Ministry of Finance | Republic of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

March 2015

THE MOST IMPORTANT INFORMATION

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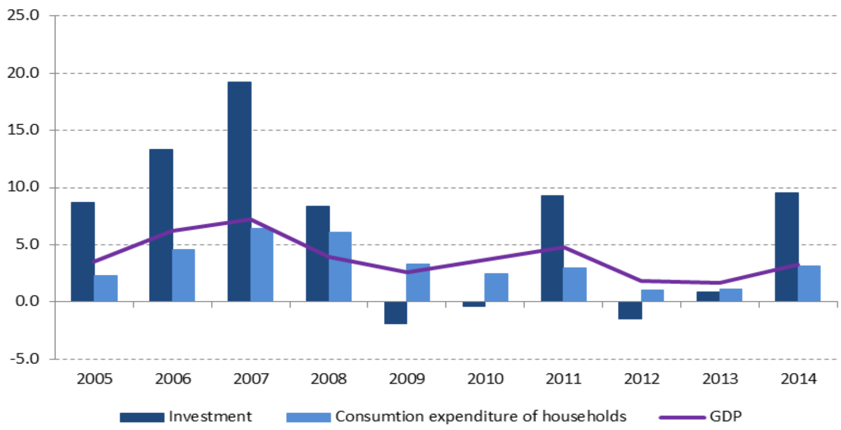
Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

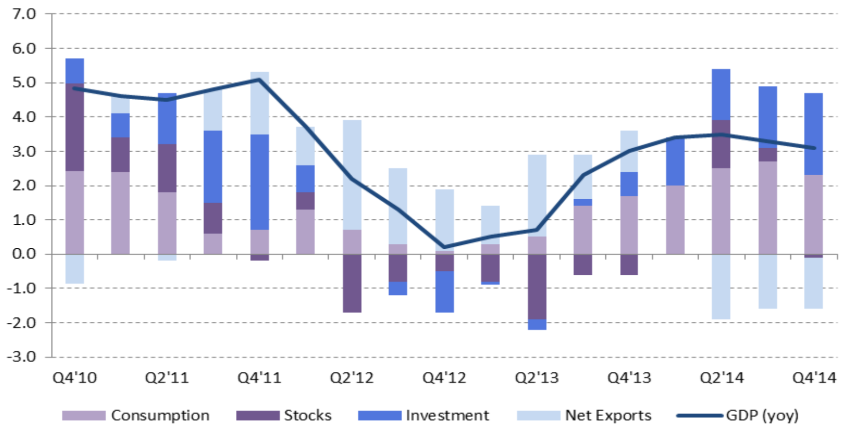
The Polish economy has continued its upward trend. In 2014 real GDP growth accelerated to 3.3%, following 1.7% growth a year earlier. The final consumption expenditure of households and gross fixed capital formation increased by 3.1% and 9.5% respectively.



Contributions to Poland's GDP growth

percentage points
source: GUS, MF own calculation

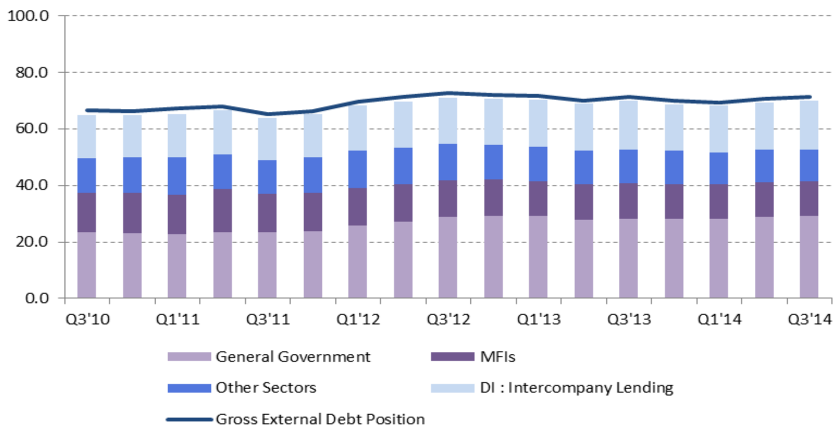
In Q4 2014 GDP was 3.1% higher than a year ago. Since the last quarter of 2013, economic growth (yoy) has been driven mainly by domestic demand. From Q2 2014 onward it was the only source of GDP growth (the net exports contribution was negative) mainly due to investments and private consumption.



Poland's gross external debt position

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

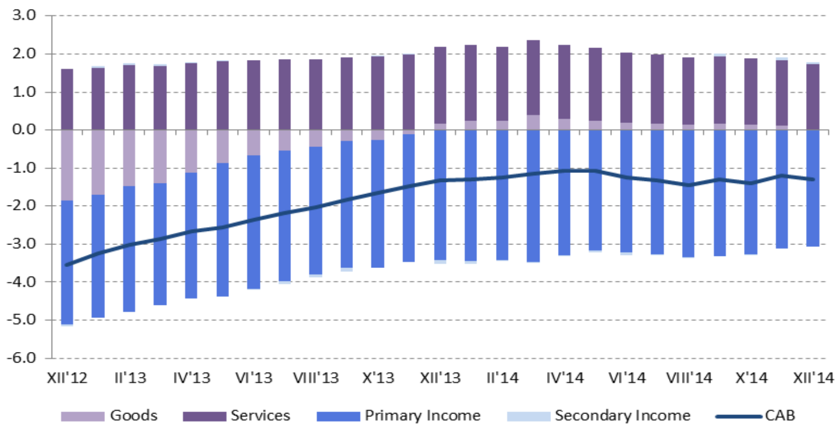
At the end of Q3 2014 gross external debt reached EUR 292.5bn (71.4% of GDP) and was higher than in the previous quarter. The share of direct investment intercompany lending in total debt increased slightly to 24.1%. Official reserve assets reached EUR 87.9bn at the end of January 2015 (increase of EUR 5.3bn, mom) 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

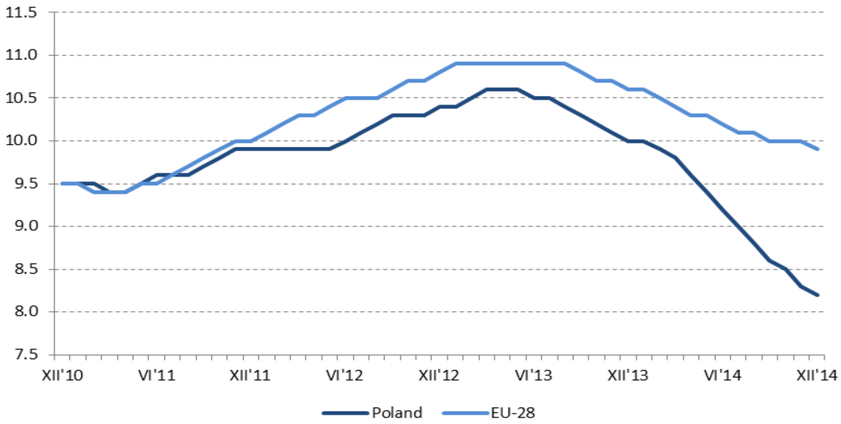
In December 2014, according to the preliminary data, Poland's C/A deficit amounted to 1.3% of GDP (in 12-month terms of GDP) as compared to 1.2% of GDP a month earlier. C/A deficit was covered by long term capital (mainly EU structural funds inflow) the value of which was almost 3 times higher that the 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

