Scandinavian-Polish CHAMBER OF COMMERCE

LOOK FORWARD & KEY HIGHLIGHTS: Macro and Business Environment

S&P Global Ratings

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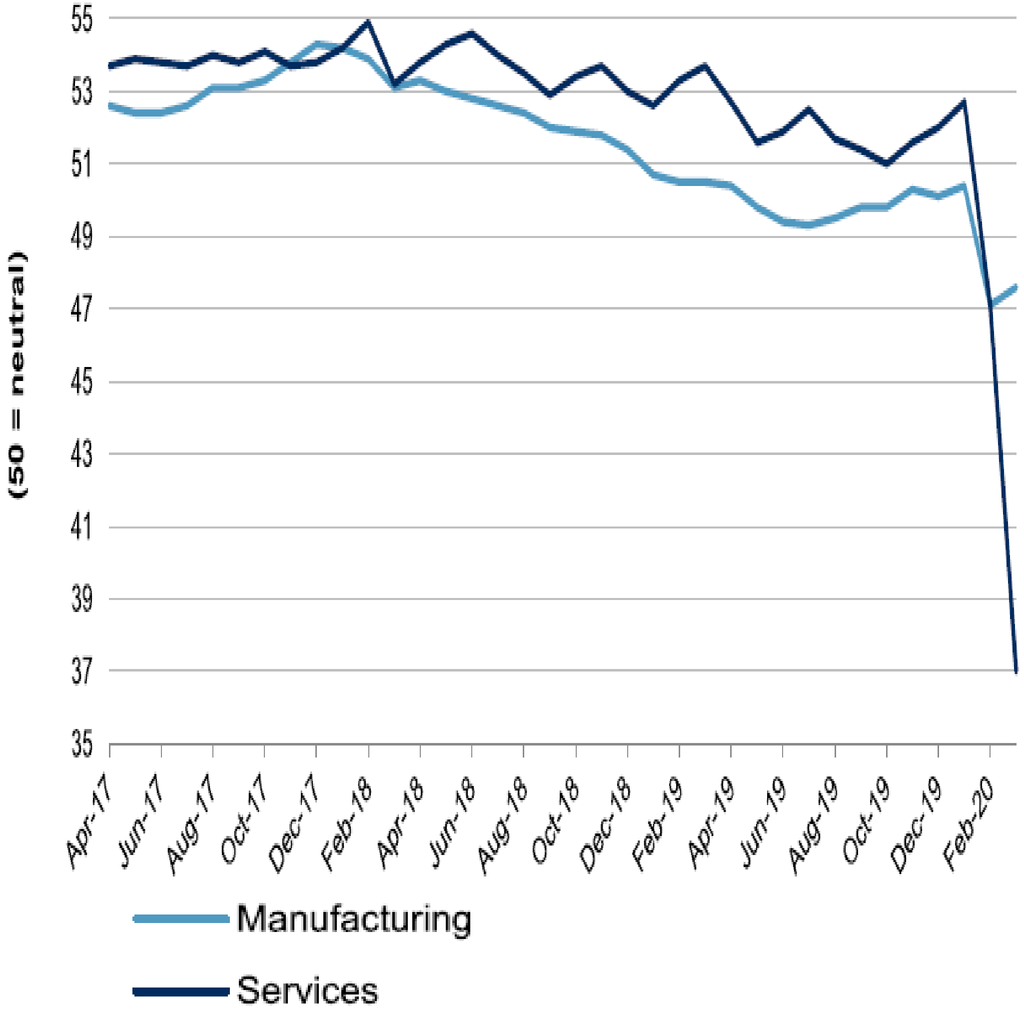
Warsaw, May 2020

