R&I

NEWS RELEASE

May 24, 2022

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:

Russia's invasion of Ukraine, which shares the border with Poland, weighs against the economy of Poland. Because the incident has never damaged the country's economic growth base supported by the relatively large population as a country in Central and Eastern Europe and the foreign manufacturers operating in the country, Poland is still considered to be a country with high potential for stable and continued growth on a mid-term basis. The downward trend of government debt ratio will likely remain in place, although the fiscal deficit is expected to increase temporarily. From this viewpoint, along with the stability in balance of payments and funding environment, R&I has affirmed the Foreign and Domestic Currency Issuer Ratings of Poland at A.

Poland achieved a 5.9% economic growth in 2021, when a recovery started following the period of downturn under the COVID 19 pandemic. Although there was a general consensus that the country's economy would stay on a trajectory of solid growth in 2022, the situation has changed dramatically in the wake of Russia's invasion of Ukraine, a country which shares the border with Poland. Among the factors weighing against Poland are the prolonged restrictions on the supply side, the rising prices, and the economic slowdown in the euro-zone, a major importer of the country's goods and products. In April, the Polish government published a forecast that the real gross domestic product (GDP) will grow by 3.8% in 2022, indicating a 3.2% growth for 2023.

As for the balance of payments, there has been a general trend of modest current account deficit. Driven mainly by the price hikes of imported energy, the current account deficit is expected to widen in 2022, but the deterioration will likely be temporary. The ratio of gross external debt to GDP is falling, standing at approximately 56% as of the end of 2021. The ratio of external liabilities in excess of external assets in terms of the international investment position has dropped to approximately 40% of GDP, the greater part of which are direct investment-related. This debt structure reflects the position of Poland as a manufacturing base for foreign companies and does not imply any particular concern.

The deterioration in the quality of banks' assets is under control, though it was affected by the pandemic. Bank earnings are recovering, with their capital and liquidity staying comfortably above the level of regulatory requirements. Due to the increased number of lawsuits filed associated with Swiss Franc denominated bank loans to households, the Polish banks have been forced to take measures including the increase of loan loss provision among others. Eyes are on the moves of banks to handle this issue, in the midst of uncertainties where the exact scale of potential losses caused by this problem is yet to be known.

After ballooning to 6.9% to GDP in 2020, the fiscal deficit improved to 1.9% against GDP in 2021, owing to the downscaling of policy packages against the COVID 19 pandemic and other factors. In 2022, the ratio of government revenue to GDP is expected to drop from the previous year as a result of income tax reforms and tax cuts in value added tax (VAT) and other items to be introduced against inflation. On the expenditure side, the government is forced to allocate a certain amount of budget to fight inflation and to aid the refugees from Ukraine, and, all in all, the government projects that the fiscal deficit will increase again, jumping to 4.3% of GDP. However, R&I is of the opinion that its impact on the creditworthiness of

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Poland is limited, thinking of the state of emergency on Russia's invasion of Ukraine, as well as the fact that the fiscal deficit shrank more than expected in the previous year. From its peak under the COVID19 pandemic, the outstanding government debt has already started to decrease, potentially to 52.1% of GDP in 2022, according to the forecast by the Polish government.

The government plans to reduce the energy import from Russia to zero by the end of 2022. This is an indispensable move to ensure the country's energy security, with good potential to lead to the acceleration of economic growth via increased green investment on a mid- to long-term basis. In contrast, the move can give a negative impact on the government's fiscal position. The Recovery and Resilience Facility (RRF), a funding facility of the European Union, which is expected as a major financial source, is unavailable because of the difference of opinions on compliance with the rule-of-law principle. Eyes are on the impacts of the issue related to Russia on the economy and government finance and government's responses.

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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