Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF POLAND	Assigned Ratings/Outlook: **A /stable**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	31-03-2017 19-07-2024 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 19 July 2024

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A" for the Republic of Poland. Creditreform Rating has also affirmed Poland's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A". The outlook is stable.

Contents

Rating Action 1
Key Rating Drivers 1
Reasons for the Rating Decision and Latest Developments 2
Macroeconomic Performance 2
Institutional Structure 4
Fiscal Sustainability 5
Foreign Exposure 8
Rating Outlook and Sensitivity 8
Analysts 9
Ratings* 9
ESG Factors 9
Economic Data 11
Appendix 11

Key Rating Drivers

1. Large, competitive and diversified economy; continued income convergence towards the EU level, despite the recent GDP growth slowdown; we expect accelerating GDP growth this year, with private and public consumption likely to be important drivers, and a further strengthening growth rate in 2025

2. Medium-term growth prospects remain positive, aided by the recent unlocking of access to EU funds via NextGenerationEU (NGEU) and the Multiannual Financial Framework (MFF) 2021-2027, which should be conducive to fostering potential growth

3. Generally high institutional quality, including the benefits associated with NATO and EU membership, although partly balanced by a protracted phase of disharmony over EU guiding principles in recent years; under the new government, consisting of former opposition parties and in place since December, steps towards closer alignment with EU guiding principles have facilitated disbursement of NGEU funds, from our perspective also representing some reassurance over policy predictability

4. Despite our expectation of an unfavorable debt trajectory, we assess fiscal sustainability risks as limited; while crisis support has been cut back, spending pressure via defense and social expenditure, as well as higher interest outlays, looks set to contribute to a relatively high fiscal deficit; we expect the public debt ratio to continue to rise, but to remain under 60% of GDP Maastricht level this year and next; the banking sector gives an overall resilient impression, with risks linked to remaining legal decisions on foreign-exchange-denominated mortgages persisting but appearing manageable

5. Steadily improving negative net international investment position, pointing to further receding external vulnerabilities; incoming FDI has continued its favorable path, additionally mitigating external risks; following a volatile phase due to the recent succession of crises, we expect the current account balance to post small surpluses in the near term

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Poland's credit rating is underpinned by a strong macroeconomic profile, which includes its competitive and well-diversified economy as well as very low unemployment. Despite the successive global economic shocks, income convergence towards the EU level has continued over recent years. Considerable government support to shield the private sector from the adverse effects of the pandemic and the wars in Ukraine and the Middle East has contributed to stabilizing GDP performance during this period, although total output expansion slowed markedly last year. While the reliance on fossil fuels remains pronounced, reorientation of previous energy trade with Russia has progressed well and is flanked by efforts towards enhancing energy security via other energy sources. Following considerable delay, the eventual unlocking of funds linked to the EU's Recovery and Resilience Facility (RRF) backs constructive growth prospects for the medium term, notwithstanding some uncertainty around the further speed of the implementation of the Recovery and Resilience Plan (RRP). Sizeable cohesion funds via the MFF 2021-2027 further underpin the positive growth outlook, while unfavorable demographics could pose growth constraints in the longer term.

Following strong economic growth in 2021 and 2022, Poland's real GDP only expanded by a modest 0.2% last year, a weaker increase than registered for the EU as a whole, and more modest than we had expected in our last review (Jul-23). That said, a massive drag is ascribed to inventory changes, estimated to have taken more than five percentage points off GDP growth. However, declining private consumption also contributed negatively, subtracting another 0.6 percentage points.

By contrast, investment added to growth, contributing 2.2 percentage points, primarily as public investment was boosted by the finalization of projects linked to the 2014-2020 EU MFF. Residential construction, on the other hand, posted a second consecutive decline in 2023, weighed down partly by high interest rates and high construction costs. Net exports were a growth driver as well, with rising exports making a more positive contribution than falling imports.

Recent quarter-on-quarter GDP rates have been volatile, with total output expanding by 0.5% in Q1-24, following stagnation in Q4-23. Sentiment indicators paint a mixed picture for the second quarter, with the business climate in the industry remaining rather subdued. Consumer confidence has improved lately, supporting expectations for more vigorous private consumption.

