

# Debt Alert

Credit and debt capital  
markets overview

4th Quarter 2023

# Commentary on the Polish corporate debt market in the fourth quarter of 2023



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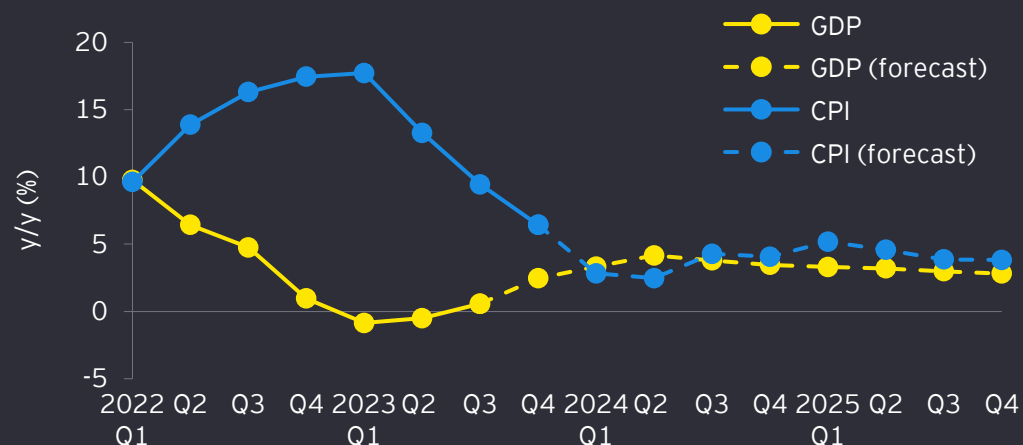
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- ▶ In 2024, as interest rates continue their downward trend we are likely to see renewed interest in financing corporate investments with debt.
- ▶ Low levels of corporate debt, observed in particular in the second half of 2023, were a result of high cost of debt and the tighter lending policy of banks.
- ▶ Monetary Policy Council started the cycle of interest rate cuts at the end of Q3 2023, continuing the trend in Q4 and reducing the reference rate to 5.75%.
- ▶ In addition, the economy and investment should be driven by transformational activities. In light of Russia's invasion of Ukraine, renewable energy projects have become even more important.
- ▶ Taking into account this perspective and the growing social awareness in the area of ESG, the number of transformation projects correlated with the implementation of specific ESG goals is also increasing.
- ▶ In this area, the appetite and product offering of financing institutions is also increasing, as they are obliged to increase financing classified as green or ESG-linked in accordance with the regulations.

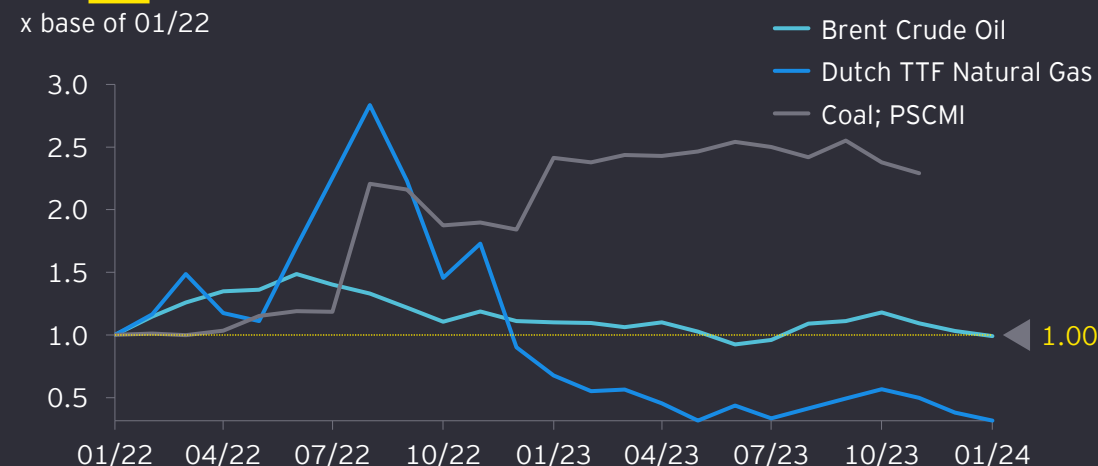
# Macroeconomic Outlook

Poland's economy is growing and inflation will temporarily return to the NBP's target

