

State budget borrowing requirements' financing plan and its background August 2013

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SUPPLY PLAN OF TREASURY SECURITIES IN AUGUST 2013

Treasury bond auction

Auction date	Settlement date	T-bond
7 AUG 2013	9 AUG 2013	<i>conditional auction</i> <i>- offer depending on the market conditions</i>

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 auction where T-bonds will be sold at a minimum price of bids accepted at the sale auction.

Offer on retail market

T-bond	Issue price	Coupon
DOS0815	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 3.00%
TOZ0816	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 3.30% in the first coupon period
COI0817	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.50% in the first coupon period
EDO0823	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 4.00% in the first coupon period



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Gross borrowing requirements in 2013

Funding of borrowing requirements was a result of:

- switch auctions in 2012: PLN 13.2bn,
- T-bonds buyback on foreign markets in 2012: PLN 0.9bn,
- higher than planned financial resources at the end of 2012: PLN 24.5bn,
- T-securities sale on domestic market: PLN 81.2bn,
- T-bonds issuance on foreign markets: PLN 5.3bn,
- and loans incurred from IFIs: PLN 7.5bn.

Flows of funds into the market related to T-bonds and T-bills and transfers to Open Pension Funds in August 2013

as of July 31, 2013, PLN bn

As of July 31, 2013 flow of funds due to redemptions of T-securities, servicing costs and transfers from State budget to Open Pension Funds shall amount to PLN 5.1bn.

Sale and redemption of T-bills in August 2013

settlement / redemption date, PLN bn

No T-bill auctions are planned in August. Securities maturing in the given month are at the level of PLN 3.1bn.

Funds in PLN and in foreign currency held by the MoF at the end of month

foreign currency funds include funds from debt issuance and received from the European Commission, PLN bn

The funds ensure liquidity in borrowing needs financing.

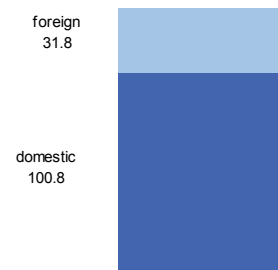
Gross borrowing requirements in 2013

Total PLN 145.0bn*, of which:

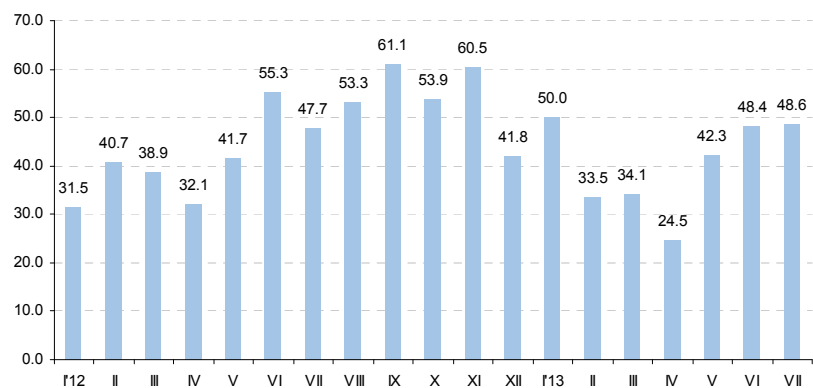
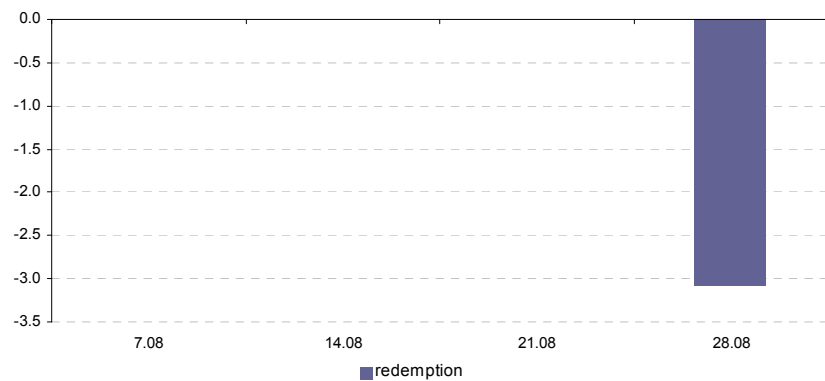
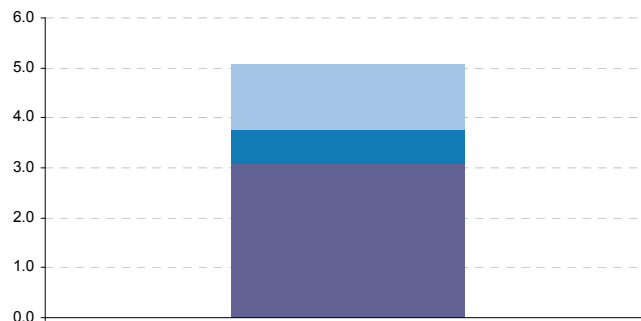


