

State budget borrowing requirements' financing plan and its background

February 2018

THE MOST IMPORTANT INFORMATION

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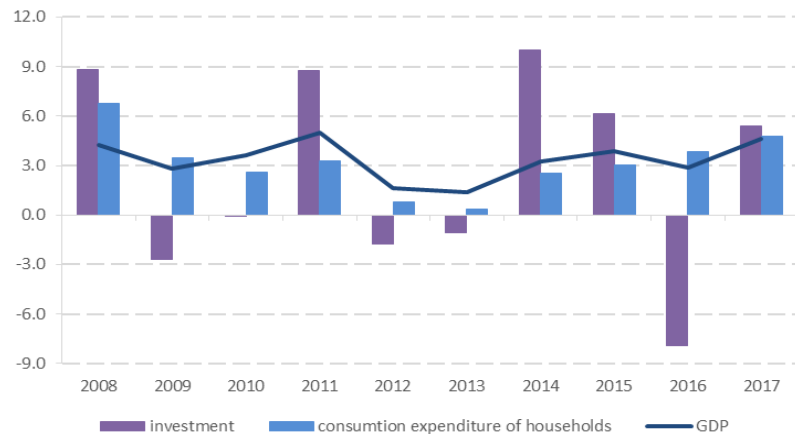


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

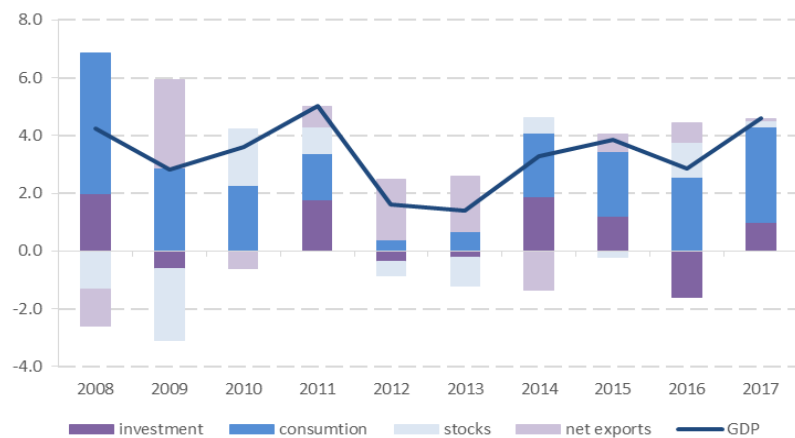
According to the preliminary data real GDP growth amounted to 4.6% in 2017, which was 1.7 pp higher than a year earlier. The final consumption expenditure of households increased by 4.8%, which was the highest pace of growth since 2008. Increase in private consumption growth was a consequence of a positive labour market situation, robust sentiment of consumers and implementation of a family support programme "Family 500+". Investments also surprised on the upside. Gross fixed capital formation recovered by 5.4% after 7.9% decline in 2016.



Contributions to Polish GDP growth

pp, py - average prices of previous year
source: GUS, MoF own calculation

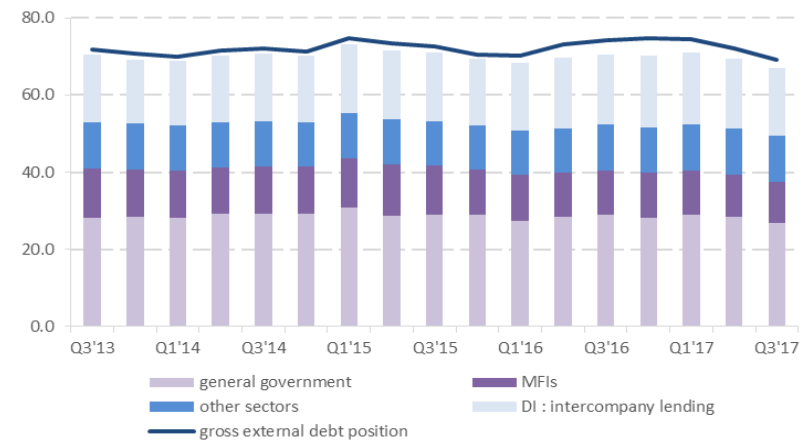
In 2017 domestic demand was the main source of GDP growth, mainly due to final consumption expenditure of households and, to a lesser extent, gross fixed capital formation with a contribution of 2.8 pp and 1.0 pp, respectively. Inventories and net exports contribution to GDP growth were also slightly positive.



Polish gross external debt position

percent of GDP
source: NBP, GUS, MoF own calculation

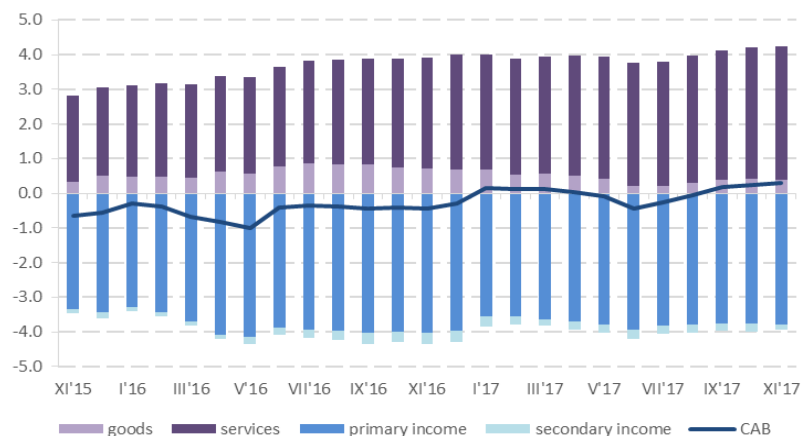
At the end of the third quarter of 2017 gross external debt reached EUR 313.1bn (69.1% of GDP) and was EUR 6.9bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 38.8%. At the end of November 2017 official reserve assets reached EUR 95.8bn and remained broadly adequate, covering about 5 months of imports.



