



Ministry
of Finance

Republic
of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

4th quarter 2014

October 2014

THE MOST IMPORTANT INFORMATION

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SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2014

General assumptions

- Two bond sale auctions and, depending on the market situation, three switch auctions are planned.
- Offer of T-bonds on the domestic market will depend on the market situation and consultations with investors.
- T-bill auctions are not planned.
- Possible bond issuance on the international market in case of change in market conditions which would justify an increase in the level of prefinancing of 2015 borrowing requirement in the current year.
- Announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

Sale auctions

- Two auctions (October, November), total supply PLN 8.0-12.0bn, the structure of offered T-bonds will be subject to the market situation.

Switch auctions

- Possible three auctions (October, November, December), depending on the market situation; securities offered to repurchase would be T-bonds maturing in the period January-July 2015.

Foreign financing

- Loans from International Financial Institutions of EUR 0.6-0.9bn.
- Possible issuances of bonds on the international markets in case of market conditions change, which would justify an increase in the level of prefinancing of 2015 borrowing requirement in the current year.

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
23 OCT 2014	27 OCT 2014	choice will depend on the market conditions, excluding bonds offered at the switch 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.

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
2 OCT 2014/ 6 OCT 2014	WZ0124 (1,904) DS0725 (1,543) WS0428 (296)	WZ0115 (1,358)	12,347
		PS0415 (2,285)	22,905
<i>Auction held.</i>			

Offer on retail market

T-bond	Issue price	Coupon
DOS1016	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.40%
TOZ1017	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.60% in the first coupon period
COI1018	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.80% in the first coupon period
EDO1024	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 3.30% in the first coupon period



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Gross borrowing requirements in 2014

State budget borrowing requirements for 2014 has been fully funded. We have started the prefinancing of next year borrowing needs.

Financing of the borrowing requirements in the period I-IX 2014 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 73.3bn,
- switch auctions: PLN 5.5bn,
- T-bonds buyback on foreign markets in 2013: PLN 2.3bn,
- T-bonds issuance on foreign markets: PLN 17.4bn,
- loans incurred from IFIs: PLN 5.9bn
- 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 October

as of September 30, 2014, PLN bn

As of September 30, 2014 flow of funds from State budget shall amount to PLN 7.9bn.

Flows of funds between the market and the budget*

as of September 30, 2014, PLN bn

As of September 30, 2014, to the end of the year the funds to be transferred to the market shall amount to PLN 7.9bn.

* 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.

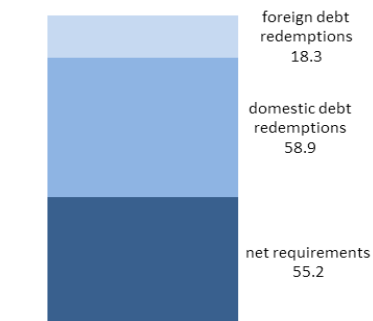
Funds in PLN and in foreign currency held by the MoF at the end of month

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

The funds ensure liquidity in borrowing needs financing.

