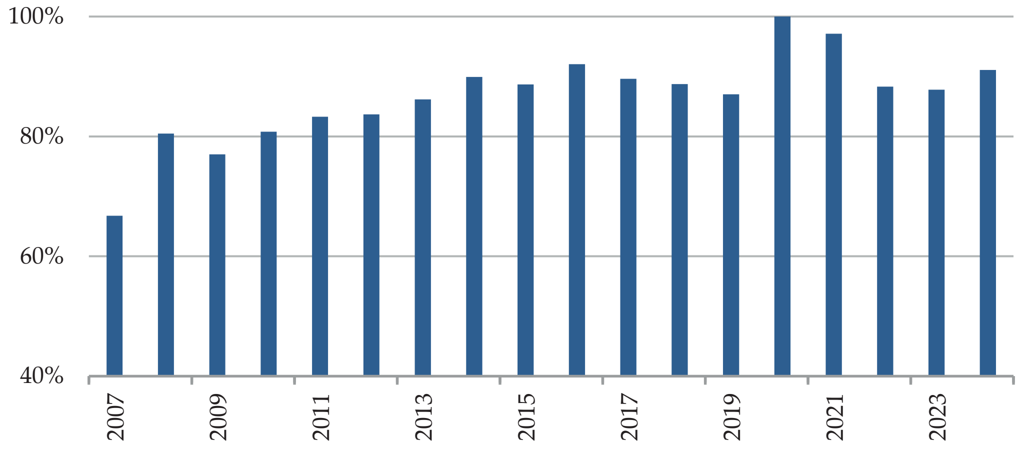
2. systemically important payment systems, securities clearing and settlement systems,[75]
3. PZU SA,
4. PZU Życie SA,
5. GPW Benchmark SA,
6. SKOK im. F. Stefczyka,
7. National Association of Cooperative Savings and Credit Unions,
8. Bank Gospodarstwa Krajowego.

5.4. Analysis of the situation of the Polish banking sector compared to EU countries

In December 2024, the Committee took note of the results of the NBP analysis concerning the situation of the Polish banking sector compared to the European Union.

The domestic sector remains one of the smallest in the EU in terms of its assets to GDP ratio.[76] Current trends show a low and declining share of loans in assets, with a decrease of 17 percentage points in the years 2016-2023. Compared to the EU, consumer loans account for a relatively higher share of GDP in Poland than housing loans. At the same time, a systematic increase in banks' exposure to government debt securities has been recorded.

Figure 11. Banking sector's assets to GDP



Source: NBP calculations.

[75] Service provision systems, not necessarily owned by the owners of the above systems, are also identified as Systemically Relevant Entities.

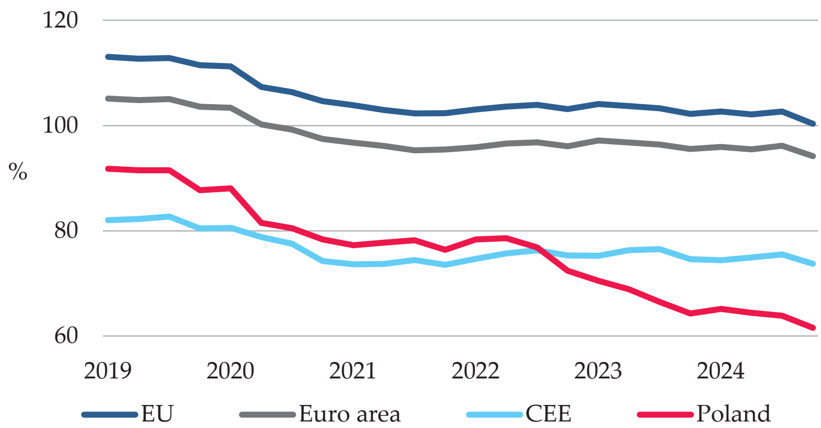
[76] The only deviation against this trend was in the period following the Covid-19 pandemic, when the money supply and government sector debt increased substantially.

Figure 12. Share of debt securities in assets of the Polish banking sector

Source: NBP calculations.

A characteristic feature of Polish banks is a substantial and steadily growing surplus of deposits over loans.

