



Ministry
of Finance

Republic
of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

March 2014

THE MOST IMPORTANT INFORMATION

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SUPPLY PLAN OF TREASURY SECURITIES IN MARCH 2014

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
6 MAR 2014	10 MAR 2014	OK0716 / WZ0119	2,500-5,500

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

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
20 MAR 2014/ 24 MAR 2014	choice will depend on the market conditions	PS0414	19,507
		OK0714	9,986

Offer on retail market

T-bond	Issue price	Coupon
DOS0316	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 3.00%
TOZ0317	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 3.30% in the first coupon period
COI0318	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.50% in the first coupon period
EDO0324	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 4.00% in the first coupon period



Gross borrowing requirements in 2014

Funding of the borrowing requirements at the level of 60% was a result of:

- switch auctions in 2013: PLN 8.1bn,
- T-bonds buyback on domestic market in 2013: PLN 8.8bn,
- T-bond sale on domestic market: PLN 26.4bn,
- T-bonds buyback on foreign markets in 2013: PLN 2.2bn,
- T-bonds issuance on foreign markets: PLN 15.6bn,
- loans incurred from IFIs: PLN 2.3bn,
- higher than planned financial resources at the end of 2013: PLN 16.4bn.

State Treasury debt redemptions in 2014

nominal amount, as of 28 February 2014; PLN bn

The nominal amount of debt to be redeemed in 2014 is equal to PLN 40.1bn, including:

- T-bonds: PLN 29.5bn,
- T-retail bonds: PLN 2.3bn,
- bonds and loans incurred on foreign markets: PLN 8.3bn.

Flows of funds between the market and the budget*

as of February 28, 2014, PLN bn

In the period of March to the end of the year funds transferred to the market shall amount to PLN 52.0bn.

* 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.

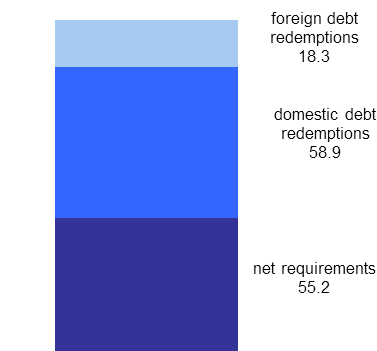
Funds in PLN and in foreign currency held by the MoF at the end of month

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

The funds ensure liquidity in borrowing needs financing.

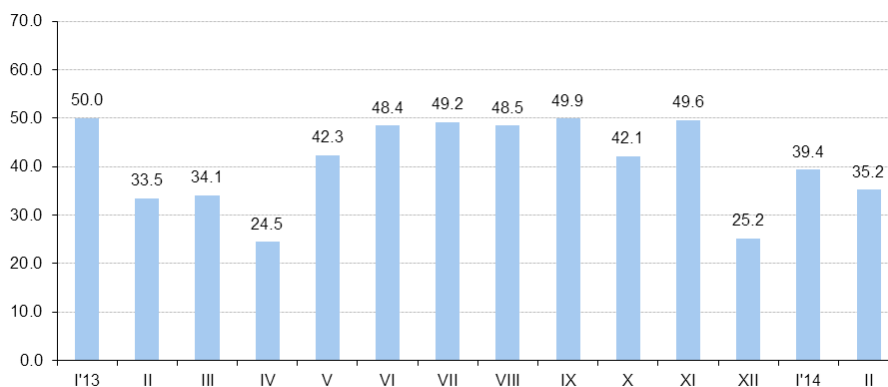
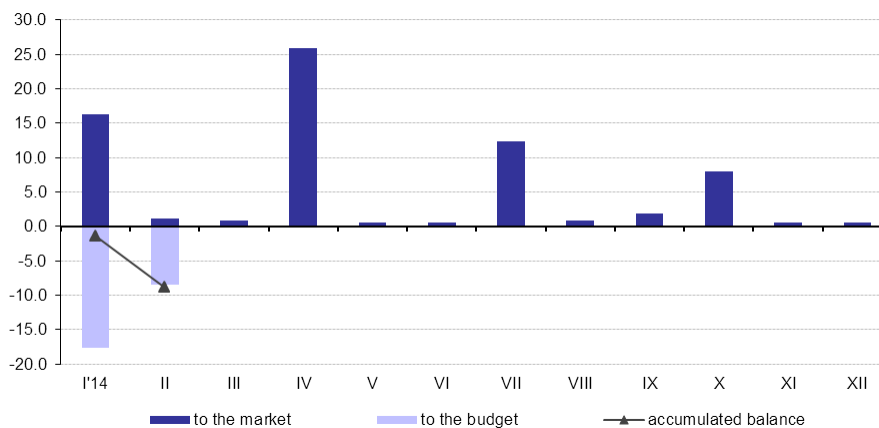
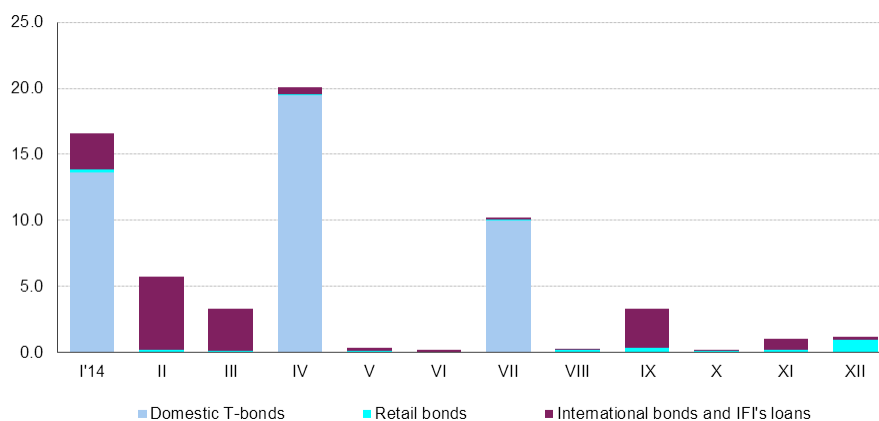
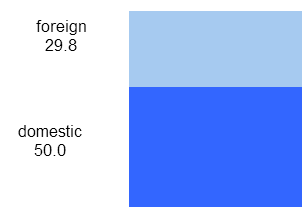
Gross borrowing requirements in 2014