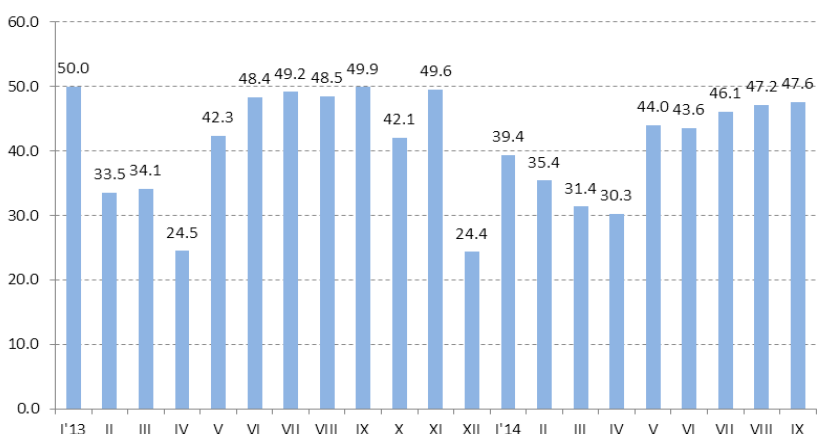
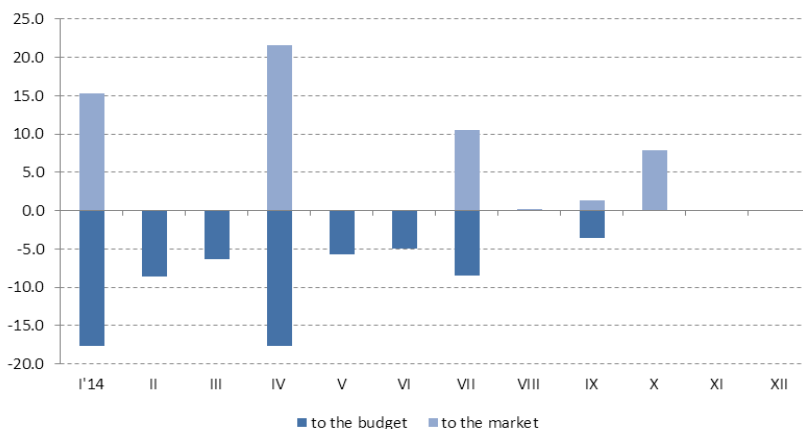
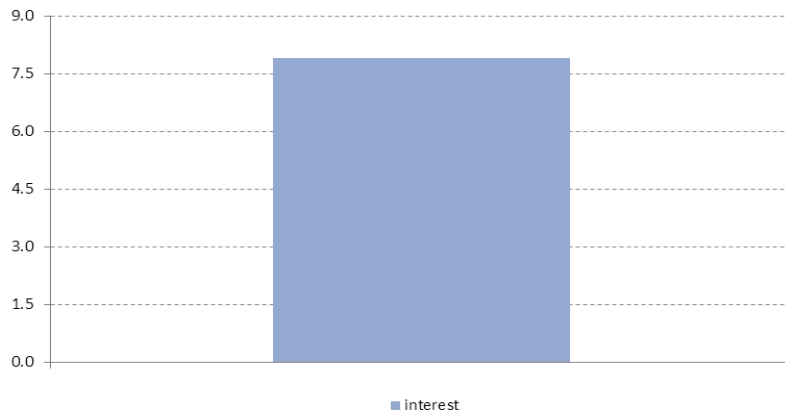
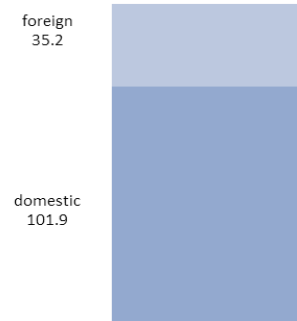
Gross borrowing requirements in 2014

Total: PLN 132.4bn, of which:



