



Ministry
of Finance

Republic
of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

September 2016

THE MOST IMPORTANT INFORMATION

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Gross domestic product of Poland

constant prices, yoy
source: GUS

In the second quarter of 2016 Polish economy returned to the upward trend. GDP increased by 0.9% (qoq, sa), following a decrease of 0.1% in the first quarter of 2016. The pace of growth (qoq, sa) of households consumption slightly deaccelerated and investments decreased for the third time in a row. On the other hand growth of exports surprised on the upside.

Contributions to Poland's GDP growth

percentage points
source: GUS; py - average prices of previous year

In the second quarter of 2016 GDP was 3.1% higher than a year ago as compared to 3.0% in the prev. quarter. Data was below market expectations. Domestic demand was the main source of GDP growth, mainly due to households consumption (contribution of 1.9 pp), public consumption (0.8 pp) and increase in inventories (0.5 pp). Contrary to the prev. quarter net exports had positive contribution (0.8 pp as compared to -0.9 pp in the first quarter of 2016) due to higher exports than imports dynamics (in yoy terms). Negative contribution to GDP growth came again from investments (-0.9 pp), which were 4.9% lower than a year before.

Poland's gross external debt position

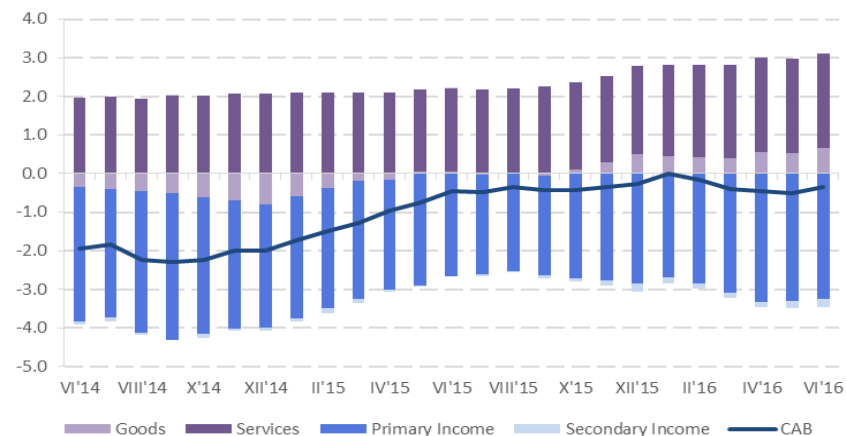
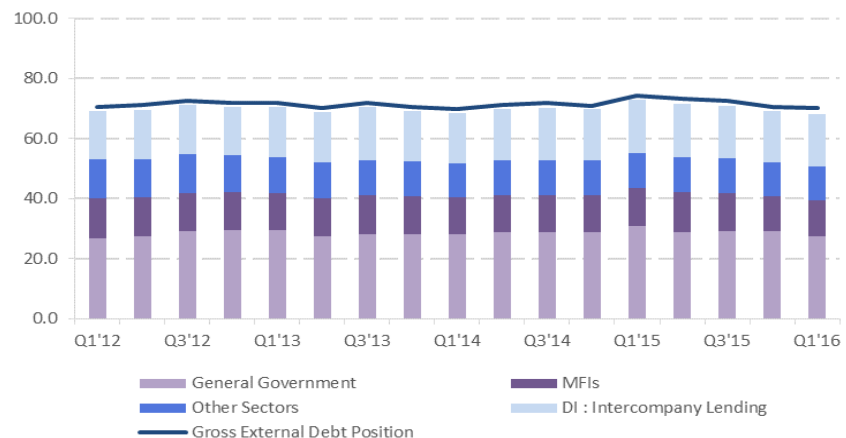
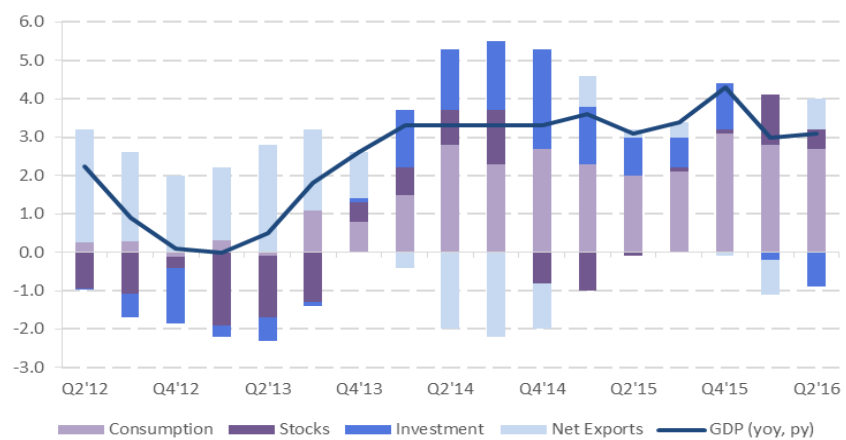
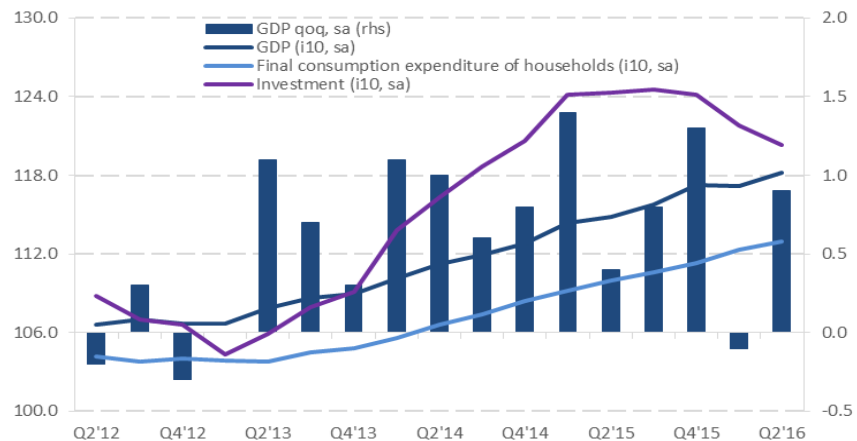
percent of GDP
source: NBP, GUS, MoF own calculation