Total: PLN 132.4bn, of which:



Financing

Total: PLN 79.8bn (60%)

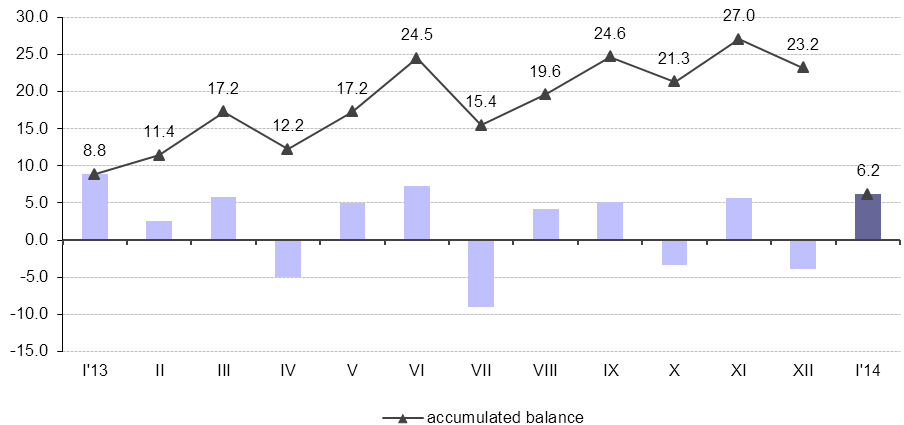




BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

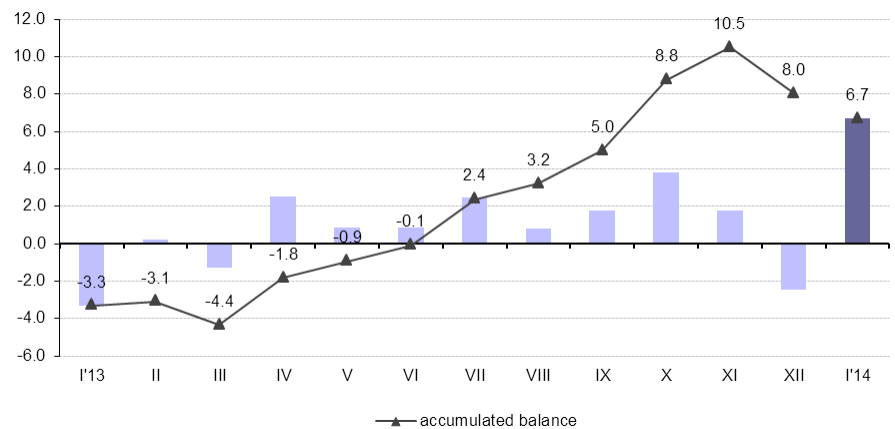
Change of debt in domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In January 2014 debt held by domestic banks increased by PLN 6.2bn comparing to PLN 8.8bn increase during the same period of 2013.