Funding in the period I-VII

Total PLN 132.6bn (91%)



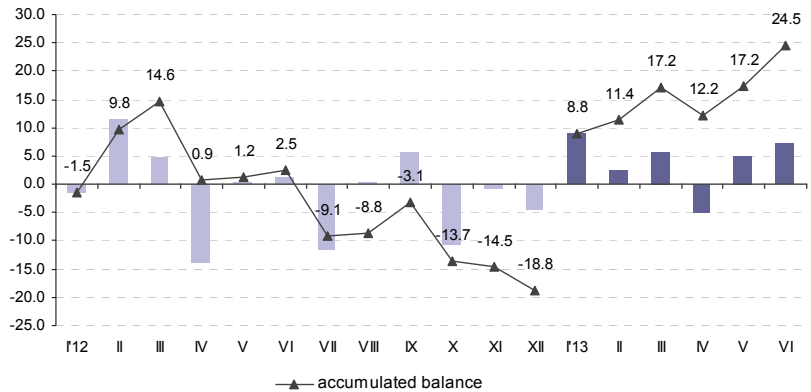
*as of July 31st, 2013; subject to the amendment to the Budget Act 2013



Change of debt in domestic Treasury securities held by banks

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

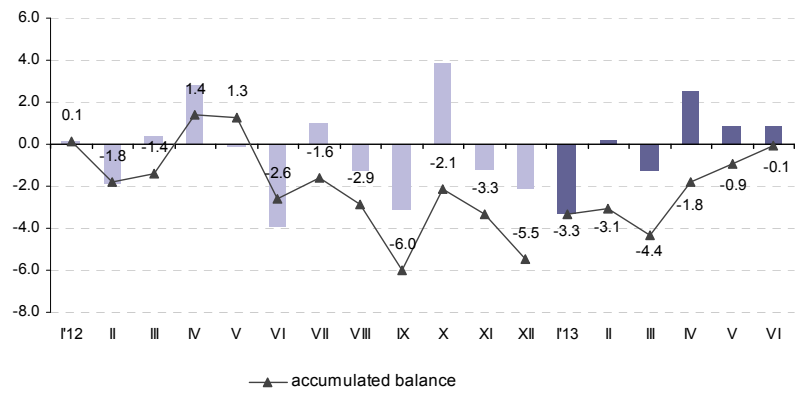
In the period of January - June 2013 debt held by domestic banks increased by PLN 24.5bn comparing to PLN 2.5bn increase during the same period of 2012.