Gross external debt reached EUR 299.9bn (70.3% of GDP) at the end of the first quarter of 2016 and was EUR 1.7bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 39.2%. Official reserve assets reached EUR 98.2bn at the end of July 2016 and remained broadly adequate, covering nearly 6 months of imports.

Current account balance

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

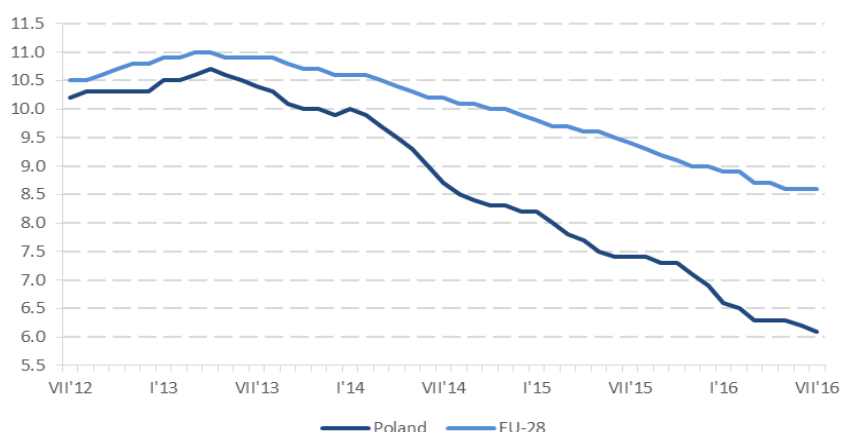
In June 2016, according to the preliminary data, C/A deficit decreased to 0.3% of GDP (in 12-month terms of GDP) from 0.5% of GDP in the previous month. Data was close to market expectations. C/A deficit was with a wide margin covered by long-term capital, i.e. inflow of EU structural funds classified on capital account and, to a lesser extent, inflow of direct investments of non-residents.