## Poland's real annual GDP growth and CPI inflation



## Raw energy prices



- ▶ In the second half of 2023, the Polish economy entered a recovery phase thanks to a rebound in consumption and a further acceleration in investment growth - GDP increased by 0.5% y/y in Q3 2023, and 1.0% y/y in Q4. At the same time, the inflation rate maintained its downward trend.
- ▶ The economic situation is expected to improve further in the coming quarters. Real incomes and consumption will rise strongly on the back of continued rapid wage growth amid lower inflation and loose fiscal policies, including increased social transfers and higher public sector wages.
- ▶ Forecasts suggest that inflation will temporarily fall to 2.5% in Q2 2024, but base effects, an increase in VAT on food and the unfreezing of energy prices will cause a rebound towards 5.2% in Q1 2025
- ▶ In 2023, the prices of the main energy commodities except coal have normalised and now have a negative or neutral impact on inflation, e.g. TTF gas prices are now 68% lower than in January 2022,
- ▶ In Poland, PSCMI coal prices continued to rise, stabilizing at a level 2.3x higher at the turn of Q4 2023 and Q1 2024, compared to January 2022.

# Monetary and Fiscal Policies

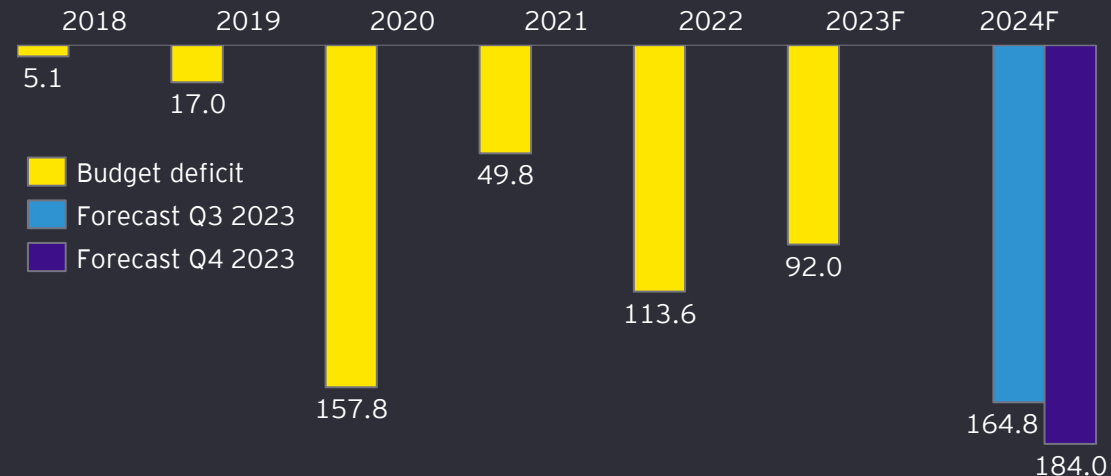
The Polish government plans to increase the deficit, at the same time the NBP is expected to keep interest rates at current levels

## NBP reference rates



- ▶ After a 75 bps rate cut in September, the Monetary Policy Council decided in October to cut rates by 25 bps to 5.75%.
- ▶ At recent meetings, the MPC has communicated its transition to "wait and see" mode, pointing to the uncertainty regarding inflation and making its decisions dependent on incoming information on inflation and the economy.
- ▶ According to forecasts, interest rates are expected to remain unchanged until the end of 2024. In the coming years, slight reductions in the reference rate towards 5% are possible.