Financing in the period of I-IX

Total: PLN 137.1bn

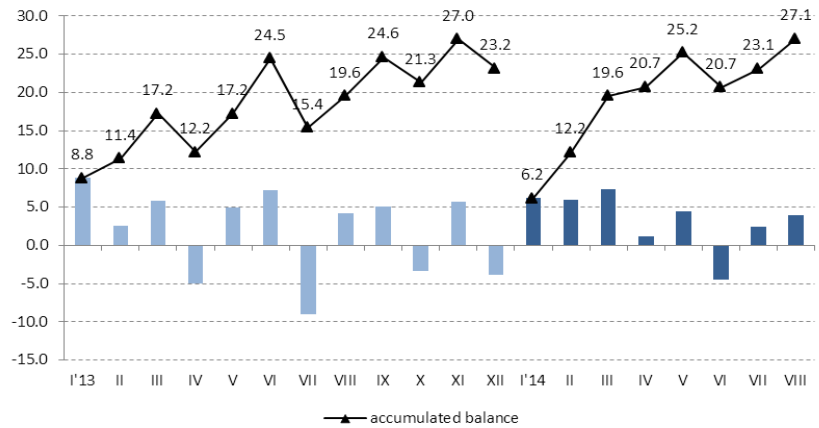




Change of debt in domestic Treasury securities held by banks

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

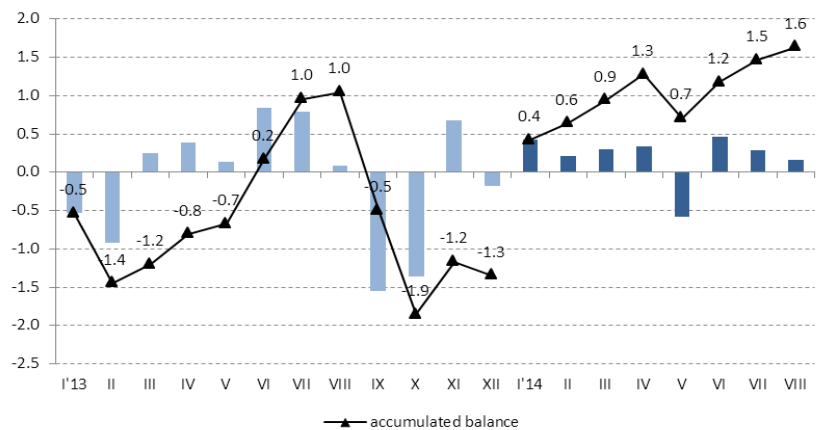
In the period of I-VIII 2014 debt held by domestic banks increased by PLN 27.1bn comparing to PLN 19.6bn increase during the same period of 2013.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

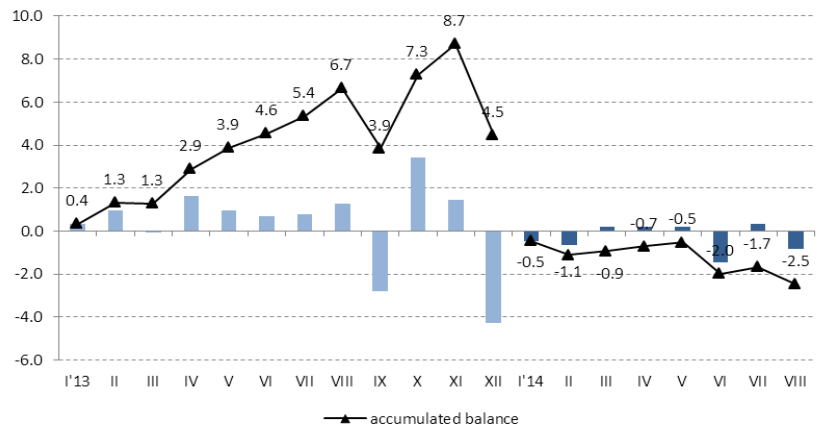
In the period of I-VIII 2014 there was an increase of PLN 1.6bn in debt held by insurance companies. During the same period of 2013 there was an increase of PLN 1.0bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

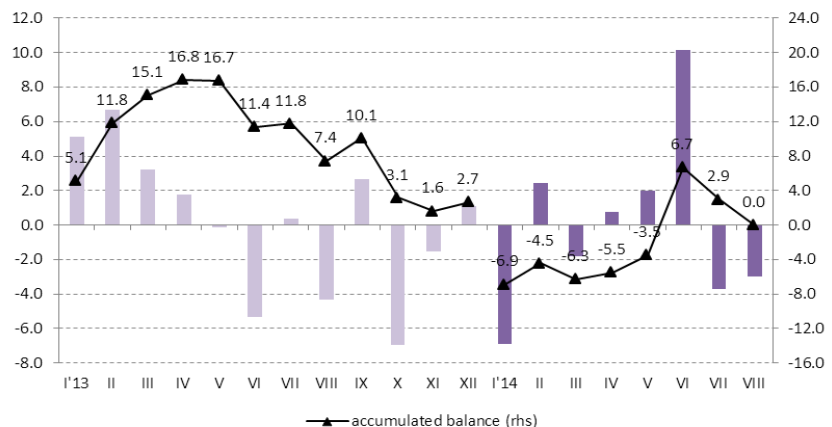
In the period of I-VIII 2014 there was a decrease of PLN 2.5bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 6.7bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-VIII 2014 foreign investors holdings did not change significantly while, in the same period of 2013, there was an inflow of PLN 7.4bn noted. Foreign investors' holdings reached the level of PLN of 193.1bn.