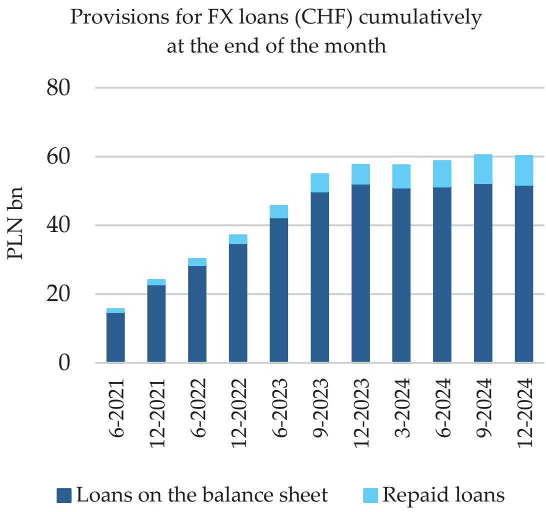
Figure 13. Loan-to-deposit ratio in the EU

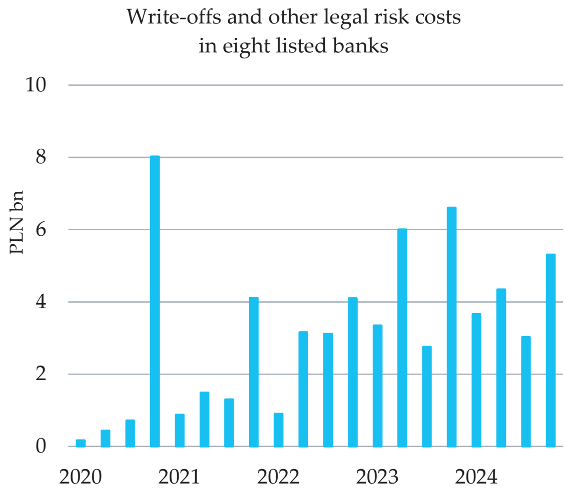


Source: ECB calculations.

The profitability of Polish banks has gradually recovered, approaching the EU average, although it is still lower than in other countries of Central and Eastern Europe. Net interest margin (NIM) plays a significant role in generating profits for banks in Poland. It has recently increased to over 3.5%, exceeding the EU average. However, the high net interest margin has not fully translated into higher returns on equity and on assets due to the fact that provisions for FX housing loans have been burden on the earnings of banks in Poland in recent years.

Figures 14 and 15 Provisions for FX loans and write-offs and costs of legal risk

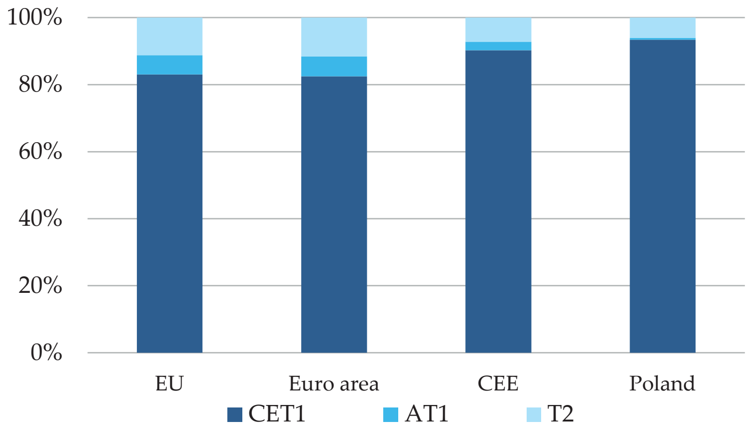




Source: NBP and UKNF data.

The Polish banking sector features high capital ratios and a structure in which the highest quality CET1 capital (over 90%) prevails. Capital surpluses and high liquidity buffers create room at banks to continue to create credit for the economy, while maintaining moderate lending growth.

Figure 16. Structure of own funds



Source: NBP and ECB data.

5.5. Analysis of banking sector's proposals

The Financial Stability Committee regularly receives letters where the Polish Bank Association (ZBP) draws attention to current problems in the sector. The proposals of the ZBP are diversified and their potential implementation is most often the remit of various institutions represented in the FSC.

In 2024, the FSC-M discussed a package of proposals submitted by banks, forwarded by the ZBP. The proposals mostly fall outside the direct competence of the macroprudential authority and may be subject to analysis and potential individual implementation within the mandates of individual institutions.

Key issues include: changes to the FINREP instruction, changes to the bank tax structure, the Act on FX housing loans, the benchmark reform, MREL issues.

The Committee members, representing various financial safety net institutions, confirmed that the institutions had been cooperating with the banking sector for years, also within the scope defined by the ZBP. Current statements, opinions and the status of work on the proposals submitted were communicated to the sector on an ongoing basis by individual institutions within their own competence.

5.6. Analysis of the MREL level and structure

The Minimum Requirement on Own Funds and Eligible Liabilities (MREL) is a prudential instrument to ensure that banks under crisis conditions can either absorb losses or be recapitalised without the need for a government bailout. An adequate level of this requirement affects the feasibility of a potential resolution process and consequently has a positive impact on maintaining financial stability of the financial sector.