Current account balance

percent of GDP, in 12-month terms
source: NBP, GUS, MoF own calculation

In November 2017, according to the preliminary data, current account surplus increased to 0.3% of GDP (in 12-month terms of GDP). Data were below market expectations. The inflow of long-term capital also continued, i.e. direct investments of non-residents and EU structural funds classified on the capital account.

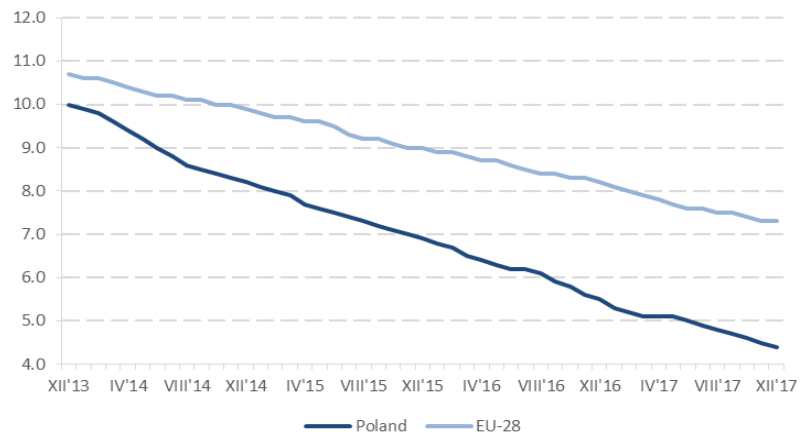




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

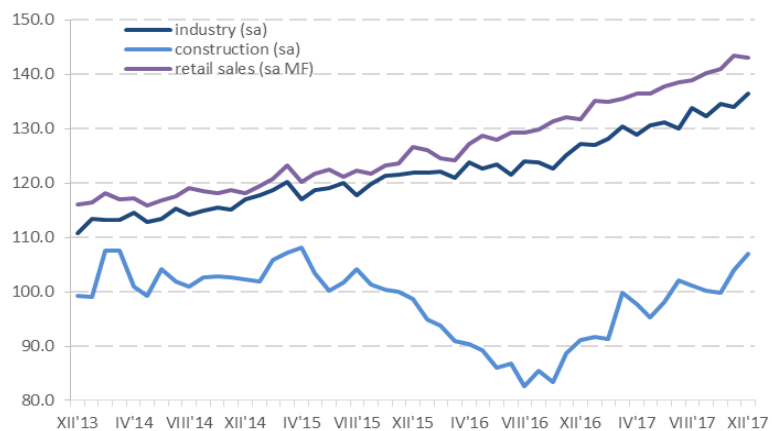
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In December 2017 it amounted to 4.4% (versus 7.3% in EU on average) and was 0.1 pp lower than a month before and 1.1 pp lower than a year earlier. In December 2017 harmonised unemployment rate (sa) in Poland reached the lowest level in historical terms.



Monthly indicators of the real sector

sold production in constant prices, i10, seasonally adjusted data
source: Eurostat, GUS, MoF own calculation

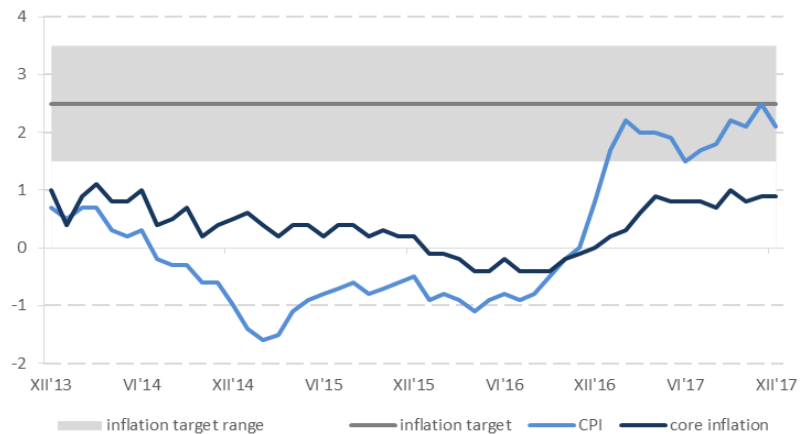
In December 2017 industrial output went up by 1.8% (mom, sa). As a result, production was 2.7% higher than a year ago (nsa). Deceleration in YoY dynamics was mainly determined by negative calendar effects. Data were in line with market expectations. Construction production increased second time in a row growing by 3.1% (mom, sa). As a result, production was 12.7% (nsa) higher than a year before. Data were significantly better than expectations. Real retail sales decreased unexpectedly in December (by 0.3% mom, sa MoF) following nine months of ongoing growth. As a result, their level was 5.2% (nsa) higher than in the same month of 2016. Data were below market expectations.



Inflation

percent, yoy
source: GUS, NBP

In December 2017 consumer prices rose by 0.2% (mom), among which food prices increased by 0.5%. As a result, consumer prices were higher by 2.1% than a year before. Data were slightly lower than market expectations. The average CPI growth in 2017 was 2.0%. Since the beginning of 2017 core inflation (CPI excluding food and energy prices) has been positive and in December it amounted to 0.9% (yoy). In December producer prices decreased by 0.3% (mom) and their annual growth fell again markedly (to 0.3%).

