



# REPUBLIC OF POLAND

## FINANCIAL SECTOR ASSESSMENT PROGRAM

### TECHNICAL NOTE—MACROPRUDENTIAL POLICY FRAMEWORK

May 2019

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FINANCIAL SECTOR ASSESSMENT PROGRAM

April 19, 2019

## TECHNICAL NOTE

MACROPRUDENTIAL POLICY FRAMEWORK

Prepared By  
**Monetary and Capital Markets  
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This Technical Note was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in Poland during May 2018 mission led by Michael Moore, IMF and Loic Chiquier, World Bank. The note contains the technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>.

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## Glossary

BGF	Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny)
BIK	Biuro Informacji Kredytowej (Credit Information Bureau)
CCB	Countercyclical Capital Buffer
CCP	Central Counterparty
CRD	Capital Requirements Directive
CRR	Capital Requirements regulation,
DTI	Debt-to-Income
DSTI	Debt-Service-to-Income
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ESRB	European Systemic Risk Board
EU	European Union
FMI	Financial Market Infrastructure
FSC-M	Financial Stability Committee—Macprudential
FSC-C	Financial Stability Committee—Crisis Management
FSD	Financial Stability Department
FSR	Financial Stability Report
FX	Foreign Exchange
G-SII	Global Systemically Important Institution
GUS	Główny Urząd Statystyczny (Central Statistical Office)
LCR	Liquidity Coverage Ratio
LTV	Loan-to-Value
MoF	Minister of Finance
NBP	Narodowy Bank Polski (National Bank of Poland)
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institution
PFSA	Polish Financial Supervision Authority (Komisja Nadzoru Finansowego)
PWG	Permanent Working Group
SRB	Systemic Risk Buffer

## EXECUTIVE SUMMARY

**The present macroprudential policy framework provides a sound basis for macroprudential oversight of the financial system and was established by law in November 2015.** Its relatively recent establishment implies that practical experience with the conduct of macroprudential policy under the framework is still limited. Initial experience is favorable, but it remains to be seen how the framework will function under more challenging circumstances.

**The macroprudential mandate is assigned to the Financial Stability Committee—Macroprudential (FSC-M), with clearly defined objectives.** The FSC-M operates as a collegial body. It is chaired by the President of the National Bank of Poland (NBP), and further consists of the Minister of Finance and the heads of the Polish Financial Supervision Authority (PFSA), and the Bank Guarantee Fund (BGF). Due to the constitutional order, the FSC-M does not have direct powers, but it can issue “comply or explain” recommendations to its members to take action. It can also issue (non-binding) statements to a broader audience, if it identifies high levels of systemic risk. Decisions are taken by majority vote, with a casting vote for the President of NBP. In practice, it has so far operated by consensus. The Chairman is required to present annual information on FSC-M’s activities to the Polish Parliament. Press releases are issued after every quarterly FSC-M meeting, providing a short summary of the topics discussed and decisions taken.

**The existence of the FSC-M has fostered close coordination and collaboration between its member authorities.** Systemic risk monitoring is primarily performed by NBP, as witnessed by its bi-annual Financial Stability Report (FSR). The FSR provides high-quality analysis of conditions in the financial sector, but it does not include an assessment of potential vulnerabilities emanating from payment and settlement systems. This omission should be remedied. During the preparation of the quarterly FSC-M meetings, the other agencies are actively involved in providing their views and contributions, which are incorporated in the overall systemic risk assessment that is presented to the FSC-M. Arrangements are in place to allow for information sharing between agencies.

**The Polish authorities can potentially draw on a wide range of macroprudential instruments.** Besides the EU harmonized instruments, the FSC-M has identified a, non-exhaustive, list of national macroprudential instruments that could be used in the Polish context. So far, a capital conservation buffer and a systemic risk buffer were introduced through the 2015 Act.<sup>1</sup> No global systemically important institutions were identified in Poland, but 11 banks were identified as other systemically important institutions, 9 of which are required to maintain an additional capital buffer.<sup>2</sup> LTV-ratios are in force, but these were introduced by the PFSA prior to the present macroprudential

<sup>1</sup> The systemic risk buffer rate of 3 percent applies to all exposures located in Poland held by domestically authorized credit institutions. The countercyclical capital buffer is as yet set at 0 percent.

<sup>2</sup> Last identification of the O-SIIs by the PFSA took place in August 2018.

arrangements, as part of its microprudential supervision.<sup>3</sup> To ensure that such instruments can be readily mobilized for macroprudential purposes if and when the need arises, it is recommended that an ex ante understanding is reached between the authorities involved, that clarifies their availability.<sup>4</sup> It is also important that the use of such instruments, if not actually recommended by the FSC-M, is subject to timely and substantive vetting by the FSC-M.<sup>5</sup> Such vetting will help underpin the FSC-M's overall responsibility for this policy area.

**The FSC-M has recommended a variety of measures to provide incentives for voluntary restructuring of foreign exchange (FX) housing loans extended by Polish banks.** These measures were unusual in the sense that they were not aimed at the riskiness of the loan portfolio as such, but rather at the systemic risk that might result—if a political decision were taken by Parliament to impose a statutory conversion into zloty—in heavy losses for the banks. The recommendations, some of which are still in the process of being implemented, extend beyond the use of prudential tools to include tax measures and changes in the rules of operation of the Borrowers' Support Fund, and the way contributions to the Bank Guarantee Fund are calculated.<sup>6</sup> To the extent that the measures succeed in encouraging voluntary restructuring, they can make an important contribution to mitigating the potentially destabilizing effect of political decisions that are outside the FSC-M's control.

**Macroprudential policy is heavily geared toward the banking system reflecting the dominant role of banks in the financial sector.** Building on the existing monitoring in the FSR, close attention should be given to developments in the non-bank part of the financial sector in order to be able to identify areas of activity that may give rise to financial stability concerns. The present macroprudential toolkit will need to be evaluated to assess its adequacy for such eventuality and extended if necessary.

**To continue functioning well under possibly more challenging circumstances in the future, the FSC-M will have to maintain its independence and decisiveness as the macroprudential authority.** With this in mind, it is recommended that the FSC-M further strengthens its communication in order to increase transparency and accountability, considers a more active use of targeted statements as a policy instrument, and increases the involvement of external experts in the preparation of its meetings. These steps can help to further underpin the FSC-M's strong reputation as an impartial and respected body of expertise, which is essential to ensure that it assesses all potentially important threats to financial stability in a timely fashion, including issues that might be

<sup>3</sup> This was also the case for the caps on DSTI-ratios on consumer and mortgage loans, which were in force until 2013 and 2014, respectively.

<sup>4</sup> Even though the FSC-M provides a platform for the authorities to discuss the use of instruments at the time they are needed, it would be advisable to clarify their availability ahead of time in order to avoid unnecessary delays.

<sup>5</sup> The law provides scope for such vetting. Article 137 (2) of the amended Banking Law of 29 August 1997 states that recommendations by the PFSA that may be relevant for macroprudential supervision shall be issued after consulting the FSC-M.