Since 1 January 2024, banks have been required to maintain a target MREL.[77] The Committee took note of the conclusions of the BFG analysis of the level of fulfilment and structure of MREL. All banks have met the MREL-TREA requirement,[78] including the combined buffer requirement. Most banks also met the MREL-TEM requirement.[79]

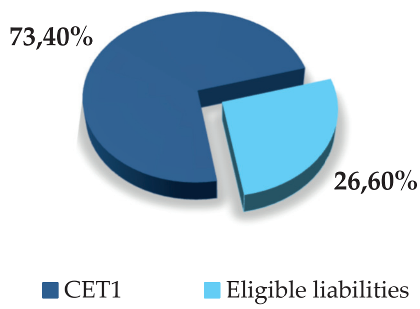
In the initial MREL requirement period (January 2024), the requirement was predominantly fulfilled with the CET1 capital (73.4%) and only 26.6% with debt instruments.

[77] The level of MREL is determined on a case-by-case basis for individual entities by the Bank Guarantee Fund.

[78] MREL-TREA – the MREL requirement expressed as a percentage of the total risk exposure amount, in accordance with Article 97(2b)(1) of the Act on BFG.

[79] MREL-TEM – the MREL requirement expressed as a percentage of the total exposure measure, in accordance with Article 97(2b)(2) of the Act on BFG.

Diagram 9. MREL structure – as at 1 January 2024

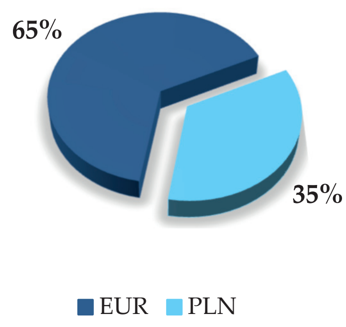


Source: NBP study based on BFG data.

From the point of view of the feasibility of resolution, it is important that banks have a high share of eligible debt instruments in the recapitalisation amount, which is a part of MREL. Some banks already fulfil this expectation. The BFG will seek to have the remaining group of banks increase their issuance of debt instruments.

In order to meet the MREL requirement in a timely manner by the end of 2023, banks conducted more than 20 issues of eligible instruments in the amount of PLN 37.2 billion, of which nearly 65.1% were issues in euro.

Diagram 10. FX composition of eligible liability issues at the end of 2023



Source: NBP study based on BFG data.

Issues of instruments for the purpose of meeting the MREL requirement entailed significant costs for banks. This was due to increased risk aversion in international markets, triggered by, among others, the war in Ukraine and the tightening of global monetary policy. Banks in Poland were additionally burdened by regulatory uncertainty (e.g. loan repayment holidays) and the costs of legal risk of FX housing loans.

The banks' issuing activities led to the development of an active market for debt instruments denominated in złoty and it will continue to develop due to the need to renew maturing bonds and new issues.

6. International cooperation

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

Material exposures of national banking sectors towards third countries can be a source of risk to financial stability. In order to harmonise the law and develop a consistent approach in the EU on the recognition and setting of CCyB guides in relation to third countries, in 2016 the ESRB published *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 significant third countries for the needs of implementing this recommendation.

The NBP analysis using this methodology showed that still no significant third countries were identified for the Polish banking system in 2024.[80] 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 significant exposures (Luxembourg and France) were third countries from an EU perspective.

Table 6. The largest exposures of Polish banks

Country	Average share of exposures in 8 quarters in 2024	Average share of exposures in 8 quarters in 2023	Is the exposure over 1% in each of the last two quarters?	Is the exposure material?[81]
France	1.45%	1.06%	**YES**	**YES**
Luxembourg	1.16%	1.09%	**YES**	**YES**
Germany	0.75%	0.67%	NO	NO
Great Britain	0.64%	0.80%	NO	NO
Czech Republic	0.52%	-	NO	NO

Source: NBP study based on FINREP and COREP data.

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

[80] Based on the Committee's decision at the national level, third countries that are directly monitored by the ESRB are not analysed. In 2024, in accordance with the published list, they included: Brazil, China, Hong Kong, Mexico, Russia, Singapore, Switzerland, Turkey, the United Kingdom and the USA. The list of third countries monitored by the ESRB is reviewed annually in consultation with all EU countries.

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

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 assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures*. 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 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.

The way how individual ESRB recommendations are implemented and the results of the reciprocity monitoring in 2024 are presented below.

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

In 2024, the ESRB published another Report[82] summarising the implementation of the Recommendation on the assessment of cross-border effects of and voluntary reciprocity of macroprudential policy measures from 1 July 2021 to 30 June 2023, which was based on the reports submitted to the Board in June 2023.

It follows from the Report that Member States' actions demonstrate high compliance with the Recommendation. All countries, **including Poland**, received **the highest possible overall score for** the implementation of the Recommendation (FC, fully compliant).

[82] ESRB, *Summary compliance report*, August 2024. 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).

