

## **State budget borrowing requirements' financing plan and its background**

February 2015

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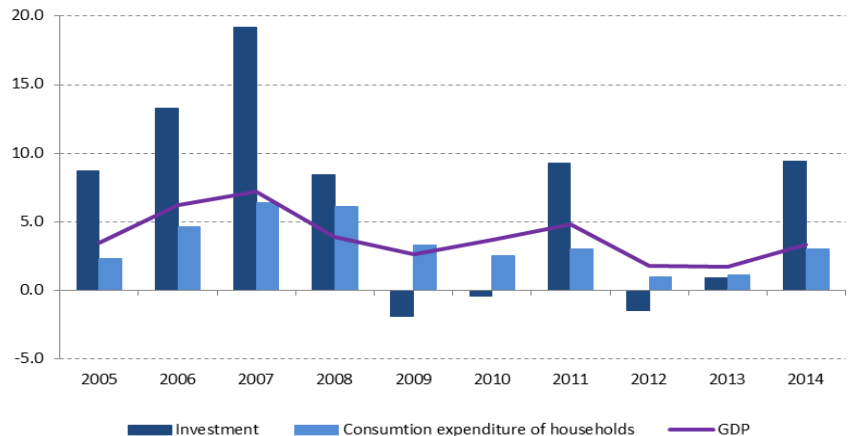


# I. MACROECONOMIC SITUATION

## Gross domestic product of Poland

constant prices, seasonally adjusted data  
source: Eurostat

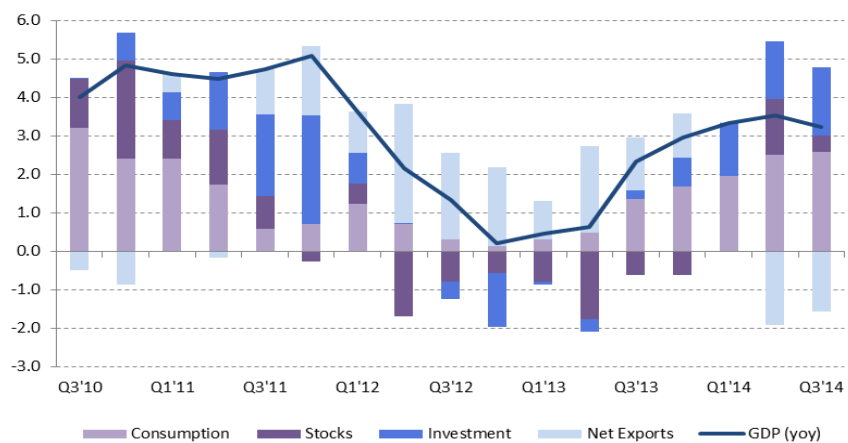
The Polish economy has continued its upward trend. In 2014 real GDP growth accelerated to 3.3%, following 1.7% growth a year earlier. The final consumption expenditure of households and gross fixed capital formation increased by 3.0% and 9.4% respectively.



## Contributions to Poland's GDP growth

percentage points  
source: GUS, MF own calculation

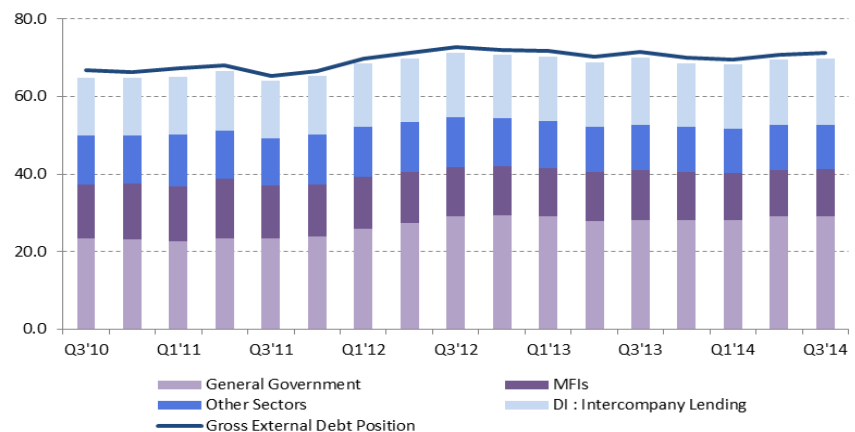
In the third quarter of 2014 GDP was 3.3% higher than a year ago. Since the last quarter of 2013, economic growth (yoy) has been driven mainly by domestic demand. From the second quarter of 2014 onward it was the only source of GDP growth (net exports contribution was negative) mainly due to investments and private consumption.



## Poland's gross external debt position

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

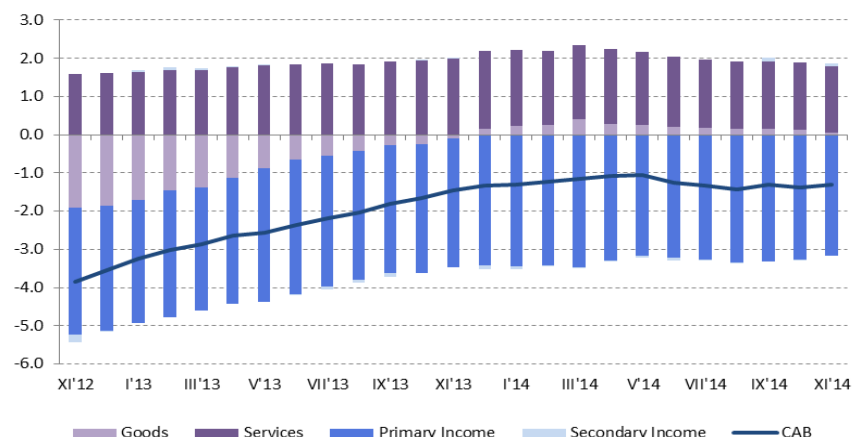
Gross external debt reached EUR 292.5bn (71.4% of GDP) at the end of the third quarter of 2014 and was higher than in the previous quarter. The share of direct investment intercompany lending in total debt increased slightly to 24.1%. Official reserve assets reached EUR 82.6bn at the end of December 2014 and remained broadly adequate, covering about 5 months of imports.



## Current account balance

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

In November 2014, according to the preliminary data, Poland's C/A deficit slightly decreased to 1.3% of GDP (in 12-month terms) from 1.4% of GDP a month earlier. C/A deficit was covered by long-term capital (mainly EU structural funds inflow) the value of which was above 2.5 times higher than the value of the deficit.

