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Manuel Leon Hoyos
Yale University

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Polish Guarantee Scheme[1]

Manuel León Hoyos[2]

Yale Program on Financial Stability Case Study
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Abstract

Faced with the global financial crisis of 2007–2009, Poland implemented a scheme of State support for financial institutions. In view of a potential global credit crunch, it aimed at improving short- and medium-term liquidity of domestic financial institutions. The scheme came into force on March 13, 2009, and was approved by the European Commission under European Union State Aid rules on September 25, 2009. The scheme enabled the Ministry of Finance, on behalf of the State Treasury, to provide support in the form of Treasury guarantees on newly issued bank debt and the exchange of Treasury bonds for less liquid assets. This case exclusively examines Treasury guarantees on debt securities. Initially, only domestic banks, including subsidiaries of foreign financial institutions, could apply for guarantees. In 2011, eligibility was expanded to include cooperative savings and credit institutions and the National Cooperative Savings and Credit Institution. An initial overall cap was set at PLN 40 billion ($13.7 billion) before being raised to PLN 160 billion in 2012. The European Commission approved 19 prolongations of the scheme—the last in December 2018. No institutions applied for coverage and the issuance window expired on May 31, 2019.

Keywords: Poland, financial crisis, financial institutions, State aid, guarantee, liquidity

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to bank debt guarantee programs.

Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

[2] Manuel León Hoyos – Research Associate, YPFS, Yale School of Management.

Polish Guarantee Scheme

At a Glance

Faced with the 2007–2009 global financial crisis, Poland implemented a scheme of State support for financial institutions. In view of a potential global credit crunch, it aimed at improving short- and medium-term liquidity in the interbank market. The scheme came into force on March 13, 2009, and was approved by the European Commission, consistent with European Union State Aid rules, on September 25, 2009.

Summary of Key Terms	
Purpose: To facilitate short- and medium-term liquidity in the interbank market to solvent financial institutions in Poland.	
Announcement Date	November 30, 2008
Operational Date	March 13, 2009
Date of First Guaranteed Loan Issuance	N/A
Issuance Window Expiration Date	Initially December 31, 2009; after 18 extensions: November 30, 2018
Program Size	Initially PLN 40 billion ($13.7 billion); increased in 2012 to PLN 160 billion
Usage	None
Outcomes	N/A
Notable Features	Required participants to provide the government with collateral

The scheme enabled the Ministry of Finance, on behalf of the State Treasury, to provide support to solvent financial institutions in the form of Treasury guarantees on newly issued bank debt.

Initially, eligibility for Treasury guarantees was restricted to domestic banks, including subsidiaries of foreign financial institutions. In 2011, guarantees were expanded to include cooperative savings and credit institutions and the National Cooperative Savings and Credit Institution.

An initial overall cap was set at PLN 40 billion ($13.7 billion) before being increased to PLN 160 billion in 2012. Treasury guarantees were limited to newly issued commercial bank senior debt. Eligible maturities ranged from three months to three years (and, in special cases, five years). Fees varied based on the maturity of the debt and soundness of the issuing bank or institution.

The European Commission approved 19 prolongations of the scheme of six months each (the last one in December 2018). No institutions applied for coverage and the issuance window expired on May 31, 2019.

Summary Evaluation

There has been little formal evaluation of the Polish program. Polish authorities have stated their belief that it has contributed to the stability of the financial sector.

Polish Guarantee Scheme: Poland Context	
GDP **(SAAR, Nominal GDP in LCU converted to USD)**	$431.2 billion in 2007 $540.4 billion in 2008 *Source: Bloomberg*
GDP per capita **(SAAR, Nominal GDP in LCU converted to USD)**	$11,255 in 2007 $14,001 in 2008 *Source: Bloomberg*
Sovereign credit rating **(5-year senior debt)**	As of fourth quarter, 2007: Fitch: A Moody's: A2 S&P: A As of fourth quarter, 2008: Fitch: A Moody's: A2 S&P: A *Source: Bloomberg*
Size of banking system	$193.4 billion in total assets in 2007 $294.8 billion in total assets in 2008 *Source: Bloomberg*
Size of banking system as a percentage of GDP	44.9% in 2007 54.6% in 2008

