

## Poland's central bank cuts rates and raises implicit QE

After the extraordinary rate cut in March, Poland's central bank did their own version of 'whatever it takes' by cutting rates further by 50bp. They are also using unconventional measures via higher implicit QE, up to 8.4% of GDP. This is slightly negative for the currency



Source: Shutterstock

### Another rate cut and more QE

Poland's central bank decided to cut rates by 50 basis points with the main rate at 0.5%, depo at 0% and lombard at 1%.

We are forecasting a 4.5% year on year contraction in Polish growth, so expected only a 25bp rate cut in May or June, but the Council decided to frontload easing and pre-emptively deliver stimulus.

In March, the central bank delivered conventional easing with the 50bp base rate cut, slashing of the mandatory reserve which released PLN40bn of liquidity and unconventional measures including launching de facto quantitative easing and TLTROs.

*There is no explicit limit to Polish QE, as the central bank calls this an open market operation stabilising the yield curve and monetary transition. But in reality, this is quantitative easing*

Today, the central bank not only cut rates by another 50bp but also implied that Polish QE will be ramped up. Previously, the central bank was only purchasing Polish government bonds, but today the list of eligible instruments was extended to other bonds with state guarantees. That should support the new anti-crisis program call financial shield.

The Polish Development Fund should issue bonds funding the new program and those bonds should be bought by NBP.

There is no explicit limit to Polish QE, as the central bank calls this an open market operation stabilising the yield curve and monetary transition. But in reality, this is quantitative easing.

We estimate that NBP should buy up to PLN185bn bonds, including PLN 85bn of POLGBs (3.9%GDP) and new bonds with state guarantees (up to PLN100bn, ie 4.6% of GDP). The purchases of bonds with state guarantees depends on the new financial shield taken by companies, which is highly uncertain. In the extreme case, Polish implicit QE should reach 8.4% of GDP. This is quite high, as the Federal Reserve's first QE measures reached around 9% of GDP.

PLN should no longer outperform CEE FX as Polish monetary easing is more aggressive than elsewhere, this is also mildly negative for the currency.

## **The new anti-crisis program - loans convertible to subsidies worth of PLN100bn**

Apart from the easing by the central bank today, the government has announced a financial shield - a large programme of preferential loans to enterprises for a maximum of a three-year period. The program is worth PLN100bn, of which PLN25bn will be dedicated to microenterprises (zero-nine employees), PLN50bn to small and medium-sized companies (10-250 employees) and another PLN25bn to large enterprises. In the case of big companies, the state will be able to buy shares of the companies in trouble on market terms.

The loans will be disbursed via commercial banks with a simplified application path. However, only companies with decreasing turnover by more than 25% during Covid-19 period will be eligible. The loans will be subject to large forgiveness (up to 75%) provided that its beneficent companies maintain employment and operation for at least a year.

The funding for this loan program will be provided mainly by debt issued by PFR Group (Polish Development Fund) and purchased by NBP. In such a way it is possible to circumvent the constitutional limit for public debt (60% of GDP). However, the additional debt will be included in the EU definition of public debt. It will also raise the general government deficit for 2020 above 10% of GDP (how much exactly depends on Eurostat interpretation).

The popularity of the new program should determine the size of borrowing needs and central bank purchases of assets. The government assumes it should reach up to PLN100bn,

but the conditions attached will determine the uptake. A quarter of the program applies to big companies, where the Polish development fund exit from companies should be clearly stated, otherwise the popularity of the programme might be a bit low in this group.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Karol Pogorzelski

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto: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](http://www.ing.com).