

State budget borrowing requirements' financing plan and its background

December 2014

THE MOST IMPORTANT INFORMATION

• Monthly issuance calendar for December 2014	2
• General issuance calendar for 2015	3
• MoF comment	9
• Rating agency's comment.....	9



SUPPLY PLAN OF TREASURY SECURITIES IN DECEMBER 2014

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
4 DEC 2014/ 8 DEC 2014	choice will depend on the market conditions	WZ0115	6,441
		PS0415	21,805
		OK0715	10,230

Offer on retail market

T-bond	Issue price	Coupon
KOS0216	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 0.40%, from 1st to 3rd month, 1.40%, from 4th to 13th month, 14.14% in the 14th month
DOS1216	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.20%
TOZ1217	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.40% in the first coupon period
COI1218	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.60% in the first coupon period
EDO1224	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 3.00% in the first coupon period



Treasury bonds issuance calendar

1. The issuance plan for 2015 assumes to hold two T-bond sale auctions per month, with the exception of August and December when only one auction is planned.
2. Subject to the market situation it is possible to hold the T-bond switching auctions. They will be held on different dates than the sale auctions or instead one of these auctions.
3. In a given month the same T-bond type will be offered only at one auction.
4. The T-bond auctions are scheduled for Thursdays.
5. The settlement dates for the T-bond sale auctions and the T-bond switching auctions will be set using T+2 convention.
6. The T-bonds issuance calendar for 2015, taking into account the assumptions above, is as follows:

	Day of the month	
	T-bonds issuance calendar	
	1 auction	2 auction
I	15	22
II	5	12
III	12	26
IV	9	23
V	7	21
VI	11	25
VII	9	23
VIII	6	
IX	10	24
X	8	22
XI	5	19
XII	10	

7. Modifications to the presented calendar, in particular cancellation of auctions, are possible subject to the market situation. Detailed information will be presented in the quarterly and monthly issuance plans.

Treasury bills issuance calendar

1. The issuance of the T-bills will be held as a part of the management of the State budget liquidity reserves. It will mean a possibility to offer the T-bills with any maturities of up to one year, in particular the T-bills sold and redeemed in the same year.
2. The T-bill auctions will be held irregularly depending on the needs (they can be held on any day of the week).
3. The settlement dates for the T-bill auctions will be set using T+2 convention.
4. Detailed information on the T-bill auctions will be presented in the monthly issuance plans.



BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

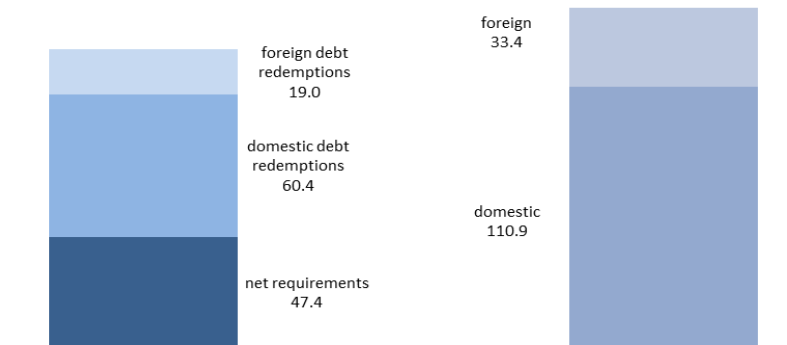
Gross borrowing requirements in 2014

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-XI 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 84.3bn,
- 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 8.3bn
- and higher than planned financial resources at the end of 2013: PLN 9.8bn.

