

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

September 2015

### THE MOST IMPORTANT INFORMATION

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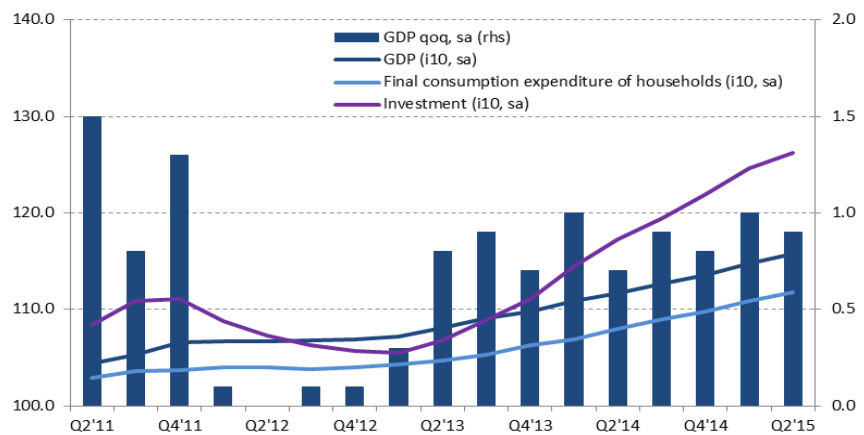


## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland

constant prices, seasonally adjusted data  
source: Eurostat

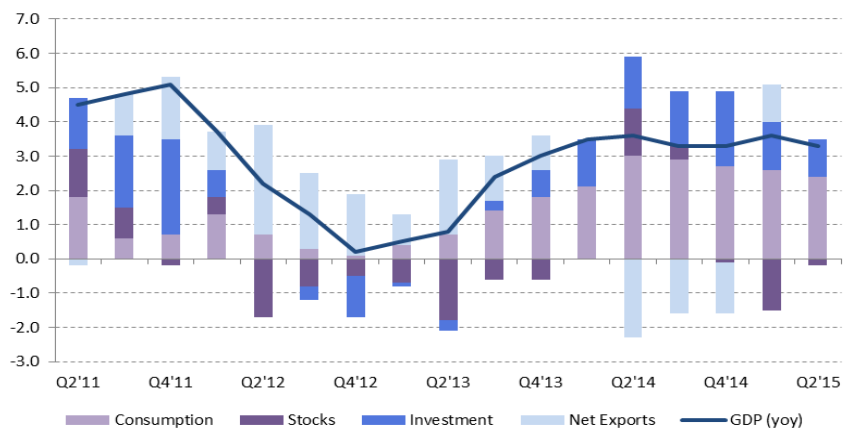
A steady recovery started in the second quarter of 2013. In the second quarter of 2015 Polish economy continued its upward trend: GDP increased by 0.9% (qoq, sa), following an increase by 1.0% in the first quarter of 2015.



### Contributions to Poland's GDP growth

percentage points  
source: GUS, MF own calculation

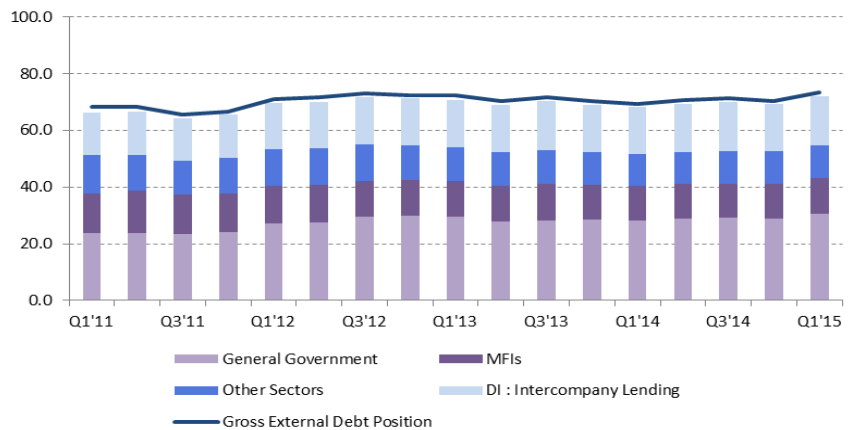
In the second quarter of 2015 GDP was 3.3% higher than a year ago. Domestic demand was the only source of GDP growth mainly due to private consumption and investments. However the pace of investments growth (in yoy terms) was considerably lower than in the previous quarter. The net exports contribution was neutral. Only inventories had negative contribution to GDP growth in the second quarter of 2015, however its magnitude was smaller than in the previous quarter.



### Poland's gross external debt position

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

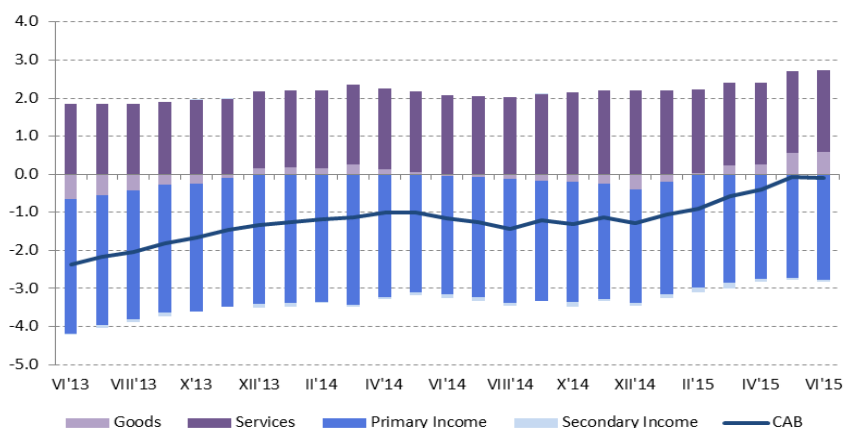
Gross external debt reached EUR 306.3bn (73.6% of GDP) at the end of the first quarter of 2015 and was EUR 14.9bn higher than in the previous quarter. The share of general government sector debt in total debt increased slightly to 41.7%. Official reserve assets reached EUR 93.4bn at the end of June 2015 and remained broadly adequate, covering nearly 6 months of imports.



### Current account balance

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

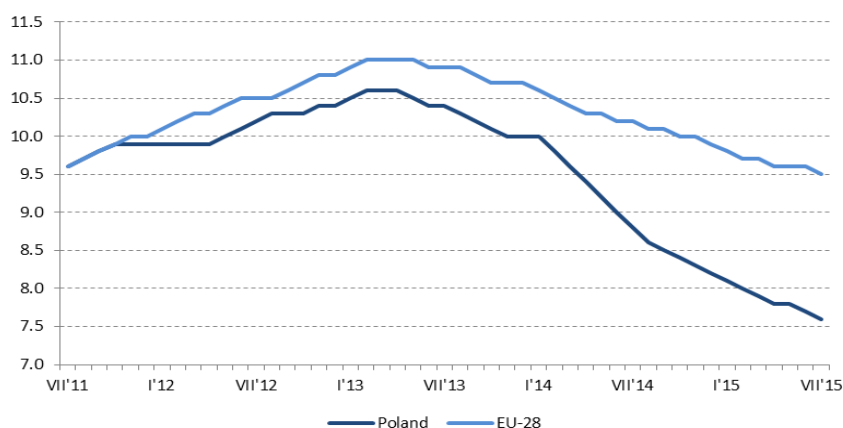
In June 2015, according to the preliminary data, C/A deficit amounted to 0.1% of GDP (in 12-month terms of GDP) and remained at the level from the previous month. C/A deficit was with a wide margin covered by long term capital (mainly EU structural funds inflow). Within the first half of 2015 the current account balance was positive.



## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend observed since mid-2013. In July 2015 it amounted to 7.6% (versus 9.5% in EU on average) and it was 0.1 pp lower than in the previous month and 1.2 pp lower than a year before.

