Ministry of Finance | Republic of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

2nd quarter 2014

April 2014

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General assumptions

- In the second quarter of 2014 T-bond auctions are planned according to the announced yearly issuance calendar with possible limitation of the number of auctions.
- Offer of T-bonds on the domestic market will depend on the market situation and consultations with investors.
- Possible auctions of Treasury bills will be held within the confines of the level of State budget liquidity funds management.
- Foreign financing will be determined by the situation on international financial markets and the domestic market.
- Announced plan may be modified depending on the market situation.

Offer of T-bonds on the domestic market

Sale auctions

- 4-5 auctions, total supply of PLN 20.0-30.0bn, the structure of the sold T-bonds will be subject to the market situation.

Switch auctions

- In April and May auctions are not planned, possibility of holding an auction in June (subject to the market situation) – T-bonds maturing in July 2014 would be offered to repurchase.

Foreign financing

- Loans from International Financial Institutions of EUR 0.1-0.2bn.
- Bond issuances on the limited level will depend on the market situation.

Offer of bonds issued by BGK for the National Road Fund

- One auction on the domestic market in May or June with offer up to PLN 2.0bn.
- Possibility of issuing T-bonds denominated in euro; issuance in public or in private placement system with offer up to EUR 0.5bn.

SUPPLY PLAN OF TREASURY SECURITIES IN APRIL 2014

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
3 APR 2014	7 APR 2014	DS1023 / WZ0119	3,000-5,000*
23 APR 2014	25 APR 2014	OK0716 / PS1016 / PS0718	5,000-10,000

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.

** At auction on April 3rd, 2014 the Ministry of Finance sold T-bond WZ-series at the level of PLN 2,301m and DS-series at the level of PLN 3,480m and the yield of 4.261%.*

Offer on retail market

T-bond	Issue price	Coupon
DOS0416	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 3.00%
TOZ0417	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 3.30% in the first coupon period
COI0418	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.50% in the first coupon period
EDO0424	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 69% was a result of:

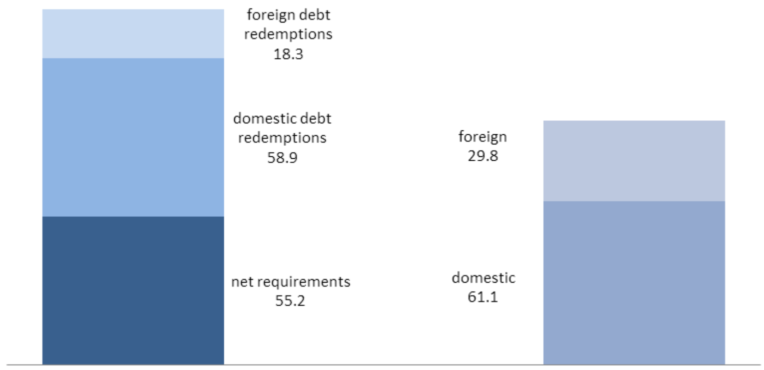
- switch auctions in 2013: PLN 8.1bn,
- T-bonds buyback on domestic market in 2013: PLN 8.8bn,
- T-bond sale on domestic market: PLN 32.9bn,
- T-bonds buyback on foreign markets in 2013: PLN 2.2bn,
- T-bonds issuance on foreign markets: PLN 15.6bn,
- loans incurred from IFIs: PLN 2.3bn,
- higher than planned financial resources at the end of 2013: PLN 16.4bn.

Gross borrowing requirements in 2014

Total: PLN 132.4bn, of which:

Financing

Total: PLN 90.9bn (69%)

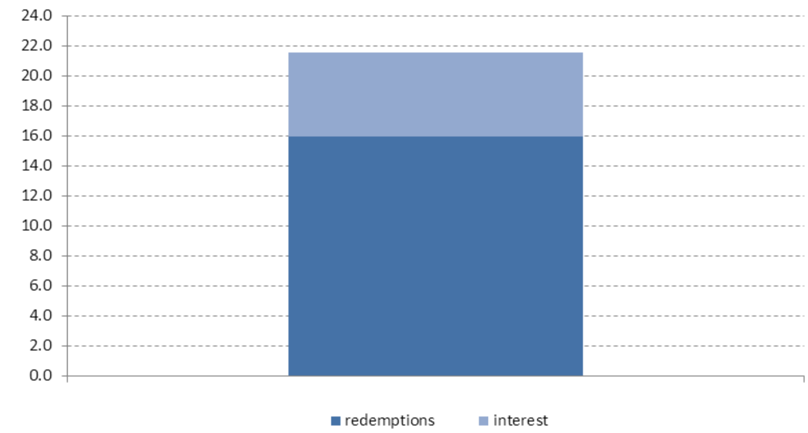


Flows of funds into the market related to T-bonds and T-bills transfers in April

as of March 31, 2014, PLN bn

As of March 31, 2014 flow of funds from State budget to the market shall amount to PLN 21.6bn, of which:

- TS redemptions: PLN 16.0bn,
- interest payments: PLN 5.6bn.

