

Rating Update:

Creditreform Rating revises Poland's outlook to "stable", affirming credit ratings at "A"

Rating Action

Neuss, 21 August 2020

Creditreform Rating has revised its outlook on the Republic of Poland to "stable" from "positive" and affirmed the unsolicited long-term sovereign rating of "A". Creditreform Rating has also affirmed Poland's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A".

Reasons for the Outlook Revision

The outlook on the Republic of Poland has been revised from positive to stable, reflecting

- (i) extreme uncertainty concerning the path of Poland's economic recovery going forward, as the return to pre-crisis output levels will be gradual and subject to uncertainty regarding second infection waves, the rebound of the euro area, and how permanent the damage dealt to global supply chains is; and
- (ii) significantly deteriorating public finances, with Poland's public debt ratio and public guarantees shooting up due to the authorities' pronounced, albeit indispensable, fiscal response; spending pressure had already built up prior to the crisis and may, coupled with disappointing economic growth and unfavorable demographics, result in deteriorating debt dynamics.

Highly adverse repercussions of the pandemic and containment measures should reduce Poland's real GDP severely, while abundant crosscurrents may hamper its return to pre-crisis levels

Since our last review, the economic environment has deteriorated to a dramatic extent. At the beginning of the year, decelerating output growth had been in the cards, but Poland's economy looked set to further display healthy growth going forward. Due to the outbreak of the novel coronavirus and its swift spread across industrialized and developing nations alike, economic activity in Poland will most certainly decline in 2020. Hence, we expect that the Covid-19 pandemic and the concurrent containment measures will put a sudden stop to Poland's run of uninterrupted growth witnessed since the early 1990s.

Available national accounts data shows that the Polish economy has suffered considerably, as real GDP contracted by 0.4% q-o-q in the first quarter and by 8.9% in the second. To be sure, the drop in total output was less severe from a European perspective. Euro area real GDP declined by 3.6% and 12.1% q-o-q respectively, plummeting to its lowest level since the beginning of 2005, thereby erasing the economic growth of more than a decade.

We think that the government's decisive response was key to preventing a more severe contagion of Covid-19 and will aid to cushion the worst economic fallout. Not only had authorities reacted swiftly in restricting economic activity, the government also prepared a comprehensive package of measures to protect its economy – the so-called Anti-Crisis Shield. The Shield rests

on five pillars, namely protecting employees, financing the corporate sector, supporting the healthcare system, safeguarding the financial sector, and aiding public investment. Further measures were subsequently legislated in April and June. These support measures were complemented by the Polish Development Fund (PDF) Financial Shield for Companies and Employees, geared towards backing companies with state loans, guarantees, and subsidies to warrant business continuity and financial liquidity, as well as the Covid Fund, which is at the disposal of the Prime Minister, being dedicated to all actions aimed at counteracting the adverse consequences of Covid-19.

The government's measures were flanked by the National Bank of Poland (NBP), which had sufficient monetary policy leeway to react to the Covid-19 crisis. NBP thus cut its main rate by 140bp between 17 March and 28 May and has kept it at 0.1% since then, whilst the reserve requirements were reduced by 300bp to 0.5%. Furthermore, NBP endorsed an open-ended quantitative easing program, according to which it purchases government securities and government-guaranteed debt to ensure liquidity in secondary markets and to strengthen the transmission mechanism of its monetary policy.

Thanks to the rapid implementation of the containment measures, the government already had its economy reopened by mid-June, following a four-phased strategy by which confinement measures were gradually eased. Nevertheless, Poland's economy will nosedive in 2020, and we project real GDP to decline by 4.9% before it should rebound by 4.5% next year.

As restricting business operations and personal mobility have been at the heart of government policies, this year's household spending will plunge. Although the authorities' measures should shield the labor market to some extent, labor market conditions will likely weaken and wage growth slow down significantly. Indeed, adverse effects have already become visible in recent data. Registered unemployment jumped from 5.4% this March to 6.1% in July, while July's average paid employment stood 3.3% below the previous year's level (Statistics Poland data). Meanwhile, nominal average monthly gross wages only increased by 1.9%, 1.2%, and 3.6% y-o-y in the months April to June after averaging 6.4% in 2017-19. Additionally, elevated uncertainty and concurrent risk aversion will likely weigh on households' spending decisions, inducing them to save a large proportion of their disposable income. Current consumer sentiment has begun to pick up, but remains depressed (Jul-20: -13.4, Apr-20: -36.4, CSO data).