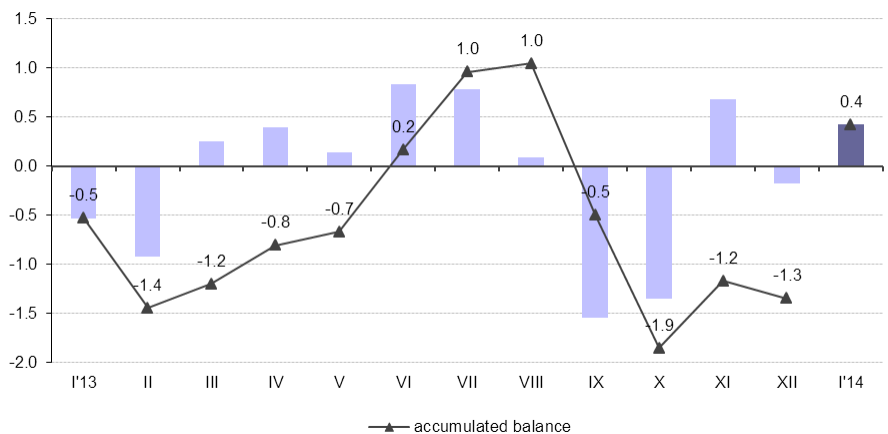
Change of debt in domestic Treasury securities held by pension funds PLN bn

In January 2014 debt held by pension funds increased by PLN 6.7bn comparing to PLN 3.3bn decrease during the same period of 2013.



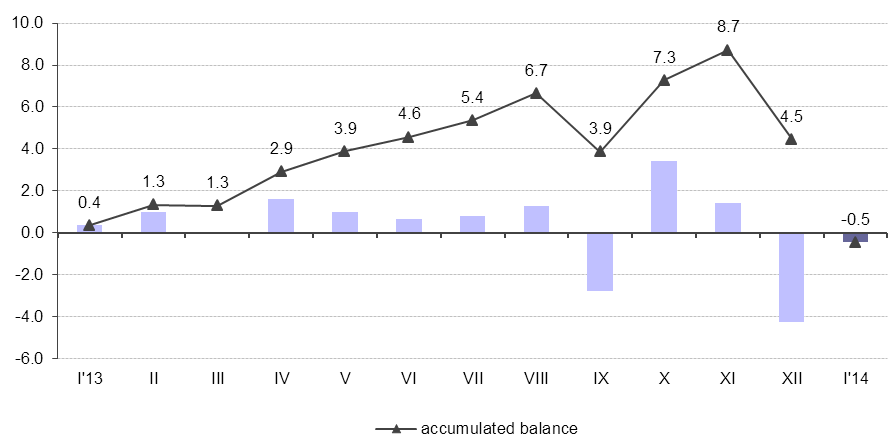
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In January 2014 there was an increase of PLN 0.4bn in debt held by insurance companies. During the same period of 2013 there was a decrease of PLN 0.5bn.



Change of debt in domestic Treasury securities held by investment funds PLN bn

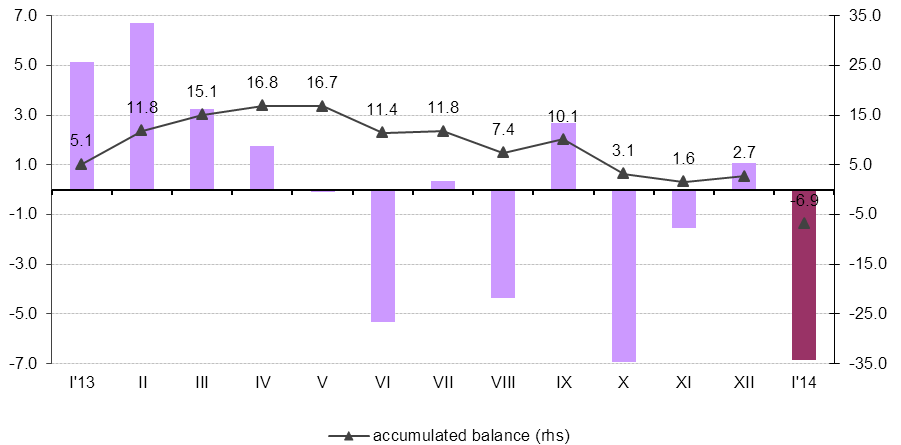
In January 2014 there was a decrease of PLN 0.5bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 0.4bn.





