

State budget borrowing requirements' financing plan and its background

3rd quarter 2016

July 2016

THE MOST IMPORTANT INFORMATION

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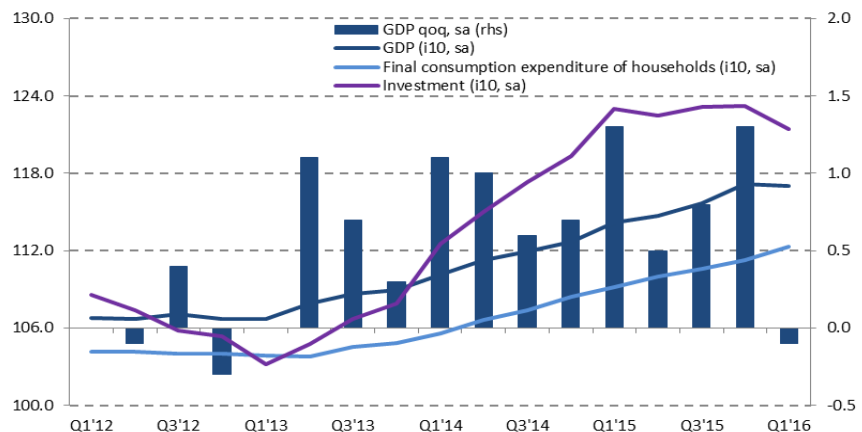


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

In the first quarter of 2016 the upward trend of Polish economy came to a halt. GDP decreased by 0.1% (qoq, sa), following an increase of 1.3% in the fourth quarter of 2015. The pace of growth (qoq, sa) of households consumption accelerated and investments decreased. The dynamics of economic activity is expected to improve in the coming quarters.

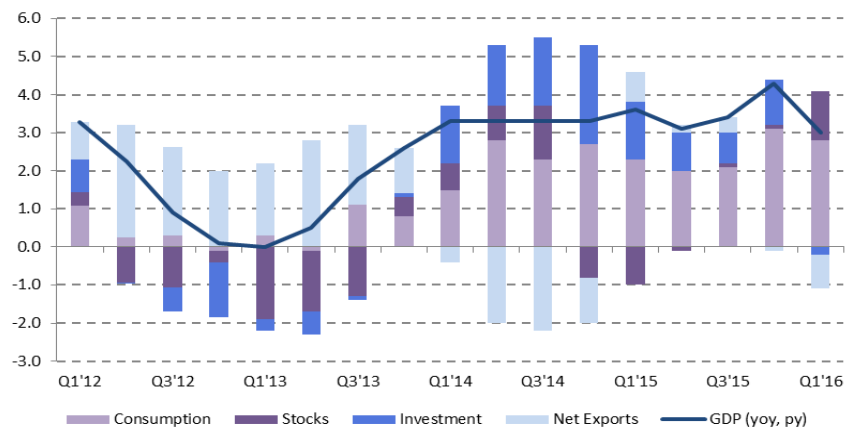


Contributions to Poland's GDP growth

percentage points

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

In the first quarter of 2016 GDP was 3.0% higher than a year ago as compared to 4.3% in the previous quarter. Domestic demand was the only source of GDP growth, mainly due to households consumption (contribution of 2.0 pp), increase in inventories (contribution of 1.3 pp) and public consumption (contribution of 0.8 pp). Negative contribution to GDP growth came from investments (-0.2 pp), which were 1.8% lower than a year before and mainly net exports (-0.9 pp. as compared to -0.1 pp in the previous quarter) due to higher imports dynamics (in yoy terms) than exports.

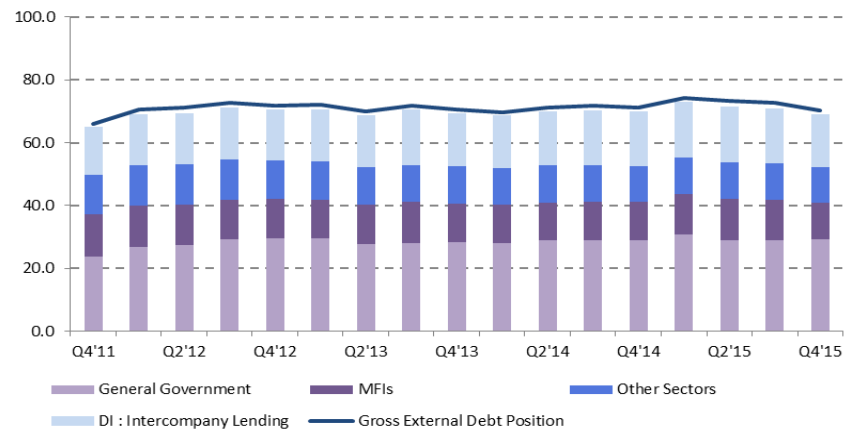


Poland's gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

Gross external debt reached EUR 300.7bn (70.3% of GDP) at the end of the fourth quarter of 2015 and was EUR 5.5bn lower than in the previous quarter. The share of general government sector debt in total debt increased to 41.5%. Official reserve assets reached EUR 92.3bn at the end of April 2016 and remained broadly adequate, covering over 5 months of imports.

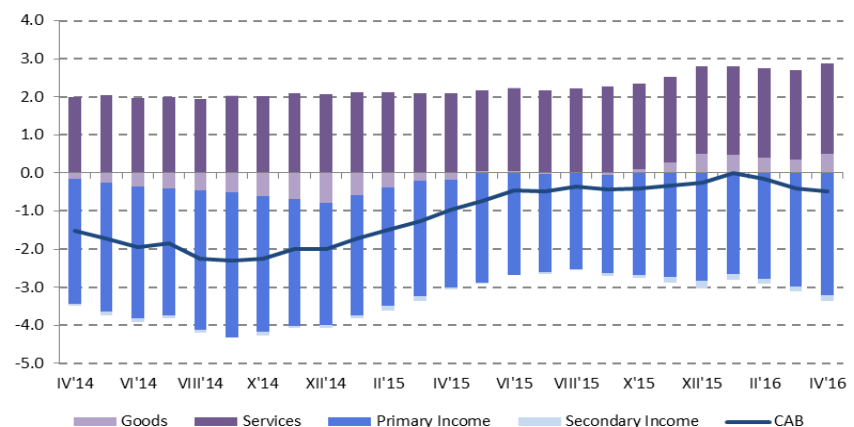


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In April 2016, according to the preliminary data, C/A deficit increased to 0.5% of GDP (in 12-month terms of GDP) from 0.4% of GDP in the previous month. C/A deficit was, with a wide margin, covered by long-term capital i.e. inflow of EU structural funds classified on capital account and, to a lesser extent, inflow of direct investments of non-residents.