Despite steady public investment as well as fiscal and monetary policy support, gross fixed capital formation should drag heavily on this year's economic growth performance. Lower industrial production, disrupted supply chains, and uncertain economic prospects will prompt companies to cut back on their investment plans or scrap them altogether. Mirroring the dim outlook for investment activity, Eurostat's new orders indicator fell sharply to -33.1 in Q2-20, whilst industrial capacity utilization dropped to 70.7% as compared to 80.2% observed in Q1 (2000-19 average 75.4%).

The pronounced drop in manufacturing output following voluntary plant closures alongside severe supply chain disruptions will take a toll on export growth. Mobility restrictions have weighed on services exports over recent months, essentially transport and tourism. Industry export expectations declined to their lowest point on Eurostat records going back to 1992. As we assume a somewhat less severe fall in import growth, net external trade should equally pose a drag on this year's growth.

We believe that the Polish economy hit its trough in the second quarter and that recovery should gain traction from the third quarter onwards, although we may see some setbacks over the coming months. Judging by short-term business statistics, signs of an incipient recovery are apparent. The volume of industry production sold jolted by 13.0% and 9.9% m-o-m in May and June respectively, after going down by 21.1% in April (Eurostat data, sa). Retail trade volumes also recovered following declines of 7.1% and 7.7% in March and April.

We have to stress that uncertainty concerning the path of Poland's economic recovery is very high, mainly due to the possibility of further infection waves – making it virtually impossible to project the further development of the Covid-19 pandemic, in particular as long as tested vaccines are not widely available. In this regard, the recent pick-up in the number of Covid-19 infections in Poland and elsewhere is a case in point, casting some doubt over a swift recovery. According to European Centre for Disease Prevention and Control data, the cumulative number for 14 days of Covid-19 cases in Poland is up and rising, climbing to 25.8 (per 100,000 inhabitants) on 17 August, surpassing the previous peak of 15.8 from mid-June. We view this as all the more important, as the path of the economy is not only dependent on the development of Covid-19, but also hinges on the fear of the virus and the potential adaption in economic agents' behavior.

Uncertainties concerning Poland's recovery are compounded by downside risks related to economic development in the euro area as whole. As economic perspectives may become gloomier going forward and households' discretionary spending decisions could be further postponed, the same applies to corporate investment plans. We also have to point out the risk that government measures may fail to prevent jobs from becoming permanently lost, also bearing in mind that Poland exhibits an elevated - though declining - percentage in precarious employment (2019: 3.2%) and one of the highest shares of self-employment in total employment in Europe (Q4-19: 17.3%). Finally, the recovery may be substantially hampered by persistently damaged global value chains and intensifying global trade tensions.

[Imperative fiscal response to Covid-19 should pose transitory setback to Poland's public finances, but more sustained increase in public debt cannot be ruled out](#)

The Covid-19 pandemic has not only altered the economic environment, but has also materially changed the context for our outlook regarding the sovereign's fiscal metrics. We now expect Poland's public finances to deteriorate significantly in the near future, for two reasons: first and foremost, in response to the outbreak of Covid-19 authorities stepped in forcefully, implementing an extensive set of fiscal measures (the Shield, see above). The initial package included, inter alia, financial relief for companies via suspended social security contributions, deferred taxes, and the partial coverage of employees' salaries. Furthermore, self-employed and workers under civil law contracts receive one-off benefits, and spending on healthcare and social needs was raised. Later on, authorities extended already decided measures such as the social and health insurance exemptions, and enacted additional initiatives, e.g. ramped-up unemployment benefits, a solidarity benefit for workers laid off after 31 March, and a tourism allowance for families with children. At present, we reckon that discretionary measures with a budgetary impact sum up to approx. PLN 104bn in 2020, including the balance sheet of the COVID fund. In addition, the government introduced state guarantees and loans financed by the PDF (PLN 100bn, the Financial Shield), a new liquidity fund (approx. PLN 17bn), and the new COVID fund (PLN 100bn).

On the other hand, revenue will come in significantly below previously expected levels, as the contracting economy will result in faltering tax and social security receipts. Monthly state budget execution data underline weak prospects for 2020. Total revenues from January to May posted 3.6% below the previous year's level, with the CIT and PIT intake plunging by 58.3% and 31.8% in April alone. At the same time, revenue will decrease due to PIT changes geared towards lowering the labor tax wedge and a PIT suspension for young taxpayers. Taken together, this will presumably bring the headline deficit to approx. 10.5% of GDP in 2020. In this context, we have to highlight that we incorporate 50% of the Financial Shield into our deficit forecast (approx. 2.3% of GDP), as the government states that up to approx. PLN 60bn of the financial support may be written off if the respective enterprises fulfill certain criteria.