We expect private consumption to be a driver for rebounding growth this year, backed by a relatively robust labor market and vivid wage growth, and additionally bolstered by the indexation of social spending. The average y-o-y increase in monthly gross wages and salaries in the enterprise sector was 11.4% in May-24 (Statistics Poland). Moreover, the minimum wage is to be increased in two stages, ultimately rising by almost 20% as compared to Dec-23. Poland's HICP inflation rate stood at 2.8% in May-24 (Eurostat), having averaged 10.9% in 2023. That said, inflation looks set to drift upward over the coming months, partly due to a higher cap for gas and electricity prices.

---

[1] This rating update takes into account information available until 12 July 2024.

At 3.0% as of May-24, the Polish unemployment rate remains close to its record-low average of 2.8% in 2023 (Eurostat data). However, following near-stagnation in 2023 (0.1%, Eurostat data), employment growth has been negative y-o-y lately (Q1-24: -0.8%). Labor participation continued to rise in 2023, further narrowing the gap towards the EU level (PL: 74.5% vs. EU: 75.0%). This also applies to the elderly age cohort (55-64y), where there remains a larger gap towards the EU level and most CEE peers. Labor market integration of refugees from Ukraine seems comparatively advanced in the EU context, with about 65% of the war refugees in employment, according to OECD estimates (2023).

Ongoing high financing costs are likely to weigh on private investment, whereas public investment should be a supportive factor bolstered by funding via the RRF, although we expect less pronounced investment growth than in 2023 overall. While the absorption of RRF funds has been very slow, not least due to a phase of protracted political controversy with the EC, a first disbursement of EUR 6.3bn (3.6bn of which in loans and EUR 2.7bn in grants) was made in Apr-24, apart from EUR 5bn in pre-financing released in Dec-23.

The meanwhile modified RRP, including the REPowerEU chapter, is now worth EUR 59.8bn (roughly 8.0% of 2023 GDP), composed of EUR 34.5bn in loans and EUR 25.3bn in grants. Moreover, cohesion policy funding of EUR 75.5bn is generally available for the 2021-2027 MFF period. Timely absorption could become somewhat challenging, given the preceding delays and possible administrative capacity constraints.

Assuming further - albeit possibly slow - monetary policy easing among major export destinations, prospects for Poland's export growth are improving, and in our opinion more so with a view to 2025. That said, against the backdrop of likely rising domestic demand, we do not expect net exports to make a positive growth contribution this year. In 2025, their growth impact could be more neutral.

At this stage, we forecast real GDP growth to increase to 2.6% in 2024 and to 3.6% in 2025, with downside risks associated with the geopolitical tensions remaining prominent. That said, given the recent progress in terms of releasing RRF funds, we think that the medium-term growth outlook ultimately remains positive.

Adding to the strong macroeconomic profile, Poland's global export market share continued to climb last year, reaching 1.53%, boosted by higher shares in both goods and services, and pointing to the ability to maintain a competitive economic stance in a challenging international environment. Nevertheless, potentially adverse effects of strong wage growth on Poland's cost competitiveness may have to be monitored going forward. From a non-cost point of view, the 2024 IMD world competitiveness ranking attests Poland to have progressed, with the country now ranking 41st out of 67 economies. At the same time, the assessment highlights scope to strengthen business efficiency and government efficiency. In this context, we recall that the ratio of private investment to GDP remains one of the lowest in the EU (2023: 12.8%, AMECO data).

Similarly, despite further progress, Poland's performance regarding digitalization is considered to be below the EU average, as pointed out by the EC in its Digital Decade report 2023. Among other areas, there remains room to improve digital skills and the digital infrastructure, as well the digitalization of businesses. With a view to the perception of innovation capabilities of 132 countries included in the UN's global innovation index (2023), Poland recently ranked 41st, behind the majority of EU members.