## Polish budgetary deficits (PLN bn)



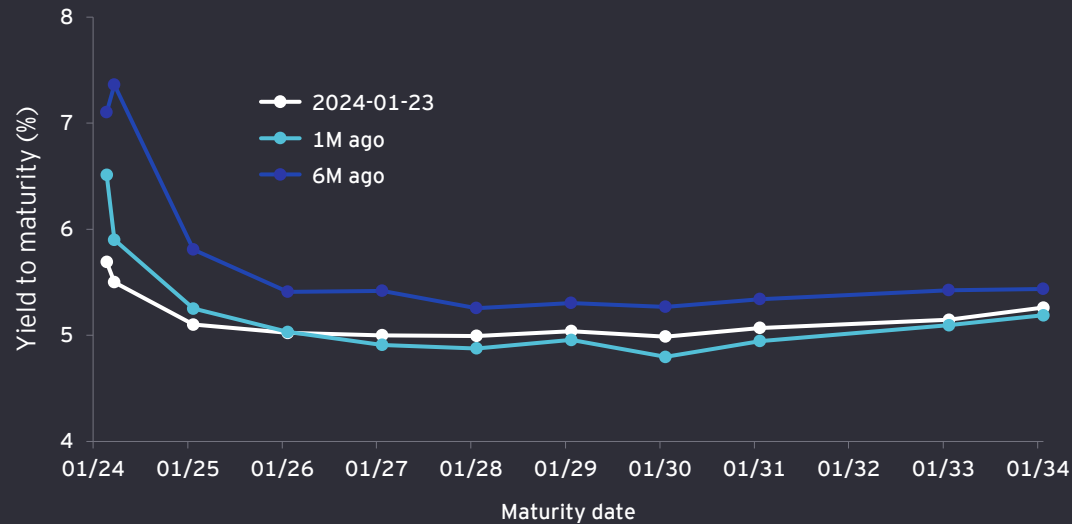
- ▶ The inflation risks mentioned by the MPC relate mainly to uncertainty related to the impact of fiscal and regulatory policies (including the restoration of the reduced VAT rate on food in 2020), as well as elevated nominal wage growth due to wage increases in the public sector.
- ▶ In December 2023, the S&P rating agency affirmed its "A-" and "A" ratings for foreign and domestic currency liabilities. In November 2023 Fitch also affirmed its 'A-' rating with a stable outlook for long-term foreign currency liabilities.



# Cost of Debt

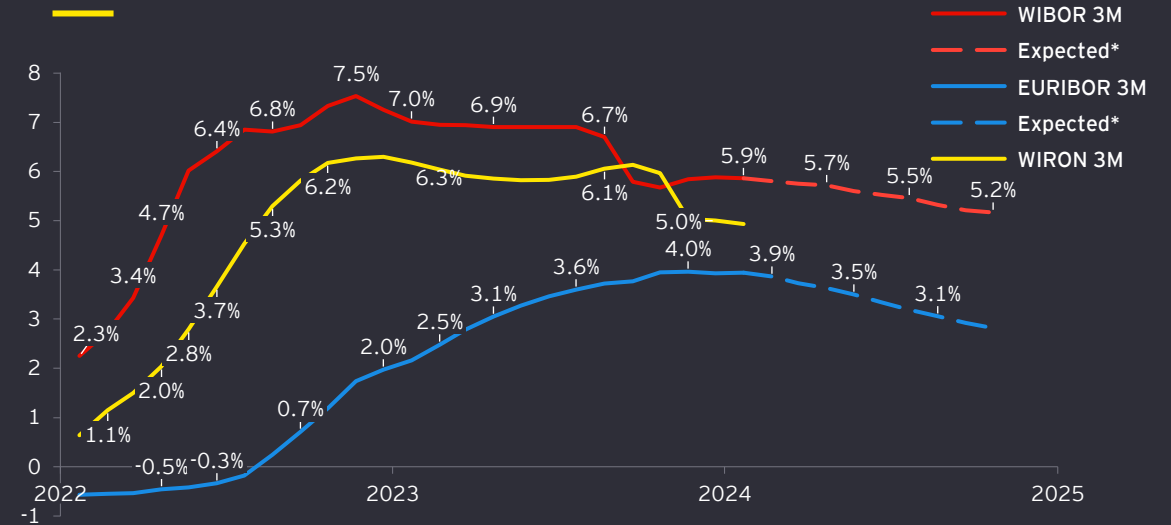
The expected stabilization of monetary policy in Poland and a decline in inflation expectations coincide with the growing prospect of interest rate cuts in the Eurozone

## Yields to maturity on Polish government bonds



- ▶ Compared to six months ago, yields on Polish treasury bonds have fallen and the yield curve has flattened, which indicates a decline in inflation expectations.
- ▶ In the euro zone, expectations for interest rate cuts increased, which was related to a faster-than-expected decline in inflation amid continued economic stagnation.

