

State budget borrowing requirements' financing plan and its background

3rd quarter 2018

July 2018

THE MOST IMPORTANT INFORMATION

I. Current macroeconomic situation	2-3
II. Statistical data	4
III. Background of the borrowing requirements' financing	5-10
• MoF's comment	10
IV. Quarterly supply plan of Treasury securities	11
V. Monthly supply plan of Treasury securities	12

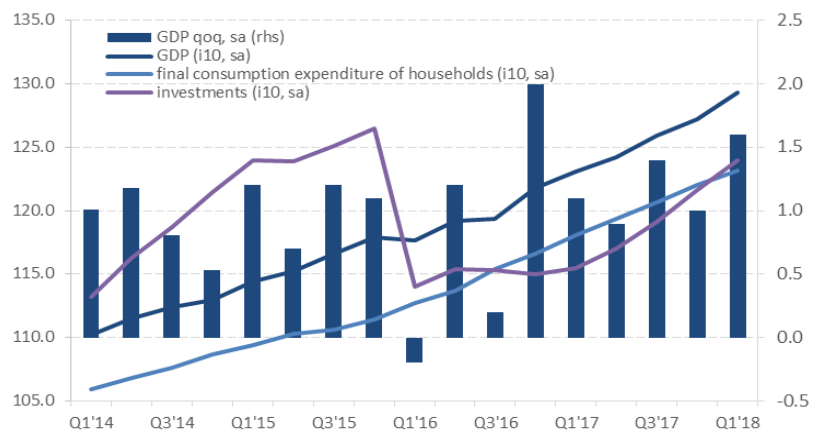


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

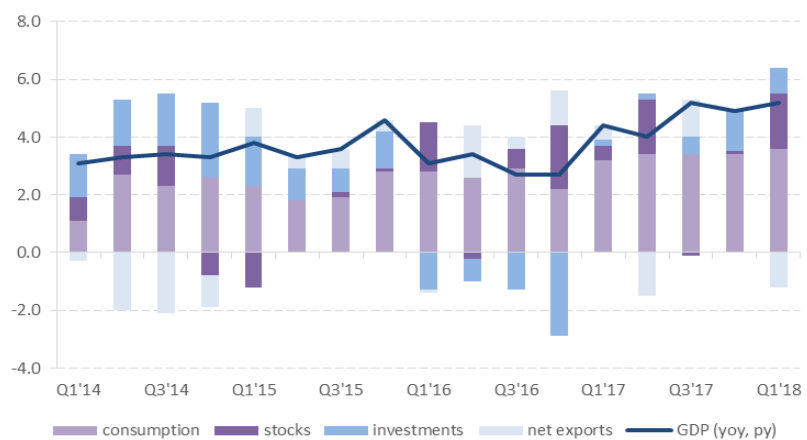
GDP growth in the first quarter of 2018 accelerated to 1.6% (qoq, sa) from 1.0% (qoq, sa) a quarter earlier. At the beginning of this year growth of households consumption (qoq, sa) remained close to the average of the last two years. Investments also continued their upward trend at the pace observed in the second half of 2017. Persistent increase in private consumption was a consequence of the positive labour market situation and robust sentiment of consumers.



Contributions to Polish GDP growth

pp, py - average prices of previous year
source: GUS, MoF own calculation

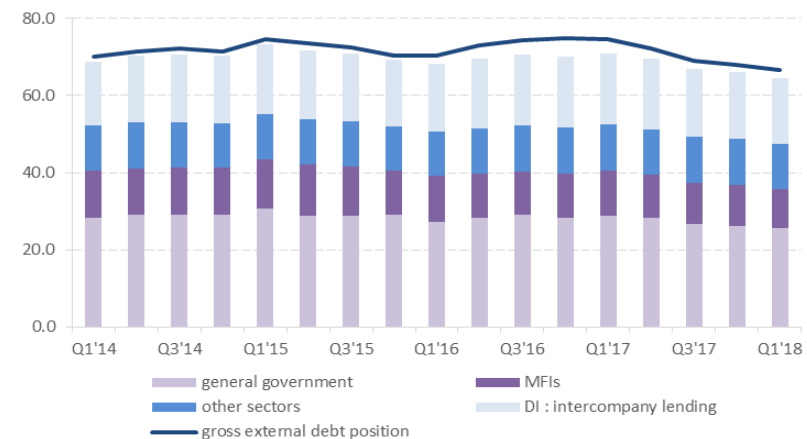
GDP in the first quarter of 2018 was 5.2% higher than a year ago as compared to 4.9% in the previous quarter. Domestic demand was the only source of GDP growth (on yoy basis), mainly on the back of households consumption (contribution of 3.0 pp) and increase in stocks (1.9 pp). On the other hand, net exports contribution to GDP growth was negative (1.2 pp). Investments were 8.1% higher than a year ago and the highest since the first quarter of 2015. This improvement was, to a large extent, an effect of higher investments dynamics of general government sector.



Polish gross external debt position

percent of GDP
source: NBP, GUS, MoF own calculation

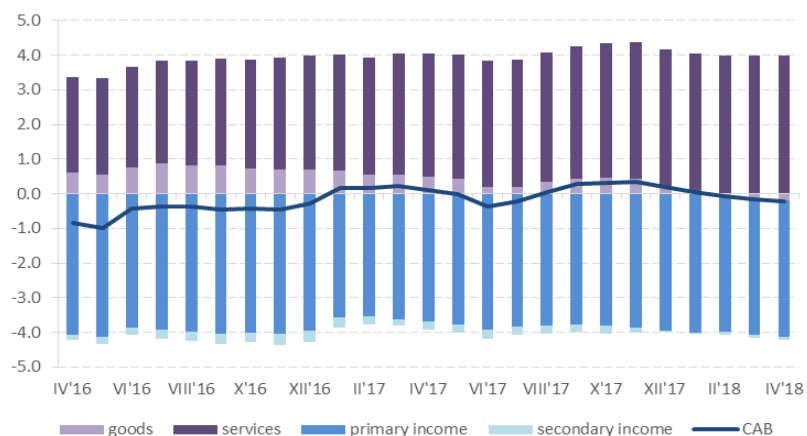
Gross external debt at the end of the first quarter of 2018 reached EUR 318.1bn (66.8% of GDP) and was EUR 1.3bn higher than in the previous quarter. The share of the general government sector debt in the total debt slightly decreased to 38.3%. At the end of April 2018 the official reserve assets reached ca. EUR 93.5bn and remained broadly adequate, covering nearly 5 months of imports.



