

Debt Alert

Credit and Capital
Markets Overview

1st Quarter 2023

General comment for the Polish corporate debt market as of Q1 2023



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In the first quarter of 2023, Poland experienced a peak of CPI inflation, reaching approximately 17.5% in February.

Subsequently, inflation is expected to decline for the remainder of the year.

This decline should be accompanied by a decrease in financing costs and a rebound in GDP growth.

If everything goes as planned, the aforementioned developments will be followed by market liberalization in areas where the government has recently intervened, such as energy price caps.

Despite the observed decrease in inflation, stabilization of financing costs, and reduction in energy costs, the levels of these factors remain high. As a result, many corporations continue to face a combination of challenges including:

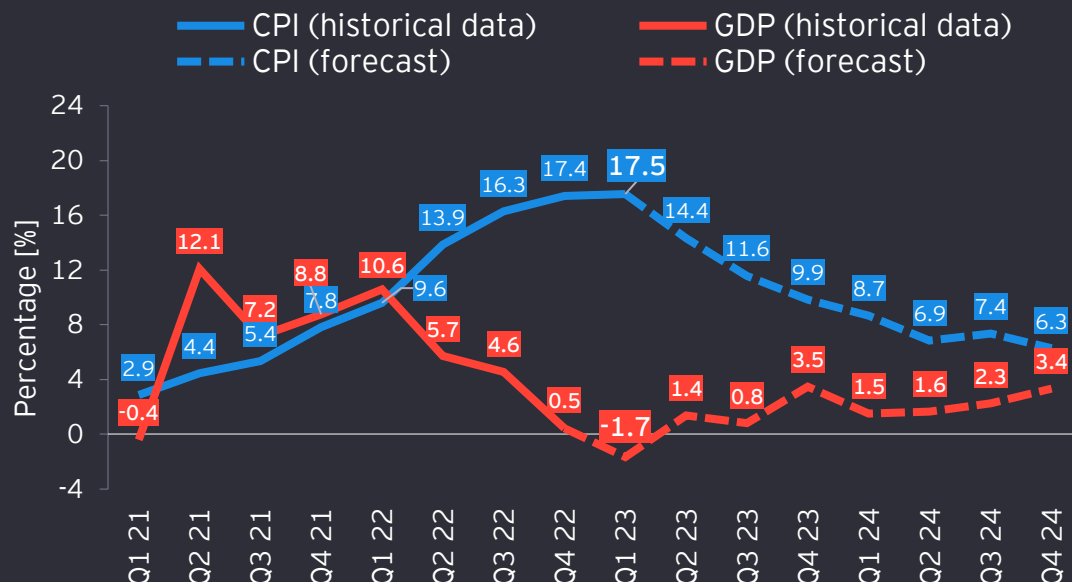
- ▶ High cost of energy, financing, wages etc.
- ▶ Reduced demand for products and increase in stock
- ▶ ESG-related transformation needs

Furthermore, it is anticipated that banks will tighten their credit policies further, although they will continue to have an appetite for high-quality assets, particularly those that are environmentally friendly (green assets).

