

Debt Alert

Credit and debt capital
markets overview

2 & 3rd Quarters 2023

General comment on the Polish corporate debt market as of Q3, 2023



**Ewa
Mochocka**
Partner

*Capital & Debt Advisory,
Poland*

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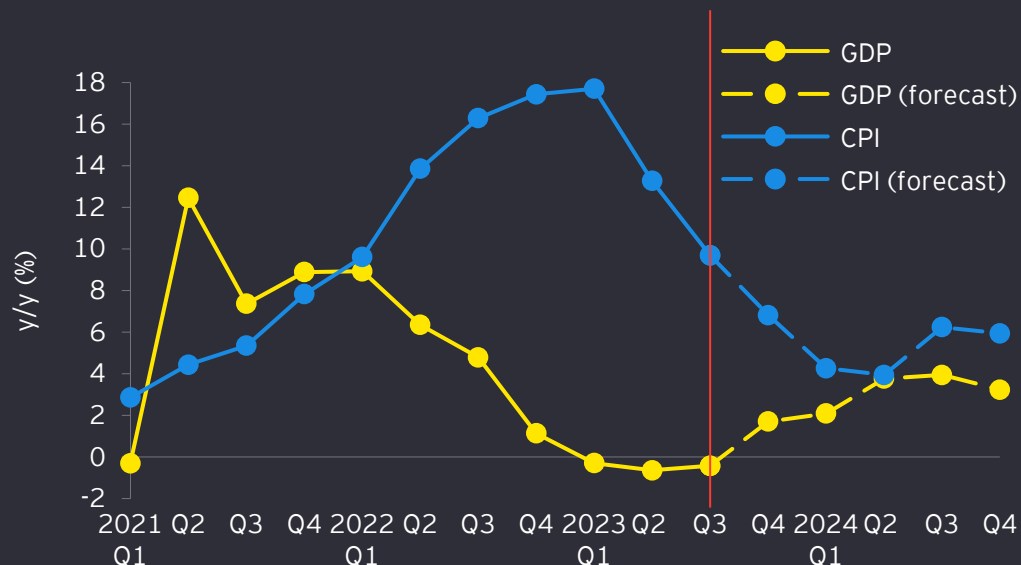
- ▶ In the second and third quarters of 2023 we saw disinflation, with CPI falling from a record high of 18.4% in February to 8.2% in September. Although the downward trend should continue in 2024, disinflationary processes are likely to slow down over time.
- ▶ In September, the ECB decided to raise interest rates by 25 basis points, while signaling end to hikes. At the same time, after a year of stable and relatively high interest rates, the Monetary Policy Council cut interest rates by 75 basis points in September and 25 basis points in October.
- ▶ This resulted in lower cost of debt which should over time lead to more activity on the Polish debt market. However, WIBOR replacement with WIRON in 2025 adds some uncertainty.
- ▶ At the same time, we are likely to see a government change in the coming weeks, which could result in significant changes to the fiscal policy and thus affect macroeconomic outlook.

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Macroeconomic Outlook

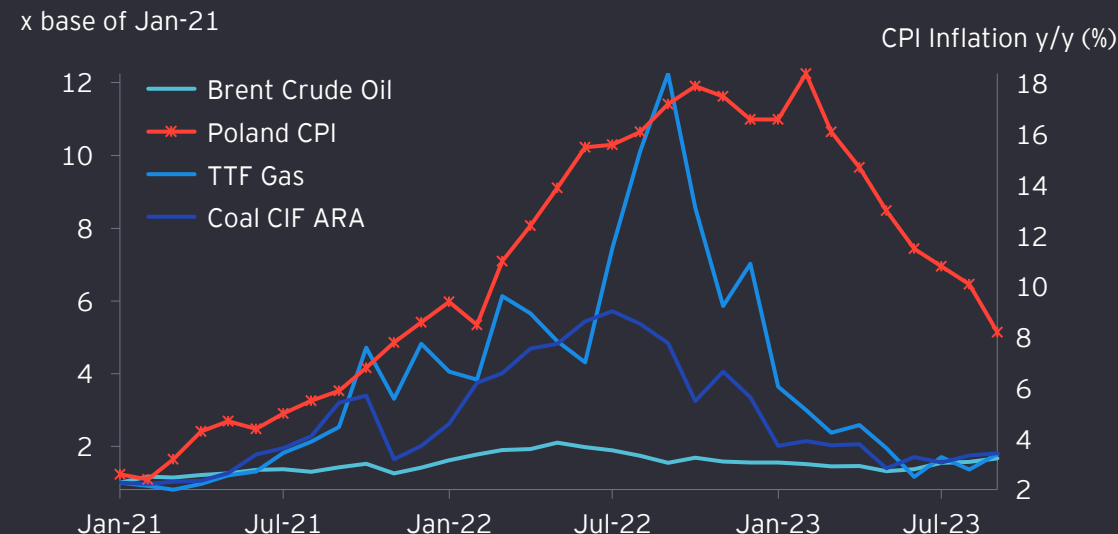
In recent quarters Poland has experienced strong disinflation and a shallow recession.

