

State budget borrowing requirements' financing plan and its background

2nd quarter 2018

April 2018

THE MOST IMPORTANT INFORMATION

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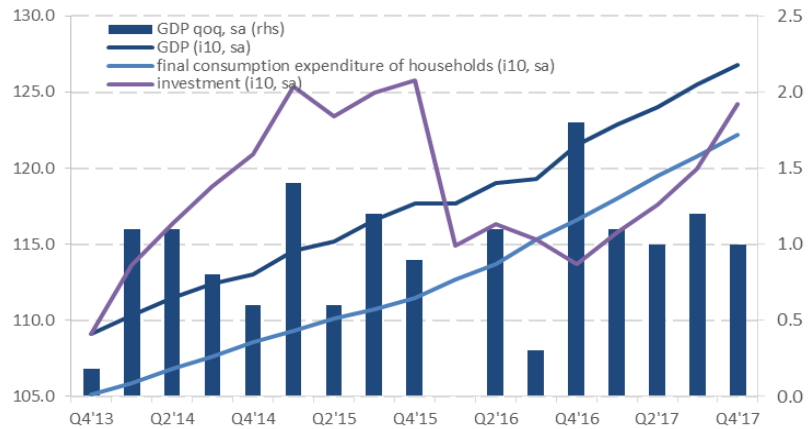


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

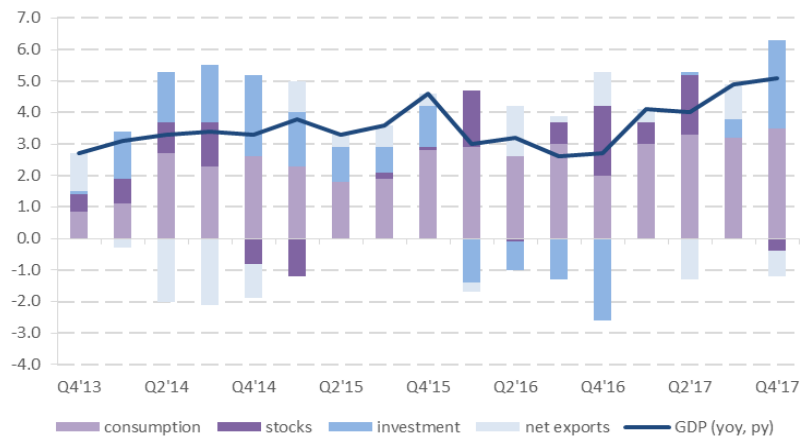
In the fourth quarter of 2017 GDP went up by 1.0% as compared to 1.2% (qoq, sa) in the previous quarter. In the fourth quarter of 2017 growth (qoq, sa) of households consumption remained strong and noticeable acceleration in investments dynamics (qoq, sa) was observed. Increase in private consumption was a consequence of a positive labour market situation, robust consumer sentiment and implementation of family support programme "Family 500+".



Contributions to Polish GDP growth

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

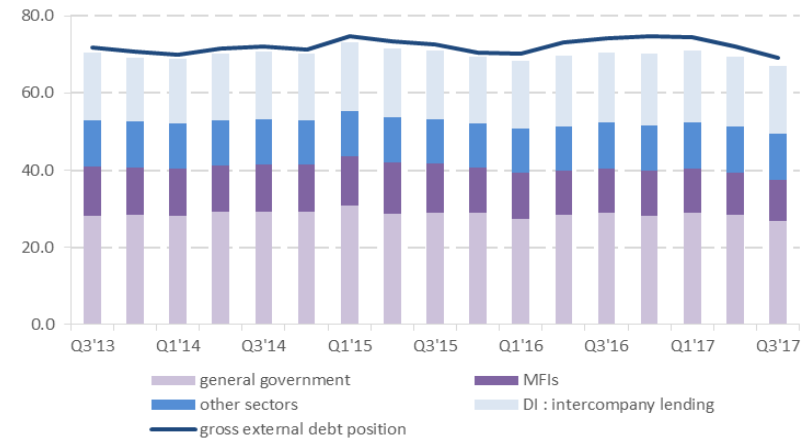
In the fourth quarter of 2017 GDP was 5.1% higher than a year ago as compared to 4.9% in the previous quarter, which represented the strongest reading since the end of 2011. Domestic demand was the only source of GDP growth on the back of investments (contribution of 2.8 pp) and households consumption (contribution of 2.5 pp). Net exports contribution to GDP growth, due to noticeably higher imports than exports dynamics, was negative (0.8 pp). Contribution of inventories was also negative (0.4 pp). Investments were 11.3% higher than a year ago, which indicated a significant improvement in comparison to the first three quarters of 2017.



Polish gross external debt position

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

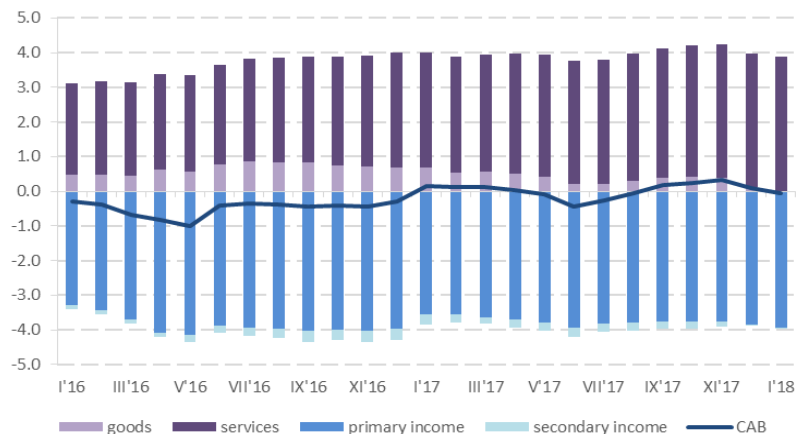
At the end of the third quarter of 2017 gross external debt reached EUR 313.1bn (69.1% of GDP) and was EUR 6.9bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 38.8%. At the end of January 2018 official reserve assets reached EUR 94.4bn and 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 January 2018, according to the preliminary data, current account was nearly balanced (in 12-month terms of GDP). Data were above market expectations. The inflow of long-term capital also continued, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on the capital account.