Current account balance

percent of GDP, in 12-month terms
source: NBP, GUS, MoF own calculation

According to the preliminary data, current account balance was negative and amounted to 0.2% of GDP in April 2018 (in 12-month terms of GDP). Data were above market expectations. An inflow of long-term capital also continued, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on the capital account.

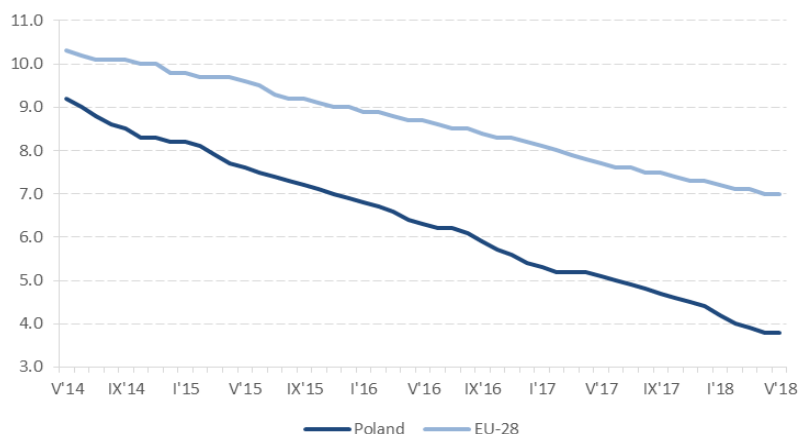




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend since the mid-2013. In May 2018 it amounted to 3.8% (versus 7.0% in EU on average) and was at the same level as a month before and 1.3 pp lower than a year earlier. In April and May 2018 the harmonised unemployment rate (sa) in Poland was the lowest in historical terms.



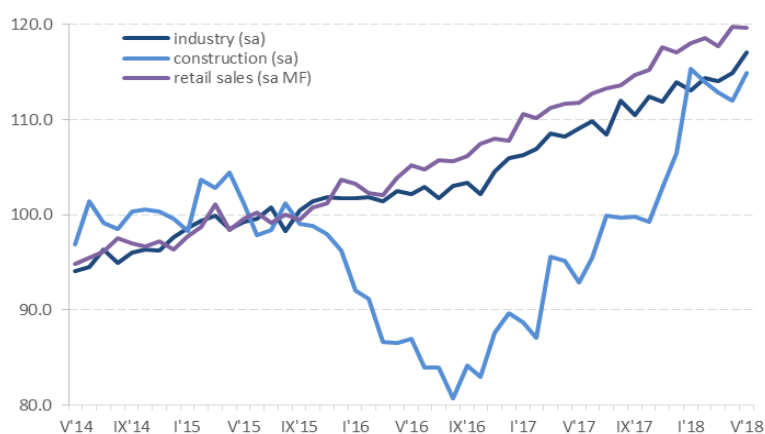
Monthly indicators of the real sector

sold production in constant prices, i15, seasonally adjusted data, source: GUS

Industrial output went up by 1.9% (mom, sa) in May 2018. As a result, production was 5.4% higher than a year ago (nsa). Data were better than market expectations.

Construction production, after three months of decline, increased by 2.6% (mom, sa). Production was 20.8% (nsa) higher than a year before. Data were above the MoF's expectations.

Real retail sales slightly decreased in May, following a high increase in the previous month (mom, sa MoF). Their level was 6.1% (nsa) higher than in the same month of 2017. Data were above market expectations.



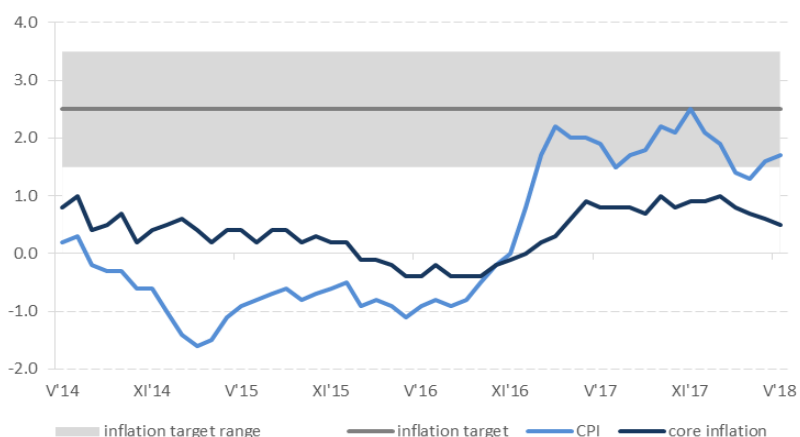
Inflation

percent, yoy
source: GUS, NBP

Consumer prices rose by 0.2% (mom) in May 2018. As a result, the annual rate of inflation reached 1.7% and exceeded the lower band of inflation target. Data were lower than market expectations.

Core inflation (CPI excluding food and energy prices) amounted to 0.5% yoy in May and has been within the range of 0.5%-1.0% for more than a year.

Producer prices increased by 1.1% (mom) in May and their level was 2.8% higher than a year ago.

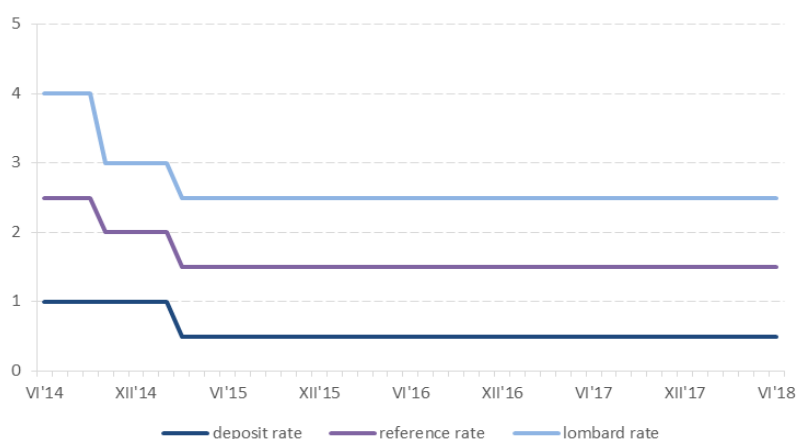


NBP interest rates

percent, end of period
source: NBP

The Monetary Policy Council kept NBP interest rates unchanged with the reference rate at 1.50% in June 2018. In the Council's assessment the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic balance.