Hence, we expect that the sovereign's public debt ratio will shoot up to just short of 60% of GDP in 2020. Still, we are not overly concerned over fiscal sustainability at this stage, which is buttressing our stable outlook, for four main reasons: Firstly, Poland entered the Covid-19 crisis from a rather favorable starting position. Even after accounting for the tremendous surge in public debt, it will prospectively end up in a better position than most of its European peers before the outbreak of Covid-19. Secondly, the sovereign has demonstrated fiscal prudence over recent years, underscored by the successful reduction of the public debt ratio in 2013-19, as well as by proven effort to enhance its budget system (see below). In this vein, we expect public debt to stabilize as measured by GDP next year on the back of economic recovery and waning support measures. Thirdly, the sovereign enjoys sustained market access and debt should remain highly affordable, not least due to NBP's QE program. The asset purchases support compressed costs of financing and the sovereign's debt service, corroborating our view that financing additional borrowing requirements gives no reason for concern in the near term. Polish 10y government bonds yielded a low 1.283% (weekly data as of 31 July), down from roughly 2.0% at the time of our last review. According to NBP data, the QE program's volume had reached approx. PLN 102.9bn by 24 July. We gather that NBP stands ready to scale up its program in case further infection waves occur. Lastly, Poland (as many other CEE peers) is among the main beneficiaries pertaining to grants under Next Generation EU, receiving an estimated amount of roughly 5.1% of 2019 GDP.

At the same time, we note that spending pressure had already built up prior to the crisis given an increasing public wage bill and comprehensive social policy measures. The most relevant programs subsumed under social transfers in the CP2020, which come on the back of a continuation of previous policies, but also of newly introduced instruments under the Shield, serve as a reminder in this respect, coming at a fiscal cost of approx. PLN 70bn in 2020 (3.1% of GDP). Over recent years, more ambitious spending plans have been backed by improved tax administration and vivid economic growth which fed into strong tax revenues. Should the economic recovery disappoint, fiscal sustainability may be called into question. Against this backdrop, it is worth noting that the eventual scale and volume of the measures to overcome the Covid-19 crisis are uncertain, yet, and may be scaled up in the event of a renewed Covid-19 escalation or if authorities deem this as necessary. What is more, contingent liabilities associated with public guarantees and unfavorable demographics may aggravate fiscal risks. Poland displays a diminishing working-age population (15-64yrs), which amounted to 67.0% of total population in 2019, and is projected to decline further, to 63.8% by 2030. At this level, however, it would still exceed the EU27 average (EUROPOP2019, Eurostat data).

Reasons for the Rating Decision

In the wake of the dramatic events surrounding the outbreak of the new coronavirus, economic activity experienced a severe setback which has been unparalleled in modern history. Still, we stand by our opinion that the sovereign's macroeconomic performance profile is a key rating strength. Poland's track record of strong and inclusive growth has supported sustained income convergence towards EU levels. According to the assumptions underlying our baseline scenario, its economy should return onto this path over the coming years – not least because of the high degree of diversification and competitiveness.

Latest outturn data for Poland's national accounts confirmed that its economy has somewhat bucked the trend of easing international trade and weakening economic growth observed in large parts of Europe. Poland thus recorded still strong real GDP growth of 4.1% in 2019, having slowed down compared to 2018 (5.3%), but remaining close to the five-year average (2015-19: 4.2%) and well above the EA19 and EU27 averages of 1.3% and 1.5% respectively. In contrast to many other EU27 member states, net external trade made a valuable contribution to last year's growth (1.2 p.p.). Decelerating output expansion was mainly due to stockbuilding, which posed a significant drag on growth (-1.4 p.p.).

Steady economic growth has facilitated per capita income convergence over the last decade. As illustrated by Eurostat data, PPS-based GDP per capita climbed from 71% to 73% of the weighted EU27 average in 2018-19. Having risen by 10 p.p. since 2010, Poland is among the fastest-converging economies in Europe. That being said, we have to reiterate that Poland still has scope to improve, as its economy is trailing that of several CEE peers such as the Czech Republic (92%), Slovenia (88%), and Estonia (84%), whilst being on par with Hungary (73%).

We believe that strong macroeconomic fundamentals and the absence of major imbalances put the Polish economy in a position to recover strongly going forward. Prior to the crisis, labor market metrics such as the quarterly LFS adjusted unemployment rate stood at a record-low 2.8% in this year's first quarter. Despite last year's surge to 2.1%, the five-year average annual HICP inflation rate is moderate (0.8% vs. EU27: 1.0%), and Poland's private sector commands over sizable risk buffers, as reflected by debt levels which are very low from a European perspective, totaling 73.3% of GDP in 2019 (Eurostat consolidated financial balance sheet data). Strong underlying growth corroborates our view of sound fundamentals, with Poland displaying one of the highest readings for estimated potential output for 2021 in latest AMECO data (3.4%, EU27: 1.4%).