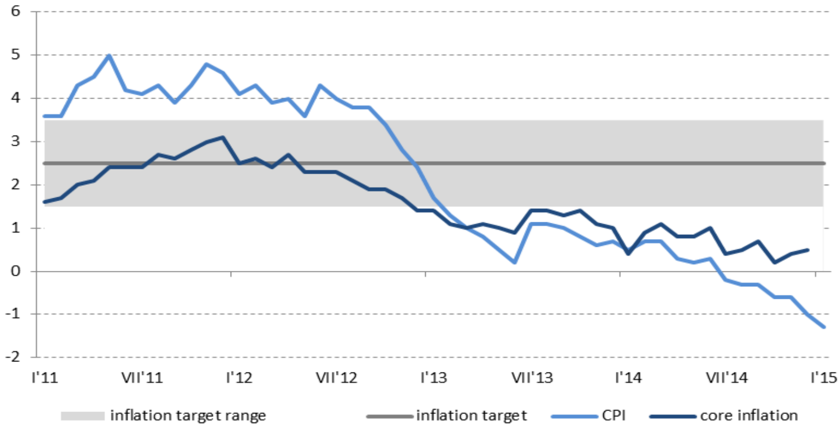
sold production in constant prices, i10, seasonally adjusted data
source: Eurostat, GUS, MF own calculation

In January 2015 industrial output increased by 0.4% (mom, sa). In consequence production was 1.7% higher than a year ago (nsa).
In January 2015 construction production went down second time in a row, following relatively high growth in November 2014 (mom, sa). It was 1.3% (nsa) higher than a year before.
In January 2015 real retail sales increased by 1.6% (mom, sa MoF) following a decline in the previous month. As a result, its level was 3.3% (nsa) higher than in the same month of 2014.

Inflation

percent, yoy
source: GUS, NBP

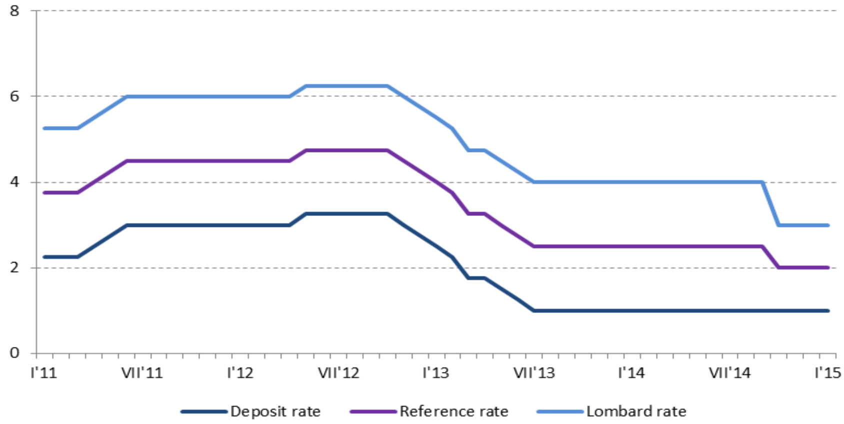
Inflation remains at a very low level, significantly below the NBP's inflation target.
Since July 2014 consumer prices have been lower than a year before (in January 2015 by 1.3%). Core inflation (CPI excluding food and energy prices) reached 0.5% in December 2014.
Deflation in producer prices has been lasting over two years (-2.9% yoy in January 2015).



NBP interest rates

percent, end of period
source: NBP

NBP's interest rates have remained at the record-lows since October 2014, with the reference at 2.0%.
According to the latest Reuters poll (January, 30) reference rate is forecast to be reduced to 1.75% in Q1 2015.



II. STATISTICAL DATA

	Unit	2013 Q03	Q04	2014 Q01	Q02	Q03	Q04
GDP							
Gross domestic product	YoY	2.3	3.0	3.4	3.5	3.3	3.1
	QoQ SA	0.9	0.8	1.0	0.6	0.8	0.7
Final consumption expenditure of the households sector	YoY	1.2	2.4	2.9	3.0	3.2	3.1
	QoQ SA	0.6	0.8	0.8	0.9	0.9	0.9
Final consumption expenditure of the general government sector	YoY	3.5	2.2	0.1	3.7	3.5	3.7
	QoQ SA	0.9	0.5	0.3	1.5	0.7	0.7
Gross fixed capital formation	YoY	1.3	2.7	11.2	8.7	9.9	9.0
	QoQ SA	1.7	1.8	4.2	1.2	2.3	1.4
Exports of goods and services	YoY	8.1	7.0	7.1	4.8	3.8	6.9
	QoQ SA	2.3	0.4	1.7	0.9	1.6	2.4
Imports of goods and services	YoY	5.2	4.2	7.3	9.4	7.3	10.7
	QoQ SA	3.5	1.1	3.3	0.7	2.6	3.2
Gross value added	YoY	2.3	3.1	2.9	3.3	3.1	2.8
	QoQ SA	1.0	1.0	0.8	0.3	0.5	0.5
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	0.8	1.3	2.0	1.8	2.0	1.6
Final consumption expenditure of the general government sector	pp.	0.6	0.4	0.0	0.7	0.7	0.7
Gross fixed capital formation	pp.	0.2	0.7	1.4	1.5	1.8	2.4
Changes in inventories	pp.	-0.6	-0.6	0.0	1.4	0.4	-0.1
Balance of trade turnover	pp.	1.3	1.2	0.0	-1.9	-1.6	-1.5
Gross value added	pp.	2.0	2.8	2.7	2.9	2.8	2.5
Taxes less subsidies	pp.	0.3	0.2	0.7	0.6	0.5	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	61.1	52.4	65.7	61.2	60.3	51.8
Final consumption expenditure of the general government sector	% of GDP	17.6	18.3	17.9	17.9	17.5	18.3
Gross fixed capital formation	% of GDP	18.0	26.4	12.9	17.5	18.8	27.7
Changes in inventories	% of GDP	0.3	0.5	0.9	0.6	0.8	0.4
Exports of goods and services	% of GDP	48.1	42.9	48.0	47.3	47.5	44.4
Imports of goods and services	% of GDP	46.0	41.3	46.4	45.4	45.9	43.3

	Unit	2014 M08	M09	M10	M11	M12	2015 M01
Balance of payments							
Goods: exports (EUR)	YoY	-0.9	6.1	4.1	2.3	6.6	-
Goods: exports (EUR)	YoY	0.1	6.1	4.7	4.7	10.7	-
Current account balance[1]	% of GDP	-1.4	-1.3	-1.4	-1.2	-1.3	-
Balance on goods[1]	% of GDP	0.1	0.2	0.1	0.1	0.0	-
Official Reserve Assets	EUR mln	77 370.0	80 327.9	79 680.4	80 684.4	82 644.8	87 934.7
Inflation							
Consumer Price Index (CPI)	YoY	-0.3	-0.3	-0.6	-0.6	-1.0	-1.3
Core inflation (CPI excluding food and energy prices)	YoY	0.5	0.7	0.2	0.4	0.5	-
Producer Price Index (PPI)	YoY	-1.5	-1.6	-1.3	-1.6	-2.7	-2.9
Production							
Sold production of industry[2]	YoY	-1.9	4.2	1.7	0.3	8.1	1.7
	MoM SA	-1.1	1.1	0.3	0.3	2.0	0.4
Construction and assembly production[2]	YoY	-3.6	5.6	-1.0	-1.6	5.0	1.3
	MoM SA	-1.9	2.4	-0.6	3.2	-0.4	-0.7
Manufacturing PMI	SA	49.0	49.5	51.2	53.2	52.8	55.2
Households and labour market							
Retail sales[2]	YoY	2.8	3.0	3.7	1.4	4.0	3.3
Average paid employment in enterprise sector	YoY	0.7	0.8	0.8	0.9	1.1	1.2
	MoM	0.1	0.0	0.1	0.1	0.0	0.4
Average monthly gross wages and salaries in enterprise sector (re	YoY	3.8	3.7	4.5	3.4	4.8	5.0
	MoM	-1.4	0.2	2.1	0.8	9.7	9.8
Harmonised unemployment rate (Eurostat)	%, SA	8.6	8.5	8.3	8.2	8.0	-