Poland's real annual GDP growth and CPI inflation



- ▶ Poland's economy has experienced a decrease in GDP growth rate beginning in Q1 2022. In Q1 and Q2 2023, annual GDP growth was slightly negative, indicating a shallow recession.
- ▶ From Q3 2023, economic conditions began to improve. GDP growth is expected to recover relatively fast in the coming quarters.
- ▶ Inflation has also decreased, with CPI falling below 10% as of September 2023 for the first time since February 2022.

Raw energy prices and CPI inflation

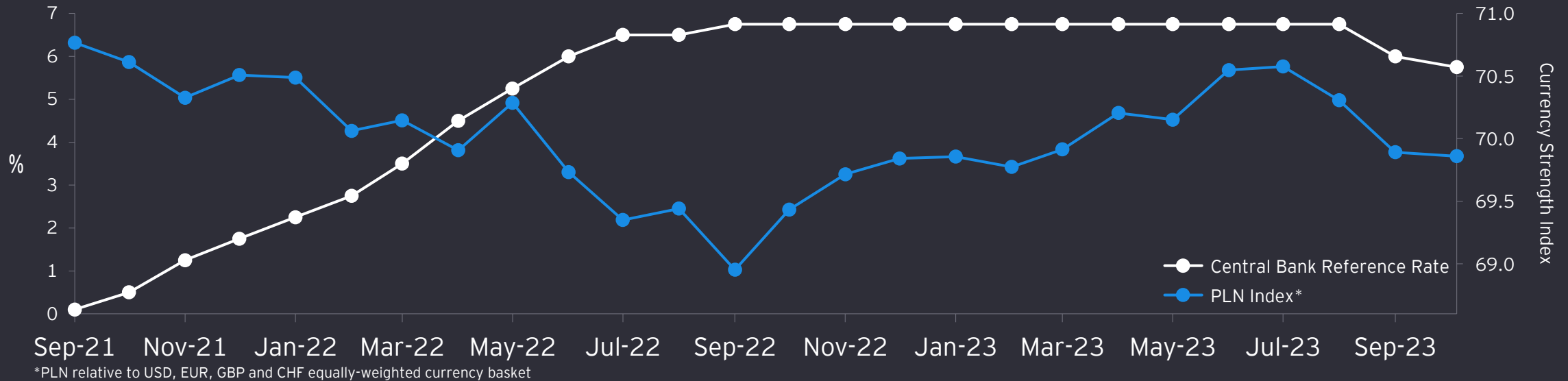


- ▶ This decrease in inflation was largely facilitated by lower energy prices, which were initially one of the main drivers of inflation.
- ▶ Although, energy prices have been falling consistently from Q2 2022 to Q2 2023, there has been a reversion of this trend in Q3 2023. For example, Brent Crude Oil prices increased by 22% over the course of Q3.
- ▶ If this trend reversal continues, higher oil prices will decrease disinflationary pressures and prolong the return of CPI inflation to sustainable levels.

