Economic Comment

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Government's anti-crisis shield

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The government outlined the rescue package (the "Anti-crisis Shield") aimed at supporting the economy and countering the effects of the coronavirus. The total value of the programme was estimated at PLN212bn (c.9% of GDP), out of which PLN67bn represents actual public spending (about 3% of GDP), PLN75bn in government's liquidity support and PLN70bn in NBP liquidity support.

Most of the presented measures are needed and should help in reducing the negative effects of economic shock stemming from the Covid-19 disease. In particular, the actions protecting the employees / consumers, supporting companies, securing ample liquidity and stable financing deserve positive assessment. Of course there is always a question: will it be enough, or could the government do more? The government's "big bazooka" by no means looks excessive, contrary to what was suggested by the NBP Governor during the presentation. Compared to the programmes already announced by other European countries, its overall size is rather moderate (Germany, Spain: 15% of GDP, Italy 18%, France c.20%). Hopefully, it can be increased in future if the fallout from the virus-related disruptions proves more severe than expected.

Among the missing elements, we can point out the cancelation (or suspension) of the banking tax, or at least freezing it at a fixed level – to avoid penalizing banks for their balance sheet expansion, once they want to take advantage of additional guarantees and NBP's TLTRO to extend loans. Other potentially useful element would be the release of money from the companies' split-payment VAT bank accounts, which would improve firms' liquidity and help fight payment gridlocks.

The new investment fund worth PLN30bn, supposed to spend on infrastructure, schools and hospitals, digitalisation, energy transformation, environment, looks impressive (equalling c.66% of total investment spending in 2019), but it will be the instrument, which will start working later on, helping economy to recover after the country exits the lockdown. The idea is that it would offset the likely drop in private investments. The PM said the whole amount would come from new funds, not moved from the different pocket. It is hard to expect that the whole amount will be spent already this year, as infrastructure projects usually take time. Also, it is unclear whether this fund will be covered by the Stabilising Spending Rule (SSR) or excluded, as was recently the case with the Solidarity Fund.

In any case, the SSR will most likely have to be suspended temporarily (either by calling the state of emergency or by amending the law to allow its suspension due to coronavirus epidemics). The government's rescue package implies the deterioration of fiscal balance in 2020. Budget amendment seems unavoidable, but the government does not plan to do it before mid-year, when they will have more knowledge about the economic situation (especially that the FinMin still has a large liquidity cushion). If the spending goes up by over PLN60bn as suggested, tax revenues shortage amounts to cPLN30bn (assuming -3pp shock to real GDP), and some one-off revenues disappear (inflow from OFE transition fee probably postponed, possible lower inflow from CO2 auctions), the deficit could rise well above PLN100bn. However, at least part of this gap could be covered by the money from the EU's Coronavirus Response Initiative (€7.4bn allocated to Poland). Thus, budget borrowing needs could go up by c.PLN70bn. Higher debt supply will probably be absorbed mainly by domestic commercial banks. The start of government bond purchases by NBP should help in this regard. The NBP governor announced that the first operation will be held on Thursday, and the total scale of purchases will be "great", and quickly rising. He also hinted that the liquidity provision in repo operations will be potentially open-ended (the NBP "will do the repo with every bank", provide as much liquidity as needed).

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The main elements of the package are listed below:

1. Support for the labour market

Estimated total size: **PLN30bn** (PLN24bn in spending, PLN6.2bn in liquidity provision).

- Subsidizing wages: in companies, which see a 25% decline in sales over 30 days and record a loss, or see a 15% decline in sales over two months and record a loss in one month, if the firm does not cut jobs, employee's worktime may be reduced to 80%, the government will finance 40% of the wage (up to average wage – PLN4918.17 in 2019), and remaining 40% will be financed by the company. If the company is in outage it can limit worktime to 50%, cutting wages by 50% (but not below the minimum wage) and half of the wage plus employer's part of social contributions will be paid by the government (cost: PLN17bn).

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- People working on civil contracts and self-employed will be supported by one-off payment of PLN2000 (80% of minimum wage) if they are ousted (cost: PLN4.7bn).
- All the administration fees, tax and social contribution payments are postponed until the end of June.
- Extension of the child care benefit, if the school closure is prolonged (PLN8bn)
- Three-month credit payment vacation (no systemic solution, banks should be open to customers' requests and simplify procedures), and postponement of payments for utilities (also no systemic solution, based on suppliers' good will).
- Additional benefits for disabled people (PLN0.6bn).

2. Support for companies

Estimated size: **PLN74bn** (PLN5bn in government spending, PLN69bn in liquidity support).

- Extension of 'de minimis' guarantees for SME, limit increased to 80% of loan, which should allow to create PLN50bn of new loans;
- Micro-loans up to PLN5000 for small companies up to 9 employees (PLN1.2bn).
- Leasing for transport companies with 3-month delay of instalments (PLN1.7bn).
- KUKE offering new insurances and guarantees.
- Creditworthiness is to be checked by banks based on end-2019 company data.
- Deadlines in public contracts to be extended, no penalties.
- Postponement of social security contributions on request.
- Possibility to deduct 2020 loss from 2019 CIT declaration - PLN5.0mn limit for companies losing over 50% of sales (PLN0.6bn).
- More flexibility in working time.
- Introduction of obligatory Standard Audit File for Tax (JPK) postponed until July from April.

3. Support for the healthcare system

Estimated size: **PLN7.5bn**, all in spending

- Funding of new CoV-2 hospitals and equipment, more tests, information systems, transport of patients.

4. Security of the banking system

Estimated size: **PLN70bn** in liquidity.

A package of liquidity and capital measures in collaboration with NBP and Financial Supervision Authority (KNF), to secure deposits, payments, availability of cash. This includes the already announced central bank measures:

- Lowered reserve requirement, which released c.PLN40bn.
- Repo operations (estimated at c.PLN30bn, but the NBP governor clearly suggested it will be potentially unlimited support),

The size of the NBP's QE and TLTRO-like operations is not included in this amount.

Also, banks will be allowed to operate below capital and liquidity requirement thresholds in some cases, the regulator will allow more flexible approach to credit risk and market risk loss estimates and will lower capital adequacy ratios.

The KNF already published the set of supervisory measures, including:

- Changes in the rules of provisioning, allowing to exclude exposures vs small and micro firms and individuals in heavily affected sectors,
- Lowering of the systemic risk buffer, and possible lowering of O-SII buffer,
- Individual approach to LCR buffer.

5. Investment programme

Estimated size: **PLN30bn** in government spending.

- New PLN30bn fund for public investments will be created, focusing on local roads, schools, railroad, transformation of energy mix, environmental protection. This will be based on own, rather than EU funds.

Other issues:

Sunday retail trade and deliveries ban may be temporarily suspended (still under consideration).

Work permits for foreigners working in Poland will be prolonged/renewed automatically.

Several tax compliance and pension reforms planned for the year (including another stage in the introduction of Employee Capital Plans, PPK) will be postponed. OFE transformation could be also postponed until 2021.

The formal documents behind the package, draft of the special bill, should be presented later this week, and approved next week.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.