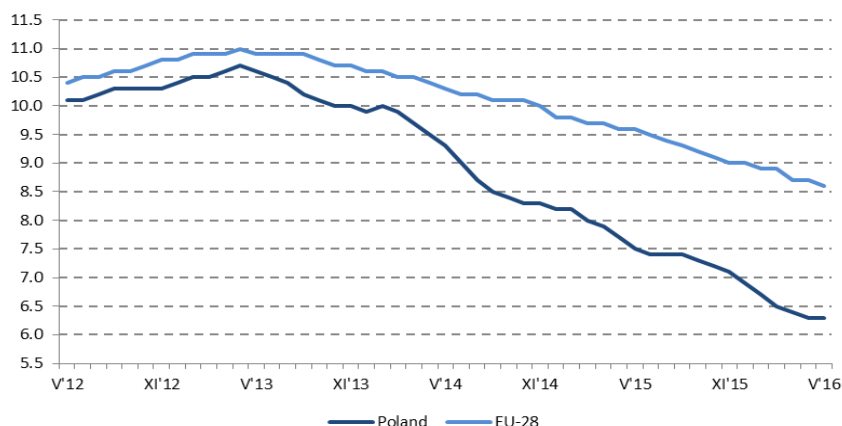




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

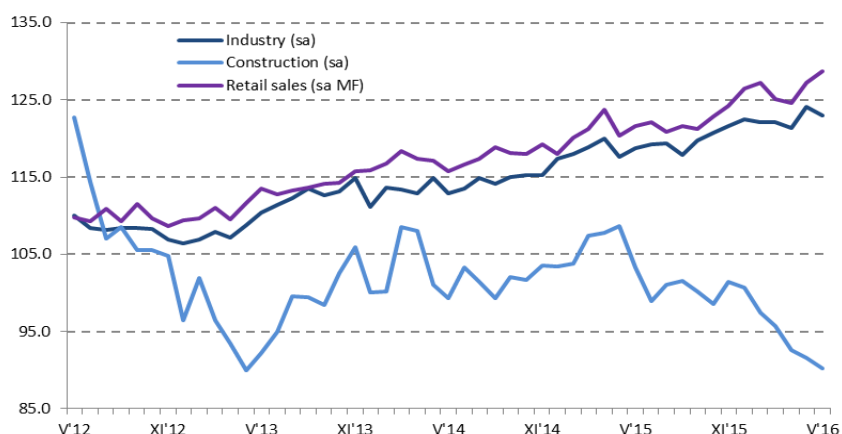
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In May 2016 it amounted to 6.3% (versus 8.6% in EU on average) and it stayed at the level observed a month before and 1.2 pp lower than a year before. In April and May 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



Monthly indicators of the real sector

sold production in constant prices, i10, seasonally adjusted data
source: GUS

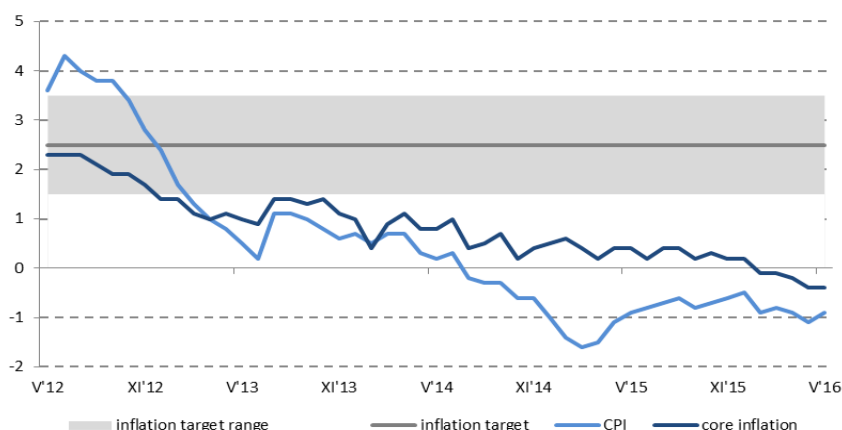
In May 2016 industrial output went down by 0.9% (mom, sa). As a result, production was 3.5% higher than a year ago (nsa). In May 2016 construction production dropped for the sixth time in a row (mom, sa). As a result, its level was 13.7% (nsa) lower than a year before. In May 2016 real retail sales went up again (by 1.1%, mom, sa MoF) after a significant increase in previous month. As a result its level was 4.3% (nsa) higher than in the same month of 2015.



Inflation

percent, yoy
source: GUS, NBP

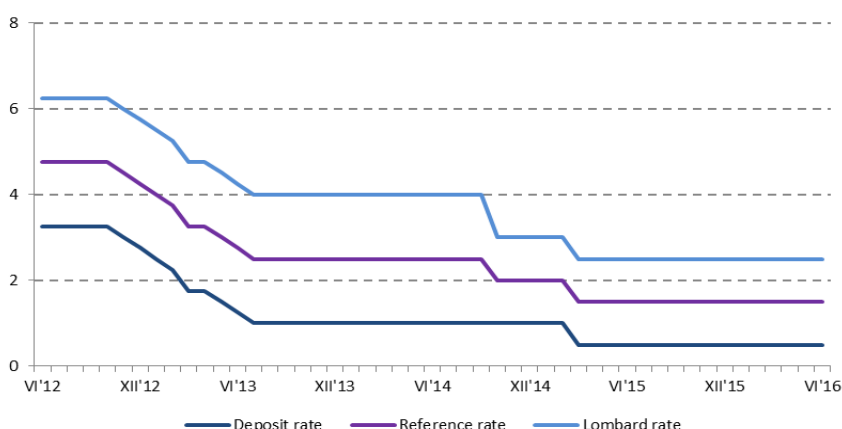
Since July 2014 consumer prices have been lower than a year before mainly because of drop of commodity prices (energy and food). In May 2016 deflation amounted to 0.9% (yoy). Core inflation (CPI excluding food and energy prices) in the first quarter of 2016 dropped below zero and in April and May amounted to -0.4% (yoy). Deflation in producer prices has been lasting over 3.5 years (0.7% yoy in May 2016).



NBP interest rates

percent, end of period
source: NBP

In June 2016 the Monetary Policy Council (MPC) kept NBP's interest rates on hold with the reference rate at 1.50%. In the Council's assessment, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance. The latest Reuters' poll median forecast (June, 3rd) sees no NBP rate move until the third quarter of 2017.