Monetary Policy

National Bank of Poland cuts rates despite negative currency impact: possible benefits for the Polish debt market

Poland's central bank reference rates and currency strength index



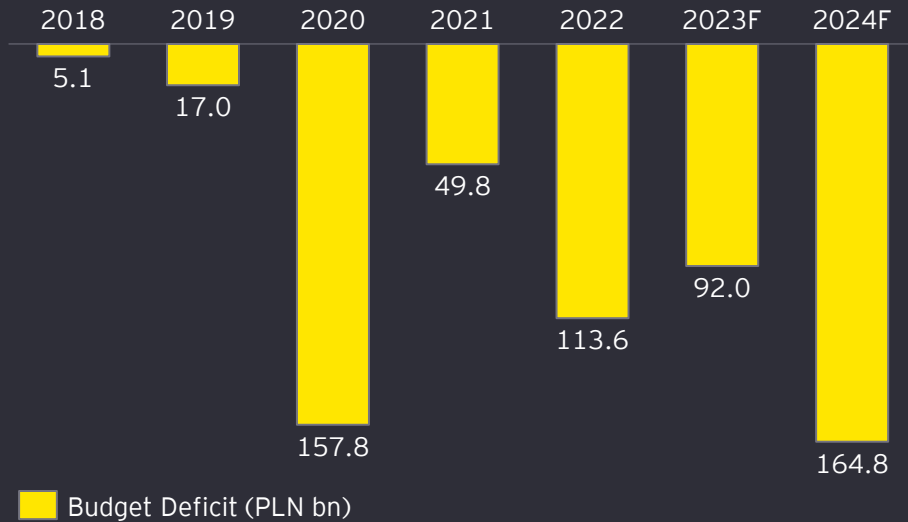
- ▶ The Monetary Policy Council (MPC) had been on a rate hike cycle since October 2021, raising rates 11 times up to 6.75% by September 2022.
- ▶ After announcing the end of rate hiking cycle in July, the MPC delivered two rate cuts of 75 bps in September and 25 bps in October.
- ▶ NBP justified these cuts by pointing to i.a. contracting economy and persistent disinflation in recent months.
- ▶ Unexpected and somewhat erratic monetary policy behavior has caused depreciation of the Polish zloty (PLN).
- ▶ These developments could have spill-over effects in the Polish debt market, with expected benefits such as lower debt service costs in PLN and increased appetite for Polish exports.

Sources: Stooq.pl, NBP, XTB.com

Fiscal Policy

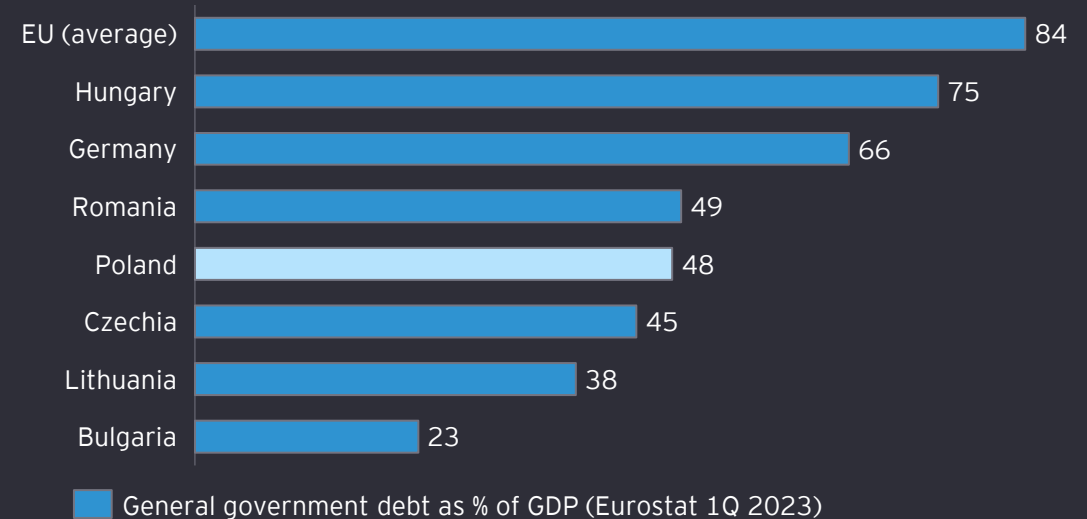
Sizeable widening of the fiscal deficit in 2024 coupled with increased public borrowing needs puts upward pressure on long-dated sovereign bond yields. Poland's general government debt is projected to increase to ca. 59% by 2027

