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**INITIATIVES OF MITIGATING FOREIGN EXCHANGE RISK IN  
FOREIGN CURRENCY LENDING TO UNHEDGED BORROWERS****Abstract:**

A foreign currency lending become very commonly practiced in many CEE countries in period 2004-2008. Such lending had dominated in the sector of mortgage loans but it was also used for consumption and car purchases. In Poland, foreign currency mortgage loans, especially denominated in Swiss franc, become the major type of loans to households. Until the subprime crisis such financing turned to be an effective solution against loans in local currency. After the outburst of subprime crisis and depreciation of Polish zloty against major currencies, the mentioned loans started to materialize the foreign currency risk and their benefits started to be questioned. Due to substantial increase of costs of loans repayment there have been undertaken various initiatives to support borrowers. The initiatives had to mitigate the foreign exchange risk and help borrowers to repay debts.

□The aim of this paper is to review and evaluate legal, financial as well as organizational initiatives supporting unhedged borrowers in repayment of foreign currency loans, especially mortgages. The author focuses mainly on Polish lending market, but the examples from other countries of CEE are also discussed. The author conducted a study of governmental and financial supervisory initiatives, investigated the legal regulations as well as analyzed financial solutions in that field

□The study confirmed that the various initiatives were provided by government, banks and financial supervisory authority in Poland but none of the initiative solved the problem of foreign exchange risk of the loans in a complex way. The author finds, that despite common discussion in Poland about total conversion of foreign currency loans of households into local currency, such solution is neither socially nor economically beneficial.

**Keywords:**

foreign currency lending, risk, mitigation, incentives, Poland

**JEL Classification:** G15, G18, G28