



Ministry
of Finance

Republic
of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

3rd quarter 2014

July 2014

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SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2014

General assumptions

- Three bond sale auctions are planned: two in July and one in September. Total suspension of bond auctions in August is assumed.
- T-bonds offer on the domestic market will depend on the market situation and consultations with investors.
- T-bill auctions are not planned.
- 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 auctions with total supply 10.0-15.0bn, the structure of the offerings will depend on the market situation.

Switch auctions

- Possible auction in September – securities offered to repurchase would be T-bonds maturing in January and April 2015.

Foreign financing

- Loans from International Financial Institutions of EUR 0.7-0.8bn,
- Possible issuance of bonds on a limited scale, subject to market situation.

Offer of bonds issued by BGK for the National Road Fund

- Possible issuance of euro-denominated bonds up to EUR 0.5bn.

SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2014



Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
3 JULY 2014	7 JULY 2014	DS0725 / WS0428	1,000-3,000
23 JULY 2014	25 JULY 2014	choice will depend on the market conditions, excluding bonds offered at the first auction	2,000-6,000

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.

Offer on retail market

T-bond	Issue price	Coupon
DOS0716	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 3.00%
TOZ0717	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 3.30% in the first coupon period
COI0718	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.50% in the first coupon period
EDO0724	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 2014

Financing of 2014 borrowing requirements at the level of 90% 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 60.9bn,
- switch auctions: PLN 5.5bn,
- 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 2.5bn
- and higher than planned financial resources at the end of 2013: PLN 16.0bn.

Flows of funds into the market related to T-securities transfers in June

as of June 30, 2014, PLN bn

As of June 30, 2014 flow of funds from State budget shall amount to PLN 10.5bn.

Flows of funds between the market and the budget*

as of June 30, 2014, PLN bn

As of June 30, 2014, to the end of the year the funds to be transferred to the market shall amount to PLN 19.9bn.

* 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.

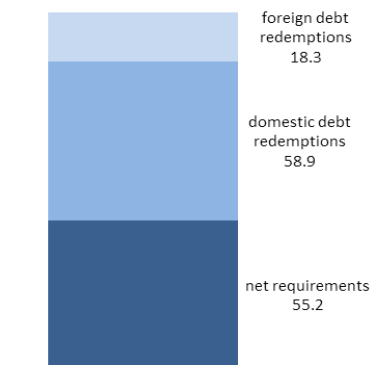
Funds in PLN and in foreign currency held by the MoF at the end of month

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

The funds ensure liquidity in borrowing needs financing.