Macroeconomic outlook

Q1 2023 in Poland was marked by peak of inflation and further decrease of GDP

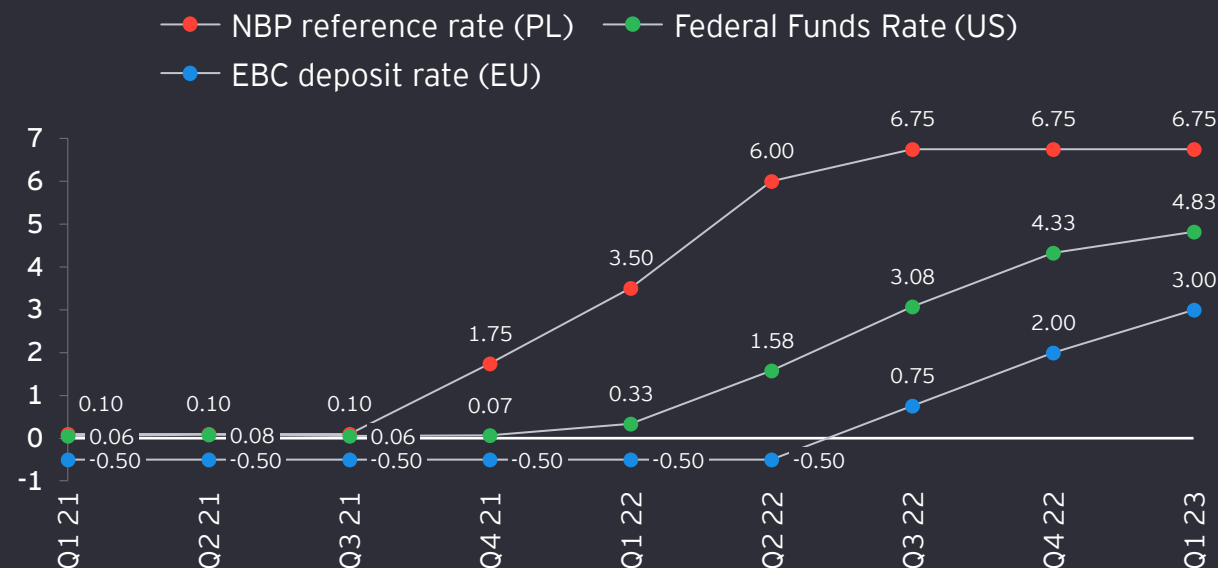
Inflation and GDP growth for Poland



Source: EY EAT forecasts and Oxford Economics

- ▶ Most recent data shows that inflation has peaked in February 2023 and should be falling throughout the rest of 2023, reaching a level of ca. 9% by the end of the year.
- ▶ Quarterly GDP growth stalled after the outbreak of the war in Ukraine, leading to a sharp slowdown in annual growth rates. Annual growth will reach a trough in 2023 Q1 but is expected to rebound throughout the rest of the year.

NBP, EBC and FED rates [%]



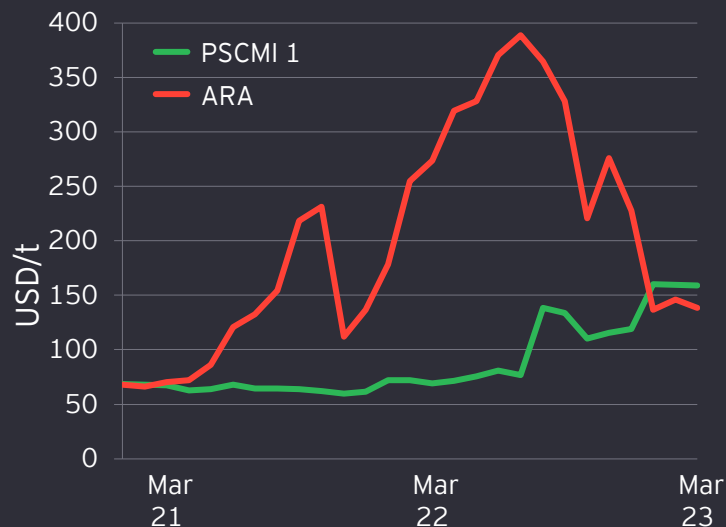
Source: NBP for historical data

- ▶ Q1 2023 was marked by further increases of the base rates of American and EU central banks as well as the banking crisis in USA and Switzerland.
- ▶ ECB deposit rate is expected to be raised up to 3.75% in the upcoming quarters.
- ▶ Following the latest rate increase (to the 4.75-5% range), the Fed has turned significantly more dovish as a result of the turmoil in the US regional banking sector.
- ▶ Polish reference rate on the other hand is expected to remain on the 6.75% level through the year with marginal likelihood of further increase.

