

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



Source: Flickr

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.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.