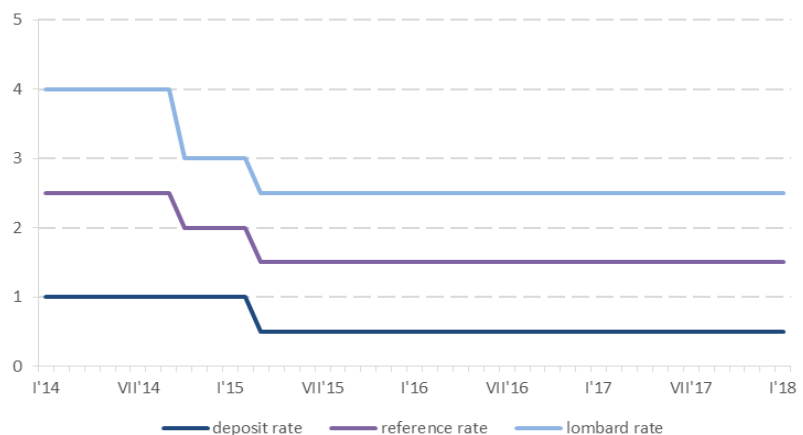


NBP interest rates

percent, end of period
source: NBP

In January 2018 the Monetary Policy Council kept NBP interest rates unchanged with the reference rate at 1.50%. The decision was in line with market expectations. In the Council's assessment, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

The latest Reuters' poll median forecast (January, 3rd) sees no NBP rate move till the end of the third quarter of 2018.





II. STATISTICAL DATA

	Unit	2012	2013	2014	2015	2016	2017
GDP							
Gross domestic product	YoY	1.6	1.4	3.3	3.8	2.9	4.6
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the households sector	YoY	0.8	0.3	2.6	3.0	3.9	4.8
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the general government sector	YoY	-0.3	2.5	4.1	2.4	1.7	-
	QoQ SA	-	-	-	-	-	-
Gross fixed capital formation	YoY	-1.8	-1.1	10.0	6.1	-7.9	5.4
	QoQ SA	-	-	-	-	-	-
Exports of goods and services	YoY	4.6	6.1	6.7	7.7	8.8	-
	QoQ SA	-	-	-	-	-	-
Imports of goods and services	YoY	-0.3	1.7	10.0	6.6	7.9	-
	QoQ SA	-	-	-	-	-	-
Gross value added	YoY	1.7	1.5	3.3	3.7	2.8	4.3
	QoQ SA	-	-	-	-	-	-
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	0.5	0.2	1.5	1.8	2.2	2.8
Final consumption expenditure of the general government sector	pp	-0.1	0.5	0.7	0.4	0.3	-
Gross fixed capital formation	pp	-0.4	-0.2	1.9	1.2	-1.6	1.0
Changes in inventories	pp	-0.5	-1.0	0.5	-0.2	1.2	-
Balance of trade turnover	pp	2.1	1.9	-1.3	0.6	0.7	0.1
Gross value added	pp	1.5	1.3	2.9	3.3	2.5	3.8
Taxes less subsidies	pp	0.1	0.1	0.4	0.6	0.3	-
GDP structure							
Final consumption expenditure of the households sector	% of GDP	60.6	60.1	59.3	57.7	57.8	-
Final consumption expenditure of the general government sector	% of GDP	17.9	18.1	18.1	18.0	17.9	-
Gross fixed capital formation	% of GDP	19.8	18.8	19.7	20.1	18.1	-
Changes in inventories	% of GDP	1.2	0.2	0.6	0.4	1.5	-
Exports of goods and services	% of GDP	44.4	46.3	47.6	49.5	52.3	-
Imports of goods and services	% of GDP	44.9	44.4	46.1	46.4	48.2	-
Balance of payments							
	Unit	2017					
		M07	M08	M09	M10	M11	M12
Goods: exports (EUR)	YoY	13.3	11.5	10.0	15.5	14.8	-
Goods: imports (EUR)	YoY	13.2	7.8	7.5	14.8	15.9	-
Current account balance ¹⁾	% of GDP	-0.3	-0.1	0.2	0.2	0.3	-
Balance on goods ¹⁾	% of GDP	0.2	0.3	0.4	0.4	0.4	-
Official Reserve Assets	EUR m	93 577.6	92 192.0	94 368.1	95 099.3	95 821.5	94 549.8
Inflation							
Consumer Price Index (CPI)	YoY	1.7	1.8	2.2	2.1	2.5	2.1
Core inflation (CPI excluding food and energy prices)	YoY	0.8	0.7	1.0	0.8	0.9	0.9
Producer Price Index (PPI)	YoY	2.2	3.0	3.2	3.0	1.8	0.3
Production							
Sold production of industry ²⁾	YoY	6.2	8.7	4.2	12.3	9.1	2.7
	MoM SA	-0.9	3.0	-1.1	1.6	-0.4	1.8
Construction and assembly production ²⁾	YoY	19.8	23.5	15.5	20.3	19.8	12.7
	MoM SA	4.0	-1.0	-0.8	-0.4	4.0	3.1
Manufacturing PMI	SA	52.3	52.5	53.7	53.4	54.2	55.0
Households and labour market							
Retail sales ²⁾	YoY	6.8	6.9	7.5	7.1	8.8	5.2
Average paid employment in enterprise sector	YoY	4.5	4.6	4.5	4.4	4.5	4.6
	MoM	0.3	0.1	0.1	0.1	0.3	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	3.1	4.8	3.8	5.2	3.9	5.1
	MoM	0.1	-0.1	-0.8	1.8	0.3	7.7
Harmonised unemployment rate (Eurostat)	%, SA	4.9	4.8	4.7	4.6	4.5	4.4