The latest Reuters' poll median forecast (June, 5th) sees no NBP rate move till the end of the third quarter 2019.





II. STATISTICAL DATA

	Unit	2016 Q04	2017 Q01	Q02	Q03	Q04	2018 Q01
GDP¹⁾							
Gross domestic product	YoY	2.7	4.4	4.0	5.2	4.9	5.2
	QoQ SA	2.0	1.1	0.9	1.4	1.0	1.6
Final consumption expenditure of the households sector	YoY	4.7	4.5	4.9	4.7	5.0	4.8
	QoQ SA	1.1	1.2	1.1	1.1	1.1	1.0
Final consumption expenditure of the general government sector	YoY	-1.2	2.1	2.9	3.3	4.8	3.6
	QoQ SA	0.3	0.7	1.8	0.7	1.0	0.6
Gross fixed capital formation	YoY	-10.2	1.4	1.3	3.6	5.4	8.1
	QoQ SA	-0.3	0.4	1.3	1.8	2.1	2.0
Exports of goods and services	YoY	8.4	11.2	4.5	9.2	8.2	1.1
	QoQ SA	2.6	3.8	-0.3	2.2	1.0	-1.1
Imports of goods and services	YoY	6.2	11.1	8.0	7.0	8.9	3.5
	QoQ SA	1.1	3.3	1.9	1.1	1.7	-0.1
Gross value added	YoY	2.8	4.1	3.8	5.1	4.6	5.2
	QoQ SA	1.3	1.4	0.8	1.2	0.9	1.0
Contribution to GDP growth¹⁾							
Final consumption expenditure of the households sector	pp	2.3	2.9	2.9	2.8	2.5	3.0
Final consumption expenditure of the general government sector	pp	-0.2	0.4	0.5	0.6	0.9	0.6
Gross fixed capital formation	pp	-2.8	0.2	0.2	0.6	1.3	0.9
Changes in inventories	pp	2.1	0.5	1.9	-0.1	0.2	1.9
Balance of trade turnover	pp	1.2	0.5	-1.5	1.3	0.0	-1.2
Gross value added	pp	2.4	3.7	3.3	4.5	4.1	4.6
Taxes less subsidies	pp	0.2	0.8	0.7	0.8	0.8	0.6
GDP structure¹⁾							
Final consumption expenditure of the households sector	% of GDP	50.0	64.2	58.9	59.4	50.3	63.8
Final consumption expenditure of the general government sector	% of GDP	18.9	17.1	17.5	16.9	19.0	16.8
Gross fixed capital formation	% of GDP	24.3	11.8	16.2	16.9	24.4	12.2
Changes in inventories	% of GDP	2.6	1.7	2.4	1.3	2.4	3.3
Exports of goods and services	% of GDP	48.9	57.8	55.0	54.3	49.9	55.1
Imports of goods and services	% of GDP	45.4	53.3	50.8	49.6	46.6	51.9
Balance of payments							
	Unit	2017 M12	2018 M01	M02	M03	M04	M05
Goods: exports (EUR)	YoY	2.6	12.1	5.9	-1.6	8.6	-
Goods: imports (EUR)	YoY	10.9	16.7	8.1	1.4	9.9	-
Current account balance ²⁾	% of GDP	0.2	0.0	-0.1	-0.2	-0.2	-
Balance on goods ²⁾	% of GDP	0.2	0.0	0.0	-0.1	-0.2	-
Official Reserve Assets	EUR m	94 549.8	94 393.2	94 964.6	96 913.3	93 546.1	96 250.3
Inflation							
Consumer Price Index (CPI)	YoY	2.1	1.9	1.4	1.3	1.6	1.7
Core inflation (CPI excluding food and energy prices)	YoY	0.9	1.0	0.8	0.7	0.6	0.5
Producer Price Index (PPI)	YoY	0.3	0.2	-0.1	0.5	1.0	2.8
Production							
Sold production of industry ³⁾	YoY	2.8	8.7	7.3	1.6	9.3	5.4
	MoM SA	1.8	-0.6	1.1	-0.3	0.8	1.9
Construction and assembly production ³⁾	YoY	12.8	34.7	31.3	16.1	19.7	20.8
	MoM SA	3.6	8.4	-1.3	-0.9	-0.8	2.6
Manufacturing PMI	SA	55.0	54.6	53.7	53.7	53.9	53.3
Households and labour market							
Retail sales ³⁾	YoY	5.2	7.7	7.7	8.8	4.0	6.1
Average paid employment in enterprise sector	YoY	4.6	3.8	3.7	3.7	3.7	3.7
	MoM	0.2	2.0	0.2	0.1	0.1	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.1	5.3	5.4	5.4	6.1	5.2
	MoM	7.7	-8.0	0.4	6.3	-1.4	-3.2
Harmonised unemployment rate (Eurostat)	% SA	4.4	4.2	4.0	3.9	3.8	3.8
<small>1) Please note that quarterly data currently are not consistent with revised annual data 2) Data in 12-month terms 3) Constant prices. Data for units in which the number of employed persons exceeds 9 persons Source: GUS, NBP, Eurostat, IHS Markit, MoF calculation based on NBP, GUS data</small>							
State Treasury debt							
	Unit	2017 M11	2018 M12	M01	M02	M03	M04
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	935 006.5	928 473.0	934 690.1	952 017.4	958 125.6	948 740.0
Domestic debt	face value, PLN m	646 064.2	644 533.1	649 437.6	659 382.7	664 034.7	653 452.5
	%	69.1	69.4	69.5	69.3	69.3	68.9
Foreign debt	face value, PLN m	288 942.2	283 939.9	285 252.5	292 634.7	294 091.0	295 287.5
	%	30.9	30.6	30.5	30.7	30.7	31.1
Public debt (domestic definition)							
	Unit	2016 Q04	2017 Q01	Q02	Q03	Q04	2018 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	965 199.0	974 765.7	977 224.4	972 220.4	961 818.8	989 179.3
Domestic debt	face value, PLN m	630 171.6	657 497.0	666 497.6	659 494.8	662 534.9	679 814.5
	%	65.3	67.5	68.2	67.8	68.9	68.7
Foreign debt	face value, PLN m	335 027.4	317 268.6	310 726.7	312 725.6	299 283.9	309 364.9
	%	34.7	32.5	31.8	32.2	31.1	31.3
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 006 584.9	1 013 385.5	1 016 347.9	1 011 032.0	1 003 377.2	1 029 010.9

