

State budget borrowing requirements' financing plan and its background

November 2013

THE MOST IMPORTANT INFORMATION

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SUPPLY PLAN OF TREASURY SECURITIES IN NOVEMBER 2013

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
7 NOV 2013	12 NOV 2013	OK0116 / PS0718	4,000-7,000

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.

Treasury bond switching auction

Auction/ settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
20 NOV 2013/ 22 NOV 2013	choice depending on the market conditions from the following: DS1023, WS, WZ and IZ	OK0114	21,425
		PS0414	29,571

Buy-back auction of USD nominated T-bond

Auction/ settlement date	Buy-back T-bonds		Nominal value of buy-back (EUR m)
	Series	Maturity date	
13 NOV 2013/ 15 NOV 2013	USD20140115	15 JAN 2014	up to 100

Offer on retail market

T-bond	Issue price	Coupon
KOS1214	PLN 100.00	1.00% from first to fifth month 3.00% from sixth to twelfth month 13.00% in thirteenth month (after 13 months yield 3.04% yearly)
DOS1115	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 3.20%
TOZ1116	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 3.30% in the first coupon period
COI1117	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.50% in the first coupon period
EDO1123	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 111.0bn,
- T-bonds issuance on foreign markets: PLN 5.2bn,
- and loans incurred from IFIs: PLN 11.6bn.

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

Flow of funds due to transfers from State budget to Open Pension Funds (no redemptions of T-securities and no servicing costs) shall amount to ca. PLN 0.8bn.

Flows of funds between the market and the budget*

as of October 31, 2013, PLN bn

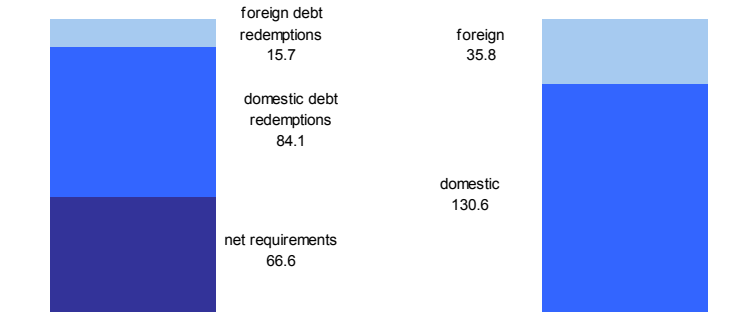
As of October 31, 2013 to the end of the year there will be no redemptions and interest payments from PLN denominated bonds*. PLN 1.4bn will be transferred to the Open Pension Funds.

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

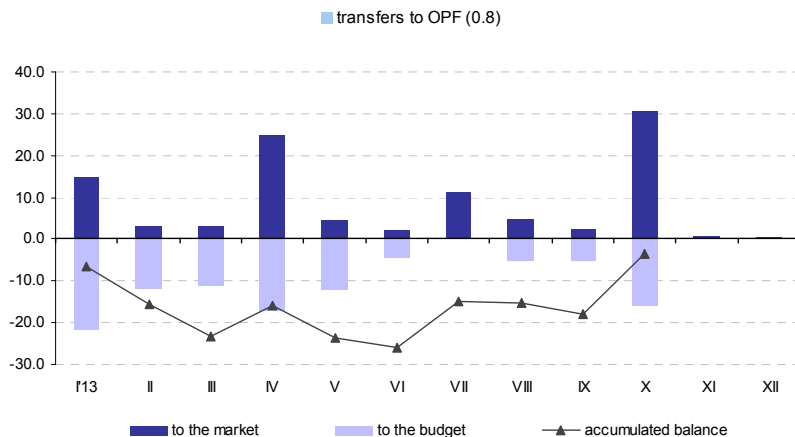
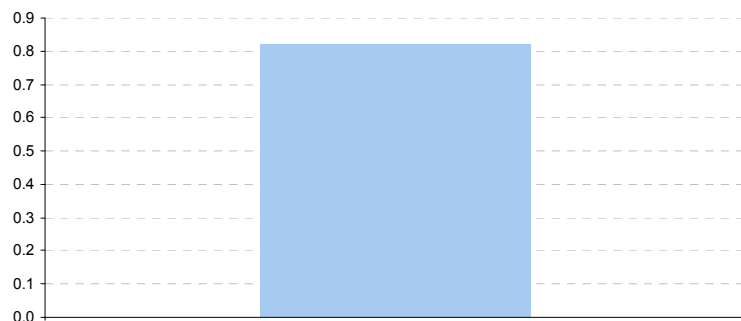
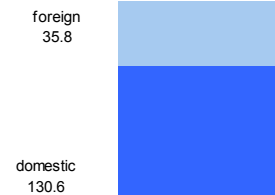
foreign currency funds include funds from debt issuance and received from the European Commission, PLN bn