Notwithstanding this, Poland continues to compare favorably with both EU and CEE countries in terms of estimated potential growth, with current estimates of 2.8% for both 2024 and 2025 regarding the latter, building on a relatively strong track record over recent years (average of 3.6% p.a. over the period 2014-2023, AMECO data). Effective implementation of the measures and initiatives included in the RRP should contribute to fostering its underlying growth, also taking into account largely favorable productivity developments when compared with other CEE countries.

Institutional Structure

We continue to assess Poland's institutional quality as generally high. Advantages linked to its EU membership, including access to the large single market as well as to deep and broad capital markets, contribute considerably to this assessment, as do sound frameworks regarding monetary policy and financial supervision. NATO membership enhances the sovereign's security architecture. The institutional strengths are balanced to some extent by a phase of recurring dissonance over adherence to EU rule of law and supremacy of EU law versus national law in past years, which in our view has borne some reputational risk. Following last year's parliamentary election, a rapprochement has taken place under the new governing coalition, consisting of former opposition parties. The outcome of the next presidential election, which has to be held by May-25, will also play a part with regard to predictability of policymaking more generally.

The latest set of the World Bank's Worldwide Governance Indicators (WGIs), referring to the year 2022, by and large backs the generally high quality of Poland's institutional framework. That said, Poland's relative ranks as regards the four dimensions on which we put the highest emphasis when assessing the institutional quality of a sovereign see it trailing the median of our A-rated sovereigns. Moreover, they remain below the respective median rank of the EU members, following a worsening tendency over recent years, with Poland ranking 82nd out of 213 economies in terms of 'Government Effectiveness' (EU median rank: 43), 68 when it comes to 'Control of Corruption' (EU median: 52), rank 77 regarding 'Rule of Law' (EU median: 37) and rank 73 (vs. EU median rank of 37) in terms of 'Voice and Accountability'.

In the Oct-23 parliamentary election, the right-leaning PiS became the strongest party, but failed to form a coalition. Under the leadership of the previous prime minister Tusk (civic coalition, KO), a coalition of KO, the conservative alliance Third Way (TD) and The Left (Lewica) was eventually formed in Dec-23, commanding a majority of 248 seats out of the 460-seat Sejm. While the domestic political landscape remains fragmented and arguably somewhat polarized, we expect the rapprochement in terms of compliance with EU guiding principles to be conducive to further unlocking EU funds.

As a recent case in point, ending controversy over the disciplinary regime for judges, the EC concluded in Feb-24 that Poland had strengthened important aspects of the independence of the Polish judiciary through reforming the disciplinary regime for judges, with this step being considered one of the 'super milestones' to be fulfilled in order to unlock RRF funds in the above-mentioned first disbursement. The Action Plan for restoring the rule of law, presented by Poland in Feb-24, includes nine proposed laws concerning the National Council of the Judiciary, the Supreme Court, the Constitutional Tribunal and the separation of the offices of the Minister of Justice and the Prosecutor General.

Arriving at the conclusion that that there is no longer a clear risk of a serious breach of the rule of law in Poland, the EC closed the Article 7(1) procedure under the Treaty on European Union in May-24, removing the imminent possibility of suspension of certain EU membership rights. Further implementation of the abovementioned Action Plan will continue to be monitored under the EC Rule of law report process, with the 2024 report pending. Progress in other areas includes the enactment of the whistleblower protection law (Jun-24). We also note that preparatory steps are being taken towards establishing a fiscal council largely in conformity with EU guidelines.

In terms of greening the economy, Poland's modified RRP allocates roughly 47% of the available funds to measures broadly fostering climate objectives. Poland continues to display scope for improvement, as also suggested by the Eco-innovation index, which ranks Poland second-to-lowest among the EU members (reference year 2022). The overall share of renewable energy climbed to 16.9% in 2022, ranging in the lower third among the EU-27 economies (EU-27: 23.0%, Eurostat). Tying in with this, Poland ranges well above the EU average in terms of greenhouse gas emissions per capita (2022: 10.4 tons vs. EU: 7.8 tons).