	Source: Bloomberg
Size of banking system as a percentage of financial system	Data not available for 2007/2008
5-bank concentration of banking system	56.7% of total banking assets in 2007 51.4% of total banking assets in 2008 *Source: World Bank Global Financial Development Database*
Foreign involvement in banking system	76% of total banking assets in 2007 78% of total banking assets in 2008 *Source: World Bank Global Financial Development Database*
Government ownership of banking system	Data Not Available for 2007 17% of banks owned by the state in 2008 *Source: Call et al. "Bank Ownership: Trends and Implications"*
Existence of deposit insurance	Up to $25,568 in 2003 Up to $133,333 in 2010 *Source: World Bank Deposit Insurance Dataset*

I. Overview

Background

The 2007-2009 global financial crisis (GFC) restricted liquidity to financial institutions around the world as confidence in counterparties weakened. Poland was the only European Union (EU) member state not to face recession in 2009 (IMF 2010). However, given Poland's links within the EU, along with the fact that the majority of the banks in Poland are subsidiaries of EU entities, the Polish financial sector remained exposed to financial risks.

On November 30, 2008, to strengthen Poland's economy in view of a potential global credit crunch, the government of Poland announced the "Stability and Development Plan" (*Plan Stabilności i Rozwoju*) consisting of a series of anti-crisis initiatives totaling PLN 91.3 billion ($32.2 billion)[3] (National Bank of Poland 2009). Some of the initiatives included:

1) Stimulating both consumption and investment by providing tax cuts and speeding up investments co-financed with EU funds.

2) Maintaining liquidity of financial institutions by facilitating Treasury guarantees on newly issued bank debt and the exchange of Treasury bonds for less liquid assets.

3) Ensuring sustainability in public finances by limiting the size of the budget deficit.

4) Strengthening small- and medium-size enterprises by facilitating loans.

5) Alleviating distress of the unemployed by providing assistance on mortgage payments.

In addition to the Plan, the Polish government:

1) Established the Financial Stability Committee, composed of the Ministry of Finance, the National Bank of Poland, and the Polish Financial Supervision Authority.

2) Increased deposit insurance from € 22,500 to € 50,000.

3) Adopted an "Anti-Crisis Package" negotiated with labor unions and employers aimed at preserving employment. The package contained measures such as wage subsidies, flexible working hours, the elimination of certain taxes, and increases in the minimum wage.

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[3] The November 2008 monthly average exchange rate was $1 = PLN 2.92.

As envisioned in the Plan, on February 12, 2009, the Parliament of Poland passed an act "on provision of support by the State Treasury to financial institutions," which aimed to reinforce the stability of Polish financial markets.[4] The Polish president signed the bill on February 25, 2009, and the support scheme (or Law on Support) came into force on March 13, 2009. The European Commission (EC) approved it on September 25, 2009, as consistent with EU State Aid rules.[5]

The scheme enabled the Ministry of Finance, on behalf of the State Treasury, to facilitate the short- and medium-term financing needs of solvent institutions by providing support in the following forms:

1) A 50% Treasury guarantee on the repayment of refinancing loans provided to banks by the National Bank of Poland.
2) A Treasury guarantee on loans and credit lines provided to banks by credit institutions for purposes of maintaining liquidity ratios.
3) A Treasury guarantee on debt securities issued by eligible credit institutions.
4) The sale of Treasury bonds to institutions for delayed payment or payment in installments.
5) The lending of Treasury bonds to institutions.

This case focuses exclusively on the Treasury guarantee of debt securities.

Program Description

Under the terms of the scheme, the Ministry of Finance, on behalf of the State Treasury, would guarantee the institutions' new issuance of debt in exchange for a fee and collateral. The guarantees included only commercial bank senior debt and explicitly excluded subordinated debt. There were no currency restrictions (European Commission 2009). The issuance window was restricted by the European Commission to a period of six months. In order to extend the issuance window, the Polish government was required to submit prolongation plans to the EC for approval (European Commission 2009).

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[4] *Journal of Laws*, No. 39, item 308.
[5] The scheme contained EU State Aid elements compatible with the EU common market as "necessary to remedy a serious disturbance in the Polish economy" within the meaning of Articles 107(1) and 107(3)(b) of the Treaty of Functioning of the European Union (TFEU) .
The European Commission received notification of the scheme on April 7, 2009. On May 15, the Commission requested additional information from Poland. On June 8, Polish authorities requested a deadline extension, which was approved on June 12. Poland provided additional information on June 26. On August 19, the Commission requested further information which Poland provided on September 11.