The funds ensure liquidity in borrowing needs financing.

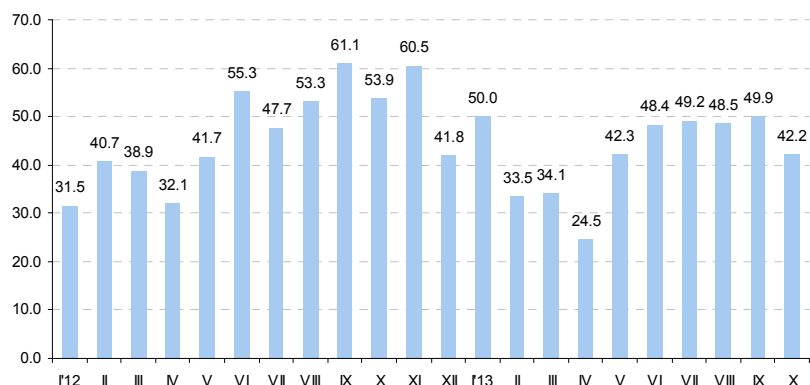
Gross borrowing requirements in 2013
Total PLN 166.4bn, of which:



Funding in the period I-X
Total PLN 166.4bn (100%)



* 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.



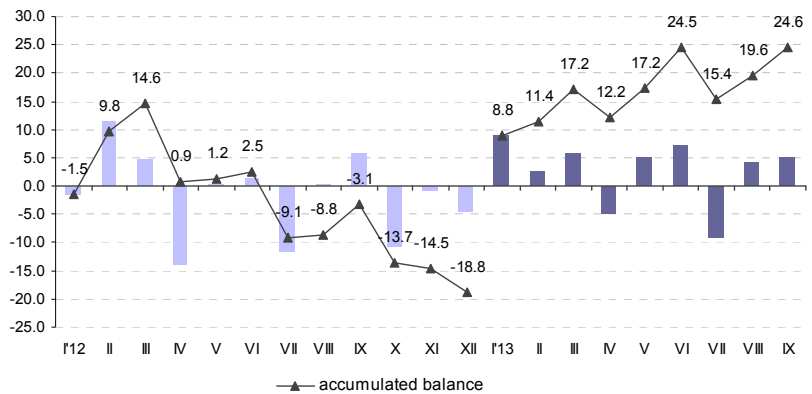


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

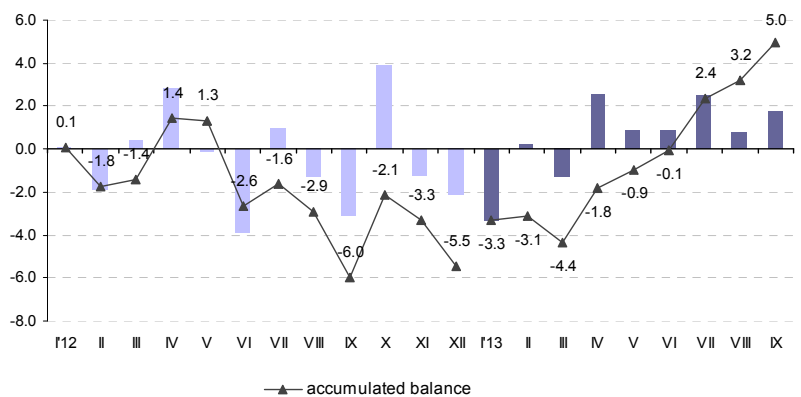
In the period of January - September 2013 debt held by domestic banks increased by PLN 24.6bn comparing to PLN 3.1bn decrease during the same period of 2012.