The impression that the Polish economy is somewhat more resilient may also be traced back to the fact that its economy is comparatively less open than that of its fellow EU members (trade-to-GDP 106.3% in 2019) and is highly diversified, as illustrated by UNCTAD's merchandise export product concentration index (2018: 0.063, 2nd worldwide). Moreover, its economy seems less dependent on industries which were among the most heavily-hit, with e.g. tourism accounting for 6.0% of GDP (2018 OECD data), and arts, entertainment, etc. standing for only 2.1% of gross value added (Q1-20, EU27: 3.2%, Eurostat). Furthermore, the Polish economy should remain highly cost-competitive, and has been able to steadily expand its global export market share, recently from 1.31% to 1.35% in 2018-19.

We deem the sovereign's institutional conditions as generally high, though we recall that the World Bank's Worldwide Governance Indicators (WGI) have deteriorated recently, and that the sovereign achieves lower WGI scores across the board than the EU average and our 'A' median.

While Poland draws significant benefits from EU membership, the dispute over judicial independence between Polish authorities and the EU drags on. With a view to the new law on the Disciplinary Chamber of the Polish Supreme Court, the European Commission launched an infringement procedure on 29 April. According to the Commission, the law violates EU law, as it would undermine the independence of Polish judges and not comply with the primacy of EU law.

We uphold our view that the current administration led by the national conservatives (PiS) will continue to make a constructive contribution at the European level, but will maintain their views over judicial reforms going forward. This is all the more so as PiS-close President Duda was re-elected this July. In this vein, we expect that tensions with the EU over questions centered on the interpretation of the principle of rule of law will continue and may even intensify. Under a rather unlikely downside scenario, increasing policy uncertainty and a perceived erosion of rule of law may depress investors' sentiment, potentially causing them to refrain from investing in Poland.

Meanwhile, the EC urged linking rule of law to the 2021-27 Multiannual Financing Framework (MFF) as well as to the European recovery fund. However, in clinching a deal on the new MFF and the recovery effort under Next Generation EU, no binding mechanism has been introduced and intentions have been watered down in this regard.

Notwithstanding this year's costly, though indispensable, Covid-19 fiscal measures, we continue to regard public finances as a credit strength reinforcing the sovereign's ratings. Fiscal risks are mainly mitigated by so far moderate debt levels and increasingly high debt affordability, the latter being mirrored by interest outlays which accounted for 3.3% of general government revenue in 2019.

Although authorities have embarked on a more expansionary path, the budget has been kept in check. Last year's headline deficit eventually came in at 0.7% of GDP, widening from 0.2% of GDP in 2018, largely driven by higher spending related to social transfers. Total expenditure thus rose by 8.5% on the year, propelled by social benefits which leapt by 12.2%, posting at 17.5% of GDP (2018: 16.7%), whilst the public wage bill saw an increase of 7.8%. Vivid expenditure growth was cushioned by lower public investment that fell from 4.7% to 4.3% of GDP, and by robust economic growth, which translated into higher intakes of income and wealth taxes (+9.6%) and net social contributions (+8.7%).

Accordingly, Poland's general government debt has continued to follow its favorable trend, having dwindled to 46.0% of GDP (2018: 48.8% of GDP). With this, its public debt ratio is also one of the lowest in Europe, posting well below the EU27 average of 77.8% of GDP. That being said, we have to point out risks emanating from relatively high share of foreign currency-denominated debt, although these risks have been subsiding over recent years. The share of foreign currency debt in the total State Treasury debt amounted to 23.3% this May, down from 26.4% at the end of 2019 (2014: 36.1%). We note that authorities continue to follow a debt management strategy aimed towards a continued reduction in the share of foreign currency debt.

In terms of its fiscal framework, the government continues to move forward with its landmark Budget System Reform aimed at the implementation of a medium-term budget framework, and has so far yielded the introduction of a stabilizing expenditure rule, introduced back in 2015. While authorities still focus on annual budgets, we think that a move towards a multiannual

planning process would prove beneficial in terms of bolstering medium- to long-term fiscal sustainability and enhancing accountability. We note that the IMF in its recent technical assistant report attested the Polish government to have made good progress, though further substantial efforts are needed. At present, we have no visibility on a completion date. Meanwhile, the government tabled a corporate income tax reform for SMEs ('Estonian CIT') in June, according to which the taxation of corporate profits would be postponed until the time of profit distribution. In our view, this may generate some leeway for SMEs to use the proceedings for expansion investment or research and development. In addition, policy-makers are striving towards further enhancing the efficiency of tax administration.