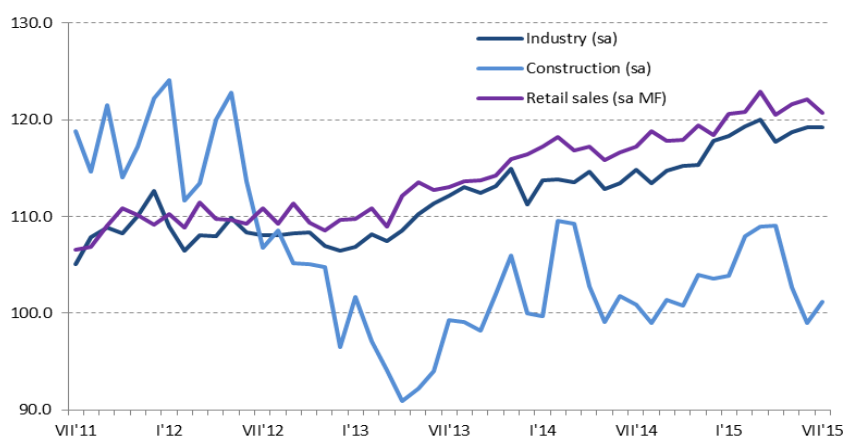


## Monthly indicators of the real sector

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

In July 2015 industrial output stabilised (mom, sa). In consequence production was 3.8% higher than a year ago (nsa). In July 2015 construction production went up by 2.2% (mom, sa) following a significant decline in two previous months. As a result, its level was 0.1% (nsa) lower than a year before.

In July 2015 real retail sales decreased by 1.1% (mom, sa MoF). As a result, its level was 3.5% (nsa) higher than in the same month of 2014.



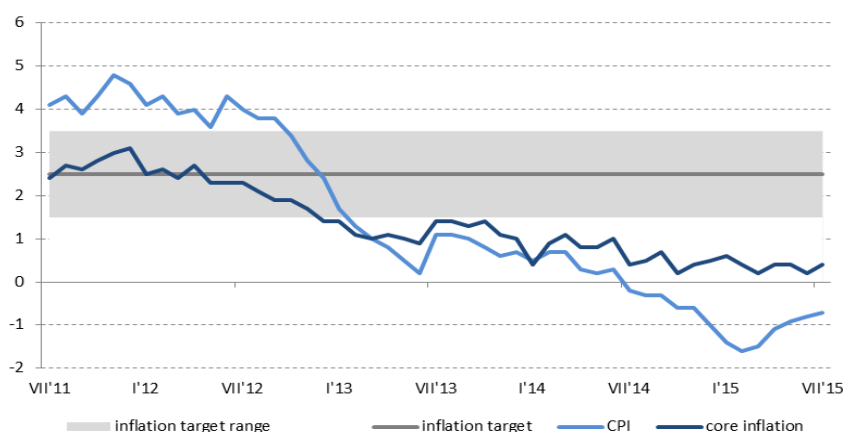
## Inflation

percent, yoy  
source: GUS, NBP

Since July 2014 consumer prices have been lower than a year before mainly because of drop of commodity prices (energy and food). During the last months the scale of deflation has been diminishing and in July 2015 deflation reached 0.7% (yoy).

Core inflation (CPI excluding food and energy prices) is still positive and in July 2015 amounted to 0.4% (yoy).

Deflation in producer prices has been lasting over 2.5 years (1.7% yoy in July 2015).

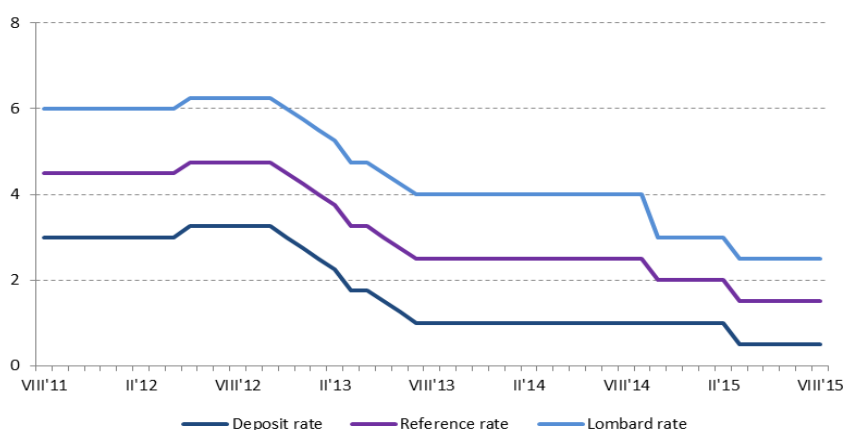


## NBP interest rates

percent, end of period  
source: NBP

In July 2015 the Monetary Policy Council kept NBP's interest rates unchanged, with the reference rate at 1.5%.

According to the latest Reuters poll (August, 10) the NBP interest rates are forecast to rise in the third quarter of 2016.