Gross borrowing requirements in 2014*

Total: PLN 126.8bn, of which:



* Expected execution acc. to the draft Budget Act for 2015

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

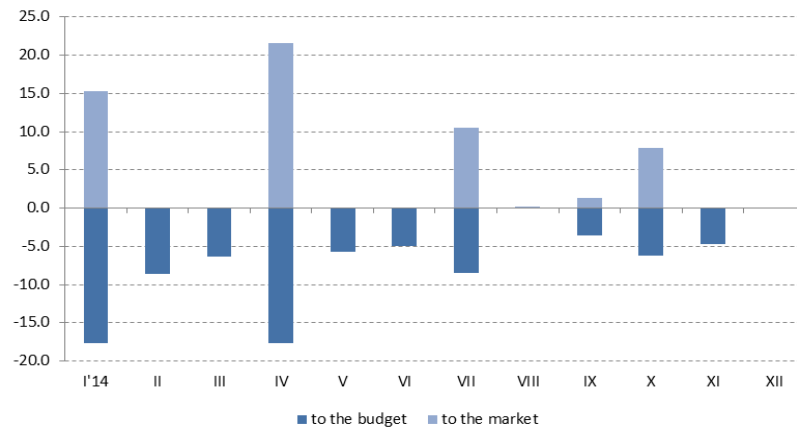
In December there will be no funds transferred from State budget to the market related to T-securities (no TS redemptions, neither interest payments).

Flows of funds between the market and the budget*

as of November 30, 2014, PLN bn

There will be no funds, linked to redemptions and interest payments, transferred to the market by the end of this year.

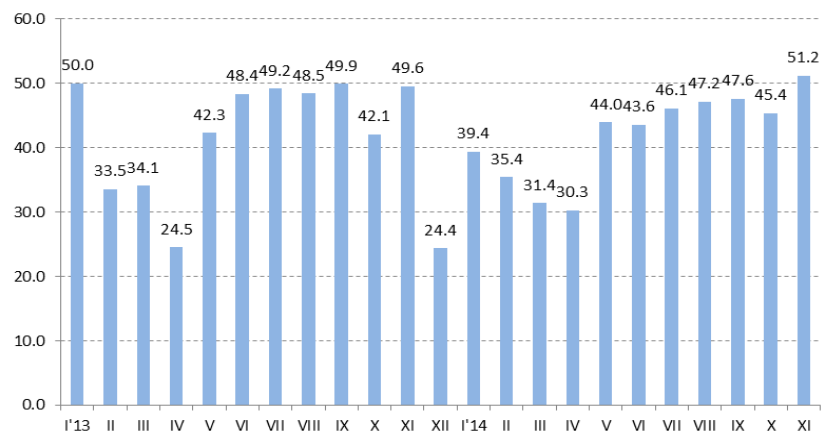
* figures include sale, redemptions and interest payments on wholesale bonds; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



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

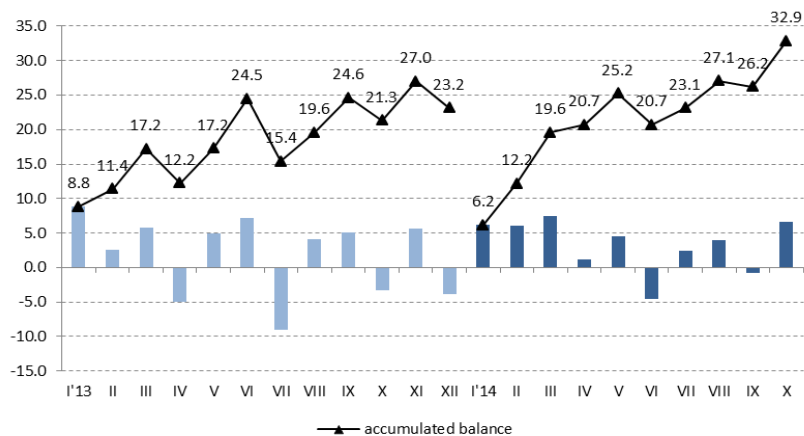
The funds ensure liquidity in borrowing needs financing.