The recently updated National Energy and Climate Plan (NECP, Feb-24) continues to foresee that coal mining will not be phased out before 2049. That said, and against the backdrop of a relatively high reliance on fossil fuels in the European context, efforts have been stepped up to drive the green transformation. The recent disbursement of pre-financing under REPowerEU (Dec-23) is to be directed towards supporting the streamlining of processes for granting permits for renewable energy sources, their integration into electricity grids, and the energy efficiency of buildings. Apart from that, the government is committed to continuing to foster the development of nuclear energy in order to strengthen energy security. A first nuclear power plant is envisaged to be built in Pomerania from 2026, with operations currently estimated to start from the middle of the next decade.

Fiscal Sustainability

Despite a weaker outlook for fiscal metrics in the near term, including higher interest payments, we consider fiscal sustainability risks to be limited. Our view is underpinned by a relatively moderate, albeit rising, debt level on the European scale, a track record of prudent fiscal planning prior to the recent global crises, and by steps taken towards further strengthening the fiscal framework. These factors are somewhat balanced by an elevated level of foreign exchange debt. We will continue to monitor remaining legal risks for domestic banks in the context of foreign-currency-denominated mortgage loans, although these appear manageable overall, and a recently increased level of state guarantees.

Poland's headline deficit continued to widen, posting at 5.1% of GDP in 2023, thus comparing unfavorably in the European context (EU-27: -3.5% of GDP in 2023, Eurostat). The higher deficit came as a result of ramped-up defense expenditure, rising public wages and social spending, as well as higher interest outlays, ultimately resulting in a substantial increase in total general government spending by 18.9% in 2023 (2022: 15.6%). The net cost of energy support is estimated to have shrunk to 0.6% of GDP in 2023 (EC intelligence). In terms of debt servicing costs, Poland saw interest payments soar by 50.7% y-o-y last year. At 2.1% of GDP or 5.0% of total revenue (2023), the respective interest rate ratios are among the higher ones in the EU.

Total general government revenue leapt by 15.0% in 2023 (2022: 11.1%), boosted by a robust labor market and respective social contributions, and notwithstanding a slowdown in economic activity and adverse effects on tax revenue from the 2022 reform of personal income tax.

With defense expenditure as well as social and health care spending remaining priorities, flanked by substantial increases in salaries for teachers and public administration employees, Poland's general government deficit looks set to remain pronounced this year. Social spending increases include a universal allowance for families under the "Family 800+" program, family care capital, as well as payment of a 13th and 14th pension this year.

With regard to the current year, drawing on monthly budget implementation data for the central government level relating to the period Jan-May-24 (cash basis), we observe an increase in expenditure by 32.4% and an increase in revenue by 20.7% y-o-y. The derived balance appears to suggest a somewhat more favorable course than budgeted.

At this juncture, despite the expected improving economic growth picture this year, we expect the general government deficit to slightly widen to 5.4% of GDP. Based on our assumption of cyclical tailwinds picking up some pace in 2025, accompanied by an envisaged further winding down of support measures, we estimate the headline deficit to come in lower next year, hovering at around 4.5% of GDP. Risks around these forecasts remain pronounced, in particular given the highly unpredictable geopolitical developments.

Notwithstanding the current challenges to public finances, and whilst being aware of the EC's proposal to open an excessive deficit procedure (EDP) for Poland alongside six other EU members under the new fiscal governance regime in force since the end of Apr-24, we tend to view a track record of prudent fiscal planning prior to the recent successive crises as a factor lending confidence over authorities' commitment to fiscal consolidation. A medium-term consolidation strategy under the new set of EU fiscal rules is to be presented this fall. The multiannual state financing plan 2024-2027 (WPFP, Apr-24) envisages the headline deficit to shrink to 3.3% of GDP in 2027.

In this context, we gather that an initially announced significant increase in the annual tax-free allowance prior to the election is to be postponed, possibly to the end of the parliamentary term in 2027. Moreover, with a view to structural developments, and as suggested in April's WPFP, the fiscal framework is on course to being further strengthened, including a review of the Stabilizing Expenditure Rule and preparatory steps for the establishment of an independent fiscal council more aligned with the EU standards. Further to this issue, it is worth noting that the Supreme Audit Office (NIK) in a recent assessment (Jun-24) mentioned a desirable enhancing of the transparency in the public finance system as regards extra-budgetary funds, partly related to the role of funds serviced by Poland's development bank (BGK).