<sup>6</sup> This recommendation was implemented in February 2017.

sensitive, such as the cumulative impact on bank profitability of various policy measures and the implications of increased sovereign-bank linkages.

<b>Table 1. Poland: Main Recommendations</b>		
<b>Recommendations</b>	<b>Timeframe<sup>1/</sup></b>	<b>Authorities Responsible for Implementation</b>
<b>Institutional Framework (par.30)</b>		
1. Develop a clear communication strategy aimed at greater transparency and accountability in order to further underpin the FSC-M's reputation and visibility as macroprudential authority.	I	FSC-M
2. Consider a more active and targeted use of "statements" as policy instrument in order to enhance effectiveness and profile of the FSC-M.	NT	FSC-M
3. Ensure the timely and substantive vetting of all use of macroprudential instruments by the FSC-M in order to confirm the FSC-M's overall responsibility in this field.	I	Authorities represented in the FSC-M
<b>Systemic Risk Monitoring (par.44)</b>		
4. Include vulnerability assessments of Polish payment and settlement systems in the FSR and overall systemic risk monitoring.	I	NBP
6. Further strengthen data collection capacity, including by exploring potential efficiency gains through closer collaboration between PFSA and NBP in order to improve granularity in existing credit data and broaden coverage of activities by non-banks and non-regulated financial institutions.	I	PFSA, NBP
7. More actively involve external experts in the preparation of FSC-M meetings, through more regular participation in its PWG.	NT	FSC-M
8. Commit to timely involvement of the FSC-M in all important financial stability matters (e.g., by identifying ex ante thresholds for certain indicators) to strengthen its effectiveness and underpin its position as pre-eminent forum for macroprudential policy.	I/NT	Authorities represented in the FSC-M
<b>Macroprudential Instruments (par.51)</b>		
9. Ascertain the prompt availability of identified macroprudential instruments (including LTV, DTI and DSTI ratios) in order to ensure that they can be readily mobilized, upon recommendation by the FSC-M,	I	Authorities represented in the FSC-M
1/ I (immediate): within one year, NT (near term): one–three years.		

**Table 1. Poland: Main Recommendations (concluded)**

when needed. Consider a timely re-introduction of explicit DSTI caps in light of strong growth in consumer lending.	I	Authorities represented in the FSC-M
10. Pay close attention to developments in the non-bank financial sector and start developing a policy framework to address potential systemic risks that might arise from these developments.	NT	FSC-M
11. Assess the implications of the overall cumulative impact of various policy measures on bank profitability and financial stability.	I	FSC-M
12. Closely monitor the intensity of sovereign-bank linkages and assess whether a macroprudential response may be warranted.	NT	FSC-M

## BACKGROUND<sup>7</sup>

**1. The Polish economy has continued to perform well.** Strong domestic fundamentals helped it weather the impact of the global financial crisis and maintain relatively strong growth in subsequent years. Improved economic conditions abroad, in particular in the euro-area, have further supported Poland's economy in recent years and help underpin a positive outlook.

**2. The financial sector in Poland has benefited from the favorable macroeconomic conditions.** Overall, the banking system, which accounts for almost three-quarters of assets of the total financial sector, is in sound condition. Capitalization, liquidity, and asset quality continue to improve, even though profitability has tended to decline over recent years. Pockets of weakness are confined to the cooperative bank/credit union segments, which account for only about 8 percent of the financial system.

**3. Significant structural changes have occurred in the banking system over recent years.** The share of foreign-owned banks in the country has declined from over 60 percent in 2012 to 45 percent in 2017, while state-controlled ownership has increased from 23 to 40 percent.<sup>8</sup>

**4. The Polish authorities recently established a framework for macroprudential oversight that covers identification, assessment, and monitoring of systemic risk in the financial system and actions aimed at eliminating or reducing this risk.** The framework sets out the institutional arrangements and the objectives of macroprudential policy, as well as the basic principles of applying macroprudential instruments. The FSC-M has been designated as the authority responsible for macroprudential supervision in Poland.

<sup>7</sup> This Technical Note has been prepared by Jan W. Brockmeijer, Short Term Expert, IMF.

<sup>8</sup> The majority of state control is executed indirectly.



**5. This technical note evaluates the macroprudential policy framework in Poland and proposes recommendations.** It assesses the institutional framework underpinning macroprudential policy, the operational capacity of the authorities to pursue such policy effectively, and the experience so far. The note consists of three parts. Section II assesses the present institutional framework. Section III looks at the systemic risk monitoring framework. Section IV describes the macroprudential instruments available to the authorities and assesses their application.

## INSTITUTIONAL FRAMEWORK

**6. The Polish financial stability framework underwent a major overhaul with the entering into force on November 1, 2015 of the Act on Macroprudential Supervision of the Financial System and Crisis Management (the 2015 Act).<sup>9</sup>** The 2015 Act defined macroprudential supervision, formulated its objective, and established the FSC-M as the competent authority responsible for such supervision.<sup>10</sup> The 2015 Act also established a body for crisis management, which role is performed by the FSC in its crisis management setting (FSC-C). The FSC-M and the FSC-C are chaired by the President of NBP and the Minister of Finance, respectively.

**7. The FSC-M brings together the four institutions that form the Polish financial safety net.** Besides the President of the NBP as chairman, the Committee further comprises the Minister of Finance, the Chairman of the PFSA,<sup>11</sup> and the President of the BGF.<sup>12</sup> As macroprudential authority, the FSC-M provides a platform that allows for synergies in the contributions made by the respective institutions in analyzing, assessing, and preventing systemic risk.

**8. The FSC-M does not have direct powers over the implementation of macroprudential policy.** Reflecting the legal circumstances prevailing in Poland, in particular, the provisions of the country's constitution, which tightly constrain the ability of non-constitutional bodies to issue binding normative acts, the FSC-M has at its disposal only non-binding tools. It can present statements to inform a wide range of addressees of a perceived high level of systemic risk, and it can issue recommendations to institutions that make up the FSC-M, indicating the need to take measures aimed at mitigating the identified systemic risk.

**9. Poland's macroprudential policy framework is considered compliant with European Systemic Risk Board (ESRB) recommendations.** In its Review of Macroprudential Policy in the EU

<sup>9</sup> Act of 5 August 2015, unofficial English translation of selected articles:

[http://www.nbp.pl/macprudentialsupervision/podstawa/eng\\_act\\_on\\_macroprudential\\_supervision.pdf](http://www.nbp.pl/macprudentialsupervision/podstawa/eng_act_on_macroprudential_supervision.pdf)

<sup>10</sup> The FSC was initially established in 2008 as a cooperation platform to coordinate actions undertaken to support and maintain stability of the domestic financial system. The 2015 Act widened the mandate of the FSC to include macroprudential supervision. Consequently, the FSC now has a dual mandate and acts in dual incarnation, being responsible for macroprudential policy (FSC-M) as well as for crisis management (FSC-C).

<sup>11</sup> PFSA is the cross sectoral financial supervisor, responsible for both prudential and conduct supervision.