1) Data in 12-month terms
2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons
Source: NBP, GUS, Eurostat, MoF calculation based on NBP, GUS data, HSBC, Markit

	Unit	2014 M07	M08	M09	M10	M11	M12
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	751 334.8	755 709.4	759 713.7	767 516.1	772 544.0	779 927.0
Domestic debt	nominal, PLN mio	488 944.4	489 307.5	493 166.3	498 963.0	503 705.9	503 067.7
	%	65.1	64.7	64.9	65.0	65.2	64.5
Foreign debt	nominal, PLN mio	262 390.5	266 401.9	266 547.5	268 553.1	268 838.0	276 859.4
	%	34.9	35.3	35.1	35.0	34.8	35.5

	Unit	2013 Q02	Q03	Q04	2014 Q01	Q02	Q03
Public debt (domestic definition)							
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
General Government debt (EU definition)							
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

Gross borrowing requirements in 2015

Financing of 2014 borrowing requirements at the level of about 47% was a result of:
- T-bond sale on domestic market: PLN 22.0bn,
- switch auctions in 2014: PLN 24.2bn,
- T-bonds buyback on foreign markets: PLN 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 March

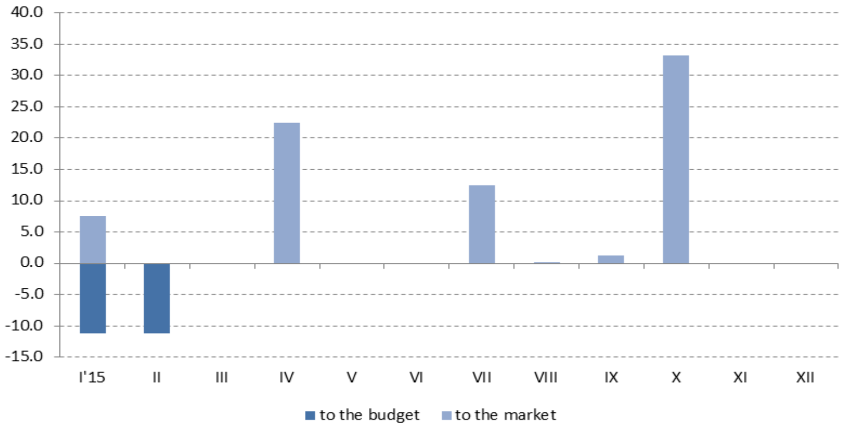
In March there will be no funds transferred from State budget to the market related to T-securities (neither TS redemptions, nor interest payments).

Flows of funds between the market and the budget*

as of February 28, 2015, PLN bn

As of February 28, 2015, to the end of the year the funds to be transferred to the market shall amount to PLN 69.7bn.

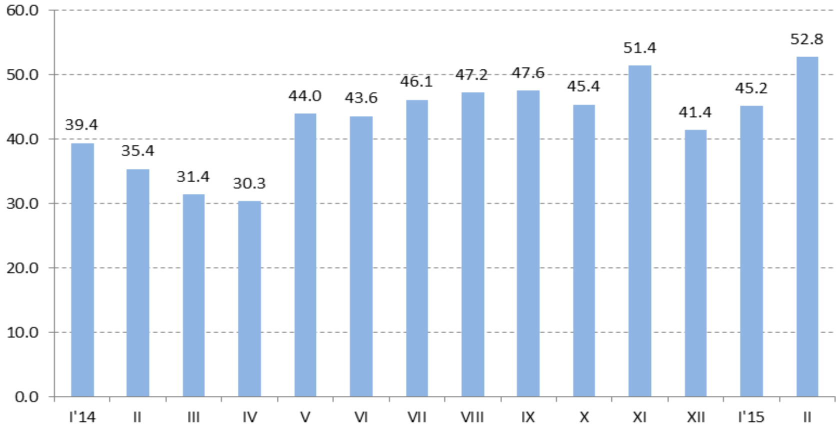
** figures include sale, redemptions and interest payments on wholesale bonds; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.*



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

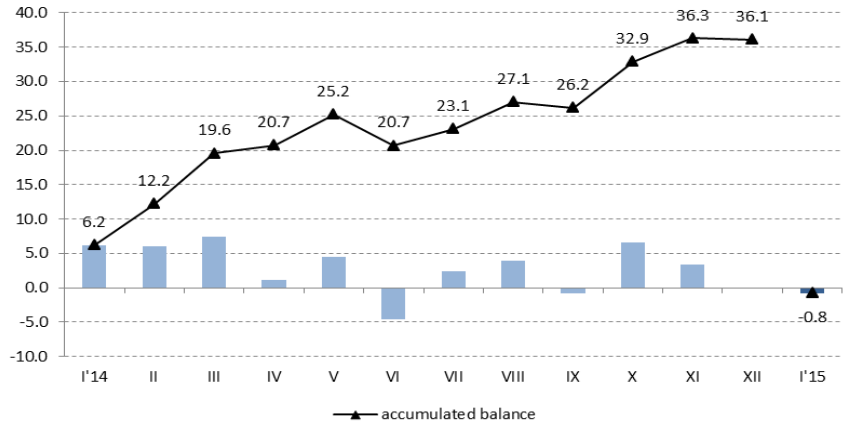
foreign currency funds include funds from debt issuance and received from the European Commission, PLN bn

The funds ensure liquidity in borrowing needs financing.



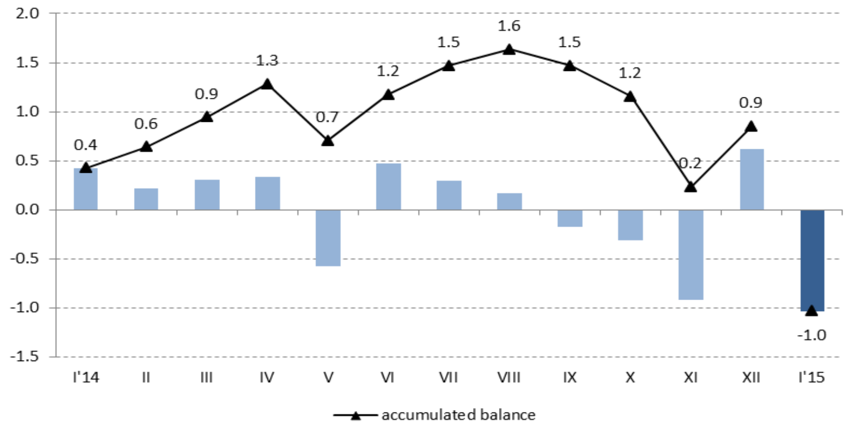
Change of debt in domestic Treasury securities held by banks
without buy-sell-back transactions with MoF, PLN bn

In January 2015 debt held by domestic banks decreased by PLN 0.8bn comparing to PLN 6.2bn increase during the same period of 2014.