## WIBOR 3M vs WIRON 3M vs EURIBOR 3M



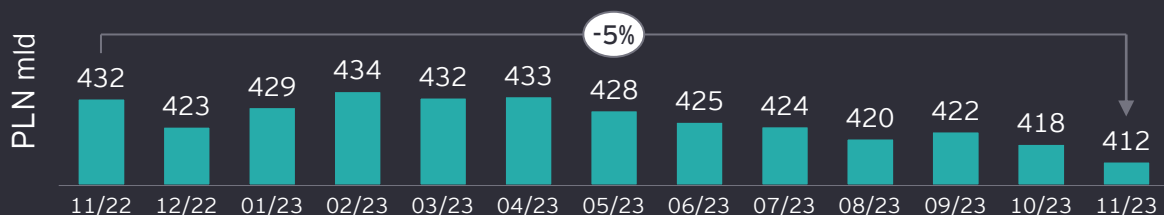
\*Based on FRA contracts from 08.02.2024

- ▶ In Q4 2023, there was a noticeable fluctuation in the expectations concerning interest rates, in part due to the Monetary Policy Council's shift towards monetary easing. Currently, expectations have stabilized at around 5% by the end of 2024.
- ▶ In 2024, investors expect the ECB to cut interest rates by 110 basis points, with the first cut already in April.

# Polish Loan Market

Corporates in the non-financial sector in Poland have been steadily deleveraging over the past year

## Gross debt value - (non-financial) corporates in Poland



- ▶ At the end of November 2023, Polish non-financial corporations recorded a decrease in financial liabilities by PLN 20 billion y/y, which translated into a 5% decrease in debt compared to November 2022.
- ▶ On the debt market, in Q4 2023, due to the tightening of the criteria for granting loans to corporates by banks, the downward trend in the value of corporate debt continued.
- ▶ Lower corporate debt and expected lower interest rates in the second half of 2024 should lead to increased interest in debt financing among companies over time.

## Selected reported corporate loan deals signed in Q4 2023:

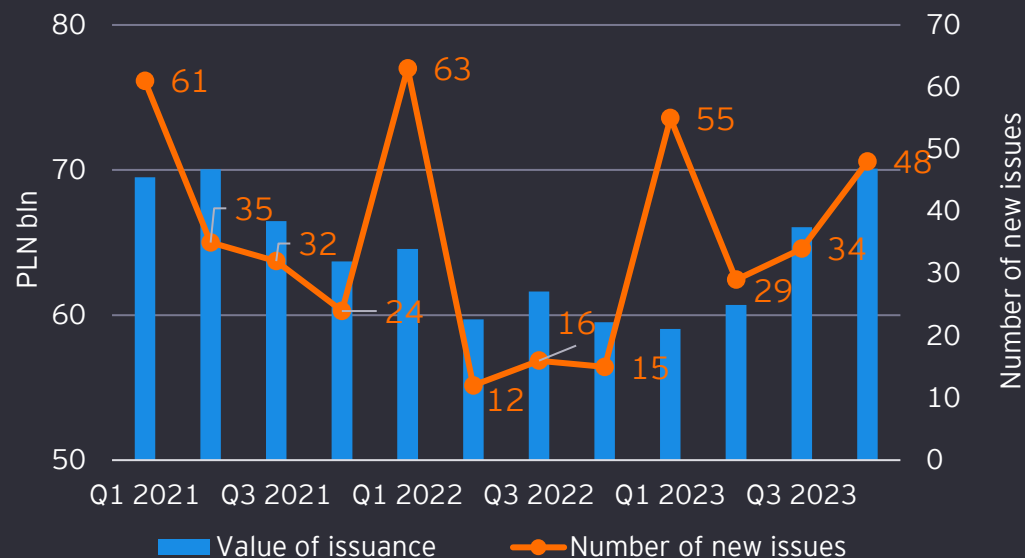
Borrower	Deal value (m)	Signing date	Use of Proceeds
Onde	PLN 65.1	12.2023	mBank granted two loans - a construction loan and a revolving loan - to subsidiaries Onde SA, SPV Czerwona Woda and Invest PV to finance the construction of two photovoltaic farms with a total capacity of 18.72 MW.
Grupa Polsat Plus	PLN 800	11.2023	BGK, PKO BP, mBank and Santander have signed a consortium agreement with Great Wind, a member of Polsat Plus Group. The agreement includes: an investment loan for a wind farm in the municipality of Człuchów, a working capital loan to cover VAT and a DSRF loan.
Impact (Grupa Grenevia)	PLN 300	12.2023	Impact Clean Power Technology, a company from the Grenevia Group, has entered into financing agreements with Bank Pekao and mBank. The funds will be used to implement projects in line with the Group's Sustainable Development Strategy.
Geenvolt Group	EUR 90	11.2023	DNB Bank and mBank have granted a renewable loan to Greenvolt Power, a subsidiary of Greenvolt Group. The funds raised will accelerate the development of numerous projects carried out in Poland.
Grupa American Heart of Poland	PLN 1600	12.2023	A consortium of five banks, including PKO BP and BNP Paribas (which will provide the largest part of the financing), granted a loan in the sustainability-linked loan formula to achieve the group's investment and acquisition objectives.