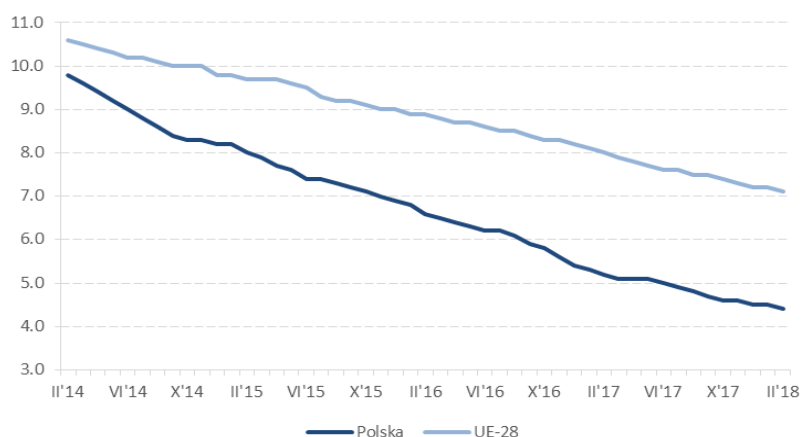




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

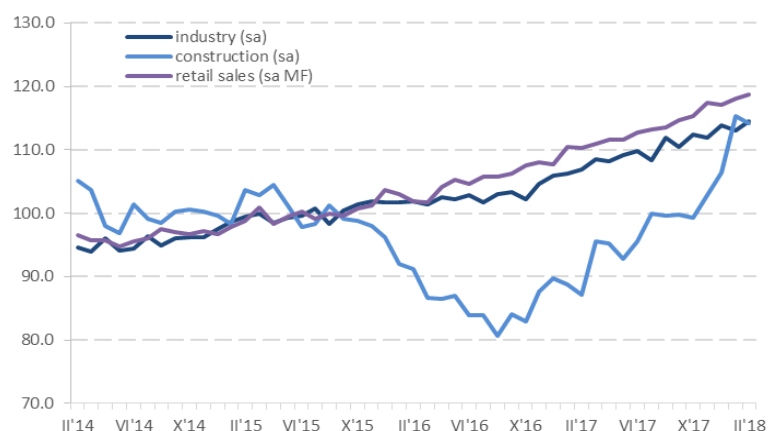
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In February 2018 it amounted to 4.4% (versus 7.1% in EU on average) and was at the same level as in the previous month and 0.8 pp lower than a year earlier. In February 2018 harmonised unemployment rate (sa) in Poland remained at the lowest level in historical terms.



Monthly indicators of the real sector

sold production in constant prices, yoy, raw data
source: GUS

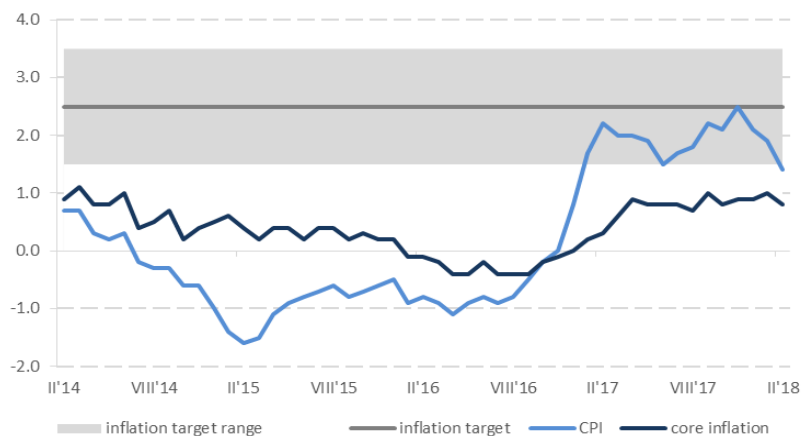
In February 2018 industrial output went up by 1.3% (mom, sa). As a result, production was 7.4% higher than a year ago (nsa). Data were slightly below market expectations. Construction production decreased by 1% following a jump in the previous month (mom, sa). As a result, production was 31.4% (nsa) higher than a year before. Data met market expectations. Real retail sales increased in February (by 0.6% mom, sa MoF), which was slightly lower than in the previous month. As a result, their level was 7.7% (nsa) higher than in the same month of 2017. Data met market expectations.



Inflation

percent, yoy
source: GUS, NBP

In February 2018 consumer prices fell by 0.2% (mom). As a result the annual rate of inflation equalled 1.4% and was below the lower band of the inflation target. Data were considerably lower than market expectations. Core inflation (CPI excluding food and energy prices) has been within the range of 0.7%-1.0% for almost one year (in February it amounted to 0.8% yoy). In February producer prices decreased by 0.3% (mom) and their level was 0.2% lower than a year ago.

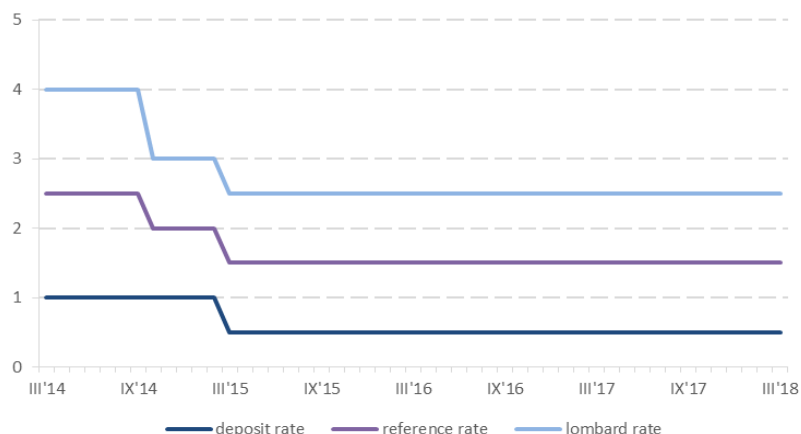


NBP interest rates

percent, end of period
source: NBP

In March 2018 the Monetary Policy Council kept NBP's 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 (March, 2nd) sees no NBP rate move till the end of 2018.