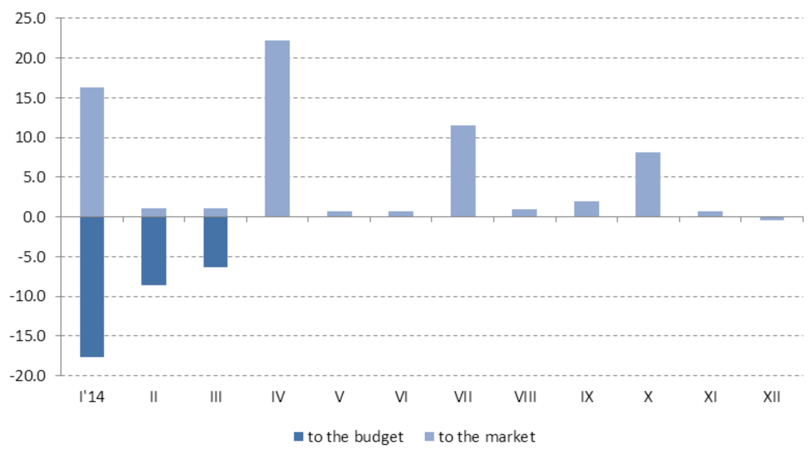


Flows of funds between the market and the budget*

as of March 31, 2014, PLN bn

In the period of April to the end of the year the funds to be transferred to the market shall amount to PLN 46.5bn.

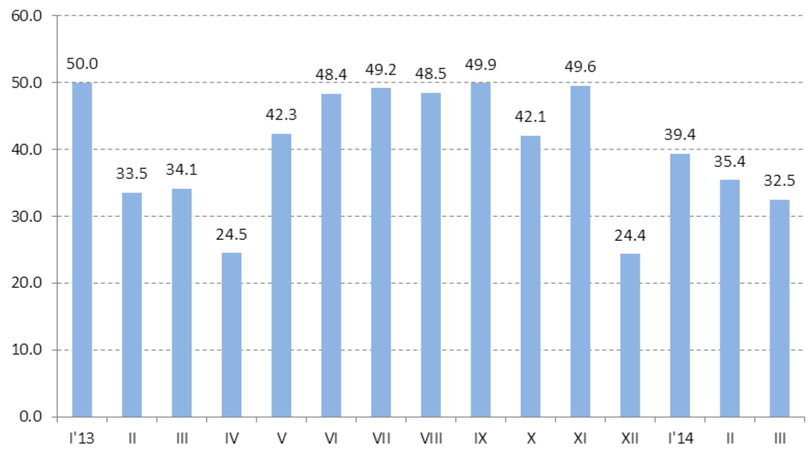
** figures include sale, redemptions and interest payments on wholesale bonds; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.*



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

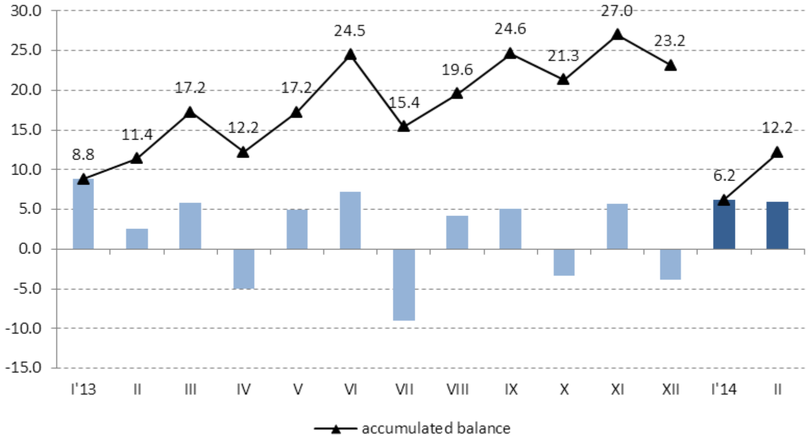
foreign currency funds include funds from debt issuance and received from the European Commission, PLN bn

The funds ensure liquidity in borrowing needs financing.