## II. STATISTICAL DATA

	Unit	2014				2015	
		Q01	Q02	Q03	Q04	Q01	Q02
<b>GDP</b>							
Gross domestic product	YoY	3.5	3.6	3.3	3.3	3.6	3.3
	QoQ SA	1.0	0.7	0.9	0.8	1.0	0.9
Final consumption expenditure of the households sector	YoY	3.0	3.0	3.2	3.0	3.1	3.0
	QoQ SA	0.6	1.0	0.9	0.7	1.0	0.8
Final consumption expenditure of the general government sector	YoY	0.5	6.4	5.3	6.4	3.3	2.4
	QoQ SA	1.2	2.2	0.6	1.1	0.3	0.7
Gross fixed capital formation	YoY	11.4	8.7	9.2	8.6	11.4	6.4
	QoQ SA	3.0	2.5	1.8	2.1	2.2	1.3
Exports of goods and services	YoY	7.6	6.0	3.6	5.6	8.0	5.2
	QoQ SA	1.5	1.5	1.0	1.9	1.7	0.8
Imports of goods and services	YoY	8.0	11.7	7.4	9.5	6.0	5.4
	QoQ SA	3.6	1.6	1.2	2.3	1.4	0.4
Gross value added	YoY	3.1	3.3	3.3	3.1	3.3	3.1
	QoQ SA	1.0	0.2	0.8	0.6	0.8	1.0
<b>Contribution to GDP growth</b>							
Final consumption expenditure of the households sector	pp.	2.0	1.8	2.0	1.5	2.0	1.9
Final consumption expenditure of the general government sector	pp.	0.1	1.2	0.9	1.2	0.6	0.5
Gross fixed capital formation	pp.	1.4	1.5	1.6	2.2	1.4	1.1
Changes in inventories	pp.	0.0	1.4	0.4	-0.1	-1.5	-0.2
Balance of trade turnover	pp.	0.0	-2.3	-1.6	-1.5	1.1	0.0
Gross value added	pp.	2.8	2.9	2.9	2.7	2.9	2.8
Taxes less subsidies	pp.	0.7	0.7	0.4	0.6	0.7	0.5
<b>GDP structure</b>							
Final consumption expenditure of the households sector	% of GDP	65.6	60.9	60.2	51.4	64.2	59.8
Final consumption expenditure of the general government sector	% of GDP	17.9	18.4	17.7	18.9	17.6	18.0
Gross fixed capital formation	% of GDP	12.9	17.4	18.7	27.5	13.8	18.1
Changes in inventories	% of GDP	0.9	0.5	0.8	0.4	-0.7	0.3
Exports of goods and services	% of GDP	48.5	47.8	47.6	44.2	51.0	49.5
Imports of goods and services	% of GDP	46.8	46.0	45.9	43.2	46.8	46.6
<b>Balance of payments</b>							
	Unit	2015		M03	M04	M05	M06
		M02					M07
Goods: exports (EUR)	YoY	10.2	13.9	9.2	9.4	10.9	-
Goods: exports (EUR)	YoY	2.6	7.8	7.8	-0.2	10.0	-
Current account balance <sup>1)</sup>	% of GDP	-0.9	-0.6	-0.4	-0.1	-0.1	-
Balance on goods <sup>1)</sup>	% of GDP	0.0	0.2	0.3	0.6	0.6	-
Official Reserve Assets	EUR mln	86 899.3	90 558.5	91 819.1	93 875.4	93 395.0	90 207.7
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7
Core inflation (CPI excluding food and energy prices)	YoY	0.4	0.2	0.4	0.4	0.2	0.4
Producer Price Index (PPI)	YoY	-2.8	-2.5	-2.7	-2.1	-1.4	-1.7
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	5.0	8.8	2.4	2.8	7.4	3.8
	MoM SA	0.8	0.6	-1.9	0.9	0.4	0.0
Construction and assembly production <sup>2)</sup>	YoY	-0.3	2.9	8.5	1.3	-2.5	-0.1
	MoM SA	3.9	0.9	0.1	-5.9	-3.6	2.2
Manufacturing PMI	SA	55.1	54.8	54.0	52.4	54.3	54.5
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	2.4	6.6	1.5	4.7	6.6	3.5
Average paid employment in enterprise sector	YoY	1.2	1.1	1.1	1.1	0.9	0.9
	MoM	0.0	0.1	0.0	0.0	0.0	0.1
Average monthly gross wages and salaries in enterprise sector (zł)	YoY	4.9	6.5	4.8	4.1	3.3	4.0
	MoM	1.1	5.6	-2.5	-2.9	0.9	1.5
Harmonised unemployment rate (Eurostat)	%, SA	8.0	7.9	7.8	7.8	7.7	7.6
<small>1) Data in 12-month terms  2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons  Source: GUS, NBP, Eurostat, MoF calculation based on NBP, GUS data, HSBC, Market</small>							
<b>State Treasury debt</b>							
	Unit	2015					
		M01	M02	M03	M04	M05	M06
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	790 807.8	802 803.2	806 423.2	802 033.1	810 231.0	817 800.7
Domestic debt	nominal, PLN mio	510 347.7	526 273.2	532 455.5	530 447.3	534 836.5	539 257.6
	%	64.5	65.6	66.0	66.1	66.0	65.9
Foreign debt	nominal, PLN mio	280 460.1	276 530.0	273 967.7	271 585.8	275 394.5	278 543.1
	%	35.5	34.4	34.0	33.9	34.0	34.1
<b>Public debt (domestic definition)</b>							
	Unit	2013	2014			2015	
		Q04	Q01	Q02	Q03	Q04	Q01 <sup>1)</sup>
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	882 293.0	782 104.7	793 556.4	802 133.0	826 762.7	848 046.7
Domestic debt	nominal, PLN mio	614 321.8	505 904.8	518 785.8	522 068.5	534 780.7	559 060.8
	%	69.6	64.7	65.4	65.1	64.7	65.9
Foreign debt	nominal, PLN mio	267 971.2	276 199.9	274 770.5	280 064.5	291 982.0	288 985.9
	%	30.4	35.3	34.6	34.9	35.3	34.1
<b>General Government debt (EU definition)</b>							
General Government debt	nominal, PLN mio	926 115.3	816 404.8	827 333.2	839 082.8	866 570.3	885 727.1
<small>1) preliminary data  Source: MoF</small>							

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Gross borrowing requirements in 2015

Financing of the State budget borrowing requirements at the level of 81% was a result of:

- T-bond sale on domestic market: PLN 59.6bn,
- switch auctions: PLN 8.4bn,
- T-bond sale on foreign markets: PLN 6.3bn (EUR 1.0bn, CHF 0.6bn),
- loans incurred from IFIs: PLN 0.3bn,
- switch auctions in 2014: PLN 24.2bn,
- T-bonds buyback on foreign markets: USD 0.4bn,
- and higher than planned financial resources at the end of 2014: PLN 26.0bn.

#### Gross borrowing requirements in 2015 (acc. to 2015 Budget Act)

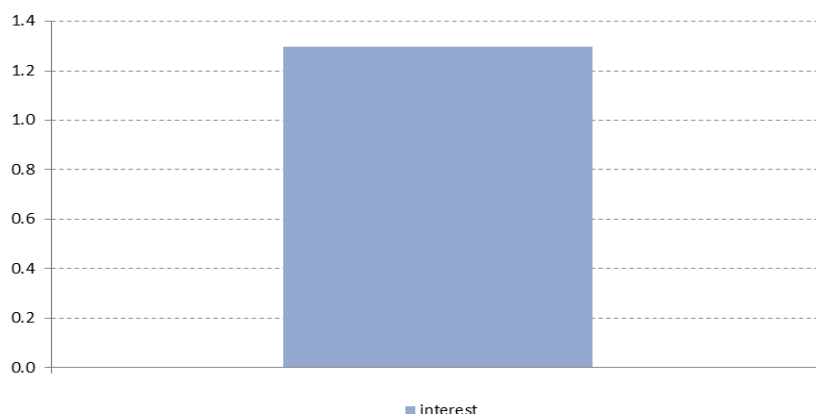
Total: PLN 154.8bn, of which:



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

as of August 31, 2015, PLN bn

In September 2015 flow of funds from the State budget shall amount to PLN 1.3bn (interest payments).

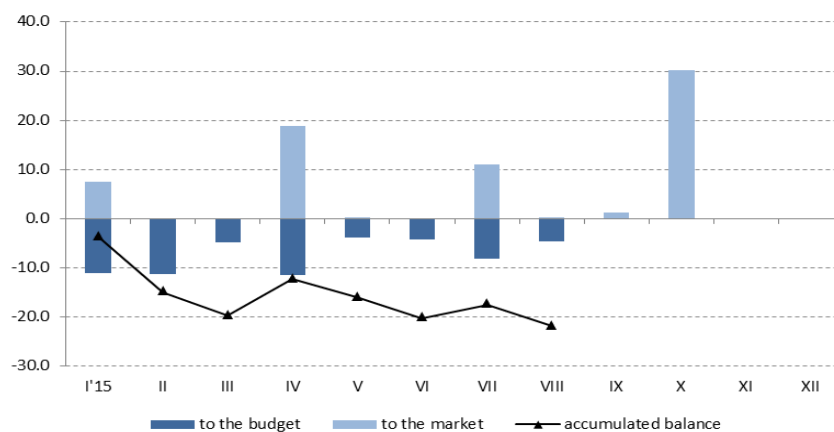


#### Flows of funds between the market and the budget\*

as of August 31, 2015, PLN bn

As of August 31, 2015, to the end of the year the funds to be transferred to the market shall amount to PLN 31.4bn.

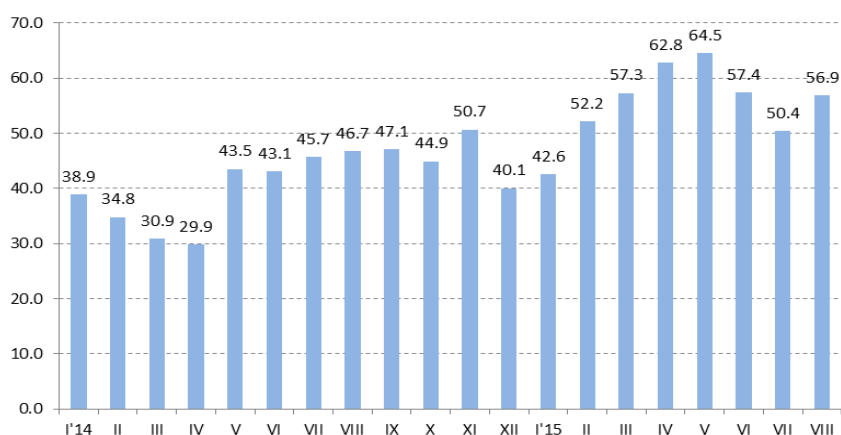
\* figures include sale, redemptions and interest payments on wholesale bonds; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