Energy Commodities

Q1 2023 compared to the turn of the year was marked with price fall of major energy sources on European Markets

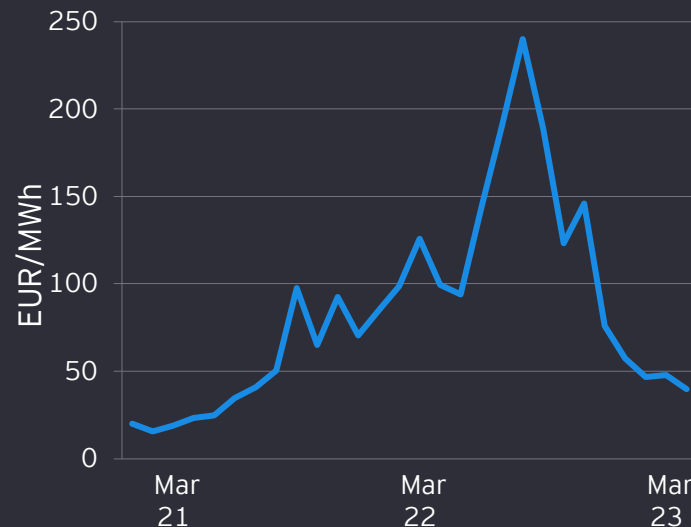
Polish PSCMI 1* and European ARA - Energy Coal Market Indexes



Sources: polskirynekwegla.pl, investing.com, stooq.pl (for FX rates)

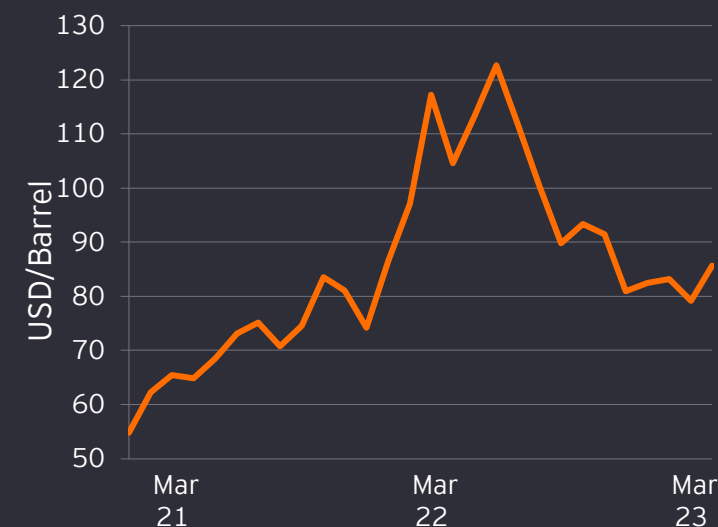
*Index 1 for sale to commercial and industrial power plants (spot prices)

Dutch TTF Natural Gas Futures



Source: investing.com

Crude Oil Brent - Europe (spot prices)



Source: Energy Information Administration, FRED

- Prices of energy sources continue to fall in Q1 2023 compared to the previous quarter, and have reached pre war in Ukraine (Feb. 2022) levels already with the exception of Polish coal prices index (PSCMI 1). However, compared to early 2021 they are still at high levels with the compound annual growth rate ranging from 20% (crude oil) to 35% (gas).
- Energy caps imposed in 2022 in Poland remain unchanged ensuring that prices are frozen at set level. High coal and CO₂ prices (presented on next slide) as well as regulatory uncertainties regarding energy market pose a risk of persisting high energy prices in Poland in 2023. This factor limits the direct impact of falling energy prices on the potential decrease of baseline inflation (a trend seen in several western European markets).

Energy prices in Poland

Energy prices are expected to remain at high levels at least throughout the whole 2023

- ▶ The price of CO2 emission allowances has been on an upward trend in recent months and has reached a historical peak, with further increases expected.
- ▶ The price peak on the Day-Ahead Market (TGeBASEm) was seen in first half of Q3 2022 - reaching prices of around PLN 1380 per MWh. However since then it decreased significantly. For example, in Q1 2023 prices fell by almost 29%. Additionally, in the same period, forward contracts with delivery in 2024 (TGBASE_Y-24) fell by almost 27%. However, the liquidity of long term energy market in Poland remains on a very low level in comparison to pre-energy crisis conditions on TGE (Polish commodity exchange).