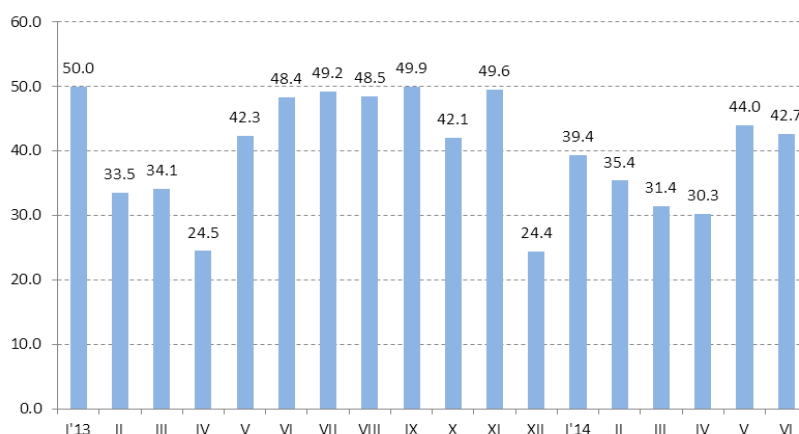
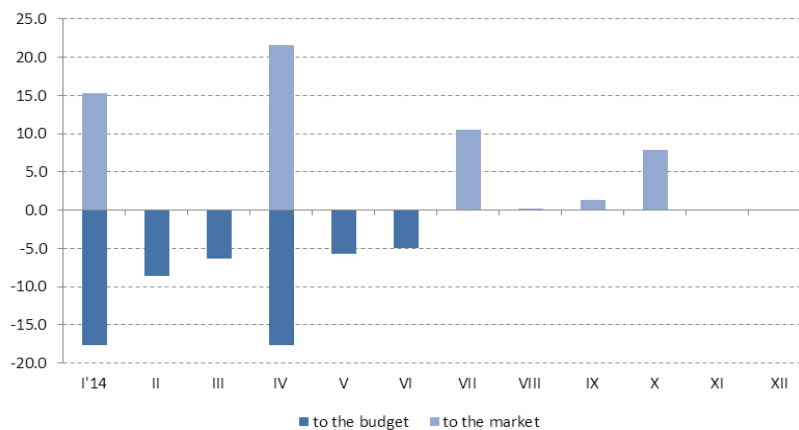
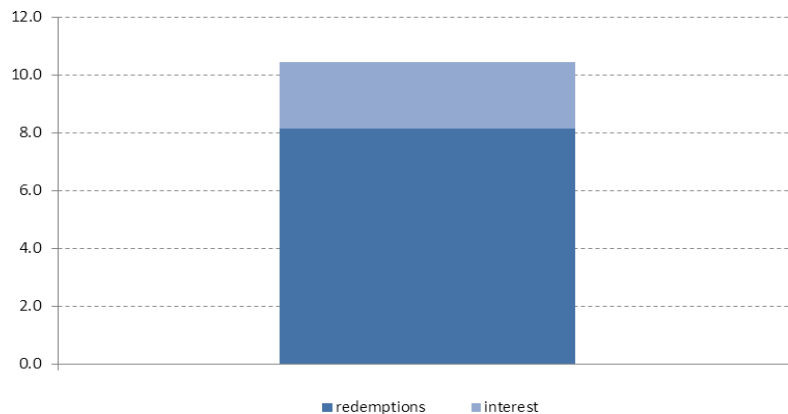
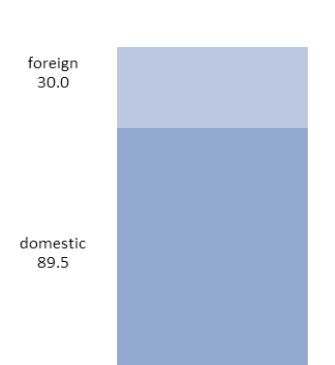
Gross borrowing requirements in 2014

Total: PLN 132.4bn, of which:



Financing in the period of I-VI

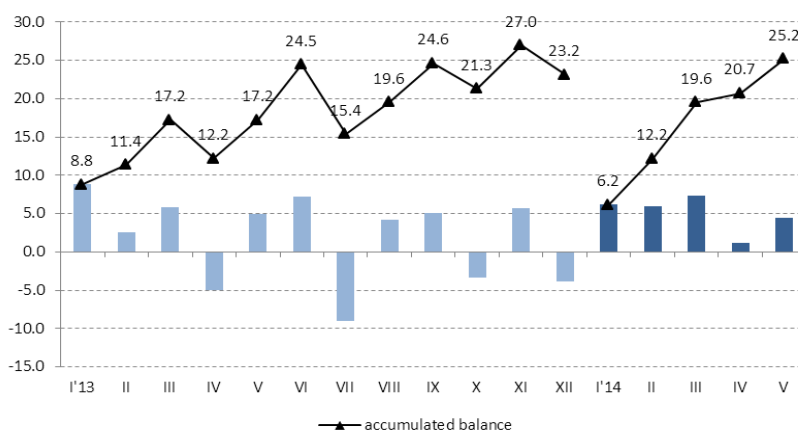
Total: PLN 119.5bn (90%)