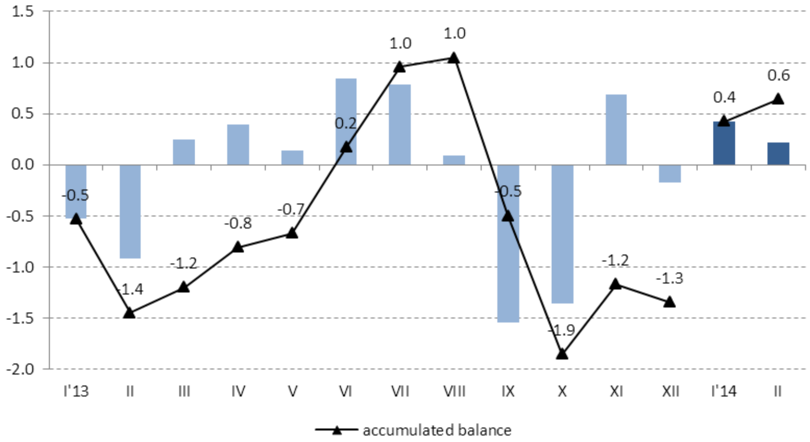
Change of debt in domestic Treasury securities held by banks
without buy-sell-back transactions with MoF, PLN bn

In the period of I-II 2014 debt held by domestic banks increased by PLN 12.2bn comparing to PLN 11.4bn increase during the same period of 2013.



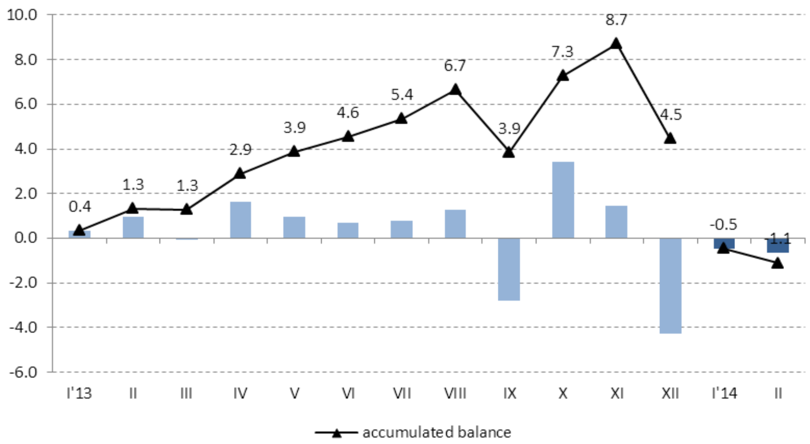
Change of debt in domestic Treasury securities held by insurance companies
PLN bn

In the period of I-II 2014 there was an increase of PLN 0.6bn in debt held by insurance companies. During the same period of 2013 there was a decrease of PLN 1.4bn.



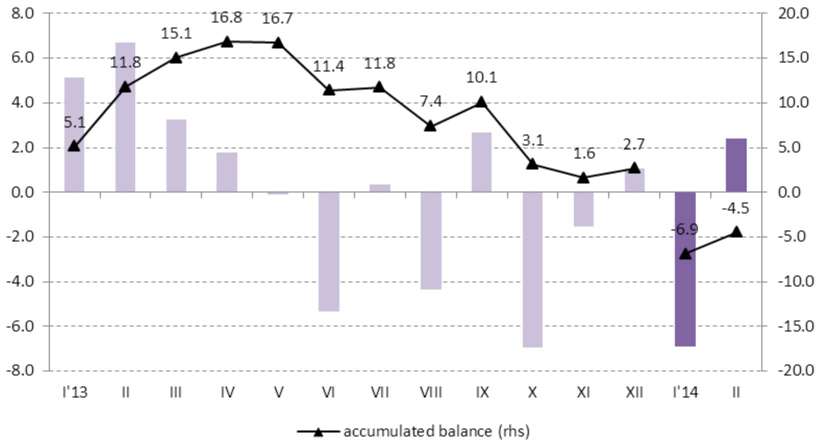
Change of debt in domestic Treasury securities held by investment funds
PLN bn

In the period of I-II 2014 there was a decrease of PLN 1.1bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 1.3bn.



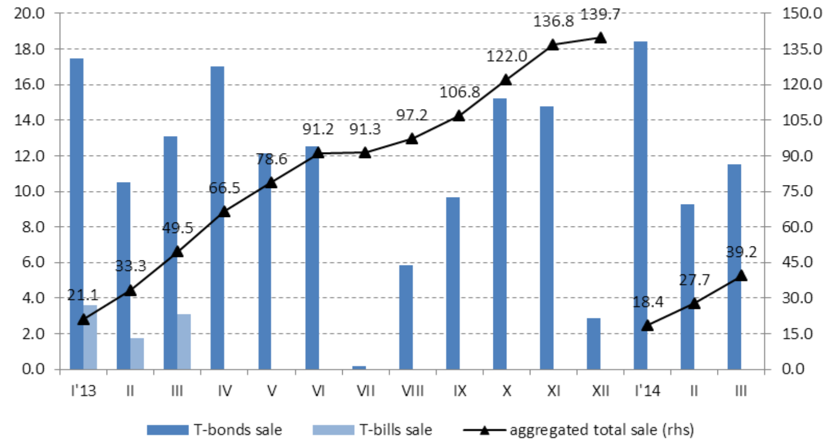
Change of debt in domestic Treasury securities held by foreign investors
PLN bn

In the period of I-II 2014 outflow of foreign capital from the domestic TS market amounted to PLN 4.5bn comparing to inflow of PLN 11.8bn in the same period of 2013. Foreign investors' holdings reached the level of PLN of 188.7bn.