II. STATISTICAL DATA

	Unit	2016		2017			
		Q03	Q04	Q01	Q02	Q03	Q04
GDP¹⁾							
Gross domestic product	Y oY	2.6	2.7	4.1	4.0	4.9	5.1
	QoQ SA	0.3	1.8	1.1	1.0	1.2	1.0
Final consumption expenditure of the households sector	Y oY	4.1	4.7	4.7	4.9	4.8	4.9
	QoQ SA	1.4	1.2	1.2	1.2	1.1	1.1
Final consumption expenditure of the general government sector	Y oY	2.8	-1.4	0.5	2.1	1.9	5.4
	QoQ SA	1.1	-0.2	0.5	1.8	0.4	1.3
Gross fixed capital formation	Y oY	-6.9	-9.7	-0.5	0.9	3.3	11.3
	QoQ SA	-0.9	-1.4	1.9	1.6	2.0	3.5
Exports of goods and services	Y oY	7.3	8.4	9.6	3.1	7.6	6.8
	QoQ SA	-1.0	2.7	2.1	0.1	2.7	1.6
Imports of goods and services	Y oY	7.2	6.3	9.7	6.0	5.7	9.2
	QoQ SA	0.6	0.1	4.9	0.0	0.8	4.0
Gross value added	Y oY	2.6	2.9	3.8	3.7	4.8	4.8
	QoQ SA	0.5	1.8	0.8	1.2	1.1	0.9
Contribution to GDP growth¹⁾							
Final consumption expenditure of the households sector	pp	2.5	2.3	2.9	2.9	2.9	2.5
Final consumption expenditure of the general government sector	pp	0.5	-0.3	0.1	0.4	0.3	1.0
Gross fixed capital formation	pp	-1.3	-2.6	0.0	0.1	0.6	2.8
Changes in inventories	pp	0.7	2.2	0.7	1.9	0.0	-0.4
Balance of trade turnover	pp	0.2	1.1	0.4	-1.3	1.1	-0.8
Gross value added	pp	2.3	2.5	3.4	3.3	4.1	4.3
Taxes less subsidies	pp	0.3	0.2	0.7	0.7	0.8	0.8
GDP structure¹⁾							
Final consumption expenditure of the households sector	% of GDP	60.1	49.9	64.5	59.1	59.7	49.6
Final consumption expenditure of the general government sector	% of GDP	17.3	18.9	16.9	17.3	16.8	18.9
Gross fixed capital formation	% of GDP	17.4	24.4	11.7	16.2	17.0	25.6
Changes in inventories	% of GDP	1.5	2.6	2.0	2.3	1.4	2.0
Exports of goods and services	% of GDP	52.3	48.9	57.1	54.3	53.5	49.5
Imports of goods and services	% of GDP	49.4	45.4	52.9	50.0	49.2	46.3
	Unit	2017				2018	
		M09	M10	M11	M12	M01	M02
Balance of payments							
Goods: exports (EUR)	Y oY	10.0	15.5	14.9	2.1	10.5	-
Goods: imports (EUR)	Y oY	7.5	14.8	15.7	10.9	15.4	-
Current account balance ²⁾	% of GDP	0.2	0.2	0.3	0.1	0.0	-
Balance on goods ²⁾	% of GDP	0.4	0.4	0.4	0.1	0.0	-
Official Reserve Assets	EUR m	94 368.1	95 099.3	95 821.5	94 549.8	94 393.2	94 964.6
Inflation							
Consumer Price Index (CPI)	Y oY	2.2	2.1	2.5	2.1	1.9	1.4
Core inflation (CPI excluding food and energy prices)	Y oY	1.0	0.8	0.9	0.9	1.0	0.8
Producer Price Index (PPI)	Y oY	3.2	3.0	1.8	0.3	0.2	-0.2
Production							
Sold production of industry ³⁾	Y oY	4.4	12.3	9.2	2.8	8.7	7.4
	MoM SA	-1.3	1.6	-0.4	1.8	-0.6	1.3
Construction and assembly production ³⁾	Y oY	15.3	20.2	19.9	12.8	34.7	31.4
	MoM SA	0.1	-0.5	3.5	3.6	8.4	-1.0
Manufacturing PMI	SA	53.7	53.4	54.2	55.0	54.6	53.7
Households and labour market							
Retail sales ³⁾	Y oY	7.5	7.1	8.8	5.2	7.7	7.7
Average paid employment in enterprise sector	Y oY	4.5	4.4	4.5	4.6	3.8	3.7
	MoM	0.1	0.1	0.3	0.2	2.0	0.2
Average monthly gross wages and salaries in enterprise sector (real)	Y oY	3.8	5.2	3.9	5.1	5.3	5.4
	MoM	-0.8	1.8	0.3	7.7	-8.0	0.4
Harmonised unemployment rate (Eurostat)	% SA	4.7	4.6	4.6	4.5	4.5	4.4
<small>1) Please note that quarterly data currently are not consistent with revised annual data 2) Data in 12-month terms 3) 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</small>							
	Unit	2017					2018
		M08	M09	M10	M11	M12	M01
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	936 494.3	940 729.2	932 008.3	935 006.5	928 471.8	934 688.9
Domestic debt	face value, PLN m	642 221.8	643 185.0	637 934.6	646 064.2	644 531.9	649 436.4
	%	68.6	68.4	68.4	69.1	69.4	69.5
Foreign debt	face value, PLN m	294 272.5	297 544.2	294 073.7	288 942.2	283 939.9	285 252.5
	%	31.4	31.6	31.6	30.9	30.6	30.5
	Unit	2016		2017			
		Q03	Q04	Q01	Q02	Q03	Q04
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	939 584.5	965 199.0	974 765.7	977 224.4	972 206.6	961 836.3
Domestic debt	face value, PLN m	624 358.2	630 171.6	657 497.0	666 497.6	659 480.8	662 552.4
	%	66.5	65.3	67.5	68.2	67.8	68.9
Foreign debt	face value, PLN m	315 226.3	335 027.4	317 268.6	310 726.7	312 725.8	299 283.9
	%	33.5	34.7	32.5	31.8	32.2	31.1
General Government debt (EU definition)							
General Government debt	face value, PLN m	978 908.5	1 006 584.9	1 013 385.5	1 016 347.9	1 011 018.5	1 003 398.6