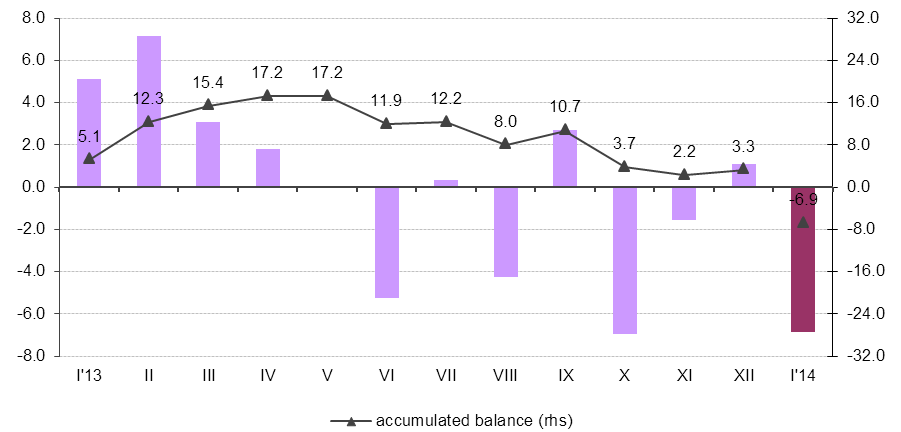
Change of debt in domestic Treasury securities held by foreign investors
PLN bn

In January 2014 outflow of foreign capital from the domestic TS market amounted to PLN 6.9bn (among others this was a result of redemption of 2-year bond maturing in January 2014 at the level of PN 8.3bn) comparing to inflow of PLN 5.1bn in the same period of 2013. Foreign investors' holdings reached the level of PLN of 186.3bn.



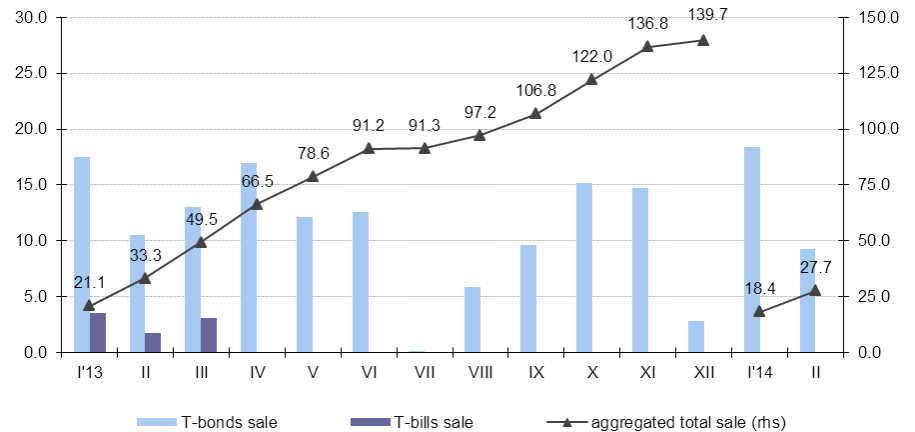
Change of debt in domestic Treasury bonds held by foreign investors
PLN bn

In January 2014 there was an outflow of foreign capital from domestic bonds market which amounted to PLN 6.9bn comparing to PLN 5.1bn inflow in the same period of 2013. Foreign investors' holdings reached the level of PLN 186.3bn.



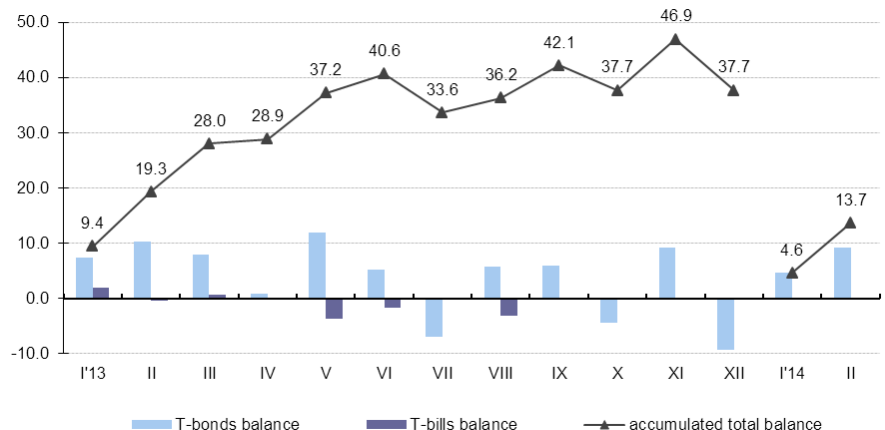
Sale of T-bonds and T-bills in the period of I-II 2014 and in 2013
settlement date, nominal amount, PLN bn

Since April 2013 T-bills have not been offered.