#### 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.



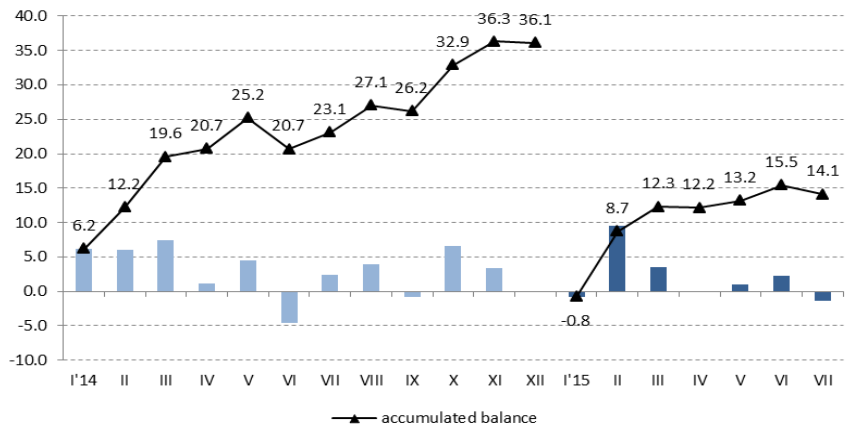


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

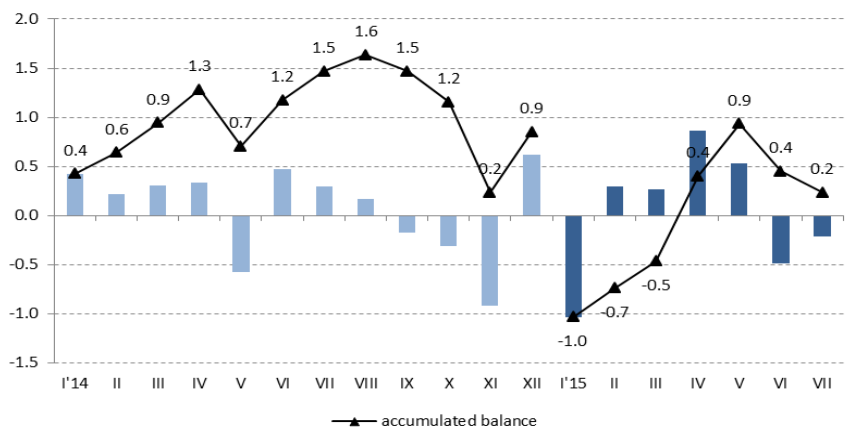
In the period of I-VII 2015 debt held by domestic banks increased by PLN 14.1bn comparing to PLN 23.1bn increase during the same period of 2014.



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

PLN bn

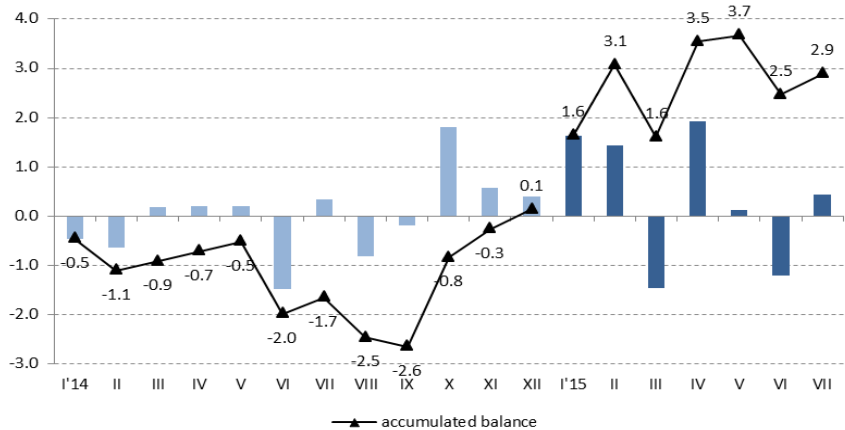
In the period of I-VII 2015 there was an increase of PLN 0.2bn in debt held by insurance companies. During the same period of 2014 there was an increase of PLN 1.5bn.



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

PLN bn

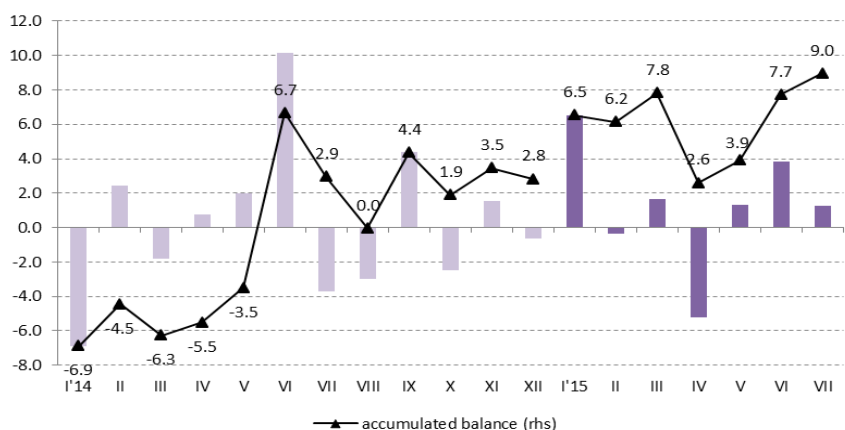
In the period of I-VII 2015 there was an increase of PLN 2.9bn in debt held by investment funds. During the same period of 2014 there was a decrease of PLN 1.7bn.



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

PLN bn

In the period of I-VII 2015 inflow of foreign capital to the domestic TS market amounted to PLN 9.0bn comparing to inflow of PLN 2.9bn in the same period of 2014. Foreign investors' holdings reached the level of PLN 205.0bn.

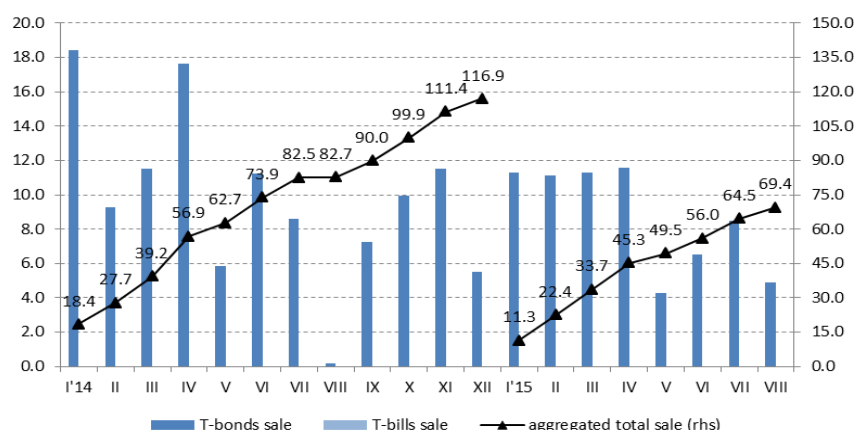


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



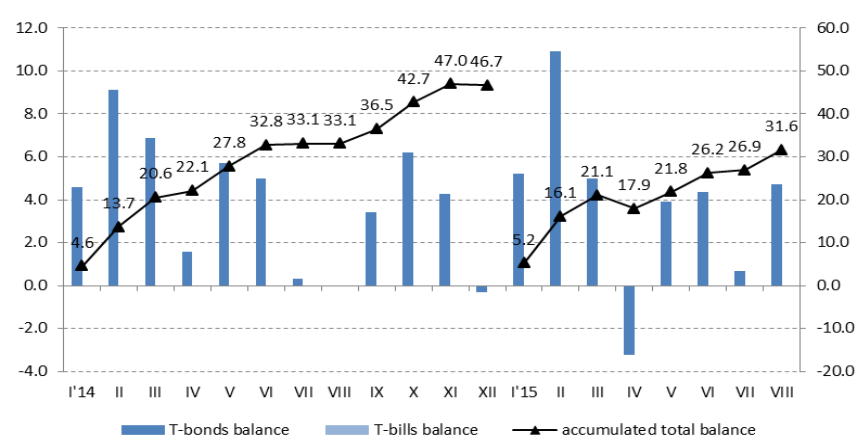
#### Sale of T-bonds and T-bills in the period of I-VIII 2015 and in 2014 settlement date, nominal amount, PLN bn

Since April 2013 T-bills have not been offered.