Polish budgetary deficits



- ▶ The government has adopted a draft state budget for 2024 with a deficit of PLN 164.8 bn. The general government deficit is expected to come at ~5.5% of GDP (ca. PLN 170 bn). The overall financing needs will increase to a record PLN 225.4 bn net and PLN 420.6 bn gross, due to the high deficit and debt maturity schedule.
- ▶ With deficits of over 3% of GDP, Poland may be placed in the Excessive Deficit Procedure if EU fiscal rules are reinstated next year. Which may lead to a future budget revision.
- ▶ General government debt as % of GDP decreased to 48% from 57% at the end of 2020. The trend is projected to reverse with debt as % of GDP rising to ca. 59% in 2027.
- ▶ Debt servicing costs are set to rise to PLN 66.5 bn (ca. 1.76% of GDP) in 2024, and reach 2% of GDP by 2027.
- ▶ So far, Poland maintains lower debt levels as compared to 'A-' Fitch-rated peers. In June 2023, Fitch reaffirmed Poland's rating with Stable Outlook.

Regional general government debt to GDP compared to Poland

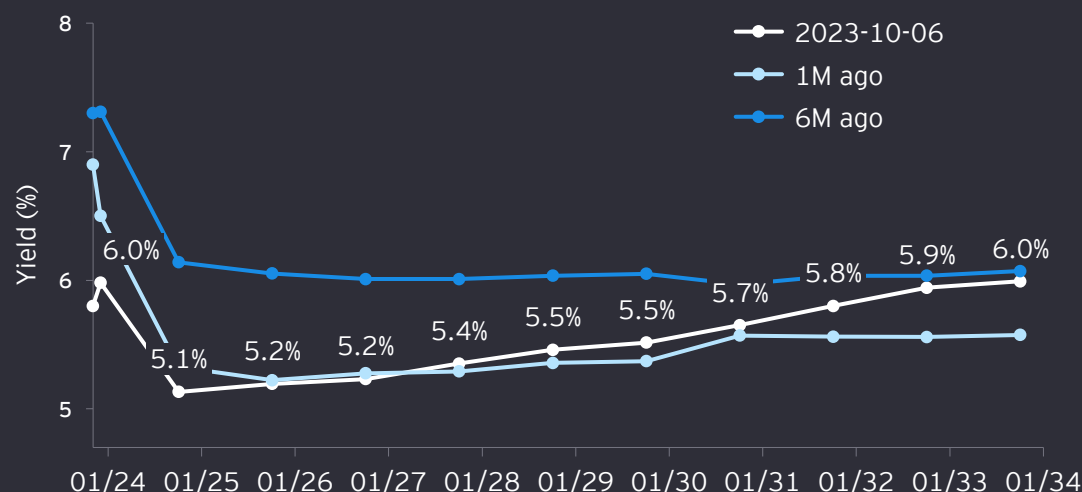


Sources: Oxford Economics, Ministry of Finance, Eurostat

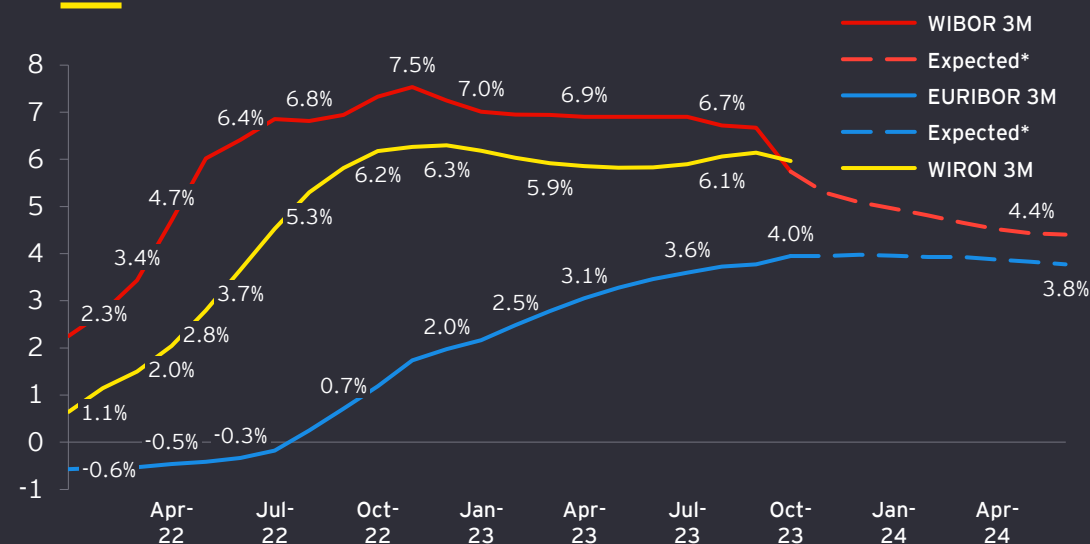
Cost of Debt

With central banks halting hiking and (some) already cutting interest rates, the financing conditions are set to ease, albeit slowly.

Yields to maturity on Polish government bonds



WIBOR 3M vs WIRON 3M vs EURIBOR 3M



*based on FRA contracts as quoted on 06.10.2023

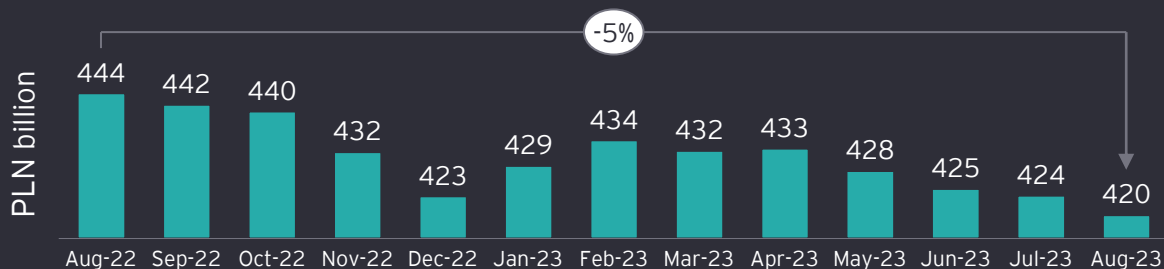