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2018

as of March 31, 2018

Financing of the State budget borrowing requirements at the level of ca. 50% was a result of:

- T-bond sale on domestic market: PLN 27.2bn,
- switch auctions in 2018: PLN 5.2bn
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn (initial data, the final level will be known following the closure of the budget year).

Gross borrowing requirements
Total: PLN 181.7bn, of which:

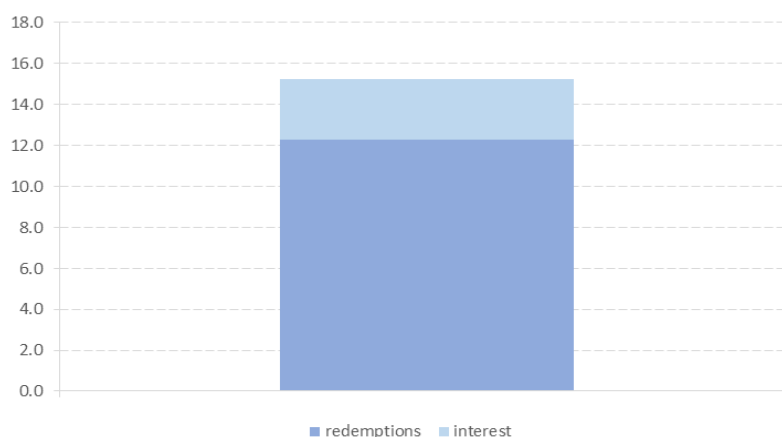


Outflows of funds related to domestic marketable T-securities transfers in April

as of March 31, 2018, PLN bn

Value of funds transferred from the State budget to the market in April shall amount to PLN 15.2bn, of which:

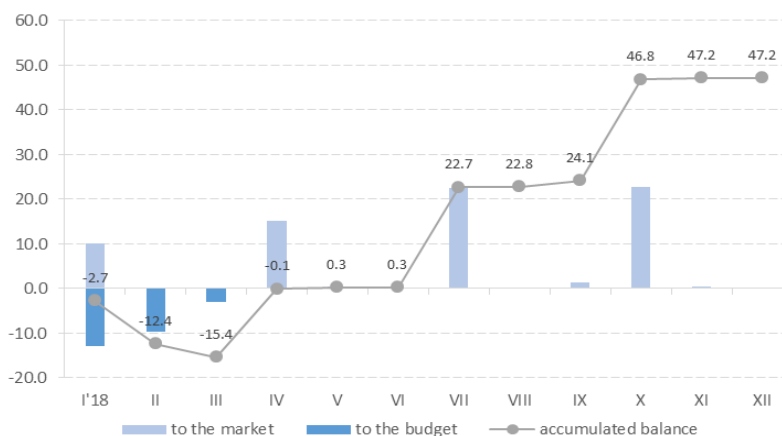
- TS redemptions: PLN 12.3bn,
- interest payments: PLN 3.0bn.



Flows of funds between the market and the budget*

as of March 31, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 62.6bn.



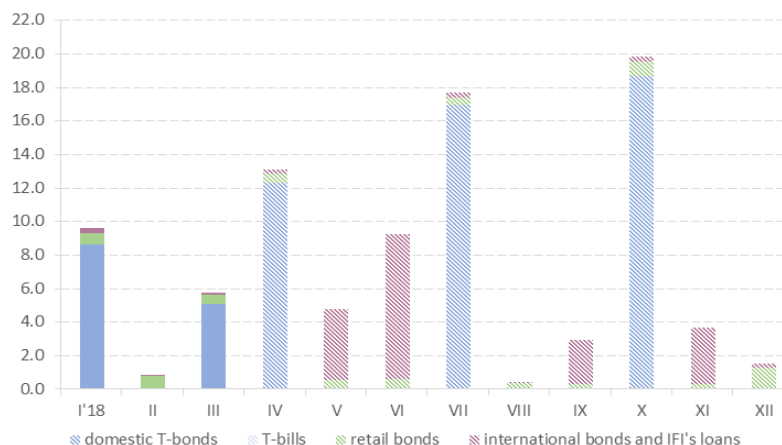
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented

State Treasury debt redemptions in 2018

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

The nominal amount of debt to be redeemed in 2018 is equal to PLN 73.2bn, including:

- T-bonds: PLN 48.0bn,
- T-retail bonds: PLN 5.3bn,
- bonds and loans incurred on foreign markets: PLN 19.9bn.





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

Buy-back of T-bonds maturing in 2018:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 7.6bn (38%),
- PS0718: PLN 8.5bn (33%),
- OK1018: PLN 9.6bn (34%).