<sup>12</sup> BGF is the resolution authority in Poland and manages the deposit guarantee scheme.

in 2016, the ESRB considered the Polish arrangements as being fully compliant with its recommendations on the macroprudential mandate of national authorities and on intermediate objectives and instruments of macroprudential policy.<sup>13</sup>

**10. This section evaluates the current institutional arrangement in Poland according to the three key principles formulated in the 2014 IMF Staff Guidance Note on Macroprudential Policy:**<sup>14</sup> (i) willingness to act in the face of potential opposition, thereby countering inaction bias; (ii) ability to act, through regulatory powers, and access to data and resources; and (iii) cooperation across all agencies in the domestic and cross-border dimensions.

## A. Principle 1: Willingness to Act

**11. The macroprudential mandate has been clearly assigned to the FSC-M.** The 2015 Act established the FSC-M as the competent authority responsible for macroprudential supervision. Such supervision covers the identification, assessment, and monitoring of systemic risk arising in the financial system or its environment, and actions aimed at eliminating or reducing this risk with the use of macroprudential instruments.

**12. Overall and intermediate objectives of macroprudential supervision are well-defined.** The overall objective contained in the 2015 Act emphasizes the aim to strengthen the resilience of the financial system in the event of materialization of systemic risk, and in consequence, to support long-term and sustainable economic growth in Poland. The intermediate objectives agreed by the FSC-M closely follow the recommendations set out by the ESRB. They include mitigation of risk arising from (i) excessive growth or size of debt or leverage; (ii) excessive maturity mismatch of assets and liabilities of financial institutions or of the risk of illiquidity of financial markets; (iii) excessive concentration of exposures or their similarity, and the interconnectedness between financial system entities; (iv) misaligned incentives influencing the behavior of financial institutions or their clients; and (v) ensuring the adequate resilience of the financial infrastructure.

**13. The FSC-M's tasks are specified in law.** It follows from the 2015 Act that the committee's tasks in macroprudential oversight include: (i) application of macroprudential instruments by issuing recommendations directed at its member institutions; (ii) presenting statements to a broader public regarding identified sources of systemic risk; (iii) identification of institutions posing a significant risk to the financial system; (iv) ensuring appropriate cooperation in the area of macroprudential supervision at a domestic, international, and particularly European level; and (v) ensuring the proper flow of information between the committee's members to allow them to fulfill their duties.

<sup>13</sup> Recommendation ESRB/2011/3 on the macroprudential mandate of national authorities and Recommendation ESRB 2013/1 on intermediate objectives and instruments of macroprudential policy.

<sup>14</sup> <http://www.imf.org/external/pp/longres.aspx?id=4925>

**14. The FSC-M operates as a collegial body.** Decisions are taken by majority vote. The meetings are chaired by the President of NBP or his representative, who also has a casting vote in the event of a tie. In practice there is a strong tendency to strive for consensus within the Committee, and so far all resolutions have been passed unanimously. Within this collegial framework, the 2015 Act specifically assigns to NBP the task of providing the FSC-M with (i) information and data, analysis, and research necessary for the assessment of systemic risk; and (ii) organizational and administrative support, including the running of its secretariat. FSC-M meetings are not normally attended by external experts, although non-members can be invited for specific topics.

**15. The accountability arrangements in Poland include a legal requirement for the FSC-M's Chairman to present annual information to Parliament on the activities undertaken by the Committee in implementing its tasks.** The presentation takes the form of an extensive written report that describes the FSC-M's approach to macroprudential oversight, its assessment of systemic risks, its recommendations regarding the use of macroprudential instruments, and its cooperation with the ESRB. The report is published on the websites of Parliament and the FSC-M.<sup>15</sup>

**16. Press releases, and other information and documents related to its activities are published by the FSC-M on its dedicated website.** The press releases after FSC-M meetings mention the possible sources of systemic risk that were identified by the Committee, mention the topics that were discussed at the meeting and the decisions taken. They do not provide detailed information on the FSC-M's deliberations or on the positions taken by its individual members. Other information posted on the website include resolutions issued by the Committee and background analysis that informed the discussions.

## B. Principle 2: Ability to Act

**17. The FSC-M is the macroprudential authority, but it does not have direct powers to implement its decisions.** The FSC-M is confined to indirect powers due to provisions in the Polish constitution, which define the catalogue of institutions authorized to issue normative acts, among which the FSC-M is not mentioned. The Committee can issue *recommendations* to one or more of its member institutions to indicate the need to take measures aimed at mitigating an identified systemic risk. It can also present *statements* to a wide range of addressees in the public and private sector. Such statements are made when a high level of systemic risk is identified, and the FSC-M considers it necessary to inform recipients about the source of this risk and the possible consequences for the financial system.

**18. Recommendations issued by the FSC-M are coupled with a “comply or explain” mechanism.** The recommendations issued by the FSC-M to one or more of its member institutions are not legally binding, but the addressees are obliged to comply or explain their reasons for non-

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<sup>15</sup> The FSC-M site functions as a separated tab on the website of NBP.

compliance. All decisions on recommendations issued by the FSC-M since it became the macroprudential authority in November 2015, were reached by consensus.<sup>16</sup> The recommendations were published through press releases following the FSC-M meetings. Press releases also provided confirmation that the recommendations would be followed, or, gave an update on the process of implementation. So far, the FSC-M has not identified sources of systemic risk that it considered would require issuing a statement.

**19. Macroprudential measures are applied by the relevant authorities in line with their competences.** The 2015 Act indicates that, taking into account the recommendations by the FSC-M, the MoF is authorized to determine through regulation the levels of the countercyclical capital buffer (CCB) rate, the systemic risk buffer (SRB) rate, and the national measures contained in Article 458 of the EU Capital Requirements Regulation (CRR).<sup>17</sup> The 2015 Act furthermore authorizes the PFSA, after obtaining the opinion of the FSC-M, to issue administrative decisions on the determination of Global Systemically Important Institutions (G-SII's) and Other Systemically Important Institutions (O-SII's).

**20. The activation of macroprudential tools is subject to prior consultation of the FSC-M.** Mandatory FSC-M involvement is envisaged for those instruments explicitly mentioned in the 2015 Act.<sup>18</sup> For other instruments, the Banking Act requires the PFSA to consult the FSC-M on recommendations that relate to issues that may be relevant for macroprudential supervision.<sup>19</sup> This would imply that, even though the activation of an instrument is not recommended by the FSC-M itself, the committee would still have an opportunity to express its views. This is particularly important in cases where there can be ambiguity whether a tool is activated primarily for microprudential or macroprudential purposes, for instance when considering the use of LTV, DTI or DSTI ratios.

### C. Principle 3: Effective Coordination and Cooperation

**21. The FSC-M by its nature provides a coordinating mechanism with regard to macroprudential policy.** The FSC-M is required by law to ensure the proper flow of information between its members needed for it to complete its tasks. It plays a central coordinating role throughout the cycle of macroprudential policymaking, including the identification of systemic risk,

<sup>16</sup> The FSC-M has every quarter issued a recommendation to the MoF regarding the level of the countercyclical capital buffer (CCB) to be applied in Poland. In January 2017, it adopted a package of recommendations addressed to its member institutions, aimed at creating a regulatory environment that provides incentives for concluding voluntary agreements between banks and borrowers of foreign exchange housing loans.