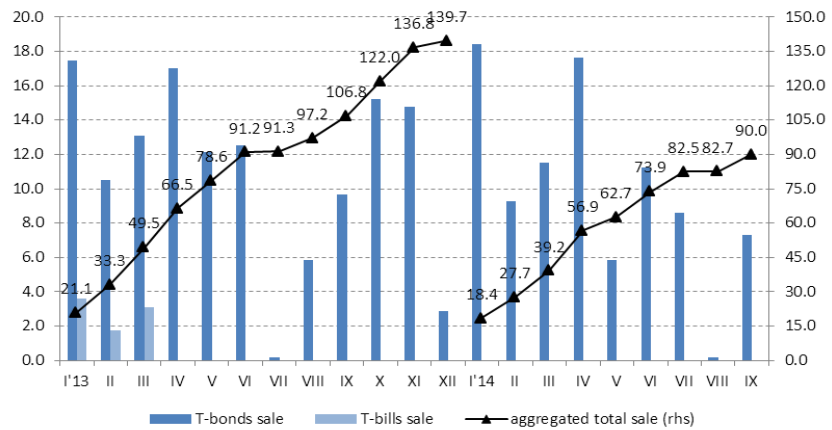


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

settlement date, nominal amount, PLN bn

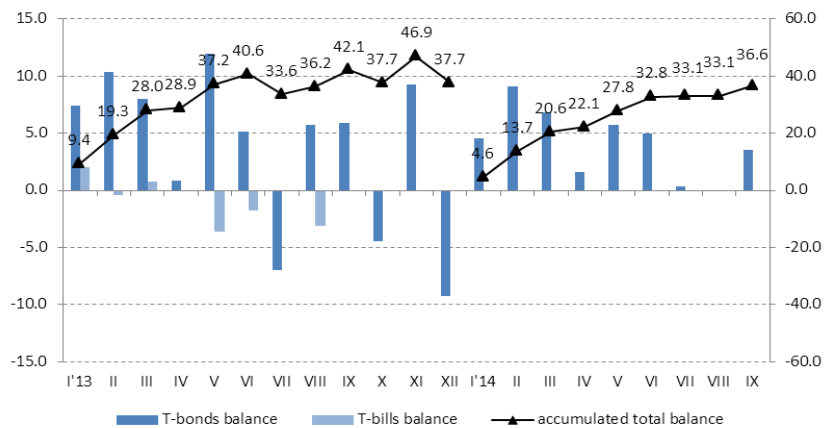
Since April 2013 T-bills have not been offered.



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

settlement date, nominal amount, PLN bn

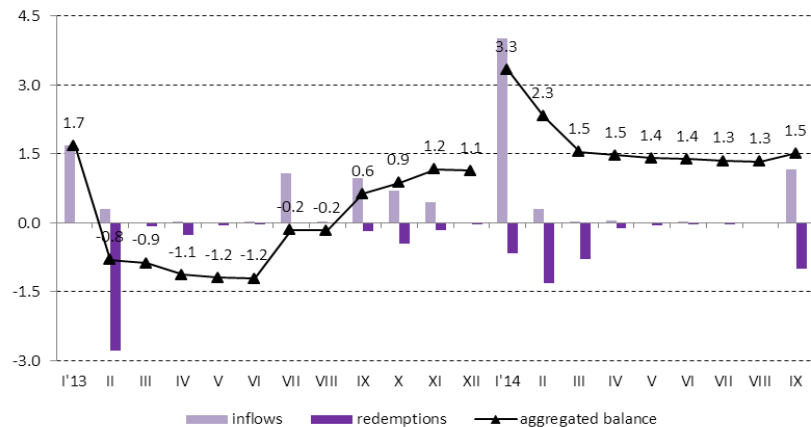
In the period of I-IX 2014 indebtedness in T-bonds increased by PLN 36.6bn.



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

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

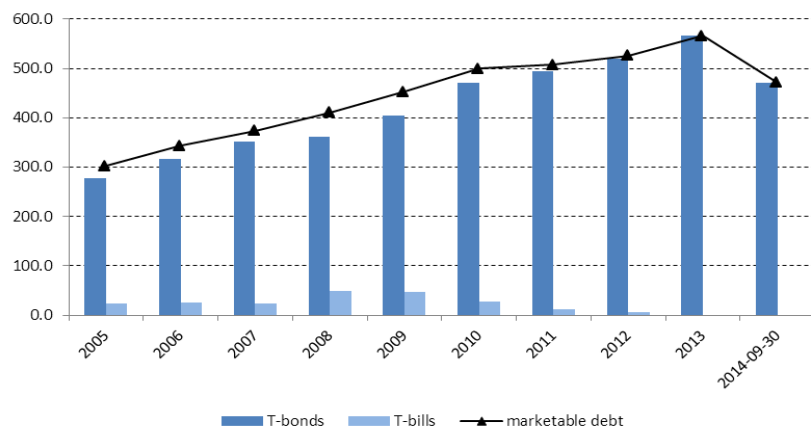
Net financing on foreign markets (bonds issuance and loans from IFIs) in the period of I-IX 2014 amounted to EUR 1.5bn. T-bonds issuance was EUR 4.2bn. Loans incurred from IFIs were at the level of EUR 1.4bn. Apart from those, EUR 3.0bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2013.



