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Economic Comment

What we know so far about the “Polish SAFE 0%”

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The “Polish SAFE 0%” project, discussed on Wednesday by President Karol Nawrocki and NBP Governor Adam Glapiński, has not been explained in detail. Based on the available information, we are not certain what the mechanism guaranteeing PLN185bn in financing would look like, how it would avoid interest and debt, and how it would operate (at least in the initial phase) within the existing legal framework. The variants we are able to envisage could be seen as a de facto attempt to circumvent regulations prohibiting the central bank from financing government deficits, carrying inflationary risks as well as risks to the credibility of the central bank.

President Nawrocki did not answer directly whether, in connection with his own proposal, he would sign the government's SAFE bill, but his statement that the “Polish SAFE 0%” project is a decidedly better alternative suggests a risk of a veto. Earlier statements by government representatives indicated that even in the event of a presidential veto, Poland would still activate funds from the European SAFE loan. The government's position on the new proposal is not yet known.

President Karol Nawrocki and NBP Governor Adam Glapiński discussed on Wednesday a solution they referred to as “Polish SAFE 0%”. During the afternoon press conference, no details of this mechanism were presented. We know little, but let us try to summarise all the facts we learned from the statements of the President and the NBP Governor:

- According to the President, this is to be a project “that will guarantee PLN185bn with no interest attached” and “will not be linked to credit”, with “investments and the purchase and accumulation of gold by the NBP” helping to achieve this.
- The mechanism requires the consent of the President of the Republic of Poland, the initiative and approval of the NBP Governor, as well as the involvement of the Polish government.
- The proposal assumes that implementation should “start with what is possible under the current legal system”, but the NBP has ready ideas to expand financing options, which would require legislative changes.
- If necessary, the Chancellery of the President will submit a legislative initiative.
- The NBP Governor ruled out the use of foreign exchange reserves to finance the programme “in the sense that part of the reserves would be transferred, because that would be against the law”.
- He also ruled out “a repetition of the mechanism we used to support the Polish state during COVID-19 and Russian aggression”.
- He said that the time would come to present the details of the solution, but pointed out that 95% of NBP profits are transferred to the government “and are used for a specific purpose (...) in this case, to strengthen Poland's defence”.
- He added that “the funds that are created will be transferred, as required by law, to the government or to the Armed Forces Support Fund”.
- The project had not been consulted with the government in advance; the President was only to send an invitation for a meeting on the matter to the Prime Minister and the Minister of Defence later that evening.
- The President has no doubts that the “Polish SAFE 0%” project is better for the Polish Armed Forces than the European SAFE – “it is a decidedly better alternative”.

Based on this information, we are unable to say what the mechanism would look like that “guarantees” PLN185bn, involves no interest or credit, and operates within the existing legal framework.

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Given that references were made during the press conference to NBP gold purchases as well as to the possibility of transferring NBP profits to the budget, one of the first hypotheses that comes to mind is an operation that would allow the realisation of profits from accumulated gold reserves. Under the current legal framework, this could occur if the NBP decided to sell gold on the market.

This hypothesis, however, raises several doubts. At a press conference in January this year, the NBP Governor stated: "If we wanted to sell the gold purchased during my two terms – which is absolutely out of the question, as it is a strategic asset – we would make PLN115bn on it." First, therefore, until recently Adam Glapiński completely ruled out any depletion of gold and foreign exchange reserves in general (stating, among other things, that reserves are very large, but "it would not hurt if they were even larger"). This is not, of course, a decisive argument – views can change, and it is also possible that the central bank could sell gold only temporarily and then repurchase it, thereby not reducing the target level of reserves while still recognising an accounting profit. Second, and perhaps more importantly, the value of the NBP's unrealised gains on gold appears too low to "guarantee" financing of PLN185bn. Even if all the gold reserves were sold, the amount would be insufficient. Some time ago, regulations stipulated that if the central bank had recorded financial losses in previous years (which — as reported by the NBP itself — could have approached PLN100bn by the end of 2025), then once a profit emerged it should first replenish the so-called reserve fund. However, an MPC resolution from 2019 changed the accounting rules, abolishing this requirement.

A separate issue is that selling (and repurchasing?) 550 tonnes of gold without triggering a significant price reaction on the market would likely require the operation to be spread over a long period. Moreover, the earliest possible moment for transferring NBP profits to the budget would be mid-2027. Meanwhile, statements by the NBP Governor at the press conference suggested that the effects of the planned actions would be visible "immediately".

According to information from WP.pl, in addition to selling gold, the generation of an accounting profit through a revaluation of the gold held by the NBP may also be considered. This would, however, require changes to regulations and therefore – as we understand it – would not fall within the scope of actions initially based on the current legal framework. Moreover, this solution also runs into the need to cover the NBP's losses from previous years.

WP.pl also reports that another option under consideration is the issuance of bonds to FIZB (a new fund servicing defence expenditures), which would then be purchased by the NBP on the secondary market. This would, however, be a solution closely resembling the one used in 2020–21, which appears inconsistent with Governor Glapiński's statement at Wednesday's press conference. It is also not consistent with the declaration that the new mechanism will not involve interest.

Incidentally, even a solution based on transferring profits generated from NBP reserves to the budget would be difficult to describe as "0%", because the additional money supply generated in this way would need to be sterilised by the central bank, generating open market operation costs proportional to the level of interest rates.

Among other hypothetical options that appeared in yesterday's public debate were some form of loan secured, for example, by gold reserves, or guaranteed by the NBP. Such solutions, however, do not appear to be consistent either with the existing law prohibiting the central bank from financing government deficits, or with President Nawrocki's declaration that they would not involve interest or credit.

In summary, it is difficult to clearly identify a solution that would replace the European SAFE loan while meeting the criteria set out at yesterday's press conference by President Nawrocki and Governor Glapiński. We therefore need to wait for the publication of more detailed information. The options we are able to envisage carry inflationary risks as well as risks to the credibility of the central bank (as a de facto circumvention of regulations prohibiting the central bank from financing government deficits). President Nawrocki did not answer directly whether he would sign the government's SAFE bill in connection with his own project, but his statement that the "Polish SAFE 0%" project is a decidedly better alternative suggests a risk of a veto. Earlier statements by government representatives indicated that even in the event of a presidential veto, Poland would activate funds from the European SAFE loan. The government's position on the new project is not yet known.

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