Summary | Virus, Oil, and Volatility

Global Purchasing Manager Indices



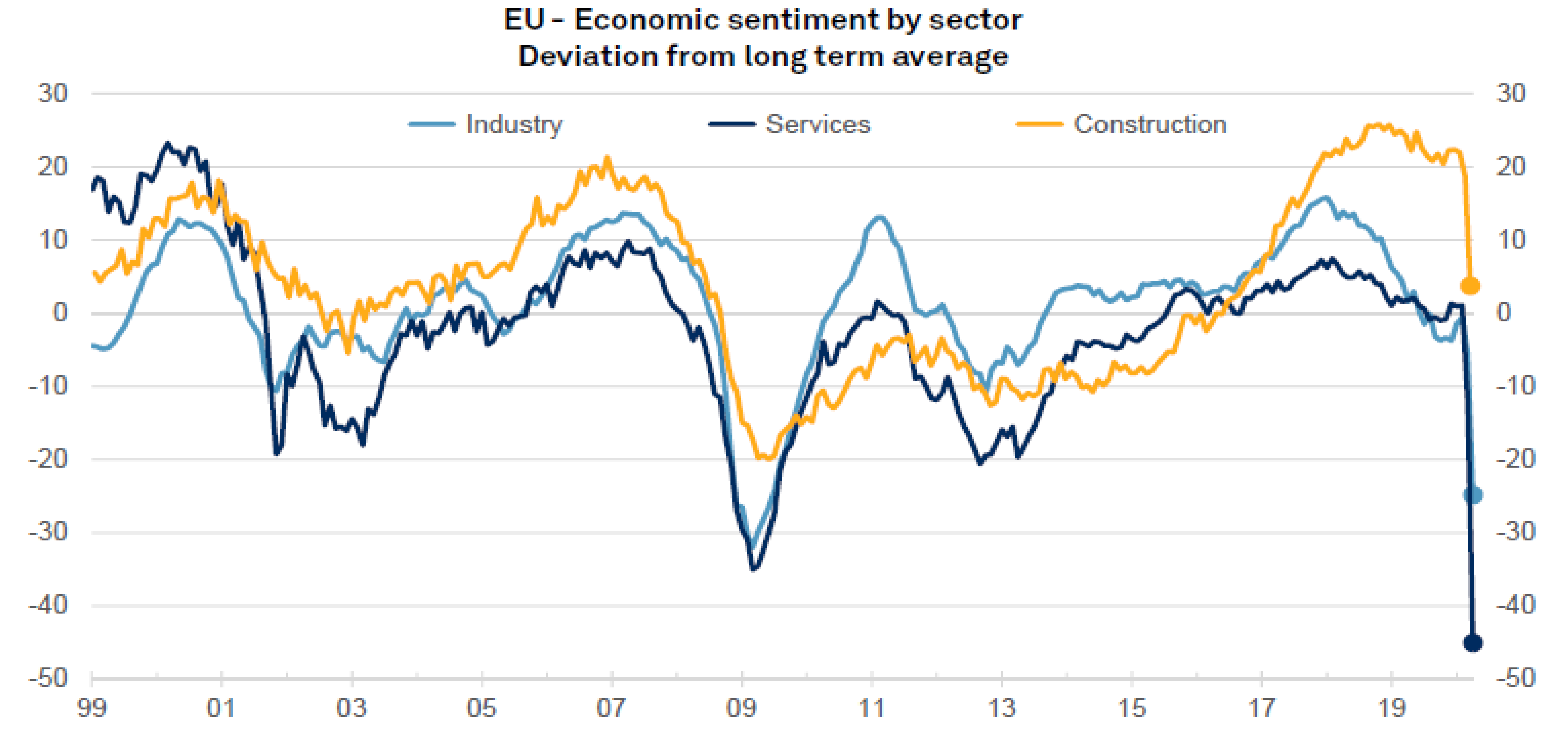
- **Containment measures** to stem COVID pandemic pushed world economies into **near-hibernation**.
- China shows signs of **re-emerging**, Europe and U.S. aren't past the **peak**. Yet to see full impact on vulnerable **EM**.
- Combined with **historical oil price collapse**, and record **volatility**, puts significant pressure on creditworthiness.
- **Services** hit harder than manufacturing. **Discretionary** consumer spending harder than spending on necessities.
- **Smaller business** hit harder to larger ones.
- Lockdowns to be **longer than expected**, hence sharper decline in activity, confirmed by **high-frequency indicators**.
- Global services PMI decline was **largest ever recorded**, ended at post-GFC level.
- Surveys from most countries & regions **tell similar stories**.
- Estimate corporate **speculative-grade default rate** to above 10% in the U.S. and high single digits in Europe.
- Massive policy response from most CBs and governments **likely to soften the blow**, particularly in financial liquidity.

Forecast | Current View

Growth (GDP, yoy%)			
	2019	2020	2021
United States	2,3	-5,2	6,2
China	6,1	1,2	7,4
United Kingdom	1,4	-6,5	6,0
Eurozone	1,2	-7,3	5,6
France	1,3	-8,0	6,1
Germany	0,6	-6,0	4,3
Italy	0,2	-9,9	6,4
Spain	2,0	-8,8	5,1

Inflation (CPI, yoy%)			
	2019	2020	2021
United States	1,8	0,9	2,7
China	2,9	3,2	1,2
United Kingdom	1,8	0,7	1,3
Eurozone	1,2	0,6	1,1
France	1,3	0,7	1,2
Germany	1,4	1,0	1,2
Italy	0,6	0,2	1,0
Spain	0,8	0,8	1,3