6.2.1. Requests on the reciprocation of macroprudential measures

In accordance with Recommendation ESRB/2015/2 (sub-recommendation C), Member States have the right to request the ESRB to recommend to the other EU Member States to reciprocate the macroprudential measure introduced. Such rules aim to eliminate regulatory arbitrage as well as serve to ensure macroprudential policy coherence across the EU. Moreover, the mechanism of reciprocal recognition of macroprudential measures (reciprocity) includes the application of a materiality threshold, which determines the possibility of non-reciprocating another country's instrument due to immaterial exposures.

Due to the lack of material exposures of Polish banks in EU countries, the Financial Stability Committee has so far not issued any recommendation regarding the need to reciprocate in Poland any of the macroprudential instruments introduced in other countries.

In 2024, the Committee analysed three new recommendations of the European Systemic Risk Board, recommending reciprocity of the new macroprudential measures introduced.

Portugal
On 8 December 2023, the European Systemic Risk Board issued a recommendation[83] on the application of the reciprocity principle in relation to the macroprudential measures introduced in Portugal.

In Portugal, a sectoral systemic risk buffer (sSRB) of 4% was applied to credit institutions using the Internal Ratings-Based Approach (IRB) for all retail exposures secured by residential real estate located in Portugal. Reciprocation should take place at the highest level of consolidation. The materiality threshold for exposure of a single institution was determined at a level of EUR 1 billion.

According to the NBP analysis of June 2024, the total exposure of the Polish banking sector in Portugal did not exceed the indicated threshold. Consequently, the conditions allowing the Committee to refrain from reciprocating the Portuguese sSRB have been met.

Denmark
In its recommendation of 8 December 2023, the ESRB also recommended reciprocating the Danish instrument. As a result of an adjustment of the instrument by the Danish authorities, a further recommendation was issued in July 2024.[84]

[83] Recommendation of the European Systemic Risk Board of 8 December 2023 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2023/13).

[84] Recommendation of the European Systemic Risk Board of 8 July 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/3).

In Denmark, a sectoral systemic risk buffer of 7% was applied to all types of exposures located in the country to non-financial corporations engaged in real estate and construction project development. The reciprocation of the instrument should comprise all levels of the consolidation. At the same time, a part of each exposure in the range of 0-15% LTV has been excluded from the range of exposures to which sSRB applies. The materiality threshold relevant to institutions, determining the application of the de minimis rule and exempting the facility from reciprocity, has been set at a level of EUR 200 million.

According to the NBP analysis carried out in September 2024, the total exposure of the entire banking sector to all financial corporations in Denmark was lower than the indicated materiality threshold for a single institution and, consequently, the Committee decided that there was no need to reciprocate the Danish buffer.

Italy

In June 2024, the ESRB issued a recommendation on a recommended reciprocation of the instrument introduced in Italy,[85] i.e. the sectoral systemic risk buffer towards all credit and counterparty risk exposures to credit institutions operating in Italy at a level of 0.5% (from 31 December 2024) and 1% (from 30 June 2025). The recommendation determined a materiality threshold at a level of the institution that exempts reciprocation when the relevant exposures do not exceed EUR 25 billion.

The analyses conducted by Narodowy Bank Polski in September 2024 showed that the total exposure of the entire banking sector in Poland did not exceed the specified materiality threshold, which means that this limit was also not exceeded by any single institution. The results of this analysis enabled the Committee to take the decision against reciprocating the Italian sSRB.

Belgium

In 2023, the General Council of the European Systemic Risk Board recommended the reciprocity principle for the instrument introduced in Belgium, i.e. the sectoral systemic risk buffer of 6%.[86] It applies to all retail exposures to physical persons for which the risk is estimated on an IRB basis, secured by domestic residential real estate.

In September 2024, the ESRB amended the existing rules on the reciprocity of the Belgian instrument by issuing a recommendation,[87] which recommended its application on an individual, sub-consolidated and consolidated basis, regardless of whether the exposures in question are maintained through subsidiaries or branches or result from direct cross-border lending. The

[85] Recommendation of the European Systemic Risk Board of 11 June 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/2).

[86] 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).

[87] Recommendation of the European Systemic Risk Board of 27 September 2024 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2024/5).

recommendation sets a materiality threshold that exempts the Belgian macroprudential instrument from reciprocity if the value of relevant sectoral exposures at a level of the institution does not exceed EUR 2 billion.

In accordance with the amended wording of the Recommendation, all exposures, i.e.:

- held through branches,
- resulting from direct cross-border lending,
- held through subsidiaries,

should be taken into account with regard to the materiality threshold.

The analyses carried out by Narodowy Bank Polski showed that no Polish credit institution (taking into account the indicated consolidation levels) had exposures exceeding the materiality threshold in Belgium. Accordingly, there were grounds allowing Poland not to reciprocate the Belgian macroprudential instrument.