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

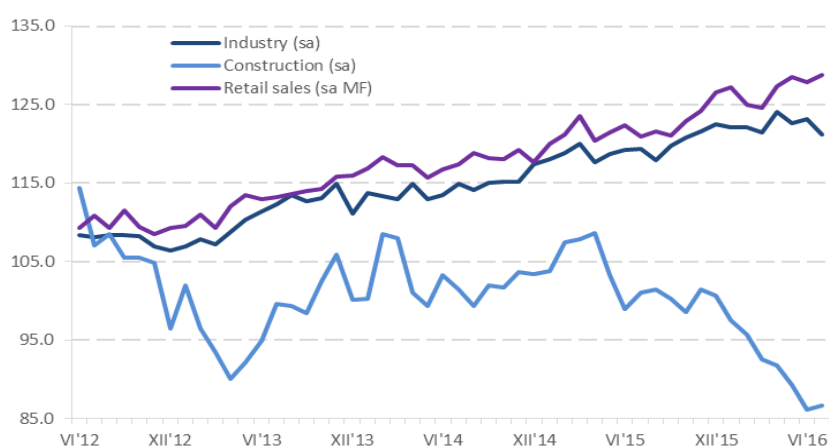
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In July 2016 it amounted to 6.1% (versus 8.6% in EU on average) and it was 0.1 pp lower than a month before and 1.3 pp lower than a year before. In July 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



Monthly indicators of the real sector

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

In July 2016 industrial output went down by 1.6% (mom, sa). As a result production was 3.4% lower than a year ago (nsa). Data was noticeably below market expectations. In July 2016 construction production went up after decreases in seven previous months (mom, sa). As a result, its level was 18.8% (nsa) lower than a year before. In July 2016 real retail sales increased by 0.8% (mom, sa MoF) after unexpected drop in the previous month. Its level was 4.4% (nsa) higher than in the same month of 2015. Data was noticeably worse than market expectations.



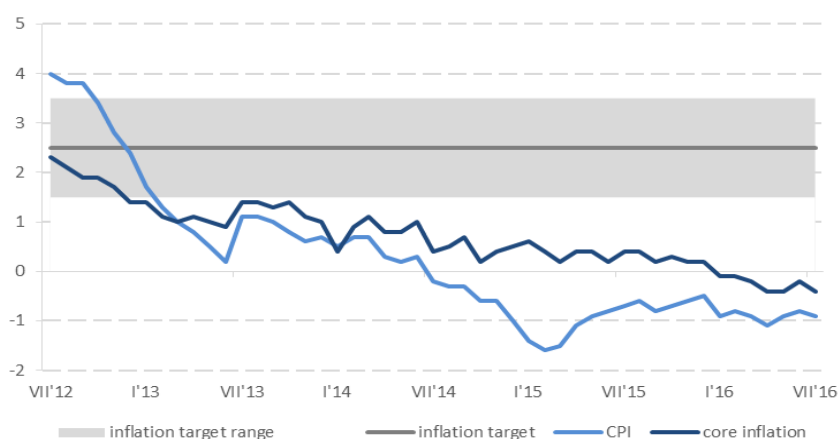
Inflation

percent, yoy
source: GUS, NBP

Since July 2014 consumer prices have been lower than a year before mainly because of a drop of commodity prices (energy and food). In July 2016 deflation amounted to 0.9% (yoy). Data was consistent with expectations.

Since the beginning of 2016 core inflation (CPI excluding food and energy prices) has remained below zero (in July amounted to -0.4%, yoy).

Deflation in producer prices has been lasting over 3.5 years (0.4% yoy in July 2016).

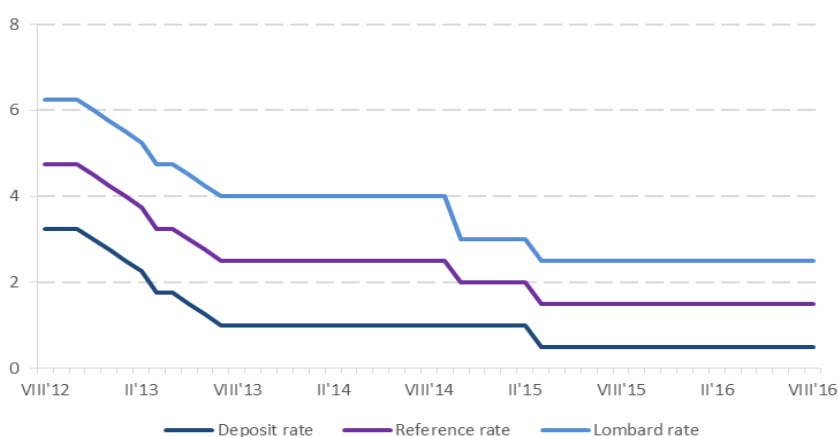


NBP interest rates

percent, end of period
source: NBP

In July 2016 the Monetary Policy Council kept NBP's interest rates on hold with the reference rate at 1.50%. The decision was in line with market expectations. 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 (August, 16th) sees no NBP's rate move until the fourth quarter of 2017.





