

State budget borrowing requirements' financing plan and its background

February 2016

THE MOST IMPORTANT INFORMATION

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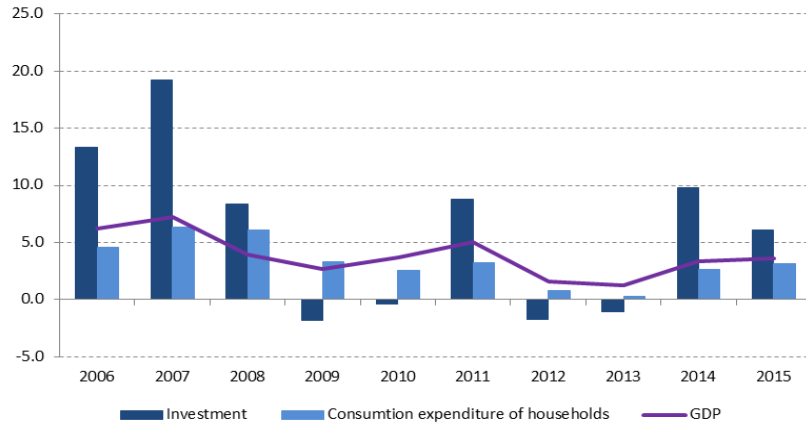


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, , seasonally adjusted data, yoy
source: GUS, Eurostat

The Polish economy continued its upward trend in 2015. According to the preliminary data real GDP growth accelerated to 3.6%, following 3.3% growth a year earlier. The final consumption expenditure of households and gross fixed capital formation increased by 3.1% and 6.1% respectively.

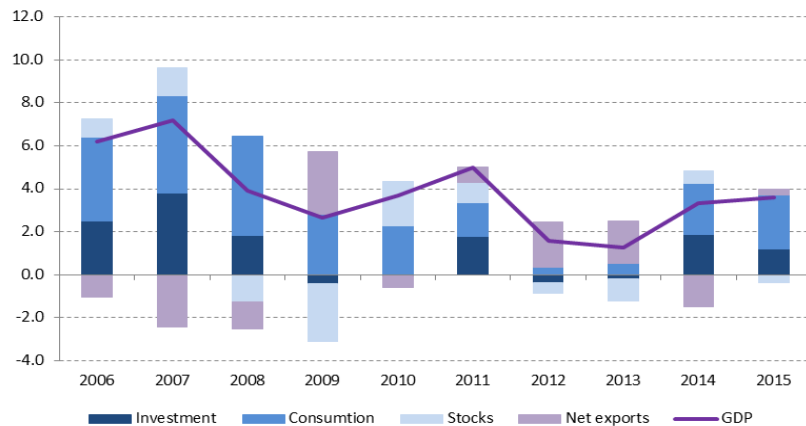


Contributions to Poland's GDP growth

percentage points

source: GUS; py - average prices of the previous year

In 2015 domestic demand was the main source of GDP growth mainly due to the final consumption expenditure of households and, to a lesser extent, investments with a contribution of 1.8 pp and 1.2 pp, respectively. The net exports contribution was also slightly positive (0.3 pp vs. -1.5 pp in 2014). Only inventories had negative contribution to GDP growth in 2015.

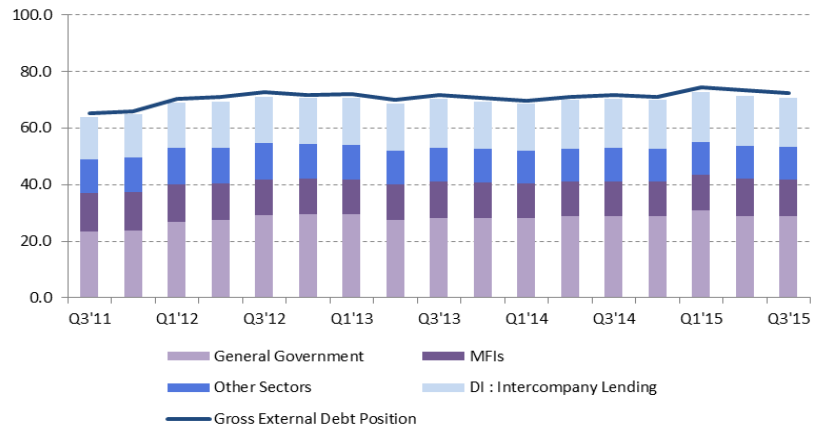


Poland's gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

Gross external debt reached EUR 305.8bn (72.4% of GDP) at the end of the third quarter of 2015 and was EUR 2.0bn lower than in the previous quarter. The share of general government sector debt in total debt increased to 40.1%. Official reserve assets reached EUR 92.7bn at the end of November 2015 and remained broadly adequate, covering over 5 months of imports.

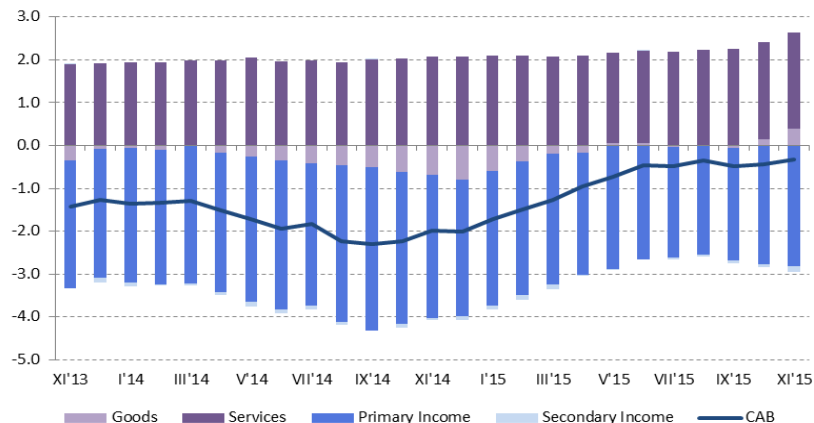


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In November 2015, according to the preliminary data, C/A deficit decreased to 0.3% of GDP (in 12-month terms of GDP) as compared to 0.4% of GDP in the previous month. C/A deficit was with a wide margin covered by long term capital (mainly EU structural funds inflow).