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

As recommended by the ESRB, the reciprocity mechanism requires cyclical monitoring of the levels of relevant sectoral exposures vis-à-vis other jurisdictions in order to ensure reciprocity when materiality thresholds defined in the recommendations are exceeded. To this end, the Financial Stability Committee required NBP to regularly monitor the size of exposures of Polish credit institutions in EU Member States.

In 2024, the Committee took note of the results of the analyses on the macroprudential instruments used in:

- the Netherlands (minimum average risk weights on exposures to individuals secured by mortgages on residential real estate),[88]
- Lithuania (2% SRB for all retail exposures to individuals secured by residential real estate in Lithuania),[89]
- Norway (4.5% SRB and minimum average risk weights for exposures secured by commercial and residential real estate),[90]
- Sweden (higher risk weights for commercial and residential real estate exposures),[91]

[88] 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).

[89] Recommendation ESRB/2022/1.

[90] 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).

[91] 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).

- Germany (2% SRB for exposures secured by residential real estate),[92]
- Luxembourg (LtV limits for mortgage loans).[93]

In all these cases, the relevant materiality thresholds were not exceeded and therefore no action was required by the Committee to reciprocate any of the instruments applied in these countries.

6.2.3. Assessment of cross-border effects of Polish macro-prudential instruments

Pursuant to Recommendation ESRB/2015/2 (sub-recommendation A), the national authorities implementing macroprudential instruments are required to:

- assess potential cross-border effects of the implementation of macro-prudential policy instruments in the country and with regard to other EU Member States; at a minimum, spillover channels and regulatory arbitrage should be assessed,[94]
- monitor, at least on an annual basis, the cross-border effects of its own macro-prudential policy instruments.

In order to systematise the work on cross-border impact assessments in 2023, the Committee approved the procedure for conducting such an analysis. It comprises the assessment of:

- **inward transmission** – the impact of domestic macroprudential policy on the national economy through the activities of foreign actors;
- **outward transmission** i.e. the impact of domestic macroprudential policies on foreign economies;

based on indicators suggested by the ECB Financial Stability Committee and the ESRB. The threshold for assessing the materiality of potential cross-border effects was adopted at a level of 2%.

The method of assessing the cross-border effects of Polish macroprudential instruments is 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 in the second quarter.

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[92] 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).

[93] 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).

[94] The assessment methodology recommended by the ESRB, Chapter 11 in: *The ESRB handbook on operationalizing macroprudential policy in the banking sector*, https://www.esrb.europa.eu/pub/pdf/other/esrb.handbook_mp180115.en.pdf.

Results of the analysis of cross-border effects of Polish macroprudential instruments

In Poland, two macroprudential instruments were applied in 2024 Q2 that required an assessment of cross-border effects: the O-SII buffer (for which these effects are assessed annually as part of the KNF's review of the O-SII buffer) and higher risk weights for exposures secured by mortgage on real estate. NBP has assessed the cross-border effects based on data as at the end of September 2023.

Inward transmission

The assessment of the importance of branches of credit institutions from each country in the Polish banking system is presented in Table 7. The share of none of the countries in the domestic market exceeds the defined threshold of 2%, therefore inward transmission was considered insignificant.

Table 7. Inward transmission – importance of branches of credit institutions

Country	Share in assets (%)	Share in receivables from non-financial sector (%)
France	1.0	1.0
Luxembourg	0.4	0.0
Austria	0.3	0.0
Italy	0.2	0.0
Germany	0.2	0.0
Spain	0.2	0.0
Sweden	0.1	0.0
Denmark	0.1	0.1
Ireland	0.1	0.0
Estonia	0.1	0.2
Belgium	0.1	0.0

Note: Countries for which the share is higher than 0.1% or equal to 0.1%.
Source: NBP calculations.

Outward transmission

The relevance of Polish banks' balance sheet exposures to banking sectors of individual Member States is presented in Table 8. In the majority of countries, the ratio was clearly below the threshold. Exposures in Slovakia were close to the materiality threshold, consisting largely of exposures to a single financial institution with a branch in that country. Therefore, given the scale and nature of the exposures, it was concluded that there was no significant outward transmission.

Table 8. Outward transmission – balance sheet exposures of Polish banks in individual countries in relation to assets of the banking sectors

Country	Share in banking sector assets in a given country (%)
Slovakia	2.0
Luxembourg	1.0

Czech Republic	0.9
Malta	0.8
Austria	0.2
Ireland	0.2
Cyprus	0.2
France	0.1
Belgium	0.1
Spain	0.1
Netherlands	0.1
Croatia	0.1
Lithuania	0.1
Hungary	0.1
Sweden	0.1
Germany	0.1

Note: Countries for which the share is higher than 0.1% or equal to 0.1%.
Source: NBP calculations.

On the other hand, the importance of Polish banks in providing funding to the non-financial sector in individual EU countries is marginal. The share of Polish banks in non-financial sector liabilities in other countries is close to 0, which is presented in Table 9.