1) Data in 12-month terms

2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons

Source: GUS, NBP, Eurostat, IHS Markit, MoF calculation based on NBP, GUS data

	Unit	2017					
		M06	M07	M08	M09	M10	M11
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	945 695.5	939 931.1	936 501.5	940 729.2	932 008.3	935 006.5
Domestic debt	face value, PLN m	650 210.3	645 203.1	642 221.8	643 185.0	637 934.6	646 064.2
	%	68.8	68.6	68.6	68.4	68.4	69.1
Foreign debt	face value, PLN m	295 485.2	294 728.0	294 279.7	297 544.2	294 073.7	288 942.2
	%	31.2	31.4	31.4	31.6	31.6	30.9
Public debt (domestic definition)							
	Unit	2016			2017		
		Q02	Q03	Q04	Q01	Q02	Q03
Public debt (acc. to the place of issue criterion)	face value, PLN m	936 951.4	939 584.5	965 199.0	974 756.4	977 234.8	972 207.5
Domestic debt	face value, PLN m	614 898.8	624 358.2	630 171.6	657 487.8	666 500.9	659 481.7
	%	65.6	66.5	65.3	67.5	68.2	67.8
Foreign debt	face value, PLN m	322 052.6	315 226.3	335 027.4	317 268.6	310 733.9	312 725.8
	%	34.4	33.5	34.7	32.5	31.8	32.2
General Government debt (EU definition)							
General Government debt	face value, PLN m	977 849.9	978 459.5	1 006 283.9	1 013 072.7	1 016 038.2	1 010 855.6

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



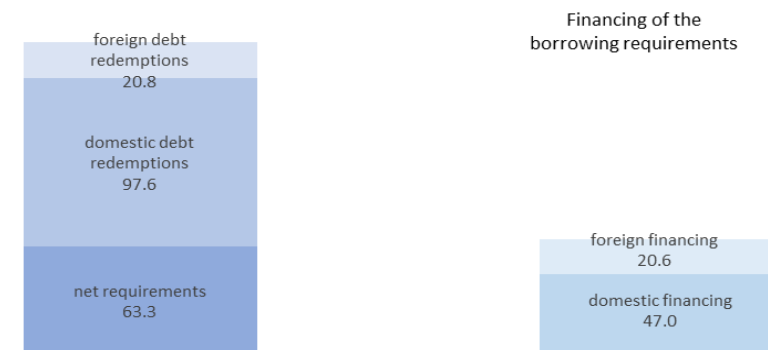
Gross borrowing requirements in 2018

as of January 31, 2018

Financing of the State budget borrowing requirements at the level of ca. 37% was a result of:

- T-bond sale on domestic market: PLN 13.3bn,
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions in 2017: PLN 32.2bn,
- higher than planned financial resources at the end of 2017: PLN 17.4bn (initial data, the final level will be known following the closure of the budget year).

Gross borrowing requirements
Total: 181,7 mld zł, of which:



Outflows of funds related to domestic marketable T-securities transfers in February

as of January 31, 2018

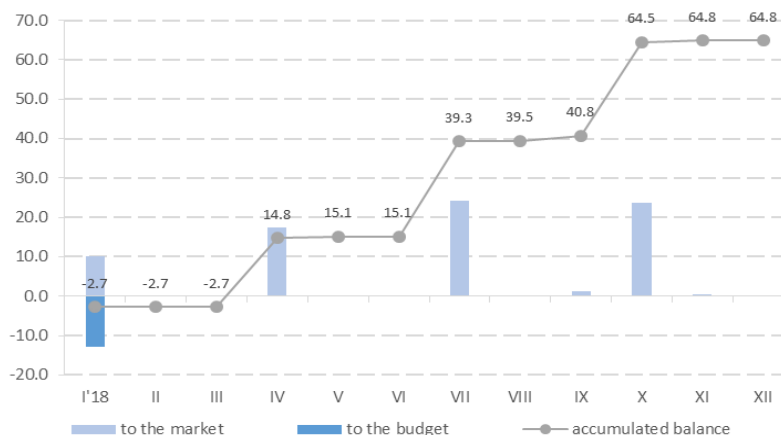
In February there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of January 31, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 67.5bn.

* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented



State Treasury debt redemptions in 2018

as of January 31, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 77.8bn, including:

- T-bonds: PLN 53.1bn,
- T-retail bonds: PLN 5.0bn,
- bonds and loans incurred on foreign markets: PLN 19.8bn.





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with T-bonds' redemptions maturing in 2018

as of January 31, 2018, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2018:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 5.3bn (27%),
- PS0718: PLN 6.8bn (27%),
- OK1018: PLN 8.5bn (30%).

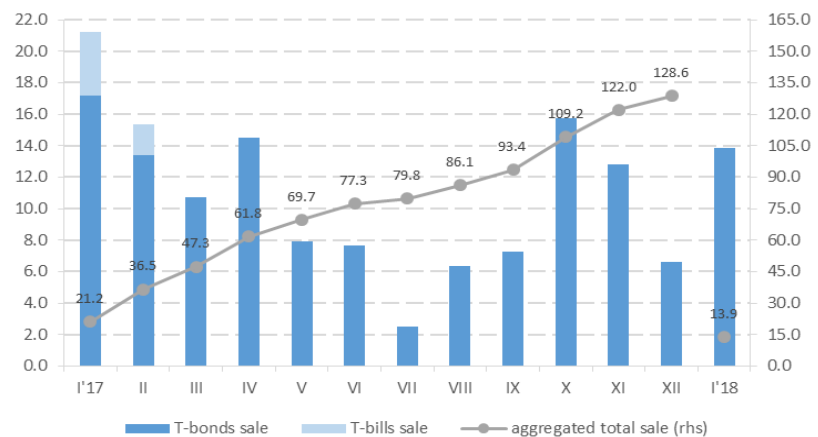


Sale of T-bonds and T-bills in January 2018 and in 2017

auction date, nominal amount, PLN bn

In January 2018:

- aggregated total sale of T-bonds amounted to PLN 13.9bn versus PLN 17.2bn in the same period of 2017,
- T-bills were not offered versus PLN 4.0bn sold in the same period of 2017.