Balance of T-bonds and T-bills in the period of I-II 2014 and in 2013
settlement date, nominal amount, PLN bn

In the period of January - February 2014 indebtedness in T-bonds increased by PLN 13.7bn.



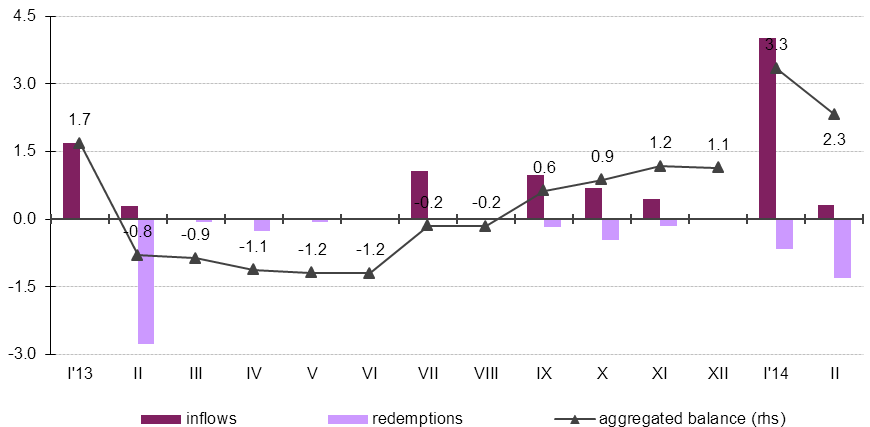


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

External financing in the period of I-II 2014 and in 2013

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

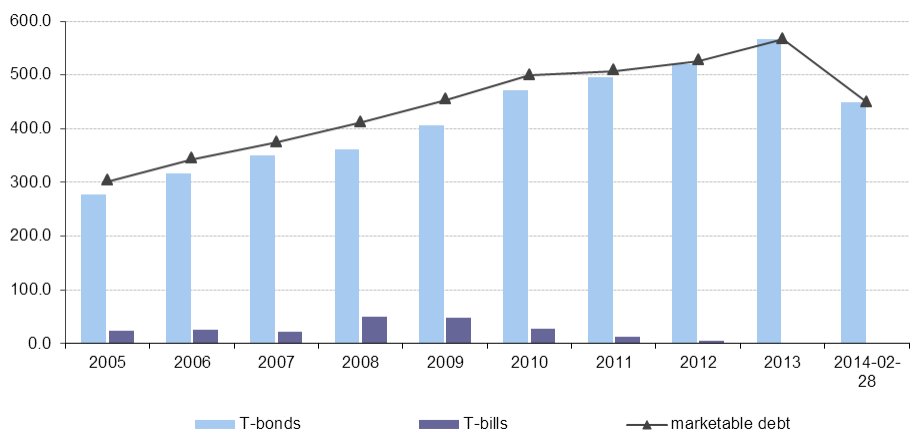
Net financing on foreign markets (bonds issuance and loans from IFIs) amounted to EUR 2.3bn. T-bonds issuance was EUR 3.8bn. Loans incurred from IFIs were at the level of EUR 0.6bn. Apart from those, EUR 3.0bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2013.



Structure of marketable debt

PLN bn

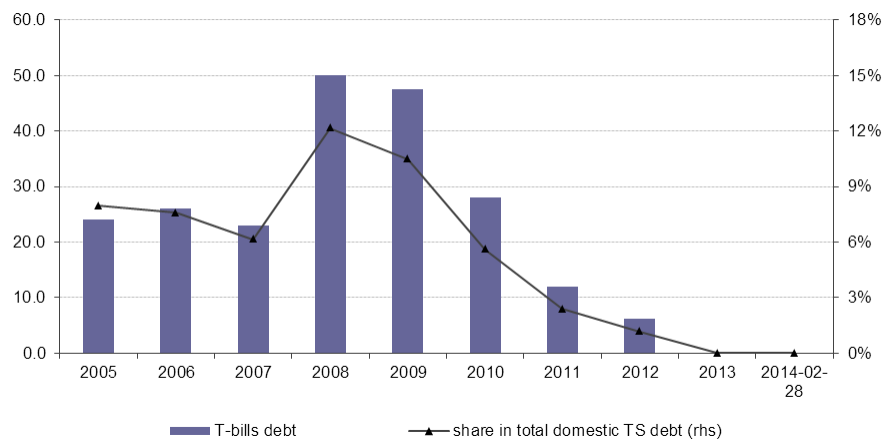
At the end of February 2014 the marketable domestic debt amounted to PLN 448.8bn comparing to PLN 565.7bn at the end of 2013.