Structure of marketable debt

PLN bn

At the end of September 2014 the marketable domestic debt amounted to PLN 471.6bn comparing to PLN 565.7bn at the end of 2013.

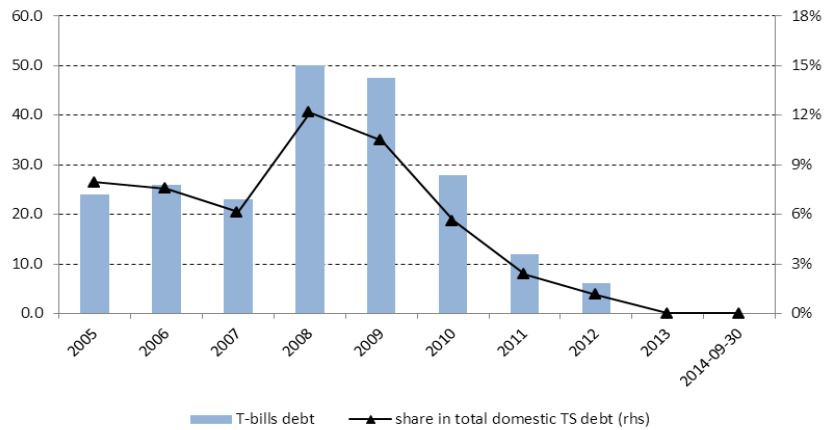




T-bills outstanding

PLN bn

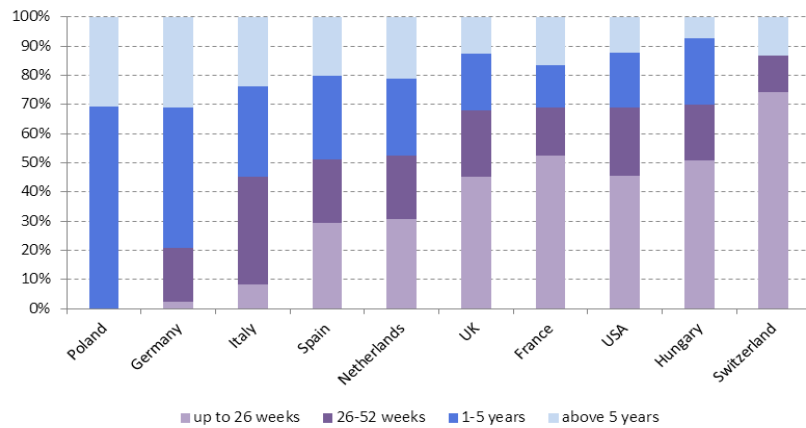
Since August 2013 there has been no T-bills outstanding.



Maturity breakdown of T-securities in Poland and other countries

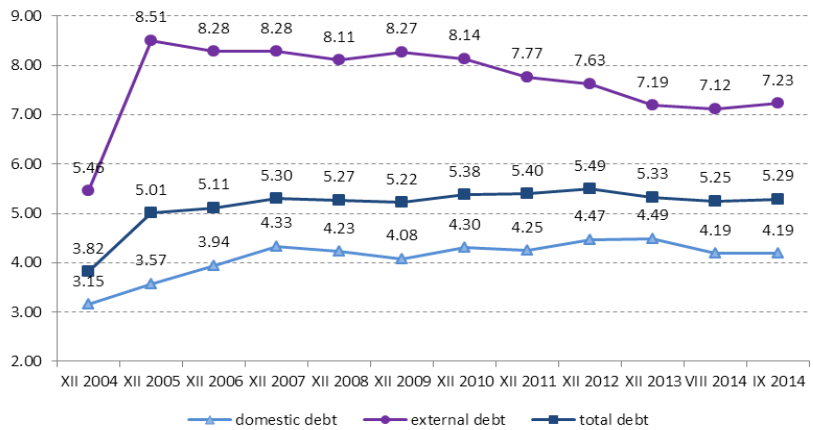
auctions and syndicates, local currency, ytd in the period of 1 January - 30 September 2014

