

State budget borrowing requirements' financing plan and its background

September 2014

THE MOST IMPORTANT INFORMATION

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SUPPLY PLAN OF TREASURY SECURITIES IN SEPTEMBER 2014

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
4 SEP 2014	8 SEP 2014	DS0725 / WZ0124	2,000-3,000

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)
18 SEP 2014/ 22 SEP 2014	choice will depend on the market conditions, excluding bonds offered at the first auction	WZ0115	15,445
		PS0415	26,925

Buy-back auction of USD nominated T-bonds

Auction/ settlement date	Buy-back T-bonds		Nominal value of buy-back (USD m)
	Series	Maturity date	
25 SEP 2014/ 29 SEP 2014	USD20150716	16 JUL 2015	up to 400

Offer on retail market

T-bond	Issue price	Coupon
DOS0916	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.60%
TOZ0917	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.80% in the first coupon period
COI0918	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 3.10% in the first coupon period
EDO0924	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 3.60% in the first coupon period



Gross borrowing requirements in 2014

Financing of 2014 borrowing requirements at the level of 97% 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 69.5bn,
- switch auctions: PLN 5.5bn,
- T-bonds buyback on foreign markets in 2013: PLN 2.3bn,
- 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 September

as of August 31, 2014, PLN bn

As of August 31, 2014 flow of funds from State budget shall amount to PLN 1.3bn.

Flows of funds between the market and the budget*

as of August 31, 2014, PLN bn

As of August 31, 2014, to the end of the year the funds to be transferred to the market shall amount to PLN 9.2bn.

* 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.

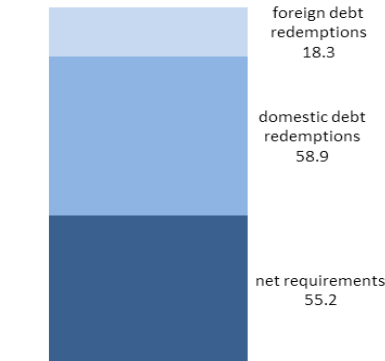
Funds in PLN and in foreign currency held by the MoF at the end of month

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

The funds ensure liquidity in borrowing needs financing.

