



**BOARD OF THE BANK OF LITHUANIA  
RESOLUTION**

**AMENDING RESOLUTION NO 03-31 OF THE BOARD OF THE BANK OF LITHUANIA  
OF 12 MARCH 2015 ON THE APPROVAL OF THE MACROPRUDENTIAL POLICY  
STRATEGY**

21 January 2019 No 03-5  
Vilnius

Acting in accordance with Article 47<sup>1</sup>(3)(2) of the Republic of Lithuania Law on the Bank of Lithuania and paragraph 25 of the Macroprudential Policy Strategy approved by Resolution No 03-31 of the Board of the Bank of Lithuania of 12 March 2015 on the approval of the macroprudential policy strategy, the Board of the Bank of Lithuania has *r e s o l v e d* :

To amend and recast the Macroprudential Policy Strategy approved by Resolution No 03-31 of the Board of the Bank of Lithuania of 12 March 2015 on the approval of the macroprudential policy strategy (attached).

Chairman of the Board

Vitas Vasiliauskas

APPROVED

by Resolution No 03-31

of the Board of the Bank of Lithuania

of 12 March 2015

(Amended by Resolution No 03-5

of the Board of the Bank of Lithuania

of 21 January 2019)

## MACROPRUDENTIAL POLICY STRATEGY

### CHAPTER I GENERAL PROVISIONS

1. The macroprudential policy strategy (hereinafter – Strategy) has been drafted in accordance with Article 47<sup>1</sup> of the Republic of Lithuania Law on the Bank of Lithuania (hereinafter – Law on the Bank of Lithuania). This Article establishes that the authority responsible for macroprudential policy in Lithuania is the Bank of Lithuania.

2. The aim of the Strategy shall be to define the intermediate objectives and instruments of macroprudential policy, adoption and communication of decisions, and cooperation with other authorities in implementing macroprudential policy.

3. Definitions used in the Strategy:

3.1. **Reciprocity** means an arrangement, whereby the relevant authority in one jurisdiction applies the same, or equivalent, macroprudential policy instrument, as is set by the relevant authority in another jurisdiction, to any financial service providers under its jurisdiction, when they are exposed to the same risk in the latter jurisdiction.

3.2. **Financial market infrastructure** means a multilateral system among participating institutions, including the system operator, used to clear, settle, or record payments, securities, derivatives, or other financial transactions.

3.3. **Financial system** means the entirety of financial institutions, markets, products and market infrastructures.

3.4. **Macroprudential policy** means the policy whereby the Bank of Lithuania seeks to contribute to the stability of the financial system, including by means of strengthening its resilience and mitigating a build-up of systemic risk, in order to ensure a sustainable contribution of the financial sector to economic growth.

3.5. **Macroprudential policy instrument** means an instrument applied to achieve the ultimate and intermediate objectives of macroprudential policy by establishing the requirements either for the financial system as a whole or for individual financial institutions, insurance undertakings or other entities providing financial services.

3.6. **Systemic risk** means a risk of disruption in the financial system with the potential to have significant negative consequences for the financial system and the economy.

4. Other definitions used in the Strategy shall have the meaning assigned to them in the Law on the Bank of Lithuania, legal acts of the Bank of Lithuania and other Republic of Lithuania and European Union legislative acts regulating activities of the financial sector.

### CHAPTER II OBJECTIVES OF MACROPRUDENTIAL POLICY

5. The ultimate objective of macroprudential policy shall be to contribute to the stability of the entire financial system, including by means of strengthening its resilience and mitigating a build-up of systemic risk, in order to ensure a sustainable contribution of the financial sector to economic growth.

6. By implementing the ultimate objective of macroprudential policy, the Bank of Lithuania envisages to achieve the following intermediate objectives:

6.1. to limit and prevent excessive credit growth and leverage;

6.2. to limit and prevent excessive maturity mismatch, excessive currency and liquidity risk in the financial system;

6.3. to limit the concentration of assets or other direct and indirect exposures of financial services companies;

6.4. to limit misaligned incentives of systemically important financial institutions to take excessive risk, with a view to reducing their moral hazard;

6.5. to strengthen the resilience of financial market infrastructure.

7. The Bank of Lithuania shall seek to achieve the objectives by identifying systemic risks to the financial system of the country, analysing and assessing them, and implementing, tightening or easing relevant macroprudential policy instruments.

8. In order to make the achievement of macroprudential policy objectives more effective, the Bank of Lithuania, where appropriate, shall contribute to the improvement of the system of deposit and investment insurance guarantees.

### **CHAPTER III MACROPRUDENTIAL POLICY INSTRUMENTS**

9. In order to achieve macroprudential policy objectives, the Bank of Lithuania shall apply macroprudential policy instruments to financial market participants in cases and in accordance with the procedures set by legal acts of the Bank of Lithuania, and shall also issue recommendations addressed to them and make public and non-public announcements about systemic risk.

10. To achieve macroprudential policy objectives, the Bank of Lithuania, where appropriate, shall apply the following macroprudential policy instruments:

10.1. the countercyclical capital buffer;

10.2. the requirement to apply higher risk weights for macroprudential purposes;

10.3. loan-to-value ratio limits;

10.4. debt service-to-income ratio limits or other instruments limiting the debt-to-income ratio;

10.5. the loan repayment requirement or limits on the duration of a credit agreement;

10.6. the additional macroprudential requirement for the leverage ratio;

10.7. instruments adjusting liquidity and the stable funding requirement;

10.8. instruments limiting foreign currency exchange risk;

10.9. limits on assets or other direct and indirect exposures of large financial services companies;

10.10. the buffer of other systemically important institutions;

10.11. the systemic risk buffer;

10.12. other macroprudential policy instruments, including macroprudential policy instruments applied by other Member States, recommended for the recognition and reciprocation by the European Systemic Risk Board.