Poland's government debt stock climbed to 49.6% of GDP in 2023, continuing to exceed the pre-pandemic reading (2019: 45.7%), whilst comparing as moderate with the EU debt-to-GDP (EU 2023: 81.7% of GDP). According to the Ministry of Finance (MoF), the ratio rose to 51.4% of GDP in Q1-24 (Jun-24). In light of the expected high fiscal deficits, likely stock-flow adjustments related to defense investment, and climbing interest expenditure, we project Poland's general government debt-to-GDP ratio to increase to 53.7% this year and to 57.7% in 2025.

Overall, despite the recent unfavorable developments and expected rising public debt ratio in the near-to-medium-term, we ultimately continue to regard fiscal sustainability risks as limited. Apart from the still relatively moderate debt-to-GDP level and a track record of prudent fiscal

planning, mitigating factors also include a diversified investor base, an increasing average maturity of the debt portfolio (5.88 years as of May-24 vs. 5.25 years as of end of 2023), as well as a high level of official reserves (roughly EUR 195.8bn, or 26.1% of 2023 GDP, as of end of Jun-24, NBP data). The share of government debt denominated in foreign exchange remains elevated, standing at 25.5% as of Q1-24 (Ministry of Finance, MoF, data), with the bulk thereof (21.3 p.p.) in EUR.

As regards contingent liabilities, we understand that debt guaranteed by the government amounted to a total of roughly PLN 542.8bn in Q1-24 (Statistics Poland) or app. 15.9% of 2023 GDP, corresponding to an elevated level, which we will continue to monitor. Contingent liabilities linked to Poland's banking sector seem manageable. Profitability (RoA) has improved in the higher interest rate environment, and vulnerabilities associated with legal risks linked to foreign-exchange-denominated mortgage loans seem to have ebbed to some extent in light of progress regarding voluntary settlements over recent years, as also the NBP notes, and further provisions are being made to cover expected costs.

Costs for the banking sector are somewhat amplified by loan repayment holidays, which have partly been extended. Whilst the NPL ratio represents the highest among the EU members (PL: 4.1% as of Q1-24 vs. EU: 1.9%, EBA data), it has nevertheless continued to decrease. Moreover, the sector displays a healthy capitalization level, with the CET1 ratio above the European average (PL: 16.6% vs. EU: 16.0% as of Q1-24). Following the strategy adopted by the Financial Stability Committee in Mar-24, and in a bid to further strengthen the resilience of the banking sector, the target level of the countercyclical capital buffer is to be raised to 2% in two stages within two years, as per the decision from Jun-24.

The yield on Polish 10-year sovereign bonds has edged up over recent months, given that rate cut expectations have been pushed back. At 5.69% as of 12-Jul-24, it remains below an interim peak reached in Oct-23 (06-Oct-23: 6.0%, weekly data). Having lowered its main policy rate for the first time in three years by 75bp to 6.0% in Sep-23 and by a further 25bp to 5.75% in Oct-23, the NBP has since maintained its reference rate at this level. With inflation rates expected to experience a marked increase over the coming months and to average well above the 2.5% target next year, further rate cuts look unlikely to take place before the middle of 2025 from the current perspective.

Lending to the private sector seems to have passed its trough in 2023, with y-o-y rates of outstanding credit in positive territory (ECB data, Apr-24). In particular, outstanding mortgage loan volumes saw brisk growth, boosted partially by the '2% Safe Mortgage' housing loan subsidy program introduced under the previous government, which is set to be replaced by a somewhat more targeted subsidized mortgage scheme ('#naStart'), in particular aiming to support families with children. At the same time, house prices are trending upward, with their annual rate of change surging to 18.0% in Q1-24 (Q1-23: 5.8%, Eurostat), likewise boosted by the loan subsidy program, and with the relatively large number of refugees from Ukraine likely adding to pressure on property prices

Poland remains exposed to unfavorable demographic developments, weighing on the medium-to-long-term sustainability of public finances. Drawing on estimates incorporated in the most recent EU ageing report (May-24), age-related costs could increase noticeably, from 19.1% of GDP in 2022 to 20.5% in 2030, which would likely still compare favorably by European comparison (EU: 24.6% of GDP in 2030).