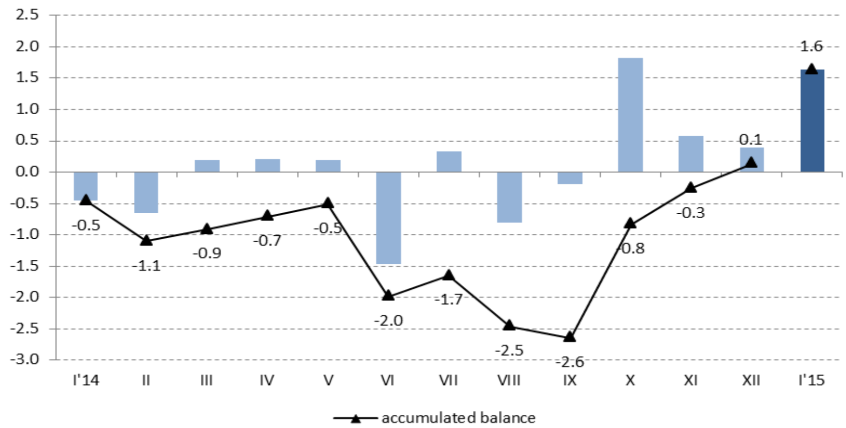
Change of debt in domestic Treasury securities held by insurance companies
PLN bn

In January 2015 there was a decrease of PLN 1.0bn in debt held by insurance companies. During the same period of 2014 there was an increase of PLN 0.4bn.



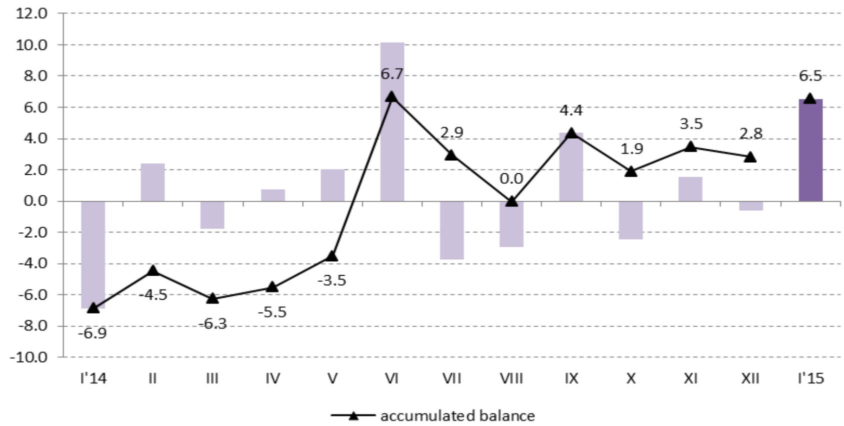
Change of debt in domestic Treasury securities held by investment funds
PLN bn

In January 2015 there was an increase of PLN 1.6bn in debt held by investment funds. During the same period of 2014 there was a decrease of PLN 0.5bn.



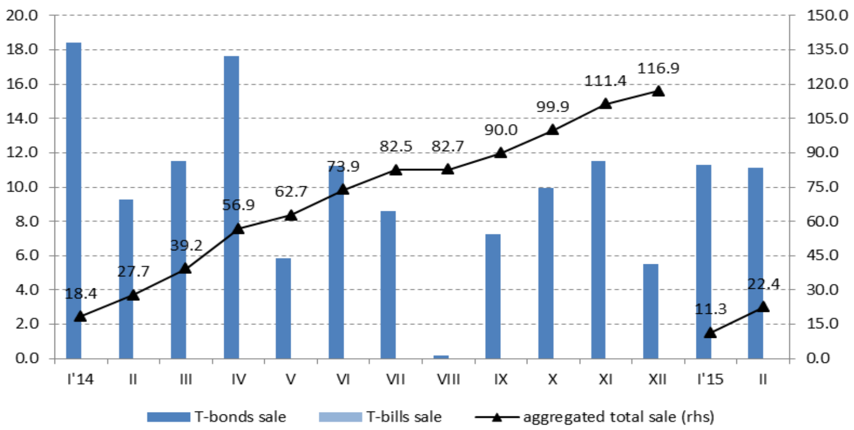
Change of debt in domestic Treasury securities held by foreign investors
PLN bn

In January 2015 inflow of foreign capital to the domestic TS market amounted to PLN 6.5bn comparing to inflow of PLN 6.9bn in the same period of 2014. Foreign investors' holdings reached the level of PLN of 202.5bn.



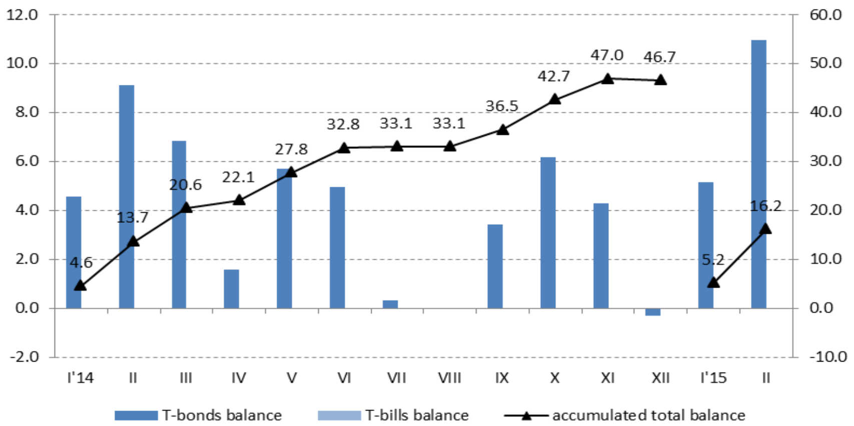
Sale of T-bonds and T-bills in the period of I-II 2015 and in 2014
settlement date, nominal amount, PLN bn

Since April 2013 T-bills have not been offered.



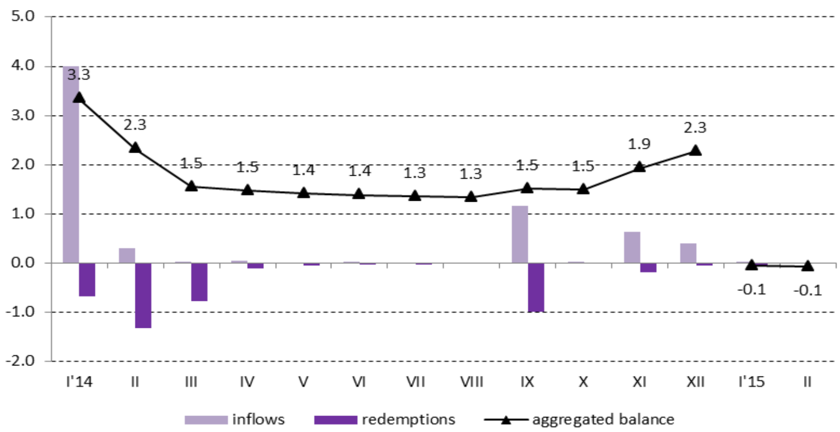
Balance of T-bonds and T-bills in the period of I-II 2015 and in 2014
settlement date, nominal amount, PLN bn

In the period of I-II 2015 indebtedness in T-bonds increased by PLN 16.2bn.



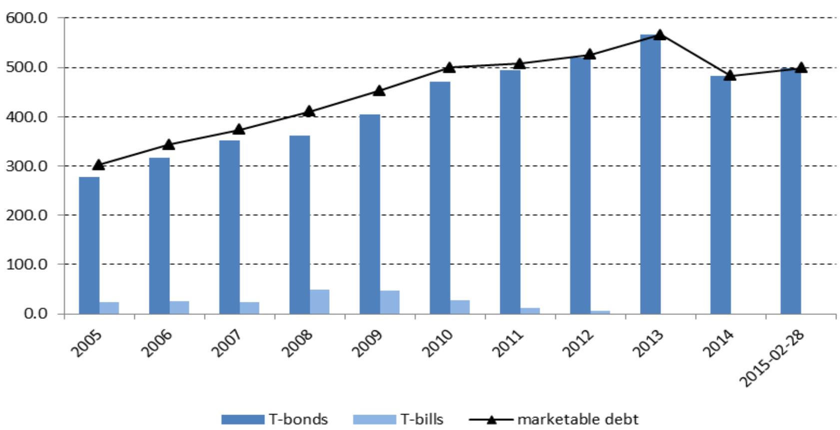
External financing in the period of I-II 2015 and in 2014
bonds issued on foreign markets and loans received from IFIs, EUR bn

Net financing on foreign markets in the period of I-II 2015 amounted to EUR -0.1bn (repayment of loans incurred from IFIs).