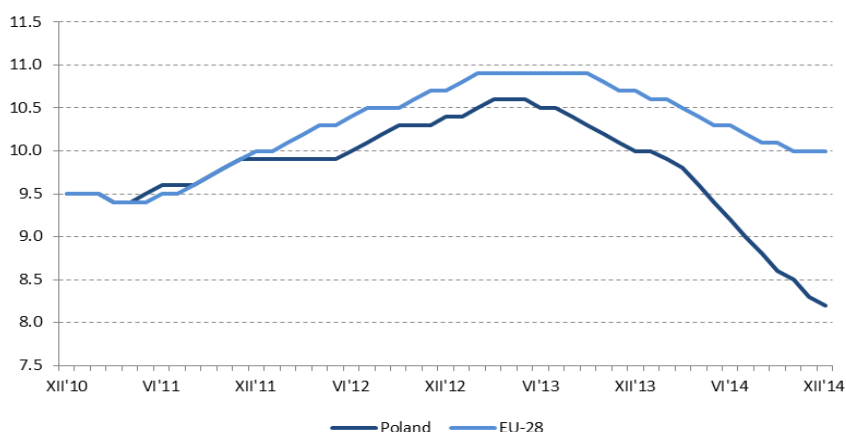




## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend observed since mid-2013. In December 2014 it amounted to 8.0% (versus 9.9% in EU on average) and was 0.2 pp lower than in November and 2.0 pp lower than a year before.

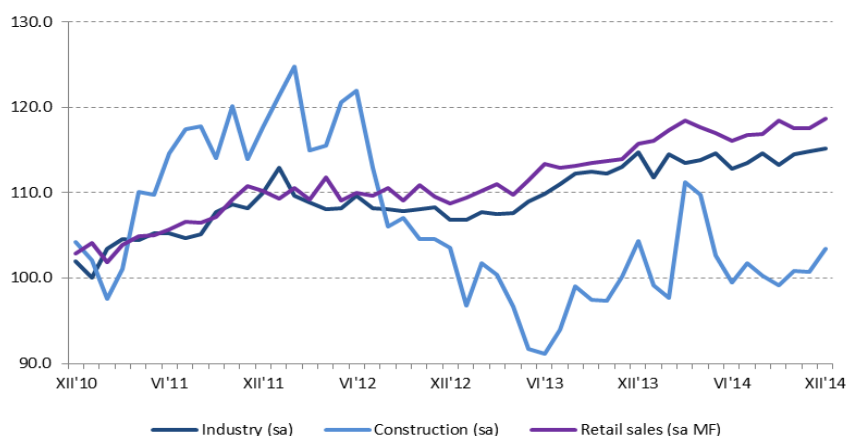


## Monthly indicators of the real sector

sold production in constant prices, i10, seasonally adjusted data  
source: Eurostat, GUS, MF own calculation

In December 2014 industrial output increased by 2.3% (mom, sa). In consequence production was 8.4% higher than a year ago (nsa). Construction production went up by 1% (mom, sa) following even higher growth in the previous month. It was 5% (nsa) higher than a year before.

In December 2014 retail sales declined by 0.2% (mom, sa MoF) following an increase by 0.8% in the previous month. As a result, its level was 4% (nsa) higher than in the same month of 2013.

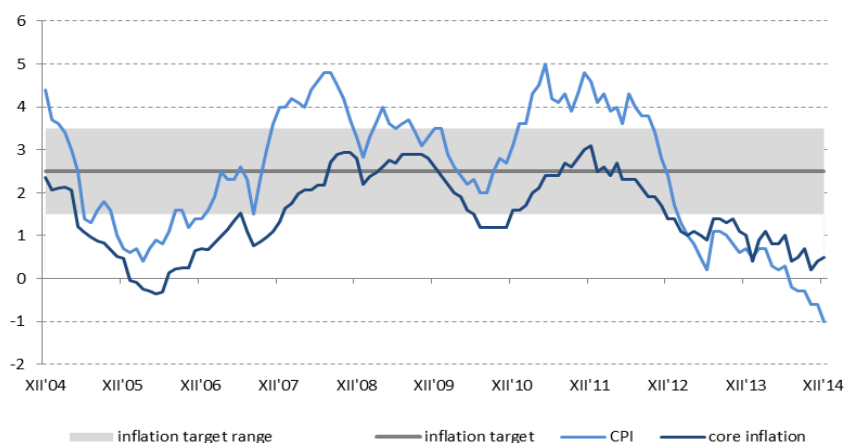


## Inflation

percent, yoy  
source: GUS, NBP

Inflation remains at a very low level, significantly below the NBP's inflation target. Since July 2014 consumer prices have been lower than a year before (in December 2014 by 1.0%) and the average rate of inflation in 2014 r. remained unchanged in comparison to the previous year.

Core inflation (CPI excluding food and energy prices) reached 0.5% in December 2014. Deflation in producer prices has been stable over two years (-2.5% yoy in December 2014).

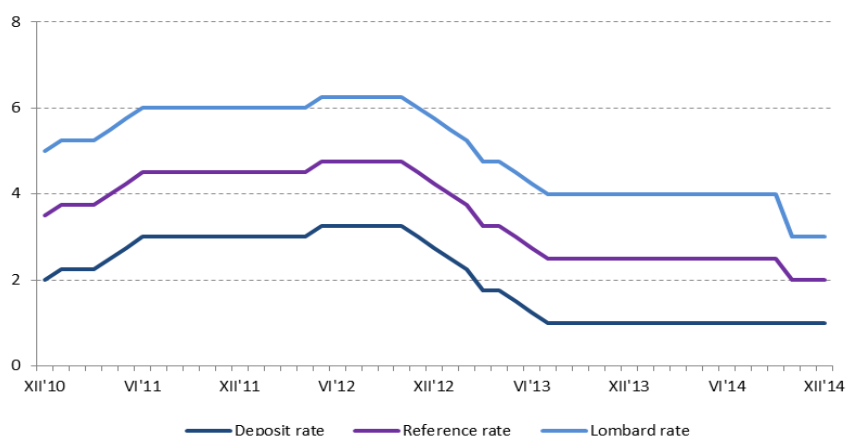


## NBP interest rates

percent, end of period  
source: NBP

Following a 0.5-1.0 pp cut in NBP's interest rates in October 2014, the Monetary Policy Council left key interest rates unchanged till the year end. The reference rate was kept at the 2.0%.

According to the Reuters poll (as of 12 January) bank analysts expect that reference rate will be reduced to 1.75% in the first quarter of 2015.