Change of debt in domestic Treasury securities held by pension funds

PLN bn

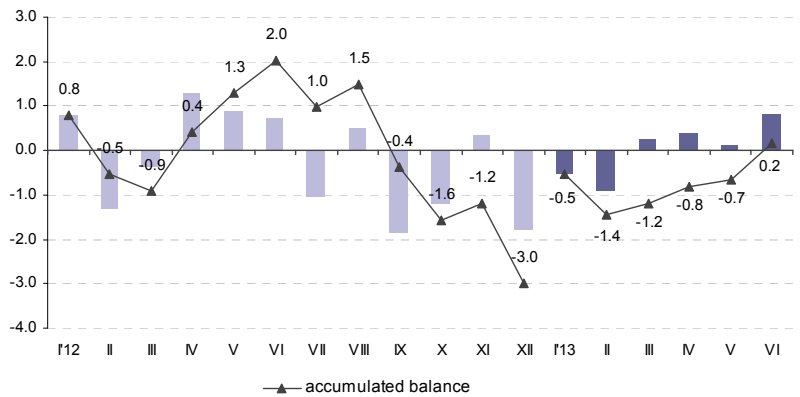
In the period of January - June 2013 debt held by pension funds decreased by PLN 0.1bn comparing to PLN 2.6bn decrease during the same period of 2012.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

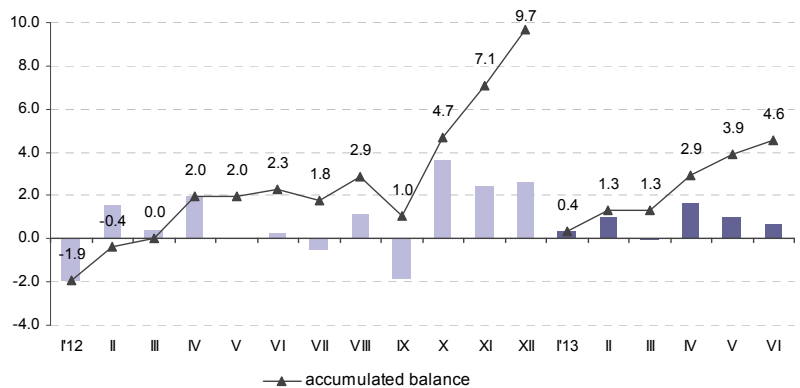
In the period of January - June 2013 there was an increase of PLN 0.2bn in debt held by insurance companies. During the same period of 2012 there was an increase of PLN 2.0bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

In the period of January - June 2013 there was an increase of PLN 4.6bn in debt held by investment funds. During the same period of 2012 there was an increase of PLN 2.3bn.