II. STATISTICAL DATA

	Unit	2015				2016	
		Q01	Q02	Q03	Q04	Q01	Q02
GDP							
Gross domestic product	YoY	3.6	3.1	3.4	4.3	3.0	3.1
	QoQ SA	1.4	0.4	0.8	1.3	-0.1	0.9
Final consumption expenditure of the households sector	YoY	3.1	3.1	3.1	3.0	3.2	3.3
	QoQ SA	0.7	0.7	0.6	0.6	0.9	0.6
Final consumption expenditure of the general government sector	YoY	1.8	0.8	0.9	8.7	4.4	4.4
	QoQ SA	0.8	0.8	0.9	2.4	0.0	1.0
Gross fixed capital formation	YoY	11.8	5.8	4.4	4.4	-1.8	-4.9
	QoQ SA	2.9	0.1	0.2	-0.3	-1.9	-1.2
Exports of goods and services	YoY	8.3	5.2	5.6	8.2	6.9	10.9
	QoQ SA	2.3	0.3	2.1	3.0	2.2	4.1
Imports of goods and services	YoY	6.9	5.0	4.9	8.6	9.3	9.9
	QoQ SA	1.4	0.8	1.8	3.9	2.5	2.5
Gross value added	YoY	3.2	3.0	3.3	4.2	2.8	2.9
	QoQ SA	1.0	0.9	0.7	1.3	0.3	0.4
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	2.0	1.9	1.9	1.5	2.0	1.9
Final consumption expenditure of the general government sector	pp.	0.3	0.1	0.2	1.6	0.8	0.8
Gross fixed capital formation	pp.	1.5	1.0	0.8	1.2	-0.2	-0.9
Changes in inventories	pp.	-1.0	-0.1	0.1	0.1	1.3	0.5
Balance of trade turnover	pp.	0.8	0.2	0.4	-0.1	-0.9	0.8
Gross value added	pp.	2.9	2.6	2.9	3.7	2.5	2.5
Taxes less subsidies	pp.	0.7	0.5	0.5	0.6	0.5	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	64.6	59.8	60.4	48.8	64.0	59.2
Final consumption expenditure of the general government sector	% of GDP	17.4	17.8	17.3	19.5	17.4	17.8
Gross fixed capital formation	% of GDP	14.0	18.1	19.3	27.5	13.3	16.7
Changes in inventories	% of GDP	-0.5	0.5	0.8	0.6	0.8	1.0
Exports of goods and services	% of GDP	51.8	50.1	49.8	46.4	53.5	53.6
Imports of goods and services	% of GDP	47.9	47.2	48.4	43.4	49.8	49.2
Balance of payments							
	Unit	2016					
		M02	M03	M04	M05	M06	M07
Goods: exports (EUR)	YoY	5.9	0.8	4.8	-0.7	6.4	-
Goods: imports (EUR)	YoY	7.7	1.1	0.3	0.4	2.4	-
Current account balance ¹⁾	% of GDP	-0.2	-0.4	-0.5	-0.5	-0.3	-
Balance on goods ¹⁾	% of GDP	0.4	0.4	0.6	0.5	0.7	-
Official Reserve Assets	EUR mln	90 605.5	88 533.2	92 282.6	97 044.3	99 174.4	98 242.2
Inflation							
Consumer Price Index (CPI)	YoY	-0.8	-0.9	-1.1	-0.9	-0.8	-0.9
Core inflation (CPI excluding food and energy prices)	YoY	-0.1	-0.2	-0.4	-0.4	-0.2	-0.4
Producer Price Index (PPI)	YoY	-1.5	-1.9	-1.2	-0.4	-0.8	-0.4
Production							
Sold production of industry ²⁾	YoY	6.8	0.7	6.0	3.2	6.0	-3.4
	MoM SA	0.0	-0.6	2.2	-1.1	0.4	-1.6
Construction and assembly production ²⁾	YoY	-10.5	-15.8	-14.9	-13.7	-13.0	-18.8
	MoM SA	-1.8	-3.2	-1.0	-2.6	-3.6	0.6
Manufacturing PMI	SA	52.8	53.8	51.0	52.1	51.8	50.3
Households and labour market							
Retail sales ²⁾	YoY	6.2	3.0	5.5	4.3	6.5	4.4
Average paid employment in enterprise sector	YoY	2.5	2.7	2.8	2.8	3.1	3.2
	MoM	0.1	0.3	0.1	0.1	0.3	0.2
Average monthly gross wages and salaries in enterprise sector (re)	YoY	4.8	4.2	5.8	5.0	6.1	5.8
	MoM	1.0	5.1	-1.2	-3.5	1.9	1.2
Harmonised unemployment rate (Eurostat)	% SA	6.5	6.3	6.3	6.3	6.2	6.1
<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, Markit</small>							
State Treasury debt							
	Unit	2016					
		M01	M02	M03	M04	M05	M06
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	847 875.3	858 000.9	858 423.4	881 873.7	890 714.6	898 988.8
Domestic debt	nominal, PLN mio	537 124.3	563 190.6	574 572.0	578 209.0	588 305.5	592 249.3
	%	63.3	65.6	66.9	65.6	66.0	65.9
Foreign debt	nominal, PLN mio	310 750.9	294 810.3	283 851.4	303 664.7	302 409.1	306 739.5
	%	36.7	34.4	33.1	34.4	34.0	34.1
Public debt (domestic definition)							
	Unit	2015				2016	
		Q04	Q01	Q02	Q03	Q04	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	899 314.6
Domestic debt	nominal, PLN mio	534 792.6	559 042.0	564 481.1	579 091.9	570 490.5	600 088.6
	%	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	936 761.2
<small>1) initial data Source: MoF</small>							