Table 9. Outward transmission – the role of Polish banks in providing funding to the non-financial sector in individual countries

Country	Share of Polish banks in liabilities of the non-financial sector (%)
Czech Republic	0.2
Luxembourg	0.2
Slovakia	0.2
Cyprus	0.1
Malta	0.1

Note: Countries for which the share is higher than 0.1% or equal to 0.1%.
Source: NBP calculations.

On the basis of the data presented, the Committee recognised that most of the channels through which the domestic macroprudential policy may affect other countries were insignificant, therefore, no further actions were necessary in this regard.

6.3. Recommendation on vulnerabilities in the commercial real estate sector (ESRB/2022/9)

The commercial real estate (CRE) sector affects the financial stability of the European Economic Area through its strong links to the real economy and the financial system. Monitoring of this sector is hampered due to limited data availability and its inadequate quality. In 2016 and 2019, the ESRB issued recommendations[95] in order to establish a harmonised framework for monitoring developments, among others, in the commercial real estate in all EU countries. The implementation of these recommendations resulted in significant improvements in the availability and quality of the data reported. However, it was recognised that there was a need to further improve the information compilation process and fill data gaps. To this end, in 2022 the ESRB issued **the recommendation on vulnerabilities in the commercial real estate sector (ESRB/2022/9).**[96]

The recommendation 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 vulnerability in the CRE sector was recommended. Moreover, the recommendation clearly indicates that the recipients[97] of the recommendation should cooperate with each other 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 in accordance with Recommendation A, to ensure that banks providing financing for CRE develop good risk management practices;
- **Recommendation C** – *increasing the 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, if necessary, to build and maintain the resilience of financial sector institutions;
- **Recommendation D** – *developing 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 are applied to address sources of risk stemming with CRE sector exposures.

[95] Recommendation of the European Systemic Risk Board, ESRB/2016/14 of 31 October 2016 on filling data gaps in the real estate sector and Recommendation of the European Systemic Risk Board of 21 March 2019 amending ESRB Recommendation ESRB/2016/14 on filling data gaps in the real estate sector (ESRB/2019/3).

[96] Recommendation of the European Systemic Risk Board of 1 December 2022 on vulnerabilities in the commercial real estate sector (ESRB/2022/9).

[97] Here: institutions involved in supporting financial stability.

In accordance with the Recommendation, the first report on the implementation of the Recommendation A was submitted at the end of March 2024.

The Financial Stability Committee annually reviews data on the situation in the CRE market. The data required for the analysis are obtained through public statistics and UKNF non-reporting surveys. Measures aimed at adapting the analyses to the requirements of Recommendation A were initiated in March 2023, indicating the need to liaise with the Ministry of Finance and expand cooperation with the UKNF. A broader scope of data will allow to monitor the activity and involvement of investment funds, insurers and other significant players in the CRE market in Poland.

In Poland, the CRE market has a relatively low share in GDP and domestic bank exposures, while sources of its funding come largely from abroad. Analyses to date based on available data indicate that no excessive risks arising from commercial real estate financing occur in the Polish financial system. However, the investments of insurers and investors, including foreign investors, in the market should be monitored in detail, as their activities can cause disruption in the CRE sector.

6.4. Recommendation on exchange and collection of information for macroprudential purposes (ESRB/2019/18)

On 26 September 2019, the ESRB issued the Recommendation on exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country (ESRB/2019/18). The actions recommended by the ESRB are intended to enable the exchange of information on branches of credit institutions for macroprudential purposes.

The recommendation is addressed to competent authorities. In September 2020, the Committee decided that the FSC-M would play the role of the competent authority for the purpose of implementation of Recommendation 2019/18.

The recommendation provides for two cases where action by the Committee is required:

- a response to the request for information on branches of credit institutions submitted by the competent authority of the host Member State;
- issuing a request for information on branches of credit institutions to competent authorities in the countries of origin.

In December 2020, the Committee adopted adequate procedures concerning the coordination of actions in the implementation of the above responsibilities.

So far, the Committee has not received any request for information regarding a branch of a credit institution from the competent authority of the host State. The Committee has also recognised that there are no stability-relevant branches of foreign financial institutions in Poland for which it would be required to obtain relevant information from supervisory authorities from countries of origin.

The Committee took note of the information on the procedure for implementation of the recommendation and in December 2024 it forwarded its final report to the European Systemic Risk Board.

7. Communication

Communication of the Financial Stability Committee with the public and the information policy are an important part of macroprudential policy. It is the Committee's view that 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 measures mitigating 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 pursues macroprudential policy in accordance with the principle of transparency. It communicates to the public macroprudential supervision decisions and analytical material used in the decision-making process. According to the Committee's judgement, owing to direct access to information, market participants can better understand and assess developments in the financial system and also familiarise themselves with the approach and perspective of the Committee on various macroprudential supervision issues.