Change of debt in domestic Treasury securities held by pension funds

PLN bn

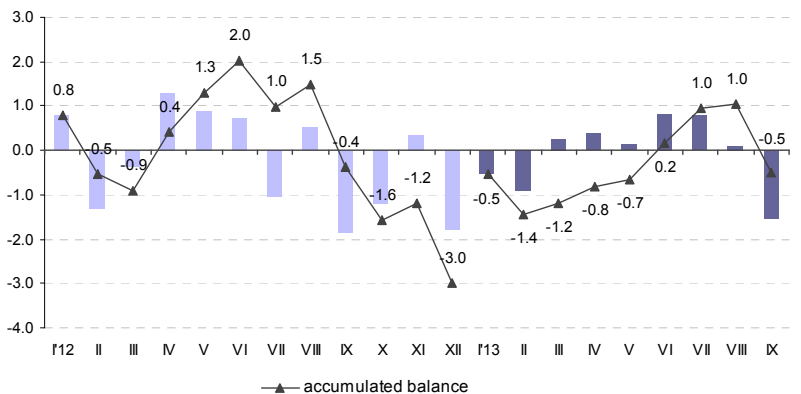
In the period of January - September 2013 debt held by pension funds increased by PLN 5.0bn comparing to PLN 6.0bn decrease during the same period of 2012.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

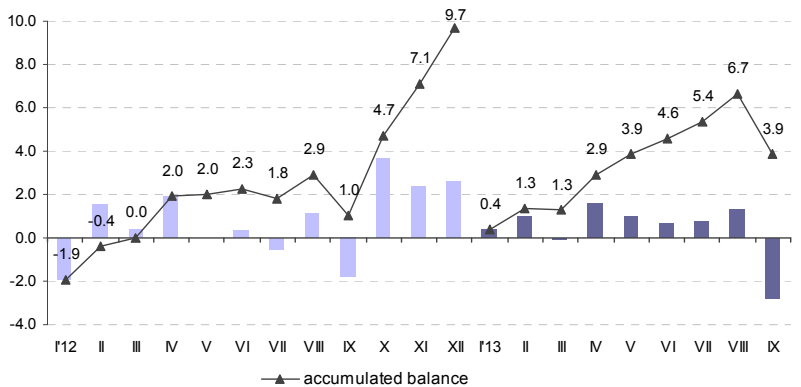
In the period of January - September 2013 there was a decrease of PLN 0.5bn in debt held by insurance companies. During the same period of 2012 there was a decrease of PLN 0.4bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

In the period of January - September 2013 there was an increase of PLN 3.9bn in debt held by investment funds. During the same period of 2012 there was an increase of PLN 1.0bn.