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



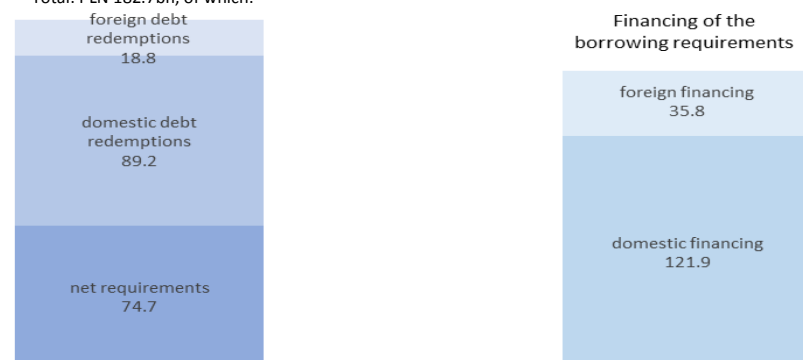
Gross borrowing requirements in 2016

Financing of the State budget borrowing requirements at the level of ca. 86% was a result of:

- T-bond sale on domestic market: PLN 93.8bn (incl. the auction of September 1st),
- switch auctions: PLN 8.4bn,
- T-bond sale on foreign markets: PLN 19.0bn (EUR 2.5bn, USD 1.7bn, CNY 3.0bn),
- switch auctions in 2015: PLN 16.4bn,
- T-bonds buyback on foreign markets: EUR 0.7bn,
- higher than planned financial resources at the end of 2015: PLN16.9bn.

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

Total: PLN 182.7bn, of which:

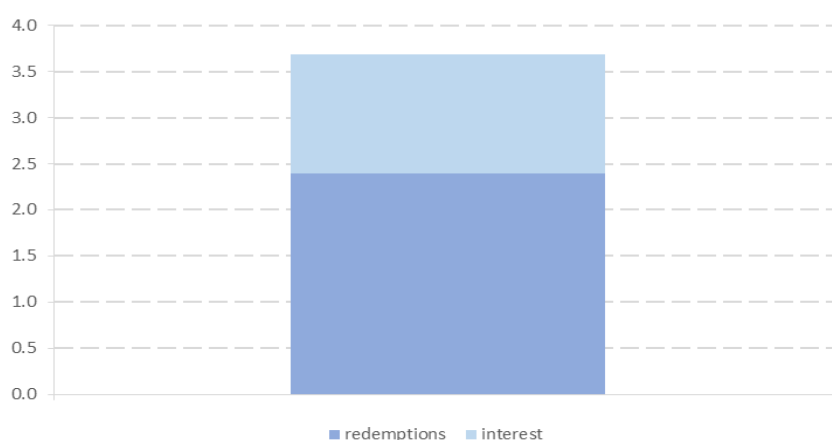


Flows of funds into the market related to domestic T-securities transfers in September

as of August 31, 2016, PLN bn

Value of funds transferred from the State budget to the market in September shall amount to PLN 3.7bn, of which:

- TS redemptions: PLN 2.4bn,
- interest payments: PLN 1.3bn.