Źródła: nbp.pl „dane\_sektora\_bankowego”, PAP, ISBiznes,

# Bond Market in Poland

The recovery in the bond market is clearly visible in the growing number and value of issuances, which have returned to the level from before the rate hike cycle

## Catalyst data - corporate bond market in Poland



Source: [www.gpwcatalyst.pl](http://www.gpwcatalyst.pl)

- ▶ In Q4 2023, the value of issuance increased to the level before the interest rate hike cycle began. The higher value of the issue can be attributed to the reduction of interest rates, as well as the need to refinance maturing bonds.
- ▶ Q4 2023 was characterised by a decline in corporate bond yields following a decline in interest rates and expected disinflation.

## Overview of selected PLN corporate bonds issued in Q4 2023:

Issuer	Volume (PLN m)	Term	Date of issue	YTM (%) as of 06/10/23	Coupon (%) as of 06/10/23	Issuer's industry
Kruk S.A.	450	2029	11/2023	10.46	10.52	FSI
Cyfrowy Polsat S.A.	400**	2030	12/2023	n/d	n/d	Telecom
Atal S.A.	260	2025	10/2023	7,91	7.07	Developer
Dom Development S.A.	260	2028	09/2023	7,38	7.2	Developer
Unibep S.A.	138	2026	10/2023	9.82	9.88	Construction

\*as of 06/02/24

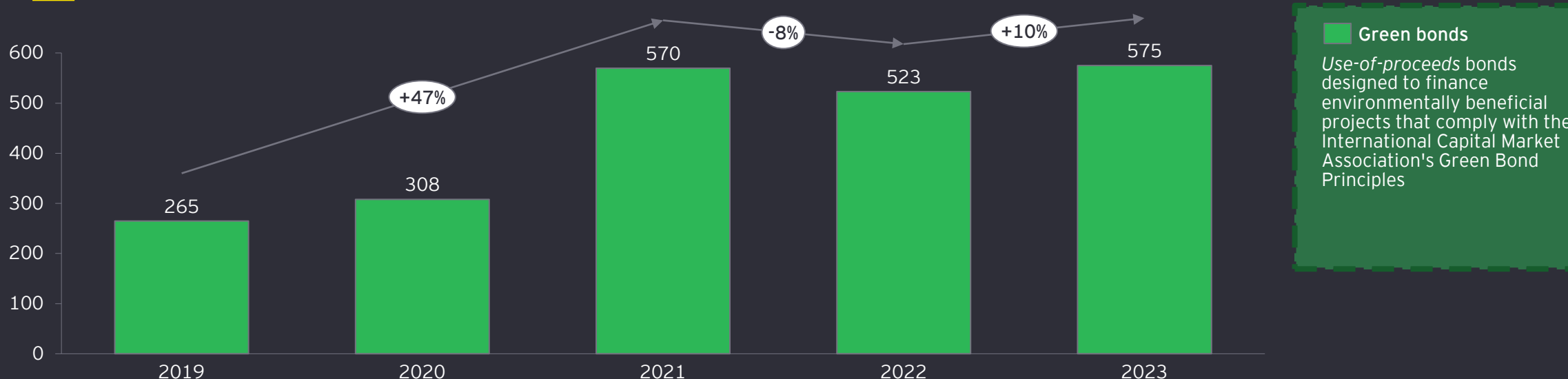
\*\*Tranche F - bearer, unlisted, 100% subscribed for by PFR Fundusz Inwestycyjny FIZAN

- ▶ In Q4 2023, the bond issuers were dominated by companies from the following sectors: real estate, construction and financial institutions. There were also subsequent tranches of Cyfrowy Polsat's issue program for a total amount of PLN 4 billion (as at Q4 the nominal value of the issue amounted to PLN 2.67 billion).
- ▶ In addition to corporate bonds issued by non-financial enterprises, significant issues in Q4 2023 were issues of Santander (PLN 3.1 billion) and Alior (PLN 450 million), as well as treasury bonds carried out in November 2023 by BGK for a total amount of PLN 4.1 billion.