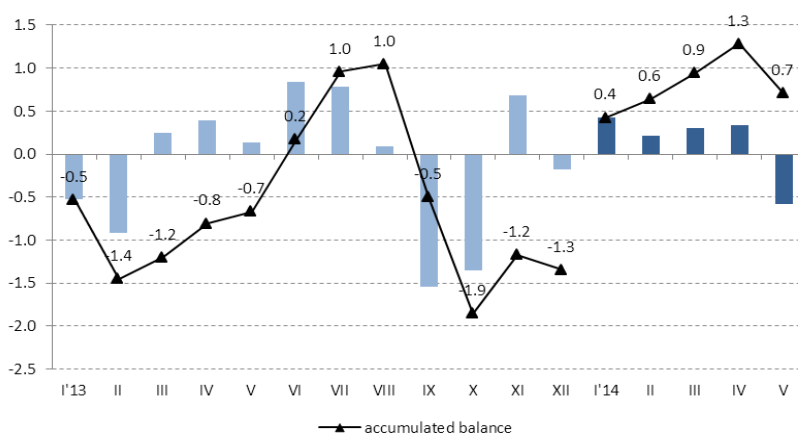
Change of debt in domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-V 2014 debt held by domestic banks increased by PLN 25.2bn comparing to PLN 17.2bn increase during the same period of 2013.



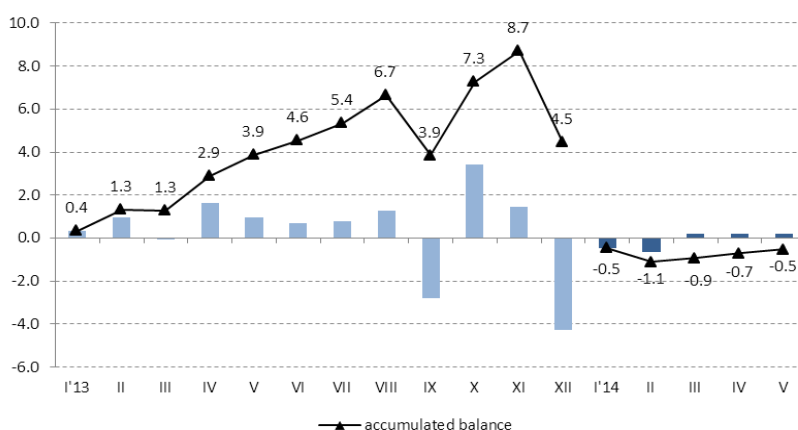
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In the period of I-V 2014 there was an increase of PLN 0.7bn in debt held by insurance companies. During the same period of 2013 there was a decrease of PLN 0.7bn.



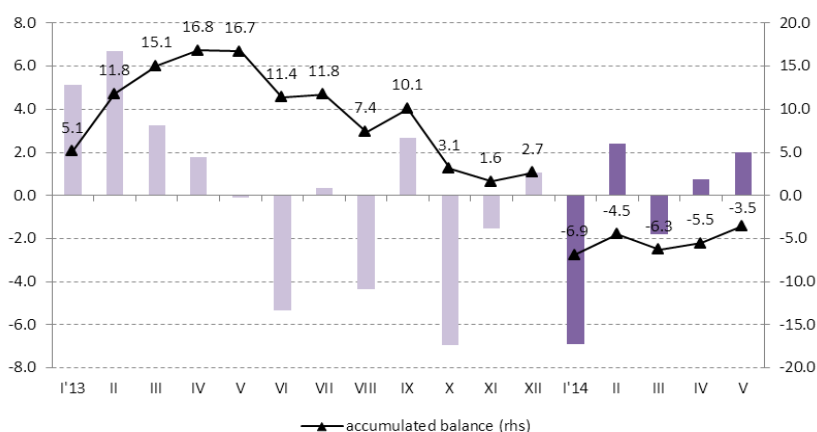
Change of debt in domestic Treasury securities held by investment funds PLN bn

In the period of I-V 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 3.9bn.



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

In the period of I-V 2014 outflow of foreign capital from the domestic TS market amounted to PLN 3.5bn comparing to inflow of PLN 16.7bn in the same period of 2013. Foreign investors' holdings reached the level of PLN 189.7bn.