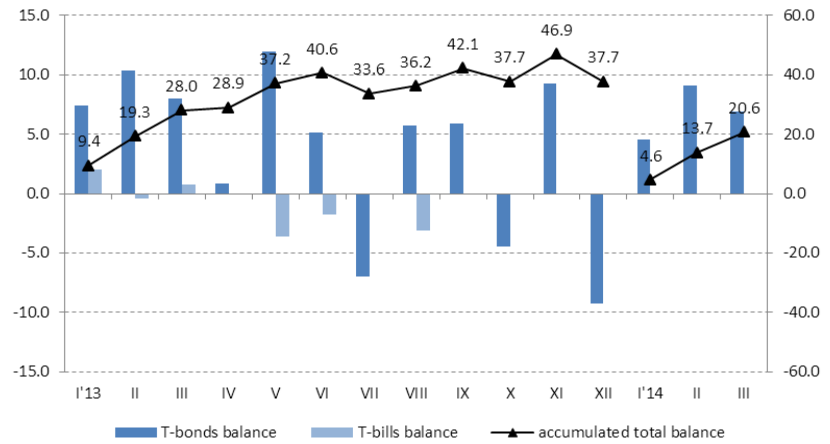
Sale of T-bonds and T-bills in the period of I-III 2014 and in 2013
settlement date, nominal amount, PLN bn

Since April 2013 T-bills have not been offered.



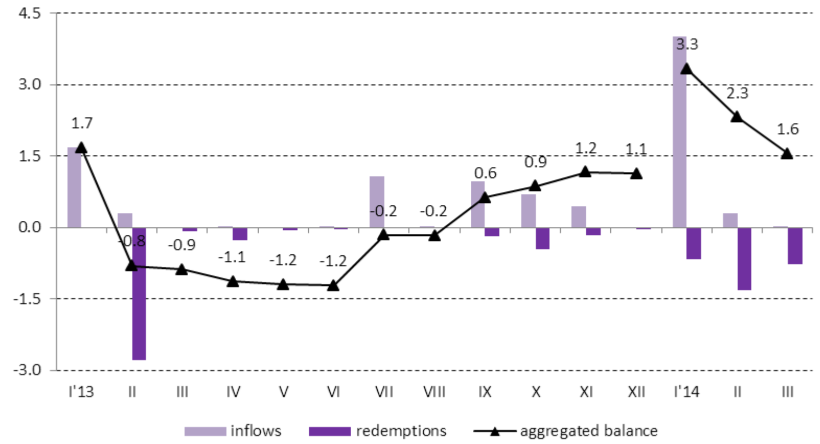
Balance of T-bonds and T-bills in the period of I-III 2014 and in 2013
settlement date, nominal amount, PLN bn

In the period of I-III 2014 indebtedness in T-bonds increased by PLN 20.6bn.



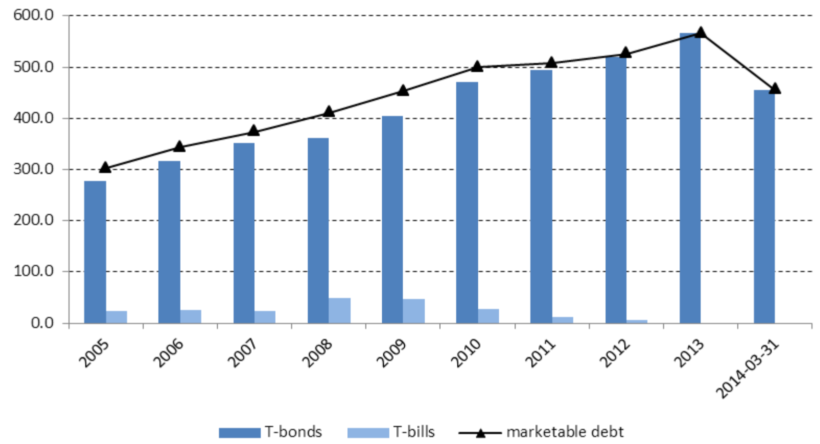
External financing in the period of I-III 2014 and in 2013
bonds issued on foreign markets and loans received from IFIs, EUR bn

Net financing on foreign markets (bonds issuance and loans from IFIs) in the period of I-III 2014 amounted to EUR 1.6bn. 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.