T-bills outstanding

PLN bn

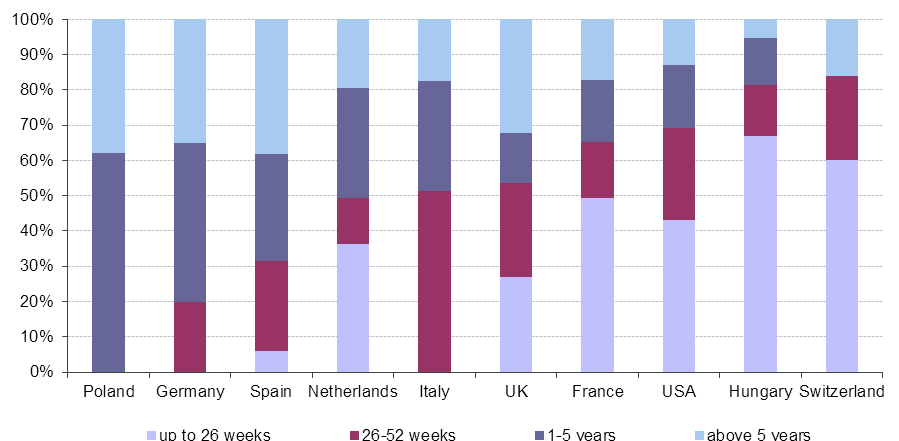
Since August 2013 there has been no indebtedness in T-bills.



Maturity breakdown of T-securities in Poland and other countries

auctions and syndicates, local currency, ytd in the period of 1 January - 28 February 2014

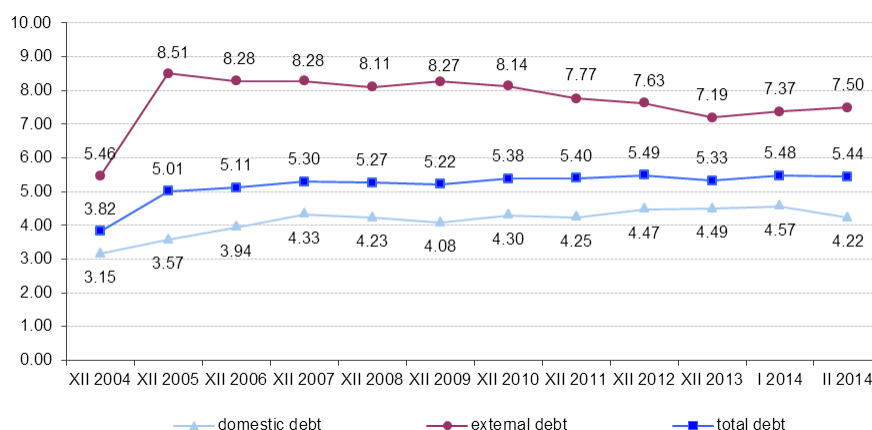
In terms of maturity, the sale of TS in Poland in 2014 is dominated by securities with maturity over 1 year.





Average maturity

At the end of February 2014 the average maturity of domestic debt decreased to 4.22 in comparison with the end-2013 figure (4.49).

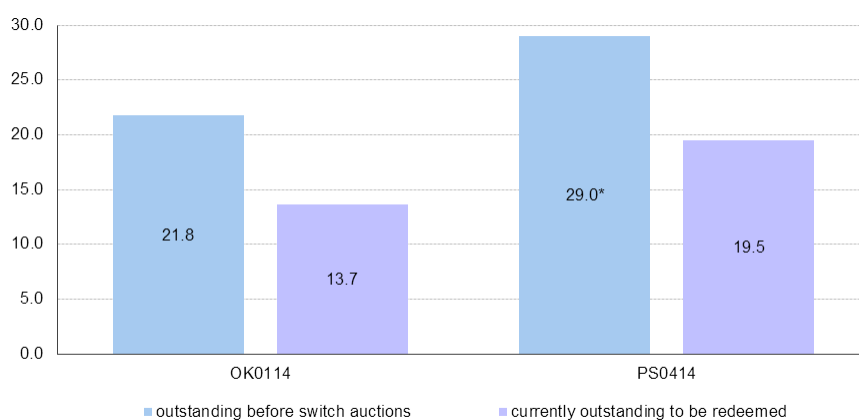


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014

nominal amount, as of February 28, 2014, PLN bn

Buy-back of T-bonds maturing in 2014 (by switching auctions or cash settlement):

- OK0114: PLN 8.1bn (37% of initial outstanding),
- PS0414: PLN 9.5bn (33%).