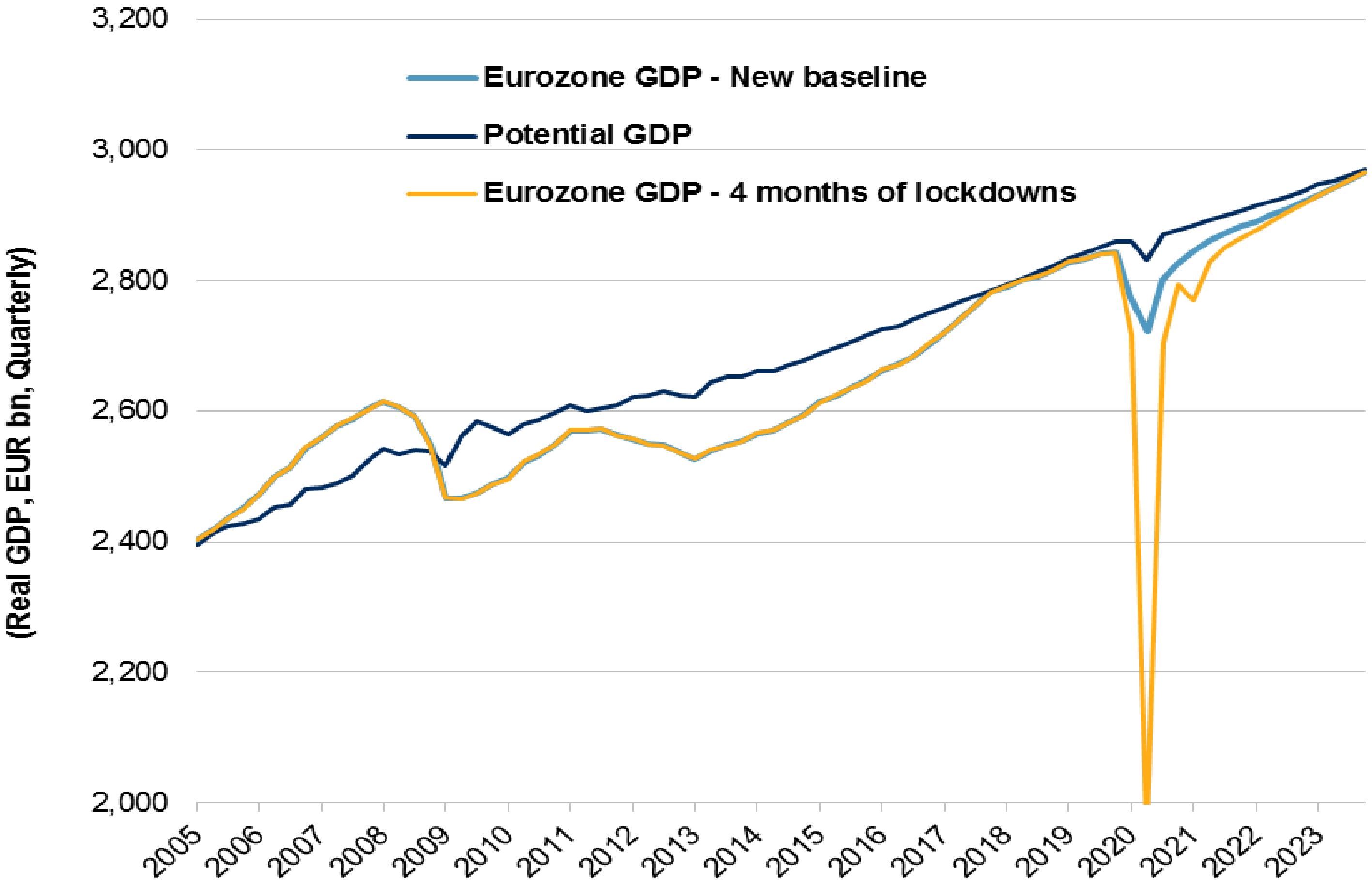
Europe | Sudden stop in activity levels



Source: Refinitv, S&P Global Ratings.

EMEA | Swift Policy Response But Downside Risks Remain

Downside risks to growth persist: 4 months lockdown would shave 10% of GDP this year



Source: S&P Global Ratings

- **Growth.** We now expect GDP to fall around 7% this year in the EMU and the UK due to economic fallout from the pandemic.
  We expect a gradual rebound of 5-6% in 2021.
- **Policy.** A flurry of large fiscal and monetary policy packages deployed to help workers and companies bridge the gap to recovery. Swift and bold policy responses taken now are key to avoiding permanent losses to GDP later – high focus on SMEs.
- **Risks.** Further spread of the virus is the chief risk.
  Estimate a lockdown of four months could lower eurozone GDP by up to 10% this year.

Top Regional Risks | Triggers For a Deeper Crisis

Pandemic not contained

Risk level*	Very low	Moderate	Elevated	**High**	Very high	**Risk trend****	Improving	Unchanged	**Worsening**

A key risk to our base case that already reflects a sharp global slowdown and recession in Europe in 2020 is that the pandemic is not contained. The costs would escalate rapidly if the duration of the pandemic proved to be prolonged (perhaps including a second wave in the autumn), the exit from containment measures was only very gradual, or there were material spillover effects from major trading partners.

Risk aversion affecting market liquidity

Risk level*	Very low	Moderate	Elevated	**High**	Very high	**Risk trend****	Improving	Unchanged	**Worsening**

While emergency central bank and government measures are designed to provide necessary short-term liquidity support for business and protect employment, impaired operating performance will weaken credit quality as long as lockdowns continue. The sharp widening of spreads highlights heightened investor sensitivity to the accumulation of corporate debt rated in the lower rating categories and the provision of market liquidity.

Global trade tensions still cast a shadow over growth

Risk level*	Very low	Moderate	**Elevated**	High	Very high	**Risk trend****	Improving	**Unchanged**	Worsening