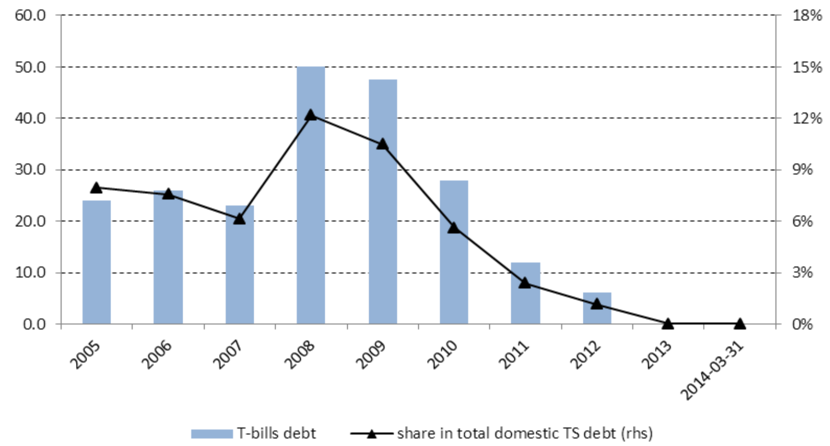
Structure of marketable debt
PLN bn

At the end of March 2014 the marketable domestic debt amounted to PLN 455.7bn comparing to PLN 565.7bn at the end of 2013. The decrease in the marketable domestic debt resulted from changes to the pension system (transfer of some assets of open pension funds to ZUS - Social Insurance Institution, acquiring the part consisting of T-bonds from ZUS by State Treasury and their redemption at the end).



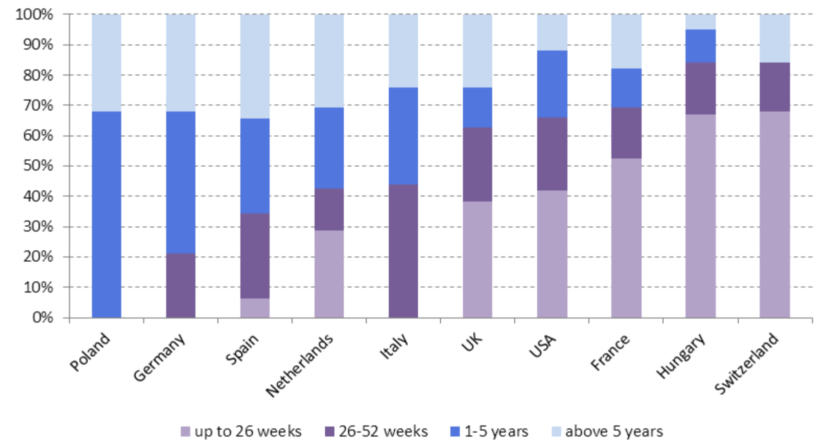
T-bills outstanding
PLN bn

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



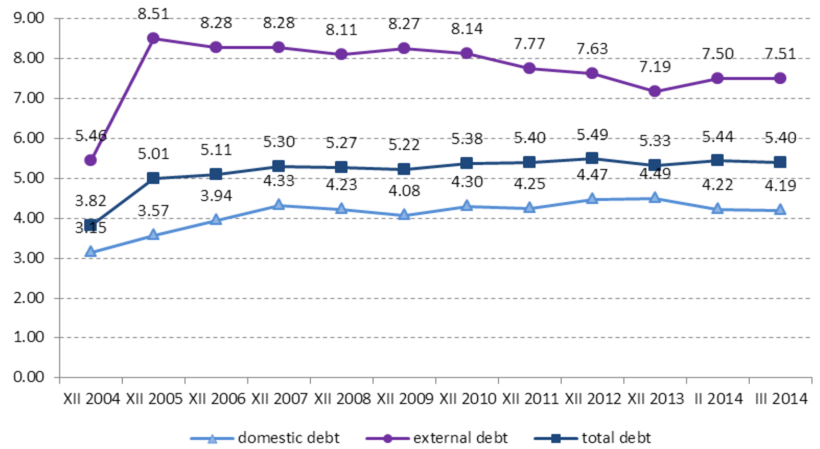
Maturity breakdown of T-securities in Poland and other countries
auctions and syndicates, local currency, ytd in the period of 1 January - 31 March 2014

In Poland only Treasury securities with maturity over 1 year have been offered in 2014.



