

Narodowy Bank Polski

May 2016

**Information on Activities of
the Financial Stability Committee
in the Area of Macroprudential Supervision in 2015**

Warsaw, May 2016

Dear Sirs,

I hereby present the report describing the activity of the Financial Stability Committee in the area of macroprudential supervision in 2015. This document fulfils the obligation of annual presentation to the Sejm (the Polish Parliament) of information concerning the implementation of the tasks related to macroprudential supervision, imposed on the Committee under the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management.

The Act entered into force on 1 November 2015 and indicated the Financial Stability Committee as the competent authority in the area of macroprudential supervision of the financial system. This event was the culmination of the long-lasting efforts of Narodowy Bank Polski, which has long recognized the need to supplement the Polish financial safety net with a new dimension of regulatory and supervisory policy. The aim of macroprudential supervision is to strengthen the resilience of the financial system and, in consequence, support the long-term and sustainable economic growth of Poland. Narodowy Bank Polski, whom the law-maker assigned the task of providing services to the Committee in the area of macroprudential supervision, has long prepared to fulfil this role, building analytical and personnel resources and developing organisational framework for the Committee and cooperation between the institutions comprising it.

The first meeting of the Financial Stability Committee in the area of macroprudential supervision took place on 23 December 2015. The Committee made the necessary decisions regarding notifications to the institutions of the European Union. In addition, the risk to the financial system associated with, among others, the functioning of financial institutions in the environment of low interest rates, the costs of restructuring and bankruptcy of credit institutions, and the bank tax were discussed at the meeting. The agenda of the meeting also included organisational matters related to ensuring efficient interinstitutional cooperation under the FSC.

An important element of the Financial Stability Committee's activity in the area of macroprudential supervision is communication with the public and participants of the financial market. Communication has a significant impact on the expectations and behaviour of entities. The Committee will systematically develop this form of its activity, which is substantially demonstrated in the report presented to you below.

To sum up, I can say with satisfaction that the Financial Stability Committee acting in the area of macroprudential supervision has successfully started its operation. At the same time, I am convinced that in the years to come it will strengthen its position in the financial safety net and successfully contribute to the stability of the financial system and sustainable economic growth in our country.

Marek Belka
President of Narodowy Bank Polski
Chairperson of the Financial Stability Committee
for macroprudential supervision

1. Macroprudential supervision

Along with the rise in the relation of financial system assets to GDP, maintaining financial stability is increasingly important for social welfare. The recent global financial crisis resulted in huge costs for taxpayers in the euro area countries and other highly developed economies. These were both direct costs, in the form of expenditure for state aid for banks, and indirect costs in the form of the decline in GDP growth and an increase in unemployment.

These experiences have led to a revision of the current architecture of the financial system supervision. It was necessary to supplement the financial safety net with a new dimension in the form of macroprudential supervision, which is oriented towards the financial system as a whole and takes into account its links with the real economy. The aim of macroprudential supervision is to strengthen the resilience of the financial system and, in consequence, to support long-term and sustainable economic growth.

In 2010, a new institution was established in the European Union – the European Systemic Risk Board (hereinafter the ESRB), which sets the objectives and directions for macroprudential policy in the European Union. In the General Board, which is the decision-making body of the ESRB, all central banks of EU Member States are represented. The ESRB has at its disposal instruments in the form of warnings and recommendations addressed to the relevant addressees¹, depending on the problem identified. The addressees of the ESRB's recommendations are obliged to comply with the measures addressed to them (in the form of recommendations and warnings) or explain the reasons for inaction (the so-called “comply or explain” principle). In January 2012, the ESRB issued the Recommendation on the macroprudential mandate of national authorities (ESRB/2011/3, OJ C 41/1 of 14/02/2012), which indicated that the effectiveness of macroprudential policy in the European Union will depend on macroprudential actions taken in individual countries. Therefore, it recommended to the Member States to set up a body responsible for conducting macroprudential supervision. The recommendations issued by the ESRB are of a general nature and leave to the discretion of Member States how to organize the macroprudential supervision. The ESRB only indicated that central banks should play a leading role in macroprudential policy.

The institutional changes taking place in the international environment in the area of macroprudential supervision have had a significant impact on the institutional organization of the macroprudential supervisory structure in many countries, including Poland.

¹ The ESRB's warnings or recommendations may be addressed to the following recipients: the EU as a whole, selected EU countries, individual or all European Supervisory Authorities, national supervisory authorities, as well as the European Commission (if it concerns EU law).

2. Macroprudential supervision in Poland

Macroprudential supervision in Poland was established by the Act of 5 August 2015 *on macroprudential supervision of the financial system and crisis management* (hereinafter the Act), which entered into force on 1 November 2015.