PEP 2040* update

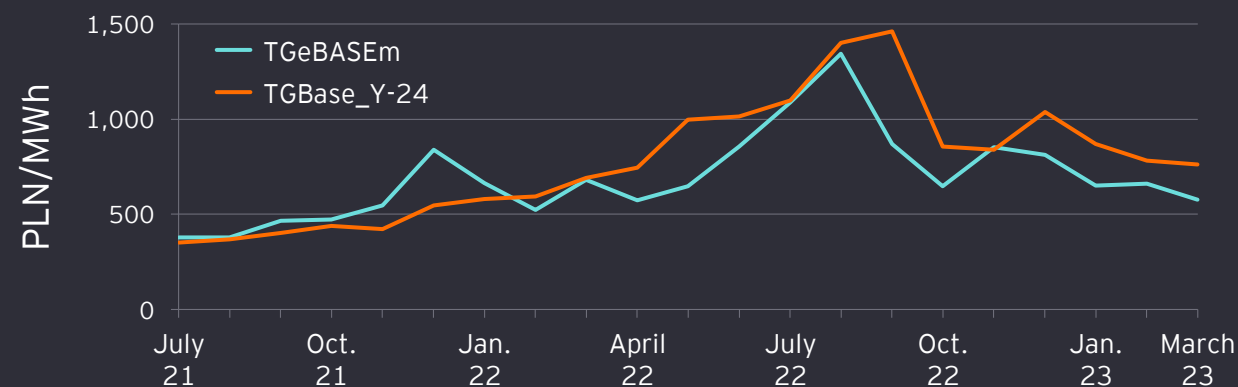
- ▶ One of the key updates from the end of Q1 2023 is that Council of Ministers was discussing amendments to the resolution on "PEP 2040"*. The two main initial conclusions are as follows:
 - ▶ A new scenario has been added, according to which **unprecedented development of new capacity is expected (by 2040 the installed capacity should double)**.
 - ▶ An important role in the Polish power system will be played by **offshore wind farms**. According to PEP 2040 they should reach a capacity of 18 GW.

*Energy Policy of Poland until 2040

Clearing price of CO2 emission allowances (RC^{CO2})



Historical and forward Energy prices indices** in Poland (PLN/MWh)



**TGeBASEm - is calculated as a simple arithmetic average of volume-weighted average hourly prices, taking into account only transactions for hourly Day-Ahead Market instruments.
TGBase_Y-24 - takes into account daily settlement price (PLN/MWh)

Polish Credit Market Overview

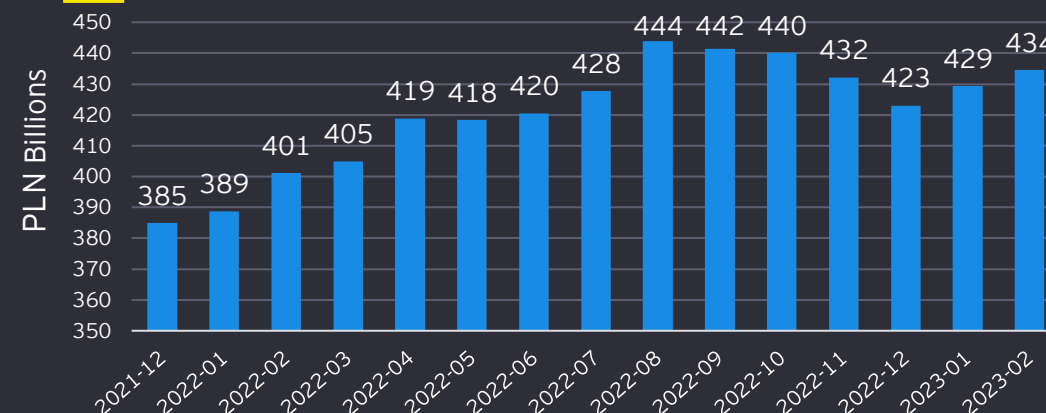
Volume of outstanding corporate debt increased slightly in 1st quarter of 2023

