

Credit quality of Polish issuers and its reflection in the system of international and domestic ratings

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Poland – sovereign credit risk

⇒ Modest economic slowdown in 2008-2009



⇒ Public debt to GDP in 2011: 54-58%

⇒ S&P: „A-“ Moody's: „A2“ Fitch: „A-“

⇒ all rating outlooks: stable

Non-treasury bond market in Poland

⇒ Primary market (most issues in PLN)

⇒ Secondary market

- non-public
- public:

Warsaw Stock Exchange – „Catalyst” (since 2009)



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what happens
with your money

Non-treasury bond market – statistics

⇒ Listed issuers and issues:

Catalyst market	Corporates	Cooperative banks	Municipals	Total
Number of issuers	108	22	12	143
Number of series	232	28	29	325
Issue value (PLN bn)	42.9	0.4	2.3	45.6
Issue value (EUR bn)	10.4	0.1	0.6	11.1

⇒ Total non-treasury bonds nominal value (07.2012):
111 bn PLN (**27 bn EUR**)

⇒ Growing share of listed bonds (41%)

Corporate bonds – main problems

- ⇒ Still limited number of issuers
- ⇒ Low sectoral diversity
- ⇒ Limited number of large and solid corporates issuing bonds
- ⇒ Relatively low value of most issues
- ⇒ Increased credit risk of most issuers
- ⇒ Very low liquidity on the secondary market
- ⇒ Poor credit risk analyses market coverage

Corporate bonds – profit vs. risk

⇒ Poland – inflation rate: ~4-4.5% in 2011-2012
(expected to decline to ~3.0% in 2013)

⇒ Most issues have variable interest rate
based on Polish interbank rate WIBOR(3-6M)

⇒ WIBOR6M: ~4.3-5.2% in 2011-2012



⇒ Corporate spreads to WIBOR3M:
150-800 bps (average 400-600 bps)

Corporate bonds – profit vs. risk

- ⇒ Margin depends in practice mainly on the size of the issue and the size of the issuer (synonym for stability; lack of such issuers)
- ⇒ Margins don't show direct relation to credit risk and to collateral quality
- ⇒ Many issues have to high margin in relation to risk
- ⇒ Significant market opportunities

Economic situation & credit risk of corporates

- ⇒ Euro2012 & development of highways
 - disaster for construction companies
- ⇒ GDP growth forecast for 2012-2013: +2.5~3.0%
(vs. +4.3% in 2011)
- ⇒ Economic downturn already reflected
in the increasing number of business bankruptcies
- ⇒ First large defaults on the corporate bonds market
- ⇒ Significant losses of institutional investors

Credit risk assessment – main problems

- ⇒ Not stringent enough and imprecise information requirements
- ⇒ Most issuers publish too little information about themselves to perform a reliable credit risk assessment and risk monitoring
- ⇒ In some cases – limited reliability of financial statements
- ⇒ Information provided often only in Polish (problem for foreign investors)

Credit ratings of Polish issuers

⇒ Credit rating agencies active on the Polish market:

Credit rating agency / no. of ratings	Corporates & financials	Municipal	Total
EuroRating	56	-	56
Fitch	24	24	48
Moody's	23	2	25
Standard&Poor's	18	2	20

⇒ Number of credit ratings published for Catalyst listed corporates & municipals: **8**

⇒ Only few of over 50 commercial banks have rating issued by one of the „Big Three”

Reasons for poor credit rating coverage

- ⇒ Ratings of the „Big Three” agencies far too expensive for most Polish companies
- ⇒ Until recently, corporate bonds market was limited mainly to institutional investors
- ⇒ Investors have not paid enough attention to the credit risk of issuers
- ⇒ No „rating culture” on the Polish market
- ⇒ High entry & development bareers for a new credit rating agency

EuroRating – public credit ratings

Company / bank name	Credit rating	Outlook
Bank Pekao SA	A ip	stable
Bank Handlowy SA	A- ip	stable
Lubelski Wegiel Bogdanka SA	A- ip	stable
PKO BP SA	A- ip	stable
PGE SA	A- ip	stable
Asseco Poland SA	BBB+ ip	stable
BRE Bank SA	BBB+ ip	stable
KGHM SA	BBB+ ip	stable
PGNiG SA	BBB+ ip	stable
Synthos SA	BBB+ ip	stable
Grupa Lotos SA	BBB ip	stable
PKN Orlen SA	BBB ip	stable
Tauron Polska Energia SA	BBB ip	stable
Telekomunikacja Polska SA	BBB ip	stable
Globe Trade Centre SA	BBB- ip	stable
Jastrzebska Spolka Weglowa SA	BBB- ip	stable
Boryszew SA	BB ip	stable
TVN SA	BB ip	stable