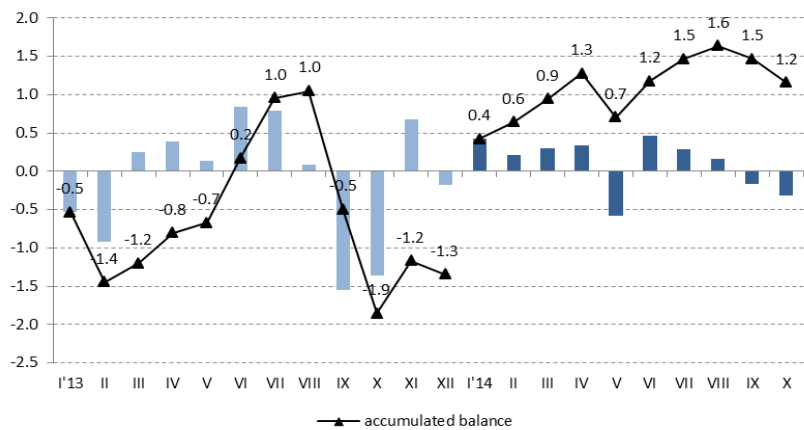
Change of debt in domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-X 2014 debt held by domestic banks increased by PLN 32.9bn comparing to PLN 21.3bn increase during the same period of 2013.



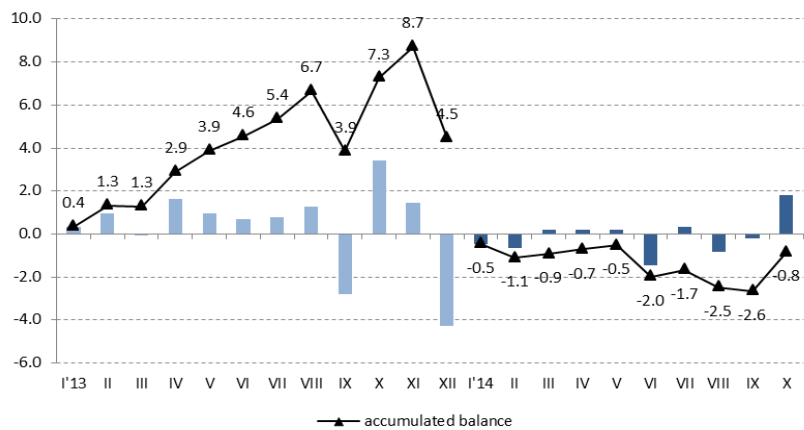
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In the period of I-X 2014 there was an increase of PLN 1.2bn in debt held by insurance companies. During the same period of 2013 there was a decrease of PLN 1.9bn.



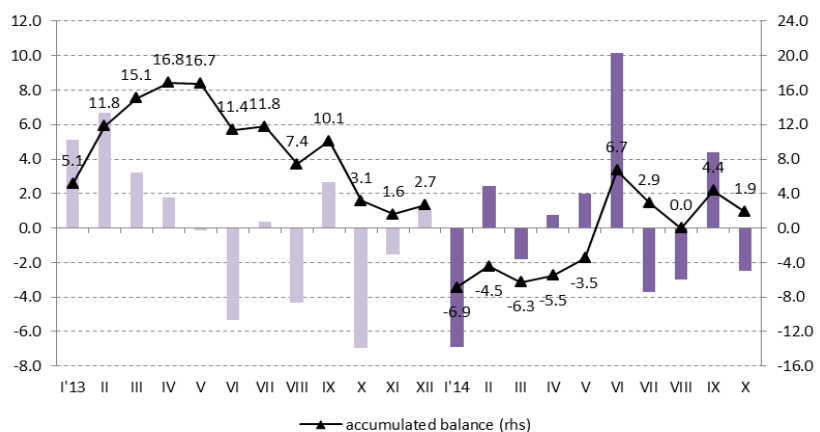
Change of debt in domestic Treasury securities held by investment funds PLN bn

In the period of I-X 2014 there was a decrease of PLN 0.8bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 7.3bn.