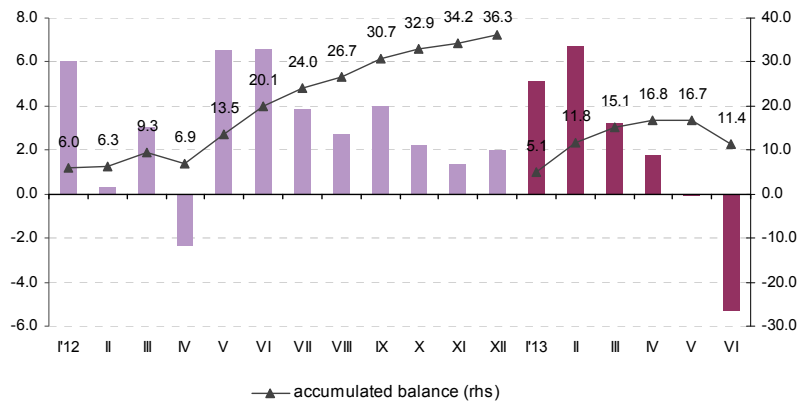


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by foreign investors

PLN bn

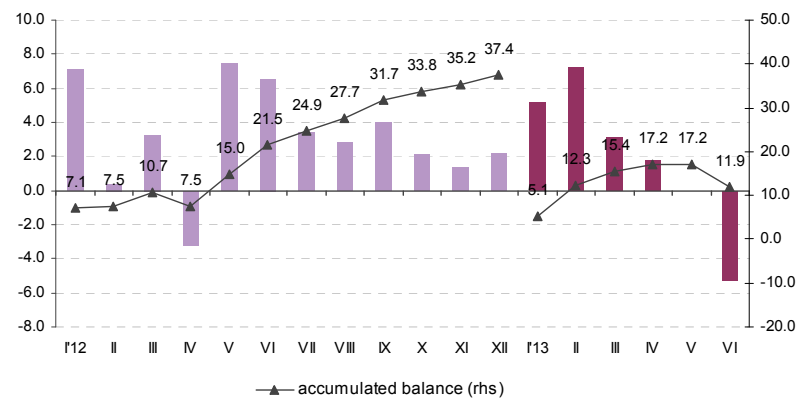
In the period of January - June 2013 inflow of foreign capital to the domestic TS market amounted to PLN 11.4bn comparing to PLN 20.1bn increase in the same period of 2012. Foreign investors' holdings reached the level of PLN of 201.9bn.



Change of debt in domestic T-bonds held by foreign investors

PLN bn

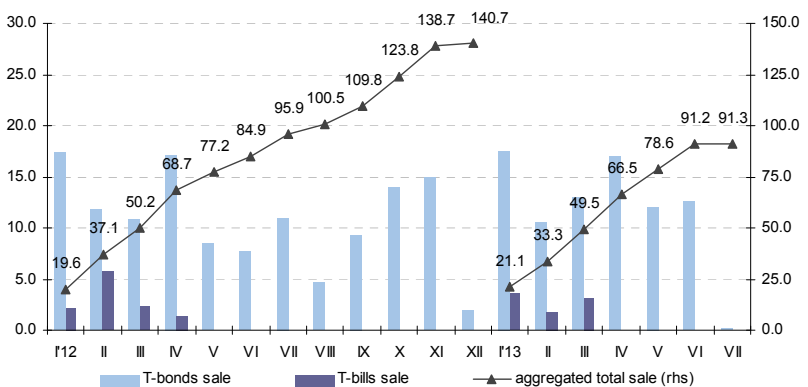
In the period of January - June 2013 inflow of foreign capital to domestic bonds market amounted to PLN 11.9bn comparing to PLN 21.5bn increase in the same period of 2012. Foreign investors' holdings reached the level of PLN 201.8bn.



Sale of T-bonds and T-bills in the period of I-VII 2013 and in 2012

settlement date, nominal amount, PLN bn

The structure of Treasury securities offered in 2013 is dominated by T-bonds (91%).

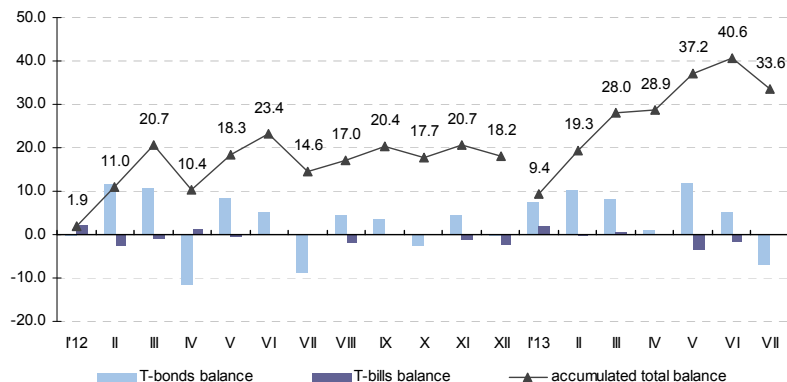


Balance of T-bonds and T-bills in the period of I-VII 2013 and in 2012

settlement date, nominal amount, PLN bn

In the period of January - July 2013:

- indebtedness in T-bonds increased by PLN 36.6bn,
- indebtedness in T-bills decreased by PLN 3.0bn.