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



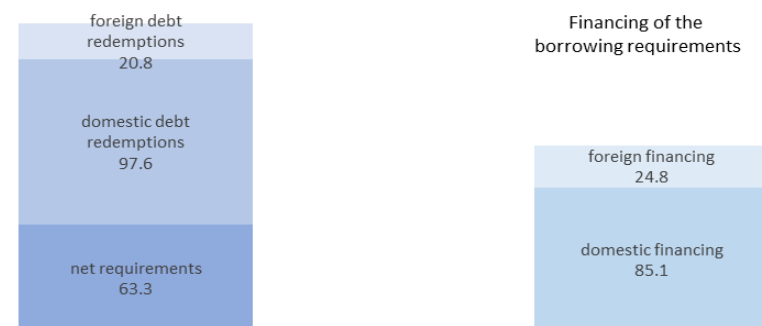
Gross borrowing requirements in 2018

as of June 30, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 60% was a result of:

- T-bond sale on the domestic market: PLN 36.2bn,
- switch auctions in 2018: PLN 14.4bn,
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions and buy-backs in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn.

Gross borrowing requirements
Total: PLN 181,7bn, of which:

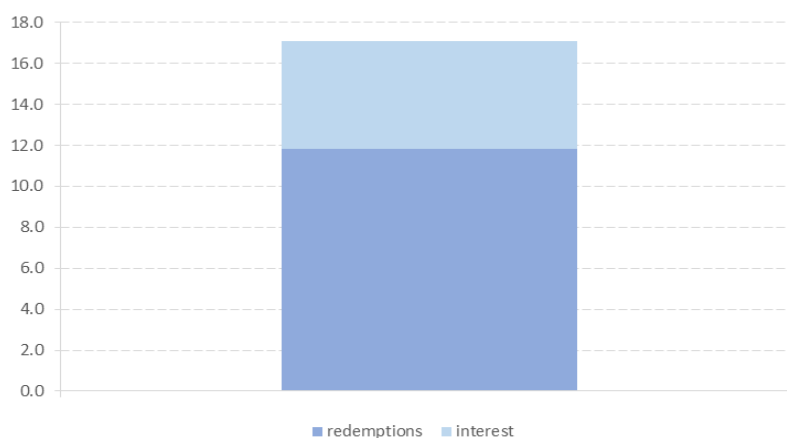


Outflows of funds related to domestic marketable T-securities transfers in July

as of June 30, 2018, PLN bn

Value of funds transferred from the State budget to the market in July shall amount to PLN 17.1bn, of which:

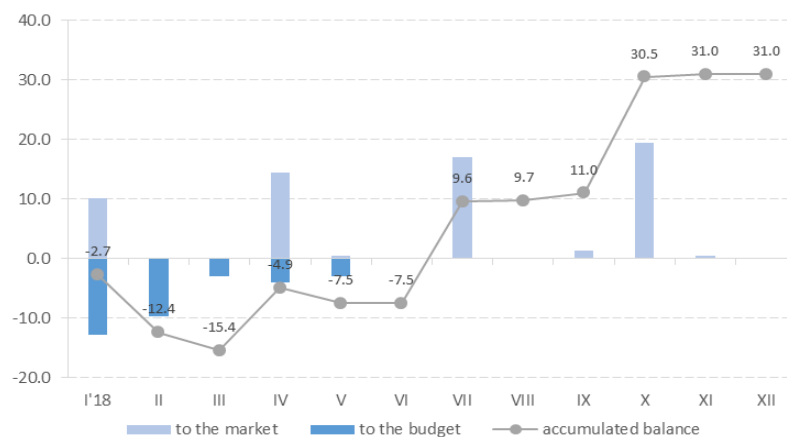
- TS redemptions: PLN 11.8bn,
- interest payments: PLN 5.3bn.



Flows of funds between the market and the budget*

as of June 30, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 38.5bn.



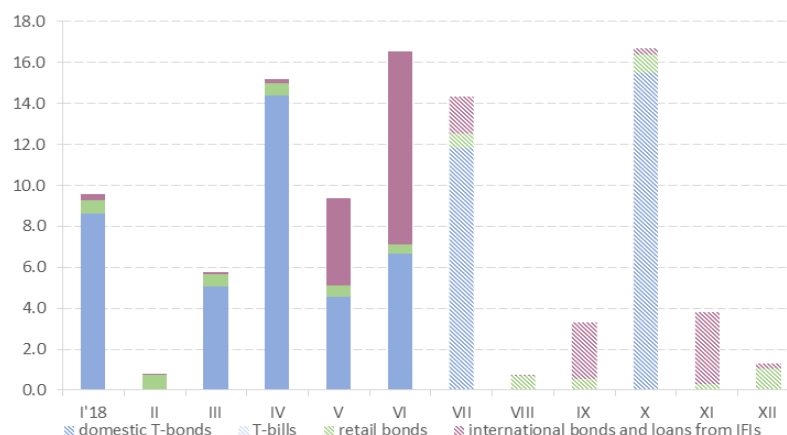
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented

State Treasury debt redemptions in 2018

as of June 30, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 40.2bn, including:

- T-bonds: PLN 27.3bn,
- T-retail bonds: PLN 4.2bn,
- bonds and loans incurred on foreign markets: PLN 8.6bn.