Foreign Exposure

Sizeable international reserves, the composition of the increasingly less negative NIIP, and the shift of the current account to a surplus with strong performance from the service sector, back our assessment of limited external vulnerabilities.

The current account balance swung into a surplus to the tune of 1.6% of GDP last year, on the back of a considerable shift to a moderately positive goods trade balance, in turn driven by lower energy prices and lower import demand. This latest surplus compares with an average deficit of the current account balance of 0.8% of GDP over the 10-year period up to and including 2023. At 5.3% of GDP in 2023, Poland's surplus in services trade maintained a higher level than registered over prior years. Drawing on (nominal) annual data on service exports (BoP data, Eurostat), the service surplus was chiefly boosted by the transport sector, as well as by other business services and ICT services.

We expect the current account balance to continue to post small surpluses in the near term, with import demand linked to the RRP implementation and defense priorities posing downside risks to this. A positive current account balance would tend to be conducive to further improvement in the NIIP. We note that incoming FDI has continued its favorable path, acting as a risk-mitigating factor together with expected EU capital transfers. As of the end of 2023, the negative extent of Poland's NIIP had declined to -32.3% of GDP.

Rating Outlook and Sensitivity

Our rating outlook on Poland's long-term credit ratings is stable. The outlook reflects positive expectations regarding macroeconomic performance, boosted by the recent unlocking of RRF funds on the back of improved relations with the EU, a further improving external position, and ultimately limited risks to fiscal sustainability, notwithstanding the rising debt-to-GDP trajectory amid spending pressure.

A negative rating action could be prompted by a severe deterioration of the macroeconomic outlook, also implying adverse effects on Poland's convergence process toward the EU income per capita, possibly on the back of a further escalation of the wars in Ukraine and/or the Middle East. A more entrenched deterioration of fiscal metrics could also lead to considerations of lowering the outlook or the credit ratings.

By contrast, we could raise the sovereign's rating or outlook in the event of stronger-than-expected economic growth, underpinning more favorable medium-term perspectives and expectations for an acceleration of the convergence process towards EU-level income per capita. Further timely disbursements of RRF funding would seem conducive to this, whilst at the same time representing some further reassurance over policy predictability following a protracted phase of controversy with the EU. Swift fiscal consolidation and a reversal of the recently unfavorable trend of the public debt ratio, possibly flanked by a stronger fiscal framework, could also trigger a positive rating action.

Analysts

Primary Analyst
Fabienne Riefer
Head of Public Finance
F.Riefer@creditreform-rating.de
+49 2131 109 1462

Analyst
Dina Dexheimer
Analyst Public Finance
D.Dexheimer@creditreform-rating.de
+49 2131 109 3091

Person Approving Credit Ratings
Philipp J. Beckmann
P.Beckmann@creditreform-rating.de

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

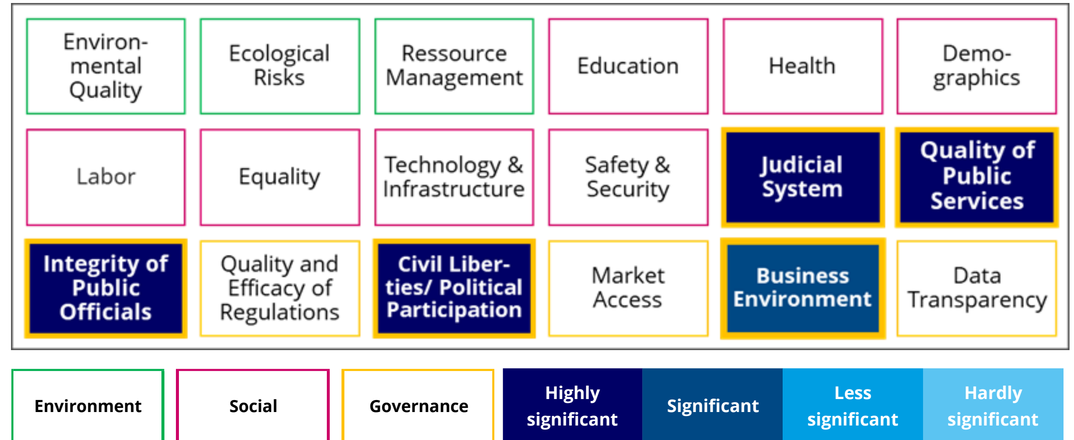
ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