II. STATISTICAL DATA

	Unit	2014 Q04	2015 Q01	Q02	Q03	Q04	2016 Q01
GDP							
Gross domestic product	YoY	3.3	3.6	3.1	3.4	4.3	3.0
	QoQ SA	0.7	1.3	0.5	0.8	1.3	-0.1
Final consumption expenditure of the households sector	YoY	2.8	3.1	3.1	3.1	3.0	3.2
	QoQ SA	1.0	0.7	0.7	0.6	0.6	0.9
Final consumption expenditure of the general government sector	YoY	7.2	1.8	0.8	0.9	8.7	4.4
	QoQ SA	-0.1	0.8	0.9	0.7	2.4	-0.1
Gross fixed capital formation	YoY	9.7	11.8	5.8	4.4	4.4	-1.8
	QoQ SA	1.7	3.1	-0.4	0.5	0.1	-1.5
Exports of goods and services	YoY	6.9	8.3	5.2	5.6	8.2	6.9
	QoQ SA	1.7	2.0	1.1	1.6	2.2	1.2
Imports of goods and services	YoY	10.1	6.9	5.0	4.9	8.6	9.3
	QoQ SA	0.7	1.3	0.9	1.7	3.8	2.4
Gross value added	YoY	3.2	3.2	3.0	3.3	4.2	2.8
	QoQ SA	0.4	1.0	0.7	0.8	1.4	0.4
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	1.4	2.0	1.9	1.9	1.5	2.0
Final consumption expenditure of the general government sector	pp.	1.3	0.3	0.1	0.2	1.6	0.8
Gross fixed capital formation	pp.	2.6	1.5	1.0	0.8	1.2	-0.2
Changes in inventories	pp.	-0.8	-1.0	-0.1	0.1	0.1	1.3
Balance of trade turnover	pp.	-1.2	0.8	0.2	0.4	-0.1	-0.9
Gross value added	pp.	2.9	2.9	2.6	2.9	3.7	2.5
Taxes less subsidies	pp.	0.4	0.7	0.5	0.5	0.6	0.5
GDP structure							
Final consumption expenditure of the households sector	% of GDP	51.2	64.6	59.8	60.4	48.8	64.0
Final consumption expenditure of the general government sector	% of GDP	19.0	17.4	17.8	17.3	19.5	17.4
Gross fixed capital formation	% of GDP	27.8	14.0	18.1	19.3	27.5	13.3
Changes in inventories	% of GDP	0.5	-0.5	0.5	0.8	0.6	0.8
Exports of goods and services	% of GDP	44.8	51.8	50.1	49.8	46.4	53.5
Imports of goods and services	% of GDP	44.0	47.9	47.2	48.4	43.4	49.8
Balance of payments							
	Unit	2015 M12	2016 M01	M02	M03	M04	M05
Goods: exports (EUR)	YoY	11.5	-0.4	4.7	-0.1	4.8	-
Goods: imports (EUR)	YoY	3.8	0.3	7.3	1.7	0.4	-
Current account balance ¹⁾	% of GDP	-0.2	0.0	-0.1	-0.4	-0.5	-
Balance on goods ¹⁾	% of GDP	0.5	0.5	0.4	0.3	0.5	-
Official Reserve Assets	EUR mln	86 893.5	91 474.1	90 605.5	88 533.2	92 282.6	97 044.3
Inflation							
Consumer Price Index (CPI)	YoY	-0.5	-0.9	-0.8	-0.9	-1.1	-0.9
Core inflation (CPI excluding food and energy prices)	YoY	0.2	-0.1	-0.1	-0.2	-0.4	-0.4
Producer Price Index (PPI)	YoY	-0.8	-1.2	-1.5	-1.9	-1.2	-0.7
Production							
Sold production of industry ²⁾	YoY	6.7	1.3	6.8	0.7	6.0	3.5
	MoM SA	0.7	-0.2	0.0	-0.6	2.2	-0.9
Construction and assembly production ²⁾	YoY	-0.4	-8.6	-10.5	-15.8	-14.9	-13.7
	MoM SA	-0.7	-3.2	-1.8	-3.2	-1.0	-1.6
Manufacturing PMI	SA	52.1	50.9	52.8	53.8	51.0	52.1
Households and labour market							
Retail sales ²⁾	YoY	7.0	3.2	6.2	3.0	5.5	4.3
Average paid employment in enterprise sector	YoY	1.4	2.3	2.5	2.7	2.8	2.8
	MoM	0.2	1.4	0.1	0.3	0.1	0.1
Average monthly gross wages and salaries in enterprise sector (re)	YoY	3.6	5.0	4.8	4.2	5.8	5.0
	MoM	8.7	-8.7	1.0	5.1	-1.2	-3.5
Harmonised unemployment rate (Eurostat)	% SA	6.9	6.7	6.5	6.4	6.3	6.3
<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, NEP, Eurostat, MoF calculation based on NEP, GUS data, HSEC, Market</small>							
State Treasury debt							
	Unit	2015 M11	M12	2016 M01	M02	M03	M04
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	836 817.3	834 550.6	847 875.3	858 000.9	858 423.4	881 873.7
Domestic debt	nominal, PLN mio	544 400.1	543 262.2	537 124.3	563 190.6	574 572.0	578 209.0
	%	65.1	65.1	63.3	65.6	66.9	65.6
Foreign debt	nominal, PLN mio	292 417.2	291 288.4	310 750.9	294 810.3	283 851.4	303 664.7
	%	34.9	34.9	36.7	34.4	33.1	34.4
Public debt (domestic definition)							
	Unit	2014 Q04	2015 Q01	Q02	Q03	Q04	2016 Q01 ¹⁾
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	826 774.7	848 182.9	858 209.3	876 405.2	877 289.8	899 308.9
Domestic debt	nominal, PLN mio	534 792.6	559 042.0	564 481.1	579 091.9	570 490.5	600 082.8
	%	64.7	65.9	65.8	66.1	65.0	66.7
Foreign debt	nominal, PLN mio	291 982.1	289 140.9	293 728.2	297 313.3	306 799.4	299 226.1
	%	35.3	34.1	34.2	33.9	35.0	33.3
General Government debt (EU definition)							
General Government debt	nominal, PLN mio	867 923.2	881 424.0	890 836.5	910 021.2	917 759.1	936 758.6
<small>1) Initial data Source: MoF</small>							

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



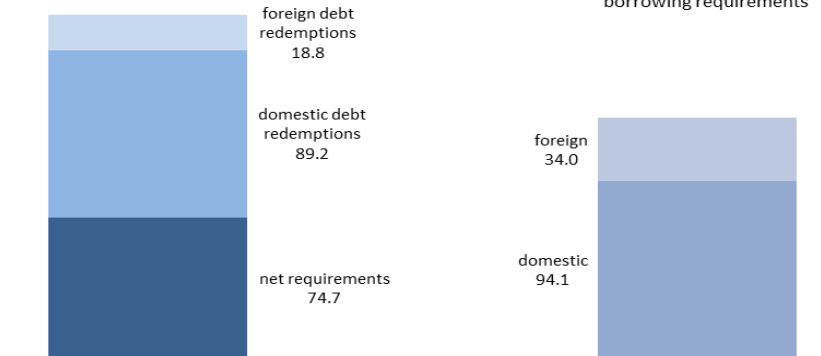
Gross borrowing requirements in 2016

Financing of the State budget borrowing requirements at the level of ca. 70% was a result of:

- T-bond sale on domestic market: PLN 66.0bn,
- switch auctions: 8.4bn,
- T-bond sale on foreign markets: PLN 17.3bn (EUR 2.5bn, USD 1.7bn),
- switch auctions in 2015: PLN 16.4bn,
- T-bonds buyback on foreign markets: EUR 0.7bn,
- and higher than planned financial resources at the end of 2015: PLN 16.9bn.