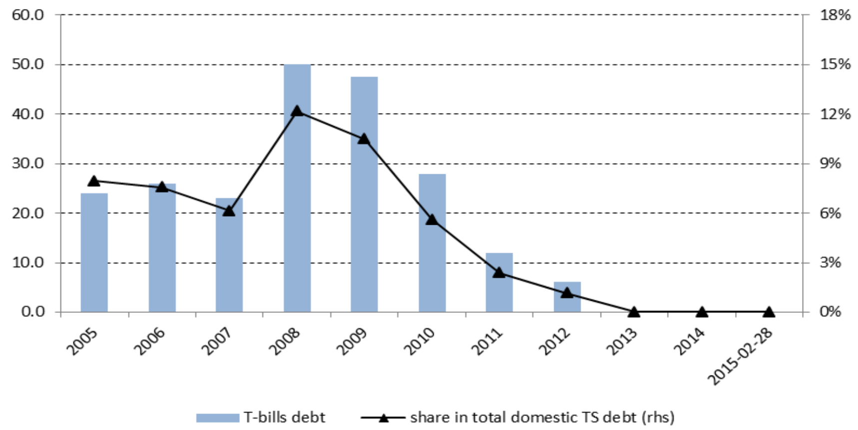
Structure of marketable debt
PLN bn

At the end of February 2015 the marketable domestic debt amounted to PLN 499.0bn comparing to PLN 482.9bn at the end of 2014.



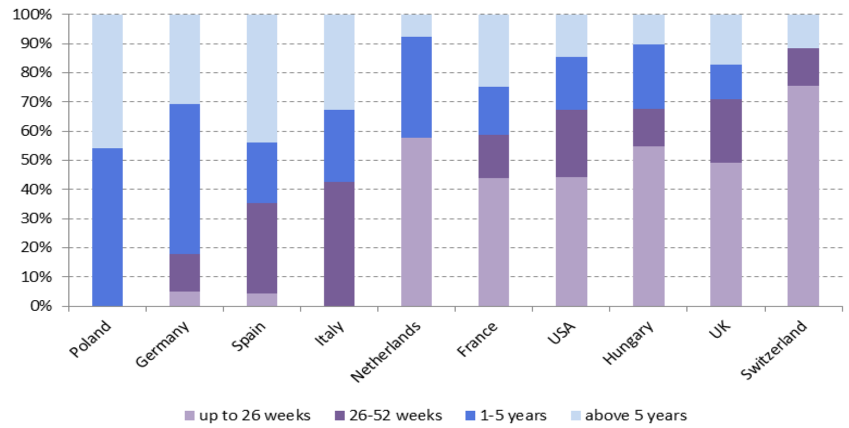
T-bills outstanding
PLN bn

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



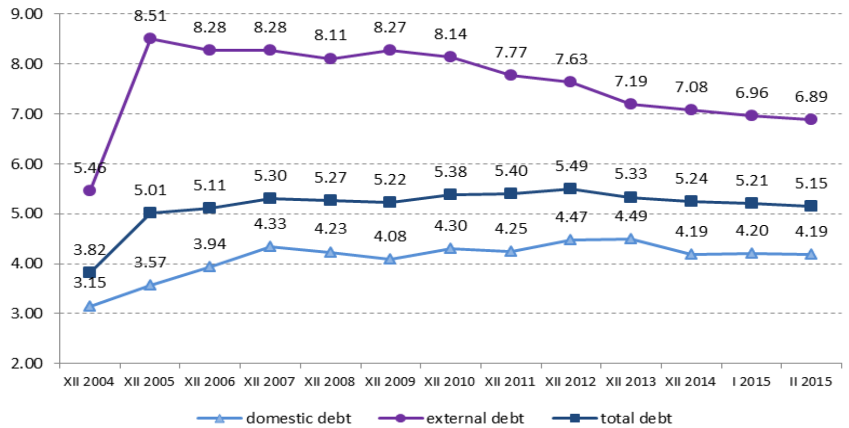
Maturity breakdown of T-securities in Poland and other countries
auctions and syndicates, local currency, ytd in the period of January 1 - February 28, 2015

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



Average maturity

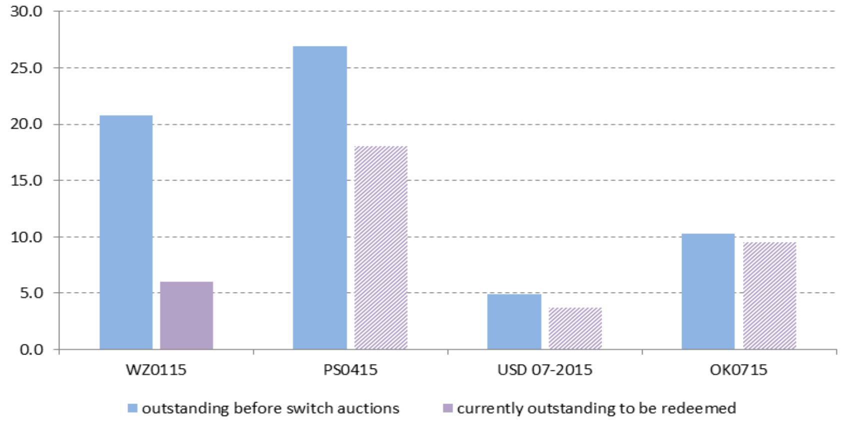
At the end of February 2015 the average maturity of domestic debt was at the level of the end-2014 and amounted to 4.19.



Reducing refinancing risk connected with T-bonds' redemptions maturing in 2015
nominal amount, as of February 28, 2015, PLN bn

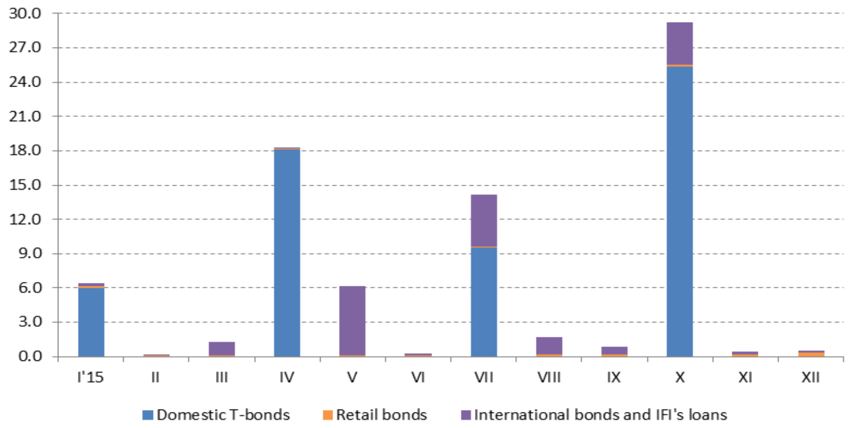
Buy-back of T-bonds maturing in 2015 (by switch or cash settlement):