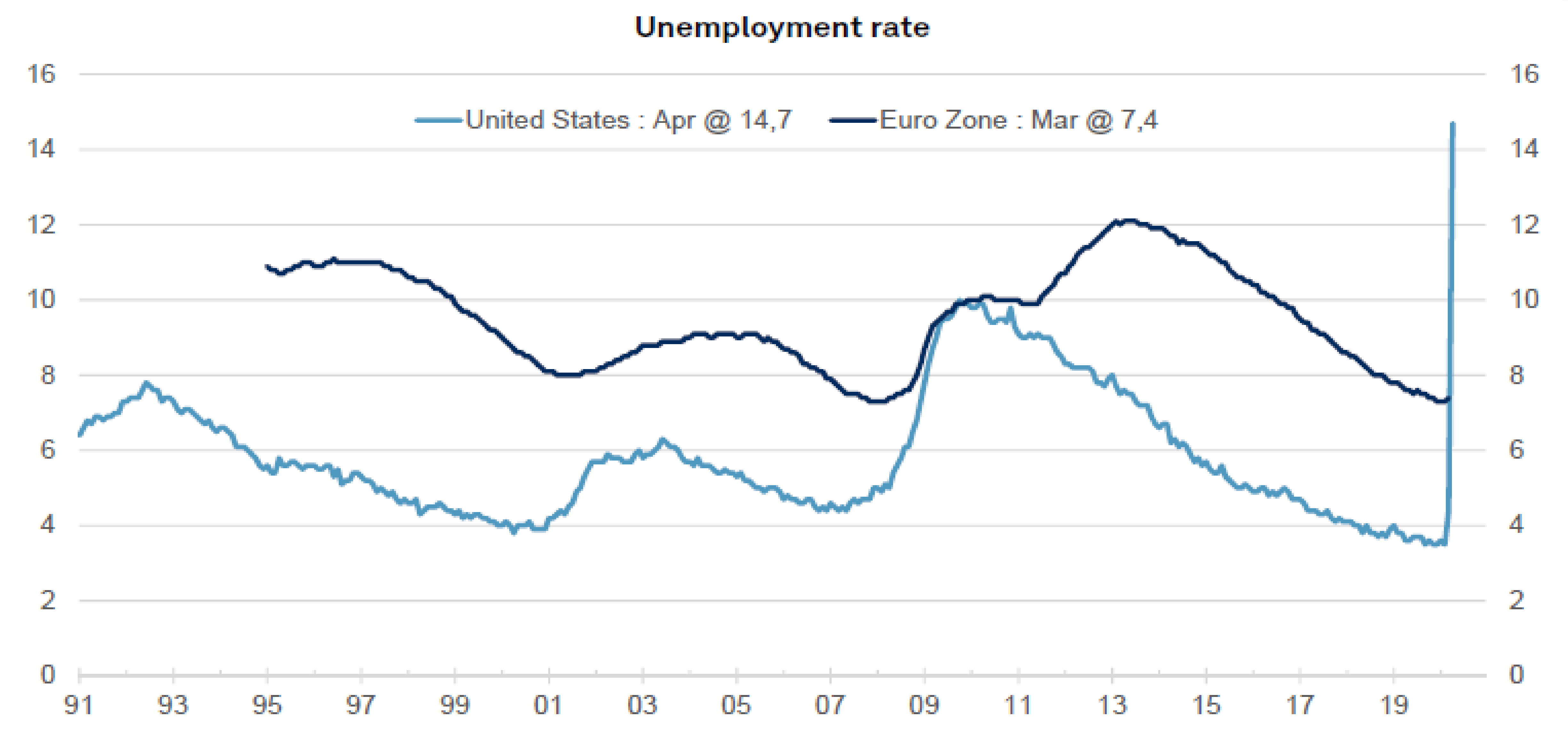
Recovery, already under strain from the structural challenge to global supply chains arising from the pandemic, might be impaired further by any resurgence in global trade tensions. While existing trade tensions appear to have faded from view, they haven't disappeared.

Health emergency challenges EU's fiscal framework

Risk level*	Very low	Moderate	**Elevated**	High	Very high	**Risk trend****	Improving	Unchanged	Worsening

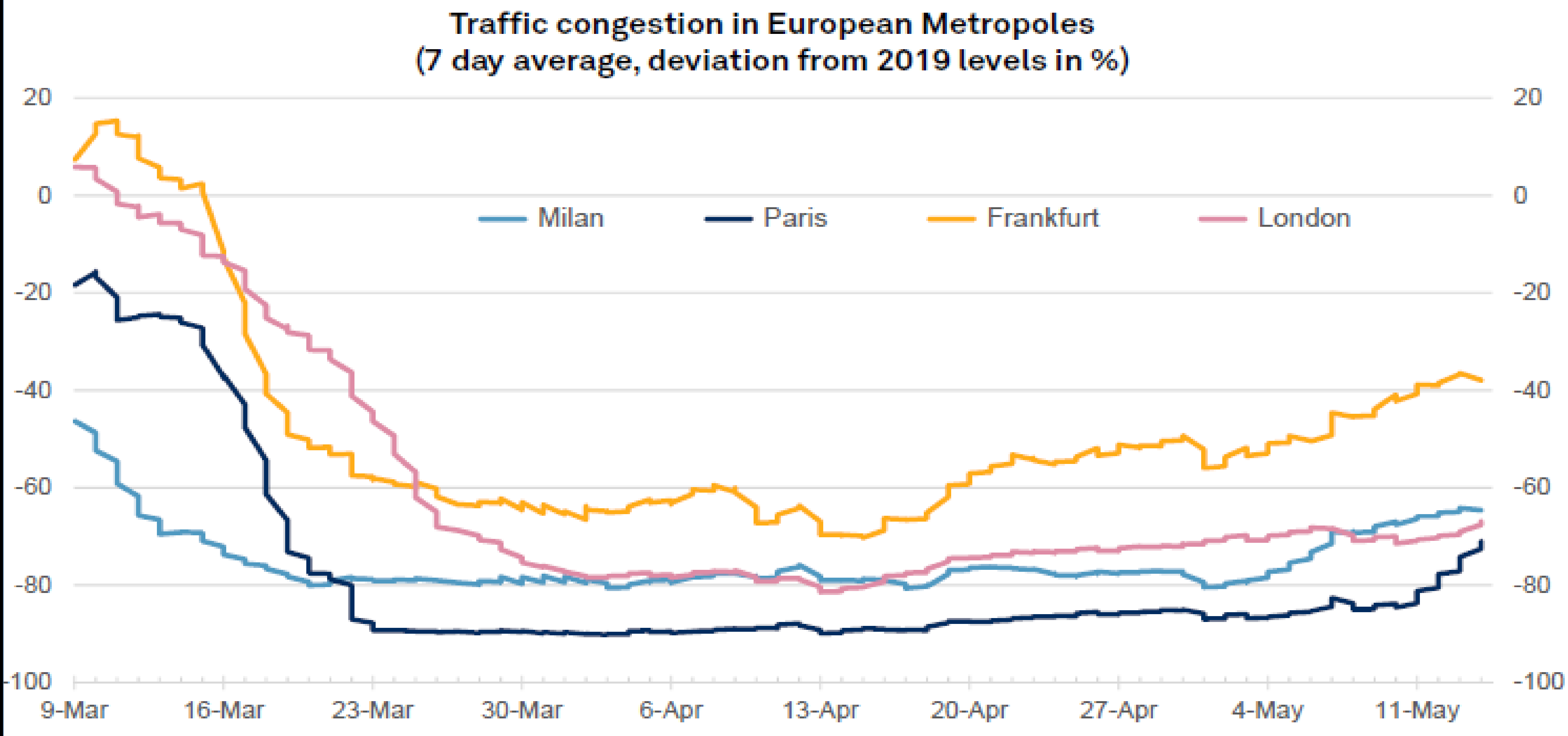
The pandemic is testing the EU's willingness to coordinate a fiscal response to an unprecedented demand and supply shock that has plunged the region into recession. This absence of fiscal solidarity among eurozone member states could erode market confidence, impair financing conditions, limit fiscal capacity for governments, and, in the longer term, place renewed pressure on EU cohesion.