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



Average maturity

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

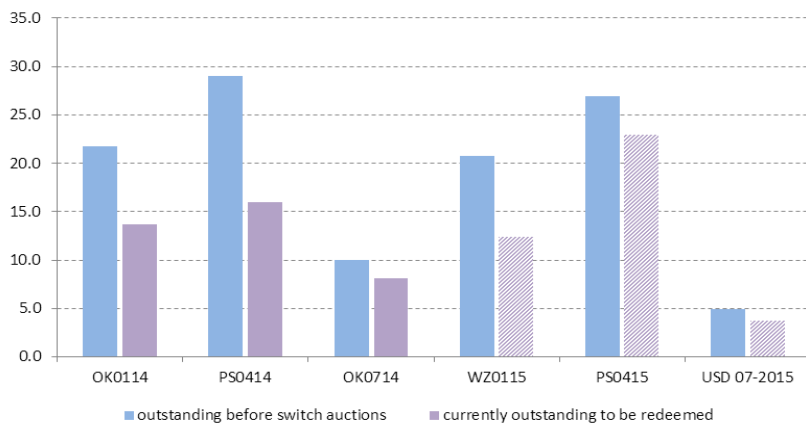


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014 and 2015

nominal amount, as of October 2, 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 1.8bn (18%),
- WZ0115: PLN 8.4bn (41%),
- PS0415: PLN 4.0bn (15%)
- USD 07-2015: PLN 1.2bn (USD 0.4bn) (24%).

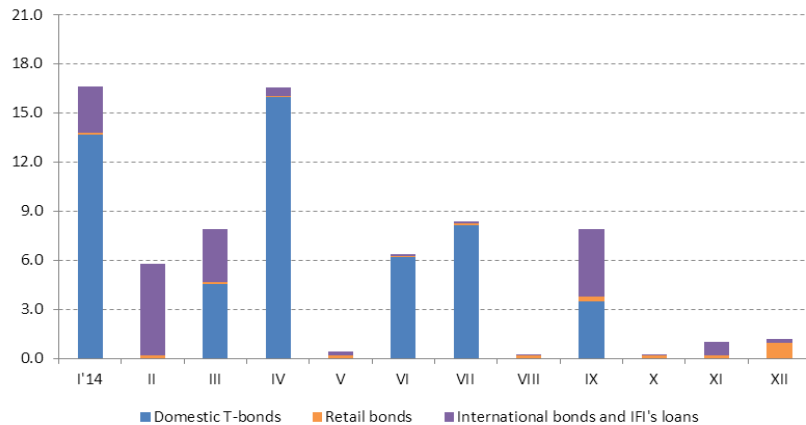


State Treasury debt redemptions in 2014

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

The nominal amount of debt to be redeemed in 2014 is equal to PLN 2.4bn, including:

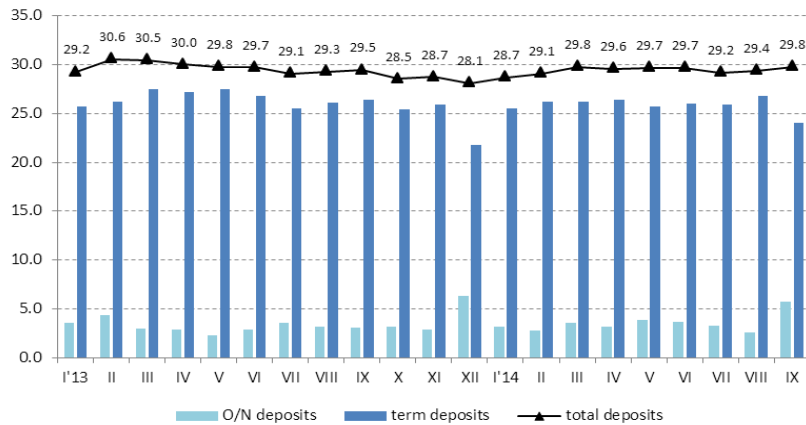
- T-retail bonds: PLN 1.3bn,
- bonds and loans incurred on foreign markets: PLN 1.1bn.