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

In the period of I-X 2014 inflow of foreign capital to the domestic TS market amounted to PLN 1.9bn comparing to inflow of PLN 3.1bn in the same period of 2013. Foreign investors' holdings reached the level of PLN 195.1bn.



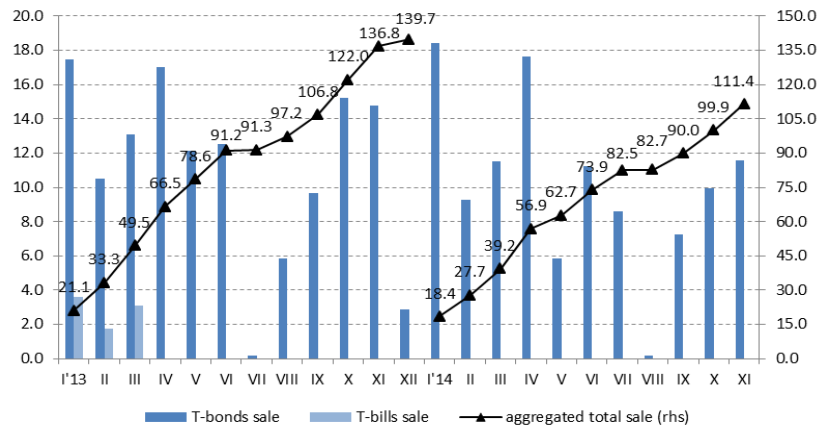


BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

settlement date, nominal amount, PLN bn

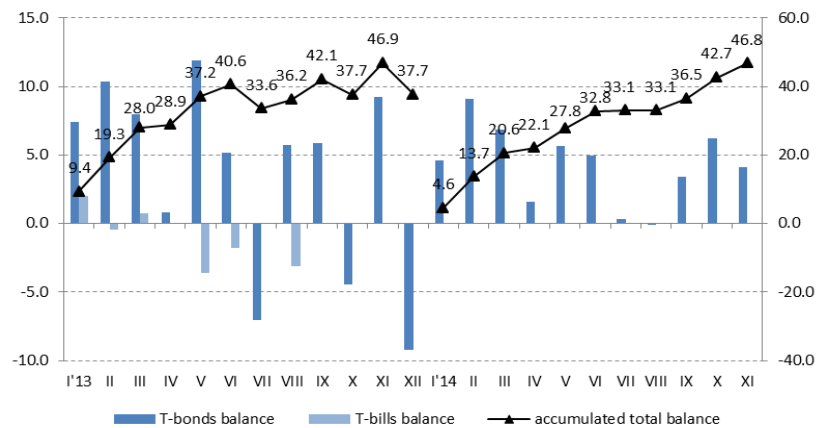
Since April 2013 T-bills have not been offered.



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

settlement date, nominal amount, PLN bn

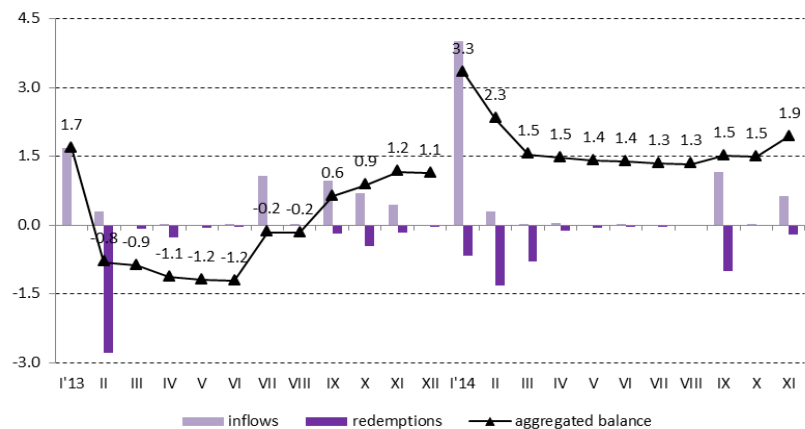
In the period of I-XI 2014 indebtedness in T-bonds increased by PLN 46.8bn.