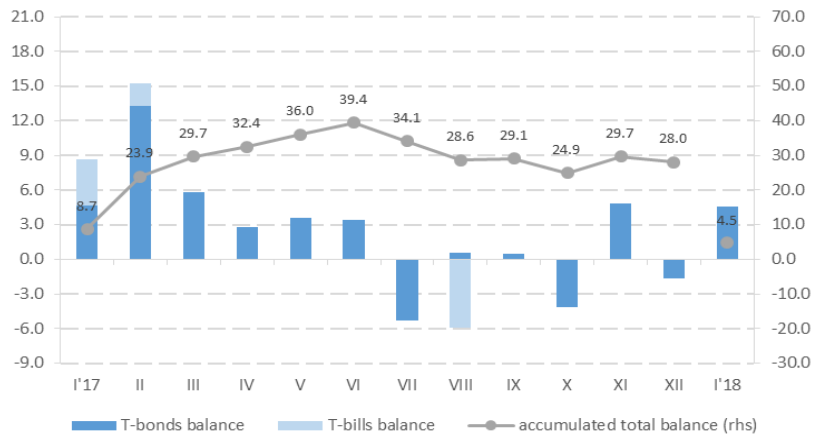


Balance of T-bonds and T-bills in January 2018 and in 2017

auction date, nominal amount, PLN bn

In January 2018 indebtedness in:

- T-bonds increased to PLN 4.5bn versus increase of PLN 4.6bn in the same period of 2017,
- T-bills remained the same versus increase of PLN 4.0bn in the same period of 2017.

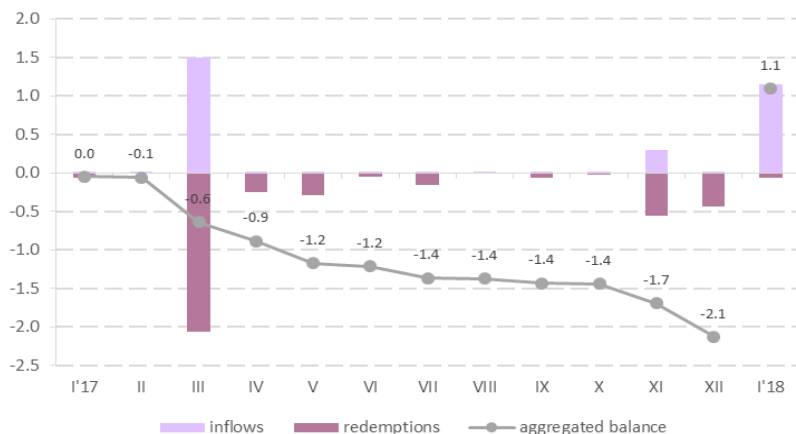


External financing in January 2018 and in 2017

bonds issued on foreign markets and loans received from IFIs, settlement date, EUR bn

Net financing on foreign markets in January 2018 was positive and amounted to EUR 1.1bn (negative balance of PLN 0.05bn in the same period of 2017), which resulted from:

- zero balance of T-bonds (zero balance in 2017),
- positive balance of loans incurred from IFIs of EUR 1.1bn (negative balance of EUR 0.05bn in 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

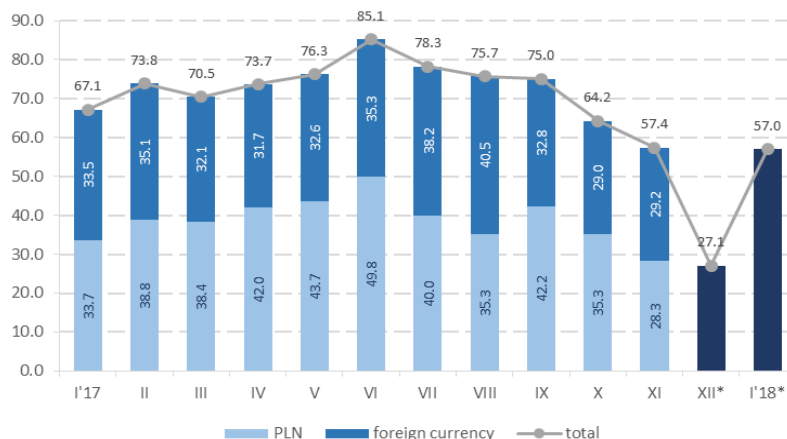


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The accumulated funds ensure liquidity in borrowing needs financing.