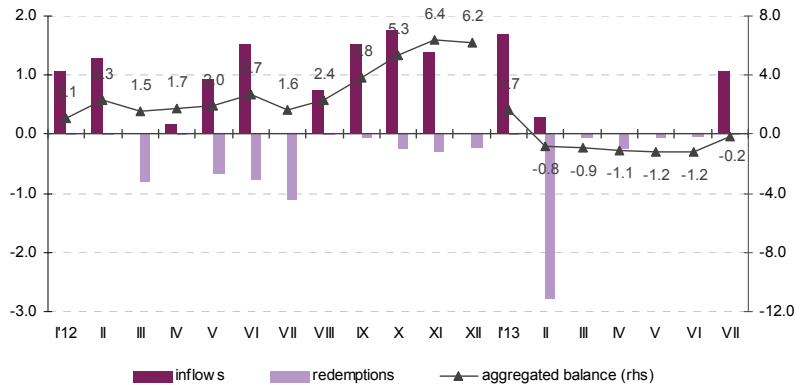
BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

External financing in the period of I-VII 2013 and in 2012

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

Net financing on foreign markets (bonds issuance and loans from IFIs) amounted to EUR -0.2bn.

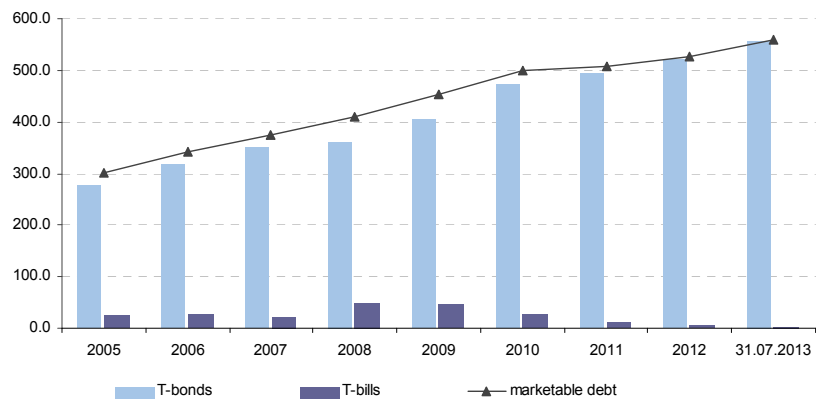
T-bonds issuance was EUR 1.3bn. Loans incurred from IFIs were at the level of EUR 1.8bn. Apart from those, EUR 4.4bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2012.



Structure of marketable debt

PLN bn

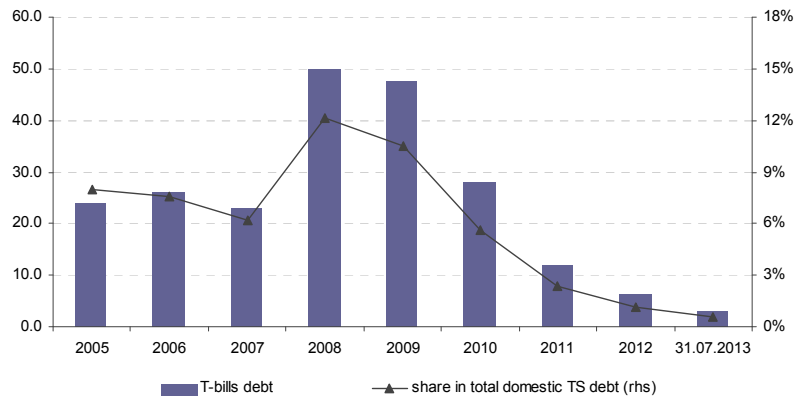
At the end of July 2013 the marketable domestic debt amounted to PLN 559.9bn comparing to PLN 526.1bn at the end of 2012.