We deem the relatively small banking sector (total assets of 89.6% of GDP) as sound, not entailing fiscal risks at this point of time. In view of the Covid-19 pandemic, the development of the number of insolvencies should be monitored, as more wide-spread insolvencies may give rise to the somewhat elevated NPL ratio further afield (Q1-20: 4.8%, EU average 3.0%). Whilst affordability indicators such as the price-to-income ratio do not hint at risks on the residential property market, house prices continued to rise until the end of 2019.

Poland's vulnerability to external influences continues to be rather limited. Although the net international investment position (NIIP) remains highly negative, we have witnessed a rapid improvement over the last two years. Poland's NIIP thus narrowed markedly from -61.2% to -50.1% of GDP in 2017-19 (2019 net FDI -35.6% of GDP), and further to -46.4% of GDP in Q1-20. Its current account has been broadly balanced over the last five years, and shifted into positive territory in 2019 (0.4% of GDP).

Rating Sensitivity

Our Rating outlook on the Republic of Poland's long-term sovereign ratings is stable, as we see risks related to its deteriorating economic and fiscal performance entailed by the corona crisis as broadly offset by the factors mitigating fiscal risks and by the economy's sound fundamentals. That being said, it has to be highlighted that the evolution of the corona pandemic is extremely uncertain. Hence, the assessment of the further economic development is extraordinarily uncertain and significantly more difficult than usual, as is the case for other metrics.

We could lower Poland's rating or outlook if medium-term growth falls short of our current expectations, with adverse ramifications for income convergence, if mounting spending pressure coupled with disappointing economic growth and unfavorable demographics leads to a derailment of debt dynamics, and/or if perceived institutional quality deteriorates further.

Although rather unlikely as of now, we could raise the rating or outlook if Poland's economy recovers faster than expected, so that lost output is recouped in a timely fashion, or if we observe a lasting détente in relations between Polish authorities and the EU, implying a settlement of the dispute over judicial independence. Upward pressure would also result from a sustainably declining debt-to-GDP ratio.

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Ratings*

Long-term sovereign rating A /stable

Foreign currency senior unsecured long-term debt A /stable

Local currency senior unsecured long-term debt A /stable

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e
Real GDP growth	3.3	3.8	3.1	4.9	5.3	4.1	-4.9
GDP per capita (PPP, USD)	25,411	26,670	27,799	29,717	32,005	33,891	n.a.
HICP inflation rate, y-o-y change	0.1	-0.7	-0.2	1.6	1.2	2.1	2.7
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	77.8	77.5	78.0	77.8	77.7	n.a.	n.a.
Fiscal balance/GDP	-3.6	-2.6	-2.4	-1.5	-0.2	-0.7	-10.5
Current account balance/GDP	-2.1	-0.6	-0.5	0.1	-1.0	0.4	n.a.
External debt/GDP	72.7	71.8	76.4	67.0	63.8	58.8	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In what follows, we explain how and to which degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down [key principles of the impact of ESG factors on credit ratings](#).

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank’s Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating’s assessment of the sovereign’s institutional set-up, which we regard as a key rating driver, we consider the ESG factors ‘Judicial System and Property Rights’, ‘Quality of Public Services and Policies’, ‘Civil Liberties and Political Participation’, and ‘Integrity of Public Officials’ as highly significant to the credit rating.

Since indicators relating to the competitive stance of the sovereign such as the World Bank’s Ease of Doing Business index and the World Economic Forum’s Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor ‘Business Environment’ as significant.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

ESG Factor Box



Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	31.03.2017	A /stable
Monitoring	02.03.2018	A /stable
Monitoring	01.03.2019	A /stable
Monitoring	21.02.2020	A /positive
Monitoring	21.08.2020	A /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Ministry of Finance (MoF) participated in the credit rating process as MoF provided additional information on the government's initiatives to support the Polish economy and commented on a draft version of the rating report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of MoF during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's ["Sovereign Ratings" methodology](#) (v1.2, July 2016) in conjunction with its basic document ["Rating Criteria and Definitions"](#) (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG's rating methodologies and basic document "Rating Criteria and Definitions" is published on our [website](#).

To prepare this credit rating, CRAG used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, UNCTAD, National Bank of Poland, Republic of Poland - Ministry of Finance, Statistics Poland.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No

conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG's "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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