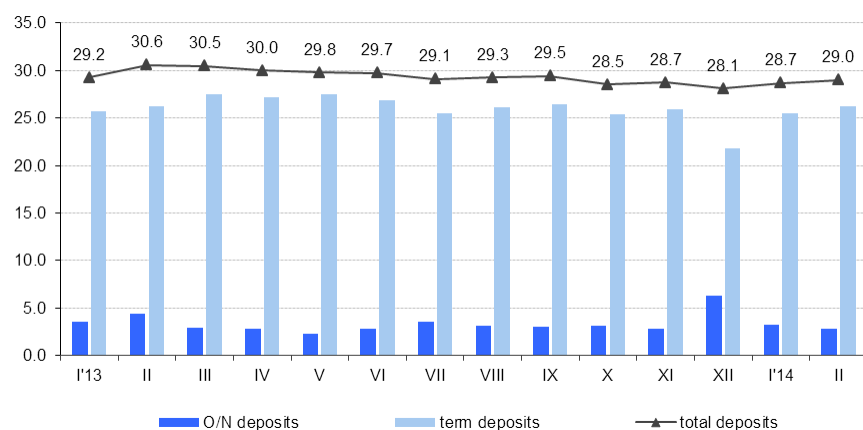


* after redemption of T-bonds held by Open Pension Funds

Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 29.0bn funds accumulated at the end of February, of which PLN 26.2bn was as term deposits and PLN 2.8bn on O/N deposits.



20-year EUR denominated Registered Bonds under German law

Amount:	EUR 300m
Maturity date:	27 February 2034
Coupon:	3.272%
Spread:	78.5 bps over mid-swaps
Yield:	3.272%
Issue price:	100% of nominal value
Launch date:	13 February 2014
Settlement date:	27 February 2014
Bookrunner:	HSBC Trinkaus



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

20-year EUR denominated Registered Bonds under German law

This transaction allowed Poland to obtain a long-term funding (20-year) significantly below the cost of a potential public offering in that segment (current secondary market quotation of Polish bonds denominated in EUR with a half shorter maturity is about 90 b.p. over the mid-swap rate).

The Registered Bonds were allocated to long-term investors from Germany representing insurance companies (88%) and pensions funds (12%).

MoF comments

Wojciech Kowalczyk, Undersecretary of State, MoF

14-02-2014

We have realized one of our smaller projects of effective acquiring funds on foreign markets. We priced 20-year Registered bonds with nominal value of EUR 300m on preferential terms, considerably better than as if it would be done through public offering. The bonds were placed among final, long-term investors from Germany.

According to previous announcements there shall be no more public offerings on the euro and US dollar markets this year. We will continue focusing on small projects addressed to new long-term investors.

Piotr Marczak, Director of the Public Debt Department, MoF

28-02-2014

(...) We have limited T-bond supply for the only regular sale auction in March to the range of PLN 2-6bn. The direction of further limitation of the range will depend on the current market situation. Investors' preferences will also determine the supply structure at switching auction that will be held in the second half of March. Most probably this would be the first out of two switching auctions in the first half-year. The second one should take place in June 2014.

In February, the sale of savings bonds shall amount to ca. PLN 0.5bn. We still think there is no need to go back to issuing T-bills but simultaneously, we do not exclude such issuances in situations justified by the market or budget situation.

After redemption of T-bonds held by OFE (open pension funds), T-bond settlement system works correctly without any problems. Up till now there was no Primary Dealer that would come to Bank Gospodarstwa Krajowego to conclude Sell-Buy-Back transaction.

In January T-bonds in non-residents holdings decreased by PLN 6.9bn which was a result of a redemption of OK0114 held by foreign investors at the level of PLN 8.3bn. In February the balance of T-bonds was clearly positive.

Wojciech Kowalczyk, Undersecretary of State, MoF

Dziennik Gazeta Prawna: „Rating agencies may be well-disposed towards Poland” interview of 14-02-2014

Has the transfer of T-bonds from OFE (open pension funds) to ZUS (Social Insurance Institution) changed the public debt management strategy?

No, it has not. This operation was included in the strategy which was accepted by the government in September. Thus, the strategy has been still a valid document.

The “operation OFE” has had a big influence on the market, hasn't it?

Estimated impact of the “operation OFE” on the debt and market were included in the strategy. In the document it was shown that OFE took part in financing the net borrowing needs to a slight extent in last years. In 2011-2013 portfolio of pension funds increased by only PLN 8.8bn with net requirements at the level of PLN 120.8bn at the same time. This meant the OFE share in financing net borrowing needs equalled to ca. 7% and implied that over last years OFE were buying new bonds only to roll over maturing old issues. This costly to the public finances and idle to the borrowing requirements financing process mechanism of rolling over the debt will not happen anymore – OFE will not be buying any new bonds and we won't have to sell them to anybody else. All in all, the gross State borrowing requirements will be lower.



