

Polish Development Fund (PFR S.A.)

June 28, 2024

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Almost certain likelihood of extraordinary government support from the sole ultimate owner, the Polish government.

Critical role as a government tool for unique economic and development policy projects.

Government guarantee for PFR's bonds.

Key risks

Exposure to changes in government policy.

Possible policy mandate shifts, with potentially reduced visibility.

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The Polish Development Fund (PFR) is likely to remain an important policy tool as the newly elected Polish government defines its strategy. We expect PFR will remain a key policy tool for the new Polish government, in office since December 2023. Still, we understand the government is defining strategic goals that it aims to achieve through its government-related entities (GREs), including PFR. While this could result in adjustments to PFR's focus areas, we think PFR will retain a critical role as one of Poland's prime public development institutions.

PFR is set to retain a broad mandate in various critical policy areas. The group has played a key role in facilitating the government's response to the COVID-19 pandemic. It has also provided prefinancing for projects under the EU's Recovery and Resilience Facility (RRF) and continues to administer grants allocated to Poland. These special tasks demonstrate the importance of PFR as a readily-available and flexible crisis response tool, which will remain important to policymakers regardless of political majorities in Poland's polarized political landscape. In addition, PFR's core business of catalyzing private investment will remain important for the country's economic development. We therefore expect the new strategy for

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PFR, once the government finalizes its agenda, will likely provide for broad institutional continuity.

S&P Global Ratings considers the credit quality of PFR group and parent PFR S.A. as equal to that of the sovereign. All PFR's bonds are guaranteed by the Polish government and there is close government oversight of the institution's activities. There is also a strong track record of capital injections from the state to the group. Together with the group's major public policy role, these factors allow us to believe there is an almost certain likelihood that the state would provide timely and sufficient support to PFR in the event of stress.

Outlook

The stable outlook reflects our continued view that the Polish government would be almost certain to provide extraordinary support to PFR if needed. In particular, we expect the group will continue to play a key role in implementing the Polish government's policy priorities.

Downside scenario

We might take a negative rating action--even if the sovereign rating is unchanged--if we conclude that PFR's policy role for, or its link with, the Polish government has weakened. This could come from the erosion of the group's public policy mandate, potentially reflected by a substantial contraction of its balance sheet with limited prospects for meaningful government mandates. If PFR increased its involvement (via its PFR TFI subsidiary) in managing private investor funds (for example, private pension savings)--a function that could be undertaken by private sector entities--this could also imply that the group's policy role had weakened. We could also consider a negative rating action if bond issuances do not benefit from a sovereign guarantee, indicating a weaker link between PFR and the Polish government. We could also take a negative action on the group if we take one on the sovereign, Poland.

Upside scenario

All else being equal, we could raise the ratings on PFR if we took a positive rating action on Poland.

Rationale

We rate PFR S.A. (the group parent company) under our group rating methodology and criteria for government-related entities (GREs). We think the Polish government would be almost certain to provide timely and adequate extraordinary support to PFR to enable its debt service, if needed, and we therefore equalize the group credit profile (GCP) with our ratings on Poland (foreign currency rating: A-/Stable/A-2; local currency rating: A/Stable/A-1). Our assessment of the likelihood of extraordinary support reflects our view of PFR group's:

- Integral link with the government, demonstrated by the state's 100% ultimate ownership; its regular capital injections; and explicit timely, irrevocable, and unconditional state guarantees against PFR group's bonds. The government defines and approves the group's long-term strategy and maintains close oversight of its activities. We also understand that PFR holds a unique status as the state institution in charge of coordinating activities of development institutions in Poland; and
- Critical public-policy role for the government of Poland as the government's prime public development institution, a role that cannot be readily undertaken by a private entity. Apart from its original mandate of catalyzing private investment, the Polish government has implemented policy projects through the group, including emergency support to private

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sector entities; promotion of the private pension savings scheme; and, as a crisis response tool, the provision of sizable financial support to the private sector amid the COVID-19 pandemic. PFR has also provided prefinancing for projects under the Recovery and Resilience Facility. The group's assets represent about 2.6% of Poland's GDP, making it one of the country's largest GREs.

We treat PFR S.A. as the group's parent given its direct and indirect control of all group subsidiaries, namely its ability to manage their strategies and cash flows. PFR S.A. holds most of the group's capital and assets. We therefore think its creditworthiness is closely tied to that of the consolidated group and rate it at the same level as the GCP and, ultimately, the sovereign.

Ownership structure: The state fully owns PFR and guarantees its public debt

Since its establishment, PFR's members have been joint stock companies. The government ultimately owns 100% of the group's parent PFR S.A., via direct control of 99.87% of its shares through the state treasury--with shareholders' rights executed by the Minister of State Assets--and a 0.13% stake via the government-owned Polish development bank ("BGK"). We do not expect the ownership structure to change and anticipate that PFR S.A. will remain fully state-owned.

The government appoints its representatives to the supervisory board, which in turn appoints PFR S.A.'s management board of PFR S.A. Recently, new members of the supervisory board and the management board, including the new CEO, have been appointed. This follows the election of the new government last year. PFR S.A. is not subject to Polish central bank regulation.

PFR's capital group includes the parent company (PFR S.A.), which holds the majority of its capital and assets, and several subsidiaries and controlled entities. These include, in particular, PFR TFI, which is involved in managing specialized closed-end funds and open-end funds dedicated to Poland's Employee Capital Plan (a private pension savings scheme); PFR Ventures, the fund of funds manager, providing financing via venture capital funds; PFR Nieruchomosci, the affordable housing rental construction and program manager; and PFR Portal PPK, which operates the employee capital program related to pension reform.