<sup>17</sup> Regulation 575/2013 concerning the level of own funds, level of the capital conservation buffer, requirements for large exposures, liquidity requirements, risk weights for targeting asset bubbles in the residential and commercial property sector, intra financial sector exposures, and the public disclosure requirements.

<sup>18</sup> Macroprudential instruments mentioned in the 2015 Act include: Conservation Buffer, Countercyclical Buffer, Systemically Important Institution Buffers, and Systemic Risk Buffer,

<sup>19</sup> Prior consultation of the FSC-M is envisaged in article 137 (2) of the Banking Law, where it is stated that the PFSA's recommendations, which may concern the macroprudential policy issues, shall be consulted with FSC-M.

the selection and calibration of instruments, the implementation of instruments, and the monitoring of risk. In doing so, the FSC-M brings together the contributions of all its member authorities. The FSC-M's identical membership to that of the FSC-C furthermore ensures that the macroprudential authority is fully aware of measures considered in the context of crisis management.

**22. Coordination and cooperation between FSC-M member institutions are facilitated through working groups.** The FSC-M has formed a Permanent Working Group (PWG) that helps prepare its deliberations. The PWG is chaired by the Director of the Financial Stability Department (FSD) of NBP and comprises two representatives of each institution represented in the FSC-M. It plays an important role in exchanging opinions concerning systemic risk assessments and developing proposals for macroprudential measures and instruments. The FSC-M can also create temporary working groups to look at specific issues. Such a group was tasked with preparing the FSC-M's discussions regarding FX housing loans.

**23. Experience with the PWG seems very positive.** All parties consider it a highly effective forum for cooperation, that helps mobilize the respective competences of its members in assessing systemic risk, while taking into account their diverse perspectives. Even though NBP is the main supplier of analysis to the PWG and the FSC-M and devotes by far the greater part of the resources needed, considerable effort is made to include the views of the other members in the preparatory process. The main vehicle in capturing the views of all members is a questionnaire survey that is held among them ahead of every regular FSC-M meeting.

**24. The quarterly questionnaire survey gives each FSC-M member the opportunity to highlight its own assessment of systemic risk in the Polish financial system.** NBP coordinates the survey, which collects the input from all members regarding potential risk sources, the nature and intensity of the risk, and possible measures that could be taken to mitigate it. The results thus provide a comprehensive overview that is presented to the PWG and the FSC-M for each regular meeting. While NBP has dedicated staff to prepare financial stability analysis and to support the functioning of the PWG/FSC-M, the other member institutions have less resources available for this purpose. Under these circumstances, the survey has the added advantage of serving as an encouraging and disciplinary device, forcing all members on a regular and structured basis to consider the systemic dimension of risks in the financial system and making sure that all views are heard.

**25. In addition to the quarterly survey results, the FSC-M receives NBP's bi-annual Financial Stability Report (FSR) and its annual Report on Macroeconomic Stability of the Polish Economy.** It is thus ensured that the FSC-M is fully aware of NBP's extensive assessment of financial stability and of macroeconomic imbalances and can draw on this information when making its own assessment with regard to potential sources of systemic risk.

**26. International coordination in the area of macroprudential policy primarily occurs through the ESRB, which is responsible for pursuing oversight at the EU level.** The Polish macroprudential policy framework is fully compliant with ESRB recommendations, including its crucial recommendations on the macroprudential mandate of national authorities and on

intermediate objectives and instruments of macroprudential policy. In 2016 the FSC-M also implemented the recommendations on (i) the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures, and (ii) recognizing and setting CCB rates for exposures to third countries. Both recommendations foster coordination between EU member countries regarding the application of macroprudential measures.

**27. National macroprudential authorities in the EU are required to notify EU authorities, of the application of instruments under the Capital Requirements Directive (CRD) and Regulation (CRR).** In the case of Poland, the FSC-M notifies the ESRB of the mandatory quarterly setting of the level of the CCB.<sup>20</sup> The annual identification of G-SIIs and O-SIIs requires notification to the EC, ESRB and EBA,<sup>21</sup> as does the application of the SRB,<sup>22</sup> and national measures provided for in the CRDIV/CRR (including the conservation buffer and higher risk weights on real estate exposures that are applied in Poland).<sup>23</sup> An EU member state is also expected to notify the European Parliament, the Council of the European Union, the EC, the ESRB, and the EBA in case of identification of systemic risk that can have serious negative consequences for the financial system or national economy.

**28. The notifications provide the ESRB with a comprehensive overview of macroprudential measures adopted by national authorities in the EU.** This allows the ESRB to function as platform for cross-border coordination and cooperation within the EU, by monitoring the use of macroprudential measures, their potential cross-border effects, and the applicability of reciprocity arrangements. The ESRB is also responsible for the development of the macroprudential policy framework. Through their membership of the ESRB, the Polish authorities are part of this international collaborative effort.

## D. Recommendations

**29. Initial experience with Poland's institutional framework for macroprudential policy has been favorable, but it still remains to be tested under more challenging circumstances.** The clearly defined mandate and tasks of the FSC-M, as well as the formulated objectives, provide a sound basis for an appropriate conduct of macroprudential policy. Going forward, an important test for the FSC-M will be whether it can insulate itself from undue political interference. To pass that

<sup>20</sup> The CCB level in Poland has been set at 0 percent since its introduction on January 1, 2016. If the level is set between 0 and 2.5 percent of the total risk exposure, the rate is automatically recognized by other member states on the grounds of the reciprocity principle applicable in the EU.

<sup>21</sup> In Poland, this resulted in no G-SIIs being identified by the PFSA, and 11 O-SIIs, 9 of which are to maintain a non-zero O-SII capital buffer. This identification has to be notified to the EC and the EBA, as well as the ESRB.

<sup>22</sup> Notification suffices up to a level of 3 percent (the level presently prevailing in Poland). For levels between 3 and 5 percent the opinion of the EC should be awaited before application, although a negative opinion need not be followed, provided the reasons for non-compliance are explained. If the SRB exceeds 5 percent, a negative decision by the EC is binding.

<sup>23</sup> The conservation buffer will gradually be raised to reach a level of 2.5 percent as of January 1, 2019; the risk weight on foreign exchange housing loans is presently set at 150 percent.

test, it will be crucial that the FSC-M remains fully committed to its established macroprudential objectives and maintains its willingness to act decisively in order to pursue these.