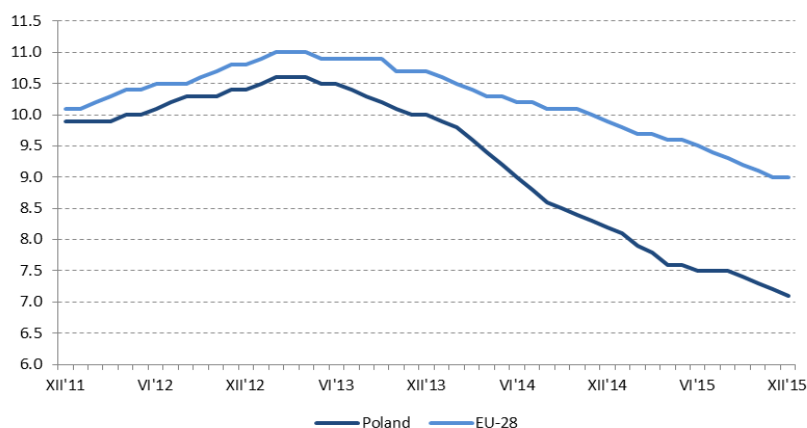




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

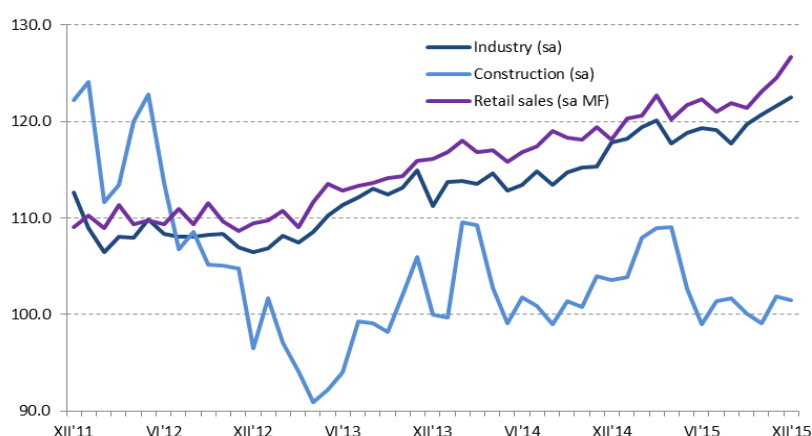
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In December 2015 it amounted to 7.1% (versus 9.0% in EU on average) and it was 0.1 pp lower than in previous month and 1.0 pp lower than a year before.



Monthly indicators of the real sector

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

In December 2015, after an increase in three previous months, industrial output went up further by 0.7% (mom, sa). As a result, production was 6.7% higher than a year ago (nsa). In December 2015 construction production went down by 0.4% (mom, sa) following relatively large increase in the previous month. As a result, its level was 0.3% (nsa) lower than a year before. In December 2015 real retail sales increased significantly for the third time in a row (only in December by 1.8%, mom, sa MoF). As a result, its level was 7% (nsa) higher than in the same month of 2014.



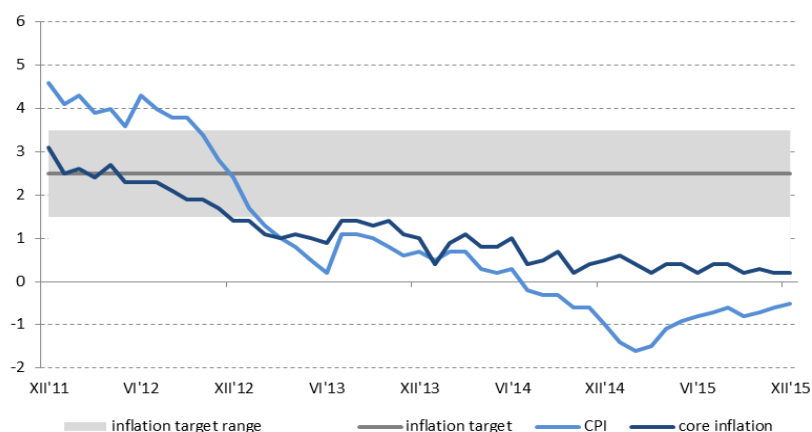
Inflation

percent, yoy
source: GUS, NBP

Since July 2014 consumer prices have been lower than a year before mainly because of drop in commodity prices (energy and food). In December 2015 deflation amounted to 0.5% (yoy) and, on average, prices were lower by 0.9%.

Core inflation (CPI excluding food and energy prices) is still positive and during the last 11 months stayed within the range of 0.2-0.4% (yoy).

Deflation in producer prices has been lasting for 3 years (0.8% yoy in December 2015).

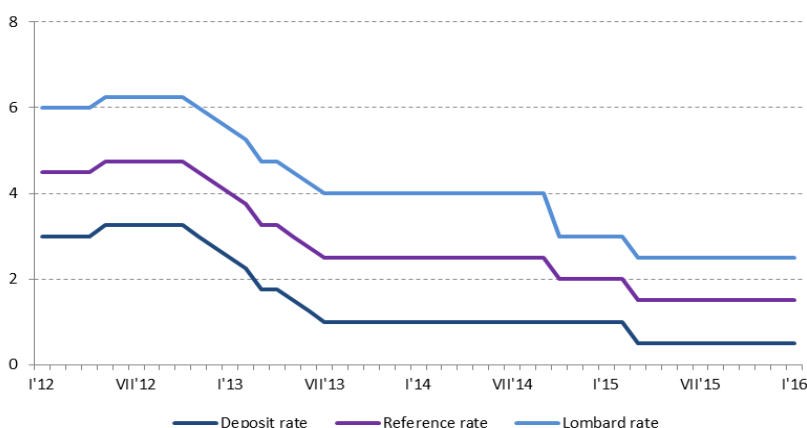


NBP interest rates

percent, end of period
source: NBP

In January 2016 the Monetary Policy Council kept NBP's interest rates unchanged, with the reference rate at 1.50%.

According to the latest Reuters poll (January, 7th) the bank analysts forecast the key interest rates to decline by 0.25 pp in the second quarter of 2016 (the reference rate is expected to fall to 1.25%).