Average maturity

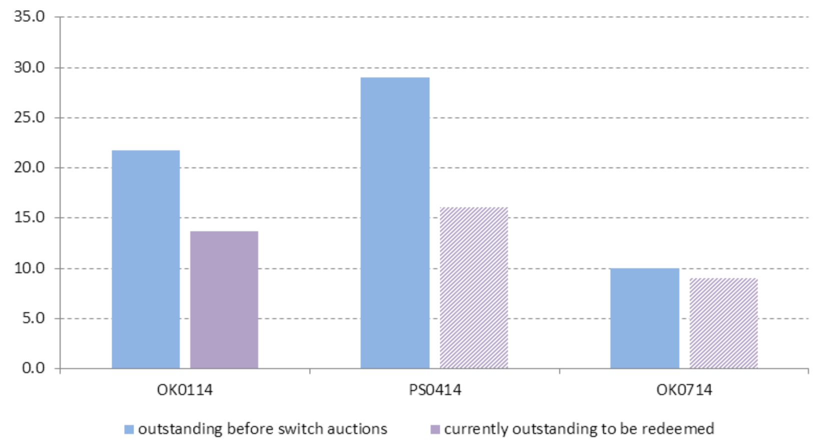
At the end of March 2014 the average maturity of domestic debt decreased to 4.19 in comparison with the end-2013 figure (4.49).



Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014
nominal amount, as of March 31, 2014, PLN bn

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

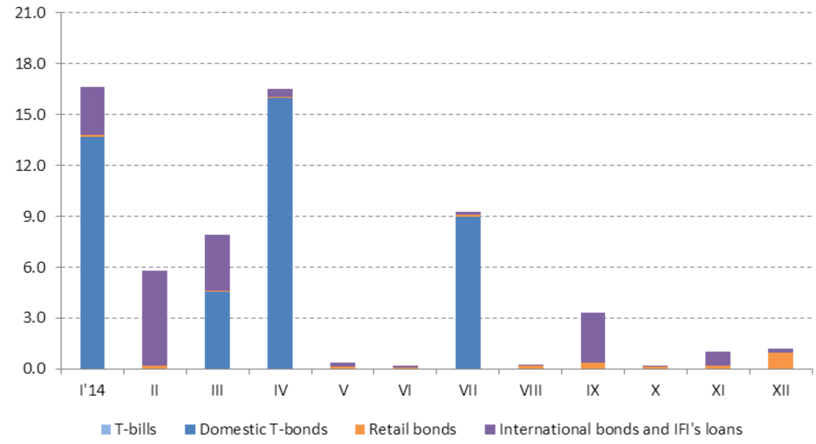
- OK0114: PLN 8.1bn (37% of initial outstanding),
- PS0414: PLN 13.0bn (45%),
- OK0714: PLN 1.0bn (10%).



State Treasury debt redemptions in 2014
nominal amount, as of March 31, 2014; PLN bn

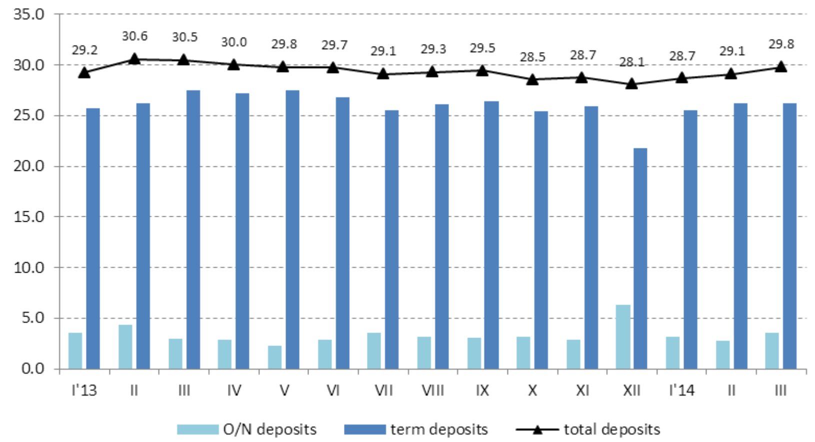
The nominal amount of debt to be redeemed in 2014 is equal to PLN 32.3bn, including:

- T-bonds: PLN 25.0bn,
- T-retail bonds: PLN 2.2bn,
- bonds and loans incurred on foreign markets: PLN 5.1bn.



Consolidation of public finances liquidity management
PLN bn

As a result of consolidation of public finances liquidity management there were PLN 29.8bn funds accumulated at the end of March, of which PLN 26.2bn was as term deposits and PLN 3.6bn on O/N deposits.