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



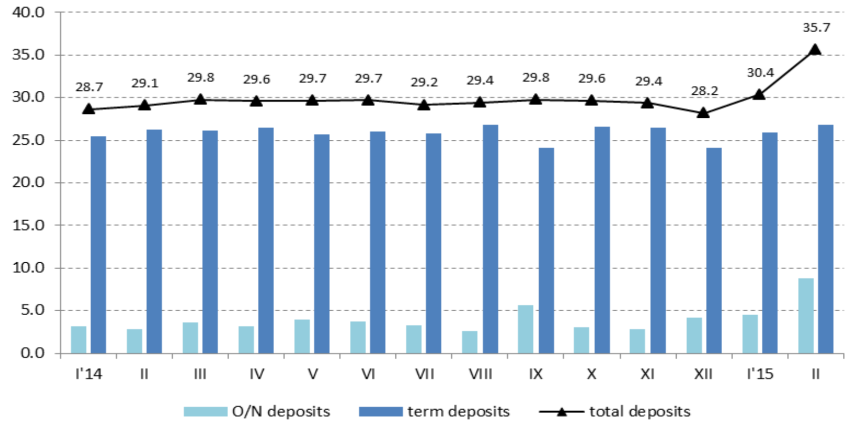
State Treasury debt redemptions in 2015
nominal amount, as of February 28, 2015; PLN bn

The nominal amount of debt to be redeemed in 2015 is equal to PLN 73.0bn, including:
- T-bonds: PLN 53.0bn,
- T-retail bonds: PLN 1.7bn,
- bonds and loans incurred on foreign markets: PLN 18.3bn.



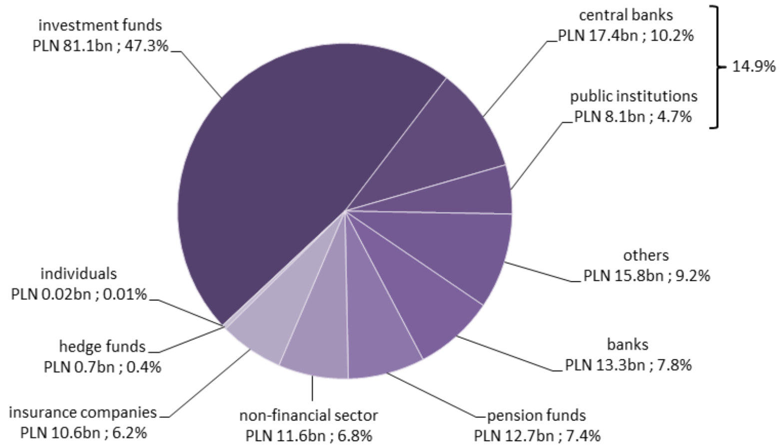
Consolidation of public finances liquidity management
PLN bn

As a result of consolidation of public finances liquidity management there were PLN 35.7bn funds accumulated at the end of February, of which PLN 26.8bn was as term deposits and PLN 8.8bn on O/N deposits. In January 2015 the second stage of the consolidation began (the number of public finance units was increased and court deposits were included).



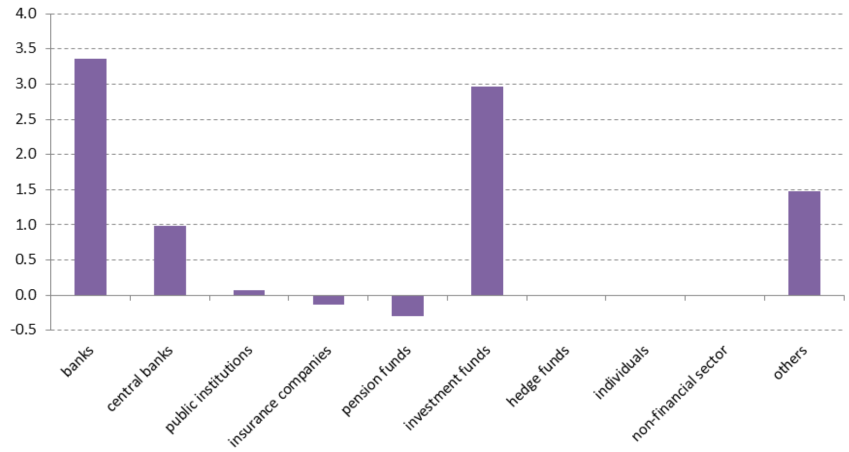
Institutional distribution of domestic Treasury securities held by non-residents
as of January 31, 2015, the chart presents data excluding omnibus accounts

The share of non-residents in the domestic Treasury securities market increased (PLN 6.5bn) and amounted to PLN 202.5bn which constituted 41.5% share in total debt in marketable Treasury bonds. The majority was dominated by stable, long-term non-banking investors. As of the end of January, central banks and public institutions' share in holdings amounted to 14.9%.



Change of debt in domestic Treasury securities held by non-residents by institutional distribution
as of January 31, 2015

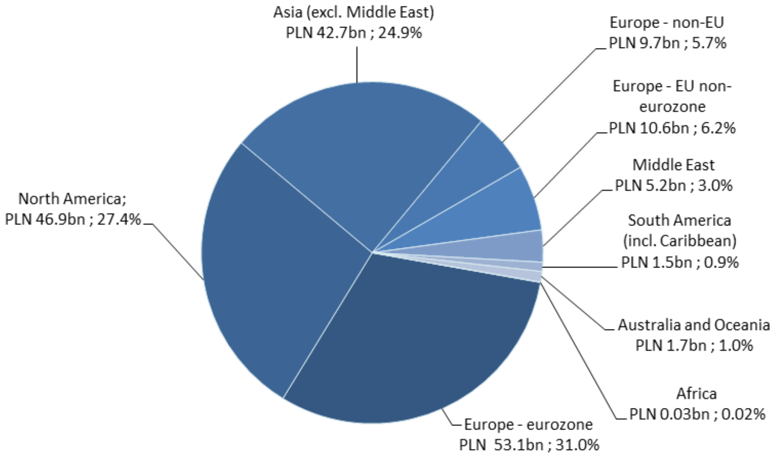
In January 2015 the highest increase in T-securities portfolio was noted by banks and investment funds (PLN 3.4bn and PLN 3.0bn, mom respectively). The lowest, on he other hand, was recorded by pension funds (above PLN 0.3bn).



Geographical distribution of domestic Treasury securities held by non-residents

as of January 31, 2015, excluding omnibus accounts

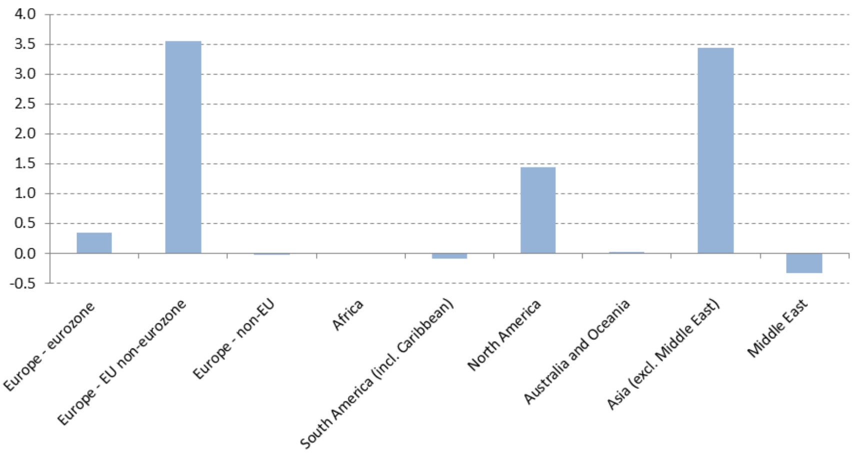
Geographical structure of domestic T-bonds held by non-residents, as well as institutional distribution, is well-diversified.