We also understand that PFR S.A. is government-mandated to coordinate other development institutions' activities, with PFR's CEO serving as the chairman of a wider association of all development institutions in Poland.

The government has provided timely, irrevocable, and unconditional budget guarantees for all debt issued by PFR S.A. since 2020 related to the COVID-19 support program. This debt represents over 98% of PFR's total commercial debt, with the remainder being the investment loan from the state-controlled bank (provided for the Bank Pekao stake acquisition) and the liquidity facility from the same bank. The sovereign guarantee is a key factor underpinning our assessment of the likelihood of support from the government. The guarantor, the Polish government, will pay the amount due on each payment date if PFR cannot. But even before this, the legal stipulations state that the government will, before the payment date, transfer the funds needed to meet PFR's obligations.

We also understand that the government will likely continue extending guarantees for PFR S.A.'s borrowings, including if necessary to pre-finance parts of RRF funds for Poland's development plan.

Mandate and activities: Poland's key development institution with a broad mandate for the government's critical policy priorities

Established in 2016, PFR's core function initially focused on fostering private sector development by direct (equity) and indirect investment across a wide range of sectors, including

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technology, infrastructure, and energy. The group's mandate has broadened and now includes the following areas:

- Bridging infrastructure gaps in the Polish economy (including transport, energy, municipal, and digital infrastructure);
- Venture capital market development (direct investment and via existing private sector venture capital funds);
- Facilitating pension reform by managing a long-term pension savings scheme; and
- Implementing Poland's recovery and resilience plan, including through prefinancing.

More broadly, however, we think that in its current form, the group de facto represents the government's key arm for implementing unique policy projects. We understand that PFR's strategy might be updated in the coming months following the change of government last year. As a result, PFR's tasks might be adjusted and new strategic focus areas defined, but we think PFR will remain an important tool for the government, in its core business to support Poland's economic development, and also as a potential crisis response instrument and as an adaptable institution to implement policy priorities.

PFR has been tasked with several responsibilities in implementing the recovery and resilience plan and administering grants from the EU's RRF (Poland is eligible for €23.9 billion [approximately 4% of GDP] of grants until 2027). PFR is providing the IT system for the implementation, for example to process payments, and is transferring the funds to recipients. PFR has also provided bridge- and pre-financing for projects under the plan. This role has been crucial for the government because of the delays in accessing RRF funds stemming from disagreements between the European Commission and the previous Polish government. With those issues resolved and funds unblocked, PFR's role will continue to perform its regular tasks in recovery plan implementation.

Previously, PFR was instrumental in the execution of the government's strategy of increasing domestic ownership of the financial system by acquiring a stake in Poland's second-largest bank, Bank Pekao SA, in 2016-2017, when former key shareholder UniCredit decided to exit the market. In 2019, the institution was mandated with providing infrastructure in developing the private pillar of the Polish pension system. The reform introduces an auto-enrolled long-term retirement saving program managed by private sector asset managers and co-funded by the state. PFR is a public operator of the system, providing the infrastructure for financial institutions (which PFR also formally authorizes to participate) and employees and employers interested in taking part.

Furthermore, in 2020, the government used PFR, via parent company PFR S.A., as its prime tool to mitigate the economic fallout from the COVID-19 pandemic under the Financial Shield stimulus program. PFR S.A. has provided partially nonrepayable liquidity loans for micro, small and midsize, and large firms of over Polish zloty (PLN) 73 billion (over 2% of GDP). The program was funded by PFR S.A.-issued bonds that the government fully guarantees.

We think the size and the type of projects the institution has historically implemented make it unlikely to be replaced by any other GRE or private sector entity, even if some strategic priorities might shift and visibility on further mandates is hampered. The track record, for example the COVID-19-related program, underlines the group's importance as a response tool for future crises, in addition to its mandates to implement critical policy programs.

Track record of support: Regular capital injections amid additional channels of government support

The government made several equity injections into PFR in the past few years. By year-end 2023, shareholders' equity had reached PLN15.7 billion, compared with PLN2.8 billion in 2019.

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We understand the government is planning to inject further capital to support the fund's activities.

Apart from capital support and state guarantees, channels of potential extraordinary support include PFR's exemption from dividend payments to the budget, and lending from other state-owned and state-controlled financial institutions.

Because we equalize the GCP with that on the sovereign, we do not consider the group's stand-alone credit profile a key rating factor. This reflects our view that the government is almost certain to provide extraordinary support to service debt, and we do not consider this support subject to transition risk.

The institution's funding base comprises shareholders' equity, interbank loans, and bonds issued under the pandemic-related stimulus program. The debt repayment profile is relatively front-loaded, with bonds amounting to PLN34 billion bonds coming due in 2025, and a first tranche of PLN16 billion being repaid in March 2024. We understand the government will support PFR to fulfill its obligations on time and in full by explicitly budgeting for corresponding subsidies in its annual budget and channeling them to the institution ahead of debt maturities. This will be particularly important as the lion's share of repayments under the pandemic-related financial shield programs will be settled and no longer an important source of funds.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Poland 'A-/A-2' Foreign Currency Ratings Affirmed; Outlook Stable, May 10, 2024

Ratings Detail (as of June 28, 2024)*

Polish Development Fund (PFR S.A.)

Issuer Credit Rating

Foreign Currency

A-/Stable/A-2

Local Currency

A/Stable/A-1

Issuer Credit Ratings History

Ratings Detail (as of June 28, 2024)*

23-Jun-2021	<i>Foreign Currency</i>	A-/Stable/A-2
23-Jun-2021	<i>Local Currency</i>	A/Stable/A-1

Sovereign Rating

Poland

<i>Foreign Currency</i>	A-/Stable/A-2
<i>Local Currency</i>	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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