## II. STATISTICAL DATA

	Unit	2013			2014		
		Q02	Q03	Q04	Q01	Q02	Q03
<b>GDP</b>							
Gross domestic product	YoY	0.7	2.3	3.0	3.4	3.5	3.3
	QoQ SA	0.8	0.9	0.6	1.1	0.7	0.9
Final consumption expenditure of the households sector	YoY	0.4	1.2	2.4	2.9	3.0	3.2
	QoQ SA	0.4	0.6	0.7	0.8	0.9	1.0
Final consumption expenditure of the general government sector	YoY	1.5	3.5	2.2	0.1	3.7	3.5
	QoQ SA	0.0	0.9	0.6	0.3	1.5	0.6
Gross fixed capital formation	YoY	-1.8	1.3	2.7	11.2	8.7	9.9
	QoQ SA	1.5	1.7	1.8	4.2	1.3	2.3
Exports of goods and services	YoY	3.6	8.1	7.0	7.1	4.8	3.8
	QoQ SA	2.5	2.2	0.9	1.4	0.5	1.2
Imports of goods and services	YoY	-1.2	5.2	4.2	7.3	9.4	7.3
	QoQ SA	-1.2	3.3	1.5	3.2	0.5	2.4
Gross value added	YoY	0.8	2.3	3.1	2.9	3.3	3.1
	QoQ SA	0.9	1.0	0.9	0.8	0.4	0.8
<b>Contribution to GDP growth</b>							
Final consumption expenditure of the households sector	pp.	0.2	0.8	1.3	2.0	1.8	2.0
Final consumption expenditure of the general government sector	pp.	0.3	0.6	0.4	0.0	0.7	0.7
Gross fixed capital formation	pp.	-0.3	0.2	0.7	1.4	1.5	1.8
Changes in inventories	pp.	-1.9	-0.6	-0.6	0.0	1.4	0.4
Balance of trade turnover	pp.	2.4	1.3	1.2	0.0	-1.9	-1.6
Gross value added	pp.	0.8	2.0	2.8	2.7	2.9	2.8
Taxes less subsidies	pp.	-0.1	0.3	0.2	0.7	0.6	0.5
<b>GDP structure</b>							
Final consumption expenditure of the households sector	% of GDP	61.7	61.1	52.4	65.7	61.2	60.3
Final consumption expenditure of the general government sector	% of GDP	18.0	17.6	18.3	17.9	17.9	17.5
Gross fixed capital formation	% of GDP	17.1	18.0	26.4	12.9	17.5	18.8
Changes in inventories	% of GDP	-0.8	0.3	0.5	0.9	0.6	0.8
Exports of goods and services	% of GDP	47.3	48.1	42.9	48.0	47.3	47.5
Imports of goods and services	% of GDP	44.3	46.0	41.3	46.4	45.4	45.9
	Unit	2014			2014		
		M07	M08	M09	M10	M11	M12
<b>Balance of payments</b>							
Goods: exports (EUR)	YoY	6.7	-0.9	6.1	4.1	2.3	-
Goods: exports (EUR)	YoY	7.2	0.1	6.1	4.7	4.7	-
Current account balance <sup>1)</sup>	% of GDP	-1.3	-1.4	-1.3	-1.4	-1.3	-
Balance on goods <sup>1)</sup>	% of GDP	0.2	0.1	0.2	0.1	0.1	-
Official Reserve Assets	EUR mln	77 272.3	77 370.0	80 327.9	79 680.4	80 684.4	82 644.8
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0
Core inflation (CPI excluding food and energy prices)	YoY	0.4	0.5	0.7	0.2	0.4	0.5
Producer Price Index (PPI)	YoY	-2.1	-1.5	-1.6	-1.3	-1.6	-2.5
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	2.4	-1.9	4.2	1.7	0.3	8.4
	MoM SA	1.0	-1.1	1.1	0.3	0.3	2.3
Construction and assembly production <sup>2)</sup>	YoY	1.1	-3.6	5.6	-1.0	-1.6	5.0
	MoM SA	-1.5	-1.2	1.8	-0.2	2.8	1.0
Manufacturing PMI	SA	49.4	49.0	49.5	51.2	53.2	52.8
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	3.1	2.8	3.0	3.7	1.4	4.0
Average paid employment in enterprise sector	YoY	0.8	0.7	0.8	0.8	0.9	1.1
	MoM	0.1	0.1	0.0	0.1	0.1	0.0
Average monthly gross wages and salaries in enterprise sector (r)	YoY	3.7	3.8	3.7	4.5	3.4	4.8
	MoM	0.8	-1.4	0.2	2.1	0.8	9.7
Harmonised unemployment rate (Eurostat)	% SA	8.8	8.6	8.5	8.3	8.2	8.0
<small>1) Data in 12-month terms  2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons  Source: MoF, NBP, GUS, Eurostat, HSBC, Markit</small>							
	Unit	2014			2014		
		M06	M07	M08	M09	M10	M11
<b>State Treasury debt</b>							
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	750 204.0	751 334.8	755 709.4	759 713.7	767 516.1	772 544.0
Domestic debt	nominal, PLN mio	488 822.7	488 944.4	489 307.5	493 166.3	498 963.0	503 705.9
	%	65.2	65.1	64.7	64.9	65.0	65.2
Foreign debt	nominal, PLN mio	261 381.3	262 390.5	266 401.9	266 547.5	268 553.1	268 838.0
	%	34.8	34.9	35.3	35.1	35.0	34.8
	Unit	2013			2014		
		Q02	Q03	Q04	Q01	Q02	Q03
<b>Public debt (domestic definition)</b>							
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	888 540.1	890 572.9	882 293.0	782 104.7	793 556.4	802 127.1
Domestic debt	nominal, PLN mio	616 334.3	619 129.5	614 321.8	505 904.8	518 785.8	522 062.7
	%	69.4	69.5	69.6	64.7	65.4	65.1
Foreign debt	nominal, PLN mio	272 205.8	271 443.4	267 971.2	276 199.9	274 770.5	280 064.5
	%	30.6	30.5	30.4	35.3	34.6	34.9
<b>General Government debt (EU definition)</b>							
General Government debt	nominal, PLN mio	928 262.5	930 496.1	926 103.1	810 394.1	821 345.6	831 854.6

Source: MoF

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



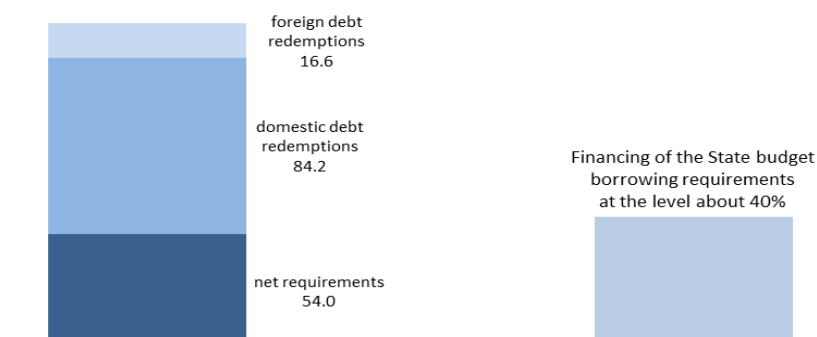
#### Gross borrowing requirements in 2015

Financing of the borrowing requirements at the level of ca. 40% was a result of:

- T-bond sale on domestic market: PLN 11.0bn,
- switch auctions in 2014: PLN 24.2bn,
- T-bonds buyback on foreign markets in 2013: USD 0.4bn,
- and higher than planned financial resources at the end of 2014.