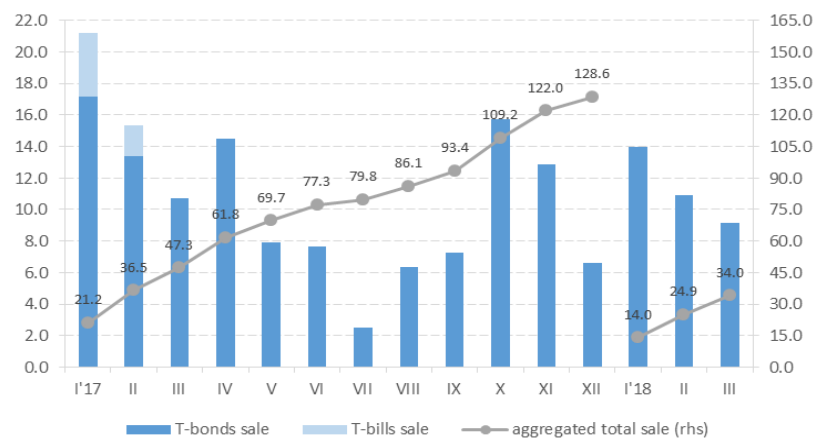


Sale of T-bonds and T-bills in the period of I-III 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-III 2018:

- aggregated total sale of T-bonds amounted to PLN 34.0bn versus PLN 41.3bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

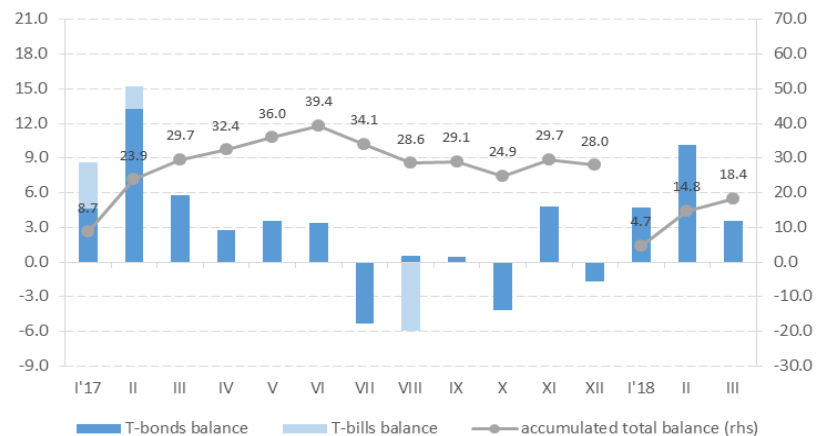


Balance of T-bonds and T-bills in the period of I-III 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-III 2018 indebtedness in:

- T-bonds increased by PLN 18.4bn versus increase of PLN 23.7bn in the same period of 2017,
- T-bills remained the same versus increase of PLN 6.0bn in the same period of 2017.

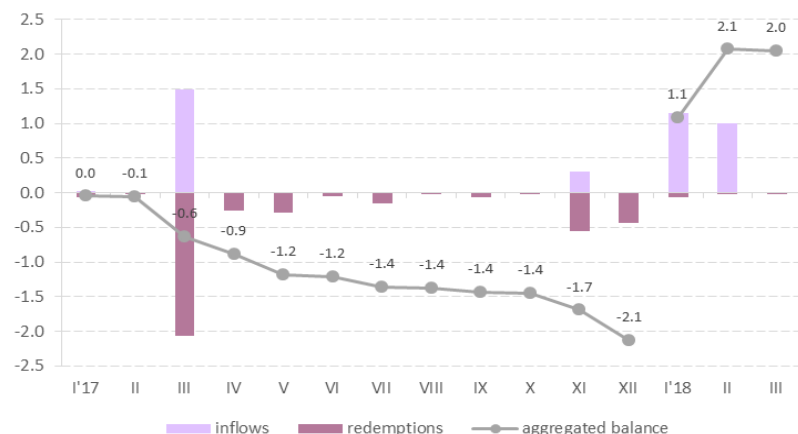


External financing in the period of I-III 2018 and in 2017

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

Net financing on foreign markets in the period of I-III 2018 was positive and amounted to EUR 2.0bn (negative balance of EUR 0.6bn in the same period of 2017) which resulted from:

- positive balance of T-bonds of EUR 1.0bn (negative balance of EUR 0.5bn in 2017),
- positive balance of loans incurred from IFIs of EUR 1.0bn (negative balance of EUR 0.1bn in 2017).



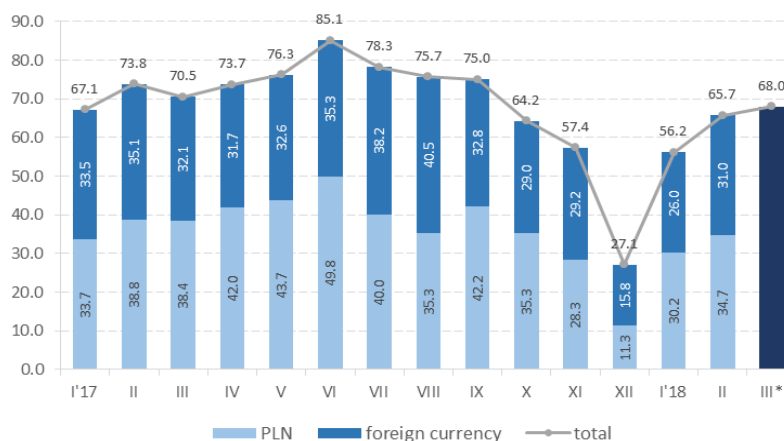
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.