Impact | Unemployment levels rising



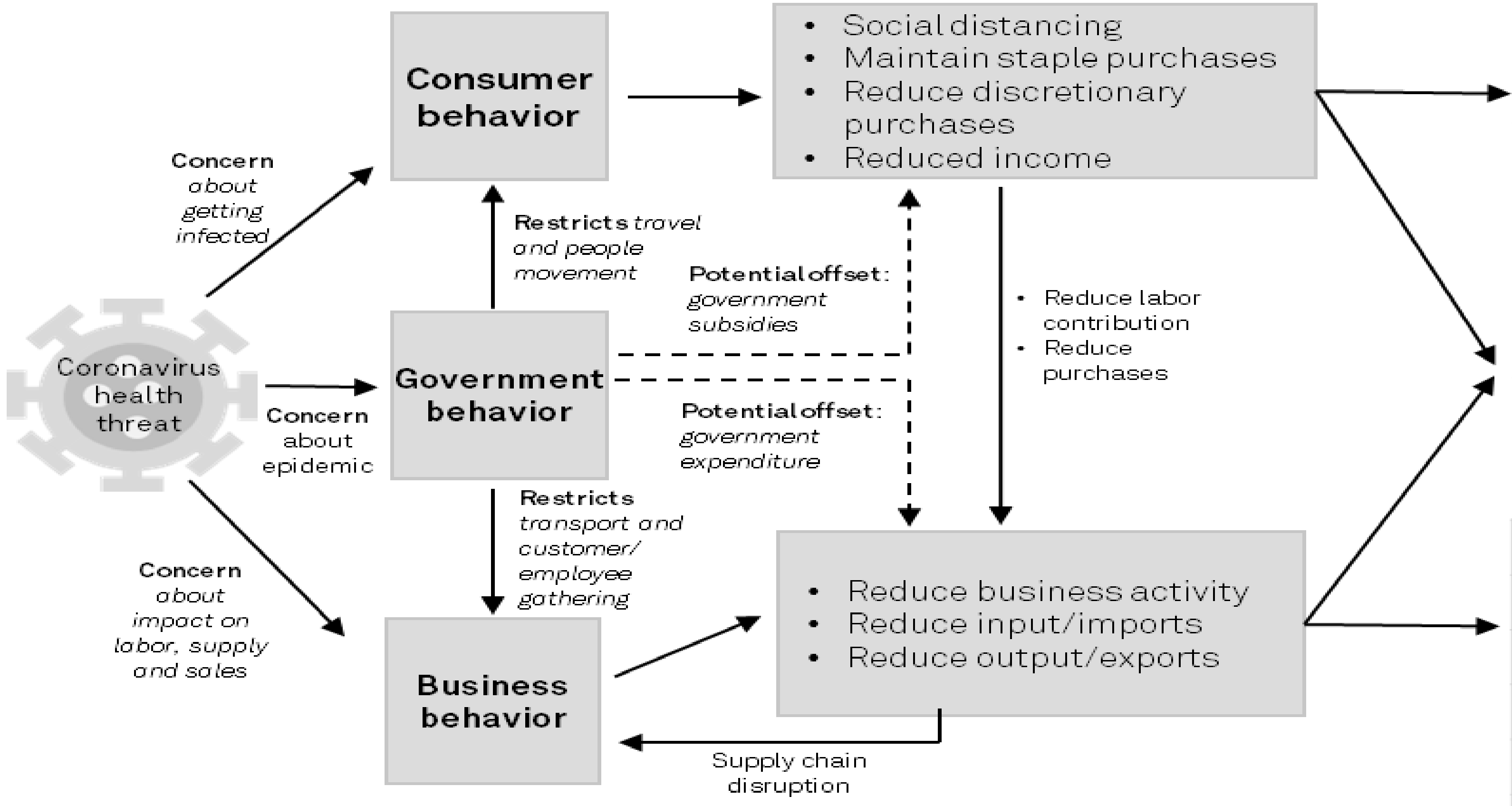
Source: Refinitv, S&P Global Ratings.