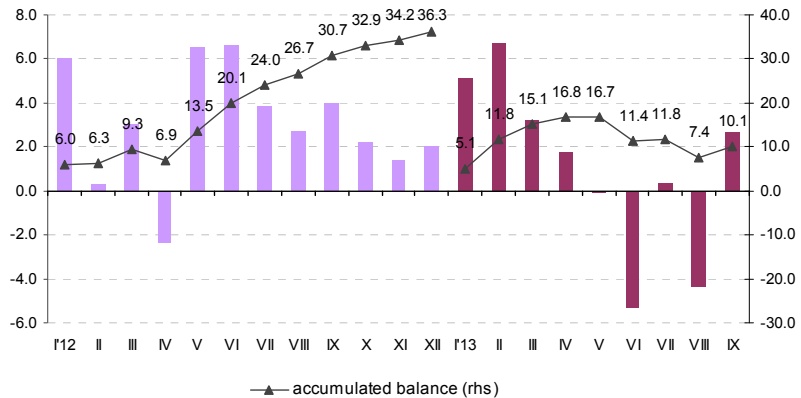


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by foreign investors

PLN bn

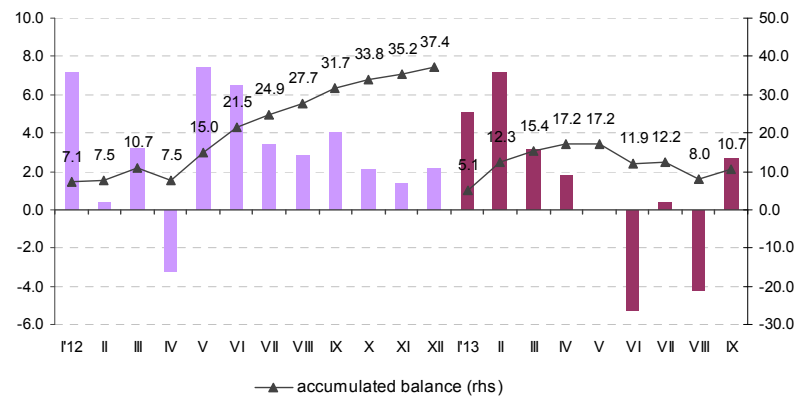
In the period of January - September 2013 inflow of foreign capital to the domestic TS market amounted to PLN 10.1bn comparing to PLN 30.7bn increase in the same period of 2012. Foreign investors' holdings reached the level of PLN of 200.6bn.



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

PLN bn

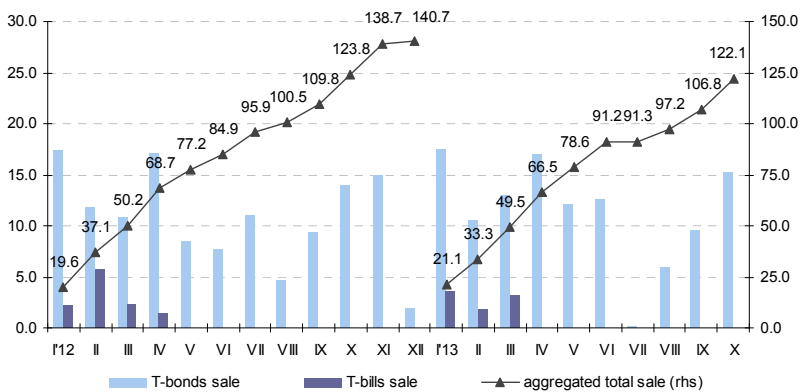
In the period of January - September 2013 inflow of foreign capital to domestic bonds market amounted to PLN 10.7bn comparing to PLN 31.7bn increase in the same period of 2012. Foreign investors' holdings reached the level of PLN 200.6bn.



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

settlement date, nominal amount, PLN bn

Since April 2012 T-bills have not been offered.

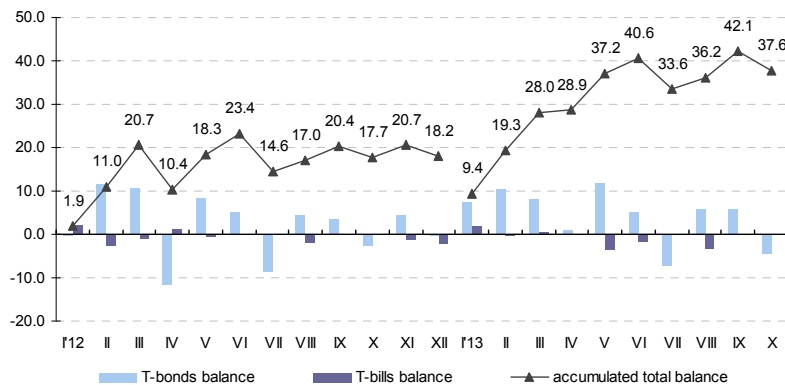


Balance of T-bonds and T-bills in the period of I-X 2013 and in 2012

settlement date, nominal amount, PLN bn

In the period of January - October 2013:

- indebtedness in T-bonds increased by PLN 43.7bn,
- indebtedness in T-bills decreased by PLN 6.1bn.