The level of prefinancing of 2015 borrowing requirements will be confirmed after settlement of the 2014 budget.

Gross borrowing requirements in 2015  
(acc. to 2015 Budget Act)  
Total: PLN 154.8bn, of which:



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

In February 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 January 31, 2015, PLN bn

As of January 31, 2015, to the end of the year the funds to be transferred to the market shall amount to PLN 69.5bn.

\* 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.



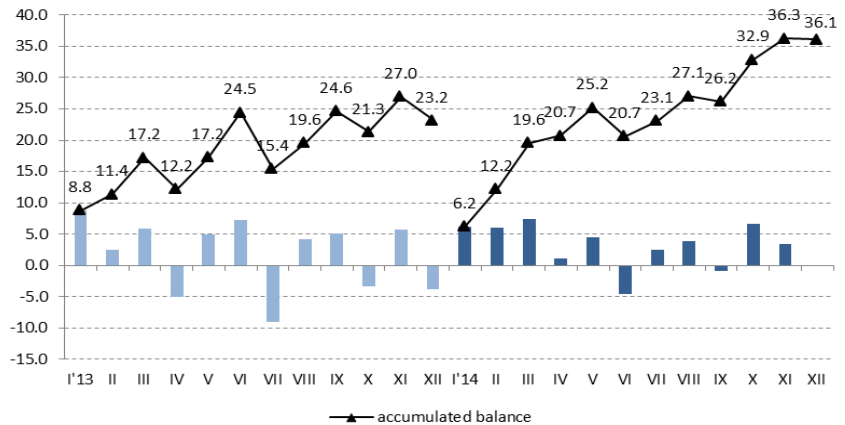


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Change of debt in domestic Treasury securities held by banks

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

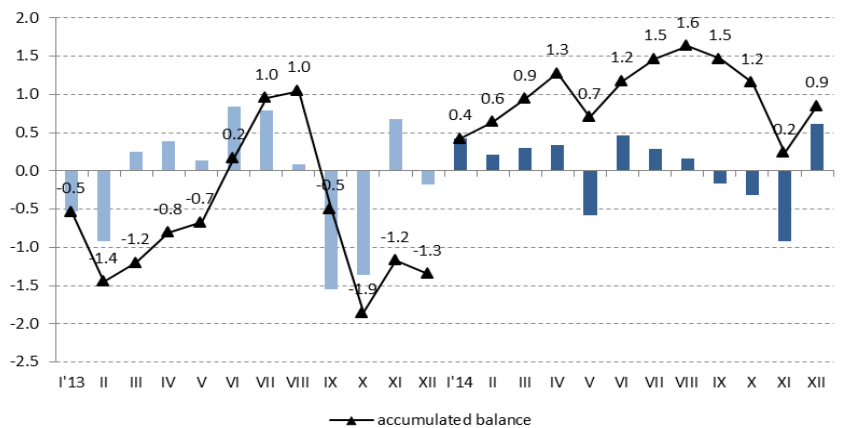
In the period of I-XII 2014 debt held by domestic banks increased by PLN 36.1bn comparing to PLN 23.2bn increase during the same period of 2013.



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

PLN bn

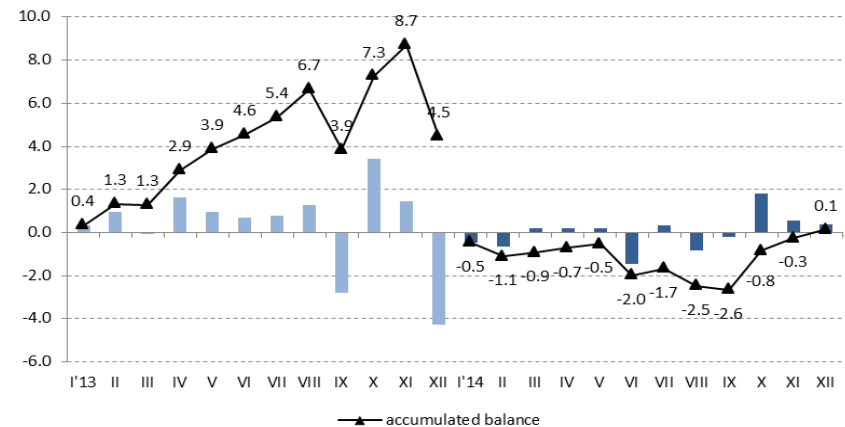
In the period of I-XII 2014 there was an increase of PLN 0.9bn in debt held by insurance companies. During the same period of 2013 there was a decrease of PLN 1.3bn.



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

PLN bn

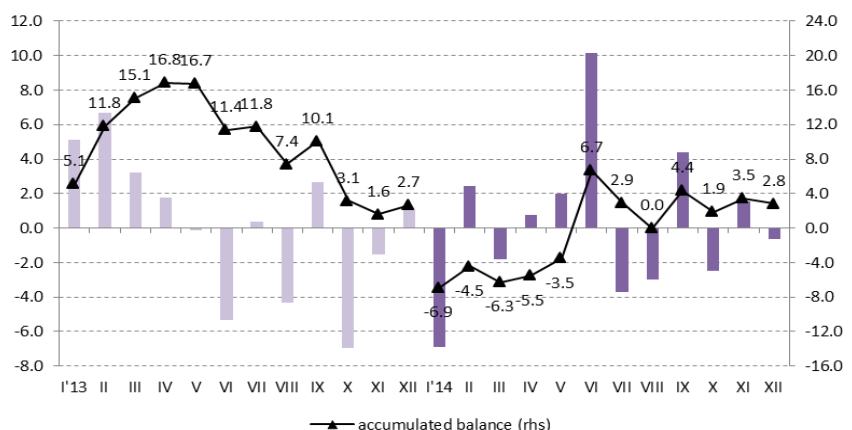
In the period of I-XII 2014 there was an increase of PLN 0.1bn in debt held by investment funds. During the same period of 2013 there was an increase of PLN 4.5bn.



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

PLN bn

In the period of I-XII 2014 inflow of foreign capital to the domestic TS market amounted to PLN 2.8bn comparing to inflow of PLN 2.7bn in the same period of 2013. Foreign investors' holdings reached the level of PLN of 196.0bn.