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

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

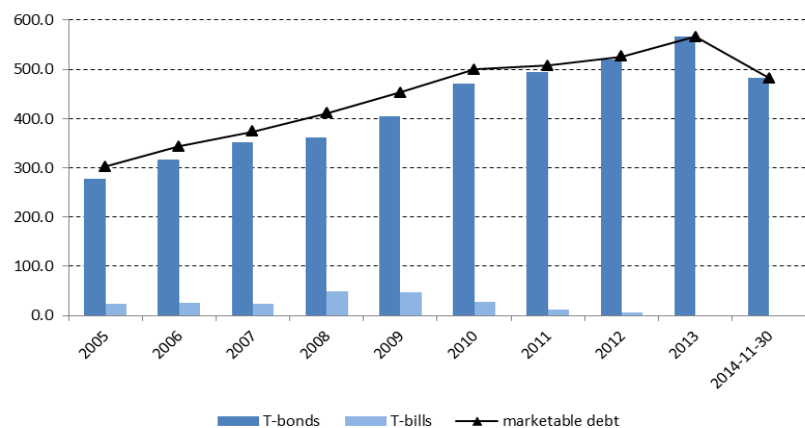
Net financing on foreign markets (bonds issuance and loans from IFIs) in the period of I-XI 2014 amounted to EUR 1.9bn. T-bonds issuance was EUR 4.2bn. Loans incurred from IFIs were at the level of EUR 2.0bn. Apart from those, EUR 3.0bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2013.



Structure of marketable debt

PLN bn

At the end of November 2014 the marketable domestic debt amounted to PLN 482.0bn comparing to PLN 565.7bn at the end of 2013.

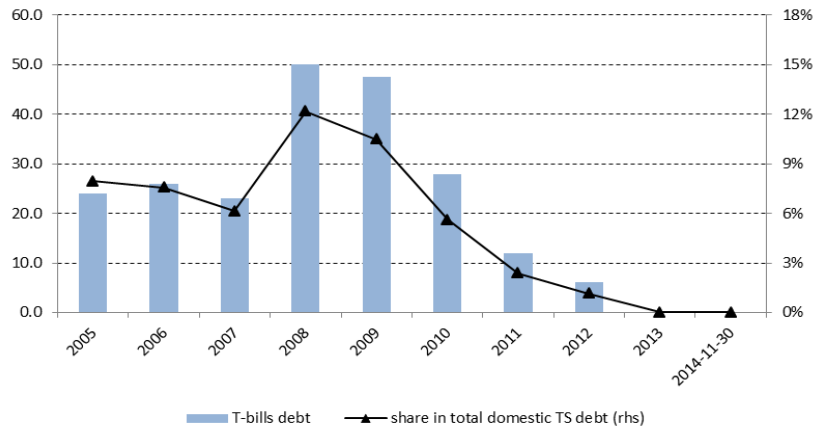




T-bills outstanding

PLN bn

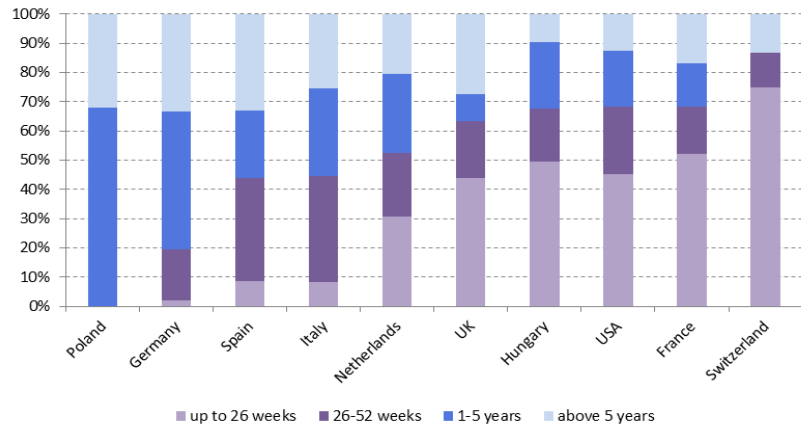
Since August 2013 there has been no T-bills outstanding.