According to Article 1 of the Act, the aim of macroprudential supervision is, in particular, to strengthen the resilience of the financial system in the event of materialisation of systemic risk and, in consequence, to support Poland's long-term economic growth. Macroprudential supervision is described as activities covering the identification, assessment and monitoring of systemic risk arising in the financial system or its environment, and application of macroprudential instruments to eliminate or mitigate this risk.

The Act designated the Financial Stability Committee as the authority responsible for macroprudential supervision in Poland (hereinafter referred to as FSC-M). The macroprudential authority was established in response not only to the ESRB recommendation on the macroprudential mandate of national authorities, but also, to some extent, resulted from the EU-level regulations in CRDIV² and CRR³. The need to set up macroprudential supervision was also indicated by the International Monetary Fund (IMF), stressing that it is necessary to create in Poland a comprehensive structure of macroprudential supervision, which can ensure early detection and mitigation of various aspects of systemic risk.⁴

Granting the new powers to the Financial Stability Committee, which – until the Act was adopted – acted as the body responsible for coordinating activities to promote financial stability and a forum for the exchange of information and opinions⁵, significantly strengthens the national financial safety net.

² Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

⁴ Republic of Poland: Concluding Statement of the 2015 Article IV Mission, IMF, 18/05/2015.

⁵ In accordance with the Act of 7 November 2008 on the Financial Stability Committee, which was repealed with the entry into force of the Act.

The FSC-M is a collegial body that comprises⁶:

- the President of Narodowy Bank Polski – as the Chairperson,
- the Minister of Finance,
- the Chairman of the Polish Financial Supervision Authority,
- the President of the Bank Guarantee Fund.

Narodowy Bank Polski was entrusted with the task of providing services to the FSC-M in two areas: 1) analytical and research support and 2) administrative and organisational support. The granting of such a role to Narodowy Bank Polski is in response to the recommendations of international bodies and institutions⁷, that central banks should play an important role in exercising macroprudential supervision. It also results from Narodowy Bank Polski's long-lasting commitment and experience in conducting analyses of the financial system and its ties with the real economy. Narodowy Bank Polski is also responsible for the communication of FSC-M, which is an important aspect contributing to effective macroprudential supervision.

The tasks of the FSC-M include:

- applying macroprudential instruments, including presenting statements and issuing recommendations;
- identifying financial institutions that pose a significant systemic risk;
- cooperating with the European Systemic Risk Board and other international institutions and macroprudential authorities;
- ensuring the flow of information between the members of the Committee, enabling it to carry out its tasks.

The Financial Stability Committee is not empowered to issue binding legal acts, but it has at its disposal instruments that may indirectly affect the financial sector. The FSC-M, performing macroprudential tasks, issues recommendations and presents statements. The FSC-M also analyses phenomena and events occurring in the domestic and world economy in terms of systemic risk. The conclusions from these analyses provide the basis for undertaking specific macroprudential supervision measures.

The Committee's statements are presented when a high level of systemic risk is identified and when the Committee finds that it is necessary to inform market participants about the source of this risk and its potential consequences for the financial system.

⁶ In accordance with the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management, the Financial Stability Committee has a dual mandate for action. In addition to macroprudential supervision tasks as described in this document, the Committee also performs tasks in the area of crisis management. The Minister of Finance chairs the Committee's work in the area of crisis management and the Ministry of Finance provides services to the Committee.

⁷ Including the ESRB and the IMF.

Therefore, the statements are addressed to a broad group of recipients, both to the institutions comprising the FSC-M and to entities of the financial system. Statements may be used not only as an instrument of communication, but it is assumed that they should also stimulate corrective actions by competent institutions or business entities, which will contribute mitigation of the build-up of systemic risk.

Recommendations are issued when the FSC-M wants to indicate the necessity of taking actions aimed at mitigating systemic risk. The recommendations may be addressed to the competent entities, which under the Act are Narodowy Bank Polski, the Minister of Finance, the Polish Financial Supervision Authority and the Bank Guarantee Fund, i.e. institutions which can take action for the stability of the domestic financial system. The recommendations are not legally binding; however, the Act introduced the “comply or explain” principle, according to which the addressees of the recommendation are obliged to inform the FSC-M of measures taken or to explain the reasons for non-compliance. As an explanation, the addressees may also indicate other measures taken by them to mitigate the risk indicated by the FSC-M.

The effective implementation of macroprudential policy requires the use of instruments with a purpose to reduce systemic risk. At the same time, the catalogue of macroprudential instruments is not closed. These instruments can be divided into two groups, i.e. the ones regulated at the EU level⁸ and the ones not harmonised within the legal order of the European Union. The first group includes capital buffers and so-called national measures defined in Article 458 of the CRR.⁹ The instruments from this group were explicitly listed in the provisions of the Act.

⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the CRR.

⁹ Article 458 of Regulation No 575/2013.