II. STATISTICAL DATA

	Unit	2010	2011	2012	2013	2014	2015
GDP							
Gross domestic product	YoY	3.7	5.0	1.6	1.3	3.3	3.6
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the households sector	YoY	2.5	3.3	0.8	0.2	2.6	3.1
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the general government sector	YoY	3.3	-1.8	-0.4	2.2	4.9	-
	QoQ SA	-	-	-	-	-	-
Gross fixed capital formation	YoY	-0.4	8.8	-1.8	-1.1	9.8	6.1
	QoQ SA	-	-	-	-	-	-
Exports of goods and services	YoY	12.9	7.9	4.6	6.1	6.4	-
	QoQ SA	-	-	-	-	-	-
Imports of goods and services	YoY	14.0	5.8	-0.3	1.7	10.0	-
	QoQ SA	-	-	-	-	-	-
Gross value added	YoY	3.8	5.0	1.6	1.3	3.3	3.4
	QoQ SA	-	-	-	-	-	-
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	1.5	2.0	0.5	0.1	1.6	1.8
Final consumption expenditure of the general government sector	pp.	0.6	-0.3	-0.1	0.4	0.9	-
Gross fixed capital formation	pp.	-0.1	1.8	-0.4	-0.2	1.8	1.2
Changes in inventories	pp.	2.0	0.9	-0.5	-1.0	0.5	-0.4
Balance of trade turnover	pp.	-0.5	0.7	2.1	1.9	-1.5	0.3
Gross value added	pp.	3.4	4.4	1.4	1.2	2.9	3.0
Taxes less subsidies	pp.	0.3	0.6	0.2	0.1	0.4	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	60.6	60.6	60.7	60.0	59.3	-
Final consumption expenditure of the general government sector	% of GDP	19.1	18.1	17.9	18.2	18.4	-
Gross fixed capital formation	% of GDP	20.3	20.7	19.8	18.8	19.6	-
Changes in inventories	% of GDP	1.0	1.8	1.2	0.2	0.6	-
Exports of goods and services	% of GDP	40.0	42.5	44.4	46.3	47.4	-
Imports of goods and services	% of GDP	42.1	44.5	44.9	44.4	46.2	-
Balance of payments							
	Unit	2015					
		M07	M08	M09	M10	M11	M12
Goods: exports (EUR)	YoY	5.2	8.1	3.0	3.0	12.6	-
Goods: exports (EUR)	YoY	7.3	6.7	5.2	-2.9	5.4	-
Current account balance ¹⁾	% of GDP	-0.5	-0.4	-0.5	-0.4	-0.3	-
Balance on goods ¹⁾	% of GDP	0.0	0.0	-0.1	0.2	0.4	-
Official Reserve Assets	EUR mln	90 207.7	88 100.7	90 381.2	91 557.1	92 675.4	86 893.5
Inflation							
Consumer Price Index (CPI)	YoY	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5
Core inflation (CPI excluding food and energy prices)	YoY	0.4	0.4	0.2	0.3	0.2	0.2
Producer Price Index (PPI)	YoY	-1.8	-2.7	-2.8	-2.3	-1.8	-0.8
Production							
Sold production of industry ²⁾	YoY	3.8	5.3	4.0	2.4	7.8	6.7
	MoM SA	-0.2	-1.2	1.6	0.8	0.8	0.7
Construction and assembly production ²⁾	YoY	-0.1	4.8	-2.5	-5.2	1.2	-0.3
	MoM SA	2.4	0.3	-1.6	-1.0	2.8	-0.4
Manufacturing PMI	SA	54.5	51.1	50.9	52.2	52.1	52.1
Households and labour market							
Retail sales ²⁾	YoY	3.5	2.0	2.9	3.6	5.7	7.0
Average paid employment in enterprise sector	YoY	0.9	1.0	1.0	1.1	1.2	1.4
	MoM	0.1	0.1	0.1	0.3	0.2	0.2
Average monthly gross wages and salaries in enterprise sector (€)	YoY	4.0	4.0	4.9	4.0	4.6	3.6
	MoM	1.5	-1.3	1.2	1.2	1.4	8.7
Harmonised unemployment rate (Eurostat)	% SA	7.5	7.5	7.4	7.3	7.2	7.1
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, Markit							
State Treasury debt							
	Unit	2015					
		M06	M07	M08	M09	M10	M11
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	817 800.7	811 439.3	819 163.1	837 652.5	827 082.6	836 817.3
Domestic debt	nominal, PLN mio	539 257.6	539 755.9	544 992.3	555 441.4	535 234.1	544 400.1
	%	65.9	66.5	66.5	66.3	64.7	66.5
Foreign debt	nominal, PLN mio	278 543.1	271 683.4	274 170.9	282 211.1	291 848.5	292 417.2
	%	34.1	33.5	33.5	33.7	35.3	34.9
Public debt (domestic definition)							
	Unit	2014			2015		
		Q02	Q03	Q04	Q01	Q02	Q03 ¹⁾
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	793 556.4	802 133.0	826 772.2	848 180.4	858 208.8	876 398.3
Domestic debt	nominal, PLN mio	518 785.8	522 068.5	534 790.1	559 186.6	564 626.1	579 229.1
	%	65.4	65.1	64.7	65.9	65.8	66.1
Foreign debt	nominal, PLN mio	274 770.5	280 064.5	291 982.1	288 993.8	293 582.7	297 169.2
	%	34.6	34.9	35.3	34.1	34.2	33.9
General Government debt (EU definition)							
General Government debt	nominal, PLN mio	827 817.4	839 564.1	867 066.5	886 451.0	895 874.4	915 201.4
1) preliminary data							
Source: MoF							

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

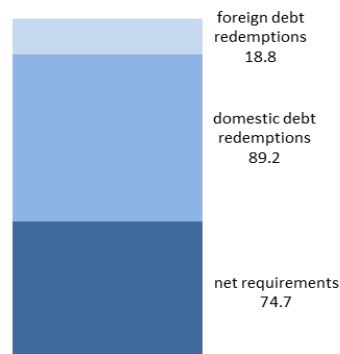


Gross borrowing requirements in 2016

Financing of the State budget borrowing requirements of 2016 reached the level of ca. 30% (the prefinancing level amounted to ca. 20% by the end of the fourth quarter of 2015).

Gross borrowing requirements in 2016 (acc. to Draft 2016 Budget Act)

Total: PLN 182.7bn, of which:



Financing of the 2016 borrowing requirements at the level of ca. 30%

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

as of January 31, 2016

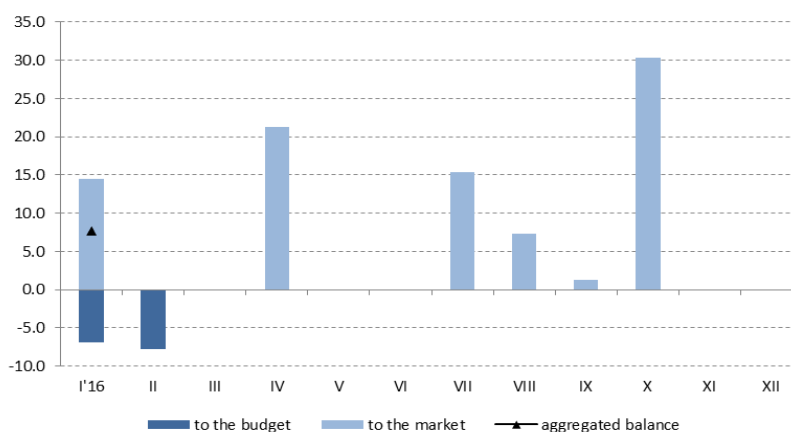
In February there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions, nor interest payments).

Flows of funds between the market and the budget*

as of January 31, 2016, PLN bn

As of January 31, 2016, to the end of the year the funds to be transferred to the market shall amount to PLN 75.5bn.