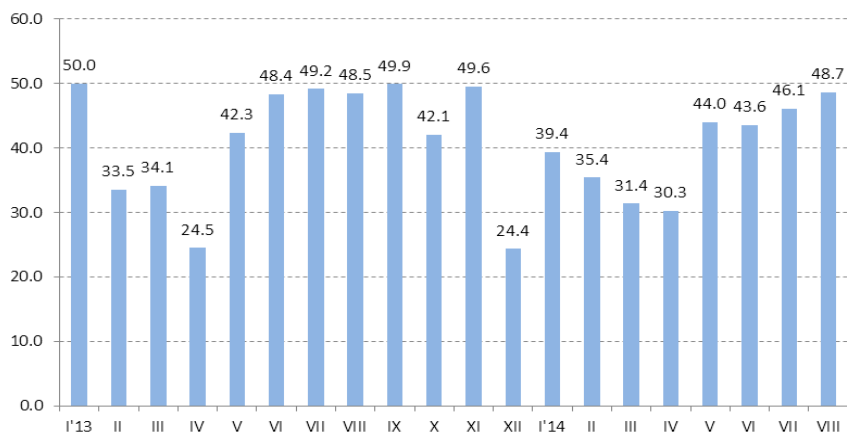
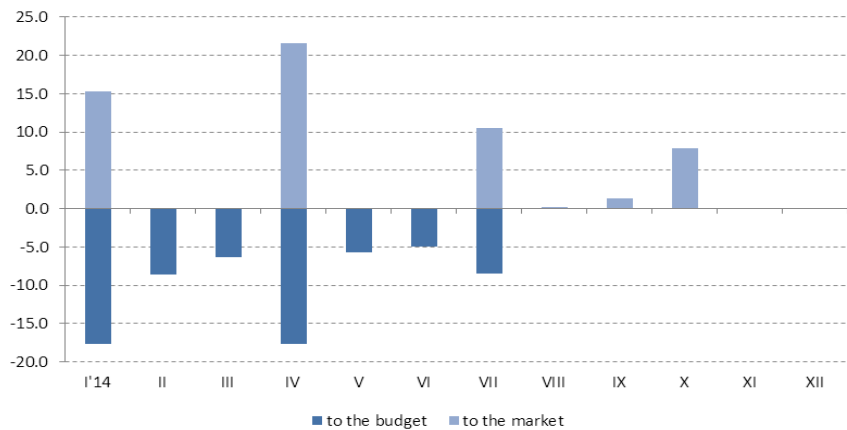
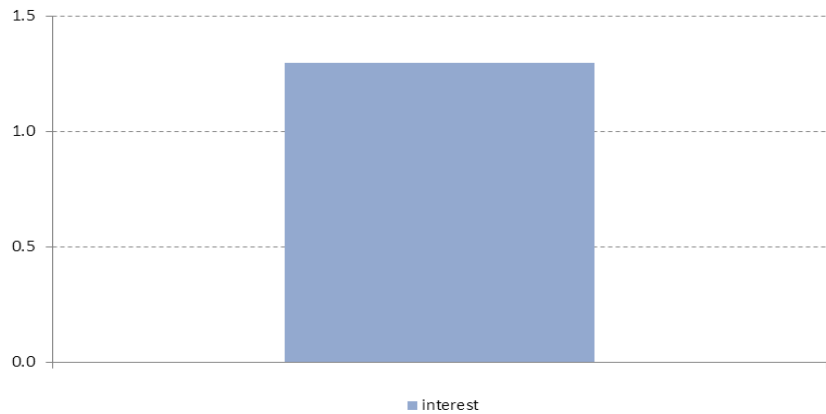
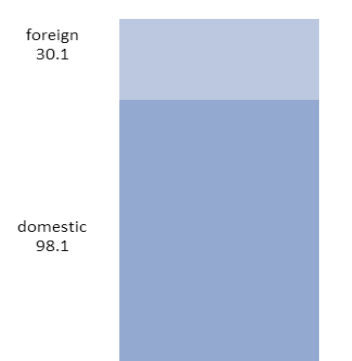
Gross borrowing requirements in 2014

Total: PLN 132.4bn, of which:



Financing in the period of I-VIII

Total: PLN 128.3bn (97%)