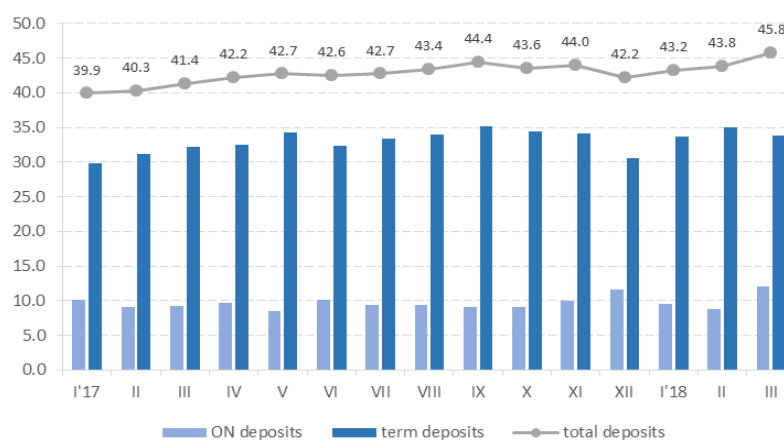


* estimated data

Consolidation of public finance sector liquidity management

PLN bn

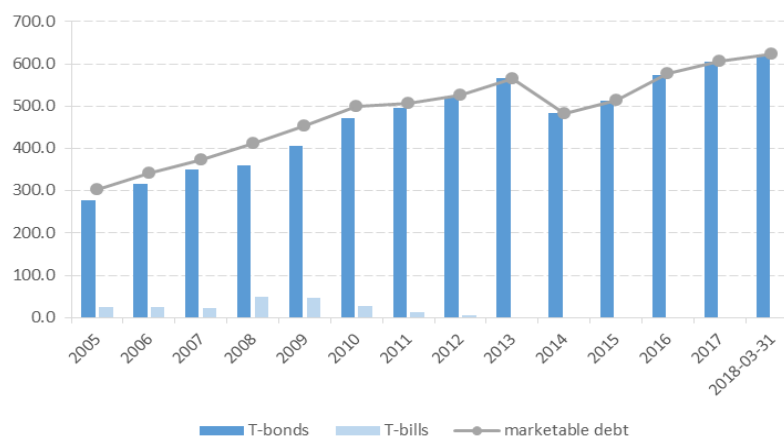
As a result of consolidation of public finance sector liquidity management there were PLN 45.8bn funds accumulated at the end of March 2018, of which PLN 33.9bn was as term deposits and PLN 12.0bn on ON deposits.



Structure of marketable debt

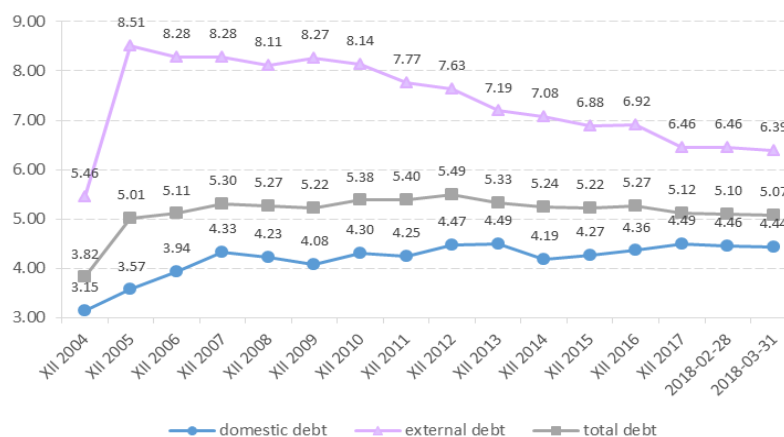
PLN bn

At the end of March 2018 the marketable domestic debt amounted to PLN 623.1bn comparing to PLN 605.7bn at the end of 2017.



Average maturity

At the end of March 2018 the average maturity of domestic debt amounted to 4.44 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.07 (5.12 at the end of 2017).



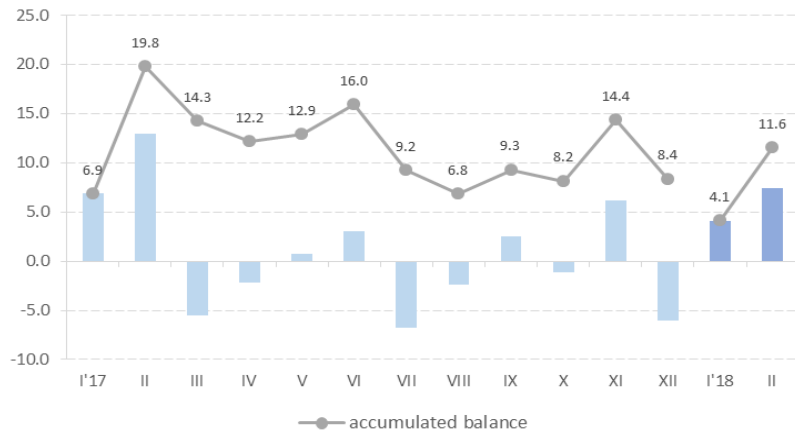


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

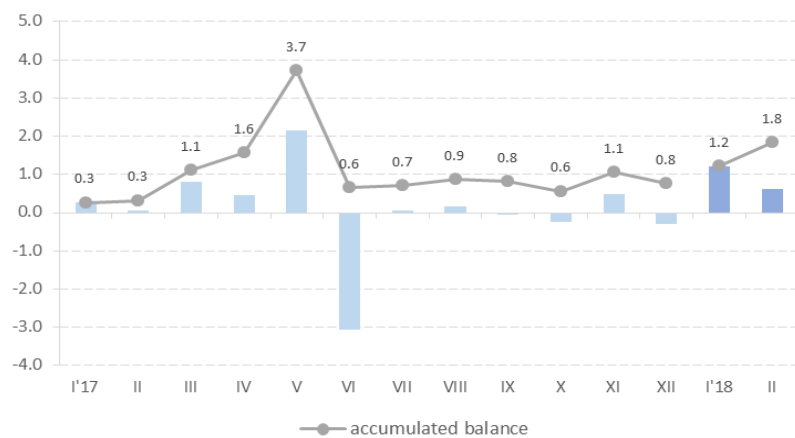
In the period of I-II 2018 there was an increase of debt by PLN 11.6bn comparing to PLN 19.8bn increase during the same period of 2017. Banks' holdings reached the level of PLN 255.5bn.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