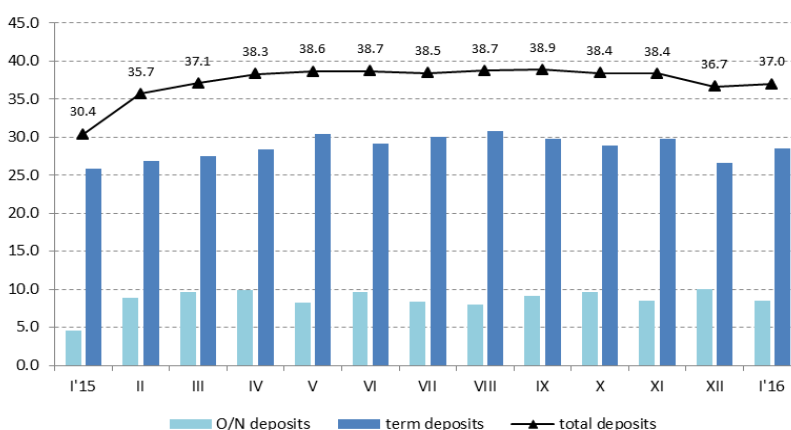
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



Consolidation of public finances liquidity management

PLN bn

As a result of consolidation of public finances liquidity management there were PLN 37.0bn funds accumulated at the end of January, of which PLN 28.5bn was as term deposits and PLN 8.5bn on O/N deposits.



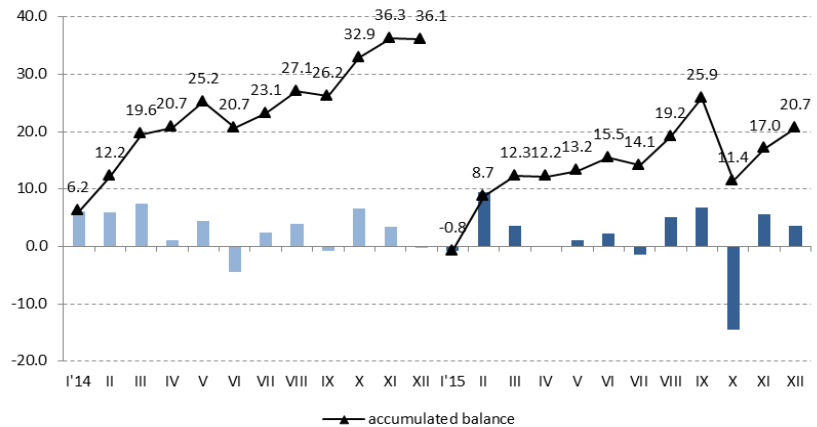


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

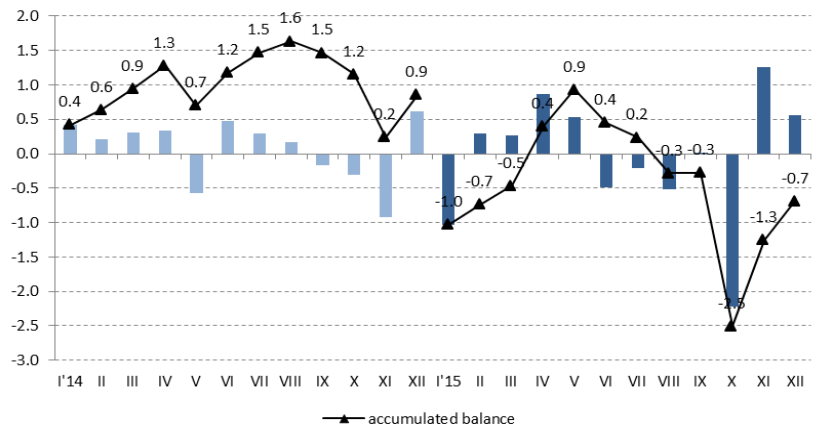
In 2015 debt held by domestic banks increased by PLN 20.7bn comparing to PLN 36.1bn increase in 2014.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

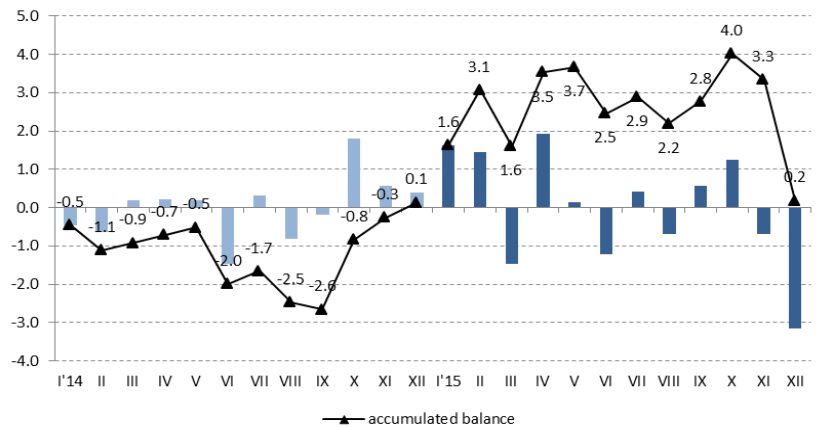
In 2015 there was a decrease of PLN 0.7bn in debt held by insurance companies. In 2014 there was an increase of PLN 0.9bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

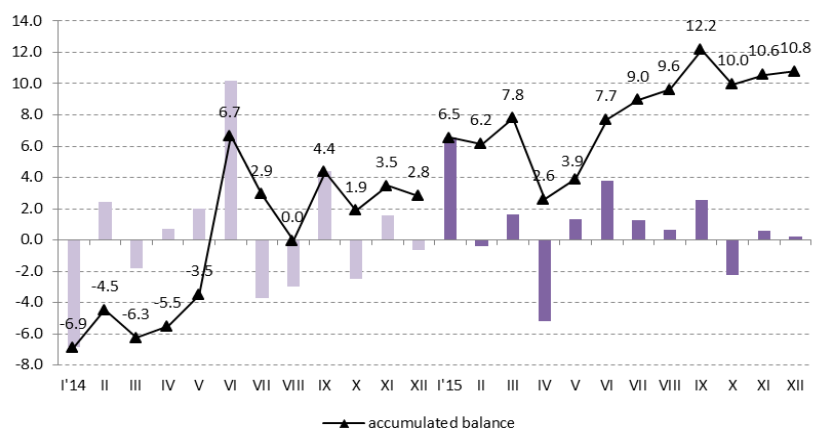
In 2015 there was an increase of PLN 0.2bn in debt held by investment funds. In 2014 there was an increase of PLN 0.1bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In 2015 inflow of foreign capital to the domestic TS market amounted to PLN 10.8bn comparing to inflow of PLN 2.8bn in 2014. Foreign investors' holdings reached the level of PLN 206.8bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