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

Total: PLN 182.7bn, of which:

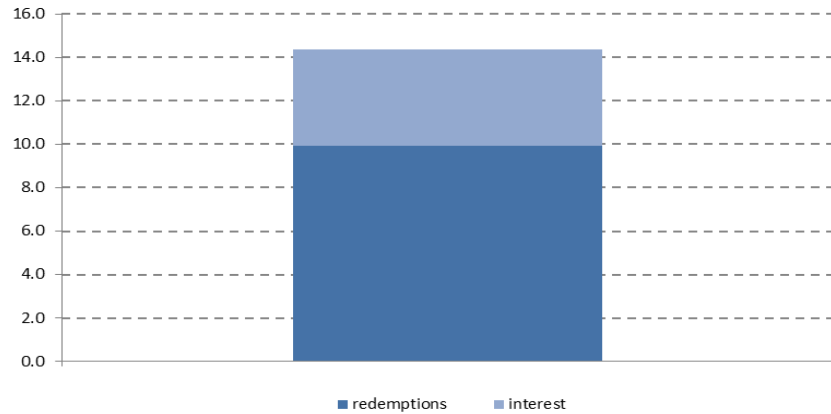


Flows of funds into the market related to domestic T-securities transfers in July

as of June 30, 2016, PLN bn

Value of funds transferred from the State budget to the market in July shall amount to PLN 14.4bn, of which:

- TS redemptions: PLN 9.9bn,
- interest payments: PLN 4.5bn.

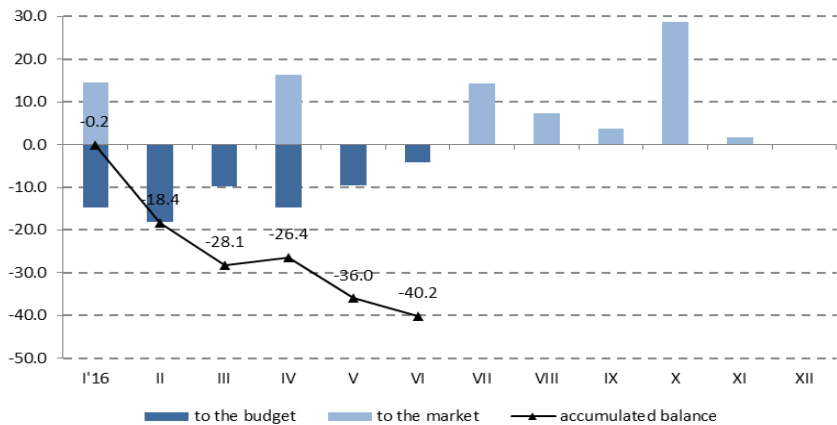


Flows of funds between the market and the budget*

as of June 30, 2016, PLN bn

As of June 30, 2016, to the end of the year the funds to be transferred to the market shall amount to PLN 55.8bn.

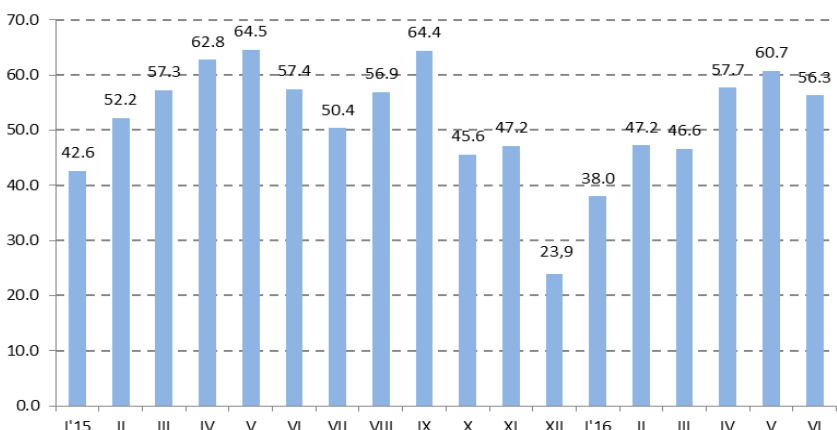
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



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

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.



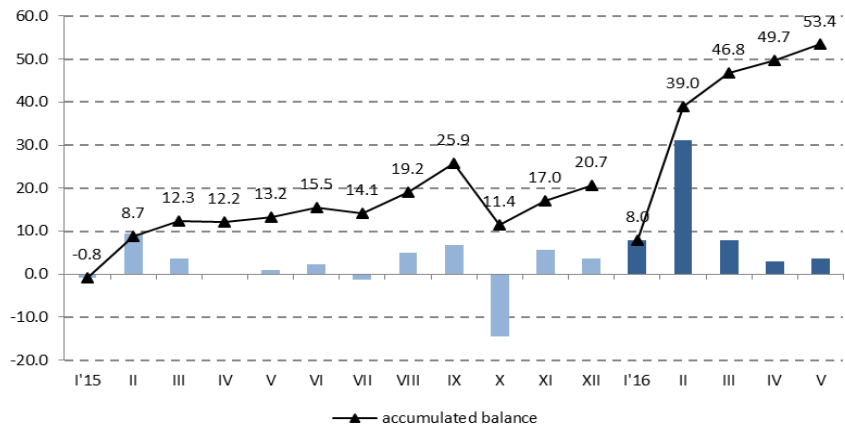


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

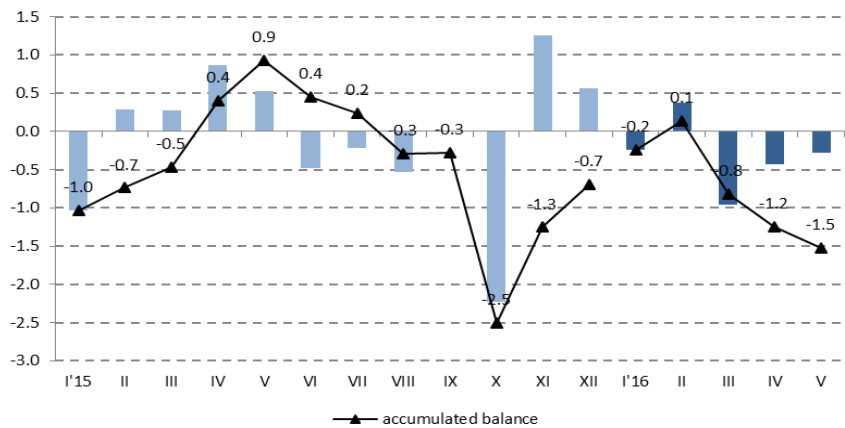
In the period of I-V 2016 debt held by domestic banks increased by PLN 53.4bn, comparing to PLN 13.2bn increase during the same period of 2015.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