- ▶ An increase in corporate gross debt value (total outstanding loans to corporates) is caused, among other factors, by banks' appetite for high-quality assets and green energy policies, which are likely to continue in the 2nd quarter of 2023.
- ▶ Growth of the debt market in 1st quarter of 2023 was driven to large extent by green transformation and energy-related transactions. Renewables and energy related projects remained the most often reported transactions in 2023.

Selected reported Corporate Loan Deals signed in Q1 2023:

Borrower	Deal value (m)	Signing date	Use of Proceeds
Enea S.A.	2 500 PLN	02.2023	Revolving credit facility was granted as a sustainability-linked loan. This means that the margin will depend on the achievement of indicators related to sustainable development, i.e. the CO2 emission reduction indicator and others
PGE S.A.	2 300 PLN	03.2023	ESG financing will be used for current operations, including the implementation of investments in line with the PGE Group's long-term strategy to reduce greenhouse gas emissions and increase electricity generation from renewable sources. Financing is provided by consortium of PKO BP, PEKAO, Bank of China, ICBC, Alior Bank, Santander Bank Polska
HB Reavis	475 EUR	02.2023	A consortium of banks Santander, PEKAO, Helaba, and Berlin Hyp provided a loan for refinancing the Varso Place project, a mixed-use scheme in central Warsaw
KGHM S.A	250 USD	03.2023	PKO BP provided financing to the Company in the form of revolving credit lines
Lewandpol Holding	776 PLN	01.2023	ING Bank Śląski (as the Loan Agent), PKO BP and mBank are in a consortium of banks that granted loans for the construction of Kleczew Solar & Wind, a large-scale solar and wind farm located in Poland, with a capacity of over 200 MW

Gross* debt value - corporates in Poland



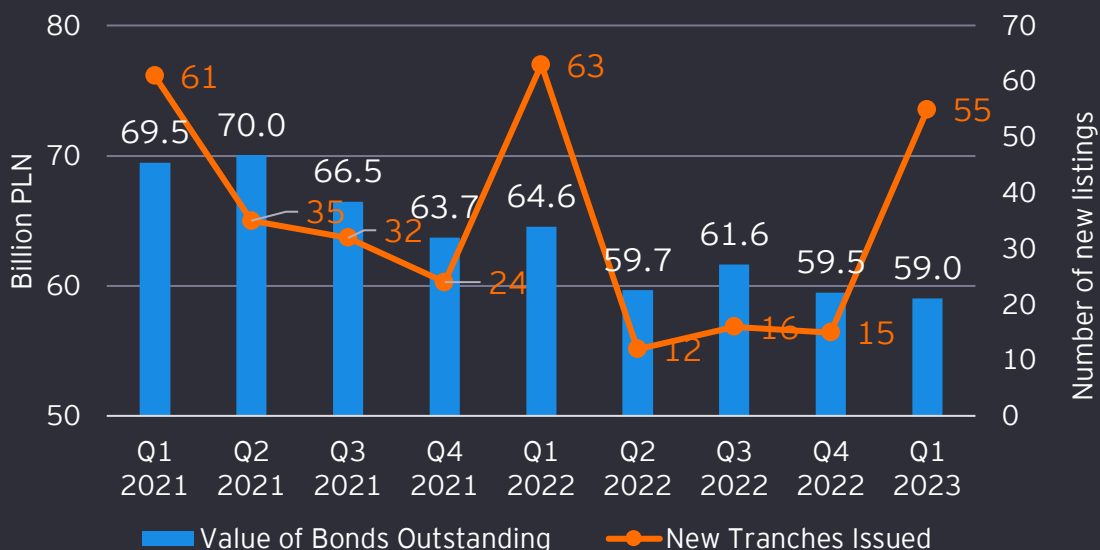
* Gross value is a carrying amount as at the date of a statement, without deducting impairments, write-offs, or any specific allowances