**30. Building on the strengths of the existing framework, the following steps could be taken to further solidify the position of the FSC-M as an independent and decisive macroprudential authority:**

- **Develop a clear communication strategy aimed at greater transparency and accountability in order to further underpin the FSC-M’s reputation and visibility as macroprudential authority.** Greater transparency will help enhance the reputation of the FSC-M, strengthen public understanding for its actions, and provide greater accountability for its decisions. In particular, expanding the press releases after FSC-M meetings to include more detail of the deliberations, including the positions taken by individual members, would give valuable insight in the considerations of the authorities involved. The greater detail on meeting proceedings does not require publication of full minutes, which might make meeting participants more reluctant to speak freely.
- **Consider a more active use of “statements” as a policy instrument.** The FSC-M should consider a more active use of its power to issue statements regarding potential threats to financial stability, rather than relying only on “comply or explain recommendations” to its own members. It has until now not felt the need to issue such statements, possibly because they are presumed to be general in nature and aimed at a broad audience. A more active and targeted use of statements could enhance the effectiveness and profile of the FSC-M as macroprudential authority. The statements could, for instance, be addressed at public authorities that are not members of the FSC-M, but whose actions can have important implications for financial stability, such as competition or consumer protection authorities.<sup>24</sup>
- **Ensure the timely and substantive vetting of all use of macroprudential instruments by the FSC-M.** The 2015 Act requires involvement of the FSC-M in the activation of specified macroprudential instruments. The use of other instruments by the PFSA that may concern macroprudential policy issues is subject to prior consultation of the FSC-M.<sup>25</sup> It is important to ensure that such vetting by the FSC-M takes place in a timely and substantive fashion for all macroprudential instruments, whether the initiative is taken by the FSC-M itself or not. The vetting should include cases where there may be ambiguity whether a tool is activated primarily for microprudential or macroprudential purposes, for instance, when considering the introduction or amendment of LTV, DTI or DSTI limits on housing loans. Such a prominent role for the FSC-M in vetting the use of all macroprudential instruments would confirm its overall responsibility for this policy area and would allow it to formulate its considered recommendation to the authority proposing the use of a macroprudential instrument.

<sup>24</sup> Not being subject to the “comply or explain” condition, such statements should not be considered as an undue infringement of the addressee’s autonomy.

<sup>25</sup> Amended Banking Law 1997



## SYSTEMIC RISK MONITORING

### A. Assessment

**31. Mutual exchange of information between the members of the FSC-M, necessary for the proper implementation of macroprudential policies, is required by law.** NBP, which has a leading role in the monitoring of systemic risk, has in place two agreements with respectively the PFSA and the BGF on cooperation and information sharing. The information shared includes risk assessments of individual institutions, reports on risk analysis in the banking sector, and reports on supervisory reviews held by the PFSA.<sup>26</sup> Outside the FSC-M, NBP has an agreement with the Central Statistical Office (GUS) that allows it to receive individual anonymized financial data of non-financial corporations and on incomes and expenditures of households. NBP also receives random samples of anonymized individual data under an agreement with the Credit Information Bureau (BIK), which provide basic demographic characteristics of natural persons and on their loan records. It conducts a household wealth survey in cooperation with GUS, which allows for more detailed analysis of household indebtedness.

**32. Effective microprudential supervision is essential for macroprudential policy to function well.**<sup>27</sup> By assuring the soundness of individual elements of the financial system and the proper functioning of financial markets, the PFSA directly contributes to limiting systemic risk in the Polish financial system.<sup>28</sup> As microprudential supervisor, the PFSA interacts most directly with financial firms in the system. It should also be in a position to detect forms of financial innovation developed by firms that may become a source of systemic risk. The contributions made by the PFSA thus form an indispensable complement to the financial stability analysis performed by NBP.

**33. Concerns have been raised about the adequacy of resources available to the PFSA to fully perform its tasks.** From a macroprudential perspective it is particularly important that the PFSA is fully equipped not only to properly supervise systemically important financial institutions, but also smaller institutions that may collectively pose a risk to financial stability.<sup>29</sup> It should also be capable to fully engage in necessary data gathering and sharing and the monitoring of relevant financial innovations.

**34. Further effort will be needed to address evolving data needs.** The creation of the FSC-M provided a framework that has encouraged a more structured sharing of information among

<sup>26</sup> Within the scope of these agreements, information and reports are shared on a regular basis or upon request.

<sup>27</sup> For a detailed discussion of the interaction between micro- and macroprudential policies, see: <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Macroprudential-and-Microprudential-Policies-Toward-Cohabitation-40694>

<sup>28</sup> The health of individual institutions is a necessary, but not sufficient condition for financial stability. Hence the need for macroprudential policy aimed specifically at containing systemic risk.

<sup>29</sup> For instance, problems at credit unions and cooperative banks may result in payouts from the Deposit Guarantee Fund, which would place an additional burden on other banks.



its participants on the basis of existing MoU's. Even so, resource constraints have limited the ability to respond to changing needs for the purpose of macroprudential analysis. Areas that require further attention include the need for greater granularity in credit data, to allow better identification of risk concentrations, and the lack of data on activities by non-regulated financial institutions, such as credit extension by leasing companies and other non-banks. Given present resource constraints, there are concerns whether these challenges can be adequately addressed. In any case, close collaboration between NBP and PFSA will be needed in order to maximize potential efficiency gains. Serious consideration should also be given to participation in international initiatives, such as the AnaCredit project initiated by the ECB, aimed at setting up a harmonized database containing detailed information on individual bank loans.

**35. Systemic risk monitoring in the Polish financial system is primarily performed by NBP.** NBP's main mechanism for delivering regular comprehensive financial stability assessments is through the bi-annual preparation of its FSR.<sup>30</sup> After approval by the Board of NBP, the FSR is published and presented to the FSC-M. NBP is furthermore tasked by law to provide the FSC-M with analytical and research support, as well as organizational support. These responsibilities are performed by NBP's FSD, drawing on information and analysis from other departments.<sup>31</sup>

**36. The macroeconomic outlook forms an integral part of systemic risk monitoring and assessment.** The domestic and global macroeconomic outlook forms the backdrop against which the functioning of the financial system and possible vulnerabilities and triggers are assessed. The analysis of current macroeconomic trends and the preparation of macroeconomic forecasts and projections is performed by NBP's Economic Analysis Department. The FSD draws on this work when performing its financial stability analysis, including the preparation of the FSR. There is also close coordination between the two departments in the use of NBP's main macro forecasting model to simulate stress scenarios for macro stress tests.<sup>32</sup> NBP annually submits to the FSC-M a Report on Macroeconomic Stability of the Polish Economy. Recent versions of this report have not been published.

**37. The FSR provides a thorough and systematic financial stability assessment.** It considers the domestic and international environment in which Polish financial institutions operate, and analyzes, among others, potential vulnerabilities associated with the credit cycle, credit exposures, and liquidity mismatches. The FSR also covers potential risks of concentrated exposures, such as the banks' portfolio of foreign currency loans; linkages between financial institutions, such as resulting from the financing needs of the deposit guarantee and resolution funds; and inadequate incentives resulting from institutions being "too big to fail." The Report identifies possible risk triggers and assesses the resilience of financial institutions to shocks. In the case of the banking system this is done through stress tests.

<sup>30</sup> <http://www.nbp.pl/homen.aspx?f=/en/systemfinansowy/stabilnosc.html>

<sup>31</sup> The Financial Stability Department has a headcount of approximately 80 (as per January 2018).