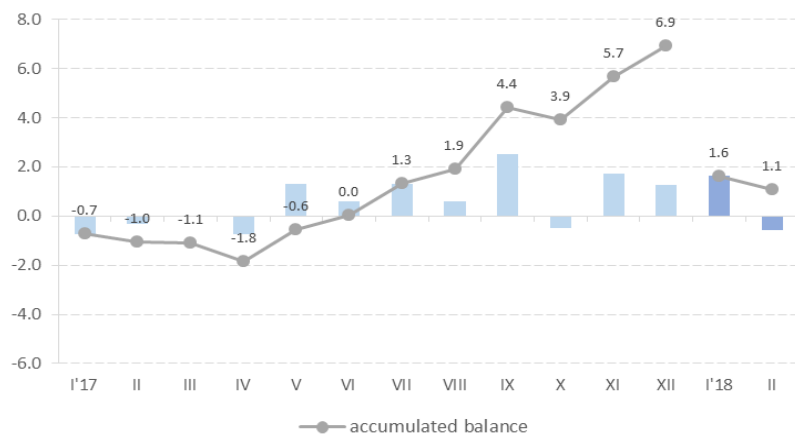
In the period of I-II 2018 there was an increase of debt by PLN 1.8bn comparing to PLN 0.3bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 61.6bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

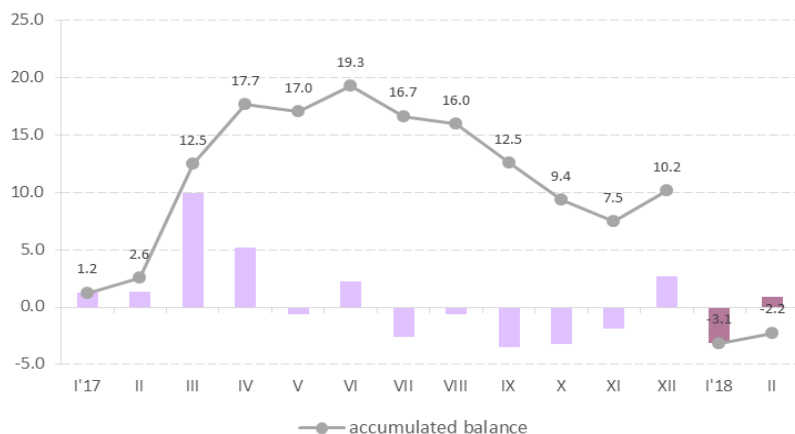
In the period of I-II 2018 there was an increase of debt by PLN 1.1bn comparing to PLN 1.0bn decrease during the same period of 2017. Investment funds' holdings reached the level of PLN 58.2bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-II 2018 there was a decrease of debt by PLN 2.2bn comparing to PLN 2.6bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 200.5bn.



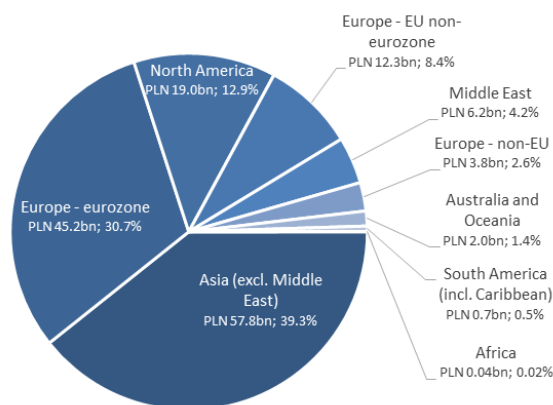
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of domestic Treasury securities held by non-residents

as of February 28, 2018, the chart presents data excluding omnibus accounts

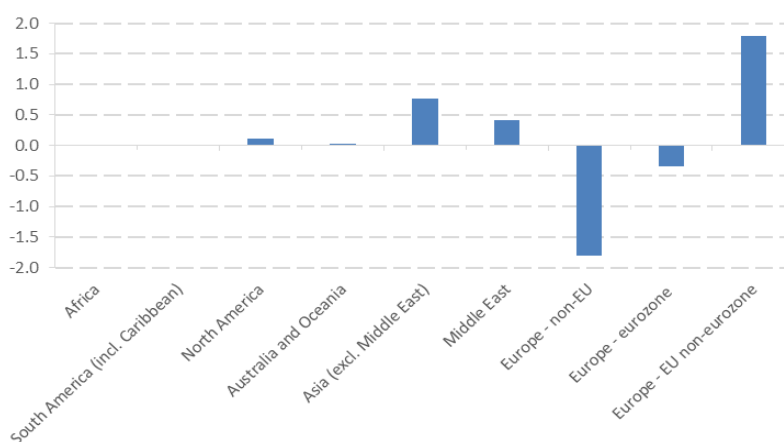
In February 2018 the non-residents' share in the domestic Treasury securities market increased by PLN 0.9bn. The foreign investors' portfolio amounted to PLN 200.5bn, which constituted 31.5% share in total debt in Treasury securities (31.9% in the previous month).



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

change in February 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

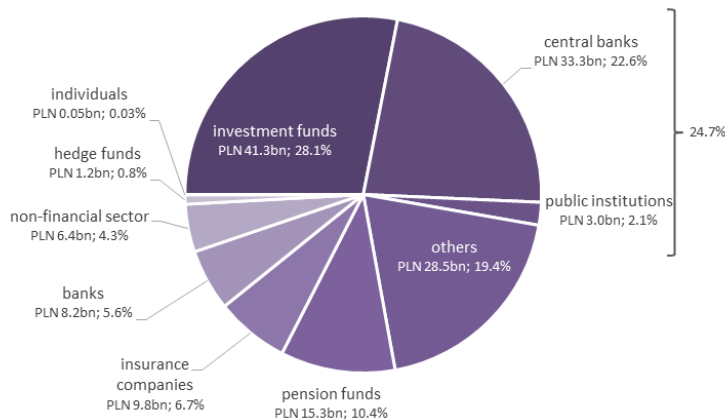
In February 2018 the highest increase was recorded by EU non-eurozone investors (PLN 1.8bn) and the highest decrease was recorded by European non-EU investors (PLN 1.8bn).