3. Meetings of the Financial Stability

Committee in 2015

In 2015, one meeting of the Financial Stability Committee for macroprudential supervision was held. This was due to the fact that the Act came into force in the final period of the year. The meeting was held on 23 December and all FSC members participated in it:

- Marek Belka – President of Narodowy Bank Polski and Chairperson of the FSC-M,
- Paweł Szalamacha – Minister of Finance,
- Andrzej Jakubiak – Chairman of the Polish Financial Supervision Authority,
- Jerzy Pruski – President of the Bank Guarantee Fund.

During the meeting, the most urgent issues regarding systemic risk and organisational issues related to the functioning of the Committee in its new capacity were discussed. The Committee also referred to the issues that should be addressed in the future. In particular, the FSC-M pointed to the need to develop a document that would specify the intermediate objectives of domestic macroprudential supervision and form a specific strategy for the FSC-M. By adopting this type of document, the FSC-M would also comply with the recommendation of the European Systemic Risk Board. In addition, the Committee pointed to the need to identify institutions posing significant risk to the financial system in the future and highlighted the necessity to take actions arising from the recommendations of the European Supervisory Authorities and the need to improve analytical methods to identify systemic risk and calibrate the instruments preventing and counteracting its effects.

The key element of the meeting was the adoption of resolutions ensuring the fulfilment of the statutory information obligations towards European Union institutions.

The FSC-M adopted a resolution regarding the implementation of disclosure obligations towards:

- the European Systemic Risk Board on applying the countercyclical buffer rate at 0% of the total exposure amount from 1 January 2016. The level of the countercyclical buffer rate was previously determined by the provisions of the Act.¹⁰

¹⁰ Article 83 of the Act.

- the European Commission, the European Systemic Risk Board and the European Banking Authority on:
 - the statutory exclusion of investment firms that are micro-enterprises, or small or medium-sized enterprises from the obligation to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer¹¹;
 - the shortening of transitional periods for the capital conservation buffer and the institution-specific countercyclical capital buffer.

Notifications were forwarded to the relevant addressees and made public on the websites of the ESRB¹² and Narodowy Bank Polski¹³.

During the meeting, the risk for the domestic financial system related to, among others, the functioning of the financial institutions in a low interest rates environment, the costs of restructuring and bankruptcy of credit institutions and the tax on certain financial institutions (the so-called bank tax) was discussed. In the press release, the Committee stated that regulatory initiatives concerning new burdens for financial institutions, in particular banks, should be constructed prudently, so as not to adversely affect the stability of the financial system and not to restrict the ability of banks to provide lending to the economy.

¹¹ Article 20(2) and Article 22(2) of the Act.

¹² <https://www.esrb.europa.eu/mppa/html/index.en.html>

¹³ <http://www.nbp.pl/macropprudentialsupervision/podstawa.aspx>

4. International cooperation

The Act obliges the Committee to cooperate with the European Systemic Risk Board, other European Union bodies, macroprudential authorities from other Member States or third countries, and international institutions.

Cooperation concerns mainly notification obligations towards these institutions, but also includes compliance with legal acts issued by them or to participate in the work of various bodies. The ESRB publishes on its website information on macroprudential policy and various macroprudential measures applied by EU countries. The information exchange platform is, among others, a database of macroprudential instruments introduced and notified by the Member States. It also includes macroprudential instruments applied in Poland.

Among issues related to macroprudential supervision in the European Union, cooperation and mutual recognition of macroprudential instruments by the Member States (the so-called mechanism of reciprocity) are of particular importance. In the highly integrated EU financial system, macroprudential policy – although it is implemented at the national level – should not be conducted in isolation. Coordination of activities by individual countries is necessary to ensure its consistency and effectiveness in the cross-border dimension. Reciprocation of macroprudential instruments aims to reduce the occurrence of undesirable effects in other EU countries, maintaining level playing field, and preventing regulatory arbitrage. In 2015, the ESRB carried out intensive work on reciprocity framework for macroprudential instruments. As a result the ESRB issued Recommendation of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2). It is important for the functioning of the FSC-M due to the need for the Committee to take decisions (adopt recommendations) on the recognition of macroprudential instruments used by other countries in the EU. The recommendation is also important for the FSC-M because macroprudential instruments used in Poland are subject to a similar mechanism of recognition by other EU Member States.

5. Communication

An important element of the Financial Stability Committee's activities in its macroprudential capacity is communication with the public and financial market participants. This has a significant impact on the expectations and behaviour of entities operating on the financial market. For the purposes of communication with financial market participants, Narodowy Bank Polski launched on its website¹⁴ a dedicated tab on macroprudential supervision, which contains the most important information related to this issue and on the FSC-M's work. The FSC-M resolutions, press releases, and all information resulting from the regulations (including those concerning the countercyclical buffer) or found by the Committee to be important and necessary for financial market participants are published on this website. As the FSC-M continues to expand and strengthen its position in the financial safety net in Poland, it will systematically develop communication with the public as an important instrument shaping the conditions for financial stability.

¹⁴ <http://www.nbp.pl/macprudentialsupervision/index.aspx>