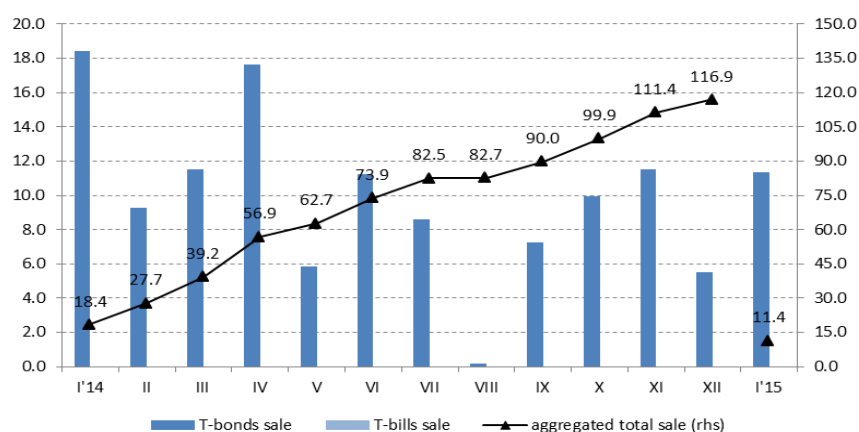
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Sale of T-bonds and T-bills in January 2015 and in 2014

settlement date, nominal amount, PLN bn

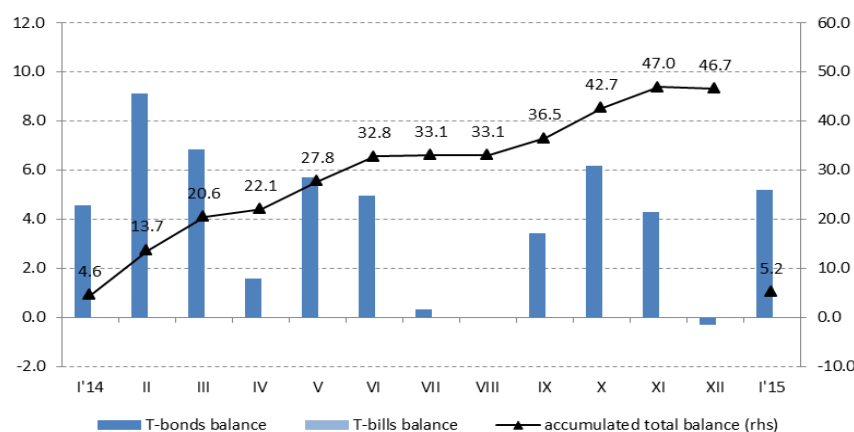
Since April 2013 T-bills have not been offered.



#### Balance of T-bonds and T-bills in January 2015 and in 2014

settlement date, nominal amount, PLN bn

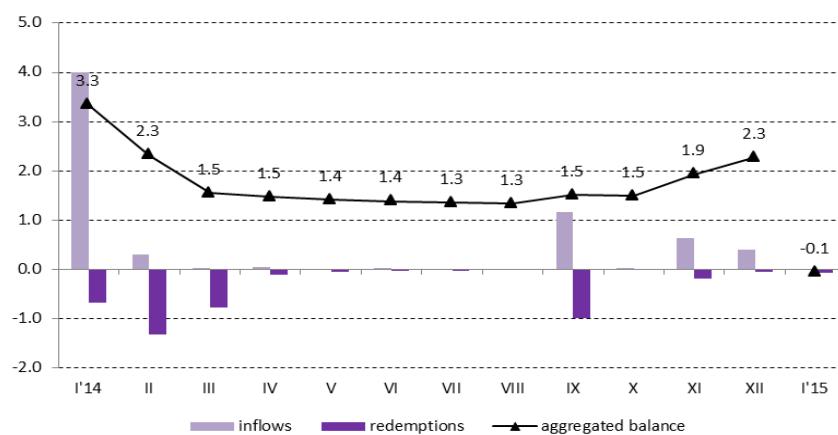
In January 2015 indebtedness in T-bonds increased by PLN 5.2bn.



#### External financing in January 2015 and in 2014

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

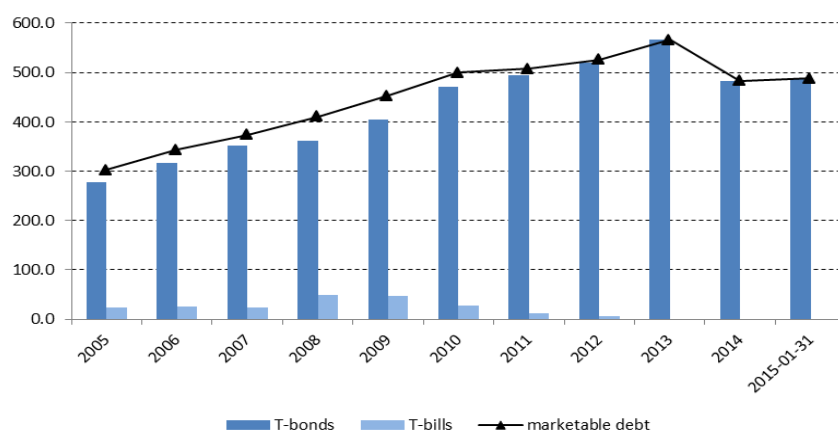
Net financing on foreign markets in January 2015 amounted to EUR -0.1bn.



#### Structure of marketable debt

PLN bn

At the end of January 2015 the marketable domestic debt amounted to PLN 488.1bn comparing to PLN 482.9bn at the end of 2014.



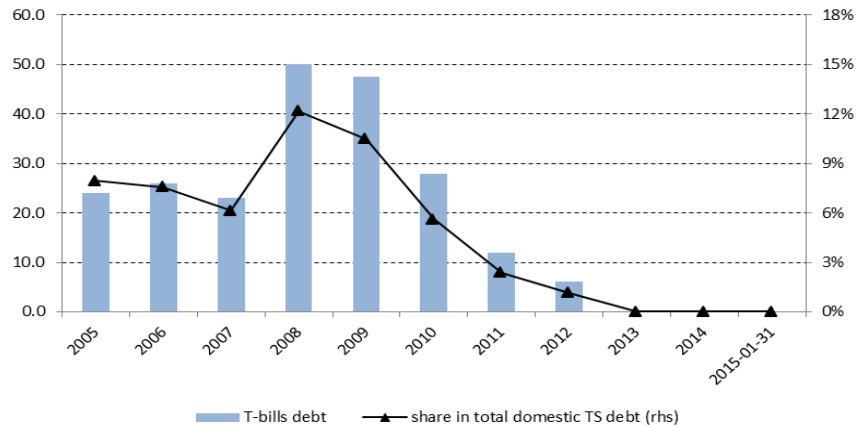


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### T-bills outstanding

PLN bn

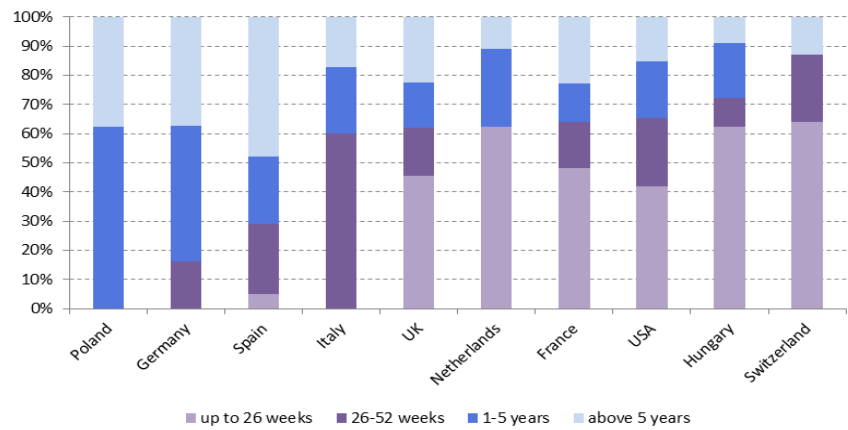
Since August 2013 there has been no T-bills outstanding.