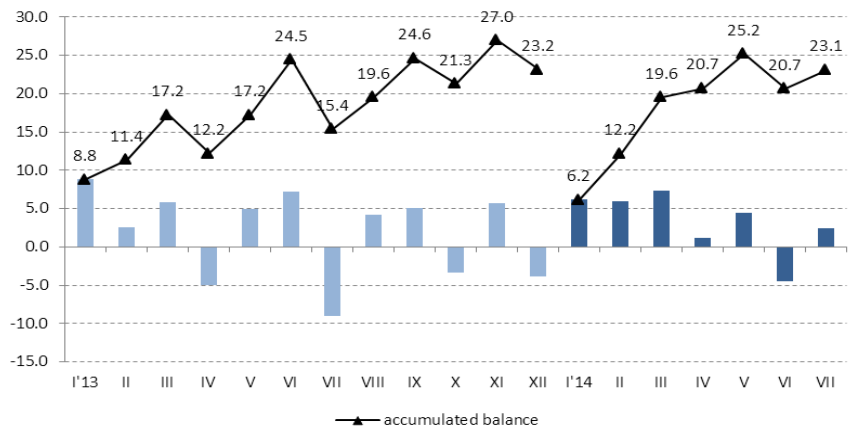


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

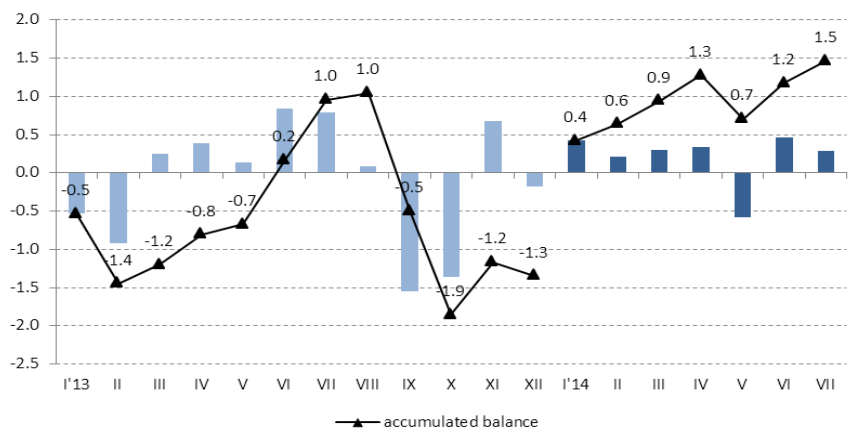
In the period of I-VII 2014 debt held by domestic banks increased by PLN 23.1bn comparing to PLN 15.4bn increase during the same period of 2013.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

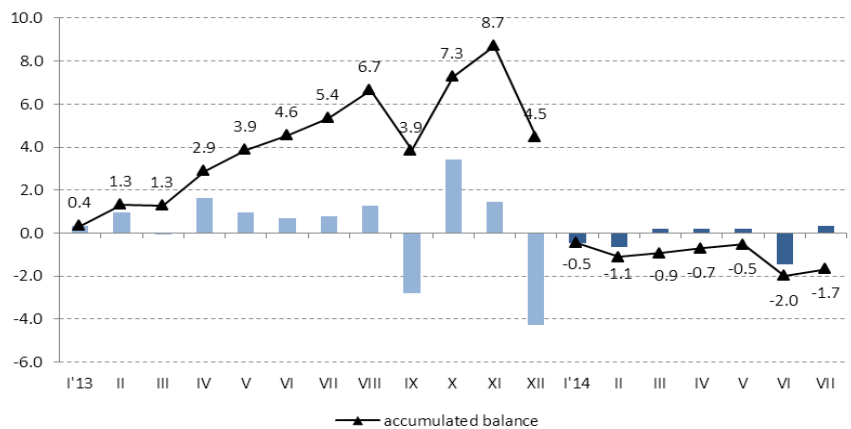
In the period of I-VII 2014 there was an increase of PLN 1.5bn in debt held by insurance companies. During the same period of 2013 there was an increase of PLN 1.0bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

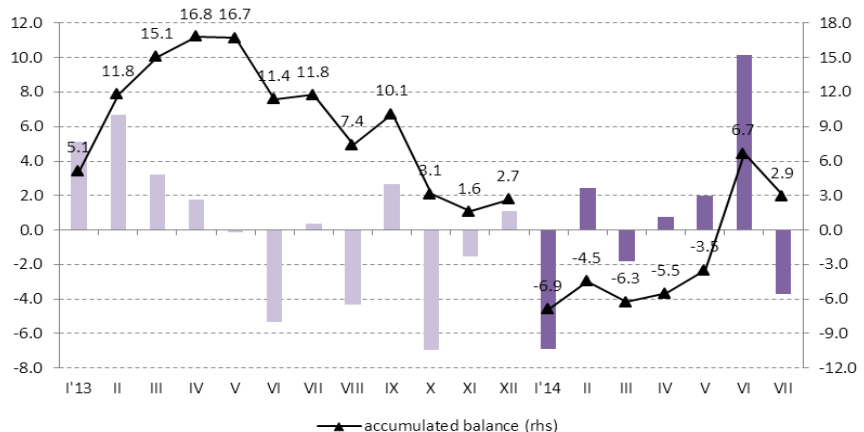
In the period of I-VII 2014 there was a decrease of PLN 1.7bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 5.4bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-VII 2014 inflow of foreign capital to the domestic TS market amounted to PLN 2.9bn comparing to inflow of PLN 11.8bn in the same period of 2013. Foreign investors' holdings reached the level of PLN of 196.1bn.