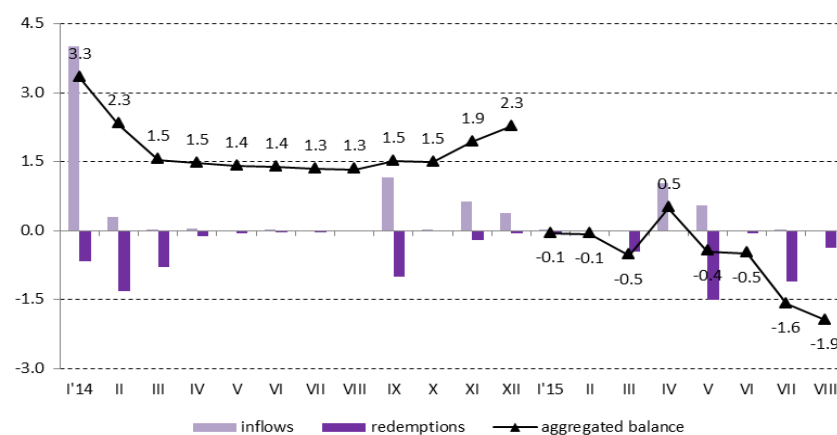
#### Balance of T-bonds and T-bills in the period of I-VIII 2015 and in 2014 settlement date, nominal amount, PLN bn

In the period of I-VIII 2015 indebtedness in T-bonds increased by PLN 31.6bn.



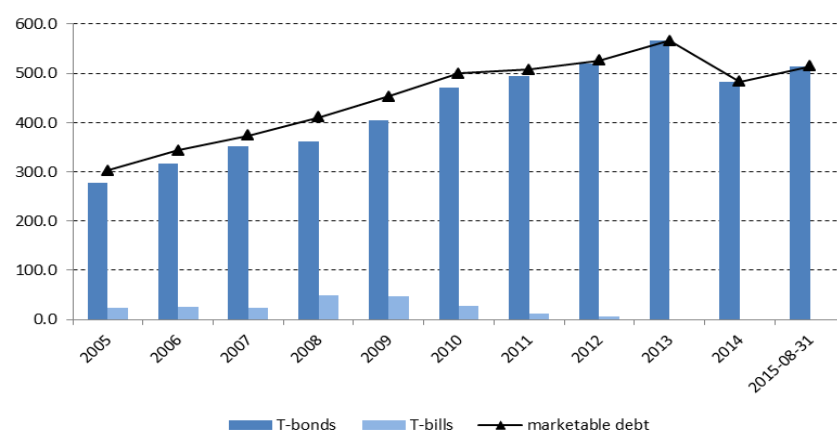
#### External financing in the period of I-VIII 2015 and in 2014 bonds issued on foreign markets and loans received from IFIs, EUR bn

Net financing on foreign markets in the period of I-VIII 2015 was negative and amounted to EUR 1.9bn. T-bonds issuance was EUR 1.5bn. Loans incurred from IFIs were at the level of EUR 0.1bn. Apart from those, EUR 6.7bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2014.



#### Structure of marketable debt PLN bn

At the end of August 2015 the marketable domestic debt amounted to PLN 514.2bn comparing to PLN 482.9bn at the end of 2014.



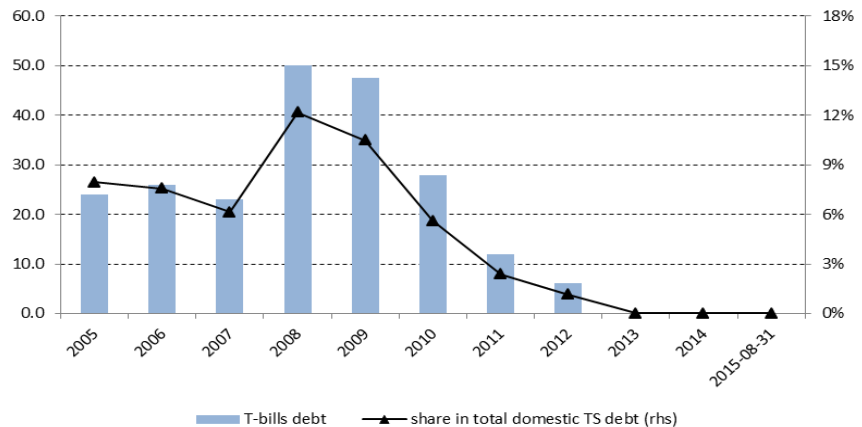


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### T-bills outstanding

PLN bn

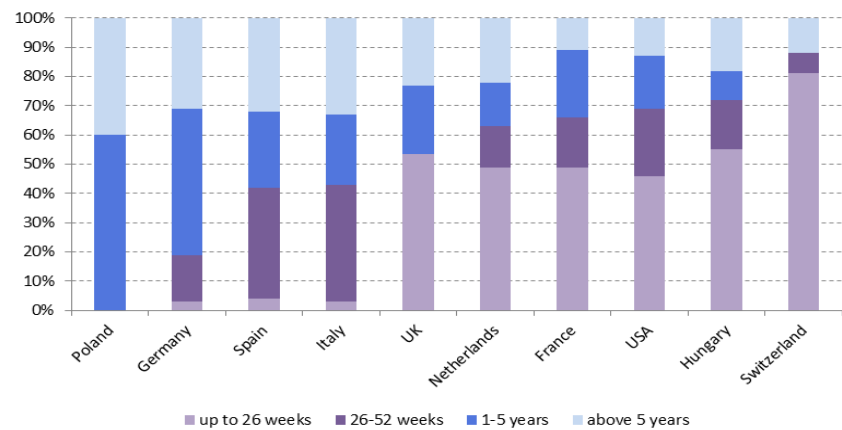
Since August 2013 there has been no T-bills outstanding.



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

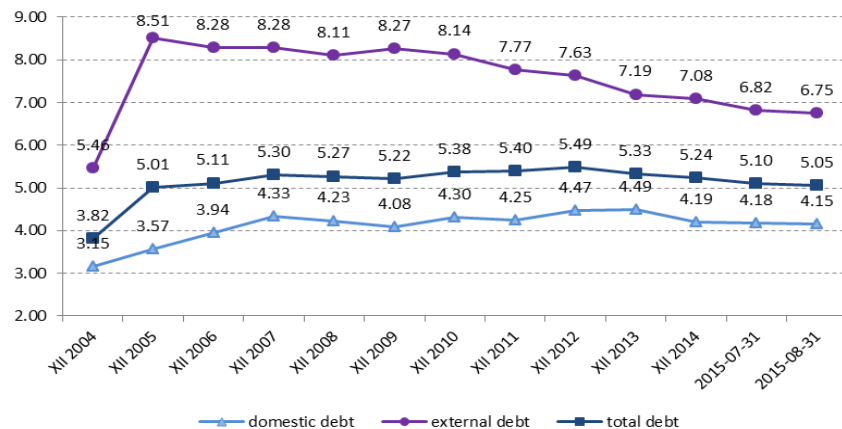
auctions and syndicates, local currency, ytd in the period of January 1 - August 31, 2015

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



#### Average maturity

At the end of August 2015 the average maturity of domestic debt decreased to 4.15 in comparison with the end-2014 figure (4.19).