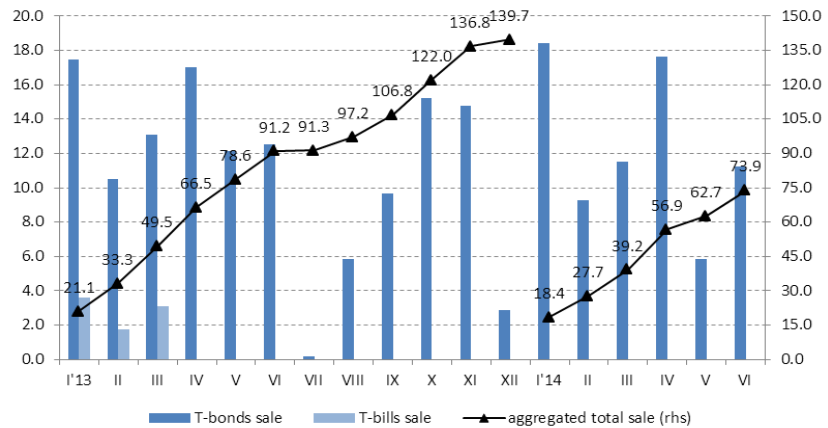


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Sale of T-bonds and T-bills in the period of I-VI 2014 and in 2013

settlement date, nominal amount, PLN bn

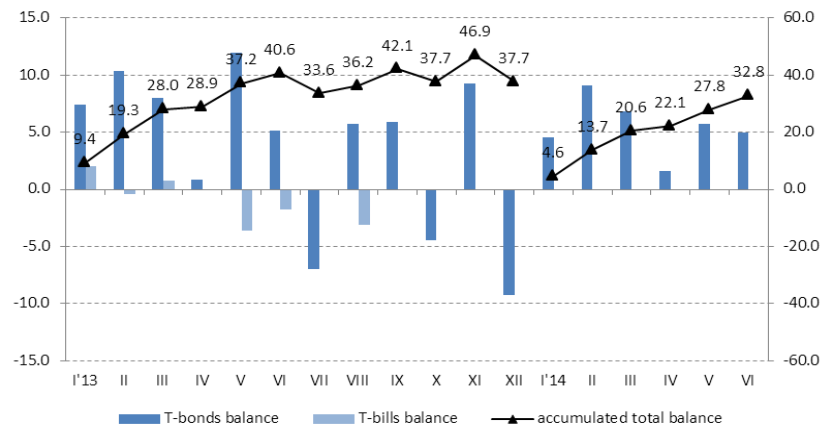
Since April 2013 T-bills have not been offered.



Balance of T-bonds and T-bills in the period of I-VI 2014 and in 2013

settlement date, nominal amount, PLN bn

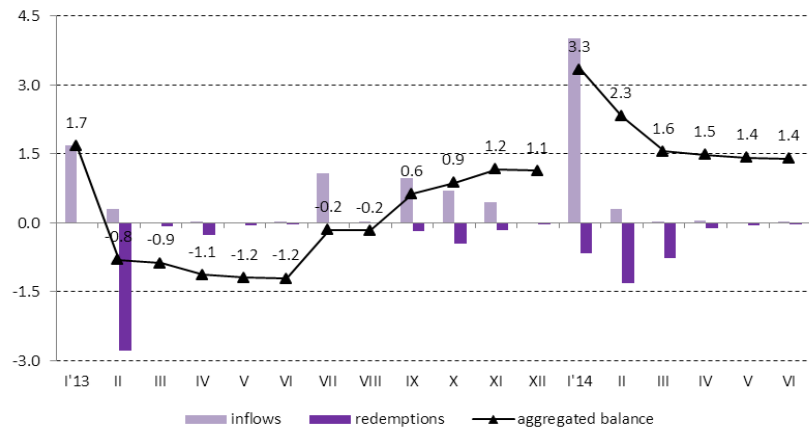
In the period of I-VI 2014 indebtedness in T-bonds increased by PLN 32.8bn.