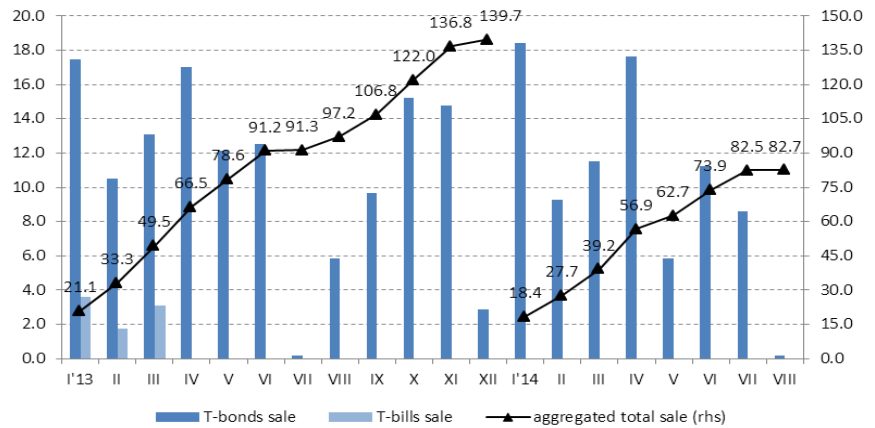




Sale of T-bonds and T-bills in the period of I-VIII 2014 and in 2013

settlement date, nominal amount, PLN bn

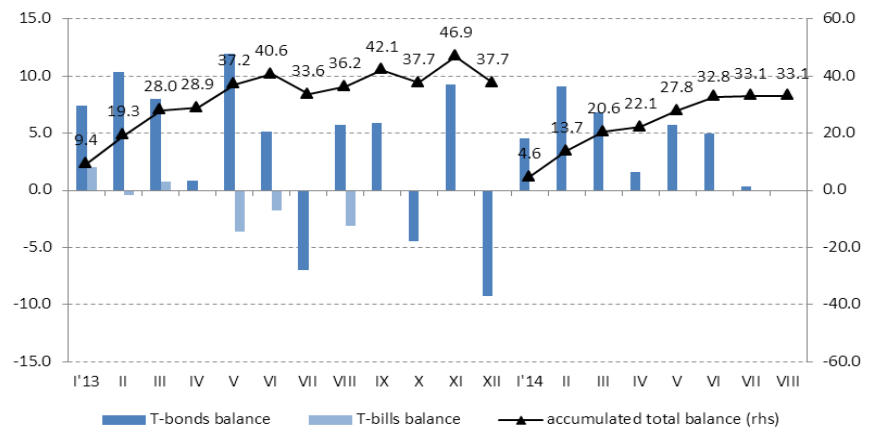
Since April 2013 T-bills have not been offered.



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

settlement date, nominal amount, PLN bn

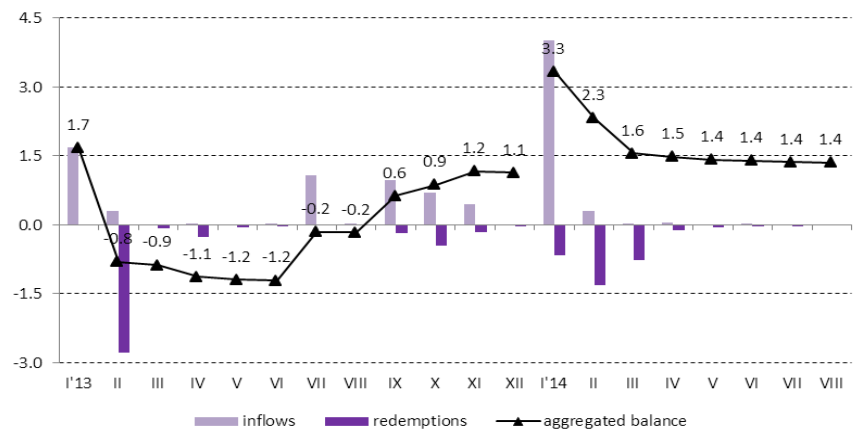
In the period of I-VIII 2014 indebtedness in T-bonds increased by PLN 33.1bn.