Treasury guarantees covered debt with maturities ranging from three months to three years. Only in special cases could maturities of up to five years be guaranteed. Debt guaranteed by the State Treasury with maturities exceeding three years was restricted to a maximum of one-third of the value of all guaranteed debt of the particular beneficiary (European Commission 2009).

The overall cap for the scheme in State Treasury guarantees was initially set to PLN 40 billion[6] and increased to PLN 160 billion in 2012[7] (European Commission 2012a). There were no individual caps on a given bank's participation.

Participation in the scheme was voluntary and guarantees were available only to institutions that met Polish capital and solvency requirements. Initially, only domestic banks, including subsidiaries of foreign financial institutions, could apply for guarantees. In 2011, eligibility was extended to include cooperative savings and credit institutions and the National Cooperative Savings and Credit Institution (NCSCI) (European Commission 2011).

The terms of the guarantee fees were not addressed in the Law on Support. The initial fees were based on the 2008 European Central Bank Recommendations (European Central Bank 2008) and tied to banks' credit default swap (CDS) spreads.

In 2010, the fees were increased. The European Commission stated that downgrades in banks' credit statuses since 2008 were not taken into account in the existing fee structure. Therefore, the EC ordered that fees be brought closer to market conditions reflecting individual banks' creditworthiness. This required the fees to be increased by at least 20 basis points (bps) for banks with the rating of A-plus or A; 30 bps for banks rated A-minus; and 40 bps for banks rated below A-minus. Banks without rating would be considered to belong to the category of banks with a triple-B rating (European Commission 2010 and 2010a).

From 2012, the government of Poland provided a table with estimated indicative fees for eligible financial institutions based on a formula provided in the 2011 Prolongation Communication and using recent market data. (European Commission 2012 and Appendix A).

For institutions that defaulted on their liabilities or had their guarantees called, Polish authorities committed to file individual restructuring or liquidation plans within a period of six months (European Commission 2009).

Poland also committed to behavioral safeguards such as a ban on advertisements or any aggressive commercial strategies referring to the State support. Polish authorities indicated

[6] According to the State budget adopted for 2009, the limit of all State Treasury guarantees (including outside of the scheme) was PLN 40 billion.
[7] The Polish budgetary law for 2012 increased the total limit for State Treasury guarantees to PLN 200 billion. This gave justification for an increase in the budget available under the scheme.

that they would consider further restrictions during the guarantee period such as on dividend payments, bank executives' severance packages, bonus payments, wage increases, and board remuneration (European Commission 2009).

Outcomes

Originally, the issuance window of the scheme was set to expire on December 31, 2009. The European Commission approved 19 prolongations of the scheme for six months each, with the last one in December 2018 (see Appendix B). No institution applied for coverage under the scheme and the issuance window expired on May 31, 2019 (European Commission 2018 and 2018a).

II. Key Design Decisions

1. **The Treasury guarantees for newly issued debt was one component of a scheme of State support introduced in March 2009.**

On November 30, 2008, in response to the global financial crisis, the government of Poland announced the "Stability and Development Plan," which consisted of a series of anti-crisis initiatives totaling PLN 91.3 billion.

As envisioned in the Plan, the scheme of government support to financial institutions came into force on March 13, 2009. The scheme enabled the Ministry of Finance, on behalf of the State Treasury, to provide support in the following forms:

1) A 50% Treasury guarantee on the repayment of refinancing loans provided to banks by the National Bank of Poland.

2) A Treasury guarantee on loans and credit lines provided to banks by credit institutions for purposes of maintaining liquidity ratios.

3) A Treasury guarantee on debt securities issued by eligible credit institutions.

4) The sale of Treasury bonds to institutions for delayed payment or payment in installments.

5) The lending of Treasury bonds to institutions.

2. **The Act of February 12, 2009, on the State Treasury, passed by the Polish Parliament, established the scheme.**

The Parliament of Poland passed the Act on the Provision of Support by the State Treasury to Financial Institutions on February 12, 2009 (Journal of Laws, No. 39, Item 308, as

amended). The Polish president signed the bill on February 25, 2009, and the scheme came into force on March 13, 2009.