- Poland's cost of debt has begun to decline due to macroeconomic conditions and subsequent monetary policy reactions.
- After peaking at 7.61% in November 2022, the WIBOR 3M has been falling throughout 2023 and is currently close to the reference rate.
- In September 2023, the European Central Bank (ECB) raised interest rates by 25 bps to 4%, marking the highest level since the euro launch, and signaling the end of interest rate hikes.
- In light of 'too high for too long' inflation outlook, the market expects the ECB to keep rates at 4% into the 2nd quarter of 2024.
- Given these circumstances, the Polish debt market appears to be in a prime position for a strong revitalization in the coming months.
- In October 2023, WIRON 3M was for the first time higher than WIBOR 3M (5.96% vs 5.74%). WIRON is scheduled to fully replace WIBOR in 2025.

Sources: Refinitiv, ECB, GPW Benchmark, www.worldgovernmentbonds.com

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



- ▶ In the year-to-date period as of August 2023, Polish non-financial corporates have recorded a decrease in nominal debt outstanding of approximately PLN 24 billion, or 5%.
- ▶ During Q1 2023, there was a revitalization in the debt market, which was in large part due to green transformations and energy-related transactions. However, this trend has since reversed.
- ▶ While the current situation has left corporates with lower debt loads, this could translate into a higher appetite for debt in the future, particularly given NBP's interest rate decreases.