<sup>32</sup> The assumptions behind the stress scenarios are elaborated by the Financial Stability Department and passed on to the Economic Analysis Department to simulate the scenario.

**38. Coverage of potential systemic vulnerabilities and risks that may emanate from payment and settlement systems is notably absent from the FSR.** While the systemic risk analysis in the FSR is based on four of the five intermediate objectives of macroprudential oversight, it does not cover the fifth: “ensuring the adequate resilience of the financial infrastructure.” Within NBP the Payments Systems Department is responsible for oversight of payment systems, and, in cooperation with PFSA, assesses the functioning of securities clearing and settlement systems. Even though the result of this work is shared with other departments within NBP and published, there appears to be little to no interaction with the FSD to incorporate it into NBP’s overall assessment of systemic vulnerabilities and risks.<sup>33</sup> The inclusion in the FSR of an occasional assessment of potential vulnerabilities of the Polish FMI and its resilience to possible shocks would extend the Report’s analysis to full coverage of all the objectives of macroprudential oversight. It would also ensure that the FSC-M is kept abreast of important developments in this field.

**39. Reflecting the country’s bank-dominated financial system, the FSR tends to focus primarily on the banking sector.**<sup>34</sup> The Report also covers activities of non-credit financial institutions, but in less detail. At present, this would seem justified, as these parts of the financial system do not appear to generate significant risk for financial stability in the Polish context. Going forward, it will be important that NBP is able to comprehensively monitor the financial system, including notably also the non-bank sector, in order to capture significant new developments in a timely fashion.

**40. NBP prepares a quarterly “Systemic Risk Assessment by Institutions of the Safety Net” for every regular FSC-M meeting.** The assessment is based on a quarterly questionnaire survey held among the members of the FSC-M. Unlike NBP, the other members of the FSC-M do not have dedicated resources available for the sole purpose of systemic risk monitoring. The survey mechanism helps ensure that their opinions are nevertheless collected in an orderly fashion and taken into full consideration when the FSC-M discusses potential vulnerabilities and triggers that may be sources of systemic risk. NBP’s views are thus complemented with perspectives and insights from the other members of the Polish safety net to form a collective assessment. The FSC-M’s PWG plays an essential role part in creating the conditions needed for such close cooperation between the institutions.

**41. The member institutions regularly present ad-hoc analyses on specific topics to the FSC-M.** A prominent example is the work prepared by a special working group that was formed to develop recommendations on the safe restructuring of foreign exchange housing loans. Other topics that have been presented include the pros and cons of lending against fixed interest rates,

<sup>33</sup> The results of the analyses by the Payments Systems Department are presented in a separate publication: “Assessment of the functioning of the Polish payment system.”

<sup>34</sup> As of end 2017, total assets of Banks: PLN 1,777 billion; Insurance Companies: PLN 199 billion; Investment Funds: PLN 303 billion; Open Pension Funds: PLN 180 billion (Source: NBP Financial Stability Report, June 2018).

the role of covered bond markets in the EU, and a cost analysis of the anticipated introduction of minimum requirements for own funds and eligible liabilities (MREL) to absorb losses and facilitate the recapitalization of a bank in resolution.

**42. The role of external experts in the monitoring of systemic risks is limited.** Neither the FSC-M nor the PWG meetings are attended on a regular basis by external experts. Non-members can be invited occasionally for specific topics. There may be merit in considering a more structural involvement of external experts, at least in the meetings of the PWG. Opening the non-confidential part of such meetings to participation by selected academics and market participants would contribute to an independent and broad perspective. It could also help to make the PWG (and thus the FSC-M) aware at an earlier stage of developments that may become of systemic significance.

**43. Commitment is needed to ensure that the agenda of the FSC-M reflects all issues of potential systemic concern.** Apart from certain fixed items required by law (such as the quarterly setting of the CCB level), the agenda of the FSC-M varies depending on issues that surface in the monitoring process. It is crucial that this process results in a timely discussion of all important financial stability issues, including those that may be considered controversial or politically sensitive in nature. Postponement or avoidance of such discussions would be detrimental to the functioning of the FSC-M and to its ability to achieve its objectives. Also, in cases where consensus is unlikely, it is important that the arguments are heard, and the formal positions taken by the FSC-M members are known. Agreement among the members on ex ante thresholds for certain indicators may help ensure that developments are brought to the FSC-M's agenda in a timely fashion, while a more active involvement of external experts may also help strengthen the resolve to address sensitive issues.

## B. Recommendations

**44. NBP conducts high quality monitoring of systemic risk.** However, a number of challenges remain. These include a full integration of potential risks from FMIs in the overall systemic risk assessment, greater involvement of external experts in the monitoring process, and ensuring the timely involvement of the FSC-M in assessing the monitoring outcome. It will also be important to ensure that resource constraints, in particular at the PFSA, do not impede the effectiveness of the macroprudential policy framework. The following steps should be considered:

- **Include vulnerability assessments of Polish payment and settlement systems in the overall systemic risk monitoring.** NBP's FSD, in close collaboration with the Payments Systems Department, should be given the responsibility to incorporate in its overall financial stability analysis an assessment of potential systemic risks emanating from the Polish payment and settlement systems. At present, the oversight of these systems is not included in the Financial Stability Report. Doing so would complete the coverage in the report and through its presentation to the FSC-M would inform the latter more fully of potential risks in essential parts of the financial infrastructure.

- **More actively involve external experts in the preparation of FSC-M meetings.** External experts can already be invited by the FSC-M Chairman to attend parts of the meetings of the Committee or its Permanent Working Group (PWG), but this is done only on rare occasions. A more regular participation in the PWG by selected experts can help reduce the potential risk of groupthink and inject an independent perspective. The external experts could be invited to open sessions of the PWG, allowing it to have confidential discussions behind closed doors. Greater involvement of outside expertise can also help to make the PWG (and thus the FSC-M) aware at an earlier stage of emerging developments that could threaten financial stability.
- **Commit to timely involvement of the FSC-M in all important financial stability matters in order to strengthen its effectiveness and underpin its position as preeminent forum for macroprudential policy.** Temptation to postpone or avoid discussion in the FSC-M of politically sensitive items, where consensus may not be easily reached, should be resisted. This also applies to diverting discussions to settings outside the FSC-M.<sup>35</sup> A strong commitment by its members is essential to fully establish the FSC-M's preeminent role. Part of this commitment could be to agree on ex-ante thresholds for certain indicators, which can help avoid delays in placing topics on the FSC-M agenda.<sup>36</sup> For instance, a rapid growth of mortgage debt beyond certain levels could automatically be reason for the Committee to discuss the potential risks involved and consider possible policy options, such as activation or adjustment of LTV, DTI or DSTI limits on housing loans. A more active involvement of external experts in the preparations of the FSC-M, for instance by allowing regular participation in the PWG, can also help to strengthen the resolve to address issues by injecting an independent perspective into the deliberations.
- **Further strengthen data collection capacity.** Potential efficiency gains in the gathering and sharing of information through closer collaboration between PFSA and NBP should also be explored. Data needs that require attention include information on activities by non-regulated financial institutions and greater granularity in existing credit data. Where possible, opportunities to participate in international initiatives in this field, such as the AnaCredit project initiated by the ECB, should be taken.