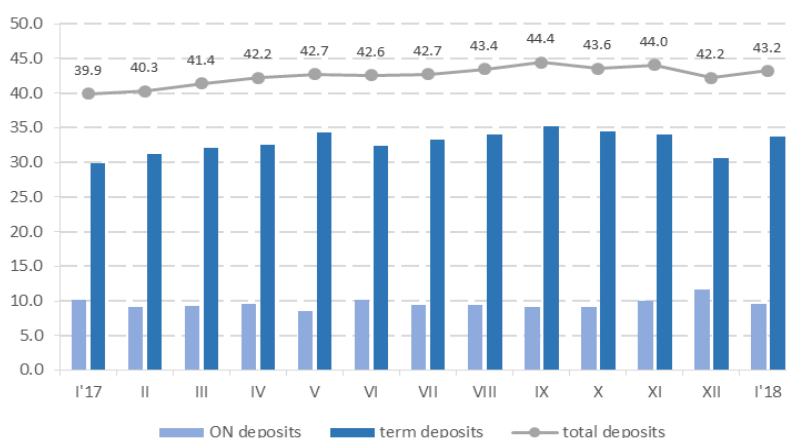
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

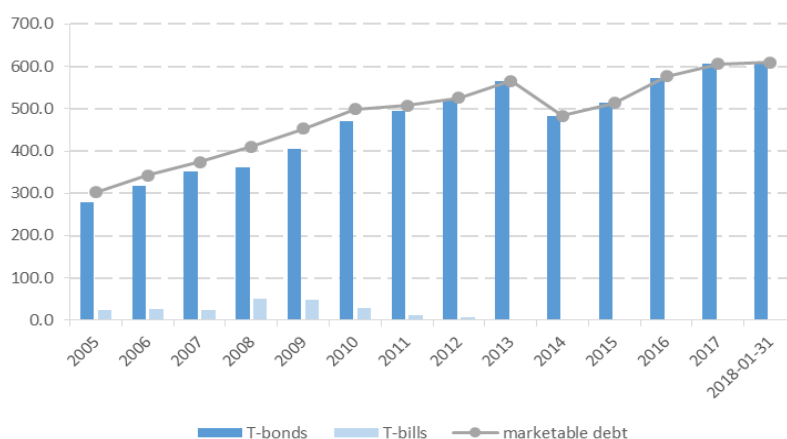
As a result of consolidation of public finance sector liquidity management there were PLN 43.2bn funds accumulated at the end of January 2018, of which PLN 33.7bn was as term deposits and PLN 9.5bn on ON deposits.



Structure of marketable debt

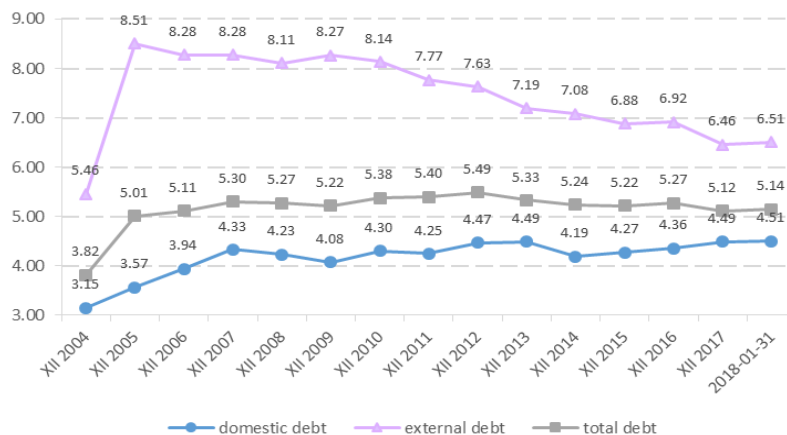
PLN bn

At the end of January 2018 the marketable domestic debt amounted to PLN 610.1bn comparing to PLN 605.7bn at the end of 2017.



Average maturity

At the end of January 2018 the average maturity of domestic debt amounted to 4.51 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.14 (5.12 at the end of 2017).



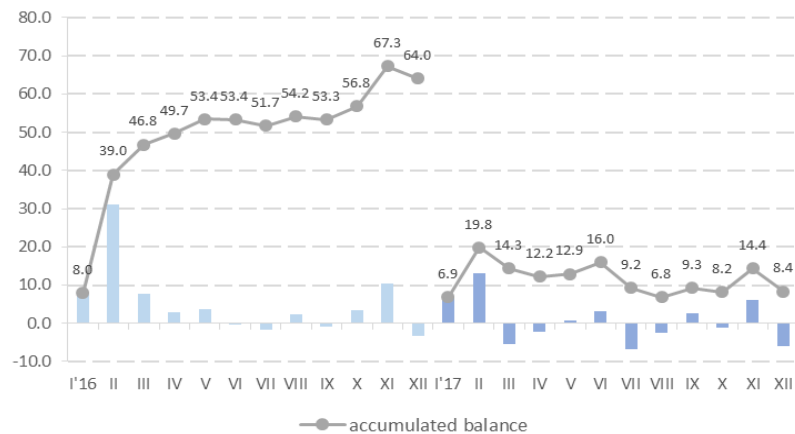


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

without buy-sell-back transactions with MoF, PLN bn

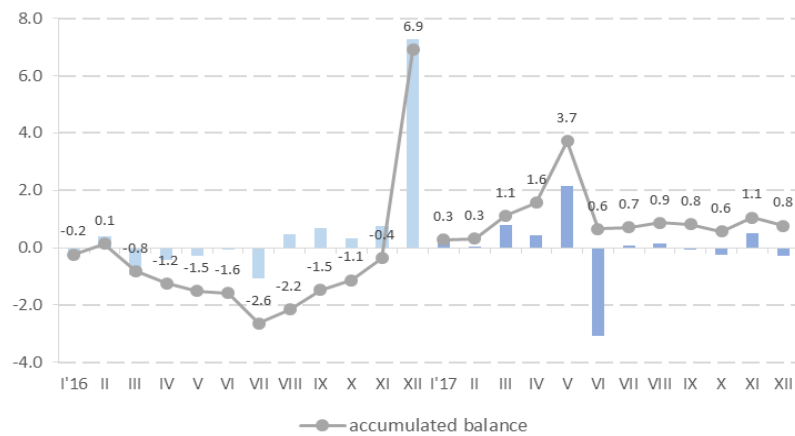
In the period of I-XII 2017 there was an increase of debt by PLN 8.4bn comparing to PLN 64.0bn increase during the same period of 2016. Banks' holdings reached the level of PLN 243.9bn.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