#### Maturity breakdown of T-securities in Poland and other countries

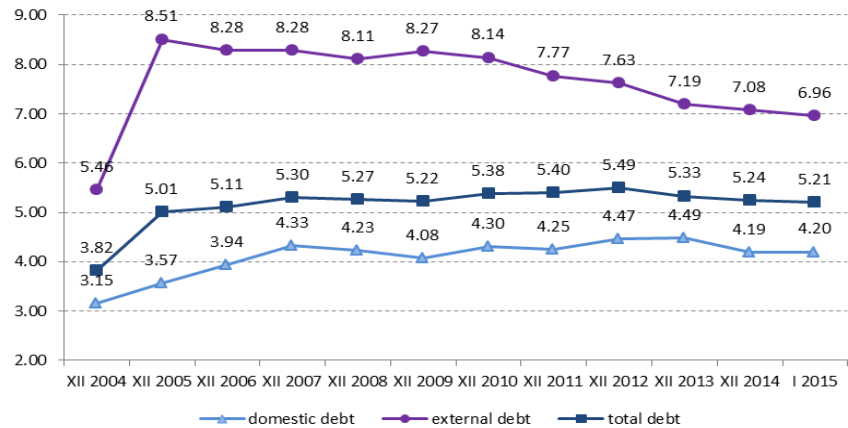
auctions and syndicates, local currency, ytd in the period of January 1 - January 31, 2015

In Poland only Treasury securities with maturity over 1 year have been offered in 2015.



#### Average maturity

At the end of January 2015 the average maturity of domestic debt increased to 4.20 in comparison with the end-2014 figure (4.19).

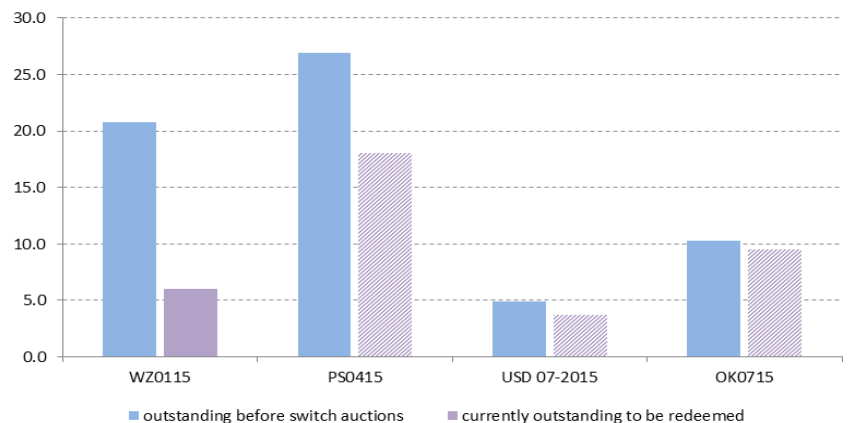


#### Reducing refinancing risk connected with T-bonds' redemptions maturing in 2015

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

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

- WZ0115: PLN 14.7bn (71%),
- PS0415: PLN 8.8bn (33%),
- USD 07-2015: PLN 1.2bn (USD 0.4bn) (24%),
- OK0715: PLN 0.8bn (8%).





### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

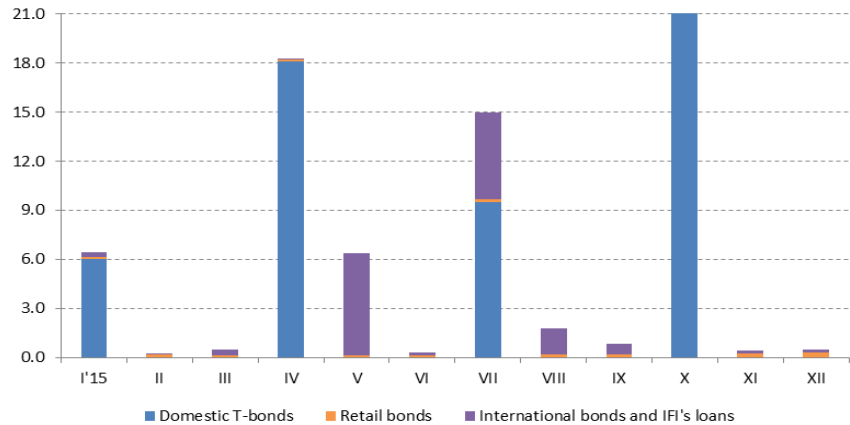


#### State Treasury debt redemptions in 2015

nominal amount, as of January 31, 2015;  
PLN bn

The nominal amount of debt to be redeemed in 2015 is equal to PLN 73.4bn, including:

- T-bonds: PLN 53.0bn,
- T-retail bonds: PLN 1.8bn,
- bonds and loans incurred on foreign markets: PLN 18.7bn.

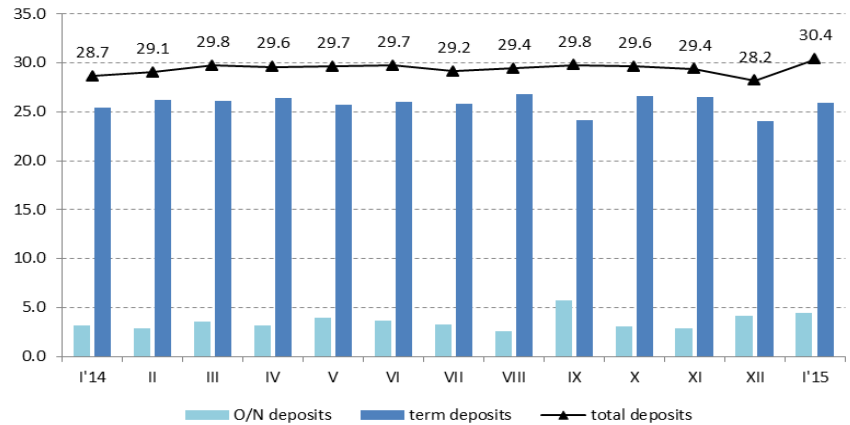


#### Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 30.4bn funds accumulated at the end of January 2015, of which PLN 25.9bn was as term deposits and PLN 4.5bn on O/N deposits.