Impact | Exit from lockdown is uneven across EU



Source: TomTom, S&P Global Ratings.

Industries | COVID-19 Sector Sensitivity Europe



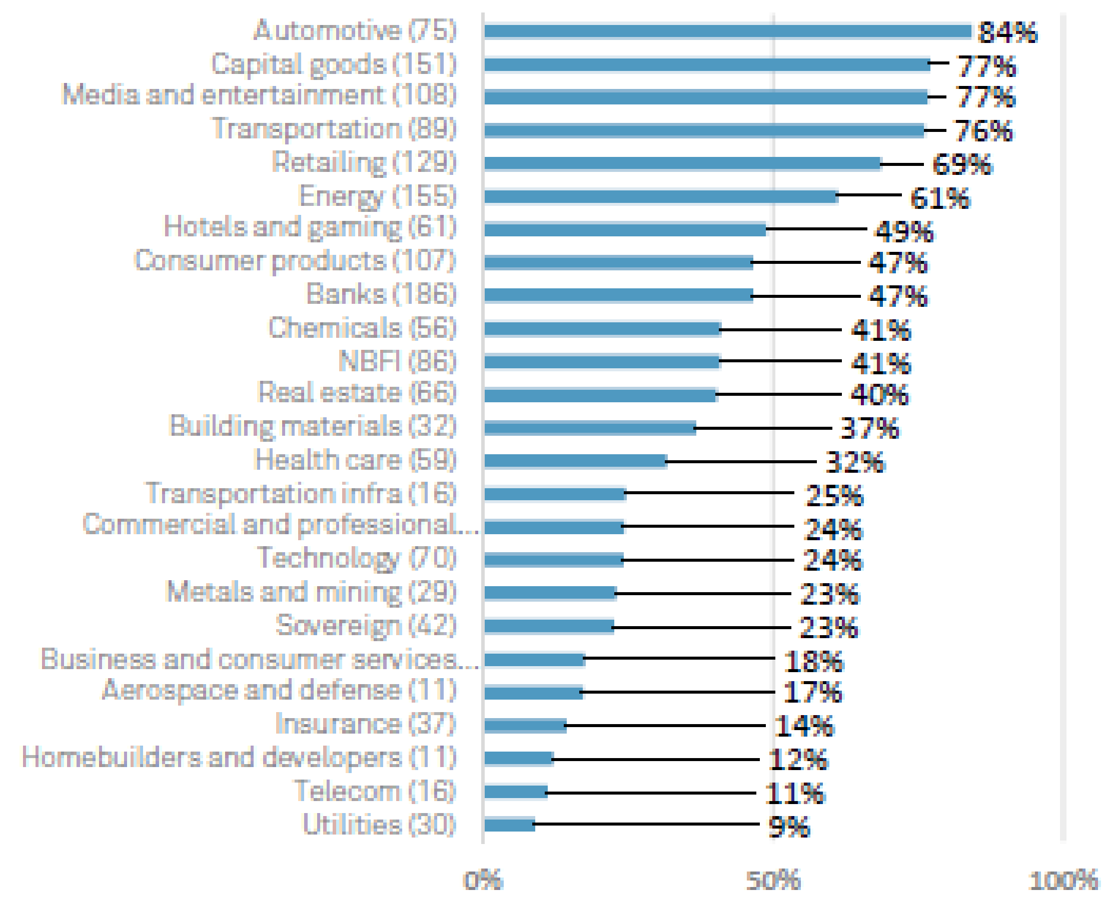
Sector	Sensitivity
Aviation	H
Auto	H
Consumer products	M
Gaming, leisure & lodging	H
Media & entertainment	H
Retail & restaurants	H
Healthcare & pharma	L
Infrastructure	M
Telecoms	L
Real estate	M
Transport - cyclical	H
Business services	M
Capital goods	M
Chemicals	M
Materials, bldg. & constr.	M
Metals & mining	M
Oil & gas	M
Packaging	L
Technology	M
Utilities	L

