08 April 2020

Economic Comment

The shield reinforced

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Today the MPC lowered interest rates by 50bp (reference rate down to 0.50%), while the NBP asset purchasing programme was extended to include state-guaranteed bonds. Moreover, the government presented assumptions of the new lifeline programme assuming PLN100bn zero-interest loans for crisis-struck companies. About 60% of loans are meant to be converted into non-returnable subsidies, provided that companies meet certain criteria regarding employment numbers. The aim is to support Polish companies with cheap liquidity and to discourage them from layoffs. The programme is to be supervised by PFR (state-owned investment fund), and is to be financed by issue of state-guaranteed bonds. In our view such a structure means no negative impact on general government debt and deficit in 2020, while the non-returnable part (PLN60bn) should appear in debt statistics later on (possibly in 2021).

Another rate cut by the MPC

The Monetary Policy Council decided today to cut interest rates by 50bp, with the main rate now at 0.50% and the deposit rate at 0.00%. It has also decided to expand the QE program to cover government bills and state-guaranteed bonds. This will allow for financing of the Financial Shield, a new element of the government support package, which was announced soon after the MPC decision (see its description below). The MPC reminded in the statement that it will also launch a program of low-cost refinancing of bank loans to enterprises (the ECB's TLTRO on which this is based also covers consumer loans), however no details were given. After today's rate cut the cost of such refinancing is 0.55%.

The statement released after the decision read that the rate cut was supported by the risk of inflation falling below the target in the monetary policy impact horizon owing to weaker global economic activity, cheaper commodities (oil and some food goods) and sluggish internal demand. The statement did not suggest that the MPC is ready to cut further but there is no hint that this was the end of the easing cycle either. Our base case scenario is that rates will say on hold until the end of the year but the situation will surely depend on the upcoming data and scale of the recession the releases will imply.

PFR reinforcing the shield

During a joint conference by PM Morawiecki and NBP governor Adam Glapiński new tools supporting corporates financially have been announced. The name of the new package is Financial Shield and it is offering funds not included in the Anti-crisis Shield announced earlier. During the conference it was emphasised that the aim of the Financial Shield is to keep jobs, it was also added that it is a way to prevent takeovers by foreign companies. The whole new program of zero-interest loans worth cPLN100bn, or 4.5% GDP. The loans will have a tenor of 3Y and large part of them does not have to be paid back – provided that the corporate which took the loans would be able to provide jobs for the next 12 months. Up to PLN60bn of the total PLN100bn might not need to be paid back. The amount of the benefits, the instruments and other criteria to get these loans depend on the company size.

Micro companies – maximum value of the program PLN25bn, a company needs to record a drop of revenues by more than 25% due to the Covid-19 and they need to belong to the group that was required to suspend activity due to the pandemic (accommodation, gastronomy, hair and tattoo salons, beauty studios). Interest-free loan can be allocated only to cover costs of business, including wages. A single micro company can apply for up to PLN324k and the final amount will depend on the scale of revenues drop and employment. An additional non-returnable interest-free loan for maintaining the business for 12 months. All in all, up to 75% of the loan can the non-returnable. Loans will be disbursed by commercial banks.

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SME: maximum size of the programme PLN50bn; a company must show drop of monthly revenue >25%; amount of zero-interest rate loan dependent on the scale of sales drop: 4%, 6% or 8% of annual sales, no more than PLN3.5mn per firm. Non-returnable part dependent on the loss on sales, among others. Overall, up to 75% of loan can be non-returnable. Disbursement by commercial banks.

Large firms: maximum size of programme PLN25bn; condition is no delays in tax and contributions and two-year history of tax settlement in Poland. Zero-interest rate loan up to PLN750mn per firm. Non-returnable part dependent on the scale of loss on sales. Disbursement by the Polish Development Fund. In this segment also available: financing by loan or bonds up to two years, up to PLN1bn, and PFR's capital entry up to PLN1bn. Government assumed that non-returnable part in this segment may be 48% at max.

The implementation of the whole Financial Shield program rests on PFR. The fund is to gather financial means for the implementation from bond issuance. PFR chairman Paweł Borys confirmed that he wants to issue PLN100bn worth of 2Y, 3Y and 4Y papers in the course of the next 3-4 months in order to finance the new program, with the first tranche coming still in April. PFR bonds may then be purchased by NBP from the secondary markets (thanks to today's MPC decision to expand the NBP QE). Money obtained from the issuance will be used to support enterprises – the large ones directly by PFR and the microfirms and SMEs via commercial banks.

These bonds are to be repaid in 2022-2025. The equivalent of the support received by the enterprises in the form of loan redemptions (so up to PLN60bn or c.2.7% GDP) will be repaid with the help of the central budget money. The Financial Shield program will thus affect the GG deficit and debt statistics, but not in 2020 (Eurostat does not add state's contingent liabilities to public debt). As a large part of the loans is to be redeemed we do not exclude that Eurostat will add the redeemed part to public debt already in 2021, because the verification of conditions for redemption will be conducted after 12 months.

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