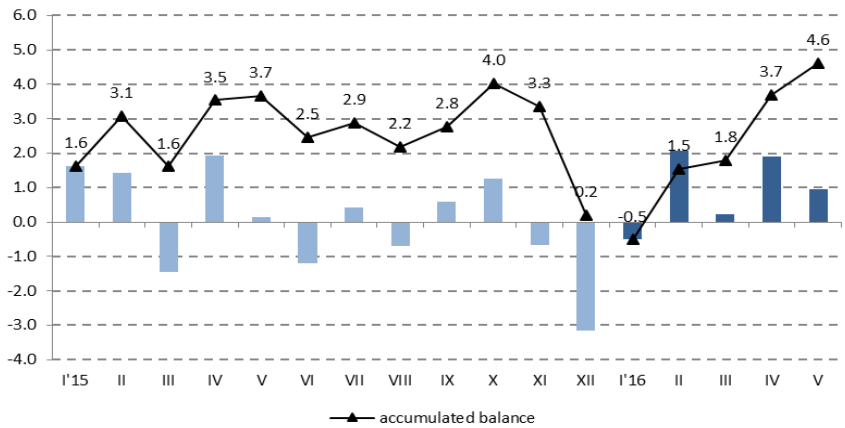
In the period of I-V 2016 there was a decrease of PLN 1.5bn in debt held by insurance companies. During the same period of 2015 there was an increase of PLN 0.9bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

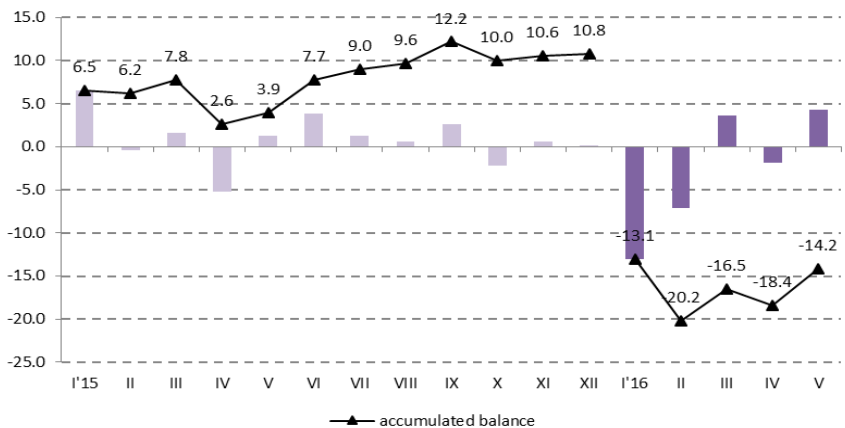
In the period of I-V 2016 there was an increase of PLN 4.6bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 3.7bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-V 2016 outflow of foreign capital from the domestic TS market amounted to PLN 14.2bn comparing to inflow of PLN 3.9bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 192.6bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

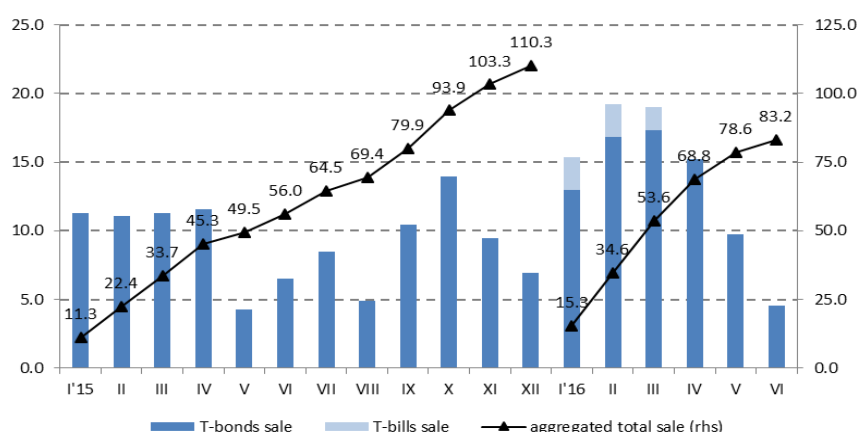


Sale of T-bonds and T-bills in the period of I-VI 2016 and 2015

auction date, nominal amount, PLN bn

In the period of I-VI 2016 aggregated total sale of:

- T-bonds amounted to PLN 76.7bn versus PLN 56.0bn as compared to the corresponding period of the previous year,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).

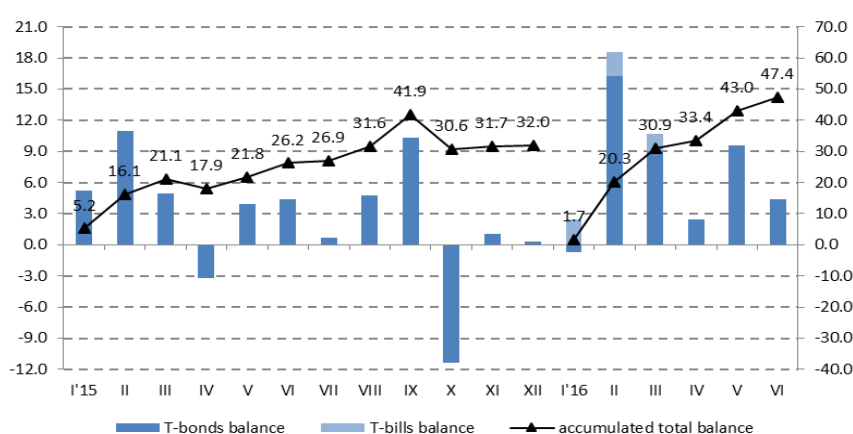


Balance of T-bonds and T-bills in the period of I-VI 2016 and 2015

auction date, nominal amount, PLN bn

In the period of I-VI 2016 indebtedness in:

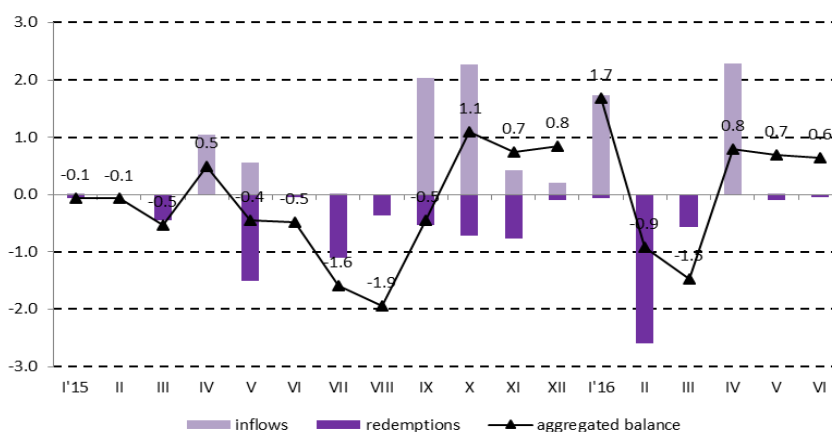
- T-bonds increased by PLN 40.9bn,
- T-bills increased by PLN 6.5bn.