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

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

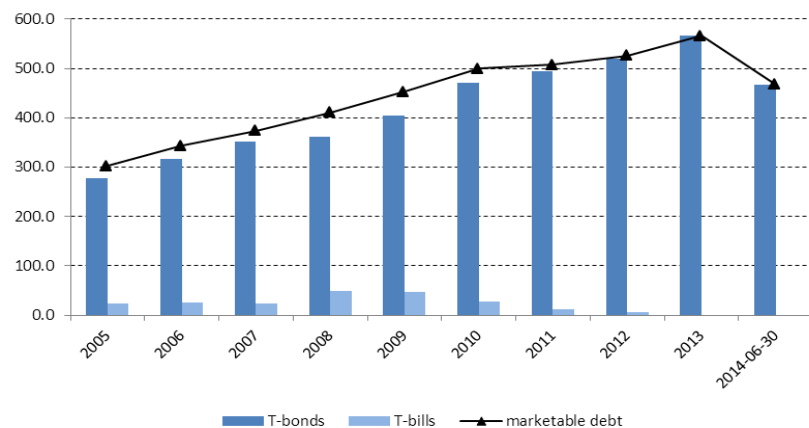
Net financing on foreign markets (bonds issuance and loans from IFIs) in the period of I-VI 2014 amounted to EUR 1.4bn. T-bonds issuance was EUR 3.8bn. Loans incurred from IFIs were at the level of EUR 0.6bn. Apart from those, EUR 3.0bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2013.



Structure of marketable debt

PLN bn

At the end of June 2014 the marketable domestic debt amounted to PLN 467.8bn comparing to PLN 565.7bn at the end of 2013.

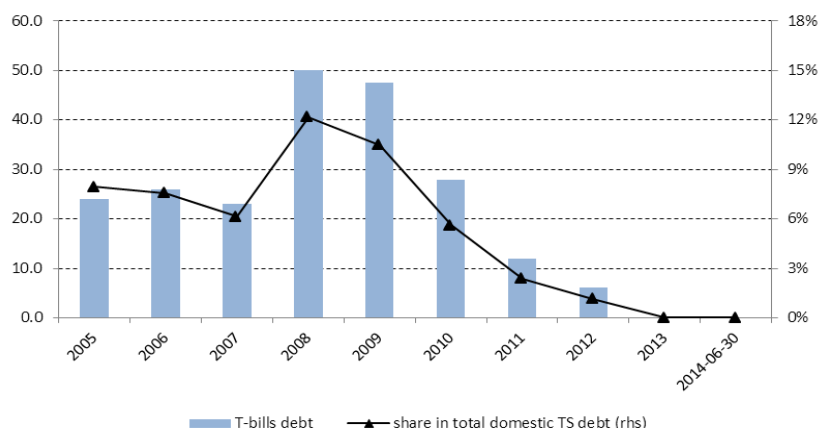




T-bills outstanding

PLN bn

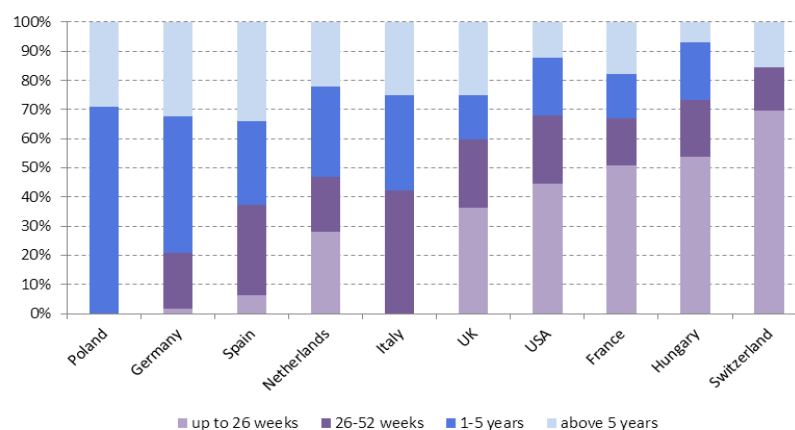
Since August 2013 there has been no outstanding in T-bills.