MoF comments

Wojciech Kowalczyk, Undersecretary of State, MoF

02-04-2014 r., PAP interview

FOREIGN FINANCING

Taking into account scheduled tranches of loans from international financial institutions to be drawn the 2014 State budget borrowing requirements in foreign currency are funded. In addition, we need to remember that in September 2013 we consolidated management of all foreign currency funds held by the Minister of Finance, which considerably increased flexibility in management of liquidity in foreign currencies. However we do not exclude smaller issuances on foreign markets - by the end of September bonds denominated in CHF of 750m will mature. As we want to be still present on the Swiss market, after summer holiday bond issuance may take place allowing our investors to roll over at least some of maturing bonds.

The same applies to issuances on the Japanese market. Each autumn we visit big Japanese investors. They already have had significant exposures in Polish bonds, also denominated in PLN. As a result of such visit, we may issue Samurai bonds.

We have got interesting proposals of issuances on other foreign markets, which would let us further diversify our investor base. We are preparing legal documentation, which will enable us to issue on those new markets, however the final decisions will depend on the pricing of prospective issuances and their comparison to the costs of issuance in core markets. We are very demanding in this respect, thus probability of placing an issue on new markets in the second quarter is 50% to me.

Prefinancing of State budget borrowing requirements of 2015 will depend on the market situation. We will see how the markets look like after tapering which is to finish in September or October. It seems that everything is priced in, but we will see what the effect will be after the process has finished. If the market situation is favourable and, in our view, level of yields is appropriate,

MoF comments

we will start prefinancing in the fourth quarter. Nevertheless we are not determined either to prefinancing itself or to its size – next year the first bond redemption fall in May and foreign currency needs in the first quarter result mainly from interest payments on outstanding issued bonds and loans.

We are a recognized issuer, so placing of bonds on foreign markets is now only a matter of price and not of demand. Investors appreciate stable rating and strong macroeconomic fundamentals. The economic growth is relatively high as far as EU countries are concerned and we are the biggest beneficiary of the EU funds in the new financial perspective. We have political stability as well. All of these result in very positive investors' assessment of Poland's credit. Even turbulences in Ukraine did not affect the spread of Polish bonds denominated in foreign currencies, which is the lowest since the Lehman Brothers bankruptcy.

Issuance of bonds on the euro market by BGK is aimed at entering the market in the right moment and introducing investors to the new issuer as well as reaching favourable pricing. The issue would be hold primarily with a view to the future rather than current necessity of raising specific amount of funds. Marketable borrowing needs for this year of National Road Fund are not significant. Foreign investors' interest in BGK bonds guaranteed by the State Treasury shall be substantial, what, as I expect, should have positive impact on National Road Fund's debt servicing costs.

DOMESTIC FINANCING

Positive response of the market to T-bonds auctions in April will mean that ca. 80% of 2014 State budget borrowing needs will be covered by the end of the month. As for now the market situation is good, yields have slightly decreased and the liquidity is decent.

Bonds to be issued by BGK for the National Road Fund shall be mainly concentrated at long-term, maturities, but pricing will also matter. We can observe significant interest from both, insurance companies, as well as investment funds and, in case of papers of not the longest maturities, also banks. Thus, placement of securities of PLN 2bn should not be any problem.

After April we will limit the number of auctions held, hence the space for BGK issuances. Treasury securities issuance plan will be closely coordinated with BGK auctions, as usual.

PUBLIC FINANCES

The budget execution after March shall be resembling the schedule.
Throughout 2014 budget deficit shall be lower than determined in the budget act.
GDP growth in 2014 will slightly break the level of 3% which is our conservative forecast due to the constantly uncertain background.

MARKET PERCEPTION

In my opinion Poland is no longer emerging market. When answering the question whether we were promoted to advanced economies, one must consider the breadth of the "advanced economy" definition. Poland is not USA, nor Germany but when we think of Spain or Portugal, then we can compare with those countries. For sure Polish debt and deficit indicators are significantly lower.

To us, we are not any more emerging market, of course we do not claim we are advanced economy. We are in transitional phase. The problem is that there is nothing between those two, thus portfolio managers have to choose which label to put on Poland.

Piotr Marczak, Director of the Public Debt Department, MoF
31-03-2014

April shall be the last month this year with such substantial T-bonds supply. This considerable offer stems mainly from market demand for rolling over maturing bonds and interest payments. As a result, PLN 21.6bn will flow to the market on April, 25th. T-bond offer at the first auction in April is set within a range of PLN 3-5bn and PLN 5-10bn at the other auction. Thus, quite a substantial amount of funds coming from debt service will remain on the market. There will be 5-year bonds and other two series of bonds maturing in 2016 offered on April, 23rd at the auction: current 2-year benchmark and off-the-run bonds issued 5 years earlier – PS1016. The latter will be offered due to investors' demand for securities, of which total nominal amount was decreased by redemption of bonds previously held by OFE (open pension funds).