Selected reported corporate loan deals signed in Q2-Q3 2023:

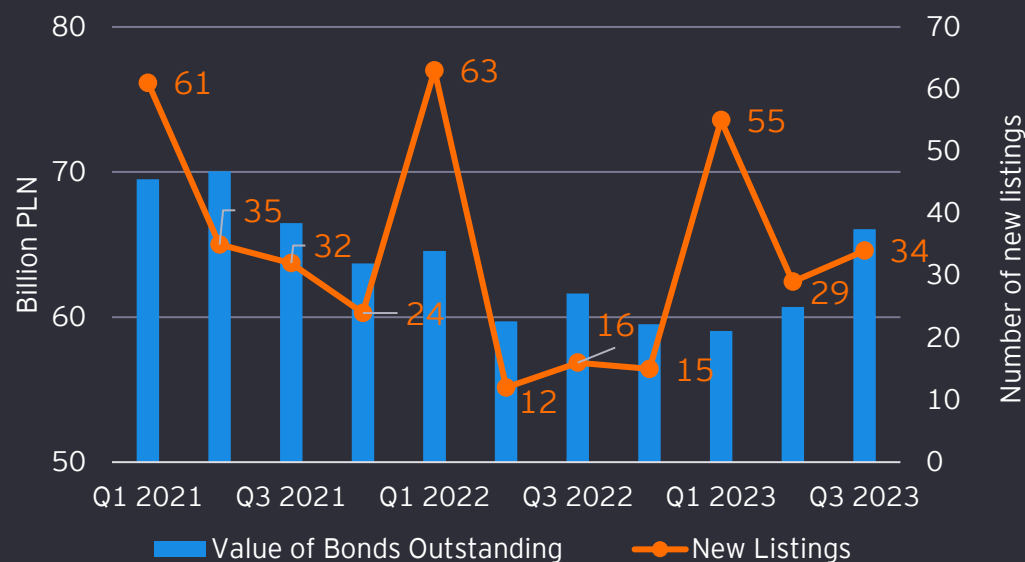
Borrower	Deal value (m)	Signing date	Use of Proceeds
Maspex Group	104 EUR	04.2023	Loan financing provided by EIB which will support the modernization and increase the energy efficiency of production facilities within the Group
ZE PAK	117 PLN	05.2023	Bank Pekao S.A. provided financing for two renewable energy projects, which includes a 9.6 MW wind farm and an increase of an existing PV farm by 12.4 MW
Iglotex Modus Poland Solar Fund	>300 PLN	07.2023	Sustainability-Linked loan which will be used to finance the change of the ownership structure and fund ESG related investments. Loan provided by a consortium of banks which includes BNP Paribas.
Baltic Power	100 EUR	07.2023	Modus Asset Management has secured an investment loan through its SPV for the purchase of a portfolio of PV projects in Poland, with a total power of 93 MW. The financing institutions were BNPP and PKO BP.
	c. 4 400 EUR	09.2023	A consortium of 25 financial institutions has lent Orlen's subsidiary EUR 3 600 m to build an offshore wind farm on the Baltic Sea with a power of up to 1 200 MW. The loan's term is 23 years, and the company has also secured a revolving credit facility for PLN 1 000 m and EUR 600 m.

Sources: nbp.pl „dane_sektora_bankowego”, IJ Global, Cliiford Chance, www.hbreavis.com, www.infowire.pl

Bond Market in Poland

Q3 2023 witnessed a significant increase in the value of bonds outstanding and a marginal change in the number of new listings

Catalyst data - corporate bond market in Poland



Overview of selected PLN corporate bonds issued in Q2-Q3 2023:

Issuer	Volume (PLN m)	Term	Date of issue	YTM (%) as of 06/10/23	Coupon (%) as of 06/10/23	Issuer's industry
Ghelamco Invest	340	2027	14.09.2023	10.66	10.66	Developer
Victoria Dom	100	2026	27.09.2023	10.51	11.49	Developer
Echo Investment	140	2028	24.05.2023	10.36	11.45	Developer
Kruk S.A.	75	2028	8.08.2023	9.84	10.74	Debt collection