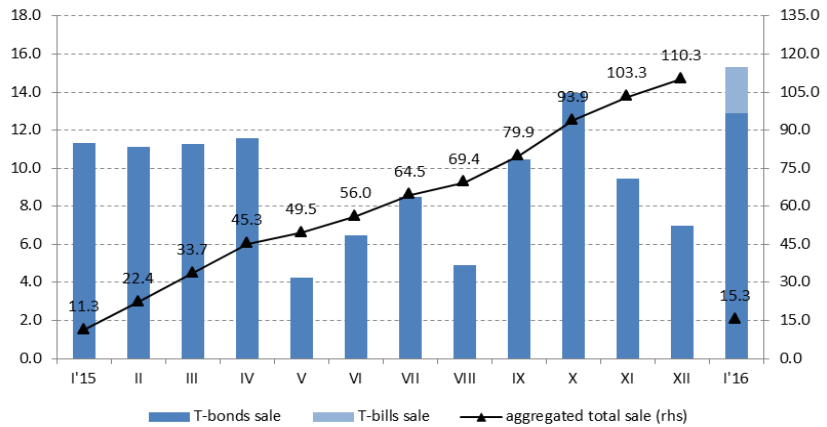


Sale of T-bonds and T-bills in January 2016 and 2015

auction date, nominal amount, PLN bn

In January 2016 aggregated total sale of:

- T-bonds amounted to PLN 12.9bn versus PLN 11.3bn as compared to the corresponding period of the previous year,
- T-bills amounted to PLN 2.4bn (since April 2013 to December 2015 T-bills were not offered).

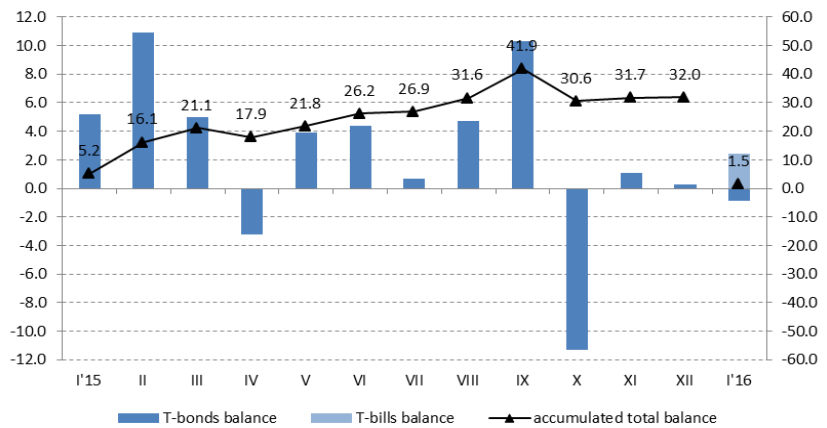


Balance of T-bonds and T-bills in January 2016 and 2015

auction date, nominal amount, PLN bn

In January 2016

- indebtedness in: T-bonds decreased by PLN 0.9bn,
- indebtedness in: T-bills increased by PLN 2.4bn.

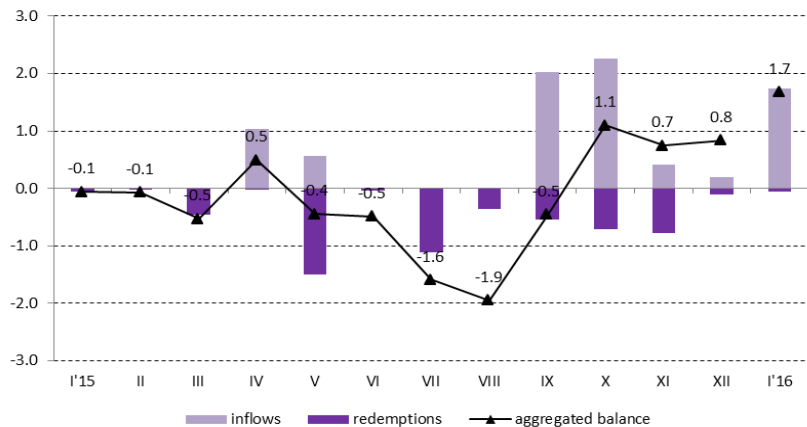


External financing

in January 2016 and 2015

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

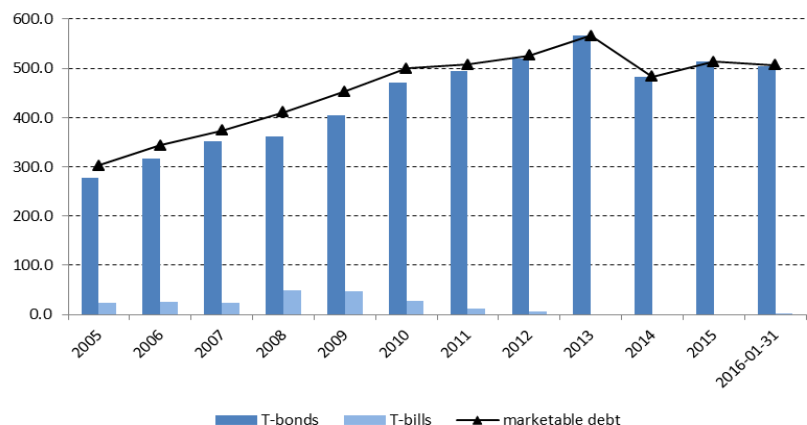
Net financing on foreign markets in January 2016 amounted to EUR 1.7bn, which was a result of positive T-bond balance of EUR 1.7bn and negative balance of loans incurred from IFIs at the level of EUR 0.1bn.



Structure of marketable debt

PLN bn

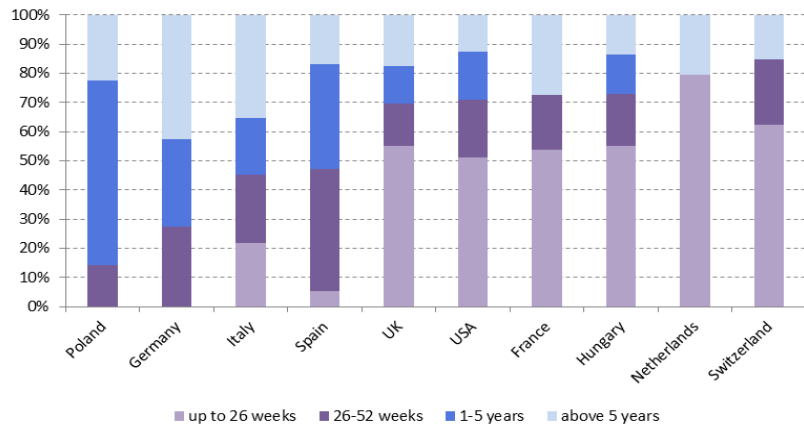
At the end of January 2016 the marketable domestic debt amounted to PLN 506.9bn comparing to PLN 513.4bn at the end of 2015.