MoF comments

OFE share in turnover in the Treasury secondary market oscillated around 5%, with OFE share in outstanding debt at 20-25%. False thesis on OFE significant influence on the Treasury securities market is propagated mainly by defenders of the previous system.

Does the MoF see any risks connected to greater foreign capital participation in the domestic debt market and larger percentage of outstanding in foreign currency?

Foreign debt constituted 30% of the total debt by the end of 2013 and now increased to 37%. An increase was also noticed in foreign investors' share in domestic debt – 33% to 40%. However this was a statistical change only as real value of debt held by foreign investors has not changed due to the "operation OFE".

We will successively reduce foreign currency debt back to the level below 30%. Similarly in case of non-residents share in domestic debt market – as a result of decrease in borrowing needs, our demand for foreign funding will be lower. We can also adjust the Treasury securities supply taking into consideration domestic investors' preferences.

Were the latest auctions so supply-adjusted?

The first February auction was in great demand for both 2-year and floating rate bonds. The sale of the latter was the highest and these are the floating rate bonds that are most popular with our banking sector. There were also foreign investors present at the auction who would rather prefer medium-term and long-term bonds. Thus, this first February auction was addressed to the domestic investors but at the second one participation of foreign investors was assumed as well.

Were not the recent turbulences on markets of threat to foreign investors?

We have not noticed any outflow of foreign capital connected to the higher market volatility. In January a decrease in value of bonds in foreign investors portfolio was noted. However this was a result of not reinvesting the money that came from redemption of bonds that were maturing in January. Nevertheless this money stays within Poland and, as practice shows, is invested on the Polish debt market almost every time the bond prices fall down.

When 2014 State budget borrowing needs will be financed? Until the middle of 2014?

These are not races. We have been prepared to volatility of emerging markets - thus, large issuances and our borrowing needs financed in more than 50% by the end of January. Now we can safely go on with other issuance plans. The date we will finance 100% our borrowing requirements will depend on the market conditions which have been very variable recently.

And 2015 State budget borrowing needs, will they be higher than needs for this year?

In 2015 more Treasury securities mature. And the majority of the bonds transferred by OFE would mature in 2016. Nevertheless we do not plan any unusual activity. The prefinancing will be of such a level that the market would perceive reasonable.

Recently minister Szczurek said that the risk of the zloty appreciation would be of biggest concern, not depreciation and I agree. As the market awaits the appreciation, it would mean preemptive inflow of foreign capital – this means the market would have an increased appetite for bonds issue to prefinance 2015 needs.

And this would be the brighter side of the zloty appreciation.

Brighter for us but the opposite for the economy. It is characteristic that the volatility seen on the emerging markets concerns Polish bonds to a limited extent. Various catastrophic views have not proved true.

Does the MoF have an idea how to prevent the zloty appreciation? Will the BGK be used again?

We have all possible scenarios to any market situation prepared, but there is no BGK in a role of the zloty appreciation institutional defender mentioned there. There are other more appropriate institutions designed for conducting such actions.

What will be the reasons of the zloty appreciation?

It has not been said that the zloty will be appreciating. The market stays without reference to its fundamentals very often. There is broader and broader consensus on the optimistic sentiment towards forecasts of GDP growth. That growth shall be noted at simultaneous low inflation rate and further exports growth. Current account deficit in 2013 was quite small, below 2% of GDP. According to analysts it will be below 3% for this year. Net inflow of European funds in 2014 will amount to EUR 15bn compared to EUR 11bn in 2013. We have been experiencing quite substantial political stability when compared to other countries. If we additionally present decrease in deficit and debt, rating agencies may be well-disposed towards improvement of our grade.



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Will they change our rating?

Everything depends on the amount and dynamics of decreasing the deficit. By April we must provide measures to the European Commission that will lead us to realize the target. Minister Szczurek said that this year and the next one would be marked by keeping public finances in check and tightening the belt. As for expenditures to GDP ratio, Poland has significantly limited it in comparison to other EU countries since 2010. However one has to know that rating agencies are much more cautious having the experiences gained 6 years ago.

How big is the liquidity buffer now? And will it be decreasing due to the OFE changes?

It was PLN 39.4bn at the end of January. Its size is not an end itself but it depends on estimated budget transfers and the market situation. This year, in the first 4 months the borrowing requirements are accumulated, thus the fund reserves shall be higher. Further developments of the reserves will be consequent on the State budget needs on expenditure side, budget revenues, EU funds inflow and the market situation.

What will be the debt to GDP ratio at the end of the year?

About 47% according to domestic methodology and about 50% calculated with European guidelines.