R&I

NEWS RELEASE

May 22, 2023

R&I Affirms A, Stable: Republic of Poland

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Republic of Poland**

Foreign Currency Issuer Rating: A, Affirmed
Rating Outlook: Stable

Domestic Currency Issuer Rating: A, Affirmed
Rating Outlook: Stable

RATIONALE:

The economy is stagnant due to the acceleration of inflation and the shrinkage in external demand. That said, R&I maintains the view that the country will likely keep stable economic growth on a medium-term basis, as the fundamentals for economic growth remain intact, supported by the relatively large population among the countries in Central and Eastern Europe as well as the foreign manufacturers operating in the country. Although a relatively expansionary fiscal policy continues, the fiscal balance is expected to improve following the termination of anti-inflation measures. The government debt ratio is also under control. Reflecting the stability in external balance and financing environment in addition to said factors, R&I has affirmed the Foreign and Domestic Currency Issuer Ratings of Poland at A.

Poland has economic resilience against shocks thanks to the relatively large population in comparison with other countries in Central and Eastern Europe. The economy had been solid even under the COVID-19 pandemic, recording a positive growth of 6.9% in 2021. In 2022, the situation surrounding the country changed dramatically in the wake of Russia's invasion of Ukraine, a country that shares a border with Poland. Delays in resolving supply constraints, rapid price increases, and monetary tightening put downward pressure on domestic demand. Although the country recorded a relatively high full-year growth rate of 5.1%, the decelerating economic trend, which started in the latter half of 2022, remains in place even in 2023. As the economy will likely start to recover in the latter half of 2023, the full-year growth rate is projected to be less than 1%.

The current account has been mostly in a small deficit. Although the deficit widened in 2022 due to rising energy import prices and other factors, it is expected to deteriorate only temporarily. The ratio of external debt to gross domestic product (GDP) is on a downtrend, and the extent to which liabilities exceed assets in the international investment position is under control. The majority of such liabilities are associated with foreign direct investments. As this structure of liabilities reflects the country's position as a base for foreign manufacturers, there are no particular concerns in this regard.

The deterioration in the quality of banking assets is limited even after going through the negative impact of the COVID-19 pandemic. There are no particular issues on the capital side. In addition to provisions for legal risks related to foreign currency mortgage loans, the government's introduction of a mortgage repayment moratorium in mid-2022 has put pressure on the banking sector's earnings. The profitability of the banking sector as a whole has improved for 2022 compared to the previous year, supported by higher interest income. That said, the cost burdens resulting from said measures could put pressure on earnings in the future and affect the bankers' function as financial intermediaries.

The fiscal deficit improved to 1.8% of GDP in 2021 due to scaling-down of anti-pandemic measures after ballooning under the COVID-19 pandemic. Nonetheless, it increased to 3.7% in 2022, resulting from the decreased tax revenue under the revised income-tax system and value-added tax reduction etc. as well as the burden of extra expenditure to combat inflation. For 2023, the government projects the fiscal deficit at 4.7%. This projection is based on the outlook of continued anti-inflation measures and an increase in interest payment expenses. Although the government maintains its expansionary fiscal policy, the government debt ratio to GDP is on a downward trend, standing at 49.1% as of year-end of 2022.

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According to the projection of the government, the ratio will go up slightly to 50.5% in 2023, staying on an upward trajectory from that point. This is due partly to the financing for procurement of military equipment and the government debt ratio will likely follow a generally stable trend if this factor is set aside.

The government is working to break with the country's dependence on Russian natural gas and crude oil. On the other hand, the country continues to face challenges that coal accounts for a large share of the country's energy supply. The government has been promoting the use of renewable energy and nuclear power, and improvements in energy efficiency. While such initiatives are expected to contribute to boosting economic growth through increased green investments, they could potentially constitute a burden on the country's public finances. Eyes are on the progress in the government initiatives, including how to ensure their funding sources.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Republic of Poland**
	Foreign Currency Issuer Rating
RATING:	**A, Affirmed**
RATING OUTLOOK:	**Stable**
	Domestic Currency Issuer Rating
RATING:	**A, Affirmed**
RATING OUTLOOK:	**Stable**

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