3. In accordance with EU State Aid rules, implementation of the scheme required European Commission approval.

Poland notified the European Commission of the scheme on April 7, 2009. The Commission approved the scheme on September 25, 2009, and later approved 19 prolongations—the last one in December 2018. As discussed in more detail in numbers 10 and 12 below, the need to structure the guarantee scheme in such a way as to ensure EC approval significantly influenced the design of certain program features.

4. An initial overall cap of PLN 40 billion was set for guarantees before being raised to PLN 160 billion in 2012.

Program documents did not provide a specific rationale for these cap figures.

5. Initially, eligibility to apply for Treasury guarantees was restricted to domestic banks, including subsidiaries of foreign financial institutions.

Polish authorities indicated that this eligibility standard was established "to give special treatment to banks since they conduct operations consisting mainly of acceptance of deposits and granting loans, which are considered to be activities with pivotal importance for the correct functioning of the economy" (European Commission 2009).

In 2011, Treasury guarantees became accessible to cooperative savings and credit institutions and the National Cooperative Savings and Credit Institution. Under EU law, cooperative savings and credit institutions constitute credit institutions. Polish authorities stated that these institutions provide services similar to banks and recent changes in domestic legislation had increased their significance. The greater supervision allowed them to issue bonds.

Polish authorities agreed to make sure that eligible financial institutions fulfilled adequate legal provisions such as concentration limits, value of net assets, solvency margin, and maintenance of a liquid reserve.

6. Treasury guarantees were limited to commercial bank senior debt.

Program documents explicitly excluded subordinated debt.

7. Debt with maturities ranging from three months to three years (and, in special cases, five years) could be issued with Treasury guarantees.

These maturity restrictions were consistent with the guarantee maturities generally viewed as acceptable by the European Commission.

8. The scheme had no currency restrictions.

Program documents did not contain any restrictions on the currencies that were eligible under the scheme.

9. There were no individual caps on a given bank's participation.

Program documents did not contain any limits on the amount of an individual institution's participation in the scheme.

10. The fees for guarantees varied based on the maturity of the debt and the soundness of the issuing bank or institution.

The terms of the fees were not addressed in the Polish Law on Support but were based on the 2008 European Central Bank recommendations (European Central Bank 2008).

For short-term debt with maturities of less than or equal to one year, the fee was an overall flat fee of 50 basis points, paid ex ante.

For medium-term debt with maturities exceeding one year, the fee was equal to an add-on fee of 50 basis points, plus the following:

1) A fee based on the bank's CDS spreads.

2) For banks without CDS data but with a credit rating, an equivalent CDS spread would be derived from the rating category of the bank, based on a representative sample of euro-area banks.

3) For banks without CDS data and without a credit rating, an equivalent CDS spread would be derived from relevant data from the lowest rating category (but not lower than single A), based on a representative sample of euro-area banks.

In 2010, the European Commission increased the fees in view of downgrades in the credit worthiness of banks. These were increased by at least 20 basis points for banks with the rating of A-plus or single A; 30 basis points for banks rated A-minus; and 40 basis points for banks rated below A-minus. Banks without rating would be considered to belong to the category of banks with a triple-B rating.

From 2012, Poland provided a table with indicative fees (estimates) for eligible financial institutions based on the formula provided in the 2011 Prolongation Communication and using recent market data (see Appendix B).

11. Financial institutions had to provide adequate collateral together with the fee in order to participate.

Collateral had to cover the full amount of the support including interest. Additional collateral would be needed if the collateral provided decreased in value or did not cover the entire amount of the liability and incidental receivables

12. Polish authorities agreed to ban advertisements referring to the support provided by the State Treasury.

Guidance issued by the European Commission in October 2008 on the creation of credit guarantee programs called for the inclusion in programs of a set of safeguards "to minimize . . . distortions and the potential abuse of the preferential situations of beneficiaries brought about by a State guarantee" and "to avoid moral hazard." This guidance did not specify exactly what safeguards a program should include, but required "an adequate combination" of elements including restrictions on advertising based on the guarantee, balance sheet growth, share buybacks and executive compensation (European Commission 2008).