External financing in the period of I-VI 2016 and 2015

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

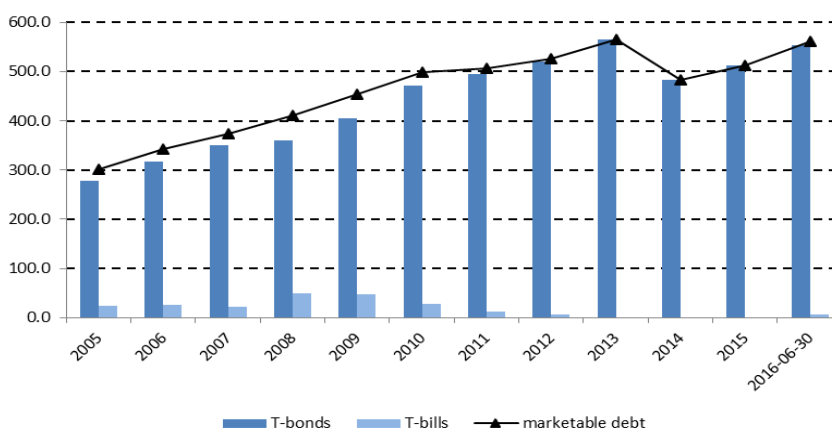
Net financing on foreign markets in the period of I-VI 2016 was positive and amounted to EUR 0.6bn which resulted from positive balance of T-bonds issuance of EUR 1.4bn and negative balance of loans incurred from IFIs at the level of EUR 0.8bn.



Structure of marketable debt

PLN bn

At the end of June 2016 the marketable domestic debt amounted to PLN 560.3bn comparing to PLN 513.4bn at the end of 2015.



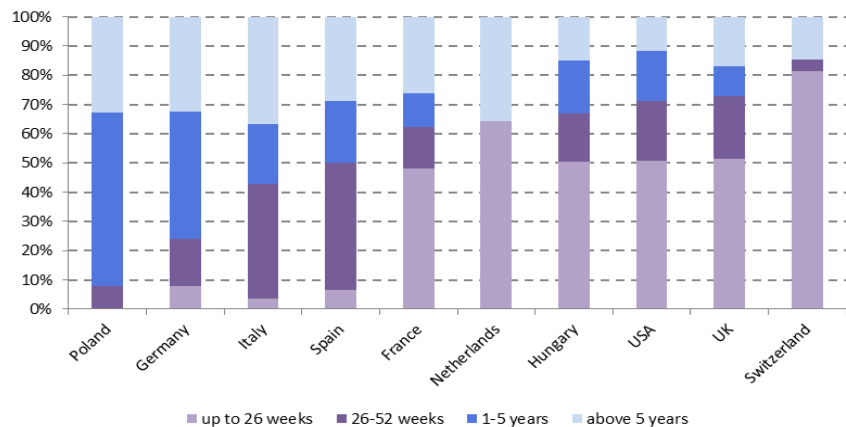


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

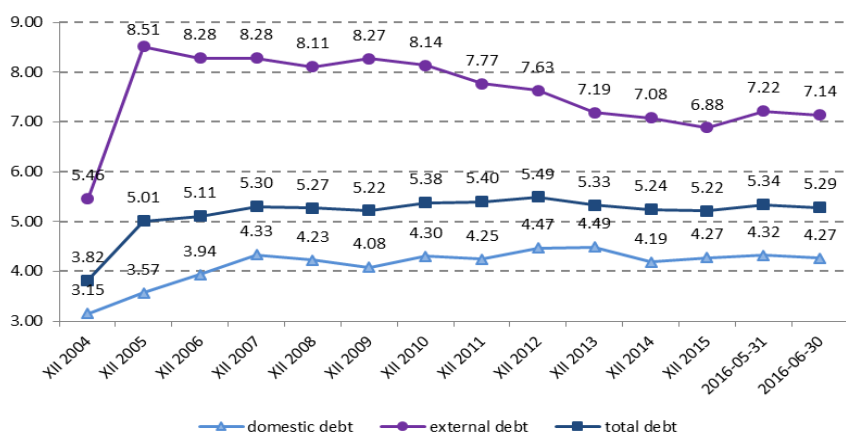
auctions and syndicates, local currency, ytd in the period of January 1 - June 30, 2016

The sale of TS in Poland in 2016 is dominated by securities maturing up to 5 years.



Average maturity

At the end of June 2016 the average maturity of domestic debt amounted to 4.27 (the same as at the end of 2015). The average of total debt increased to 5.29 (5.22 at the end of 2015).

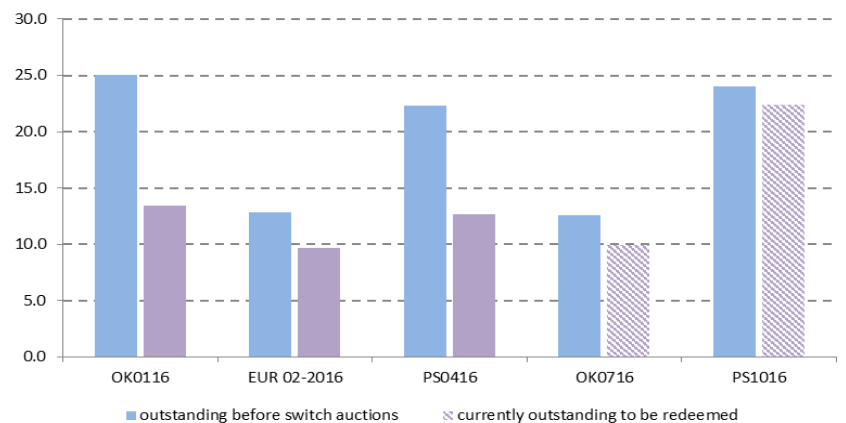


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016

nominal amount, as of June 30, 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 9.7bn (43%),
- OK0716: PLN 2.7bn (21%)
- PS1016: PLN 1.6bn (7%).

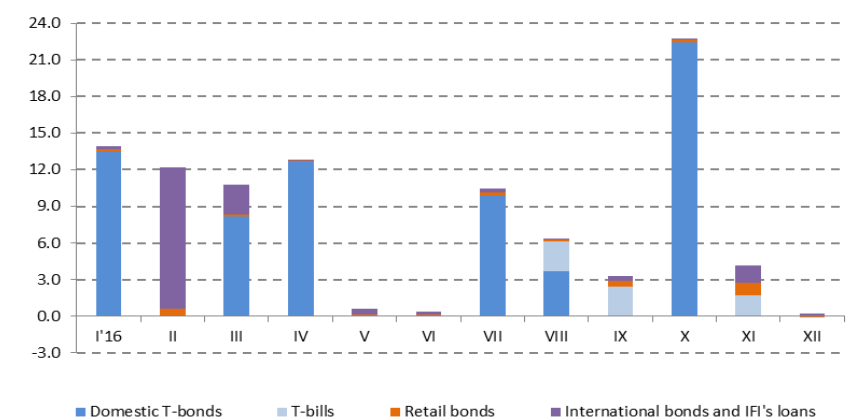


State Treasury debt redemptions in 2016

nominal amount, as of June 30, 2016; PLN bn

The nominal amount of debt to be redeemed in 2016 is equal to PLN 47.1bn, including:

- T-bonds: PLN 36.0bn,
- T-retail bonds: PLN 2.1bn,
- T-bills: PLN 6.5bn,
- bonds and loans incurred on foreign markets: PLN 2.4bn.