Consolidation of public finances liquidity management

PLN bn

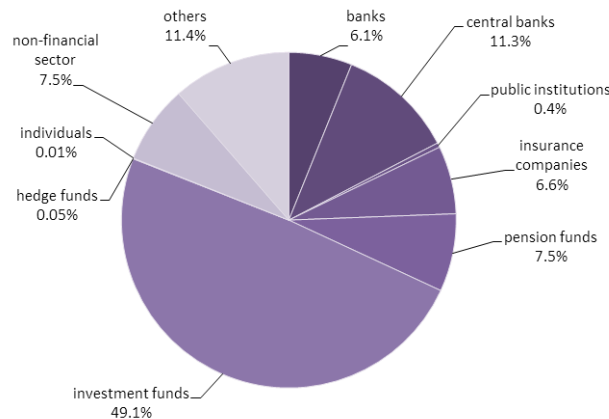
As a result of consolidation of public finances liquidity management there were PLN 29.8bn funds accumulated at the end of September, of which PLN 24.1bn was as term deposits and PLN 5.7bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

as of August 31, 2014, excluding omnibus accounts

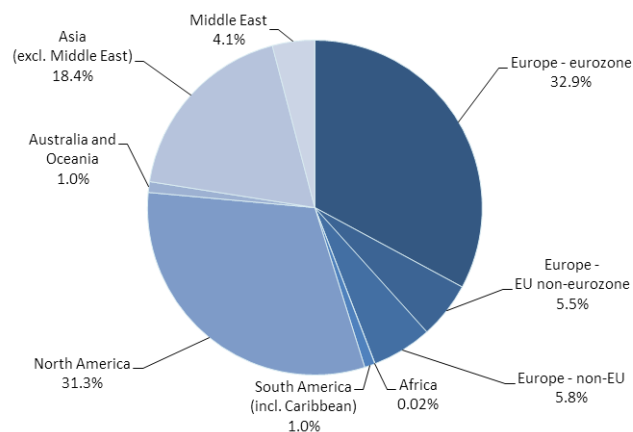
The share of non-residents in the domestic Treasury securities market amounted to 41.3% and was dominated by stable, long-term investors, including central banks.



Geographical distribution of domestic Treasury securities held by non-residents

as of August 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).



MoF comments

Dorota Podedworna-Tarnowska, Undersecretary of State, MoF

Interview of 24-09-2014

The Council of Ministers adopted "The Public Finance Sector Debt Management Strategy in the years 2015-2018" submitted by the Finance Minister along with the draft budget act.

In 2014 the public debt to GDP ratio is expected to decrease to the level of 47.7% from 53.9% at the end of 2013. The decrease will also be noted in nominal terms which is the result of the changes in the pension system, including T-bonds cancellation. Debt to GDP ratio will stabilize in 2015 and remain close to this year's level or only slightly higher. In the following years the trend will be decreasing and finally is estimated to achieve 44.5% in 2018.

The year 2015 is another year of quite a substantial drop in State Treasury debt servicing costs. In nominal terms by almost PLN 4bn and, in real terms, to 1.8% from 2.1% of GDP in 2014 and from 2.6% in 2013. The main reason for the decrease in costs is cancellation of T-bonds bought by the MoF from the Social Insurance Institution (ZUS), decline in the interest rates on the domestic market and international markets, as well as increase in the share of floating rate instruments in the debt. In subsequent years the cost to GDP ratio will further decrease.

The aim of the strategy, as it was in the strategy adopted last year, is to minimize the debt servicing costs over a longer time horizon subject to risk constraints.

The domestic market will remain the main source of financing the State budget borrowing requirements. The share of State Treasury debt denominated in foreign currencies will be reduced. We assume that within the Strategy time horizon the share may reach the target level, i.e. not higher than 30%.

>>> The Strategy available on www.mf.gov.pl (Polish language version only, English version to follow soon).

Piotr Marczak, Director of the Public Debt Department, MoF

30-09-2014

By the end of September the reserve of liquid funds in PLN and foreign currency will remain at the same level as in the previous month and amount to about PLN 47bn.

The substantial level of liquid funds and fully funded State budget borrowing requirements for 2014 let us continue in the 4th quarter the policy of reducing T-bonds supply at the regular auctions. In the 4th quarter we will hold only two regular auctions (in October and November) with the lowest supply on a quarterly basis this year - within the range of PLN 8-12bn.

In the 4th quarter our aim is to proceed with switch auctions (one per month). Regular sale auctions and switching auctions will prefinance next year borrowing requirements.