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

as of January 31, 2015, PLN bn

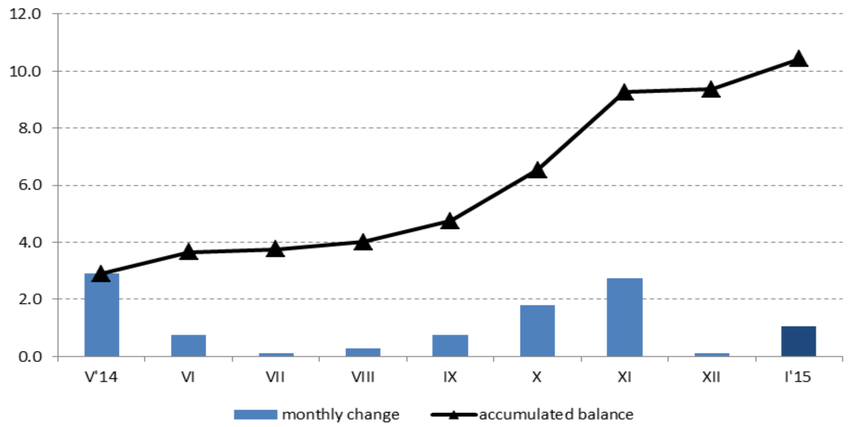
In January 2015 the most significant increase in involvement was recorded by European Union members excluding eurozone and Asian entities (excluding Middle East) which amounted to PLN 3.6bn and PLN 3.4bn respectively, when comparing to the previous month. On the other hand, the highest decrease occurred in Middle East investors' portfolio (PLN 0.3bn).



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

as of January 31, 2015, PLN bn

Involvement of central banks and public institutions in the Polish debt market in the period of April 2014 to the end of January 2015, when the detailed information is available, increased by PLN 10.4bn. In January the increase amounted to PLN 1.1bn.



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

as of January 31, 2015, 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	45 690.6	29.68%
Luxembourg	29 791.1	19.35%
Japan	18 701.2	12.15%
United Kingdom	8 836.0	5.74%
Norway	7 847.1	5.10%
Thailand	6 846.2	4.45%
Germany	6 569.8	4.27%
Ireland	6 543.0	4.25%
Netherlands	4 158.1	2.70%
France	3 233.5	2.10%
United Arab Emirates	1 871.9	1.22%
Switzerland	1 673.9	1.09%
Australia	1 584.9	1.03%
Austria	1 543.4	1.00%
Others	9 052.4	5.88%
Total	**153 943.0**	**100.00%**

Rating agencies' comments

Standard & Poor's Rating Services: Outlook On Poland Revised To Positive On Steady Economic Growth; Ratings Affirmed

06-02-2015 r.

We expect economic growth in Poland will be broad-based, leading to a convergence of Polish incomes with those of wealthier EU states.

Poland's sound macroeconomic management, stable public finances, and moderate external financing needs also underpin growth prospects.

We are therefore revising our outlook on Poland to positive and affirming the 'A-/A-2' foreign currency and 'A/A-1' local currency sovereign ratings.

The positive outlook reflects our view that sound growth prospects will translate into higher income levels and improved creditworthiness over the forecast horizon.

(…) The outlook revision reflects our expectation that income levels in Poland will rise consistently on the back of broad-based and balanced economic growth, thereby improving the economy's resilience and capacity to bear debt. The ratings on Poland remain supported by its strong, open, and competitive economy. The economy benefits from a floating exchange rate regime and domestic capital markets that permit the government to finance itself in local currency at long-dated maturities.

The lower contribution of net exports to growth should raise the current account deficit gradually above 3% of GDP over the coming years. However, Poland's demonstrated strength in absorbing EU funds and a revival in foreign direct investment (FDI) should comfortably finance the bulk of these deficits (…).

Lower debt and the low interest rate environment continue to contain the government's interest burden.

(…) Given Poland's strong political commitment to exit the European Commission's excessive deficit procedure this year or next, we forecast deficits will decline to 2.7% of GDP in 2017 and stay at that rate, helped by solid growth in tax-rich domestic demand.

(…) Poland's growth prospects remain strong, and we anticipate that its external imbalances will remain steady and financed predominantly by FDI and EU funds. Poland benefits from some important buffers that should help keep external borrowing costs down. These include a flexible exchange rate regime, which helps the National Bank of Poland (NBP) pursue an independent monetary policy. Furthermore, Poland still has a flexible credit line with the International Monetary Fund, which was recently reduced to $23 billion and is expected to be phased out over the coming years.

The positive outlook reflects a one-in-three likelihood that we could raise the ratings on Poland over the coming two years. This could materialize if Polish incomes continue to converge with those of wealthier EU states on the back of more broad-based economic growth. We could also consider raising the ratings if our view of Poland's institutional and governance effectiveness continued to improve, not least in light of the upcoming general elections in October 2015. We could consider an upgrade if external debt metrics improved faster than anticipated in our baseline scenario.

Fitch Ratings: Poland

24-02-2015

Key Rating Drivers

Rating Affirmed: *Poland's 'A−' rating is supported by strong economic fundamentals, including a credible macroeconomic framework. Membership of the EU underpins political stability and institutional strength. Government debt (49% of GDP in 2014) is in line with peers and the government deficit is narrowing.*

Rebound in GDP Growth: *In 2014, real GDP grew 3.3% (from 1.7% in 2013), supported by domestic demand in the context of high job creation (unemployment rate down to 8.0%), low inflation and easing of monetary policies. Fitch Ratings expects real GDP to continue to grow at around 3% in 2015 and 2016 as domestic demand continues to expand, a new EU funding cycle begins (EUR105.8bn or 26% of 2014 GDP) and European economies (75% of exports, 25% to Germany) gradually improve.*

Tightening Fiscal Policy: *Fitch expects the general government deficit to decline to 2.8% of GDP in 2015 from 3.2% in 2014, and to remain below the 3% threshold in the medium term. This will allow Poland to exit the European Union's (EU) Excessive Deficit Procedure. The main drivers of the tightening are the recovery in GDP growth, increased tax compliance and VAT receipts, and the introduction of the Stabilising Expenditure Rule to cap spending growth.*

Government Debt Stabilising: *Fitch expects general government debt to remain stable at 49% of GDP by 2016, consistent with the declining government deficit. The one-off transfer of assets from the pension funds to the social security led to an increase in the share of non-residents and FX in the central government debt, to 58% and 35%, respectively, in 2014 from 52% and 30%, respectively, in 2013. The authorities aim to return it to the 2013 levels.*

Rating Sensitivities

Improved External Metrics: *A positive action would require improvement in external debt metrics that appear weak relative to peers.*

Rising Income: *Convergence towards EU income levels would support the rating.*

Fiscal Discipline: *Continued tightening in the government deficit and strengthening in the government balance sheet would support the rating. A negative action could be triggered by relaxation of the fiscal stance.*

Strengths

Poland's macro performance has been strong, driven by solid fundamentals and a sound policy framework, including a credible inflation targeting regime and a flexible exchange rate. It is the only country in Europe that avoided a recession at the time of the financial crisis. GDP growth and inflation are more stable than rating peers.

The banking system is well capitalised, liquid and profitable and has proved resilient to global shocks. Its reliance on cross-border parent banks' funding has declined.

(…) Public finances are supported by a deep and stable revenue base.
The level of official foreign reserves is high, at USD100bn at end-2014, equivalent to 4.2 months of current account payments. The IMF precautionary line, recently renewed for two years, would provide emergency external funding if needed.

Budget Tightening Should Allow Poland to Exit from the Excessive Deficit Procedure

(…) Gross general government debt reduced markedly in 2014, to 49% of GDP (from 56% in 2013) thanks to a transfer of a pension funds' holdings of government securities to the social security funds, leading to a cancellation of Treasury bonds 2. Fitch judges this development to be rating-neutral as unfunded future pension liabilities have increased by an equal amount.