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<sup>35</sup> Preparatory talks in a smaller setting between the parties most directly concerned may prove useful, but formal discussion and decision-taking regarding issues that may have potentially serious repercussions for financial stability should occur in the FSC-M.

<sup>36</sup> Presently thresholds are only used in relation to the activation of the CCB.

## MACROPRUDENTIAL INSTRUMENTS

### A. Assessment

**45. The Polish authorities have a range of macroprudential instruments at their disposal.**

These include *harmonized measures*, regulated at the European level in CRD IV and the CRR and that have been established in Poland through the 2015 Act. The Act does not specify *non-harmonized measures*, which are available at the national level. A number of these have been identified in a document endorsed by the FSC-M, but the list is not exhaustive.<sup>37</sup> The authorities recognize that macroprudential supervision is a new and evolving area of regulatory policy. They point out that, as a consequence, additional instruments may have to be introduced in the future, designed especially for macroprudential purposes.

**46. A number of the harmonized macroprudential instruments mentioned in the 2015 Act are being applied in Poland:**

- As of January 1, 2016, a *Capital Conservation Buffer* of 1.25 percent became applicable to banks in Poland to be increased in steps to 2.5 percent as of January 1, 2019.
- Following recommendations of the FSC-M, the level of the:
  - *Countercyclical Capital Buffer* has been set by legal act. The level is evaluated every quarter. It has been at 0 percent since introduction on January 1, 2016.
  - *Systemic Risk Buffer* has been set by the MoF. The level is evaluated at least once every two years. A buffer of 3 percent applied as of January 1, 2018.<sup>38</sup>
- After consulting the FSC-M, the PFSA has been authorized to identify G-SII's and O-SII's. Following the procedure adopted by the PFSA upon opinion received from the FSC-M, no Polish G-SII's were identified by the PFSA. Following opinions issued by the FSC-M, the PFSA identified 11 Polish O-SIIs, which are required to maintain *O-SII buffers* in a range of 0 percent to 1 percent, as of August, 2018.<sup>39</sup>

**47. The FSC-M may also recommend the implementation of national macroprudential instruments that are not mentioned explicitly in the 2015 Act.** The list of potential non-harmonized national measures is open, but the FSC-M has published a list of macroprudential instruments in relation to the intermediate objectives that they would help achieve, that contains examples of non-harmonized instruments (see Appendix I). Whereas the FSC-M can recommend the

<sup>37</sup> Financial Stability Committee: Macroprudential supervision in Poland, Institutional and Functional Framework, May 2016. The examples mentioned are: Limits on DSTI or DTI ratios, Limits on LTV ratio, guidelines on the method of calculation of creditworthiness, and domestic liquidity standards.

<sup>38</sup> The recommendation by the FSC-M to impose a SRB of 3 percent was taken in the context of the risks associated with the FX housing loan portfolio. In its official notification to the European authorities, the MoF refers more broadly to the international economic environment as a potential source of adverse shocks to the Polish banking system. The systemic risk buffer requirement is applicable to all exposures on the territory of the Republic of Poland held by domestically authorized credit institutions in the country.

<sup>39</sup> The buffer range was kept unchanged in 2017.

application of such measures by one of its members, this is not a requirement. The PFSA could independently consider the activation or adjustment of macroprudential instruments, such as limits on LTV or DSTI ratios, but it is required by law to consult the FSC-M first.<sup>40</sup>

**48. A variety of measures was recommended by the FSC-M in January 2017, to contain potential systemic risk associated with the FX housing loan portfolio.** These measures aim to provide incentives for voluntary restructuring in order to avoid systemic risk that might result from a statutory conversion of such loans. The measures (see Appendix II) include the imposition of a 3 percent general systemic risk buffer, as well as targeted increases in capital requirements and supervisory focus on FX denominated mortgage loans. The recommendations made by the FSC-M extend beyond the use of prudential tools and include tax measures as well as changes in the rules of operation of the Borrowers' Support Fund to alleviate potential excessive burdens resulting from voluntary restructuring. To further incentivize banks to partake in such restructuring, the FSC-M also recommended that contributions to the Bank Guarantee Fund should take into consideration the risk associated with FX housing loans. The recommendations are in the process of being implemented.

**49. The FSC-M's recommendations regarding the FX housing loan portfolio responded to a primarily political potential source of systemic risk.** In its recent publications the FSC-M has stated clearly that in economic terms the FX housing loan portfolio as such does not generate significant risk to the stability of the financial system. It did, however, consider the possible effects of statutory solutions involving the mandatory conversion of loans into zloty as a potential systemic risk. The FSC-M's recommendations aim to provide incentives for voluntary restructuring. This reduces the need for politically motivated statutory solutions, which could turn out detrimental for the stability of the banks involved. The recommended increase in capital charges for FX housing loans thus does not directly reflect a higher risk of such loans, but rather an indirect risk of destabilizing political interference.

**50. In principle, the open-ended nature of the instruments that the FSC-M can recommend should allow it to respond to a wide range of financial stability threats.** So far, the FSC-M's policy response and its recommendations to apply macroprudential instruments seem to have been broadly commensurate to the perceived systemic risks in the system. For this to remain the case, it will be important that the FSC-M prepares itself for challenges that lie ahead. It has to ensure that it can readily activate through its recommendations all parts of the macroprudential toolkit if circumstances so require. One such area might be the re-introduction of DSTI limits to help ensure that borrowers have sufficient buffers to cope with a potential rise in interest rates in an environment where the consumer loans are growing strongly. The FSC-M should also be able to

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<sup>40</sup> Prior to the establishment of the FSC-M as macroprudential authority, limits on LTV and DSTI ratios were introduced by PFSA. The primary motive appears to have been microprudential, although there were also macroprudential considerations. Explicit DSTI caps for consumer loans were lifted in 2013, reflecting concerns over a fall in consumer credit and its migration to shadow banking entities. This was followed by a lifting of explicit DSTI caps for mortgage borrowers in 2014. LTV caps for mortgage loans remain in force.

respond adequately to potential financial stability threats that can emerge from structural changes underway in the Polish financial sector. These include a rising share of nonbank activity in the overall financial sector, potential further pressure on bank profitability due to official policies, and increasing sovereign-bank linkages (the “sovereign-bank nexus”).

