Poland introduces first QE programme

Poland's central bank has just lowered interest rates, introducing the country's first quantitative easing programme along with TLTROs. This will open the door to a large-scale fiscal response to the current crisis

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Monetary policy measures

During the technical meeting, the MPC introduced numerous monetary policy measures aimed at tackling the coronavirus-related economic crisis. These include:

- Introduction of the first Polish quantitative easing program. The central bank received the green light to buy an unspecified amount of Polish government bonds from commercial banks.
- Introduction of the Polish version of "funding growth" scheme. Commercial banks will be able to refinance (under favourable rates) new loans granted to Polish enterprises and households.
- Extension of repo operations increasing banks' liquidity. The first such operation was conducted yesterday with a maturity of four days and a volume of PLN7.5bn.
- Cutting interest rates from 1.0% +/- 1pp (for lombard and depo rates respectively) to 1.0% +/- 0,5pp.
- Cutting reserve requirement ratio from 3.5% to 0.5%. The MPC has also increased remuneration of holdings of the required reserve from the current 0.5 to 1% (the reference

rate level instead of depo rate).

In our view, the main goal is to stabilise the T-bonds secondary market and support lending to the economy. Yesterday, the liquidity on POLGBs market collapsed, which was posing a risk of disorderly market weakening.

We think QE opens the door for the ministry of finance to announce a large anti-crisis fiscal policy package, avoiding the risk of T-bonds market collapsing as experienced during the 2008 or 2012-13 yields spike. Poland's central bank enters the T-bonds secondary market as a new big player and will buy the securities from banks (and other players), who have been the main taker of government's borrowing needs so far. The details of the fiscal impulse will be announced tomorrow.

Previously (under no-QE assumption), we expected it to be around 0.5-1.0% of GDP. Now a program up to 2% is possible with a further extension if things keep deteriorating. This means that the borrowing needs will grow to a much larger extent than our initial estimates of PLN60bn increase (from PLN15bn to PLN75bn).

Introduction of rediscount loans to banks, similar to the ECB's TLTRO program should enable refinancing of bank loans to the non-financial sector, of course, subject to parameters of the program and their attractiveness for banks (cost of money and sharing the credit risk between commercial banks and state bank BGK). These are to be targeted and very timely operations in the current situation allowing banks to generate working capital loans to businesses. This instrument should support businesses and prevent them from laying off workers, in turn, softening the economic slowdown caused by Covid-19.

Other recommendations for economic policy

Earlier the NBP Board has also recommended a number of actions aimed at liquidity enhancement and cost burden reduction for firms and banks, namely:

- **Fiscal policy**: Temporary switch from accrual to cash basis for calculating tax obligations, targeted suspension of tax and social contributions of employees, and compensating employers the costs of employees' absentia from its first day (currently the first 33 days of workers' sick leave are paid by the employer).
- **Macro-prudential policy**: Relaxing the bank liquidity requirements (most importantly the minimum liquidity coverage ratio) and flexibility with regard to MREL requirements, i.e. by extending the deadline to 2024.
- **Banking sector**: The NBP board welcomed the announcement of credit holidays by Polish commercial banks. It recommended to reduce or suspend the banking tax, (especially with regards to corporate debt) and lowering of systemic risk buffer (part of capital requirements).

We think the central bank's decision will be positive for the bond market (flattening the curve), but negative for PLN – which is the usual downside of expanding the central bank's balance sheet. The Bank should set the parameters of QE and the TLTRO programs, as well as decide on the main rate as well as the rediscount rate (used for TLTRO).

We expect 50bp cut of all rates. Further easing should be delivered via QE and TLTRO, while too aggressive rate cuts are tricky due to the risk of weaker PLN and fragility of some banks due to their CHF loans portfolio.

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