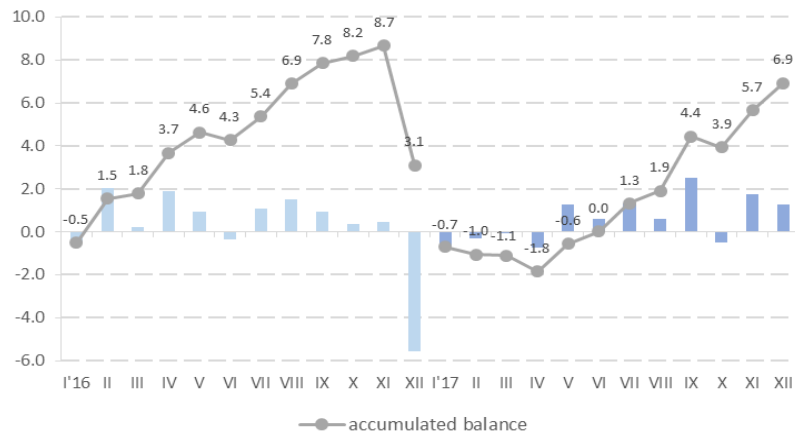
In the period of I-XII 2017 there was an increase of debt by PLN 0.8bn comparing to PLN 6.9bn increase during the same period of 2016. Insurance companies' holdings reached the level of PLN 59.8bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

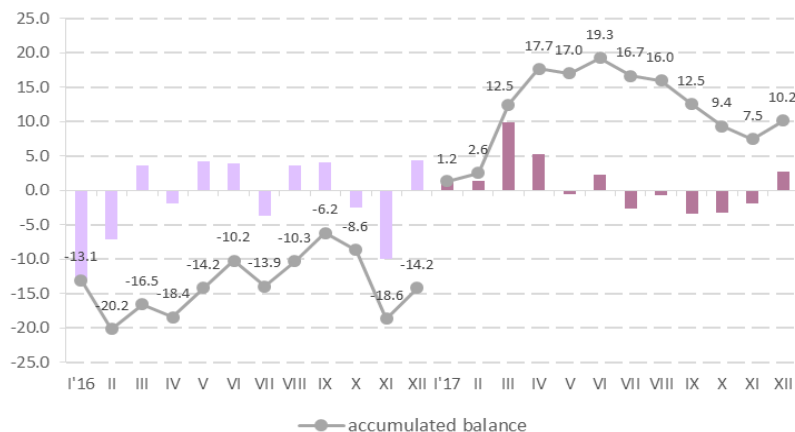
In the period of I-XII 2017 there was an increase of debt by PLN 6.9bn comparing to PLN 3.1bn increase during the same period of 2016. Investment funds' holdings reached the level of PLN 57.1bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-XII 2017 there was an increase of debt by PLN 10.2bn comparing to PLN 14.2bn decrease during the same period of 2016. Foreign investors' holdings reached the level of PLN 202.7bn.



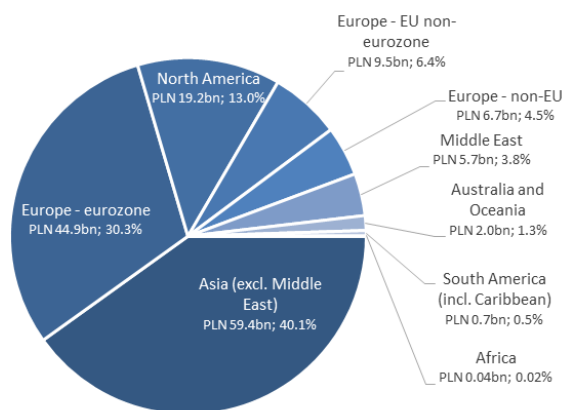
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of domestic Treasury securities held by non-residents

as of December 31, 2017, the chart presents data excluding omnibus accounts

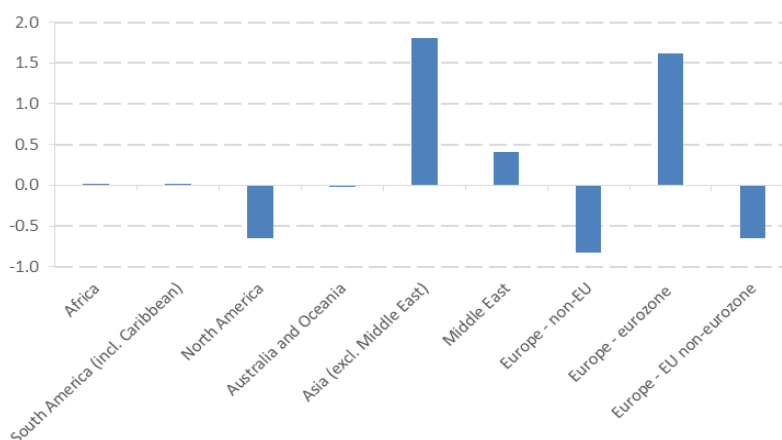
In December 2017 the non-residents' share in the domestic Treasury securities market increased by PLN 2.7bn. The foreign investors' portfolio amounted to PLN 202.7bn, which constituted 32.6% share in total debt in Treasury securities (32.1% in the previous month).