Maturity breakdown of T-securities in Poland and other countries

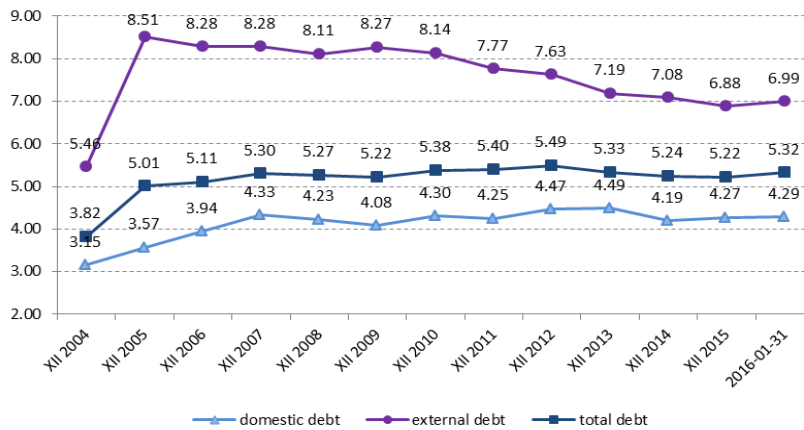
auctions and syndicates, local currency, ytd in the period of 1 - 31 January, 2016

The sale of TS in Poland is dominated by securities maturing in 1 to 5 years.



Average maturity

At the end of January 2016 the average maturity of domestic debt increased to 4.29 (while at the end of 2015 it was 4.27). The average of total debt increased to 5.32 (5.22 at the end of 2015).

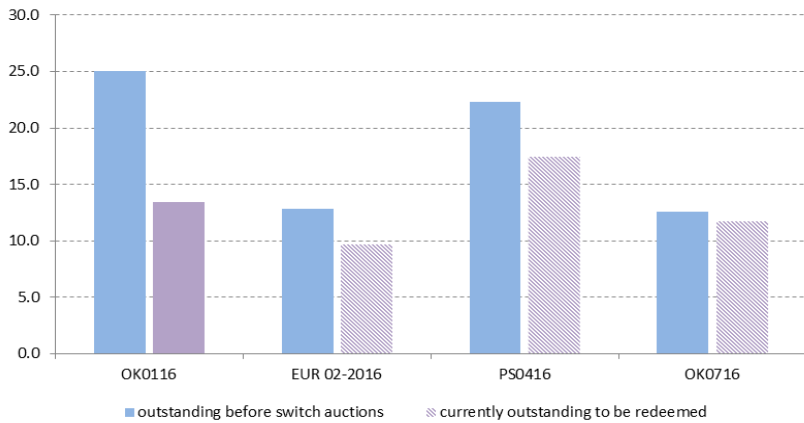


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016

nominal amount, as of January 31, 2016, PLN bn

Buy-back of T-bonds maturing in 2016 (by switch or cash settlement):

- OK0116: PLN 11.6bn (46%),
- EUR 02-2016: PLN 3.1bn (24%),
- PS0416: PLN 4.9bn (22%),
- OK0716: PLN 0.9bn (7%).

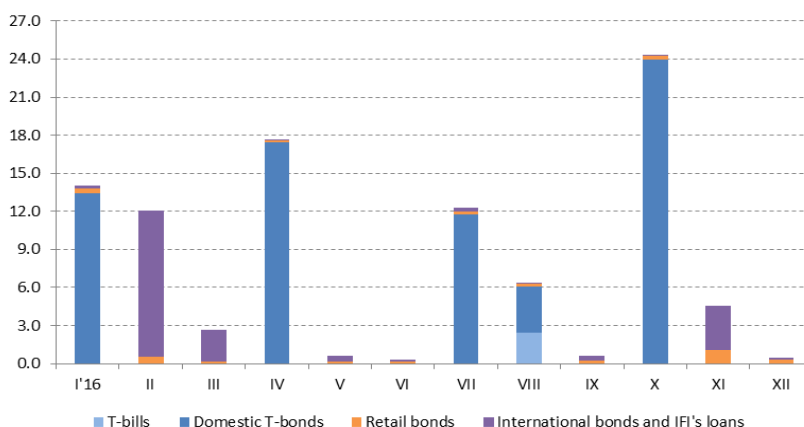


State Treasury debt redemptions in 2016

nominal amount, as of January 31, 2016; PLN bn

The nominal amount of debt to be redeemed in 2016 is equal to PLN 81,9bn, including:

- T-bonds: PLN 56.9bn,
- T-retail bonds: PLN 3.3bn,
- T-bills: PLN 2.4bn,
- bonds and loans incurred on foreign markets: PLN 19.3bn.



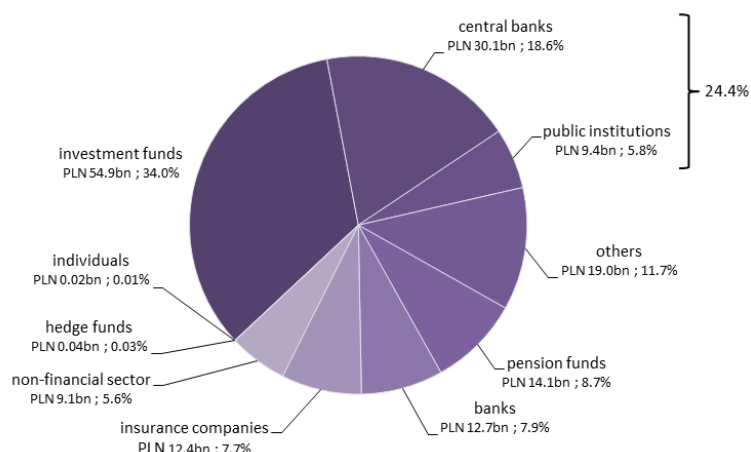
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Institutional distribution of domestic Treasury securities held by non-residents

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

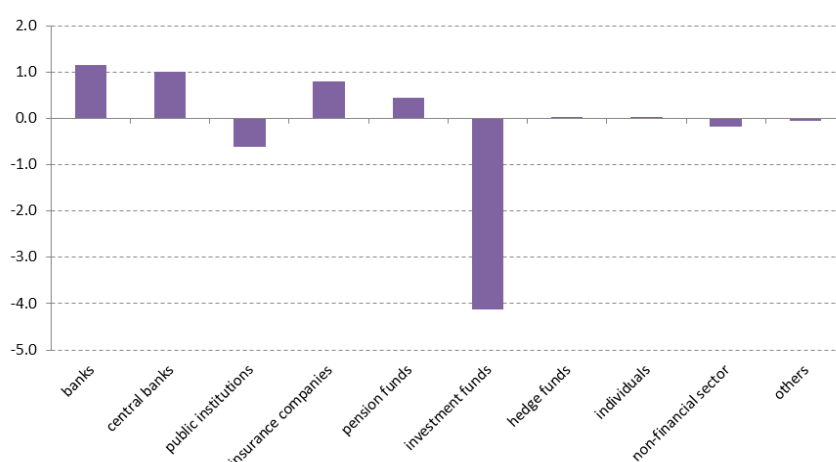
In December the share of non-residents in the domestic Treasury securities market increased by PLN 0.2bn. The foreign investors' portfolio amounted to PLN 206.8bn which constituted 40.3% share in total debt in marketable T-bonds (no change compared to the previous month). As of the end of December central banks and public institutions' share in holdings amounted to 24.4%.