Institutional distribution of domestic Treasury securities held by non-residents

as of February 28, 2018, the chart presents data excluding omnibus accounts

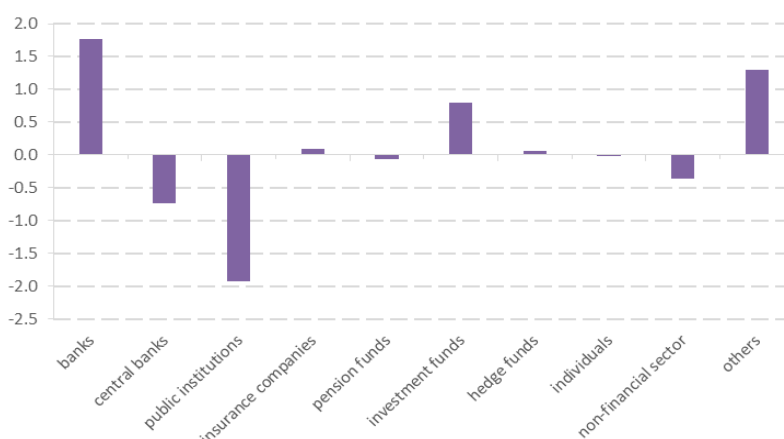
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of February 2018 central banks and public institutions' share in foreign holdings amounted to 24.7%.



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

change in February 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

In February 2018 the highest increase was recorded by banks (PLN 1.8bn) and the highest decrease was recorded by public institutions (PLN 1.9bn).



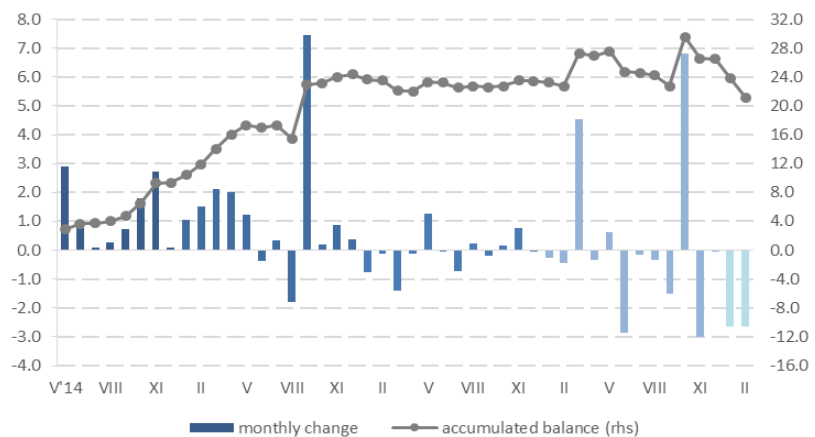


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in February 2018, PLN bn

In February 2018 central banks and public institutions' involvement in the Polish debt market decreased by PLN 2.7bn. In the period from the end of April 2014 to the end of February 2018, for which the detailed information is available, portfolios of those entities increased by PLN 21.2bn.



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

as of February 28, 2018, 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	20 269.5	17.8%
Luxembourg	18 628.7	16.4%
United States	17 887.4	15.7%
Ireland	9 142.7	8.0%
United Kingdom	8 624.9	7.6%
Germany	6 956.2	6.1%
Netherlands	6 385.6	5.6%
Hong Kong	3 505.2	3.1%
United Arab Emirates	3 499.7	3.1%
Norway	2 202.5	1.9%
France	2 047.1	1.8%
Australia	1 768.5	1.6%
Denmark	1 630.6	1.4%
Switzerland	1 438.6	1.3%
Taiwan (Province of China)	1 155.8	1.0%
Others	8 732.9	7.7%
Total	113 875.8	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

30-03-2018

After the first quarter we financed half of this year's borrowing requirements. Liquidity situation of the State budget remains very good, there are ca. PLN 66bn on the budget accounts.

Thus, we are planning to lower supply of T-bonds offered at sale auctions to PLN 15-25bn. Depending on the further developments of the budget situation we will hold between three to five sale auctions, including one in April, and between one to three switch auctions, respectively. The assumed supply range at the sale auction in April takes into account the redemption of PS0418 series.

Foreign investors increased their portfolio of domestic T-bonds by PLN 0.9bn in February. In March we are also observing inflow of foreign investors.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q2 2018



General assumptions

- in the second quarter of 2018 T-bond auctions are planned according to the announced modified yearly issuance calendar,
- offer of T-bonds on the domestic market will depend on budget and market situation, as well as the consultations with investors,
- possible auctions of Treasury bills will be held within the confines of the State budget liquidity management,
- foreign financing will be determined by the situation on the international financial markets and the domestic market,
- the announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

- **sale auctions:**
three-five auctions, total supply PLN 15.0-25.0bn,
- **switch auctions:**
one-three auctions – subject to budget and market situation – securities offered to repurchase would be T-bonds maturing in 2018 with the possibility of repurchasing T-bonds maturing in 2019.

Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

Foreign financing

- possible issuance of bonds on the international markets,
- loans from International Financial Institutions up to EUR 0.1bn,
- possible private placement issuances.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN APRIL 2018

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
27 APRIL 2018	2 MAY 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	4,000-8,000

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-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding* (PLN m)
5 APRIL 2018 / 9 APRIL 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528	PS0418	11,498
		PS0718	15,191
		OK1018	18,370

* after auction settlement

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0718 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0420 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0421 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0422 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0428 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0424 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0430 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period