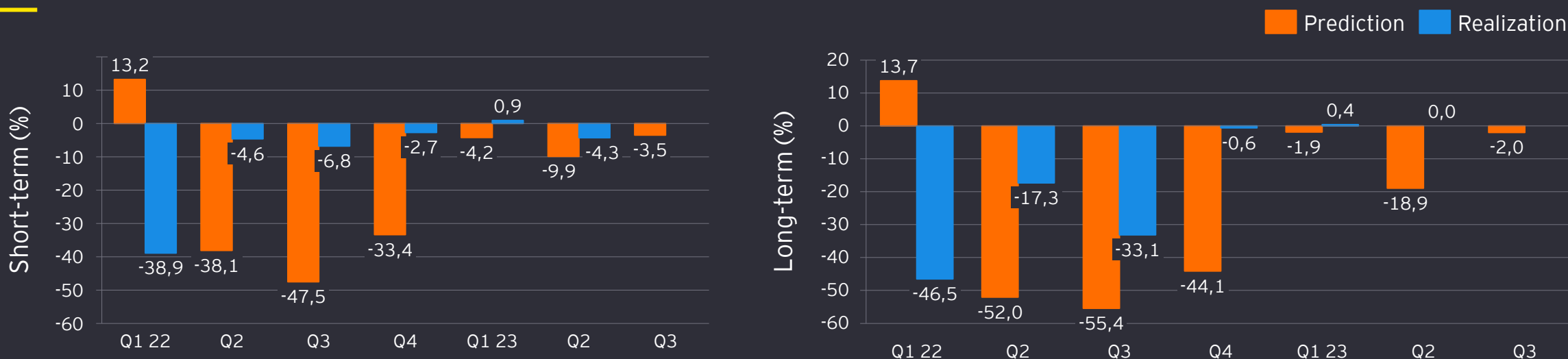
- ▶ After 3 quarters of decreasing value of bonds outstanding new issues caught up and slightly exceeded bond redemptions in Q2 2023, with upward trend continuation in Q3 2023.
- ▶ Relatively high number of oversubscribed offerings showcases that there is a significant demand available to be tapped.
- ▶ Q2 & Q3 2023 were characterized by decreasing yields of corporate bonds following interest rates cuts and strong disinflation.
- ▶ Apart from PLN denominated bonds, the market has seen a major issuance from Orlen S.A., which issued Eurobonds of EUR 500 m in face value in July - under its green bond issuance program established in May 2021.

Sources: www.gpwcatalyst.pl

Credit policy criteria

Banks foresee further tightening of loan criteria while experiencing a surge in demand for loans from large corporates

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



- ▶ In Q2 2023, banks were prompted by a deteriorating macroeconomic outlook and an increase in risky loans to tighten their credit policies across all loan segments.
- ▶ These policy changes led to a significant increase in demand for household loans, a decrease in demand for SME loans, and no significant changes for large enterprises.
- ▶ For Q3 2023, banks have announced further tightening of their lending criteria for all types of loans.
- ▶ Banks' expectations for Q3 2023 include tighter lending criteria for all types of loans for enterprises, with greater emphasis on SMEs. There is also an anticipated decline in demand for loans from SMEs, while demand from large enterprises is expected to increase.

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

Capital & Debt Advisory – key contacts



Ewa Mochocka
Partner

*Capital & Debt Advisory
leader in Poland*

Tel.: +48 660 440 042
Ewa.Mochocka@pl.ey.com



Paweł Antkowiak
Manager

Tel.: +48 504 112 788
Pawel.Antkowiak@pl.ey.com



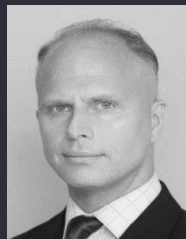
Joanna Truszkowska
Manager

Tel.: +48 519 033 772
Joanna.Truszkowska@pl.ey.com



Aleksandra Kerner
Manager

Tel.: +48 797 974 297
Aleksandra.Kerner@pl.ey.com



Dariusz Niemczyk
Manager

Tel.: +48 573 809 477
Dariusz.Niemczyk@ey.com



Wiktor Kopczyński
Senior Consultant

Tel.: +48 573 005 736
Wiktor.Kopczynski@pl.ey.com



Michał Jadczyński
Senior Consultant

Tel.: +48 519 033 706
Michal.Jadczyzyn@pl.ey.com



Michał Wróbel
Consultant

Tel.: +48 573 005 725
Michal.Wrobel@parthenon.ey.com

CDA Alert is prepared in cooperation with:

- *EY Chief Economist Marek Rozkrut*

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