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.[98]

7.1.1. Press releases after FSC-M meetings

A press release is the basic and the fastest tool of communicating the analyses and activities of the Committee to the public. In its press releases, the FSC-M presents its systemic risk assessment, communicates its decisions (recommendations and statements issued) and issues raised during the meetings, delivers synthetic assessment of the developments discussed in the context of their impact on financial stability.

The FSC-M press releases are published immediately after the meeting and, simultaneously, posted on the home page of Narodowy Bank Polski and under the *Macroprudential supervision* tab. The press releases are also published in English.

In 2024, the Committee used a press release in a different communication policy formula than before. Thus far, the Committee had referred to the matter of the benchmark as part of its regular

[98] https://nbp.pl/en/financial-system/macroprudential-supervision/publications-ms/

post-meeting press releases. However, wishing to draw public attention to its approach to the use of the WIBOR benchmark and to emphasise the importance of the issue, the FSC has issued a separate press release on that matter, in addition to the standard one.[99] The whole present's the Committee's considerations regarding only the WIBOR issue and brings together in one place a comprehensive and specific assessment of the situation concerning this issue.

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 mainly 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 of interest of the Committee and discussed by its members during the year.

The current documents is the tenth 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 published in an analogue version, also in translation into English.

7.1.3. Website

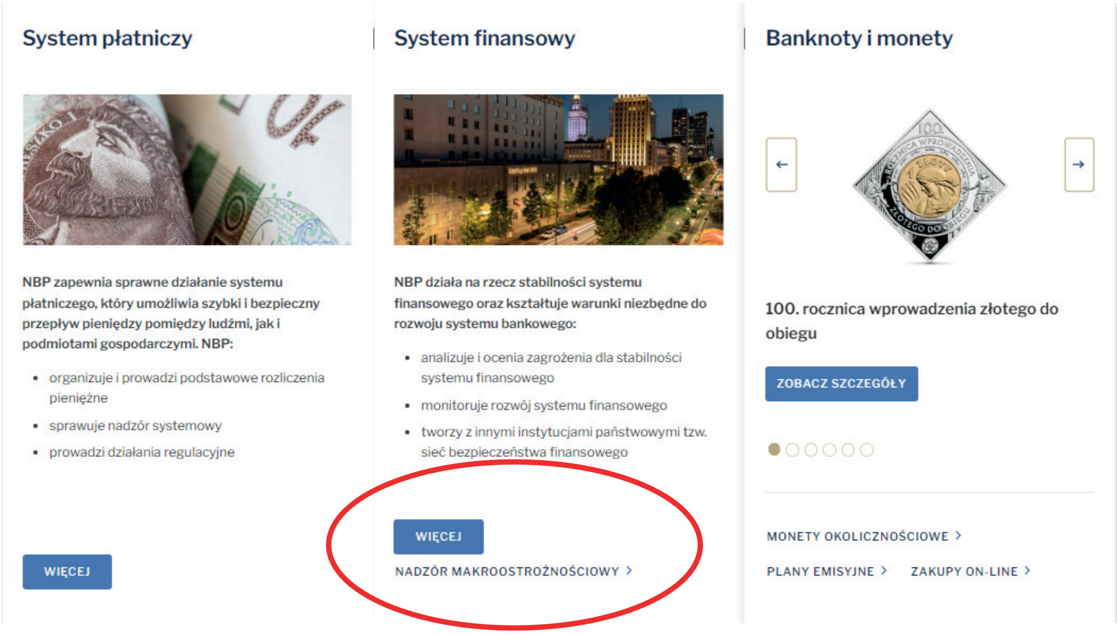
The news service of the FSC-M is run as part of the communication policy of Narodowy Bank Polski and presented as an element directly linked to the central bank's tasks.

The NBP website was redesigned in 2023 in line with the requirements of a modern website and needs of modern internet users. It 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-M 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 activities and presents various documents on

[99] https://nbp.pl/en/press-release-of-the-financial-stability-committee-concerning-the-use-of-the-wibor-benchmark/

macroprudential supervision it has considered important from a macroprudential policy point of view, systematically increasing the resources and catalogue of publicly available material.

Diagram 11. Macroprudential supervision tab on the NBP website



Source: www.nbp.pl

7.2. Foreign communication and ESRB notifications

Important tasks of the Financial Stability Committee include continuous cooperation with the European Systemic Risk Board, other European Union bodies, macroprudential supervisors of other Member States or third countries, as well as other international institutions.

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

Notifications addressed to EU institutions and authorities

Since 2019, the European Systemic Risk Board has been 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 of a macroprudential nature.

The table below summarises the notifications submitted by the Financial Stability Committee (via NBP) to the European Systemic Risk Board in 2024.