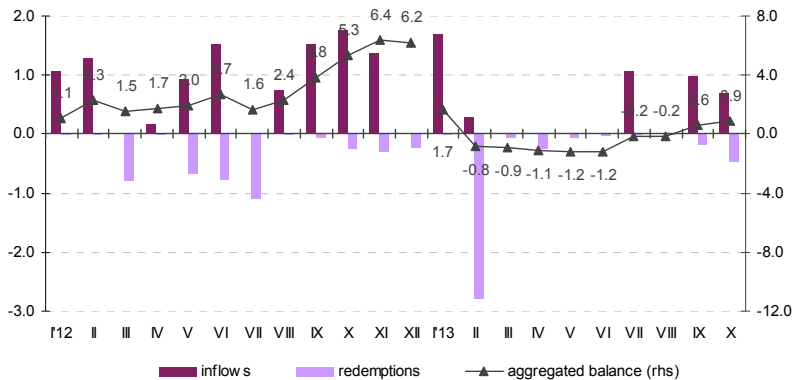


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

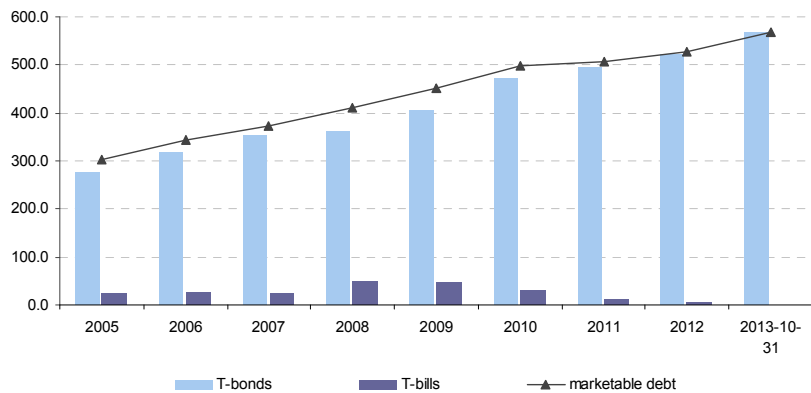
Net financing on foreign markets (bonds issuance and loans from IFIs) amounted to EUR 0.9bn. T-bonds issuance was EUR 2.0bn. Loans incurred from IFIs were at the level of EUR 2.8bn. Apart from those, EUR 4.4bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2012.



Structure of marketable debt

PLN bn

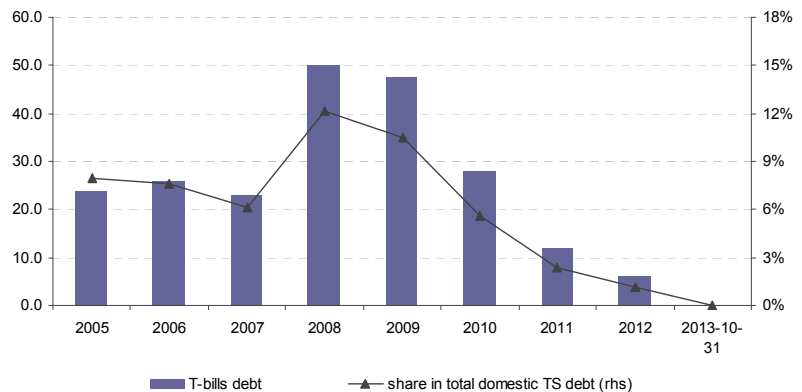
At the end of October 2013 the marketable domestic debt amounted to PLN 566.7bn comparing to PLN 526.1bn at the end of 2012.