Source: nbp.pl „dane_sektora_bankowego”

Bond Market in Poland (1/2)

Number of bond issues in Poland increased in Q1 2023 while the value of bonds outstanding slightly decreased

Catalyst data - Corporate Bond Market in Poland



Source: Catalyst

Polish sovereign bonds [PLN]

Years to maturity	01/03/23 YTM (%)	10/05/23 YTM (%)	Coupon (%)	Date of issue
1	6.03	5.70	2.5	08/10/18
3	6.28	5.79	2.5	25/07/15
5	6.49	5.73	2.75	20/05/13
10	6.58	5.79	6	20/12/22

Sources: Refinitiv (Government Bond Prices)

- ▶ Despite a strong increase in the number of new tranches issued in Q1 2023, the Polish bond market slightly shrunk.
- ▶ Value of bonds outstanding decreased which implies that the bond redemptions exceeded value of new tranches issued.
- ▶ The Polish sovereign bond yields were in a downward trend q/q in relation to the expected drop (or at least stabilization) of WIBOR rates through 2023.

Source: Oxford Economics

Bond Market in Poland (2/2)

Despite decreased value of bonds q/q, several entities have recently established bond issuance programmes - Cyfrowy Polsat (Sustainability-Linked Bond) being one of the major on the Polish market in Q1 2023

- ▶ Q1 2023, similar to the previous quarter, was characterized by decreasing yields of corporate bonds following the WIBOR decrease outlook and expected disinflation.
- ▶ Nevertheless, Q1 2023 in Poland was marked by several large corporate bond issues.

Overview of selected corporate bonds issued in 2023:

Issuer	Volume (mPLN)	Term	Date of issue	YTM as of 28/04/23 (%)	Coupon (%) as of 28/04/23	Issuer's industry
Cyfrowy Polsat	2 670	2030	20.01.2023	10.51	10.96	Television Broadcasting
Ghelamco Invest	240	2026	10.02.2023	12.37	11.99	Developer
Echo Investment	180	2027	17.02.2023	11.68	11.90	Developer
Kruk S.A.	120	2029	30.01.2023	11.38	11.40	Debt collection