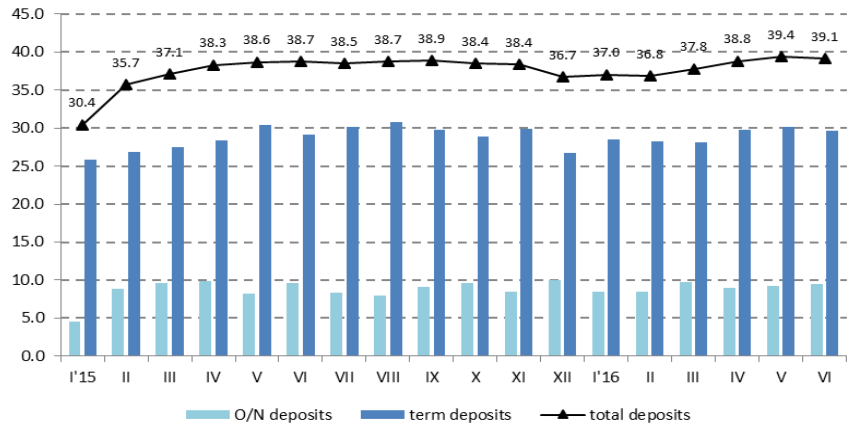
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

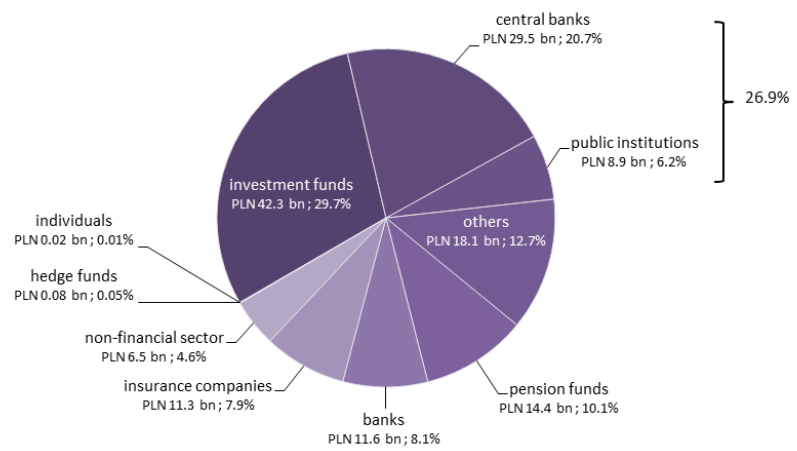
As a result of consolidation of public finances liquidity management there were PLN 39.1bn funds accumulated at the end of June, of which PLN 29.6bn was as term deposits and PLN 9.5bn on O/N deposits.



Institutional distribution of domestic T-bonds held by non-residents

as of May 31, 2016, the chart presents data excluding omnibus accounts

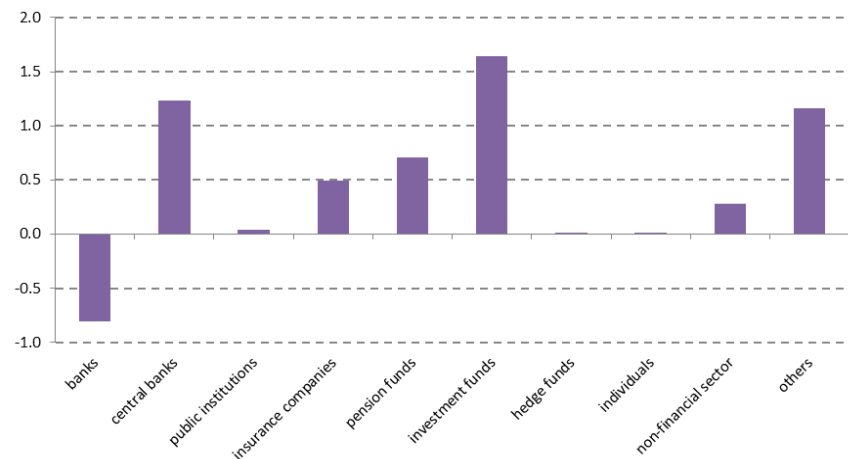
In May 2016 the share of non-residents in the domestic Treasury bond market increased by PLN 4.3bn. The foreign investors' portfolio amounted to PLN 192.5bn which constituted 35.0% share in total debt in marketable T-bonds (34.9% in the previous month). As of the end of May 2016 central banks and public institutions' share in holdings amounted to 26.9%.



Change of debt in domestic T-bonds held by non-residents by institutions

change in May 2016, mom, PLN bn

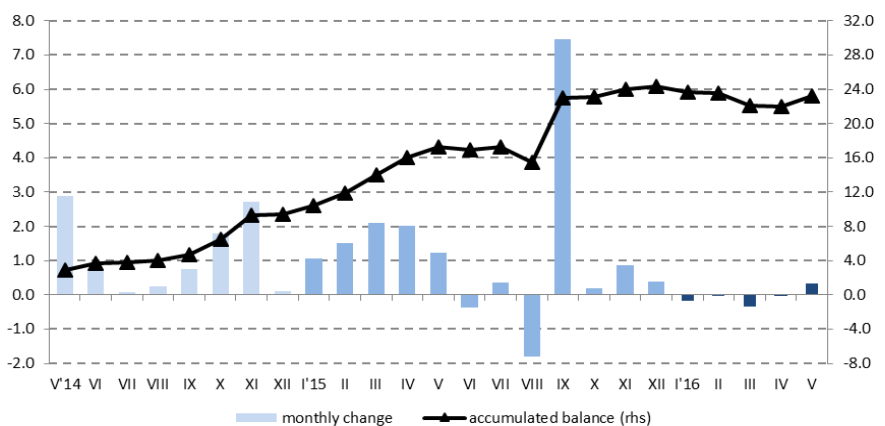
In May 2016 the highest increase of PLN 1.6bn in T-bonds portfolio was noted by investment funds. The highest decrease was recorded by banks which reduced their involvement in Polish T-bond market by PLN 0.8bn.



Change of debt in domestic T-bonds held by central banks and public institutions

change in May 2016, PLN bn

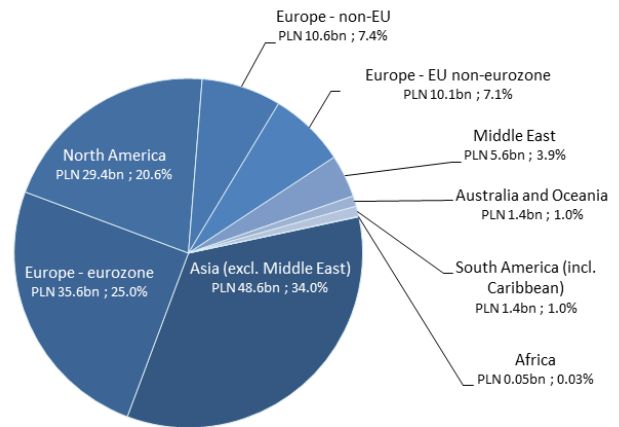
In May 2016 central banks and public institutions' involvement in the Polish debt market increased by PLN 1.3bn. Since the end of April 2014 to the end of May 2016, when the detailed information is available, portfolios of those entities increased by PLN 23.3bn.