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

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

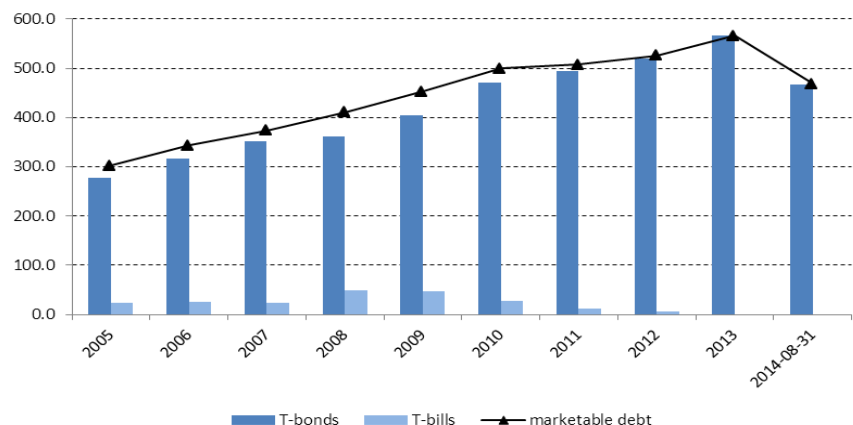
Net financing on foreign markets (bonds issuance and loans from IFIs) in the period of I-VIII 2014 amounted to EUR 1.4bn. T-bonds issuance was EUR 3.8bn. Loans incurred from IFIs were at the level of EUR 0.6bn. Apart from those, EUR 3.0bn on the FX budgetary accounts was available - the money related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



Structure of marketable debt

PLN bn

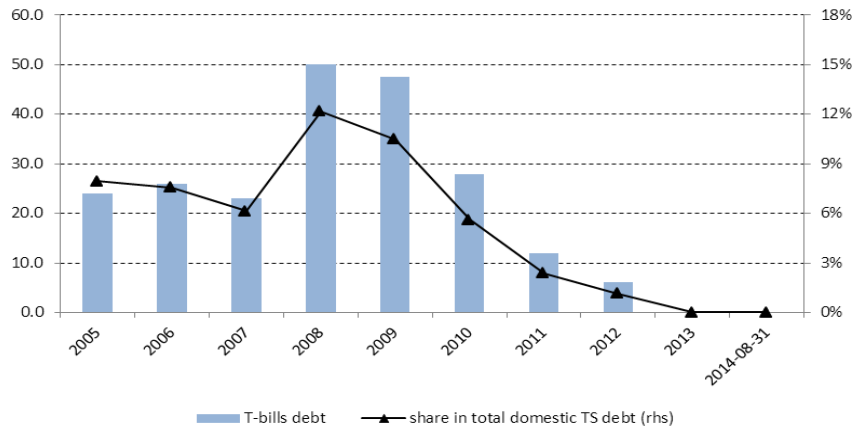
At the end of August 2014 the marketable domestic debt amounted to PLN 468.0bn comparing to PLN 565.7bn at the end of 2013.



T-bills outstanding

PLN bn

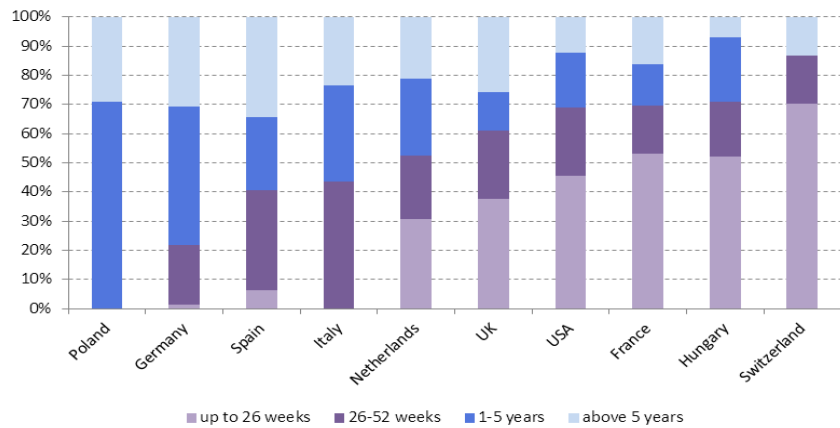
Since August 2013 there has been no T-bills outstanding.