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 the following, we explain how and to what 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 to 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.

ESG Factor Box



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 assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

While Covid-19 may exert 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 on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023	2024e
Macroeconomic Performance							
Real GDP growth	5.9	4.5	-2.0	6.9	5.6	0.2	2.6
GDP per capita (PPP, USD)	32,568	34,592	34,354	38,540	43,638	46,412	49,060
Credit to the private sector/GDP	55.4	55.0	48.9	45.0	39.2	42.1	n/a
Unemployment rate	3.9	3.3	3.2	3.4	2.9	2.8	n/a
Real unit labor costs (index 2015=100)	103.4	104.3	107.5	102.6	99.4	101.8	104.2
World Competitiveness Ranking (rank)	34	38	39	47	50	43	41
Life expectancy at birth (years)	77.7	78.0	76.4	75.4	77.2	78.6	n/a
Institutional Structure							
WGI Rule of Law (score)	0.4	0.4	0.5	0.4	0.4	n/a	n/a
WGI Control of Corruption (score)	0.6	0.6	0.6	0.5	0.5	n/a	n/a
WGI Voice and Accountability (score)	0.7	0.7	0.6	0.6	0.6	n/a	n/a
WGI Government Effectiveness (score)	0.5	0.5	0.3	0.3	0.3	n/a	n/a
HICP inflation rate, y-o-y change	1.2	2.1	3.7	5.2	13.2	10.9	4.7
GHG emissions (tons of CO2 equivalent p.c.)	10.8	10.3	9.8	10.8	10.4	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-0.2	-0.7	-6.9	-1.8	-3.4	-5.1	-5.4
General government gross debt/GDP	48.7	45.7	57.2	53.6	49.2	49.6	53.7
Interest/revenue	3.5	3.3	3.2	2.6	3.8	5.0	n/a
Debt/revenue	118.2	111.1	138.4	126.9	122.5	119.1	n/a
Total residual maturity of debt securities (years)	4.7	4.8	4.4	4.4	4.2	4.6	n/a
Foreign exposure							
Current account balance/GDP	-1.9	-0.2	2.5	-1.3	-2.4	1.6	n/a
International reserves/imports	43.5	48.4	58.9	48.5	43.7	52.4	n/a
NIIP/GDP	-54.7	-48.8	-43.9	-39.8	-33.3	-32.3	n/a
External debt/GDP	64.2	58.9	60.7	56.5	53.0	49.3	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, IMD Business School, Statistics Poland, own estimates

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
Monitoring	13.08.2021	A /stable
Monitoring	12.08.2022	A /stable
Monitoring	21.07.2023	A /stable
Monitoring	19.07.2024	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. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Ministry of Finance participated in the credit rating process, as they reviewed a draft version of the report. Creditreform Rating AG had no access to the accounts, representatives, or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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 has 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, World Intellectual Property Organization (WIPO), IMD Business School, National Bank of Poland, Republic of Poland - Ministry of Finance, Statistics Poland, KNF, NIK.

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.

No ancillary services in the regulatory sense were carried out for this rating object. Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses ancillary services provided for the rated entity or

any related third party, if any, in its rating reports. For the complete list of provided ancillary services please refer to Creditreform Rating AG's website: https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-business-activities.

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.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments, and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact, but an opinion. Nor should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express

consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Creditreform Rating AG
Hammfelddamm 13
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns
HRB 10522, Amtsgericht Neuss