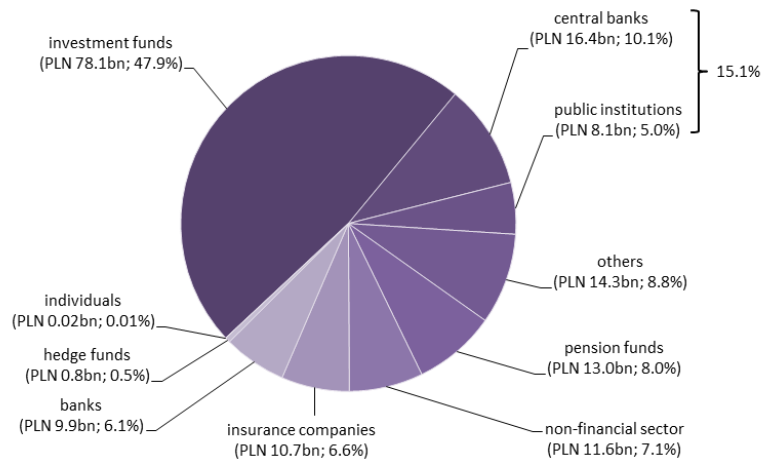
In January 2015 the second stage of the consolidation began. The group of public finance units was broadened and court deposits were included and placed within the account of the Minister of Finance.



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

as of December 31, 2014, excluding omnibus accounts

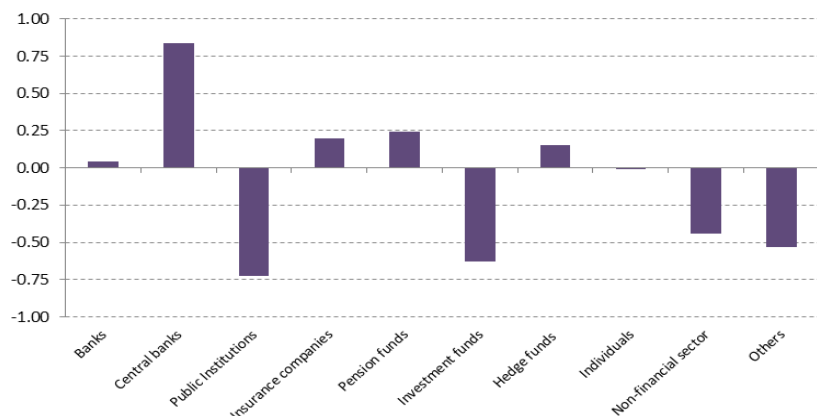
The share of non-residents in the domestic Treasury securities market slightly decreased (PLN 0.62bn) and amounted to PLN 196.0bn which constituted 40.6% share in total debt in marketable Treasury bonds. The majority was dominated by stable, long-term investors, including central banks and public institutions. The latter's share in holdings amounted to 15.1%.



#### Change of debt in domestic Treasury securities held by non-residents by institutional distribution

as of December 31, 2014

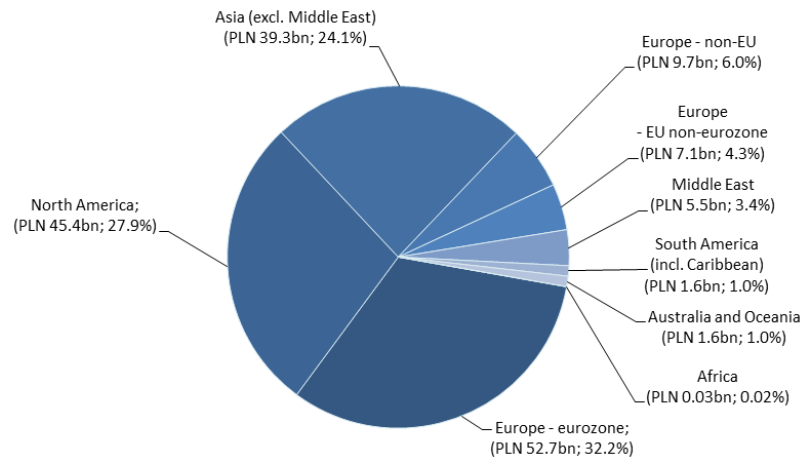
In December 2014 the highest increase in T-securities portfolio was noted by central banks (above PLN 0.8bn, mom). The lowest, on the other hand, was recorded by public institutions (above PLN 0.7bn).



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

as of December 31, 2014, excluding omnibus accounts

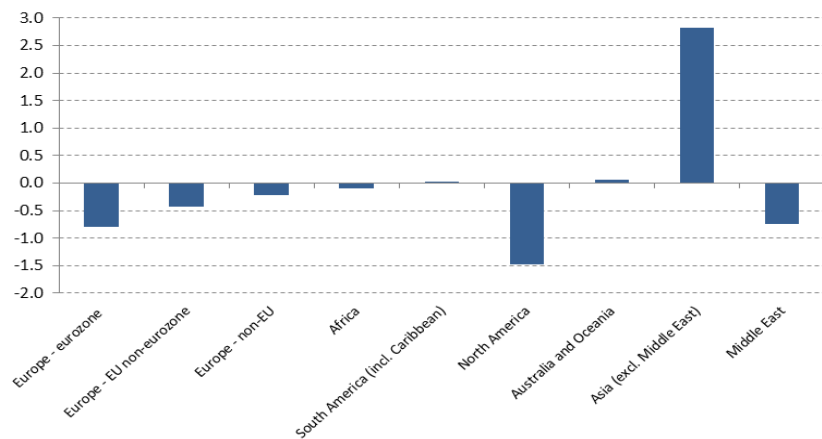
Well diversified geographical structure, with highest share of accounts from US, Europe and Japan (detailed breakdown by country available on [www.mf.gov.pl](http://www.mf.gov.pl)).



#### Change of debt in domestic Treasury securities held by non-residents by geographical distribution

as of December 31, 2014, PLN bn

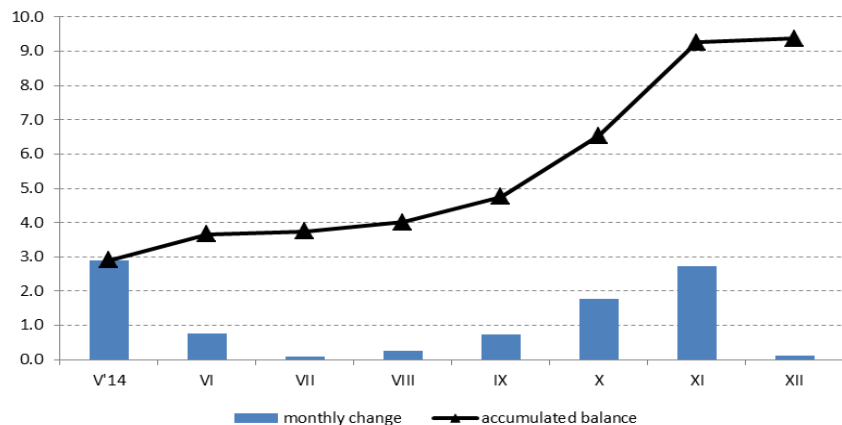
In December 2014 the most significant increase in involvement was recorded by Asian entities (excluding Middle East) which amounted to PLN 2.8bn when comparing to the previous month. On the other hand, the highest decrease occurred in American investors' portfolio (almost PLN 1.5bn).