T-bills outstanding

PLN bn

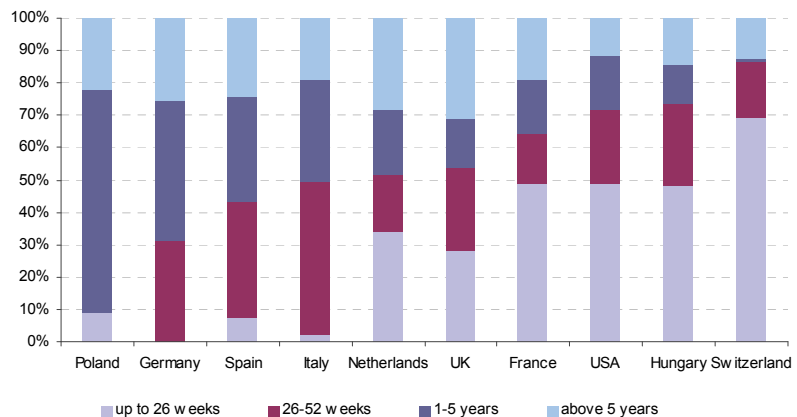
In July 2013 indebtedness in T-bills did not change. T-bills share in total domestic debt amounted to 0.6% at the end of the month.



Maturity breakdown of T-securities in Poland and other countries

auctions and syndicates, local currency, ytd in the period of January 1 - July 31, 2013

In terms of maturity, the sale of TS in Poland in 2013 is dominated by securities with maturity over 1 year. T-bills have appeared temporary (January - March) in the Polish TS structure again.

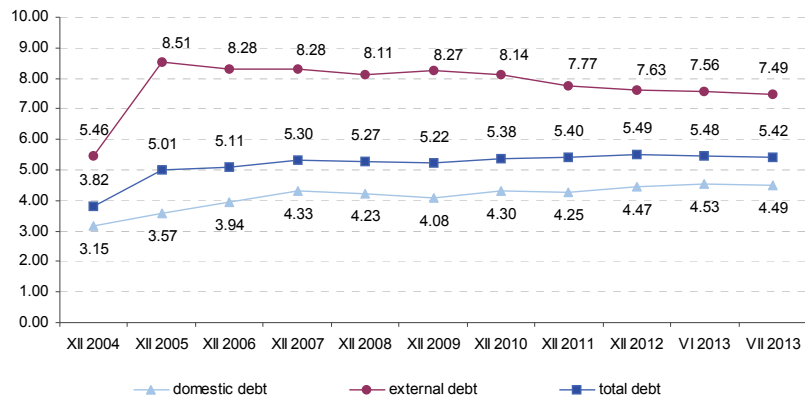




BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Average maturity

At the end of July 2013 the average maturity of domestic debt increased to 4.49 in comparison with the end-2012 figure (4.47).

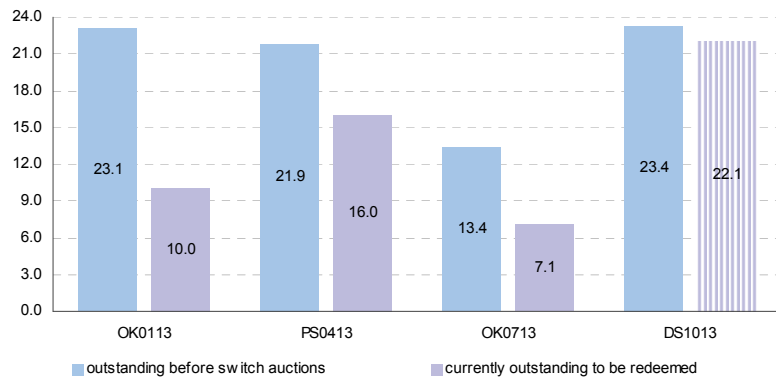


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2013

switch auctions, as of July 31, 2013, PLN bn

Buy-back of T-bonds maturing in 2013:

- OK0113: PLN 13.1bn (57% of initial outstanding),
- PS0413: PLN 5.8bn (27% of initial outstanding),
- OK0713: PLN 6.3bn (47% of initial outstanding),
- DS1013: PLN 1.3bn (6% of initial outstanding).