Maturity breakdown of T-securities in Poland and other countries

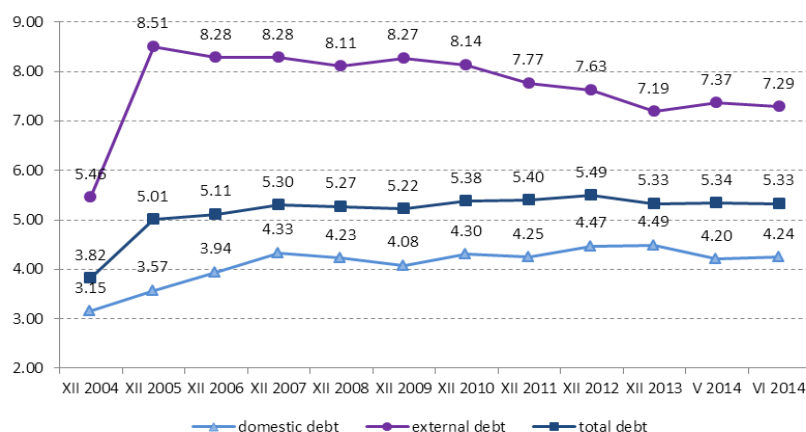
auctions and syndicates, local currency, ytd in the period of 1 January - 31 March 2014

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



Average maturity

At the end of June 2014 the average maturity of domestic debt decreased to 4.24 in comparison with the end-2013 figure (4.49).

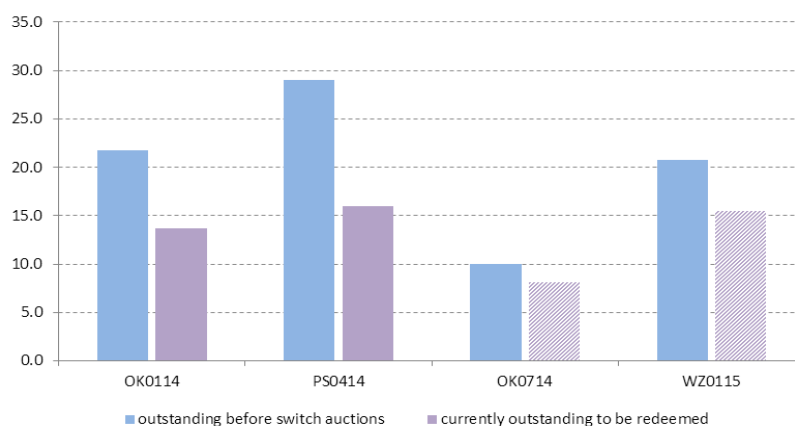


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014 and 2015

nominal amount, as of June 30, 2014, PLN bn

Buy-back of T-bonds maturing in 2014 and 2015 (by switch or cash settlement):

- OK0114: PLN 8.1bn (37% of initial outstanding),
- PS0414: PLN 13.0bn (45%),
- OK0714: PLN 1.8bn (18%),
- WZ0115: PLN 5.3bn (26%).

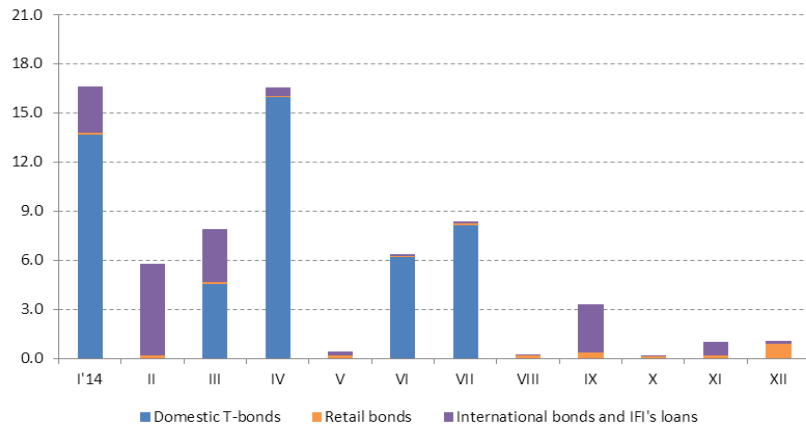


State Treasury debt redemptions in 2014

nominal amount, as of June 30, 2014; PLN bn

The nominal amount of debt to be redeemed in 2014 is equal to PLN 14.3bn, including:

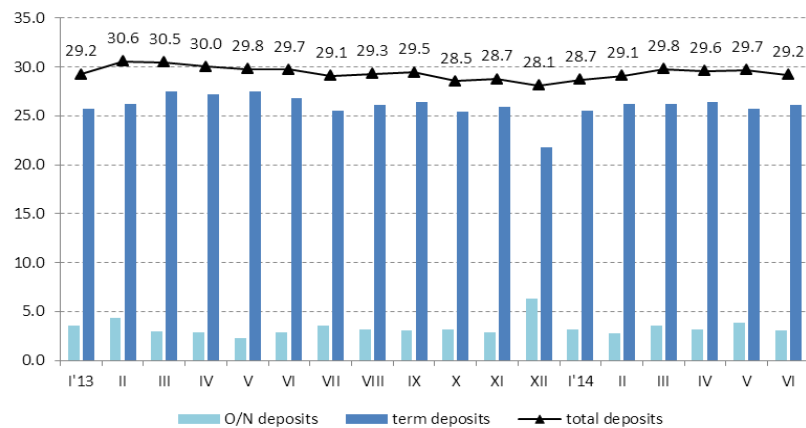
- T-bonds: PLN 8.1bn,
- T-retail bonds: PLN 1.8bn,
- bonds and loans incurred on foreign markets: PLN 4.3bn.



Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 29.2bn funds accumulated at the end of June, of which PLN 26.1bn was as term deposits and PLN 3.1bn on O/N deposits.



MoF comment

Dorota Podedworna-Tarnowska, Undersecretary of State, MoF

18-06-2014

I will continue the work of my predecessor and implementing of public debt management strategy.

Financing the 2014 State borrowing needs is about to be completed. (...) After holiday season we plan to draw other loans from international financial institutions which will officially finish financing this year's borrowing needs.

Public debt to GDP ratio shall be decreasing successively. It is necessary as we have excessive government deficit procedure imposed on us.

Piotr Marczak, Director of the Public Debt Department, MoF

17-06-2014

From April 2014 onwards we have far more detailed data on the structure of foreign investors holding zloty T-bonds. Institutional criterion has been broadened and, for the first time, geographical structure, by countries and regions, has been published.

About 16% of outstanding was registered on consolidated accounts, so called omnibus accounts, which made it impossible to identify the type and investor's origination. Implementing omnibus accounts a few years ago let in the Polish market those investors for whom the necessity of having a separate, securities account for Polish papers was a barrier to invest on the Polish market.

New data officially confirm former information on a significant change noted in recent years in the foreign investors' structure. A major share in debt of long-term investors, including central banks and public institutions, is attracting attention. By the end of April 2014, central banks and public institutions held PLN 15.1bn in T-bonds which constituted nearly 10% of outstanding in zloty-denominated bonds held by non-residents (excluding consolidated accounts). Those public



MoF comment

institutions mainly came from the European countries outside EU (50.5%), Asia (34.5%) and Middle East (14.9%).

The involvement of banks was lower in comparison to central banks and amounted to 7.5% only. As for the institutional distribution, the highest share was noted by investment funds (50.3%), other entities as foundations (11.4%), mainly from USA, Germany and Middle Eastern countries, non-financial sector (7.7%), pension funds (7.6%) and insurance companies (5.8%). Hedge funds' share was vestigial, nevertheless one cannot preclude their moderate contribution in the amount on the consolidated accounts.

Geographical structure of foreign investors is strongly diversified and involves not fewer than 59 countries. Entities from USA (33.3%), Luxembourg (21.6%), Japan (11.8%) and Germany (5.4%) dominate among the buyers. There are 7 countries with share within the range 1-5% and these are: United Kingdom (4.9%), Ireland (4.1%), Netherlands (2.5%), France (1.9%), Austria (1.8%), Saudi Arabia (1.5%) and Australia (1.1%). High share of Luxembourg results from its role as a centre of financial services. We judge that most investors from Luxembourg in fact are investors outside Europe, mainly from USA, who are doing their investment business in Europe via their companies registered in Luxembourg.

The diversified structure of foreign investors holding our bonds in their portfolios means the risk of them taking single-track actions is theoretical only. The risk is inversely related to the diversity of foreign investors – the higher it is, the lowest the risk is. Foreign investors' diversity measured by their type and country of origin is at a significant level.