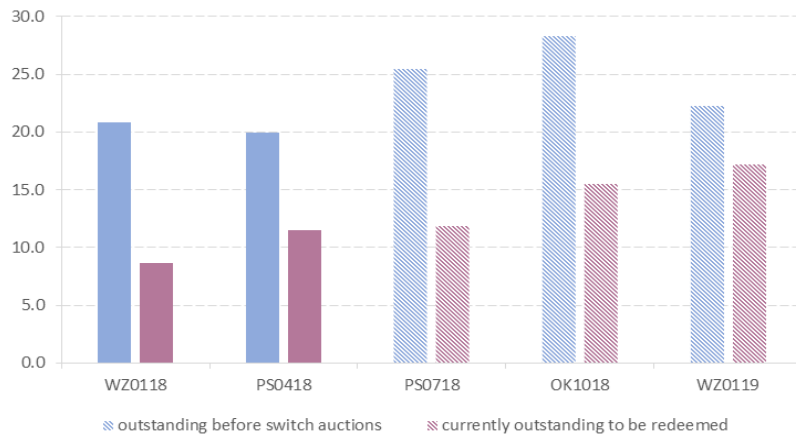
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of T-securities maturing in 2018 and 2019

as of June 30, 2018, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2018 and 2019:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 8.4bn (42%),
- PS0718: PLN 13.7bn (54%),
- OK1018: PLN 12.8bn (45%),
- WZ0119: PLN 5.0bn (23%).

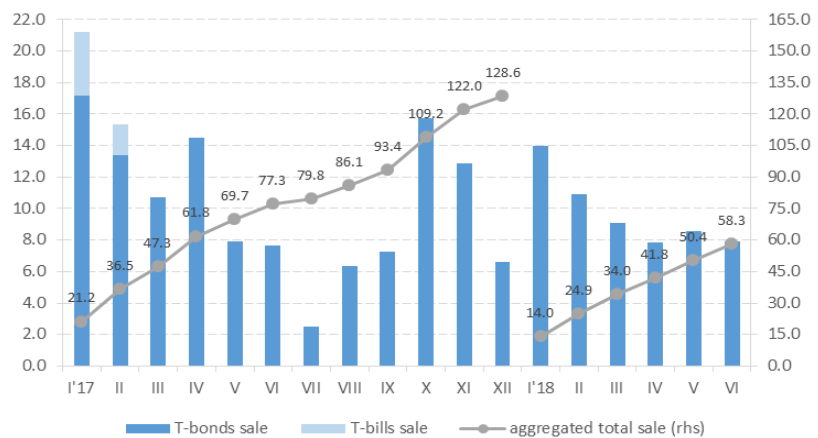


Sale of T-bonds and T-bills in the period of I-VI 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-VI 2018:

- aggregated total sale of T-bonds amounted to PLN 58.3bn versus PLN 71.3bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

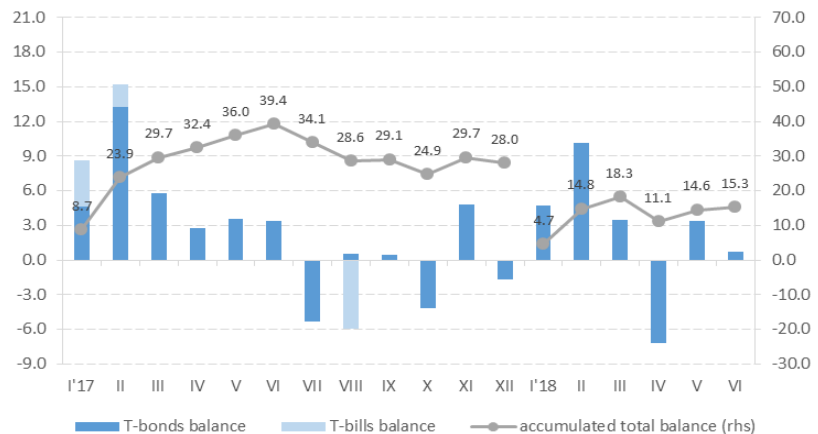


Balance of T-bonds and T-bills in the period of I-VI 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-VI 2018 indebtedness in:

- T-bonds increased by PLN 15.3bn versus an increase of PLN 33.4bn in the same period of 2017,
- T-bills remained the same versus an increase of PLN 6.0bn in the same period of 2017.

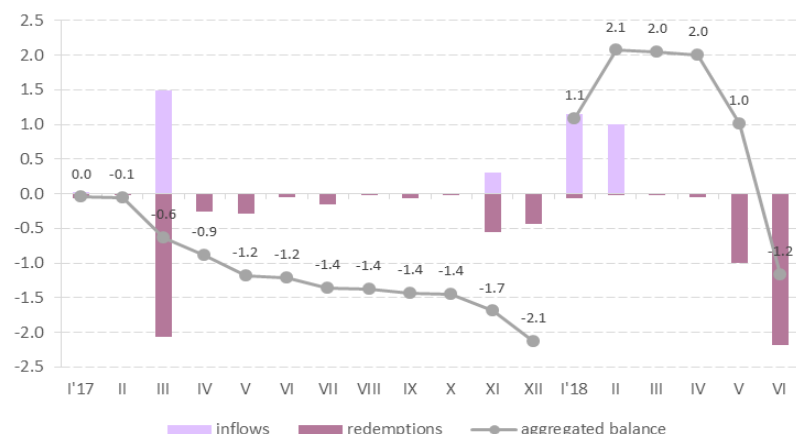


External financing in the period of I-VI 2018 and in 2017

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

Net financing on foreign markets in the period of I-VI 2018 was negative and amounted to EUR 1.2bn (negative balance of EUR 1.2bn in the same period of 2017) which resulted from:

- negative balance of T-bonds of EUR 1.9bn (negative balance of EUR 0.9bn in the same period of 2017),
- positive balance of loans incurred from IFIs of EUR 0.7bn (negative balance of EUR 0.3bn in the same period of 2017).