MoF comment

Since May we will limit T-bonds supply and possibly also the number of auctions. Thus we will give some space for bonds issued by Bank Gospodarstwa Krajowego to finance needs of KFD (The National Road Fund. After a 2.5 year break, BGK will return to the market with an issuance in May or June with the offer up to PLN 2bn and this shall be the only auction in whole 2014 for KFD purposes. Simultaneously in the 2nd quarter BGK may enter the euro debt market for the first time which shall help to diversify sources of funding to KFD now and in the future.

Financing at the level of nearly 70% of the whole year's borrowing requirements and keeping PLN and foreign currency liquid funds at the level of over PLN 30bn shall support the limitation of T-securities offered at auctions.

The last substantial T-bonds redemption is due in July and will be preceded by the only switch auction in the 2nd quarter, scheduled for June.

In February foreign investors' portfolio increased by PLN 2.4bn. The balance in March is slightly negative.

IMF: Poland among most popular destinations for allocating reserve funds of global central banks

IMF: Poland - attractive emerging market to allocate central bank reserve funds
31-03-2014, PAP, fdu/ ana/

Among emerging markets Poland is one of most popular destinations for investing reserves of global central banks – International Monetary Fund indicates in April issue of the Global Financial Stability Report.

"Central bank reserve managers, who collectively handle $11 trillion in assets, tend to be conservative investors. Nonetheless, they do invest in emerging markets, and the most popular of those destinations have been Brazil, China, Korea, Mexico, Poland, South Africa and Turkey" – says the report including analytical chapters, published on Monday.

"Reserve managers are also raising their allocation to emerging markets in line with their economic size and diversifying away from hard currencies" – it adds.

The authors of the report point that sovereign wealth funds have progressively expanded their exposure to emerging markets, especially to Brazil, China, India, Russia and Turkey.

The authors indicate that insurance companies are planning to increase their exposures to emerging markets, including CEE region.

"In a recent survey of investment officers, more than 40 percent of insurance companies intended to increase their allocations to equity and to hard currency corporate debt in emerging Europe, the Middle East and Africa and emerging Asia" – they say recalling the results of a survey carried out in 2013 by Goldman Sachs.

IMF estimates that current allocations of pension funds to emerging markets are still low. The authors, invoking 2013 OECD report, indicate that "allocation to emerging markets is expected to rise to 10 to 20 percent over the longer term".

Fitch Ratings: Polish pension reform neutral for ratings

Fitch Ratings: Poland Pension Reform: Neutral for Ratings, Focus Remains on Fiscal Performance
24-03-2014

Fitch Ratings says in a new report that recent changes to the pension and broader public finance frameworks are neutral for Poland's sovereign ratings (A-/A/Stable). Fitch's assessment of Poland's sovereign creditworthiness will continue to focus on underlying fiscal consolidation, as well as reduction of external indebtedness and income convergence.

The most substantial amendment, at least in the short term, is the transfer to the publicly-run pay-as-you-go pillar (PAYG) of 51.5% of financial assets held by open pension funds (OFEs), which took place in February 2014. OFEs have been financed by a portion of gross wage contributions, which they used to accumulate financial assets. Other changes include making future contributions to OFEs optional rather than mandatory and the transfer to the PAYG system of all funds 10 years before retirement.

Fitch estimates that the transfer of OFE assets reduces the gross general government debt (GGGD) ratio (on a ESA 95 basis) by 7.5 percentage points. The agency judges this development to be rating neutral given that the reduction in public debt (as well as debt-servicing costs) is offset by an increase in long-term state pension liabilities. The changes are being challenged at the Constitutional Court, but Fitch does not expect this to result in a major reversal, including for instance the cancellation of the asset transfer.

The changes to the pension system came amid an increasing debt burden and mounting external pressure to narrow the budget deficit in the context of the EU's Excessive Deficit Procedure. The diversion of a part of gross wage contributions from the PAYG pillar to finance OFEs created a gap in the social security budget that had to be filled via increased public debt issuance, in the partial absence of other fiscal consolidation measures. This built up a considerable additional public debt burden, and in recent years public debt (calculated by the government using a separate methodology) had been hovering close to 55% of GDP, a key legal threshold.

A new stabilising expenditure rule (SER) in effect starting with the 2014 budget aims to boost the anticyclical role of public spending and introduces debt thresholds at 43% and 48% of GDP. The SER was adopted to comply with enhanced EU-level fiscal surveillance and could support increased fiscal discipline. However, the suspension of a previous rule to enable the revision of the 2013 budget, as well as the likelihood that public debt will remain in breach of the lower threshold for several years against a backdrop of fiscal austerity, raises the risk that fiscal rules may be breached in future.

Full Fitch Ratings' report attached.