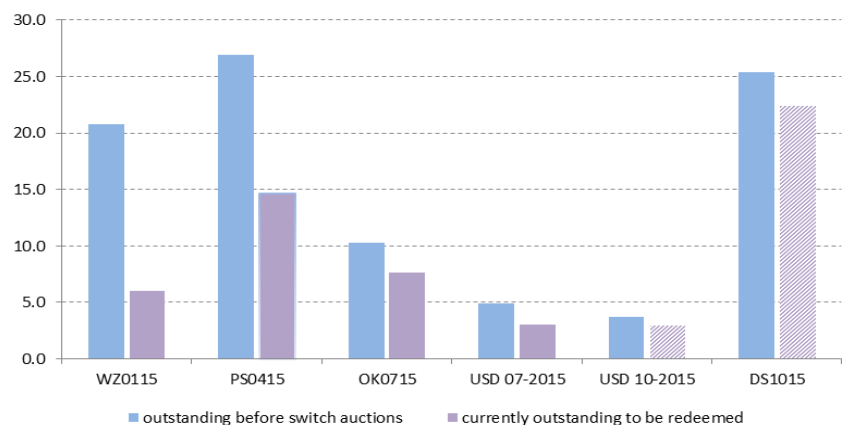


#### Reducing refinancing risk connected with T-bonds' redemptions maturing in 2015

nominal amount, as of August 31, 2015, PLN bn

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

- WZ0115: PLN 14.7bn (71%),
- PS0415: PLN 12.2bn (45%),
- OK0715: PLN 2.6bn (26%),
- USD 07-2015: PLN 1.9bn (USD 0.6bn) (36%),
- USD 10-2015: PLN 0.8bn (USD 0.2bn) (21%),
- DS1015: PLN 2.9bn (12%).





### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

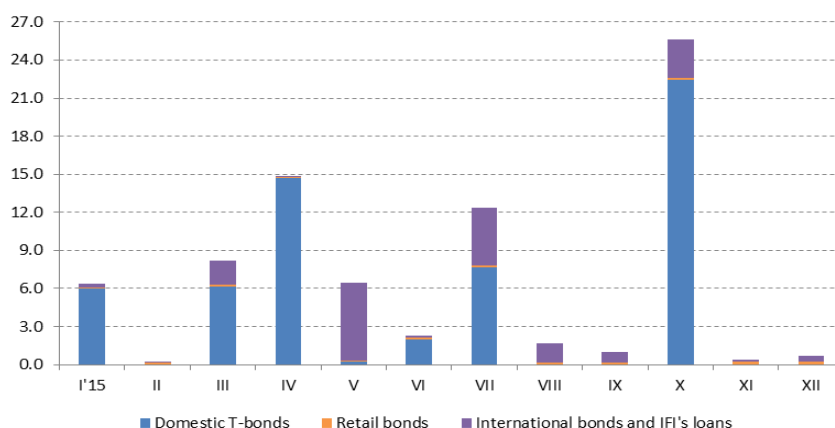


#### State Treasury debt redemptions in 2015

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

The nominal amount of debt to be redeemed in 2015 is equal to PLN 27.8bn, including:

- T-bonds: PLN 22.4bn,
- retail T-bonds: PLN 0.8bn,
- bonds and loans incurred on foreign markets: PLN 4.5bn.

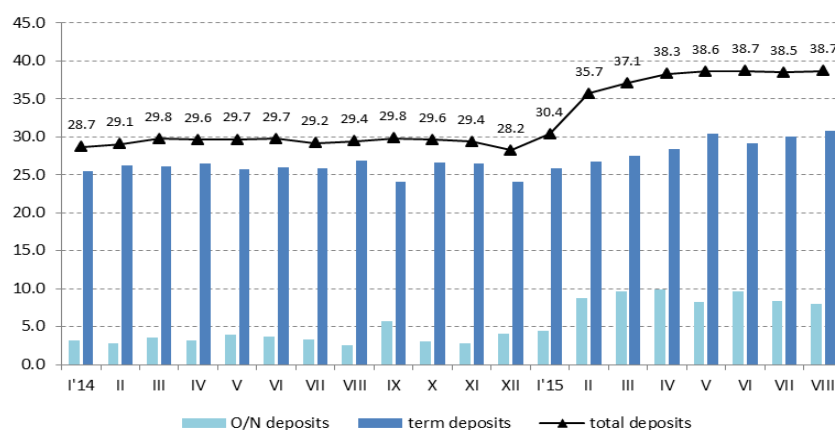


#### Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 38.7bn funds accumulated at the end of August, of which PLN 30.8bn was as term deposits and PLN 8.0bn on O/N deposits.

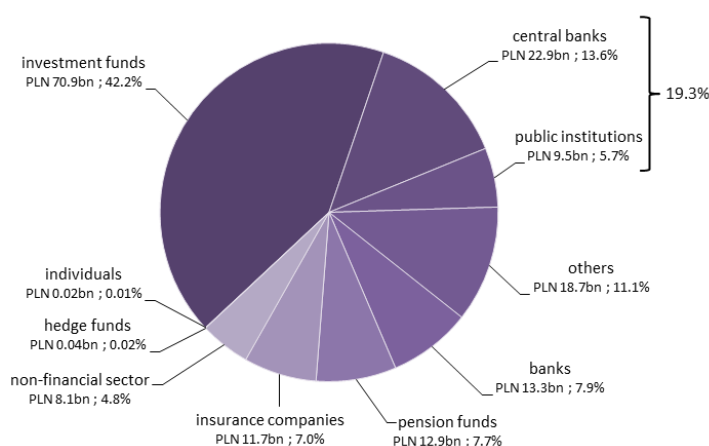
In the period of January-February 2015 the second stage of the consolidation took place (the number of public finance units was increased and court deposits were included).



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

as of July 31, 2015, the chart presents data excluding omnibus accounts

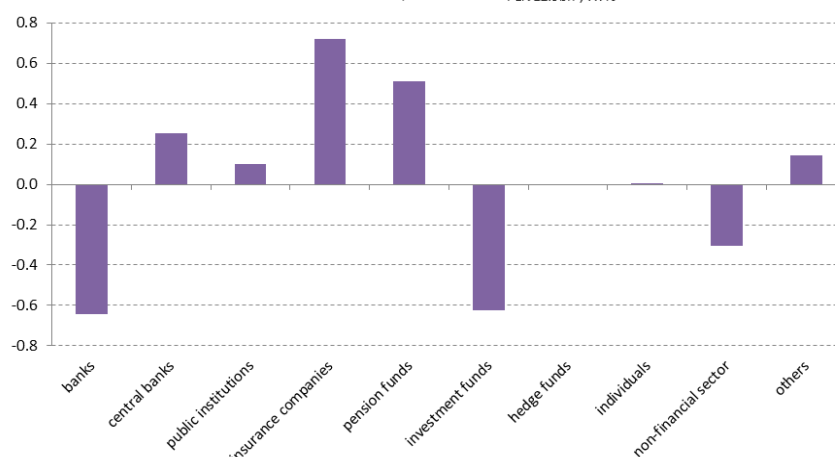
The share of non-residents in the domestic Treasury securities market increased (PLN 1.2bn) and amounted to PLN 204.9bn which constituted 40.2% share in total debt in marketable T-bonds. The majority was dominated by stable, long-term non-banking investors. As of the end of July, central banks and public institutions' share in holdings amounted to 19.3%.