Poland committed to such behavioral safeguards as a ban on advertisements or any aggressive commercial strategies referring to the State support. Polish authorities indicated that if banks utilized the guarantee, they would consider further restrictions during the guarantee period such as on dividend payments, wage increases, bonus payments, board remuneration and bank executives´ severance packages. These safeguards were designed to help ensure that participating institutions did not misuse the State support to expand their activities.

13. The issuance window for the scheme was initially December 31, 2009. After 19 prolongations of six months each, the window expired on May 31, 2019.

In their requests for extensions, Polish authorities maintained that prevailing market conditions would not allow for the termination of the scheme without jeopardizing Poland's financial stability.

III. Evaluation

There have been no formal evaluations of the scheme. Even if no institution applied for coverage under the scheme—and ultimately, none did—Polish authorities stated from the outset that "[the scheme] should remain in place as it has a positive effect on credit institutions and their clients. More specifically, it ensures stability of the Polish financial sector, which still faces the increased volatility of global financial markets and the uncertainty related to the extent and pace of the economic recovery. Therefore, in order to avoid any negative spill-over effects to the financial sector, the scheme should remain available" (European Commission 2010b).

The European Commission indicated that "even if the scheme has not been put into effect so far, the Commission would accept that the existence of the schemes without banks actually

making use of it contributes to the stability of the financial markets because it provides a safety net for the financial sector by ensuring the access to liquidity in case of urgency" (European Commission 2009).

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VI. Appendixes

Appendix A: Fees

- An indicative fee (estimate) for guarantees covering debt with a maturity of one year or more for financial institutions envisaged, given certain conditions, to be eligible for the scheme, based on an application of the formula indicated in point 11 using recent market data.[13]

A. For the banks with an external rating

Bank name	Guarantee fee (in bp)
Powszechna Kasa Oszczędności Bank Polski SA – PKO BP S.A.	[70-90]*
Pekao Bank Hipoteczny S.A.	[70-90]
ING Bank S.A.	[70-90]
Getin Noble Bank S.A.	[90-110]
Credit Agricole Bank Polska S.A.	[90-110]
BRE Bank Hipoteczny S.A	[90-110]
Bank Zachodni WBK S.A.	[70-90]
Bank Ochrony Środowiska S.A.	[90-110]
Bank Gospodarstwa Krajowego	[70-90]
Bank Gospodarki Żywnosciowej S.A.	[90-110]
Bank BPH S.A.	[90-110]
Bank Millennium	[90-110]
Kredyt Bank S.A.	[70-90]
BRE Bank S.A.	[70-90]
Bank Handlowy w Warszawie S.A.	[70-90]
Bank Polska Kasa Opieki SA-Bank Pekao S.A.	[70-90]

B. For the banks without any external rating or CDS data

An indicative fee (estimate) for financial institutions, which are not listed in the table above and which do not have any CDS data or an external credit rating, calculated in line with the 2011 Prolongation Communication was determined to be [90-110] **bp.**

Source: European Commission 2012

Appendix B: EC Approvals of Prolongations of the Scheme

The European Commission declared the prolongations compatible with the TFEU.

Status	**Date of Approval**	**State Aid Case**
Scheme	September 25, 2009	N208/2009
1st Prolongation	February 9, 2010	N 658/2009
2nd Prolongation	June 29, 2010	N 236/2010
3rd Prolongation	December 16, 2010	(SA.31923) N 533/2010
4th Prolongation	June 28, 2011	(SA.33008) (SA.32946)
5th Prolongation	February 8, 2012	(SA.34081)
6th Prolongation	July 9, 2012	(SA.34811)
7th Prolongation	January 29, 2013	(SA.35944)
8th Prolongation	July 23, 2013	(SA.36965)
9th Prolongation	February 3, 2014	(SA.38023)
10th Prolongation	July 29, 2014	(SA.39015)
11th Prolongation	January 27, 2015	(SA.40096)
12th Prolongation	August 24, 2015	(SA.42560)
13th Prolongation	February 1, 2016	(SA.43924)
14th Prolongation	July 1, 2016	(SA.45575)
15th Prolongation	December 19, 2016	(SA.46871)
16th Prolongation	July 5, 2017	(SA.48227)
17th Prolongation	December 7, 2017	(SA.49404)
18th Prolongation	July 11, 2018	(SA.51235)
19th Prolongation	December 6, 2018	(SA.52481)

Source: Compiled from European Commission State Aid Case Register

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