## B. Recommendations

**51. To be prepared for future challenges, the FSC-M needs to be capable of responding promptly to new threats and be able to identify in a timely fashion stability risks that could emerge due to structural changes in the financial sector.** For this purpose, it is recommended that the FSC-M:

- **Ascertains the prompt availability of identified macroprudential instruments to ensure that they can be readily mobilized by its member authorities, if needed.** The members of the FSC-M should make sure that instruments in the macroprudential toolkit can readily be activated if and when the need arises.<sup>41</sup> For instance, in cases where an instrument can serve both microprudential and macroprudential purposes, such as with LTV, DTI or DSTI ratios, there could be some ambivalence as to whether the instrument is freely available for macroprudential use. Fleshing out a clear ex-ante understanding with the microprudential supervisor (PFSA) that minimizes the constraint on the availability for macroprudential purposes can help avoid delays in applying the instrument in question. In view of the strong growth in consumer lending, a timely re-introduction of DSTI limits is recommended in order to prevent risk from building up, rather than waiting until risks and debt have already risen.
- **Pays close attention to developments in the non-bank financial sector and starts developing a policy framework to address potential systemic risks that might arise from these developments.** Building on the existing monitoring in the FSR, it is advisable to identify those areas of activity that are most likely to become a potential source of concern in the Polish context. It would then be important to establish what instruments are available to address these concerns if they were to arise, and what the main gaps are in the toolkit. In this respect, the strategy paper “Macroprudential Policy Beyond Banking” issued by the ESRB in 2016 provides a good frame of reference and basis for collaboration with counterparts in the EU.
- **Assesses the implications of the overall cumulative impact of various policy measures for bank profitability and financial stability.** Against a backdrop of steadily declining bank profitability, there is an urgent need for a comprehensive assessment of the cumulative effects on profits of rising regulatory capital requirements,<sup>42</sup> the bank tax which was introduced in 2016, and a potential increase in contributions to the Bank Guarantee Fund and Borrower Support Fund. The use of models that incorporate the effects on credit and

<sup>41</sup> These would include the instruments mentioned in Appendix I

<sup>42</sup> Including MERL requirements to be introduced in 2023.

the broader economy, can help to gain a full understanding of the effects of these policy measures, and their potential implications for financial stability.

- **Closely monitors the intensity of sovereign-bank linkages and assesses whether a macroprudential response may be warranted.** In Poland, sovereign-bank linkages have intensified considerably in recent years due to the two-pronged increases in bank holdings of domestic sovereign debt, and state-controlled ownership of financial institutions. Such linkages can mutually reinforce fiscal and financial vulnerabilities. Large and concentrated sovereign exposures can be an important source of risk for the banks holding them, for instance when interest rates start rising. The FSC-M should carefully assess the systemic risk that may be associated with such concentrated exposures, taking into account the valuable role that holdings of government securities play in the smooth functioning of financial markets and payment and settlement systems. An appropriate response to further increases in exposure would be to bolster resilience of the banks by increasing their loss absorbing capacity, while creating disincentives against excessive concentrations of risk. The Systemic Risk Buffer would be well-suited for this purpose.<sup>43</sup> Possible measures could also include ending the bank tax exemption of government bond holdings, thus removing an artificial incentive to increase such holdings.

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<sup>43</sup> The SRB was imposed on Polish banks as one of the recommendations aimed at resolving the FX housing loan issues. If the recommended measures succeed in reducing the risks associated with a statutory conversion of these loans, the need for an SRB buffer for this purpose declines. In its place, a buffer could be applied to increases in concentrated government bond exposures. See the [Technical Note on Macroprudential Policy Framework and Tools](#) published in the context of the Romania FSAP (June 2018) for an explanation how the SRB could be used to address risk from exposure to sovereigns.



## Appendix I. Intermediate Objectives and Macroprudential Instruments

Intermediate Objectives	Selected Macroprudential Instruments
Mitigation of risk arising from excessive growth or size of debt or leverage	counter-cyclical buffer
	sectoral capital requirements
	conservation buffer
	own funds requirements
	acceptable methods of calculation of creditworthiness
	limits on debt-service-to-income ratio (DSTI)
	limits on debt-to-income ratio (DTI)
	limits on the loan-to-value ratio (LTV)
	systemic risk buffer
	leverage ratio
Mitigation of risk arising from excessive maturity mismatch of assets and liabilities of financial institutions or of the risk of illiquidity of financial markets	short-term liquidity requirements (LCR, M1, M2) <sup>1</sup>
	long-term liquidity requirements (NSFR, M3, M4)
Mitigation of risk arising from excessive concentration of exposures or their similarity and the interconnectedness between financial system entities	large exposure restrictions
	systemic risk buffer
	requirement for settlement of financial transactions through a central counterparty (CCP)
Mitigation of risk arising from misaligned incentives influencing the behavior of financial institutions or their clients	Global Systemically Important Institutions buffer
	Other Systemically Important Institutions buffer
	systemic risk buffer
	leverage ratio
Ensuring the adequate resilience of the financial infrastructure	additional requirements on the disclosure of information
	systemic risk buffer
	additional disclosure requirements
	risk management principles in CCP
Source: Source: Financial Stability Committee, May 2016 "Macroprudential supervision in Poland, institutional and functional framework" <a href="http://www.nbp.pl/macprudentialsupervision/publikacje/Ramy_inst-funkc_en.pdf">http://www.nbp.pl/macprudentialsupervision/publikacje/Ramy_inst-funkc_en.pdf</a>	
<sup>1</sup> M1 and M2 requirements are no longer in place since January 1, 2018	

## Appendix II. FSC-M FX Housing Loan Recommendations Broken Down by Addressees

Addressee	Recommendation
Minister of Finance	<ul style="list-style-type: none"> <li>• Raising to 150 percent the risk weight for FX housing loans at banks using the standardized approach for estimation of the capital requirement</li> <li>• Increasing the minimum LGD parameter for banks using the internal ratings-based approach for estimation of the capital requirement</li> <li>• Introducing changes in the rules of operation of the Borrowers' Support Fund leading to an increased use of funds for the support of financially distressed borrowers and also their additional allocation to support the process of voluntary restructuring of the portfolio of FX housing loans</li> <li>• Development of adequate solutions neutralizing potential excessive tax burdens which may occur as a result of the restructuring of FX housing loans</li> <li>• Imposing the systemic risk buffer of 3 percent applicable to all exposures on the territory of the Republic of Poland</li> </ul>
Polish Financial Supervision Authority	<ul style="list-style-type: none"> <li>• Updating of the Methodology of Supervisory Review and Evaluation Process of Commercial, Associating and Cooperative Banks (BION methodology) and its extension so as to enable imposing additional capital requirements due to risk factors associated with the portfolio of residential mortgage loans in foreign currency, not considered so far (operating risk, market risk, and risk of collective default of borrowers)</li> <li>• Supplementing additional capital requirements currently used under Pillar II, associated with operating risk, market risk, and risk of collective default of borrowers</li> <li>• Issuing the supervisory recommendation on good practices with regard to restructuring of the portfolios of FX housing loans</li> </ul>
Bank Guarantee Fund	<ul style="list-style-type: none"> <li>• Taking into consideration the risk associated with FX housing loans in the method of determining contributions to the bank guarantee fund</li> </ul>
<p>Source: Financial Stability Committee "Information on Activities of the Financial Stability Committee in the Area of Macroprudential Supervision in 2016" <a href="http://www.nbp.pl/macprudentialsupervision/publikacje.aspx">http://www.nbp.pl/macprudentialsupervision/publikacje.aspx</a></p>	