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

change in December 2015, mom, PLN bn

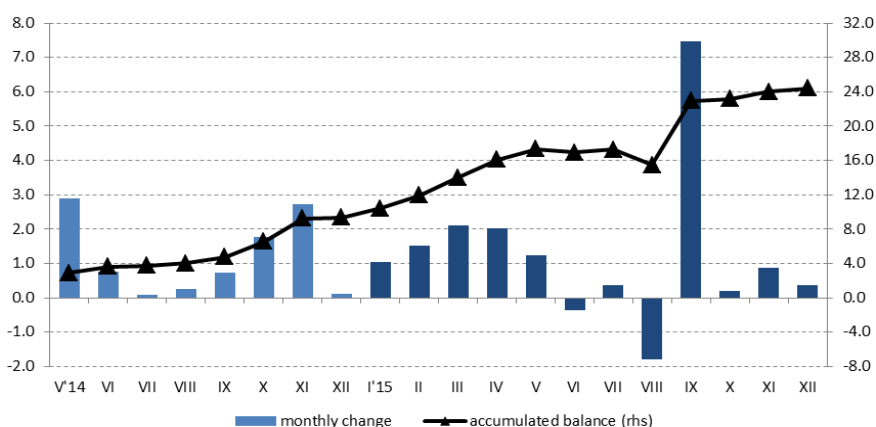
In December 2015 increases in TS portfolio were noted, among others, by: banks, central banks and insurance companies (PLN 1.2bn, PLN 1.0bn and PLN 0.8bn, respectively). The highest decrease, on the other hand, was recorded by investment funds (PLN 4.1bn).



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

as of December 31, 2015, PLN bn

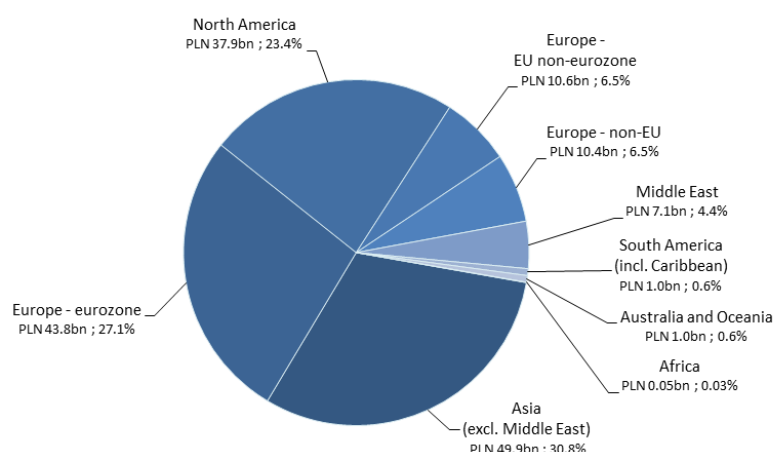
After a substantial change in classifying an investment fund purchasing Polish TS into a central bank resulting in an increase of central banks and public institutions' involvement in the Polish debt market by PLN 7.5bn in September 2015, an increase of PLN 0.4bn was noted in December 2015. Since April 2014 to the end of December 2015, when the detailed information is available, portfolios of those entities increased by PLN 24.4bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of December 31, 2015, excluding omnibus accounts

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



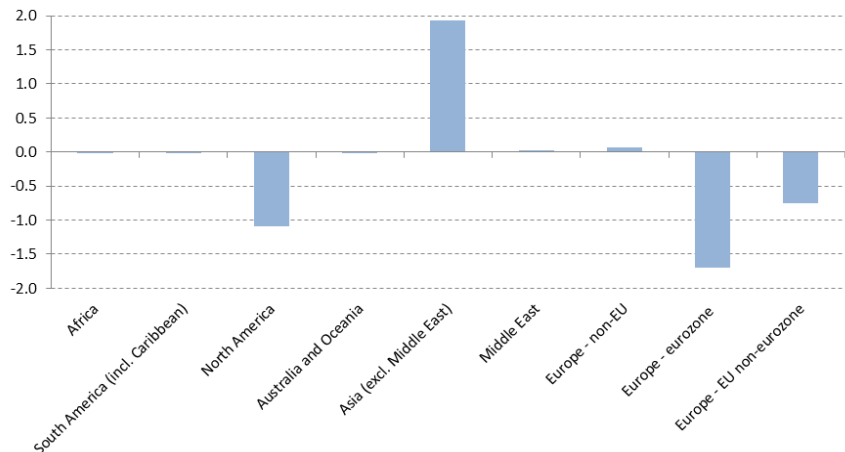


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in December 2015, mom, PLN bn

In December 2015, as in the previous month, the highest decrease in involvement in the domestic T-securities market was recorded by investors from the euro zone (PLN 1.7bn), while the highest increase was noted by Asian investors (PLN 1.9bn).



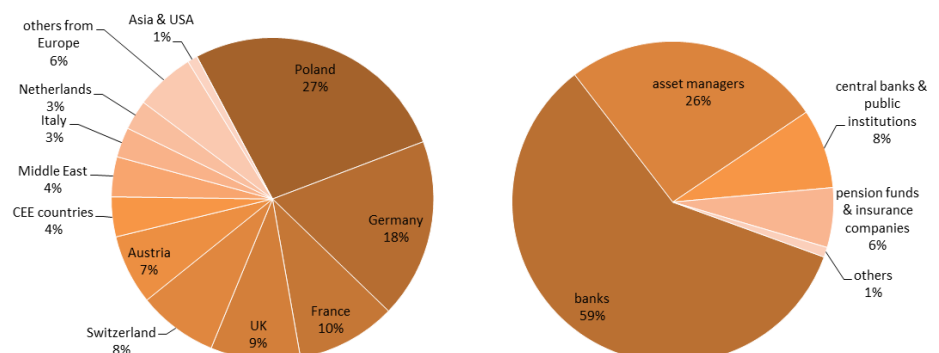
Structure of non-residents' holdings in Treasury securities by countries