Table 10. Summary of notifications submitted in 2024

Subject of notification	Notification date
Report on the implementation of the recommendation on vulnerabilities in the commercial real estate sector	March 2024
List of third countries	June 2024
Information on the reciprocation of the Portuguese macroprudential instrument	June 2024
Information on the reciprocation of the Italian macroprudential instrument	September 2024
Information on the reciprocation of the Danish macroprudential instrument	September 2024
Information on the on the intended use of O-SII buffer	September 2024
Information on the abolition of higher risk weights for exposures secured by mortgages on real estate	September 2024
Information on the countercyclical buffer rate (CCyB)	October 2024
Report on the implementation of the recommendation on exchange and collection of information on branches of credit institutions	December 2024
Information on the reciprocation of the Belgian macroprudential instrument	December 2024
Information on the level of O-SII buffers imposed	December 2024

Source: NBP study.

Glossary of terms and abbreviations

Conservation buffer	An additional capital requirement of a maximum 2.5% of the total risk exposure. It is maintained by financial institutions to allow them to absorb losses without defaulting the minimum capital requirements.
Countercyclical buffer (CCyB)	An additional capital requirement imposed on institutions (banks) in order to increase the resilience of the banking system to cyclical fluctuations of the systemic risk. In the English-language version, the abbreviation CCyB is used to refer to the countercyclical buffer.
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.
Credit cycle	Periodic fluctuations of the debt levels in the economy.
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.
Economic cycle	Consecutive periods of growth and recession, which in economics are divided into four phases: recovery, expansion, slowdown and recession.
ESRB Recommendations	Are instructions (recommendations) that are not legally binding on the need to take remedial action, either general or specific, issued by the European Systemic Risk Board when the sources of significant risks to financial stability in the EU are identified. The institutions to which recommendations are addressed should either comply or explain the reasons for noncompliance (an "act or explain" mechanism).
Financial cycle	Periodical fluctuations of the levels of lending, leverage and financial asset prices in the economy.
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.

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.
Global Systemically Important Institution buffer	An additional capital requirement maintained by global systemically important institutions (G-SIIs) to strengthen their resilience to economic shocks.
Internal ratings-based approach (IRB)	The method of assessment of the scale of credit risk used by banks which independently define the regulatory capital requirements on the basis of internal calculations of the extent to which their exposures are exposed to credit risk.
Macroprudential instruments	Instruments that serve to mitigate systemic risk and are used by a macroprudential supervision authority. They include, among others, a counter-cyclical capital buffer, a systemic risk buffer or buffers imposed on G-SIIs and O-SIIs. Other available instruments, calibrated from a systemic perspective and considering identified risks to financial stability, can also be used in macroprudential policy.
Macroprudential policy	See Macroprudential supervision.
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.
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.
Neutral countercyclical capital buffer rate (nCCyB)	A positive rate of the countercyclical capital buffer of a prudential nature, which applies at a standard risk level and serves to mitigate hard-to-identify cyclical risks.

Notification	Is an official notification, information transmitted to an EU institution or an entity referred to in the provisions of law that impose the obligation of notification.
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.
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.
Reciprocity principle	In macroprudential policy means that macroprudential policy measures activated in one Member State are reciprocated in other Member States. The symmetrical application of macroprudential policy measures is aimed at achieving coherent and effective risk-mitigating actions in the financial market.
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.
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.
Sanction of free credit	A borrower’s claim against the bank for reimbursement of the credit instalments paid so far, commissions, insurance and other costs related to the liability if the bank, when concluding the agreement, breached the requirements set out in the Act on Consumer Credit. The right applies to consumer loans up to PLN 255 thousand.
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.

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.
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.
Third countries	Countries outside the European Economic Area.

ACRONYMS AND ABBREVIATIONS

BFG	Bank Guarantee Fund
BMR	*Benchmark Regulation*; Regulation (EU) 2016/1011 of the European Parliament and of the Council (EU) of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014
BRRD	*Bank Recovery and Resolution Directive*, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EC, 2012/30/EU and 2013/36/EU and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.
CCyB	Countercyclical Capital Buffer
CJEU	Court of Justice of the European Union
CRD	*Capital Requirements Directive*, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on the conditions of admission of credit institutions to the activity and prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended
CRE	Commercial Real Estate
CRR	*Capital Requirement Regulation*; 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, as amended
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
ICT	Information and Communications Technology
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
MF	Minister of Finance
MREL	Minimum Requirement on Own Funds and Eligible Liabilities
NBP	Narodowy Bank Polski
nCCyB	neutral level of countercyclical capital buffer
NGR	National Working Group on Benchmark Reform
NIM	Net Interest Margin
O-SII	Other systemically important institution
PSI	Systemically relevant entities
RRE	Residential Real Estate
RREI	Residential Real Estate Index
SGR	Permanent Working Group
SKD	Sanction of free credit
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