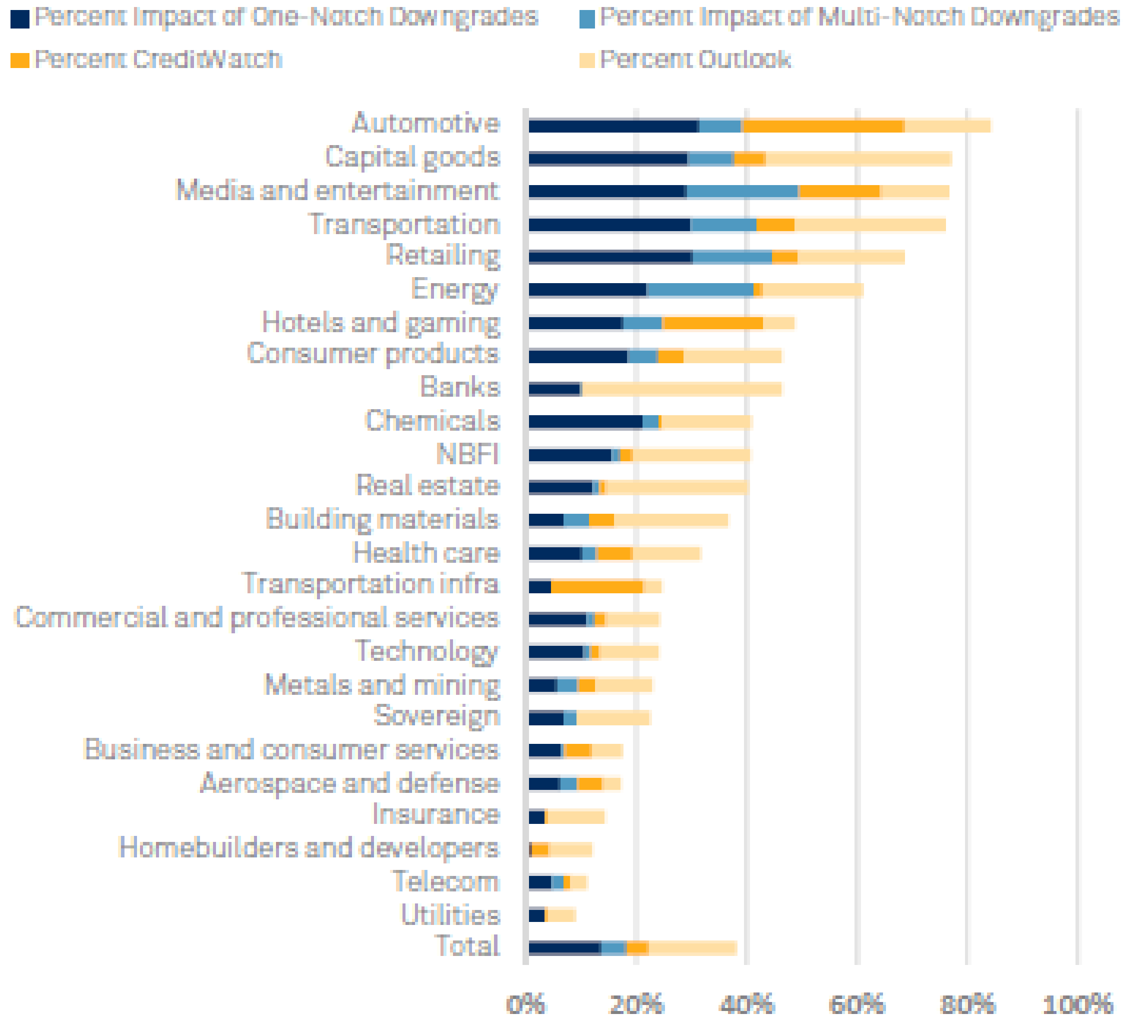
Sector revenue-EBITDA relative sensitivity

Low	Medium	High

Note: This measures sensitivity to both revenues and EBITDA. These relative risk classifications are based on our analytical teams' qualitative opinions and do not indicate any potential rating trend or actions. Source: S&P Global Ratings