Maturity breakdown of T-securities in Poland and other countries

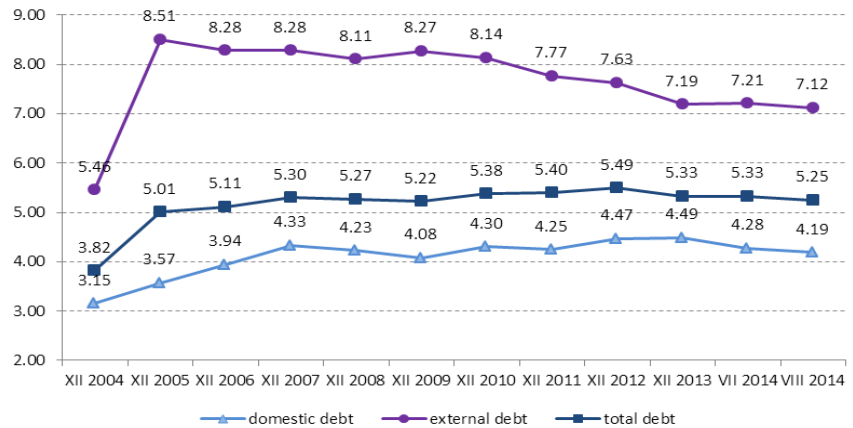
auctions and syndicates, local currency, ytd in the period of 1 January - 31 August 2014

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



Average maturity

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

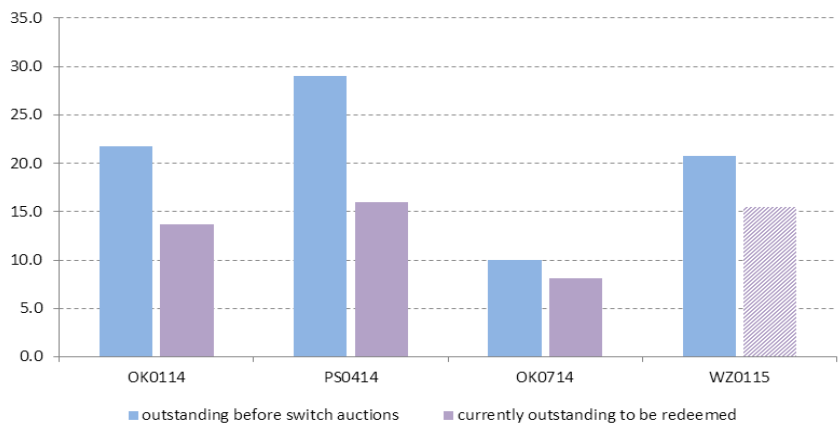


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014 and 2015

nominal amount, as of August 31, 2014, PLN bn

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

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



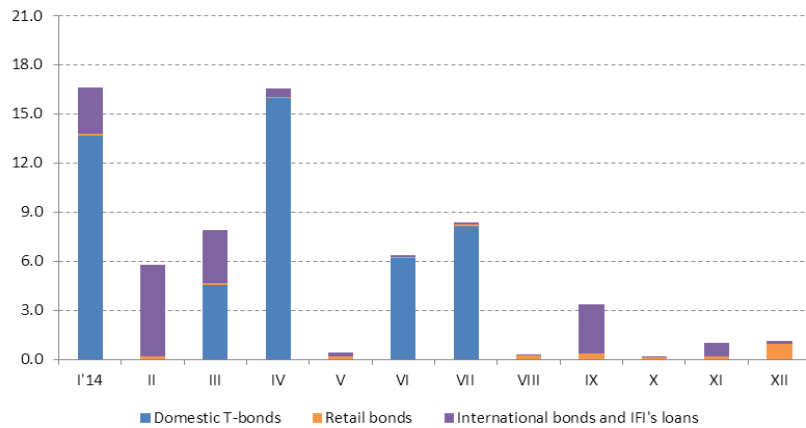


State Treasury debt redemptions in 2014

nominal amount, as of August 31, 2014; PLN bn

The nominal amount of debt to be redeemed in 2014 is equal to PLN 5.7bn, including:

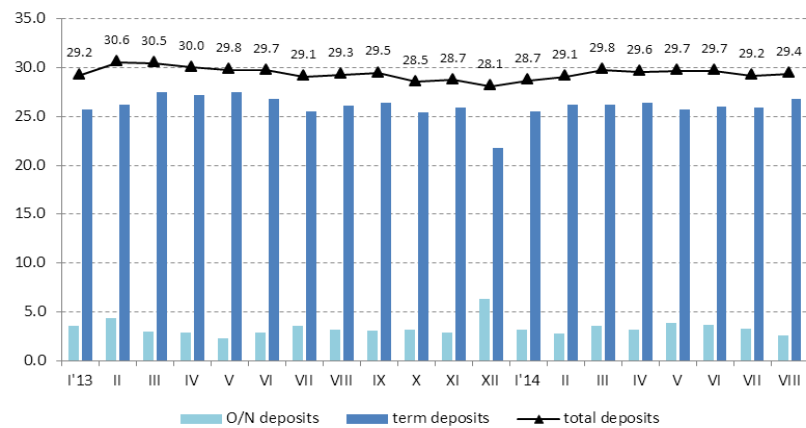
- T-retail bonds: PLN 1.6bn,
- bonds and loans incurred on foreign markets: PLN 4.2bn.



Consolidation of public finances liquidity management

PLN bn

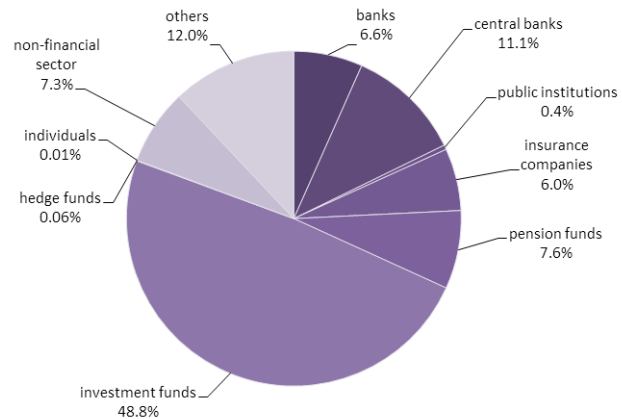
As a result of consolidation of public finances liquidity management there were PLN 29.4bn funds accumulated at the end of August, of which PLN 26.8bn was as term deposits and PLN 2.6bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

as of July 31, 2014, excluding omnibus accounts

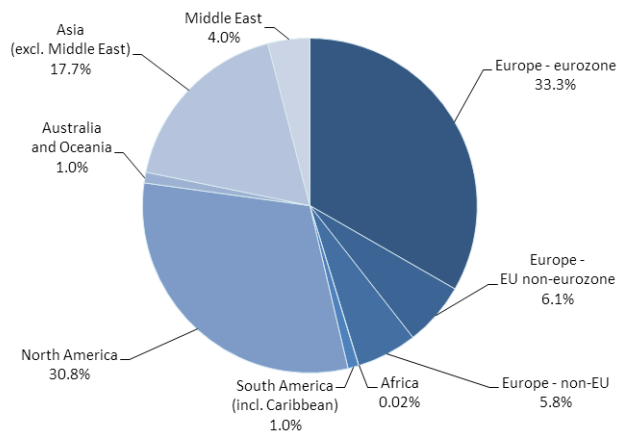
The share of non-residents in the domestic Treasury securities market amounted to 41.9% and was dominated by stable, long-term investors, including central banks.



Geographical distribution of domestic Treasury securities held by non-residents

as of July 31, 2014, excluding omnibus accounts

Well diversified geographical structure, with highest share of accounts from US, Europe and Japan (detailed breakdown by country available on www.mf.gov.pl).





BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

MoF comment

Piotr Marczak , Director of the Public Debt Department, MoF
29-08-2014

Liquid funds in PLN and foreign currency increased to the level of ca. PLN 49bn in August.

In accordance with the quarterly plan, we are coming back in September to the domestic market with two T-bonds auctions – one sale auction and one switching auction. After decreases in yields to the historically low levels noted in August, substantial demand for T-bonds, medium-term particularly, was shown by investors. However, due to almost completely financed State budget borrowing requirements, we will reduce the supply at the regular sale auction and offer fixed and floating rate bonds of long-term maturities. Other selected bond types will be offered at the switch auction. That auction will finance the next year borrowing needs.