Maturity breakdown of T-securities in Poland and other countries

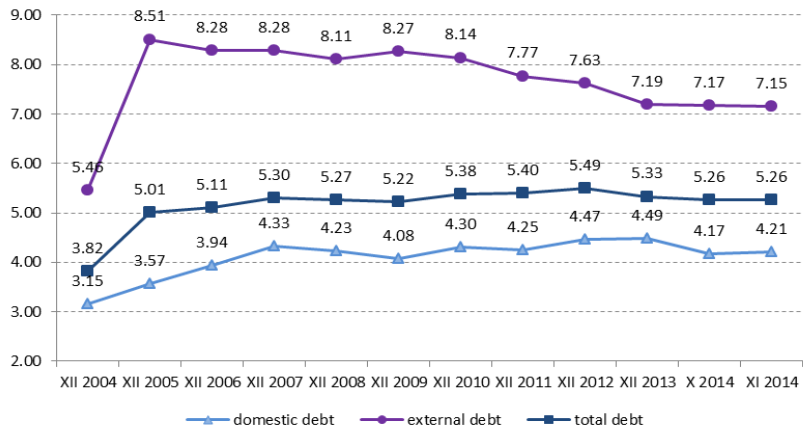
auctions and syndicates, local currency, ytd in the period of 1 January - 30 November 2014

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



Average maturity

At the end of November 2014 the average maturity of domestic debt decreased to 4.21 in comparison with the end-2013 figure (4.49).

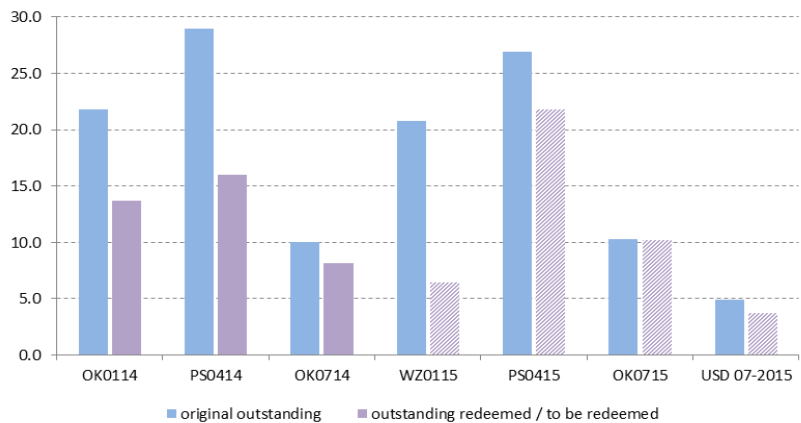


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2014 and 2015

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

Buy-back 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 14.3bn (69%),
- PS0415: PLN 5.1bn (19%),
- OK0715: PLN 0.1bn (1%),
- USD 07-2015: PLN 1.2bn (USD 0.4bn) (24%).