T-bills outstanding

PLN bn

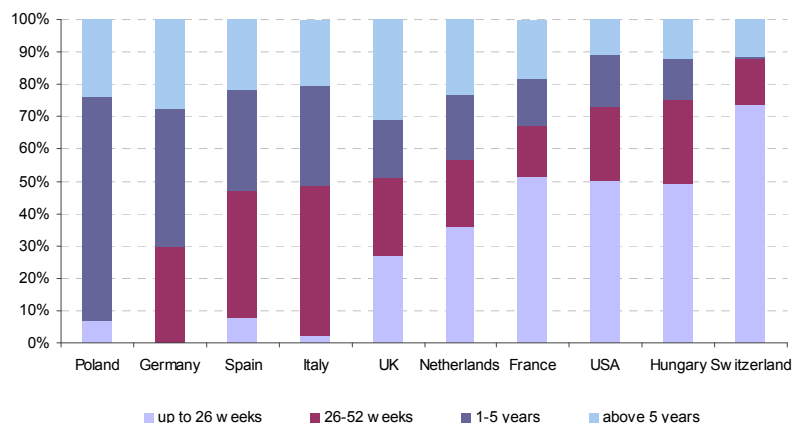
Since August 2013 there has been no indebtedness in T-bills.



Maturity breakdown of T-securities in Poland and other countries

auctions and syndicates, local currency, ytd in the period of January 1 - October 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.

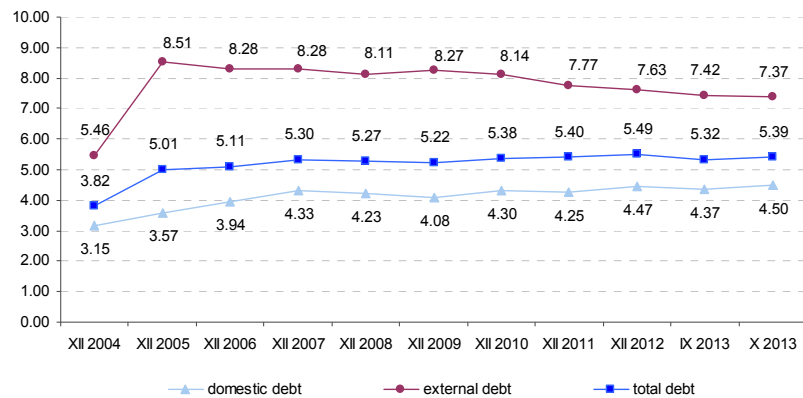




BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Average maturity

At the end of October 2013 the average maturity of domestic debt increased to 4.50 (4.47 at the end of 2012).

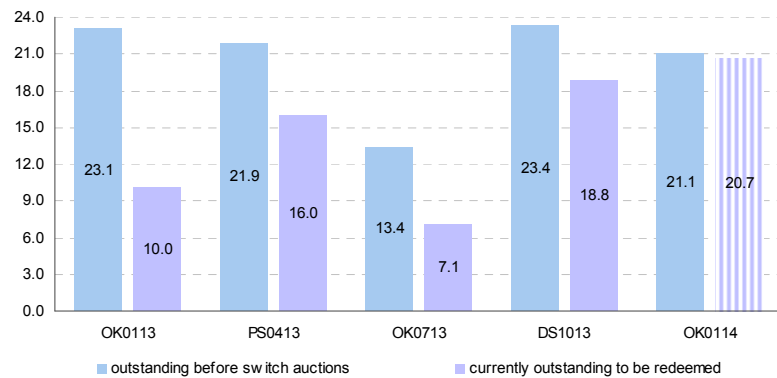


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2013 and in 2014

switch auctions, as of October 31, 2013
PLN bn

Buy-back of T-bonds maturing in 2013 and in 2014:

- OK0113: PLN 13.1bn (57% of initial outstanding),
- PS0413: PLN 5.8bn (27%),
- OK0713: PLN 6.3bn (47%),
- DS1013: PLN 4.5bn (19%),
- OK0114: PLN 0.4bn (2%).