Change of debt in domestic Treasury securities held by non-residents by regions

change in December 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

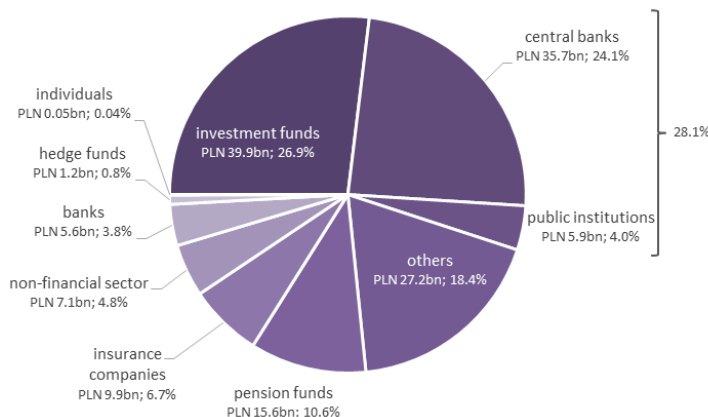
In December 2017 the highest increase was recorded by Asian investors (PLN 1.8bn) and the highest decrease was recorded by investors from Europe - non-EU (PLN 0.8bn).



Institutional distribution of domestic Treasury securities held by non-residents

as of December 31, 2017, the chart presents data excluding omnibus accounts

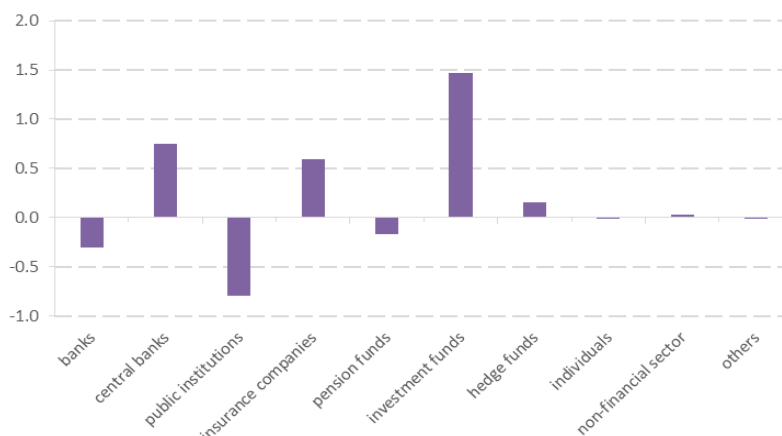
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of December 2017 central banks and public institutions' share in foreign holdings amounted to 28.1%.



Change of debt in domestic Treasury securities held by non-residents by institutions

change in December 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

In December 2017 the highest increase was recorded by investment funds (PLN 1.5bn) and the highest decrease was recorded by public institutions (PLN 0.8bn).



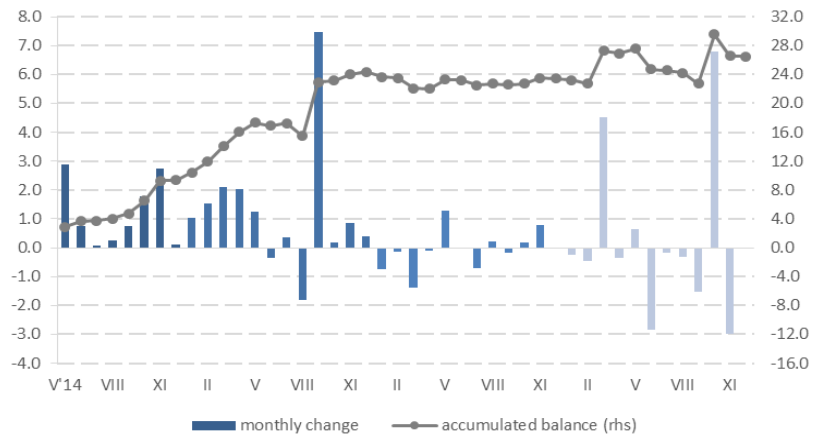


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by central banks and public institutions

change in December 2017, PLN bn

In December 2017 central banks and public institutions' involvement in the Polish debt market decreased by PLN 0.04bn. In the period from the end of April 2014 to the end of December 2017, for which the detailed information is available, portfolios of those entities increased by PLN 26.5bn.



Structure of non-residents' holdings in Treasury securities by countries

as of December 31, 2017, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	20 592.8	18.3%
Luxembourg	19 135.5	17.0%
United States	18 171.0	16.2%
Ireland	8 896.2	7.9%
Netherlands	6 671.3	5.9%
Germany	6 411.4	5.7%
United Kingdom	5 966.6	5.3%
Norway	4 993.7	4.4%
United Arab Emirates	2 457.4	2.2%
Hong Kong	2 294.3	2.0%
Australia	1 769.1	1.6%
France	1 569.3	1.4%
Switzerland	1 497.8	1.3%
Denmark	1 466.3	1.3%
Taiwan (Province of China)	1 234.0	1.1%
Others	9 355.4	8.3%
Total	112 482.2	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-01-2018

At the end of January the level of financing the State budget gross borrowing requirements amounted to 37%. The level of liquid funds on the budgetary accounts reached ca. PLN 57bn. In February we will organize two sale auctions with moderate supply of PLN 6-12bn.

In the whole year 2017 foreign investors increased their portfolios of PLN denominated Treasury securities by PLN 10.2bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN FEBRUARY 2018



T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
8 FEB 2018	12 FEB 2018	OK0720 / WZ1122 / PS0123 / WS0428 / WZ0528	3,000-5,000
22 FEB 2018	26 FEB 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either WS or IZ type	3,000-6,000*

* The final offer and the supply will be announced 2 days before the auction and will result from the market situation and consultations with investors.

The Minister of Finance is entitled to organize non-competitive auctions where bonds will be sold at a minimum clean price.

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0518 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0220 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0221 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0222 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0228 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0224 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0230 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period