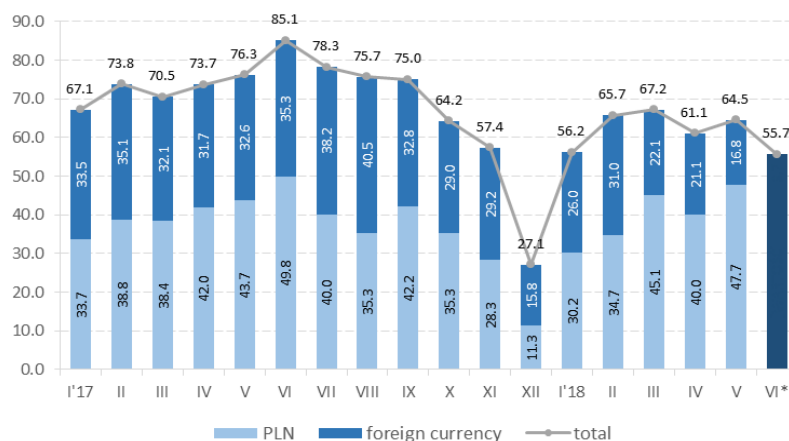
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

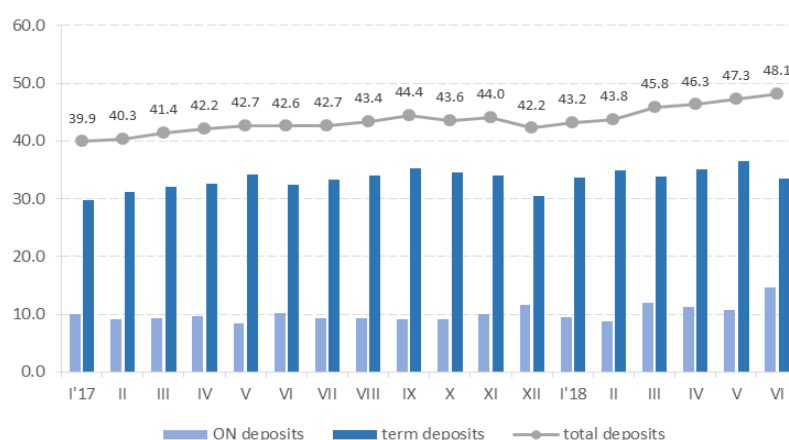


* estimated data

Consolidation of public finance sector liquidity management

PLN bn

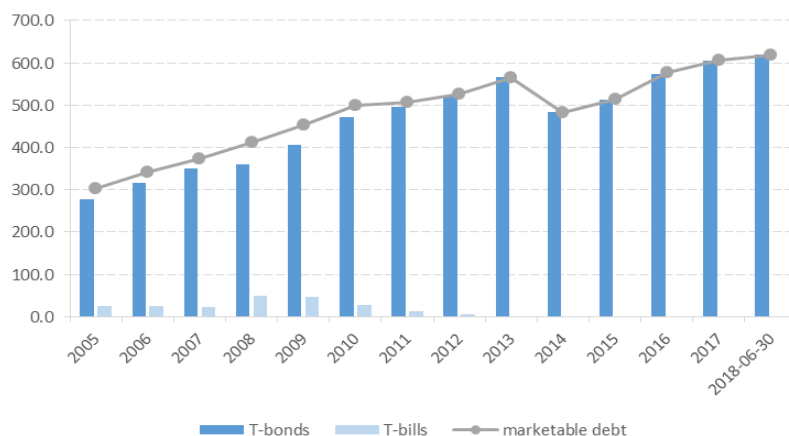
As a result of consolidation of the public finance sector liquidity management there were PLN 48.1bn funds accumulated at the end of June 2018, of which: PLN 33.5bn was on term deposits and PLN 14.7bn on ON deposits.



Structure of marketable debt

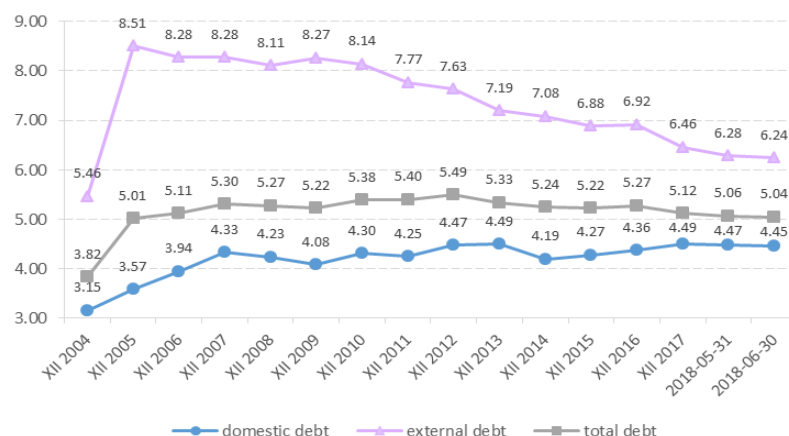
PLN bn

The marketable domestic debt amounted to PLN 618.9bn at the end of June 2018 comparing to PLN 605.7bn at the end of 2017.



Average maturity

The average maturity of domestic debt amounted to 4.45 at the end of June 2018 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.04 (5.12 at the end of 2017).



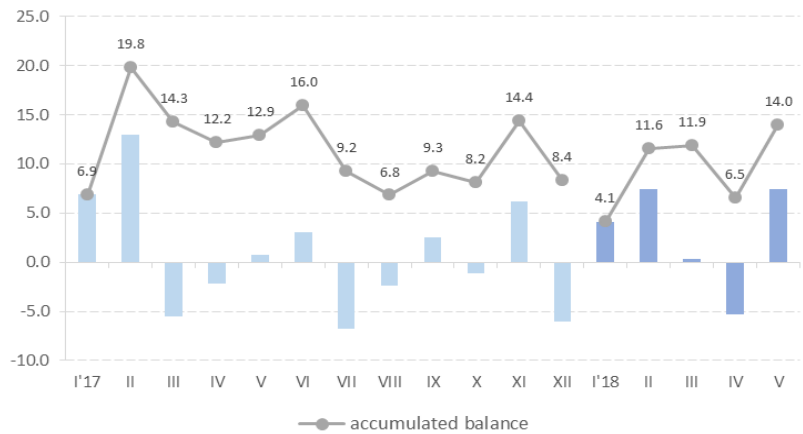


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic Treasury securities held by banks

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

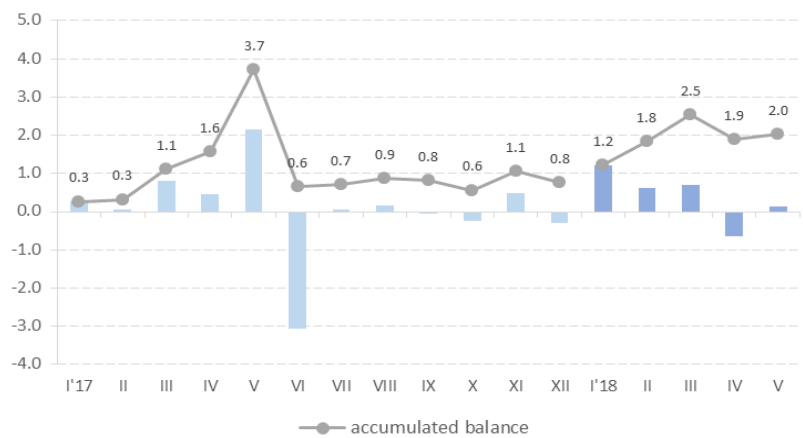
In the period of I-V 2018 there was an increase of debt by PLN 14.0bn comparing to PLN 12.9bn increase during the same period of 2017. Banks' holdings reached the level of PLN 257.9bn.