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

as of July 31, 2015, PLN bn

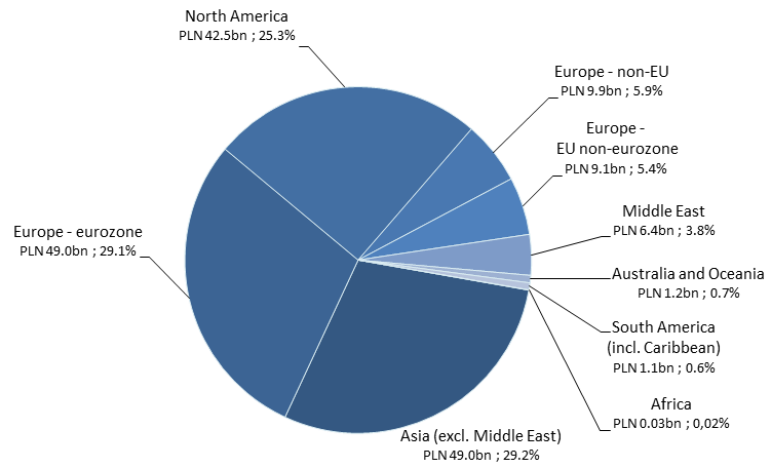
In July 2015 the highest increase in T-securities portfolio was noted by insurance companies and pension funds (PLN 0.7bn and PLN 0.5bn, respectively). The highest decreases, on the other hand, were recorded by banks and investment funds (PLN -0.6bn each).



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

as of July 31, 2015, excluding omnibus accounts

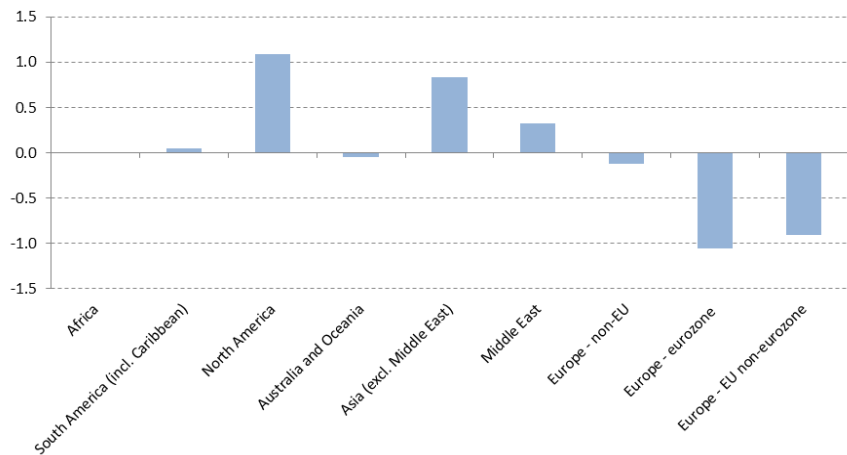
Geographical structure of domestic T-bonds held by non-residents, as well as institutional distribution, is well-diversified.



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

as of July 31, 2015, PLN bn

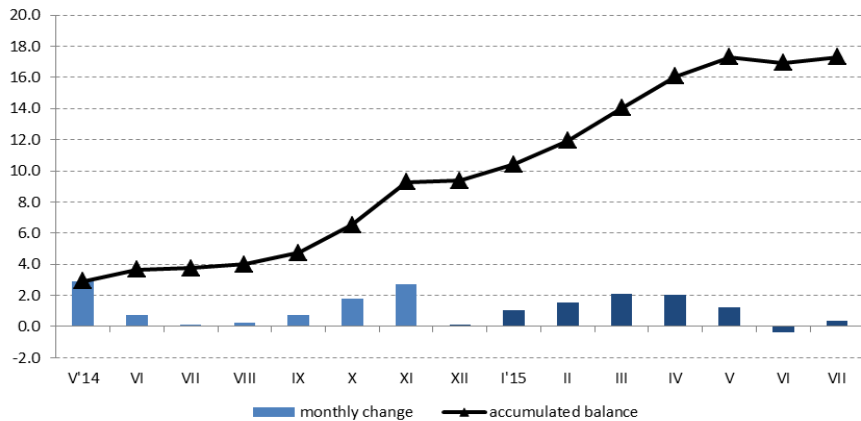
In July 2015 the most significant increases in holdings were recorded by entities from North America (PLN 1.1bn), then Asian investors (PLN 0.8bn). The highest decrease occurred in the eurozone (PLN -1.6bn) and the other EU countries (PLN -0.9bn).



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

as of July 31, 2015, PLN bn

In July, after a once-time outflow noted a month before, central banks and public institutions were again increasing their involvement in the Polish debt market by PLN 0.4bn, which increased by PLN 17.3bn in the period of April 2014 to the end of June 2015 (when the detailed information is available).



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

as of July 31, 2015, excluding omnibus accounts and central banks, countries with more than 1% share, PLN m

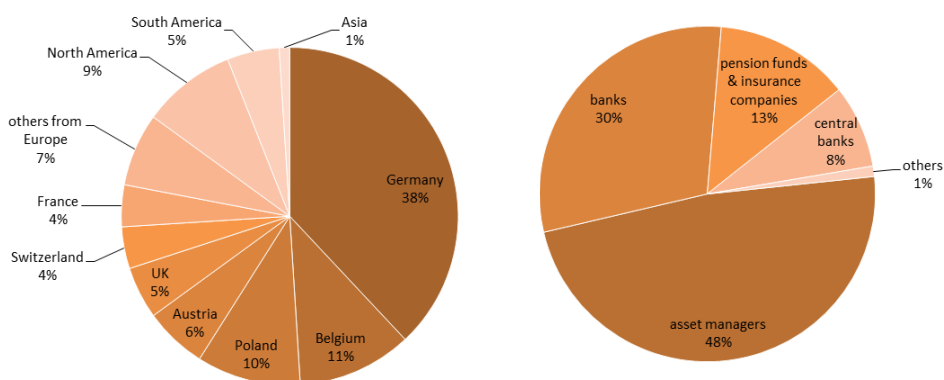
Countries	Outstanding in nominal value (PLN mio)	Share in non-residents holdings (%)
United States	41 179.1	28.35%
Luxembourg	25 323.5	17.43%
Japan	19 111.2	13.16%
Norway	8 164.0	5.62%
Thailand	7 397.4	5.09%
United Kingdom	6 942.6	4.78%
Germany	6 289.8	4.33%
Ireland	5 858.6	4.03%
Netherlands	3 589.6	2.47%
France	3 433.1	2.36%
Austria	3 001.3	2.07%
United Arab Emirates	2 158.5	1.49%
Switzerland	1 506.1	1.04%
Others	11 317.6	7.79%
<b>Total</b>	<b>145 272.3</b>	<b>100.00%</b>

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### EUR denominated bond issue

Amount:	EUR 1bn
Maturity date:	September 9th, 2025
Coupon:	1.500%
Spread:	48 pb over mid-swap
Yield:	1.592%
Launch date:	September 2nd, 2015
Bookrunners:	BNP Paribas, Deutsche Bank, HSBC i J.P. Morgan



#### MoF comments

**Dorota Podedworna-Tarnowska, Undersecretary of State, MoF**  
 11-08-2015, interview for Puls Biznesu magazine, B. Godusławski

**Puls Biznesu: Greek crisis brought about considerable turbulences on financial markets. However this has rather not noticeable effect on Polish assets. Why there was such a resilience of Treasury securities and zloty?**

Dorota Podedworna-Tarnowska, undersecretary of state: For some time now, we have been perceived as a safe haven for investors. Poland stands out from other countries for its higher economic development combined with balanced economy and stable situation in the public finances. The statistics presenting foreign investors structure confirms this fact as they show that Polish bonds are bought by institutions with long-term and stable investment policies. Thus, no outflow of foreign capital from the Polish market was recorded but, on the contrary, in the first half of the year foreign investors increased their portfolios in Polish bonds by PLN 7.7bn, which was higher than a total of 2013 and 2014. Importantly, this increase was noted mainly by most stable investors - central banks and public institutions. In the first half of 2015 the latter increased their Polish bonds holdings by PLN 7.6bn and their share in the foreign investors structure rose to 19%. And this is the best certificate of high quality that our debt is bought by investors of the greatest reliability around the world.