Global | COVID-19 Related Rating Actions

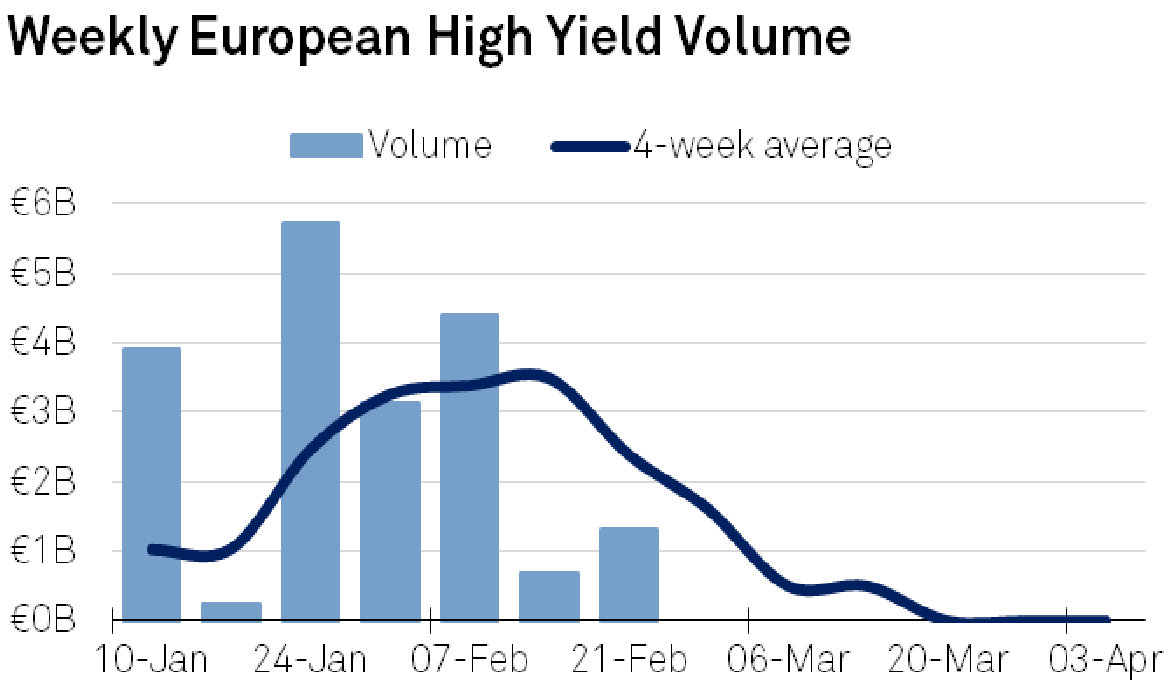


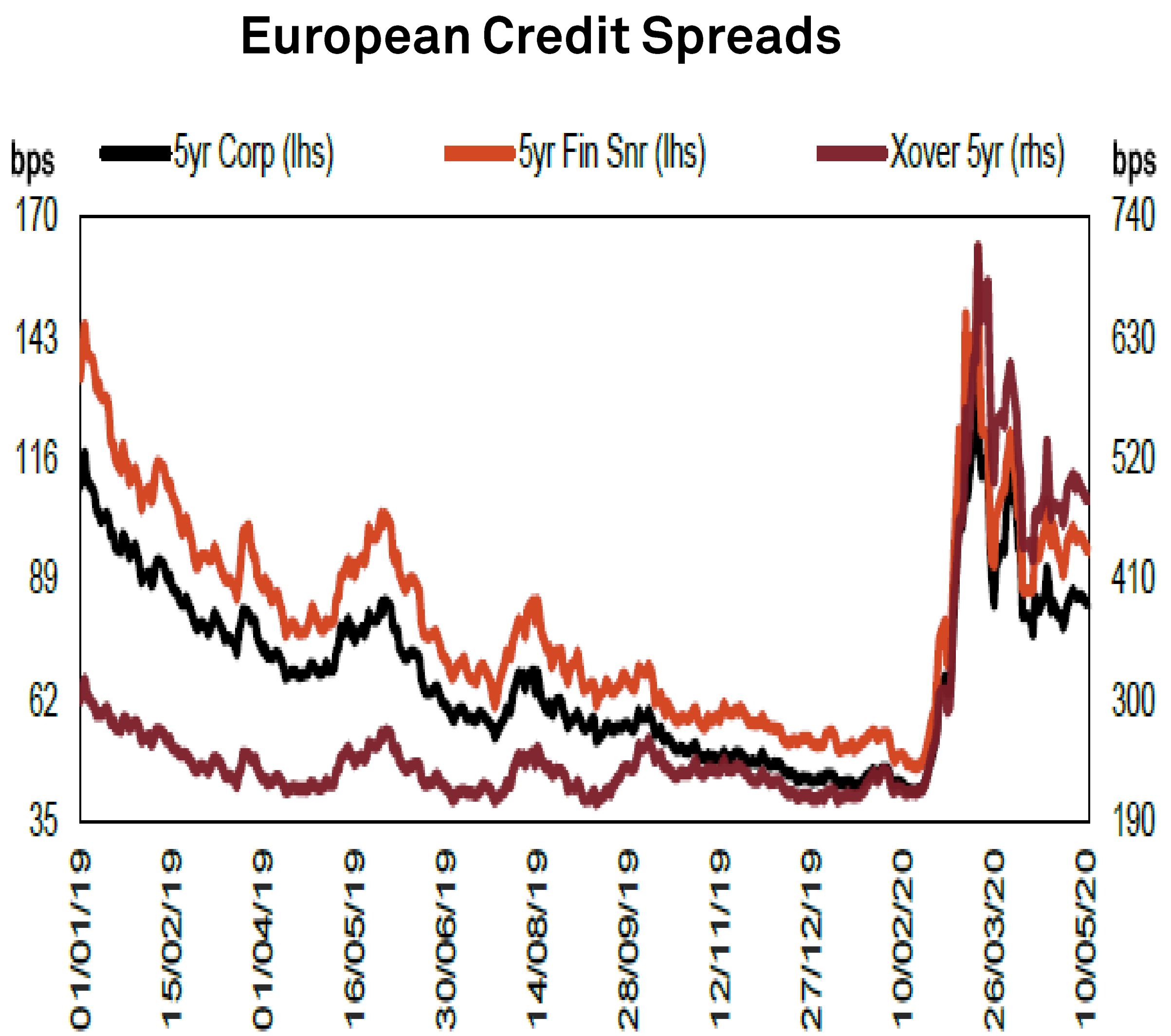


Data as of May 12, 2020. Source: S&P Global Ratings

Financing | Markets Battered

- **Investment Grade** issuers very active in hunt for balance sheet & liquidity buffers
- **High oversubscription** for selected IG issuers
- **Cost of funding** significantly increased, spreads widen
- **Non-Investment Grade** frozen, slow restart
- High activity in **Bank & Leveraged Lending**





Source: S&P Market Intelligence, S&P Global Ratings calculations

Poland | Stable yet under on-going pressure

Recession in 2020 and weigh on public finances as result of pandemic, contracting for first time since 1992 – est. 4% GDP.

- Economy diversified & competitive, external and public leverage relatively low, monetary flexibility, policy stimulus of 10% GDP – all help to mitigate shock.
- Fiscal deficit widen to 6% of GDP in 2020, pushing net public debt to ~50%.
- Expect strong recovery in 2021 with improvement in fiscal position (3% deficit) - GDP growth **5% in 2021**, supported by strong rebound in euro area.
- Generally profitable, liquid & well-capitalized financial sector will be able to mitigate the Covid growth shock.

Risks / weigh on growth prospects:

- Declining working-age population
- Significant role of GREs, including state-linked banks, in the economy
- Steady decline in labour productivity
- EU structural funds declining under the next EU Multiannual Financial Framework (2021-2027).

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