# Global green bonds market

In 2023 the global green bonds market has returned to growth despite persistently high interest rates

Global green bonds issuance 2019 - 2023 (in USD billion)<sup>(1)</sup>



- ▶ In 2023, the green bond market faced an unfavourable environment of high interest rates that did not encourage the issuance of debt instruments, the risk of greenwashing, the disappearing greenium, and less flexible structuring of green debt compared to alternative forms of debt.
- ▶ Despite this, the global value of green bond issuance in 2023 increased by 10% compared to 2022 and thus exceeded the record value of USD 570 billion in 2021.
- ▶ In recent years, the growing popularity of green financing has also been observed on the Polish market. However, in Poland, the green loan market was growing faster than the green bond market.
- ▶ Both in Poland and globally, the green bond and loan market in the coming years will most likely be driven by i.a. new regulations and changes in banks' policies aimed at increasing their portfolios of green instruments.

(1) Above graph shows issue of green bonds only. Value of issued GSSSB (green, social, sustainable, and sustainability-linked bonds) and ESG bonds, of which green bonds is respectively 60% and 70% increased at a similar rate.

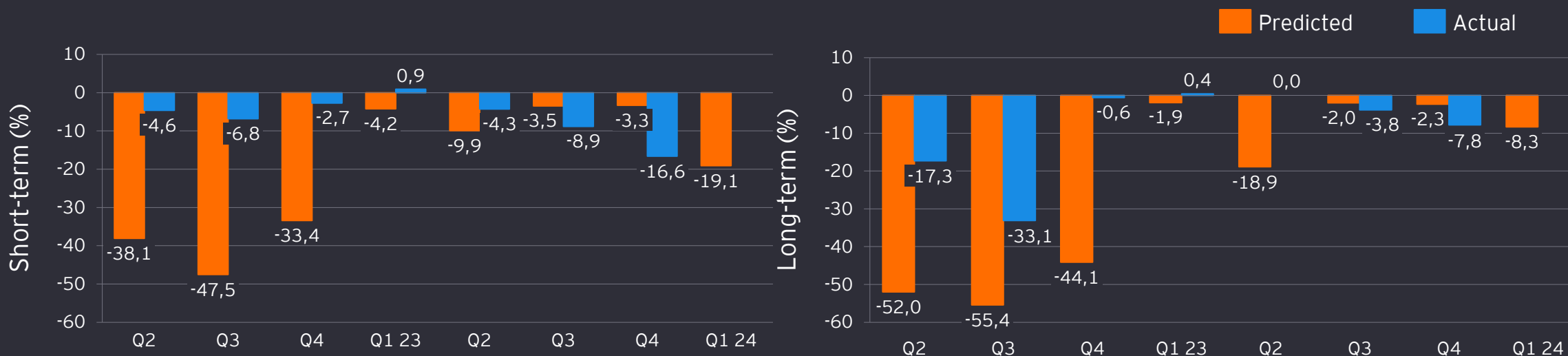
Source: Environmental Finance Bond Database, S&P Global Ratings



# Credit Policy Criteria

In the fourth quarter of 2023, banks continued their tighter lending policy, justifying this by the deterioration in the quality of the loan portfolio and citing macroeconomic forecasts.

## Anticipated and actual easing/tightening of credit policy criteria for large enterprises between Q2 2022 and Q1 2024



- ▶ In Q4 2023, due to the deterioration in the quality of the loan portfolio, weak macroeconomic outlook and worsening situation of many of the largest borrowers, banks decided to continue to tighten their lending criteria for large enterprises (i.a. by tightening the requirements for loan repayment collateral).
- ▶ On the other hand, there was an increase in demand for long-term loans and a decrease in demand for short-term loans - related to lower demand for working capital financing.
- ▶ The banks assume further tightening of their lending policies in Q1 2024 to non-financial corporations across all but one market segments. In the upcoming quarter, the banks don't expect to change their policies in regards to short-term lending to SMEs.
- ▶ At the same time, demand for all types of business loans is expected to continue to increase, in particular for long-term loans among large enterprises.

Sources: NBP; Banks' answers to questions are weighted by the bank's share of the market segment to which the question relates.

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