Sources: www.gpwcatalyst.pl

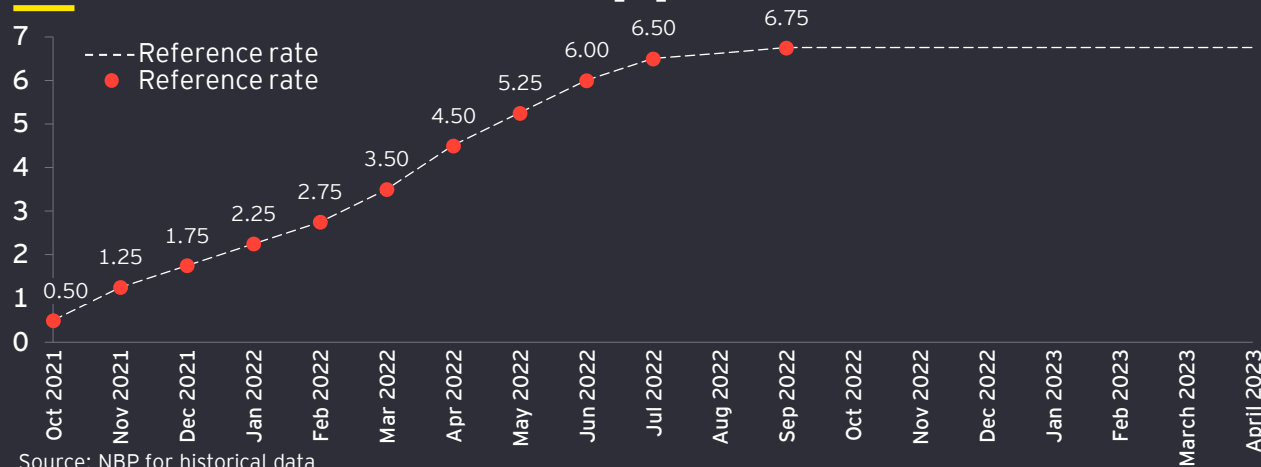
Interest rates overview

No further increases in interest rates are expected in Poland

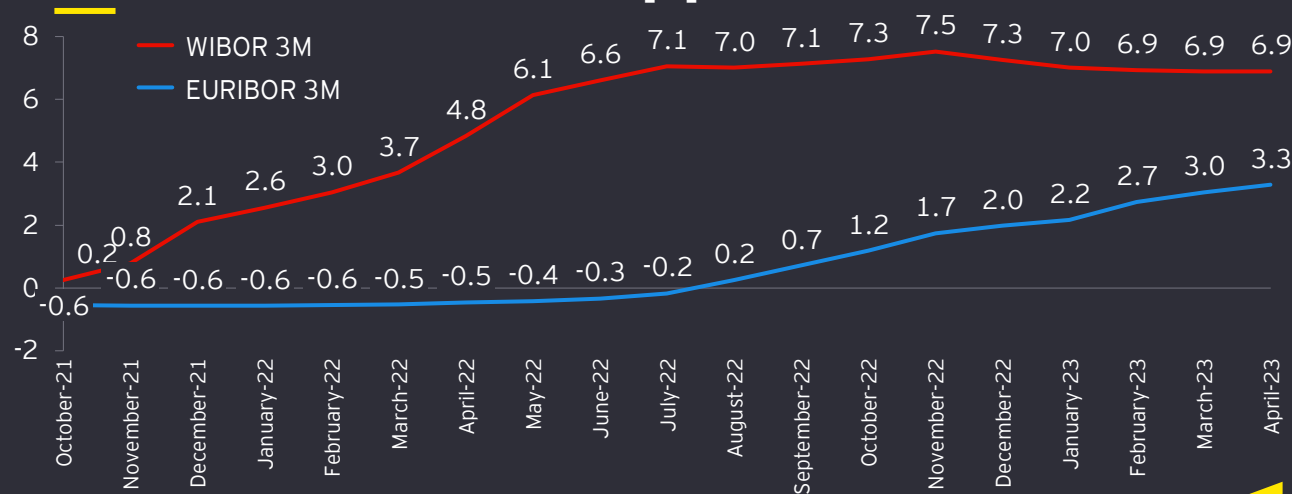
- ▶ The Monetary Policy Council (Rada Polityki Pieniężnej, RPP) maintained the reference rate at the level of 6.75% in Q1 2023.
- ▶ RPP is expected to keep rates unchanged throughout 2023, with first cut likely in Q1 2024.
- ▶ Q1 2023 in Poland was also marked with further discussions regarding replacement of WIBOR rate with WIRON (Warsaw Interest Rate Overnight).
- ▶ At the same time on March 22, the European Central Bank raised the deposit rate from 2.5% to 3% confirming the market's prediction from the beginning of the year regarding interest rate policy for 2023.

Due to the fact that the Polish Central Bank did not raise the reference rate any further, WIBOR 3M stabilized at around 7% in Q1 2023, whereas EURIBOR 3M recorded an increase from 2.0% at the end of 2022 to 3.3% at the end of April 2023

NBP Reference rate in Poland [%]



WIBOR 3M* vs EURIBOR 3M* [%]