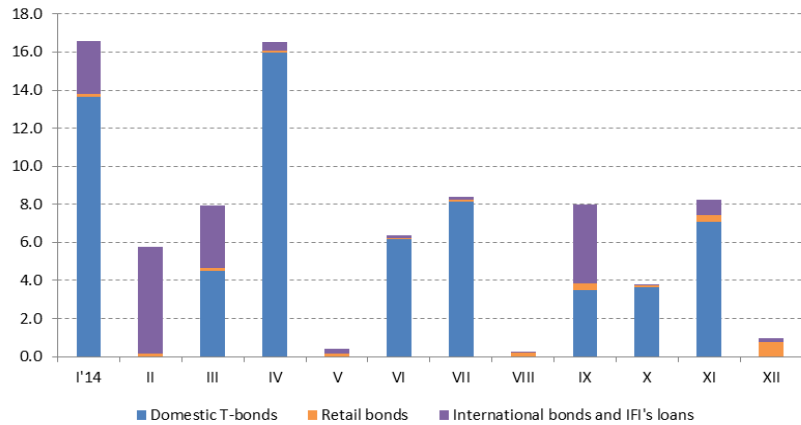


State Treasury debt redemptions in 2014

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

The nominal amount of debt to be redeemed in 2014 is equal to PLN 1.0bn, including:

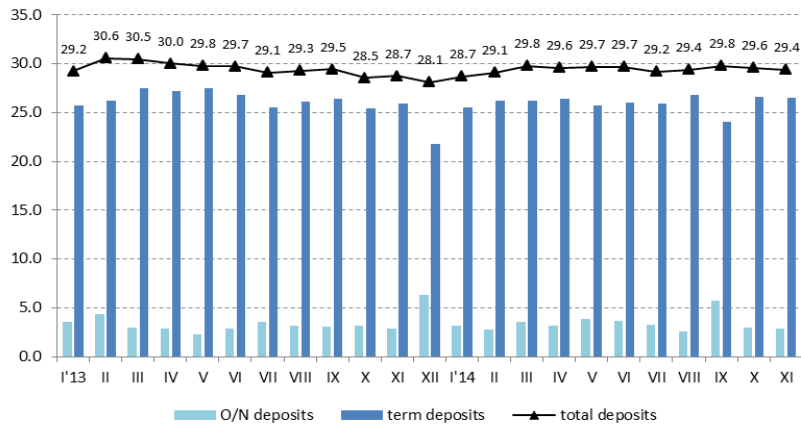
- T-retail bonds: PLN 0.8bn,
- bonds and loans incurred on foreign markets: PLN 0.2bn.



Consolidation of public finances liquidity management

PLN bn

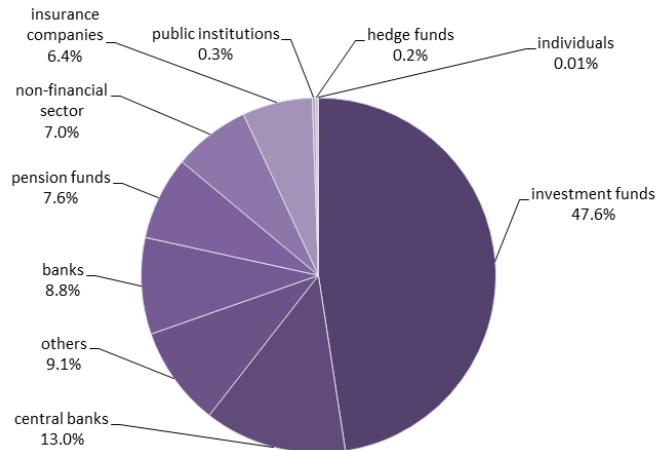
As a result of consolidation of public finances liquidity management there were PLN 29.4bn funds accumulated at the end of November, of which PLN 26.5bn was as term deposits and PLN 2.9bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

as of October 31, 2014, excluding omnibus accounts

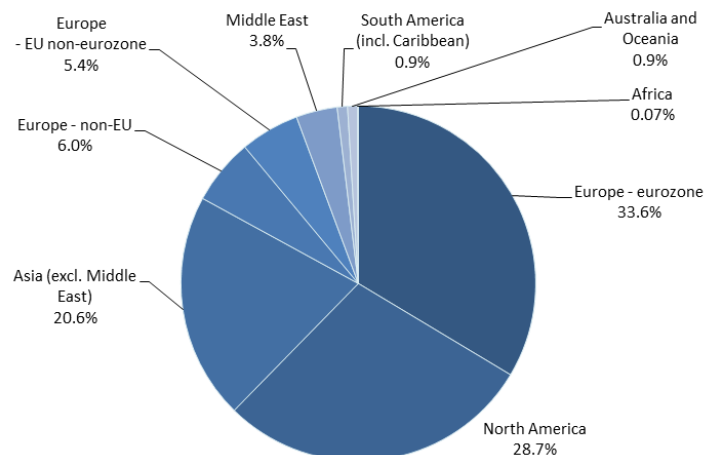
The share of non-residents in the domestic Treasury securities market amounted to 40.8% and was dominated by stable, long-term investors, including central banks. The latter's holdings increased by PLN 6.7bn in the period of IV-X.