11. The Bank of Lithuania shall identify the need for the application of macroprudential policy instruments and, if such need exists, shall determine the appropriate instrument, its level, the term of application, identify the market participants to whom the instrument shall apply, and periodically assess the adequacy and effectiveness of the instrument in achieving macroprudential policy objectives. In addition, the Bank of Lithuania shall draft documents supporting and implementing these instruments and shall publish them, if this does not threaten financial stability.

12. When making a decision on the application of a macroprudential policy instrument, the Bank of Lithuania shall consider the following criteria:

- 12.1. the effectiveness and usefulness of the instrument in achieving macroprudential policy objectives;
- 12.2. the proportionality of the instrument to the level of related systemic risk;
- 12.3. the effect of the instrument on fostering market discipline and developing appropriate expectations;
- 12.4. the simplicity of the implementation of the instrument;
- 12.5. the effectiveness of the instrument in terms of associated costs and benefits;
- 12.6. the international impact of the implemented instrument;
- 12.7. the compatibility of the instrument with other macroprudential and microprudential instruments at the national and European Union level.

13. The Bank of Lithuania shall, in accordance with Article 458(5) of Regulation (EU) No 575/2013, without adopting any additional legal acts, recognise and reciprocate all macroprudential policy instruments adopted by relevant authorities to the extent specified and to entities referred to in the Recommendation of the European Systemic Risk Board on recognition and reciprocity of a specific instrument.

#### **CHAPTER IV ADOPTION OF MACROPRUDENTIAL POLICY DECISIONS**

14. The Bank of Lithuania shall adopt macroprudential policy decisions independently, having regard to the economic policy pursued at that time and microprudential regulation of the financial market.

15. The Bank of Lithuania shall adopt macroprudential policy decisions on its own initiative or having regard to the recommendations and warnings of the European Systemic Risk Board about the systemic risk, as well as the proposals of the European Central Bank on the application of macroprudential policy instruments.

16. The Bank of Lithuania shall adopt macroprudential policy decisions in close cooperation with the European Central Bank, which, in accordance with legal acts regulating the Single Supervisory Mechanism and other legal acts of the European Union, in the case of certain macroprudential instruments coordinated at the European Union level, may impose more stringent requirements than those that are either applied or proposed by the Bank of Lithuania.

17. Having received information from other states about their macroprudential policy decisions, the Bank of Lithuania shall take into consideration the provisions of related legislative acts of the European Union and decide whether it is expedient to change the applicable macroprudential policy.

#### **CHAPTER V COMMUNICATION OF MACROPRUDENTIAL POLICY DECISIONS**

18. Decisions on macroprudential policy instruments and supporting information shall be published by the Bank of Lithuania through press releases, announced in the Financial Stability Review and, where appropriate, in other mass media, unless such publicity might pose a threat to financial stability.

19. The Bank of Lithuania shall deliver public and non-public statements with respect to the systemic risk in order to warn, recommend, inform or raise awareness of the general public, financial market participants and other affected entities, unless this might pose a threat to financial stability.

20. The Bank of Lithuania shall communicate macroprudential policy decisions and supporting information having regard to the following principles:

- 20.1. openness, unless there is a threat to financial stability and/or confidentiality issues;
- 20.2. clarity;
- 20.3. proportionality to the importance of the adopted decision.

## **CHAPTER VI COOPERATION WITH OTHER INSTITUTIONS**

21. Once a year or, in the event of a financial crisis – more frequently, the Chairman of the Board of the Bank of Lithuania shall participate in the hearings organised by the Budget and Finance Committee of the Seimas on macroprudential policy implemented by the Bank of Lithuania. The Bank of Lithuania, if it deems necessary, may submit proposals to the Chairman of the Budget and Finance Committee of the Seimas regarding the improvement of the legislation on macroprudential policy and preventive measures to mitigate systemic risk.

22. The communication and coordination of macroprudential policy with the European Central Bank, the European Systemic Risk Board, other European Union institutions and national designated macroprudential authorities of Member States shall be carried out in compliance with relevant legislative acts of the European Union.

23. If the Bank of Lithuania determines that the effectiveness of the applied macroprudential policy instrument requires recognition and reciprocity of other Member States, it shall request the European Systemic Risk Board to provide recommendation to other Member States for recognition and reciprocity of this macroprudential policy instrument. This request shall be accompanied by information on this macroprudential policy instrument and the assessment of its international impact.

24. The Bank of Lithuania shall cooperate, share information and have the right to conclude agreements with the European Central Bank, the European Systemic Risk Board, macroprudential authorities and financial market supervision authorities of other Member States, as well as with other authorities of the Republic of Lithuania, foreign countries, European Union and/or international institutions.

## **CHAPTER VII FINAL PROVISIONS**

25. The Strategy implements Recommendation ESRB/2013/1 of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macroprudential policy (OJ C 170, 2013, p. 1).

26. The Bank of Lithuania shall assess the macroprudential policy strategy at least once every three years and on the basis of such assessment introduce amendments to the macroprudential policy strategy, if necessary.

---