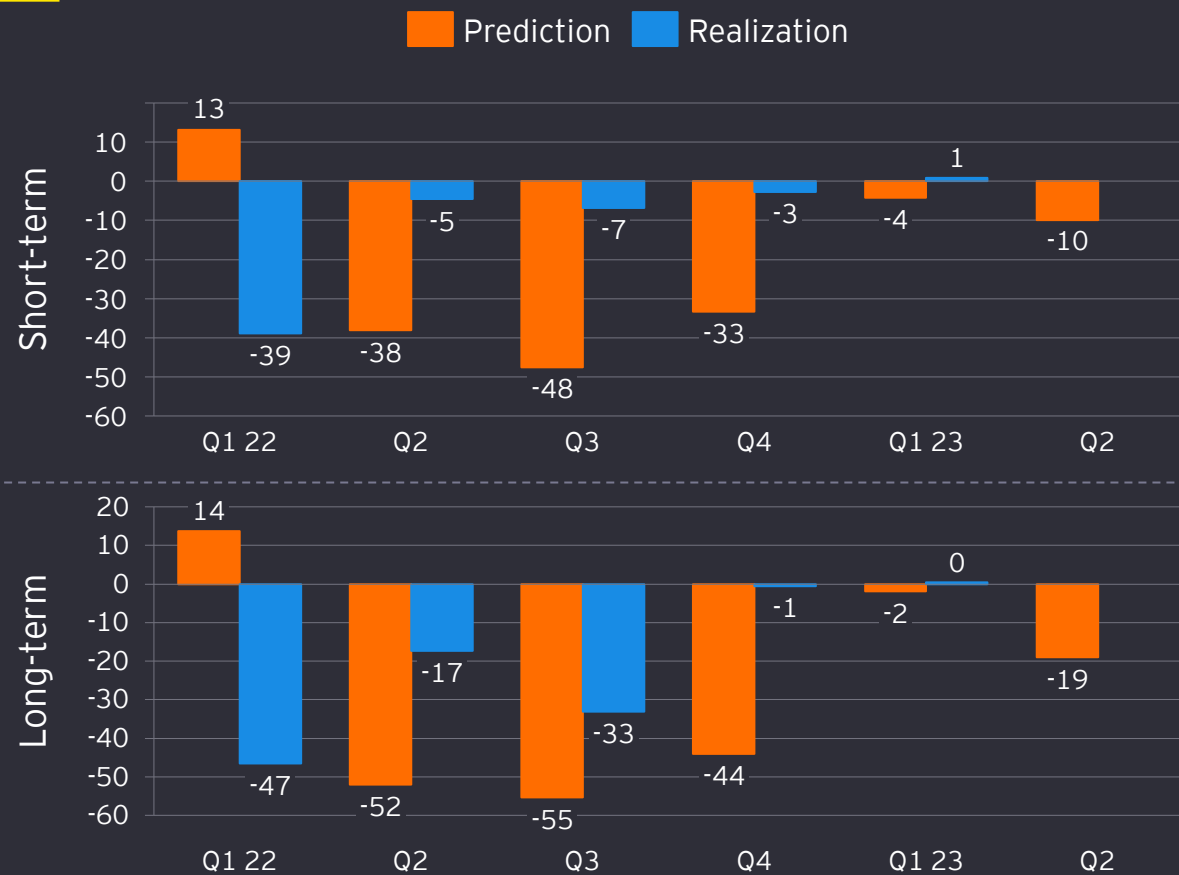
Source: gpwbenchmark.pl and global-rates.com

*First day of the month standing

Credit policy criteria

Results of a survey conducted by NBP among Polish banks indicate a reduced appetite for debt among banks' decision makers

Predicted and realized relaxations or tightening (%) of credit policy criteria for large corporates in 2022 and 2023



- ▶ In the first quarter of 2022, the relaxation of the credit policy was expected. Despite this, a significant tightening was observed in this period - from 39% for short-term to 47% for long-term loans for large corporates. During the rest of 2022, expected tightening tended to be more significant than actual.
- ▶ In Q1 2023, the expected tightening was near zero and realization for this period followed this prediction. For Q2 2023, however, more significant tightening is expected - from 10% for short-term loans to 19% for long-term loans.

Source: NBP; Banks' answers to the questions are weighted by the share of a given bank in the market segment to which the question relates.

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