Piotr Marczak, Director of the Public Debt Department, MoF

30-06-2014

After June we have financed 90% of State budget borrowing needs and we have started the process of prefinancing of next year's borrowing needs. We have held the reserve of liquid funds in PLN and foreign currency at the level of ca. PLN 43bn.

Because of the substantial demand for Polish bonds and reported investors' interest for additional supply, we decided to hold the next auction on the first Thursday of July. We will offer long-term bonds, fixed rated, within the range of PLN 1-3bn. Simultaneously we limited the supply on the auction to be held towards the end of July which will let us roll over some of bonds maturing on July, 25th. That day we will also redeem the last bonds maturing this year and we will pay interests of PLN 10.5bn in total whereas the offer of the new bonds will be within PLN 2-6bn.

For August no auction is planned and in whole third quarter we plan to place bonds of PLN 10-15bn and complete financing of 2014 State budget borrowing needs.

In May foreign investors' portfolio increased by PLN 2.0bn and in case of domestic ones - by PLN 3.7bn. Among the foreign investors, the highest inflow was noticed in central banks group, their holdings of zloty-denominated bonds increased by PLN 2.9bn, of which Middle Eastern central banks – by PLN 2.0bn and Asian ones – by PLN 0.9bn. Other portfolio increases applied also to investment funds (by PLN 1.1bn), insurance funds, pension funds and non-financial sector (almost PLN 1.0bn in total). On the other hand, decreases were registered in debt held by foreign banks (by PLN 1.4bn) and other entities (by PLN 2.1bn).

Measured against geographical criterion, Polish bond portfolios were increased by investors from Asia (by PLN 1.3bn), North America (PLN 0.7bn) and Middle East (PLN 0.5bn). Involvement in T-bonds were, on the other hand, diminished by investors from the euro zone (by PLN 0.9bn).

In June foreign capital inflow to the Polish debt market was significantly intensive in comparison to which was seen in May.



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Moody's: External and Domestic Shocks Unlikely to Derail Benign Economic and Fiscal Dynamics, a Credit Positive

Issuer Comment

*Jaime Reusche, Vice President, Moody's
Dietmar Hornung, Associate Managing Director, Moody's
19-06-2014*

Poland: External and Domestic Shocks Unlikely to Derail Benign Economic and Fiscal Dynamics, a Credit Positive

(...) Although we expect real GDP growth to slow to around 3.1% yoy in Q2 2014 from 3.4% in the first quarter, private consumption will continue to gather steam through the end of the year, as a result of increased disposable incomes. As such, we are revising our 2014 GDP growth forecast to 3.3% from 2.9%.

The effect of stronger consumption on fiscal revenues is already being felt. Indirect tax revenues have grown in excess of 15% from January through April relative to the first four months of 2013, supporting a 30% reduction in the state budget deficit. Moreover, expenditure restraint and savings on interest payments due to (1) lower debt as a result of pension system changes and (2) a lower cost of funding as local currency yields on government debt have fallen markedly this year, are also contributing to decreasing the fiscal imbalance.

Lower funding costs reflect Poland's 'regional safe haven' status even through a period of greater financial market volatility and risk aversion by investors. The better-than-expected budget performance will also reduce borrowing needs for the year. We estimate that the sovereign has covered over 90% of its budgeted financing requirement and that the authorities are likely to start pre-funding 2015 needs in the coming months.

Liability management operations will benefit from lower borrowing costs as the authorities take an opportunistic approach to debt issuance. Demand for fixed-rate government securities from domestic investors is increasing as a result of the low inflation environment, which may pressure yields down further. Given these favorable developments, potential contagion arising from external shocks is likely to remain contained.

(...) We believe that although the release of the transcript [conversation between Marek Belka, the Governor of the National Bank of Poland (NBP), and Interior Minister Bartlomiej Sienkiewicz] constitutes a transitory domestic shock to political stability, it is unlikely to undermine the strengthening economic recovery. Moreover, Poland's robust institutional foundation is able to absorb political shocks or potential changes in leadership of key policymakers given the high degree of policy credibility and predictability.