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

as of December 31, 2014, PLN bn

Involvement of central banks and public institutions in the Polish debt market in the period of IV-XII 2014, when the detailed information is available, increased by PLN 9.4bn. In December the increase amounted to PLN 0.1bn.



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

as of December 31, 2014, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN mio)	Share in non-residents holdings (%)
United States	44 161.2	30.13%
Luxembourg	30 492.6	20.81%
Japan	19 443.9	13.27%
Norway	7 477.1	5.10%
Germany	6 668.2	4.55%
Ireland	6 248.2	4.26%
United Kingdom	5 215.1	3.56%
Netherlands	4 008.4	2.74%
Thailand	3 699.4	2.52%
Austria	2 516.6	1.72%
Switzerland	2 089.3	1.43%
United Arab Emirates	1 628.5	1.11%
France	1 574.7	1.07%
Australia	1 568.7	1.07%
Others	9 763.4	6.66%
<b>Total</b>	<b>146 555.2</b>	<b>100.00%</b>

#### MoF comments

#### **Artur Radziwiłł, Undersecretary of State, MoF**

27-01-2015

*(...) The domestic market remains a major source of financing the borrowing requirements however financing needs in foreign currency still have an important, supplementary function. Of course, under the strategy, the issuance policy will be adjusted to the prevailing market conditions. There is a continuum in this respect.*

*(...) The first auction this year was held in quite a specific and difficult situation as the auction happened on a day when the SNB announced its decision. Nevertheless the demand for the offered securities was high and the yields were low. We were confirmed in our belief that Polish economy has been perceived as a very strong one. After January auctions we have financed about 40% of the State budget borrowing needs for 2015.*

*It is hard to say when we would complete the process of financing the borrowing requirements for 2015. This would be determined mainly by the situation on the international markets which, as we can observe, has been very volatile. The latest ECB's decision on QE or the results of Greek elections are the examples. Thus, we are carefully, and simultaneously calmly, monitoring the market. The high level of financing this year borrowing requirements put us in such a comfortable situation so that we do not have to rush with anything.*

*(...) Our long-term objective is to decrease the share of debt denominated in foreign currencies. We will issue on the international markets mainly for the servicing purposes of the debt we have in euro, dollar, yen and Swiss franc. We do not rush through foreign issuances.*

*(...) It is worth noticing that the quantitative easing programme, announced by the ECB, caused yields and spreads to fall. Time was on our side so that now we can easily observe what is happening on the markets and choose the most appropriate moment whether or not to place our offer.*

*(...) In 2014 the debt denominated in foreign currencies exceeded 35% but this was a statistical effect only which was connected to the changes in the pension system. We want this share of debt to decrease, but we do not set any deadline to fulfil the objective of 30% share. We plan to be flexible, depending on the market situation in a several-year time horizon.*

*(...) From the macro perspective, we cannot see any signals for the decreasing trend in European bond yields to stop. Interest rates in the euro zone will stay very low for a longer period. On the other hand, the market situation is uncertain but, as the latest events indicate, Poland is perceived as a safe place to locate savings.*

#### **Piotr Marczak, Director of the Public Debt Department, MoF**

30-01-2015

*Substantial T-bond sale, good budget execution and first effects of the second stage of consolidation of public finances liquidity management gave rise to increase in liquid funds in PLN and foreign currencies in January to about PLN 44bn.*

*Financing of 2015 State budget borrowing requirements at the level of ca. 40%, as well as record low yields of Polish bonds allow us steer calmly the bond supply for next auctions, adjusting it flexibly to the current market situation.*

*In December and first 20 days of January foreign investors slightly reduced their holdings in PLN bonds. The decrease in December, in total, amounted to PLN 0.6bn which was mainly a result of reducing the positions in Polish debt market by entities from the category "others" (PLN -0.9bn), public institutions (PLN -0.7bn), investment funds (PLN -0.6bn and another increase of central banks' involvement (PLN 0.8bn) and non-banking financial institutions (PLN 0.5bn).*

*In the 2nd half of 2014 a significant diversification of the holders of Polish debt was noted. US investors noticeably decreased their involvement by about PLN 7.0-7.5bn (including US funds registered in Luxemburg), similarly European investors by PLN 6.1bn (excluding Luxemburg and without taking into account the latest reclassification of a Norwegian sovereign wealth fund; naturally among the European investors there were countries which increased their zloty-bond portfolios – specifically Switzerland and, to a lesser extent, Sweden and Czech Republic). Outflow of capital to USA and Europe was neutralized by capital inflow from Asian investors (PLN 11bn), of which central banks constituted PLN 6.9bn.*



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### MoF comments

*At the end of January we observe one of the greatest inflow of foreign capital to Polish bond market, across the whole yield curve.*

#### Announcement of NBP: IMF extended access to the Flexible Credit Line for Poland

#### **NBP: IMF extended access to the Flexible Credit Line for Poland** 14-01-2015

*On Wednesday, January 14, 2015 the Executive Board of the International Monetary Fund approved a successor two-year arrangement for Poland under the Flexible Credit Line. According to the Polish authorities' intention, the available amount was reduced comparing with the previous FCL and currently amounts to SDR 15.5bn (ca. USD 22.1bn according to the average exchange rate announced by the National Bank of Poland as of January 14, 2015).*

*Press release available at : [www.imf.org](http://www.imf.org)*

#### Polish Financial Supervision Authority (KNF) announcement regarding the decision of the Swiss National Bank to abandon the EUR/CHF minimum exchange rate of 1,2

#### **KNF: Announcement on the decision of the Swiss National Bank to abandon the EUR/CHF minimum exchange rate of 1,2** 15-01-2015

*Press release on the impact of the decision on the Polish banking sector available at : [www.knf.gov.pl](http://www.knf.gov.pl).*

## IV. SUPPLY PLAN OF TREASURY SECURITIES IN FEBRUARY 2015



### Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
5 FEB 2015	9 FEB 2015	WZ0124/ DS0725/ WS0428	3,000-5,000
12 FEB 2015	16 FEB 2015	choice will depend on the market conditions, excluding bonds offered at the first auction	3,000-6,000

*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
DOS0217	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0218	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.40% in the first coupon period
COI0219	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.60% in the first coupon period
EDO0225	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 3.00% in the first coupon period