Change of debt in the domestic Treasury securities held by insurance companies

PLN bn

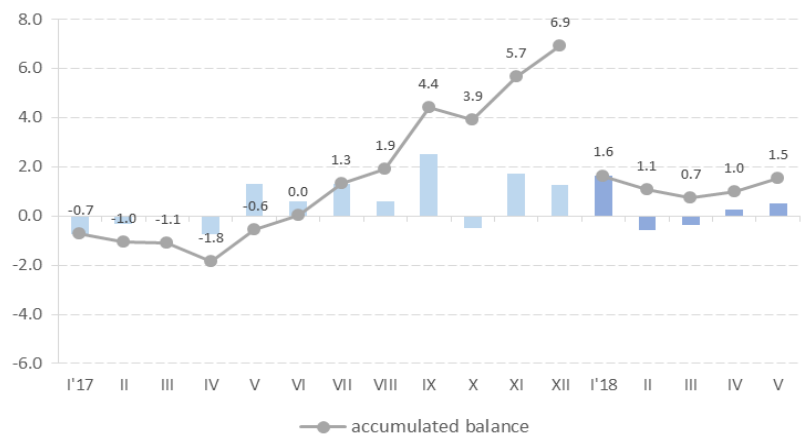
In the period of I-V 2018 there was an increase of debt by PLN 2.0bn comparing to PLN 3.7bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 61.8bn.



Change of debt in the domestic Treasury securities held by investment funds

PLN bn

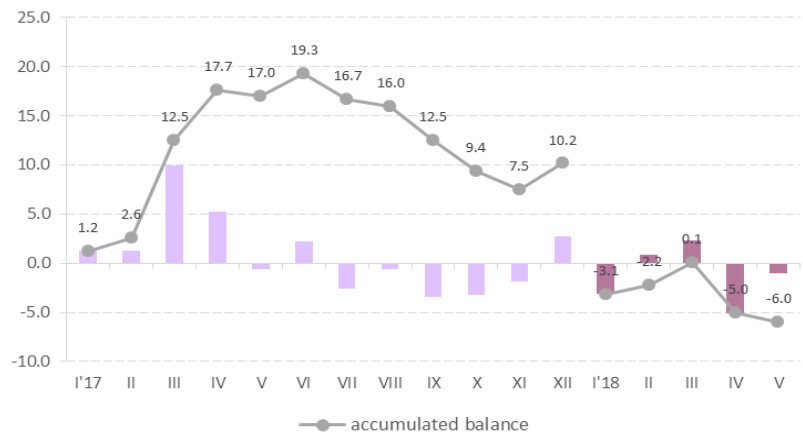
In the period of I-V 2018 there was a decrease of debt by PLN 6.9bn comparing to PLN 0.6bn decrease during the same period of 2017. Investment funds' holdings reached the level of PLN 58.6bn.



Change of debt in the domestic Treasury securities held by foreign investors

PLN bn

In the period of I-V 2018 there was a decrease of debt by PLN 6.0bn comparing to PLN 17.0bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 196.7bn.



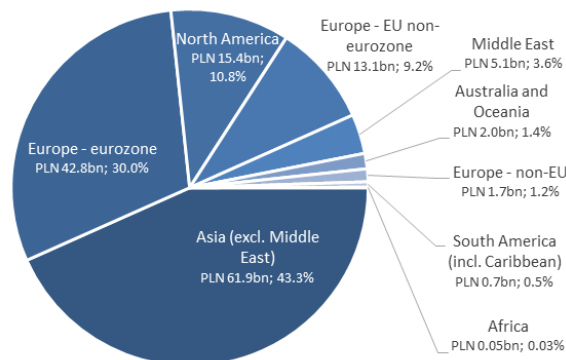
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of the domestic Treasury securities held by non-residents

as of May 31, 2018, the chart presents data excluding omnibus accounts

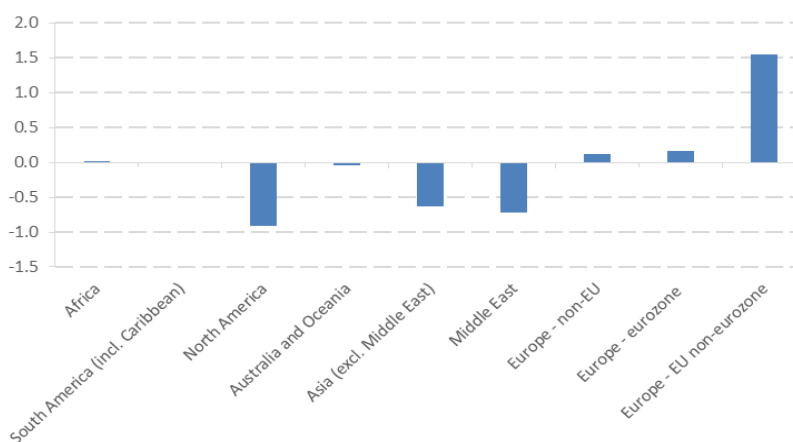
The non-residents' share in the domestic Treasury securities market decreased by PLN 1.0bn in May 2018. The foreign investors' portfolio amounted to PLN 196.7bn, which constituted 30.9% share in total debt in Treasury securities (31.5% in the previous month).