Geographical distribution of domestic Treasury securities held by non-residents

as of October 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 comment

Piotr Marczak, Director of the Public Debt Department, MoF

28-11-2014

The reserve of liquid funds in PLN and foreign currencies rose to about PLN 51bn by the end of November. At the same time, the closest T-bonds redemption in January 2015 was reduced to PLN 6bn through switching auctions. This allows us to continue the policy of moderate supply of T-bonds also during the 1st quarter next year.

In accordance with the quarterly plan, in December we will hold a switching auction only, which will be a continuation of next year's State budget borrowing requirements prefinancing. The offer will be set on the coming Tuesday, following consultations with the market. The prefinancing level shall be equal or exceed 25% and its final amount will depend mainly on the State budget execution in December, inflow of foreign currency funds and sale results in the retail segment, including non-standard issuance of saving bonds in December (The December Fourteen, 14-month maturity).

In October foreign investors' portfolio decreased by PLN 2.5bn. The biggest drop was noted mainly by US investors (PLN-2.7bn), Luxembourg (PLN -1.2bn), Ireland (PLN -0.9bn) and Japan (PLN -0.8bn). The decrease was limited by the renewed increase in the involvement on the Polish market by central banks (PLN 1.8bn), in that from Asia (PLN 2.1bn).

In November, the dynamics of T-bond portfolio held by foreign investors stays slightly positive.

Rating agency's comment

Moody's, Credit Analysis: Poland

27-11-2014

Selected quotes:

- *Macroeconomic stability supported by strong and effective institutions, proven resilience in times of stress and sustainable growth prospects underpin Poland's A2 government bond rating. The government's fiscal commitment, coupled with favourable debt metrics, also drive Poland's relative creditworthiness.*
- *Despite challenges related to the heightened tensions between Russia and Ukraine and the slowdown in the euro area, Poland's economy will likely continue to recover in H2 2014 [...].*
- *[...] Poland's fiscal policies remain credible, supported by (1) the government's fiscal commitment; (2) technical assistance from the EU; (3) the fact that it is subject to the EU's excessive deficit procedure (EDP); and (3) its effective fiscal rules.*
- *Vulnerability to a sudden halt in portfolio investment inflows is limited, thanks to its Flexible Credit Line (FCL) from the IMF, while solid growth prospects for the next few years are likely to help the country attract foreign direct investment (FDI).*
- *Poland is one of the stronger performers in the European Commission's Fiscal Rule Index, outperforming peers and the EU (28) average, having adopted fiscal rules and complied with them since mid-1990s.*
- *Poland's expenditure rule covers more than 90% of the general government expenditures and is designed to define the stabilizing expenditure in accordance with the required procedure to reduce and stabilize the general government deficit.*
- *According to our baseline projections, the debt dynamics will prove resilient to a real GDP shock scenario [...].*
- *We assess Poland's government liquidity risk as 'very low'. This assessment is underpinned by the sovereign's relatively low (and declining) government financing needs and its very favourable debt maturity profile and affordability. Moreover, prudent liability management operations have led to lower financing costs that the authorities have sought to lock-in by focusing on issuance at the long end of the sovereign yield curve.*
- *The growing participation of foreign investors in the local government bond markets clearly highlights the confidence in Poland's status as a regional "safe haven" and also contributed to the yield compression that led to higher debt affordability.*