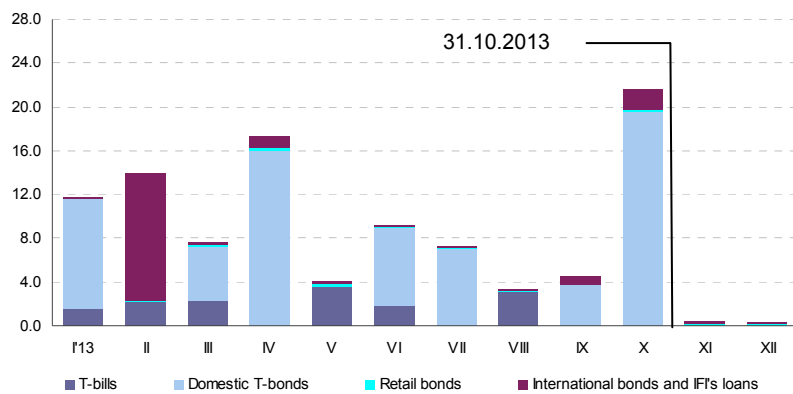


State Treasury debt redemptions in 2013

nominal amount, as of October 31, 2013
PLN bn

The nominal amount of debt to be redeemed in 2013 is equal to PLN 0.7bn, including:

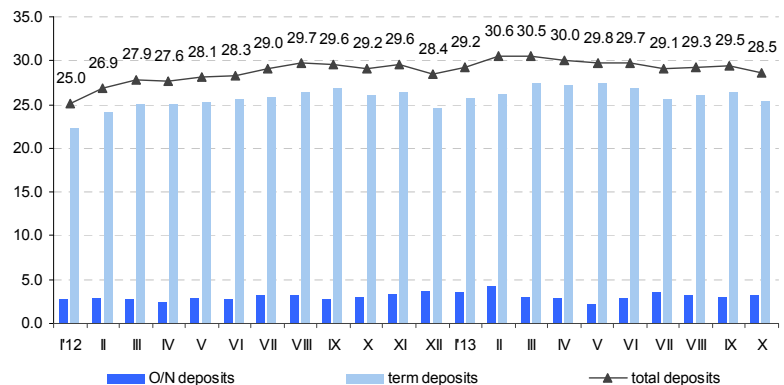
- T-retail bonds: PLN 0.3bn,
- bonds and loans incurred on foreign markets: PLN 0.4bn.



Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 28.5bn funds accumulated at the end of October, of which PLN 25.4bn was as term deposits and PLN 3.1bn on O/N deposits.



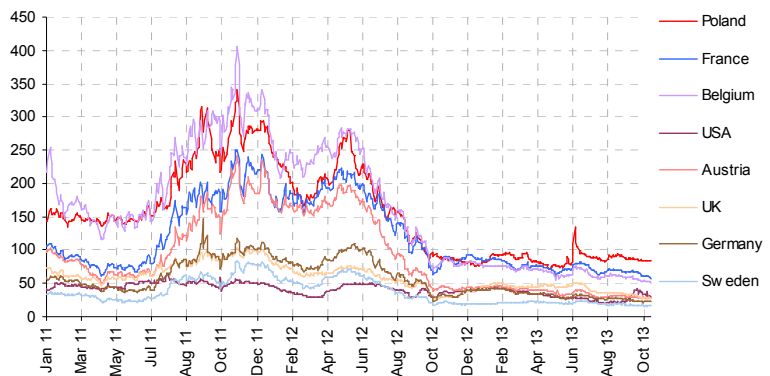


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

CDS levels

5-year, bp

Polish contracts are priced at the levels comparable to CDS of the higher rated countries.



Wojciech Kowalczyk, Undersecretary of State, MoF 17-10-2013

"We entered the euro market making the most of the strongly improved market conditions just after US reached a debt agreement yesterday evening.

Having quite substantial foreign currency funds on our accounts, we were focused on best pricing of the offering. That was why we did not issue a new benchmark with higher nominal amount, but we re-opened the issue from the beginning of the year.