Fitch expects the general government debt to stabilise at around 49% of GDP by 2016, as one-third of the gross borrowing requirements for 2015 was pre-financed in 2014. In the longer term, under the assumption of the primary balance averaging -0.4% of GDP and GDP growth of 3% every year, government debt would decline to 47% of GDP by 2022.

Gradual Strengthening in External Position

(…) Poland renewed its Flexible Credit Line with the IMF in January 2015. Poland has access to USD23bn (4.3% of GDP) for two years, which is in line with the previous credit line (USD34bn). Poland will continue to treat the credit line as a precautionary buffer against financial market volatility, especially given the potential disruptive impact of the gradual monetary policy tightening in the US.

Depreciation Against the Swiss Franc Highlights Risks of FX Exposure

(…) The depreciation in the PLN/CHF will increase debt principal repayment, but this will be partly offset by lower interest rate as most loans are tied to CHF Libor. The Ministry of Finance expects the net increase in debt repayment (principal and interest) to be 0.1% of GDP3. The ultimate effect will depend on the size and duration of CHF appreciation. Assuming no further depreciation in the PLN, the negative impact on households' consumption will be limited.

(…) Polish banks are generally strong, well-capitalised and liquid, which will help absorb the shock.

Japan Credit Rating Agency: JCR Affirmed A/A+ (FC/LC) Ratings and A JPY Bonds' Ratings on Poland
25-02-2015

Rationale
(1) The ratings are primarily supported by the country's diversified economic structure resilient to external shocks, the progress on fiscal consolidation with containment of the government debt, and an effective utilization of substantial inflow of EU funds. (…) The country's fiscal deficit has been gradually narrowing amid the progressing fiscal consolidation and accelerating economic recovery, with the government debt reduced through pension reforms.

(2) (…) Supported by the prudent economic and fiscal policies and sustained growth of domestic demand, the economy kept growing uninterruptedly throughout the periods of global financial turbulence.

(3) The country's financial system has been staying relatively stable. (…) The strict financial supervision has helped contain risky foreign-currency loans. CHF's steep appreciation since January 2015 may entail additional credit costs, but the banks have ample financial capacity to absorb such risks. Thanks to their accumulated profits, the banks have a solid capital base, with their capital adequacy ratio standing at 14.9% at the end of September 2014.

(4) Supported by its stable political base, the coalition government led by the Civic Platform and Polish Peasants' Party has been carrying out fiscal consolidation in a moderate way, paying heed to economic recovery. The general government fiscal deficit (ESA 2010) in 2014 was estimated at slightly above 3% of GDP, a modest improvement from 4.0% in 2013. (…) The Kopacz administration is committed to push through its fiscal consolidation with the aim of having the EU's excessive deficit procedure removed as early as possible. JCR expects the fiscal deficit to narrow moderately in 2015 and 2016, supported by the stabilizing expenditure rule that sets a limit on overall spending growth and the effects resulting from the pension reforms amid the prospect of stable economic growth.

European Commission's economic forecast for Poland

European Commission, *European economic forecast, winter 2015 Poland: Growth is proving resilient*
05-02-2015

Despite external headwinds, Poland's real GDP growth was strong in 2014. Economic activity is set to remain robust on the back of solid domestic demand, bolstered by improving labour market conditions and rising real disposable incomes. The Russia-Ukraine crisis and weak demand in the euro area are now forecast to weigh less than previously expected. Public finances are projected to improve.

(…) Economic activity is expected to accelerate somewhat in 2016, as external demand picks up. Real GDP growth is projected to ease to 3.2% in 2015 and then rebound to 3.4% in 2016.

Public finances are set to gradually improve

The general government deficit is estimated to have fallen to 3.6% of GDP in 2014, from 4% in 2013. The deficit in 2014 is projected to have improved thanks to restraint on the expenditure side, in particular due to a partial freeze of public wages.

(…) The forecast for the deficit is projected to fall to 2.9% in 2015. Government revenues are set to benefit from the pace of economic growth.

(…) In 2016, the general government deficit is projected to improve to 2.7%, on the back of the projected acceleration of GDP.

Full report available on the website: http://ec.europa.eu/economy_finance/eu/forecasts/2015_winter/pl_en.pdf

MoF comments

Artur Radziwiłł, Undersecretary of State, MoF
06-02-2015, PAP interview

(…) European Commission's forecasts are very similar to those of the MoF. It is difficult for two independent analysts to obtain exactly the same forecasts. We think that the GDP forecast for 2015 is realistic.

When comparing to the autumn forecast, the Commission approached very closely our estimations now. In autumn the difference was much bigger. Thus, the upward change in the EC's forecasts is something that we welcome [EC increased the forecast of GDP in Poland for 2015 to 3.2% and for 2016 to 3.4%].

Also estimated growth number for 2016 is in line with our expectations. In general, we believe that so called potential growth in Poland is closer to 4% than 3%. At the moment there are many external factors that prevent us from achieving the potential. We assume that those external factors will improve in the future, allowing us to reach the mentioned level of 4%.

Piotr Marczak, Director of the Public Debt Department, MoF
27-02-2015

Good auction results in February, inflow of EU funds and good effects of the second stage of consolidation of public finances liquidity management resulted in increase in liquid funds in PLN and hard currencies to the level of about PLN 52bn.

By the end of February the units covered by the public funds liquidity consolidation in the second stage were to transfer their accounts to BGK and place deposits on the account of the Minister of Finance. Also all non-long term court deposits were to be allocated within the ministerial accounts. We assumed that through temporary use of these funds, the borrowing requirements in 2015 will be lower by ca. PLN 4.5bn and in 2016 – by additional ca. PLN 1.5bn. Current results of the consolidation let us assume that the whole plan will be achieved already this year with a surplus.

In March we will offer only long term T-bonds. Good market situation let us increase the level of average maturity without the pressure on the yield curve and our liquid funds reserves provide us with a comfort of flexible formation of T-bonds supply. There is a possibility to issue on international markets, where we can currently observe the lowest ever yields of government bonds.

In January foreign investors increased their holdings in PLN bonds by PLN 6.5bn, which was mainly a result of an increase in involvement of banks, asset managers, entities from the category "others" and – again – central banks and public institutions (PLN 1.1bn). The increase noted by the latter group was a result of inflow of capital from Asian central banks (PLN 1.2bn) and European non-EU countries (PLN 0.4bn), as well as capital outflow of banks and public institutions from the Middle East (PLN -0.6bn).

The greatest increase was noted by investors from UK (PLN 3.6bn, banks mainly), Thailand (PLN 3.1, asset managers mainly), France (PLN 1.7bn, banks mainly) and, for the first time after a longer break, investors from USA (PLN 1.5bn). Austrian, Japanese and Luxembourg holders decreased their exposure by, respectively, PLN 1.0bn, PLN 0.7bn and PLN 0.7bn.

In February the balance of foreign investors flows is slightly negative.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN MARCH 2015

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
12 MAR 2015	16 MAR 2015	WZ0124/ DS0725/ WS0428	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.

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
26 MAR 2015/ 30 MAR 2015	choice will depend on the market conditions, excluding bonds offered at the first auction	PS0415	18,097
		OK0715	9,506
		DS1015	25,370

Buy-back auction of USD nominated T-bonds

Auction/ settlement date	Buy-back T-bonds		Nominal value of buy-back (USD m)
	Series	Maturity date	
5 MAR 2015/ 9 MAR 2015	USD20150716	16 JUL 2015	up to 500
	USD20151019	19 OCT 2015	

Offer on retail market

T-bond	Issue price	Coupon
DOS0317	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0318	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.40% in the first coupon period
COI0319	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.60% in the first coupon period
EDO0325	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 3.00% in the first coupon period