Due to the significant level of foreign currency funds, we will also hold a buy-back auction of USD-denominated bonds maturing in 2015. We would like to repurchase bonds worth about USD 300mio, which constitutes about 20% of the outstanding.

In July the foreign investors' holdings of POLGBs decreased by PLN 3.7bn which was the result of the redemption of maturing OK0714 series of PLN 4.6bn.

After substantial increases in non-residents' holdings in June, in July the highest decreases were recorded by entities from Austria (PLN-1.6bn) and USA (PLN-1.3bn). Increases, on the other hand, were noted mainly by Irish (PLN 0.5bn) and Japanese (PLN 0.4bn) investors. As for the institutional distribution, the greatest decreases were in investment funds' portfolios (PLN-3.8bn), non-financial sector (PLN-2.3bn) and banks' (PLN-1.8bn) portfolios. In contrast, the 'other' category recorded the highest increase (PLN 3.1bn).

In August foreign investors' portfolio is likely to decrease slightly.

Rating agencies' comments

S&P Research Update: Foreign Currency Ratings On Poland Affirmed At 'A-/A-2' On Steady Economic Growth; Outlook Stable
08-08-2014

We expect Poland to continue along its incremental path of balanced economic growth, sound macroeconomic management, stable public finances, and moderate external financing needs.

[...] the Polish economy benefits from a floating exchange rate regime and domestic capital markets that permit the government to finance itself in local currency at long-dated maturities.

[...] the pickup in absorption of EU funds in the new 2014-2020 budget cycle should lead to overall surpluses in the capital and financial accounts and an increase in foreign currency reserves.

[...] we could raise the ratings if we see a continued convergence in Polish income levels toward

FitchRatings: Sovereigns - Poland
08-08-2014

We project a mild acceleration in growth in 2015-2016, as economic performance in Poland's key EU trading partners improves and fiscal drag gradually recedes. Fitch's forecast implies a closing of the gap with 'A' peers on this metric.

The contribution of fixed investment to GDP turned positive in 1Q14 at 1.2pps after being zero in 2013. Construction output has rebounded after contracting severely in the quarters following the completion of large projects related to the Euro 2012 football championship, and industrial output took advantage of the recovery in Poland's key EU trading partners.

Stronger economic growth, increased flows to the budget from the reduction of the open pension funds (OFEs), and some further structural consolidation should allow the general government deficit (GGD) to fall to 3.2%-3.3% of GDP in 2014 (net of the one-off OFE transfer). Fitch projects GGDs of 2.8% and 2.6% of GDP in 2015 and 2016.

Fitch forecasts that Poland's net external debt ratios will continue to decline gradually in 2014-2016.

A credible monetary and exchange rate regime (free float), a lack of significant macroeconomic imbalances, and a USD34bn flexible credit line with the IMF underpin access to financial



Rating agencies' comments

markets on favourable terms. A relatively diversified non-resident (NR) investor base mitigates risks stemming from the increase in the share of government securities accruing to NR investors following the OFE transfer.

In Fitch's opinion the Polish banking system continues to represent a rating strength. The sector is well capitalised, liquid and profitable, and private-sector credit was growing by around 6% year on year (11% zloty denominated) in May 2014, providing a measure of support to household consumption.

Sustainable convergence of incomes towards EU and category medians could lead to a positive rating action, as could greater confidence that a track record of low budget deficits is being established.

As in previous years, public debt managers have been meeting fiscal financing needs proactively. The 2014 gross public borrowing requirement had been met at end-July.

R&I News Release: R&I Affirms A-/A, Stable: Republic of Poland

25-08-2014

The weight of domestic demand is high, and its economy is relatively solid.

[...] supported by private consumption and investment, economic growth in 2014 is expected to be about 3%. In the EU's multiannual financial framework from 2014 to 2020, a higher-than-previous amount of funds is allocated to Poland. Therefore, investment after 2015 is expected to grow, primarily in the public sector. Led by domestic demand, its economy is projected to continue growing at a high pace of 3-4%.

R&I sees a low possibility of debt increase.

[...] no concern about external liquidity. This is because its foreign reserves are ample and exceed the aggregate amount of the short-term foreign debt to be redeemed within one year and the current account deficit.