We sold bonds denominated in EUR worth 700 million, yielding 1.759%, priced 43 basis points over mid-swaps. That was the tightest spread among all foreign issuances done since 2008 crisis. In January, when we first offered the bond, the spread was 65 basis points."

Wojciech Kowalczyk, Undersecretary of State, MoF 21-10-2013

"Due to accumulation of borrowing needs to be financed in the first months of next year we do not preclude issuance on foreign markets this year. This can be US dollar issue although our dollar currency needs in 2014 are not significant. Market situation is volatile and there are no fixed decisions regarding our issuance plans – we can either re-open outstanding benchmarks or issue new ones.

Our demand for currency funds is not that big as we have accumulated quite significant foreign currency resources. Now we are taking advantage of more favourable market sentiment to increase our reserves at best available levels.

After today's auction we have financed 2013 borrowing requirements. The level of prefinancing of the next year's needs will depend on the market sentiment. According to the plan there are still three T-bonds auctions, including two switch auctions, till the end of the year. Their results, and foreign financing as well, will determine the level of prefinancing 2014 borrowing requirements. Possible issuance on foreign markets will depend on the funding conditions."

Piotr Marczak, Director of the Public Debt Department, MoF 22-10-2013

"Today's T-bond auction with the high record offer was successful. The upper range of supply of PLN 12bn was sold as the demand reached PLN 16.5bn. This has been also the biggest amount sold at a single auction."

MoF comments



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Moody's: Stable outlook of Polish banking system

Moody's Business Development: Poland's banking system outlook changed to stable from negative 10-10-2013

"The outlook for Poland's banking system has been changed to stable from negative, says Moody's Investors Service (...). The outlook change principally reflects Moody's expectation of a recovery in economic growth and consequent stabilisation in bank profitability. The stable outlook also reflects the banks' improved capitalisation, increased risk-absorption capacity and largely self-sufficient funding profiles, which make the system resilient to the persistently challenging conditions in international wholesale markets.

(...) In the first half of 2013 the Polish system has further improved its leverage and capital adequacy ratios, prompted by the Polish Banking Supervisor (KNF)'s recommendations on profit retention. Moody's believes that during the outlook horizon, Polish banks' capital resources will remain solid, mainly driven by internal capital creation, with an aggregate capital adequacy ratio expected to rise 1 to 2 percentage points above the ratio of 14.7% registered as at end-2012."

Jaime Reusche, Assistant Vice President - Analyst, Moody's **Dietmar Hornung, Associate Managing Director, Moody's** **Issuer Comment: Government Fulfills Borrowing Requirement Despite Higher 2013 Deficit Projections** 29-10-2013

"On 22 October, the Government of Poland (A2 stable) issued a record-high PLN12 billion (\$3.9 billion, 0.7% of GDP) in bonds amid very strong investor demand, fully covering its borrowing requirements for 2013. Following this latest auction, the Ministry of Finance (MinFin) is likely to start pre-funding the 2014 budget through the end of this year, taking advantage of a still-favorable funding environment. Although pre-funding will artificially increase debt levels for 2013, we believe that the authorities' strategy is prudent given the impending tightening of global monetary conditions.

(...) Poland's financing needs in 2014 are likely to be much lower than in 2013 due to a more robust economic performance that will benefit tax collections and the effects of the proposed pension system overhaul. The pension system changes will boost government revenues from workers switching to the public social security system from the private pillar, in addition to marginally decrease rollover requirements.

(...) The recent issuance highlights the authorities' awareness that favourable funding conditions may begin to fade. As a result, they are taking an opportunistic approach to foreign bond issuance.

We believe that the record low funding costs from 2012 and early 2013 are unlikely to return over the medium term. As such, liability management operations that target long-tenure bond issues could help mitigate the negative effect of higher interest payments on the sovereign's fiscal accounts while improving the maturity profile of government debt."

Moody's: Poland fulfills borrowing requirement for 2013