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

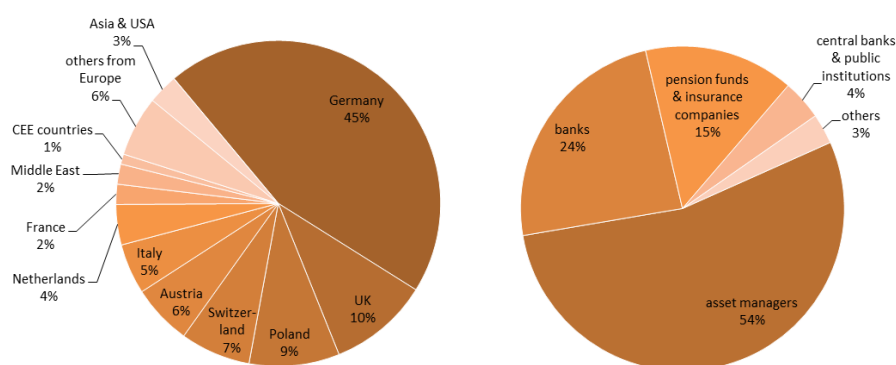
Countries	Outstanding in nominal value (PLN mio)	Share in non-residents holdings (%)
United States	36 820.3	28.0%
Luxembourg	22 133.6	16.8%
Japan	21 279.6	16.2%
Norway	8 319.4	6.3%
United Kingdom	8 163.8	6.2%
Germany	6 794.6	5.2%
Ireland	5 389.2	4.1%
Netherlands	4 071.5	3.1%
Austria	3 475.9	2.6%
United Arab Emirates	2 199.1	1.7%
Switzerland	1 873.2	1.4%
Denmark	1 491.3	1.1%
Others	9 687.1	7.4%
Total	131 698.7	100.0%

EUR denominated bond issues

Amount:	EUR 1.0bn
Maturity date:	January 19th, 2026
Coupon:	1.500%
Spread:	65 pb over mid-swap
Yield:	1.542%
Launch date:	January 11th, 2016
Bookrunners:	Citi, HSBC, ING, Societe Generale, UniCredit



Amount:	EUR 0.75bn
Maturity date:	January 18th, 2036
Coupon:	2.375%
Spread:	100 pb over mid-swap
Yield:	2.471%
Launch date:	January 11th, 2016
Bookrunners:	Citi, HSBC, ING, Societe Generale, UniCredit



MoF comments

Piotr Nowak, Undersecretary of State, MoF

12-01-2016, interview for the Polish Press Agency (fragments)

We entered the market to raise funds to cover our borrowing needs denominated in foreign currencies and to safeguard the financing process on the domestic market. At the beginning of February Treasury bonds of nearly EUR 2.3bn matured. After that we want to maintain a safe level of reserves in foreign currencies.

(...) Issuing long-term bonds will increase the average maturity of the State Treasury debt and will further diversify our investor base.

Piotr Nowak, Undersecretary of State, MoF

28-01-2016, interview for the Polish Press Agency (fragments)

MoF has no indications that the other agencies intend to downgrade Poland's rating

(...) The rating agencies are worried about Polish fiscal situation but if it is shown as good one, and it appears the public sector deficit will not exceed 3% of GDP in next years, then such threat will not occur.

Please note that Fitch and Moody's have been constantly underlining that the public finance sector deficit is a crucial matter for them. There are no threats. The government is focussed not to exceed the limit of 3% of GDP. Even taking into account the S&P's report, which is unfavourable for us, the numbers presenting the forecasted deficits are still good. Clearly, one cannot therefore accuse us of political optimism. This is neither our dream, nor wish since also those who are criticising us show the same numbers.

(...) We know what we are doing. We know that revenue from VAT will be higher and gaps will be filled. Thus, this is a comprehensive action.

In the latest 2-3 days the yields have been decreasing. There is a threat on the external global markets that affects Poland. Polish economy is still an emerging market. This is what we do not control but, from the point of view of inner risks, it is not a problem.

Piotr Marczak, Director of Public Debt Department, MoF

29-01-2016

By the end of January we financed 30% of this year's borrowing requirements and the reserve of funds in PLN and hard currencies reached the level of ca. PLN 38bn.

The situation on financial markets was stabilising in recent days and the yields of Polish Treasury bonds issued on domestic and foreign markets returned to levels observed before the S&P's decision. Increased demand reported for long-term bonds allows us to offer those securities at the forthcoming auction, but also continuing interest for the Treasury securities with shorter maturities creates a favourable conditions for collecting funding at record low cost.

The value and structure of Treasury bonds offer on the domestic market will flexibly respond to market conditions.

We intend to remain active on foreign markets and the final decision regarding a market, amount and date of the issuances will depend on the situation on the particular markets and the progress of financing process on the domestic market.

In December 2015 the foreign investors' portfolio of PLN T-bonds increased by PLN 0.2bn. Involvement of central banks and public institutions increased again (PLN 1.0bn), mainly from Asia (PLN 0.3bn) and Middle East (PLN 0.7bn). The highest changes in the geographic structure occurred in case of European investors from the Eurozone (PLN -2.7bn), Asia (PLN 1.2bn) and European countries outside the euro area (PLN 0.6bn).

In January the balance of foreign investors flows will be negative, mainly due to redemption of T-bonds maturing in January, of which PLN 8.0bn was held by non-residents.

Additional information

On 15th January 2016 rating agency Standard & Poor's announced a decision about lowering Poland's credit rating from A- to BBB+ for long term liabilities in foreign currencies and from A/A-1 to A-/A-2 for long and short-term liabilities in local currency, respectively and changing the rating outlook from positive to negative. On the same day Fitch rating agency confirmed unchanged ratings of Poland at the levels of A- and A (for liabilities in foreign and local currency, respectively) with stable outlook.

Following the publication of the reports on Poland's rating, on 15th January 2016, the Ministry of Finance sent an announcement to investors presenting the opinion on the rating change by S&P and reports published by S&P and Fitch.

On 25th January Moody's published an issuer comment on Poland.

Please find attached the references to pages with the above-mentioned reports and MoF's announcement:

- [S&P Research Update](#)
- [Fitch press release](#)
- [Moody's Issuer Comment](#)
- [MoF's announcement.](#)

IV. SUPPLY PLAN OF TREASURY SECURITIES IN FEBRUARY 2016



Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
4 FEB 2016	8 FEB 2016	OK1018 / DS0726	4,500-7,500
18 FEB 2016*	22 FEB 2016	choice will depend on the market conditions, excluding bonds offered at the 1st 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.

T-bill auctions

Auction date	Settlement date	T-bill	Maturity date	Planned offer (PLN m)
15 FEB 2016	17 FEB 2016	32-week	28 SEP 2016	1,000-2,000

The Minister of Finance is entitled to organize non-competitive auctions where T-bills will be sold at a minimum price of bids accepted at the sale auction.

Offer on the retail market

T-bond	Issue price	Coupon
DOS0218	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0219	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI0220	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO0226	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period