Change of debt in the domestic Treasury securities held by non-residents by regions

change in May 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

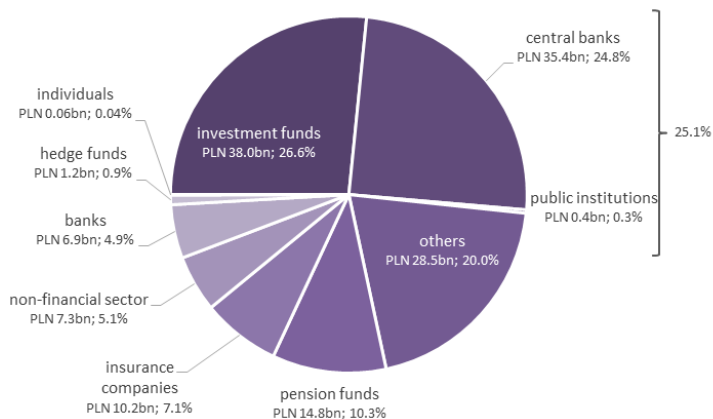
In May 2018 the highest increase was recorded by EU non-eurozone investors (PLN 1.5bn). The highest decrease was noted by investors from North America (PLN 0.9bn).



Institutional distribution of the domestic Treasury securities held by non-residents

as of May 31, 2018, the chart presents data excluding omnibus accounts

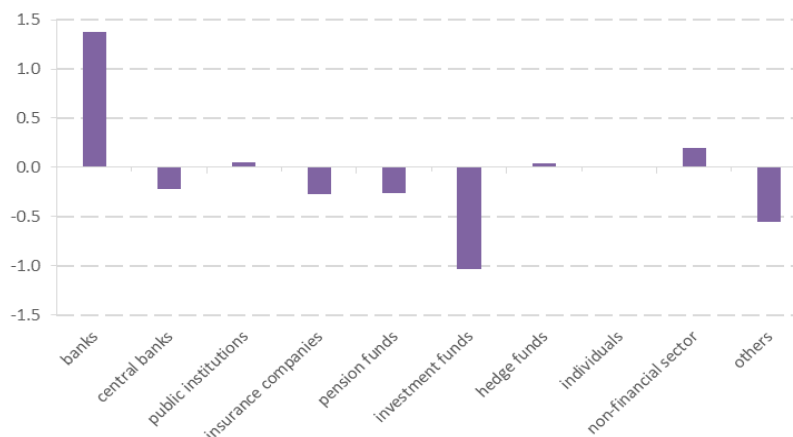
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 25.1% at the end of May 2018.



Change of debt in the domestic Treasury securities held by non-residents by institutions

change in May 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

In May 2018 the highest increase was recorded by banks (PLN 1.4bn) and the highest decrease was noted by investment funds (PLN 1.0bn).



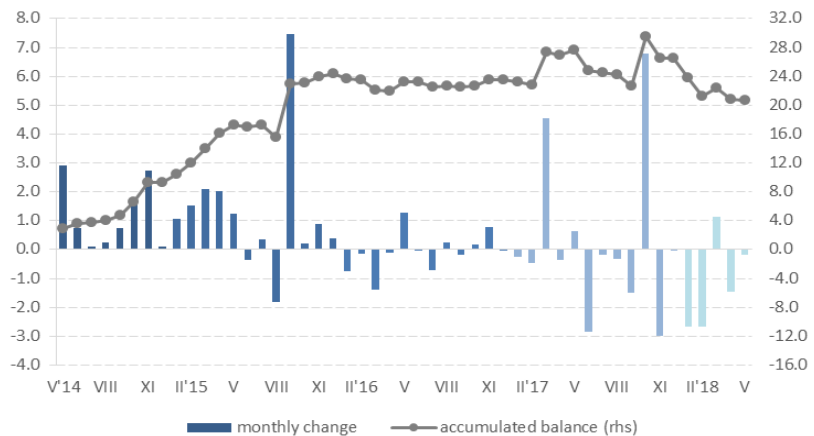


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by central banks and public institutions

change in May 2018, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.2bn in May 2018. In the period from the end of April 2014 to the end of May 2018, for which the detailed information is available, portfolios of those entities increased by PLN 20.7bn.



Structure of non-residents' holdings in Treasury securities by countries

as of May 31, 2018, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	22 131.1	20.6%
Luxembourg	15 905.5	14.8%
United States	14 428.6	13.4%
United Kingdom	9 660.4	9.0%
Ireland	8 506.8	7.9%
Netherlands	7 462.0	6.9%
Germany	6 360.4	5.9%
Hong Kong	3 381.6	3.1%
United Arab Emirates	2 795.0	2.6%
France	2 199.7	2.0%
Australia	1 767.8	1.6%
Denmark	1 505.5	1.4%
Switzerland	1 378.7	1.3%
Taiwan (Province of China)	1 124.5	1.0%
Others	8 783.6	8.2%
Total	107 391.2	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

29-06-2018

After the second quarter we have financed 60% of this year's borrowing requirements stemmed from the budget act. At the same time, on switch auctions we prefinanced PLN 5bn of next year's borrowing requirements. There is ca. PLN 51bn on the budget accounts.

Because of the holiday season, as well as good liquidity situation, the T-bonds supply on sale auctions in the third quarter will be limited in the range of PLN 8-18bn. Depending on the needs, there will be organized two or three sale auctions and, appropriately, three or two switch auctions. Supply on the sale auction planned for July 27 takes into account redemption and interest payments in July in the amount of ca. PLN 17bn.

In May, domestic T-bonds were bought mainly by domestic banks, which involvement rose by PLN 7.4bn. In the case of the domestic non-banking sector there was an increase by PLN 1.0bn (mostly investment funds and individuals) and in the case of non-residents - decrease of PLN 1.0bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2018



General assumptions

- in the third quarter of 2018 T-bond auctions are planned according to the announced modified yearly issuance calendar, one auction is planned in August 23,
- offer of T-bonds on the domestic market will depend on the budget and market situation, as well as consultations with investors,
- possible auctions of Treasury bills will be held within the confines of the State budget liquidity management,
- foreign financing will be determined by the situation on the international financial market 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:**
Two or three auctions with total supply of PLN 8.0-18.0bn,
- **switch auctions:**
Two or three auctions – subject to the budget and market situation – T-bonds maturing in 2018 and 2019 would be offered to repurchase.

Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

Foreign financing

- possible issuance of bonds on the international market,
- loans from international financial institutions up to EUR 0.1bn,
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2018

T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
27 JUL 2018	31 JUL 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	4,000 - 8,000

The final offer and the supply will be announced 2 days before the auction, taking into account 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.

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
12 JUL 2018 / 16 JUL 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528	PS0718	11,835
		OK1018	15,511
		WZ0119	17,194

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1018 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0720 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0721 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0722 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0728 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0724 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0730 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period