**Then, is there a need for keeping the IMF's flexible credit line (FCL)?**

We have started to reduce the value of the instrument. At the moment, we have an access to FCL resources of about USD 22bn, compared to USD 32bn available in the past. Thus, the cost of accessing the credit line decreased as well. Further decisions on using FCL will depend on the situation on financial markets and geopolitical circumstances. One shall remember that FCL provides insurance to the country and protects against sudden market turbulences. The market knows that we have such insurance which has been reflected in the prices of our bonds and has had a positive impact on the debt servicing costs. If we could not effectively finance our borrowing needs through bond issuances, then we would use money from the IMF. Per saldo, the balance is positive but this shall be renewed cyclically, taking into account current circumstances.

**This year's borrowing needs equal PLN 155bn. How much has been financed yet and when is it anticipated that the Ministry of Finance will complete the process?**

After the latest bond auction we have financed slightly more than 80% of the total borrowing needs for 2015. The moment when we complete the financing depends mainly on the market situation. The situation during summer break did not create favourable conditions for issuing big amounts. Additionally, having substantial resources in foreign currency, we have moved to the fourth quarter drawing significant pool of loans from international financial institutions. Thus, today it will be most likely October when we finance our borrowing requirements.

**Have you succeeded in saving any money on debt servicing costs? This is still one of the highest items of State budget expenditure.**

We will save at least PLN 1.7bn on debt servicing this year. This has resulted from the lower interest rates, lower by PLN 12bn borrowing needs of 2014, as well as conducting higher, versus estimations, amount of market transactions that increased the expenditures of 2014 but simultaneously reduced the expenses of 2015. Final savings from debt servicing surely will be greater but still it is too early to indicate the certain amounts.

**Work on designing the draft budget act for 2016 has already begun. What are the MoF's forecasts on the level of borrowing requirements for 2016?**

The forecast of the borrowing needs will be determined after the final level of net borrowing needs - mainly the budget deficit and the European funds budget - is known. Today we know that in 2016 we must redeem bonds of PLN 110bn. This amount shall reduce as a result of switches and buy-back auctions. We have PLN 91.2bn in nominal value to be rolled over on the domestic market and equivalent of about EUR 4.7bn on the foreign market.

**Will the Ministry issue on foreign markets this year?**

We have a lot of inquiries coming from foreign investors from the core markets who want to buy our bonds, especially denominated in US dollar and euro. It is worth noticing here that investors from those regions have come back to the PLN-denominated debt market. For the first time since a few months those investors increased their holdings in zloty-denominated bonds. Currently we have equivalent of about EUR 9bn funds in foreign currencies on the budget accounts, additionally we will receive money from foreign loans and from the inflow of EU funds. We want to decrease the share of foreign debt in total State Treasury debt to about 30% until 2018. Hence, foreign issuances will mainly result from the process of financing on the domestic market. The better situation on the domestic market, the fewer issuances on foreign markets and, conversely, foreign financing shall secure and complete the process of issuing domestic bonds. Now the situation is favourable for the issuer – we do not have to but we may issue bonds on different markets, taking advantage of the most favourable market conditions.

**Our economy is sustainable and growing over 3.5%. Brussels closed the excessive deficit procedure against Poland a year earlier than planned. You highlighted in June 2014 that such situation would be possible and would be a super optimistic scenario which has just realized. Rating agencies seem not to notice this.**

Rating agencies determine conditions that shall be fulfilled to upgrade our rating. One of those agencies - Standard & Poor's – positively assessed our rating outlook which provides the groundwork for the upgrade in future. One of the elements that stop the agencies from upgrading the Polish rating is uncertainty connected to the forthcoming elections and their possible influence on economic decisions. However it is worth recalling that these are investors who finally rate the country which is reflected by depositing their money in Polish bonds. The increasing share of central banks in the zloty-denominated bond market shows that the real assessment done by an ever-wider group of investors is higher than the formal assessment of Poland resulting from the rating.



**Piotr Marczak, Director of the Public Debt Department, MoF**  
01-09-2015

In August we increased the reserve of funds in PLN and hard currencies to ca. PLN 57bn. After the summer break, when we limited the T-bond supply, we are planning to come back to offering a usual amount in September so that we can complete the financing this year's borrowing needs in October.

We keep a close eye on foreign markets which are returning from holidays as we do not exclude possible opportunity of increasing the reserves of foreign funds.

We would like to maintain high level of liquid funds in the coming months which will secure financing of the borrowing needs against negative market turmoil.

In July foreign investors increased their T-bonds holdings denominated in PLN by PLN 1.2bn, including central banks and public institutions which again increased their involvement in the Polish debt market after one-month break (PLN 0.4bn). In August foreign investors recorded slightly negative balance of flows.

#### Standard and Poor's comment

**Standard and Poor's: Research Update: Poland 'A-/A-2' And 'A/A-1' Ratings. Affirmed; Outlook Remains Positive**  
07.08.2015

(...) On Aug. 7, 2015, Standard & Poor's Ratings Services affirmed its 'A-/A-2' long- and short-term foreign currency and 'A/A-1' long- and short-term local currency sovereign credit ratings on Poland. The outlook remains positive.

The ratings on Poland remain supported by its sound macroeconomic management, stable public finances, and moderate external financing needs. 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. We expect 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.

(...) We expect real GDP growth in Poland will remain strong in 2015 at 3.5% as the recovery in the eurozone, its main trading partner, continues.

(...) we believe domestic demand will play a greater role over the medium term. Stronger wage growth and subdued inflation have fostered this trend by helping real incomes increase further.

(...) Domestic risks stem from the upcoming parliamentary elections and uncertainty about Poland's macroeconomic and fiscal path after the elections. However, we maintain our base-case scenario in which Poland will not deviate markedly from the sound economic management of the past (...).

After Poland's exit from the EU's excessive deficit procedure in June of this year, we expect the deficit will remain just below 3% of GDP in 2015.

(...) we expect general government debt will decrease only gradually to just over 50% of GDP in 2018 after its peak of 51% in 2016. At the same time, lower debt resulting from last year's pension change and low interest rates continue to contain the government's interest burden, which has decreased to 4.5% of general government revenues in 2015. We expect this trend will continue as Poland retains access to very favorable funding conditions. The share of foreign currency debt in total government debt remains somewhat high at 34%, as does the proportion of debt held by nonresidents at 57%. However, we expect that a moderate nominal appreciation of the Polish zloty over the longer term could stem the increase in foreign currency debt, while the rising share of long-term nonresident investors (such as foreign central banks) reduces the risk of sudden large sales of Polish government bonds.

(...) We anticipate a gradual reduction of Poland's external debt because the current account deficit will be funded largely through non-debt inflows.



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

(...) Poland's growth prospects remain strong, in our view, and we anticipate that its small current account deficits will continue to be 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 pursue an independent monetary policy, and a flexible credit line with the International Monetary Fund, which was reduced in January 2015 to \$23 billion and is expected to be phased out over the coming years.

The positive outlook reflects at least a one-in-three likelihood that we could raise the ratings on Poland over the coming 18 months. This could materialize if incomes in Poland continue to converge with those of wealthier EU states on the back of broader economic growth. We could also consider raising the ratings if our view of Poland's institutional and governance effectiveness continued to improve following the general elections in October 2015. In addition, we could consider an upgrade if Poland's external debt or fiscal metrics improved faster than we anticipate in our base-case scenario, in particular if Poland adheres to its fiscal rules while implementing structural reforms to maintain competitiveness.

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



### Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
10 SEP 2015	14 SEP 2015	WZ0126 / DS0726	2,000-4,000
24 SEP 2015	28 SEP 2015	choice will depend on the market conditions, excluding bonds offered at the first auction	2,000-6,000

*The final offer and the supply will be announced 2 days before the auction and will result from the market situation and consultations with investors.*

*The Minister of Finance is entitled to organize non-competitive auctions where bonds will be sold at a minimum clean price.*

### Offer on retail market

T-bond	Issue price	Coupon
DOS0917	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0918	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI0919	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO0925	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period