Possible issuance of T-bonds on foreign markets in the 4th quarter will be restricted to the situation in which changes in market conditions would justify higher prefinancing of next year borrowing needs. We plan to draw scheduled loans in the international financial institutions, the cost of which is significantly below the market levels.

In August the foreign investors' portfolio decreased by PLN 3.0bn. This was the result of a decrease in holdings of institutions registered on omnibus accounts (PLN-2.9bn), the 'other' category (PLN-1.0), banks (PLN-0.9bn) and an increase noted by insurance companies (PLN 0.9bn), non-financial entities (PLN 0.4bn), investment funds (PLN 0.4bn) and central banks (PLN 0.3bn).

In geographical structure the main changes were recorded in case of investors from UK (PLN-1.2bn), Japan (PLN +0.7bn) and USA (PLN +0.7bn).

In September T-bonds held by foreign investors increased significantly.

Information about the Agreement between the Minister of Finance and the Minister of Treasury on the cooperation on mandating financial services related to offering financial instruments by the State Treasury

01-10-2014

The Minister of Finance and the Minister of Treasury have signed an agreement on the cooperation on mandating financial services related to offering financial instruments by the State Treasury.

Rating agencies' comments

Under the agreement the Minister of Treasury, when mandating financial services related to selling shares of public companies owned by the State Treasury or concluding other transactions on financial instruments, will take into consideration the current ranking of Treasury Securities Dealers.

Simultaneously, the Minister of Finance, when mandating financial services related to placing Treasury Securities on foreign markets, agrees to take into consideration the current assessment of the entities acting on the Polish capital market prepared by the Minister of Treasury.

The aim of the agreement is to develop Polish capital market by supporting the activity of financial institutions cooperating with the ministries on both debt and equity markets.

Until now each ministry has been choosing financial intermediaries on the basis of the sets of criteria that applied only to the scope of the activities of the particular ministry. According to the agreement the Ministry of Finance, when choosing intermediaries will take into account their commitment to the development of Polish capital market, and the Ministry of Treasury – their activity on Treasury Securities market. Consolidated approach of both ministries will provide incentives for financial institutions to expand their activities in Poland.

Moody's, Poland: A Regional Safe Haven, But Challenges Lie Ahead

30-09-2014

Over the past decade, Poland has become a "regional safe haven" in Central and Eastern Europe (CEE) for domestic and international investors as a result of the country's stable and resilient economic performance as well as its sound and predictable policy framework.

Indeed, Poland was largely unscathed by the global financial crisis and the euro area sovereign debt crisis, registering only a relatively slight dip in real expansion to 1.6% in 2009, at a time when its CEE peers were posting double-digit negative rates.

(...) Between 2004 and 2013, Poland registered both the lowest volatility in real GDP growth and the lowest volatility in inflation compared with other CEE countries, and recorded a sustained 4.1% average growth rate over the period.

(...) Over this period, Poland's implementation of inflation-targeting measures and the central bank's credibility bolstered the country's macroeconomic stability. A further supporting factor was the EU funding towards large infrastructural projects, both before and after the global crisis. This in turn allowed the country to attain the levels of institutional enhancement that were a prerequisite for EU membership, which has since provided access to further technical and financial assistance.

In addition, thanks to the proven stability of the economic and institutional environment, characterized by above-average governance indicators and encouraging results in terms of macroeconomic stability, the Polish government secured a Flexible Credit Line (FCL) from the IMF in 2009 and an extension in 2013. The FCL further boosted investor confidence in Polish securities and, along with the flexible exchange rate, acted as a buffer against external liquidity shocks, even at the height of the euro area sovereign debt crisis.

(...) non-resident holdings of Polish local treasuries started drifting upwards just after the FCL was granted by the IMF in May 2009. Although the progressive easing of external financing needs and the rise in foreign reserves were already contributing to the reduction of external vulnerability, the FCL significantly improved Poland's ability to absorb shocks and supports its safe haven status in the CEE.

S&P: Poland on right path to higher rating

Interview with Kai Stukenbrock, analyst at Standard & Poor's

30-09-2014

If we continue to see solid growth which continues to raise the GDP per capita income in Poland, at some point it will lead us to assign a higher outlook and eventually raise the rating.

(...) Whether that (raising the outlook) would happen next year or the year after, we will have to see.

(...) We are close to the threshold [GDP per capita of USD 16,000] and if we see ongoing momentum towards crossing the threshold, this would eventually lead us to change to outlook and later the rating, all things staying equal of course.