

**Alert | Health Emergency Preparedness Task Force:
Coronavirus Disease 2019**



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How COVID-19 Impacts the Polish Banking Sector, Debt Availability, and Borrowers

The global Coronavirus Disease 2019 (COVID-19) pandemic is having a significant impact on the Polish economy and businesses in Poland, which may affect their liquidity and ability to timely pay their debts due to financial institutions, as well as restricting the availability of debt financing to businesses and preventing banks from financing the economy.

The Polish Financial Supervision Authority (KNF), the Financial Stability Committee (KSF) and the National Bank of Poland (NBP) have commenced implementation of measures to keep credit available to businesses. Also, the Polish Bank Association (ZBP) has proposed initiatives aimed at offering relief measures to bank customers in repayment of their debts and extending borrowing periods. However, these proposals may be considered in light of the binding provisions of law and implementation may first require legislative action.

Implemented or Proposed Measures

Reduction of capital requirements

At present, Polish banks are required to comply with the capital requirements that were implemented to strengthen their capital condition during a strong economy. Reducing these requirements temporarily or abandoning some elements of the capital requirements on banks may be beneficial to the ability of banks to offer new loans and to support the economy.

On 16 March 2020, the KSF recommended to the Minister of Finance to immediately waive the systemic risk buffer (currently at 3 % of a given bank's total risk exposure) required of financial institutions. The KNF supported this solution. The systemic buffer requirement was waived as of 19 March 2020 by way of an ordinance issued by the Minister of Finance.

On 18 March 2020, the KNF also declared that it would consider using or reducing the Other Systemically Important Institutions (O-SII) buffer (determined individually for each bank by the KNF) and take into account external circumstances when examining the combined buffer requirement, thereby temporarily permitting banks to operate below the required level. The KNF will apply an individualized approach to liquidity measures, considering external circumstances, and individually tailor its regulatory reaction should the bank's short-term LCR liquidity ratio fall below the CRR requirements.

Banks may temporarily operate below the assigned capital requirements with respect to the so-called "combined buffer" requirement. The KNF declared that it will consider external circumstances and banks' efforts to continue financing the economy.

Interest rate reductions

Based on a recommendation from the NBP, the Monetary Policy Council decided to reduce the NBP interest rates as of 18 March 2020. This is the first such decision in the last five years and should translate into lower loan interest rates and an increased demand for cash on the market.

Provisions and credit exposure classification

In its announcement on 18 March 2020, the KNF referred to the currently applied interpretation of IFRS 9 as an instrument which in the present circumstances affects the level of write-offs and provisions created by banks against loans. With respect to the same concerns under the Polish Accounting Standards (which are applied by smaller banks, including cooperative banks), the KNF promised to propose appropriate amendments to the Minister of Finance. The IFRS are endorsed and implemented at the EU level and the KNF noted that the proposed approach will require sign-off from the auditors. The KNF also recommended to the Minister of Finance to exercise greater flexibility with respect to certain other accounting principles applied by banks reporting under Polish Accounting Standards.

The KNF also signaled the will to postpone the implementation of expected new supervisory recommendations regarding accounting principles (new Recommendation R) giving the banks more flexibility in respect of provisioning of expected credit losses.

Measures aimed at maintaining the liquidity of banks

In order to support the liquidity of banks, the NBP engaged on a greater scale in repo transactions and plans to purchase treasury bonds on the secondary market as part of structural open-market transactions. The NBP also plans to offer a discount facility to banks to refinance loans granted by banks to businesses outside the financial sector.

KNF regulatory practice

The KNF declared that in the forthcoming months it will phase down its inspections and minimize or postpone selected regulatory actions, to allow banks to focus on their day-to-day business.

ZBP initiatives for borrowers

On 16 March 2020, the ZBP proposed several options aimed at relieving the situation of borrowers in financial hardship caused by the COVID-19 outbreak. These options include a so-called “credit vacation”, i.e., suspending the repayment of loan and lease installments for a period of three months, to be granted in free-of-charge procedures with a bare minimum of formalities. The “credit vacation” would apply to both principal and interest and result in the extension of the final repayment date for the financing. Although the ZBP’s proposal does not address this point, the default interest may not apply to the deferred amounts, but the ordinary contractual rates of interest could continue to accrue.

ZBP member banks may consider offering short-term credit to their customers affected by the outbreak in order to help them stabilize their financial situation. In addition, individual commercial banks have declared their readiness to implement further-reaching measures in order to help their customers overcome the effects of the crisis.

Extension of revolving loans under Polish law

In its communiqué, the KNF noted that maintaining existing revolving loans will be crucial for businesses (in particular for micro-businesses and SMEs), whose income generation capabilities are significantly impacted by COVID-19. The KNF proposed passing new legislation that would allow banks to extend the maturity or otherwise modify lending terms in favor of the borrower (in relation to their existing micro and SME customers), based on an assessment of the customer’s financial and economic condition conducted by the bank as part of the creditworthiness evaluation (conducted no earlier than 30 September 2019). The KNF pointed out that this option is being contemplated in urgently conducted legislative works on amendments to relevant statutes.

The ZBP also referred to the issue of revolving loans and proposed that financing should be renewed for businesses with sufficient creditworthiness at the end of 2019, are affected by COVID-19,, and have existing financing that matures within the next few months.

Under the currently binding wording of the Banking Law, a bank may grant loans depending on the borrower’s creditworthiness at the time of the credit decision. This means that without appropriate legislative amendments, it is not clear whether banks may extend maturity or offer refinancing of existing debt to businesses whose financial standing has deteriorated to a degree where the borrower’s creditworthiness no longer meets the formally applicable criteria. Currently, banks do not have a uniform approach to evaluating a customer’s creditworthiness -- some banks posit that extending revolving loan maturity does not require a new verification of the customer’s creditworthiness if the customer passed this test at the time of signing the original revolving loan agreement. Nevertheless, given KNF’s position, banks may choose to rely on the amended provisions of law.

This GT Alert is limited to non-U.S. matters and law.

For more information and updates on the developing COVID-19 situation, visit [GT’s Health Emergency Preparedness Task Force: Coronavirus Disease 2019](#).

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