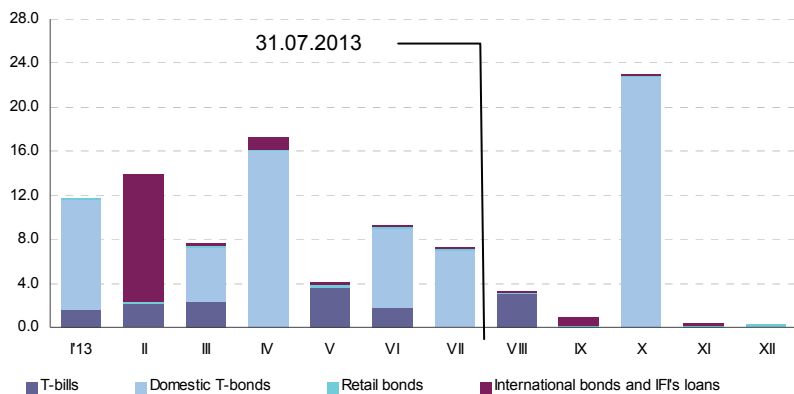


State Treasury debt redemptions in 2013

nominal amount, as of July 31, 2013, PLN bn

The nominal amount of debt to be redeemed in 2013 is equal to PLN 27.8bn, including:

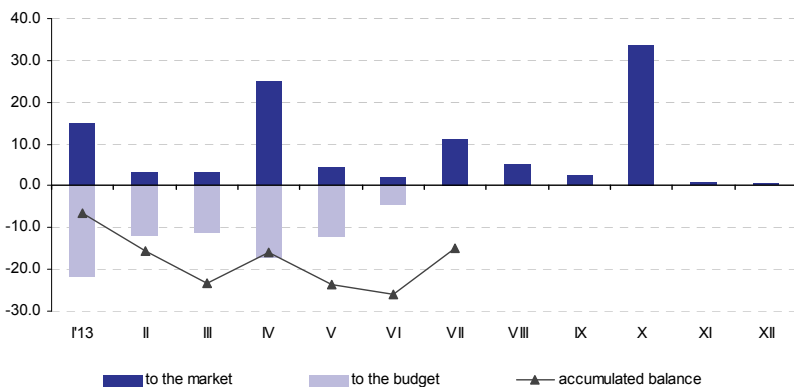
- T-bills: PLN 3.1bn,
- T-bonds: PLN 22.8bn,
- T-retail bonds: PLN 0.7bn,
- bonds and loans incurred on foreign markets: PLN 1.2bn.



Flows of funds between the market and the budget*

as of July 31, 2013, PLN bn

As of July 31, 2013 to the end of the year the proceeds from the redemptions and interest payments to the market shall amount to PLN 38.0bn. Additionally PLN 4.6bn will be transferred to the Open Pension Funds.



* figures include sale, redemptions and interest payments on wholesale bonds and bills and transfers to Open Pension Funds; 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.



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Consolidation of public finances liquidity management

PLN bn

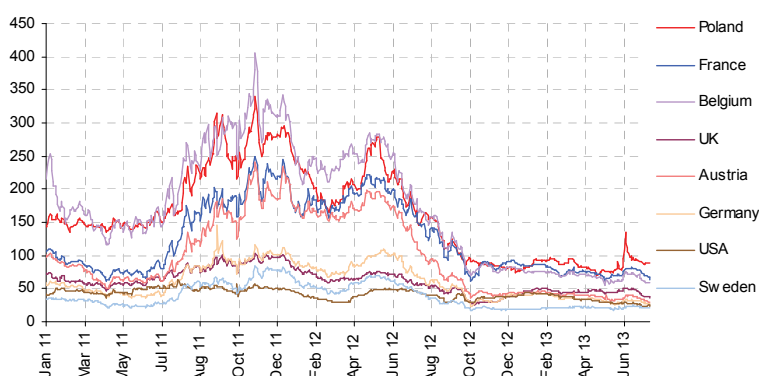
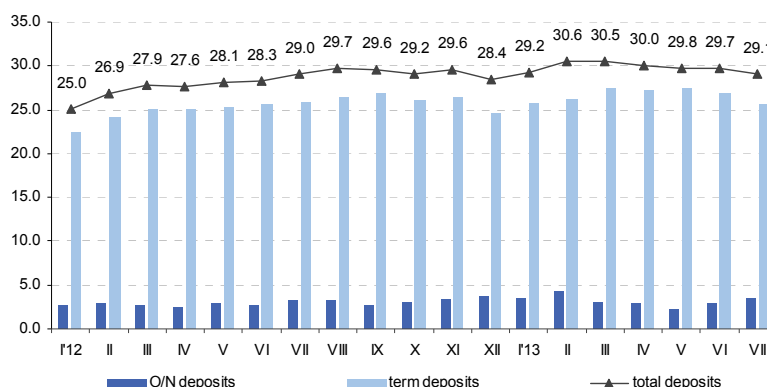
As a result of consolidation of public finances liquidity management there were PLN 29.1bn funds accumulated at the end of July, of which PLN 25.5bn was as term deposits and PLN 3.6bn on O/N deposits.