Geographical distribution of domestic T-bonds held by non-residents

as of May 31, 2016, excluding omnibus accounts

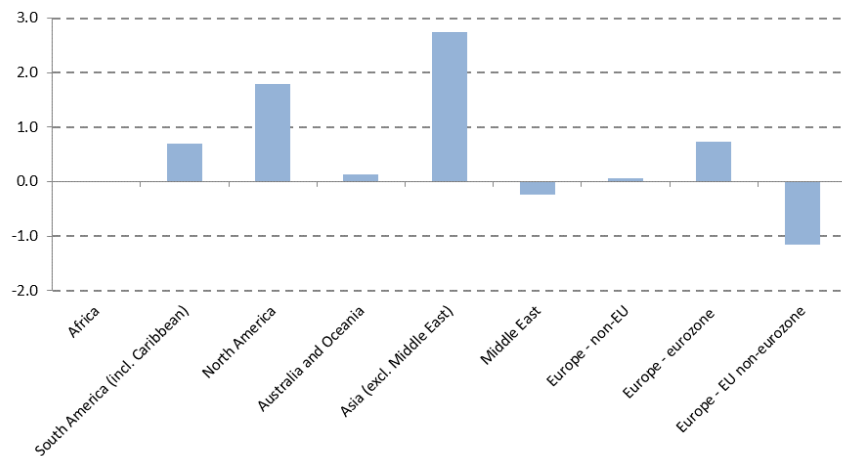
Geographical structure of domestic T-bonds held by non-residents, as well as institutional distribution, is well-diversified.



Change of debt in domestic T-bonds held by non-residents by regions

change in May 2016, mom, PLN bn

In May 2016 Asian investors increased their involvement in the domestic T-bond market to a greater extent (PLN 2.7bn). The highest decrease was recorded by investors from the EU non-eurozone (PLN 1.2bn).



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

as of May 31, 2016, 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	28 571.5	25.2%
Japan	19 799.2	17.5%
Luxembourg	17 087.7	15.1%
Norway	8 456.4	7.5%
United Kingdom	7 381.4	6.5%
Germany	5 457.0	4.8%
Ireland	4 599.6	4.1%
Netherlands	3 722.8	3.3%
Austria	2 529.1	2.2%
United Arab Emirates	2 234.5	2.0%
Switzerland	1 842.1	1.6%
Denmark	1 577.3	1.4%
Australia	1 309.4	1.2%
Cayman Islands	1 301.1	1.1%
France	1 272.2	1.1%
Others	6 077.8	5.4%
Total	113 219.3	100.0%

MoF comment

Piotr Nowak, Undersecretary of State, MoF

30-06-2016, Interview for the Polish Press Agency (fragments)

We have financed above 70% of 2016 State budget borrowing requirements after the first half-year. By the end of June we accumulated high level of liquid funds in PLN and hard currencies of ca. PLN 56bn.

The issuance policy implemented so far, reflected in the high level of financing this year's borrowing needs, as well as the amount of reserve of liquid funds allow for calm observation of the situation and adjustment of the supply structure to the current market circumstances. Recently we have been observing a significant increase in bond prices on the domestic market after turmoil due to the results of the British referendum – at the moment the yields are significantly lower compared to the levels recorded before the referendum.

In July we are going to offer a standard set of T-bonds, with a moderate supply at the first auction. On July, 25th there will be an inflow of ca. PLN 14bn to the market due to redemption and interest payments, which will be taken into account when deciding on the offer for the second auction. In the near future we are not going to issue T-bills.

In May foreign investors increased their portfolios of PLN denominated T-bonds by PLN 4.3bn. They reduced their positions in bonds of maturity up to 1 year (PLN -0.9bn) and increased their portfolios of medium-term (by PLN 2.1bn for bonds of 2-7 years maturity) and especially long-term bonds (by PLN 3.1bn for bonds of 7+ years). In June we could see further increase in non-residents' involvement in T-bonds of medium- and long-term maturities with a slight decrease in holdings of short-term bonds.

S&P rating agency's decision

S&P Research Update: Poland Foreign Currency Rating Affirmed At 'BBB+'; Outlook Negative

01-07-2016

(...) we note Poland's relatively moderate external financing needs and strong growth potential.

(...) We understand that the government wants to reshape the Polish economy by substituting foreign capital with domestic resources, primarily through a higher domestic savings rate. In addition, it wants to use state resources, especially through EU funds, more actively to promote economic growth. To this end, the government presented the so-called Morawiecki Plan, named after Poland's Minister of Economy. Among other things, the plan saw the creation of the Polish Development Fund, an institution that will combine and oversee Poland's numerous investment and economic agencies, such as development bank BGK and the foreign direct investment promotion agency PAIiZ.

(...) We assume growth of 3.5% in 2016 mainly supported by domestic demand, especially consumption. Robust exports in light of the ongoing recovery in Poland's main trading partners, especially Germany, also continue to support output growth.

(...) We expect the impact of Brexit on Poland to be contained in the near term.

(...) Poland benefits from some important buffers that we expect will help keep external borrowing costs down. These include a flexible exchange rate regime, which helps the NBP pursue an independent monetary policy, a flexible credit line with the IMF, which was reduced in January 2016 to \$18 billion and is expected to be phased out over the coming years and a high share of FDI, which tends to be more sticky, in the external debt stock.



IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2016

General assumptions

- In the third quarter of 2016 T-bond auctions are planned according to the announced yearly issuance calendar,
- Offer of T-bonds on the domestic market will depend on the market situation and consultations with investors,
- Possible auctions of T-bills will be held within the confines of the level of State budget liquidity funds management,
- Foreign financing will be determined by the situation on the international financial markets and the domestic market,
- The announced plan may be modified depending on the market situation.

Offer of T-bonds on the domestic market

Sale auctions

- Four auctions, total supply PLN 15.0-25.0bn, the structure of the sold T-bonds will be subject to the market situation,

Switch auctions

- In July and August auctions are not planned, possible auction in September (holding subject to the market situation) – securities offered to repurchase would be T-bonds maturing in 2016 and 2017.

Foreign financing

- Possible issuance of bonds on the international markets (depending on the market situation),
- Possible loans from International Financial Institutions up to EUR 0.2bn,
- Possibility of additional financing through private placements.

V. SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2016



Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
7 JUL 2016	11 JUL 2016	OK1018 / DS0726 / WS0428	3,000-6,000
28 JUL 2016	1 AUG 2016	choice will depend on the market conditions, excluding bonds offered at 1st auction	4,000-9,000

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

Sale auctions of T-bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
DOS0718	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0719	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI0720	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO0726	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period