CDS levels

5-year, bp

Polish contracts are still decreasing, approaching gradually the levels of CDS of the higher rated countries.

Moody's Comment



Jaime Reusche, Assistant Vice President - Analyst, Moody's Issuer Comment 19-07-2013

"(...) The government also announced the suspension of automatic austerity measures under the fiscal rules, triggered whenever the deficit-to-GDP ratio increases if public debt exceeds 50% of GDP, for 2013 and 2014. According to Finance Minister Jacek Rostowski, the government is working on a new expenditure rule that will allow public spending to rise in line with medium-term nominal GDP growth. The goal of the planned changes is to foster counter-cyclical fiscal policy and support a further decline in the cyclically adjusted deficit towards 1% of GDP in 2016. The measures also illustrate the dual nature of fiscal and debt rules, given that they can limit policy flexibility while seeking to anchor policy credibility.

Poland's current fiscal rules sought to impose fiscal sustainability at the price of constraining room for policy manoeuvre, highlighting ambitious targets. However, as the rules are tested under stressful economic conditions, the authorities recognise the need for enhancements in order to make them more forward-looking, more transparent and more crisis-proof. In our view, the proposed enhancements to the fiscal rules aim at making them more counter-cyclical, which will strengthen the fiscal framework in future years by providing more flexibility, while at the same time maintaining transparent rules with clear sanction mechanisms."



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Comment

**Piotr Marczak, Director of the Public Debt Department, MoF
31-07-2013**

“Despite no Treasury securities auctions in July, there is about PLN 48bn of funds in PLN and in foreign currency held on the MoF’s accounts.

Those excess funds in foreign currency will collateralize the additional borrowing needs to a large degree. Another source will constitute funds from higher than planned loans incurred from international financial institutions and possible issuances on foreign markets. Domestic issues will depend on the market situation. In case of significant demand for bonds in PLN higher foreign currency funds will serve for prefinancing borrowing needs of 2014.

No T-bills auctions are planned for this year, nevertheless they are not precluded in case of turbulences on financial markets. In August we will redeem the last outstanding bills of PLN 3.1bn. Hence for the first time, since the debut T-bills auction in 1991, their outstanding amount will decrease to zero.

We assume the possibility of holding T-bonds auction in August according to the issuance calendar. Due to volatile situation on the financial markets as well as summer holidays time the issuance is conditional. A substantial overliquidity can be observed on the market. In July PLN 9.5bn was transferred to the market as funds from redemptions of T-securities and servicing costs. In August this would be PLN 3.8bn, additionally PLN 1.5bn will be transferred to the Open Pension Funds.

In June foreign investors’ portfolio held in PLN decreased by PLN 5.3bn. Few foreign entities were selling T-bonds until the beginning of July. In next two decades foreign investors were buying Polish bonds again at the amount higher than preceding sales and the redemption of PLN 1.6bn of bonds maturing on July 25, 2013.”