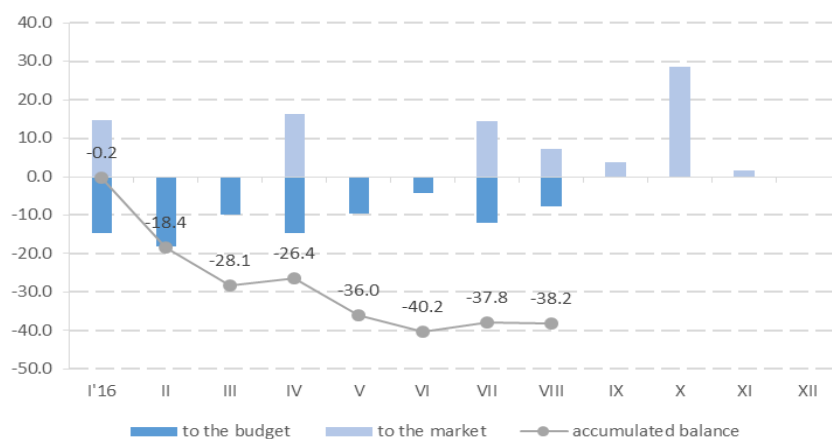


Flows of funds between the market and the budget*

as of August 31, 2016, PLN bn

As of August 31, 2016, to the end of the year the funds to be transferred to the market shall amount to PLN 34.1bn.

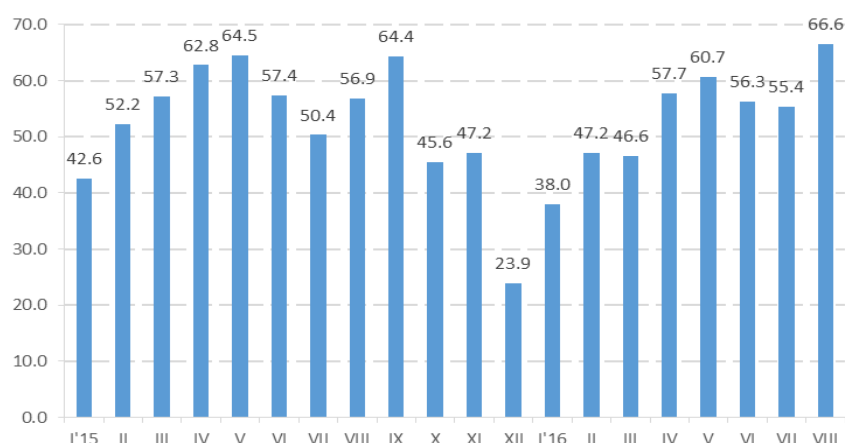
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



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.



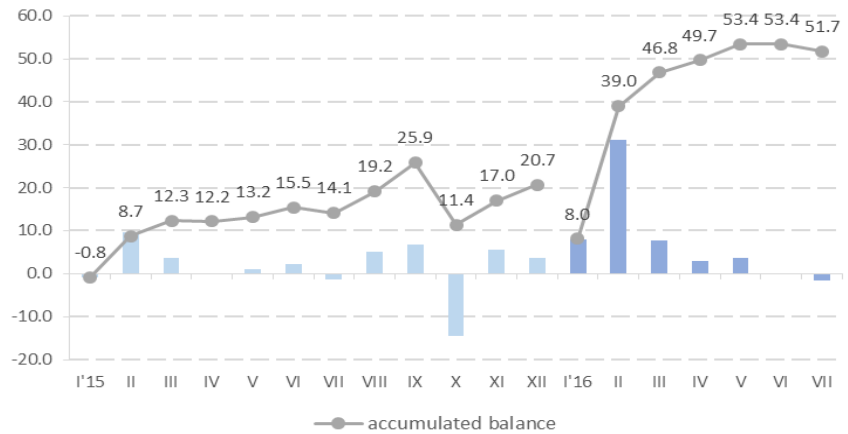


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

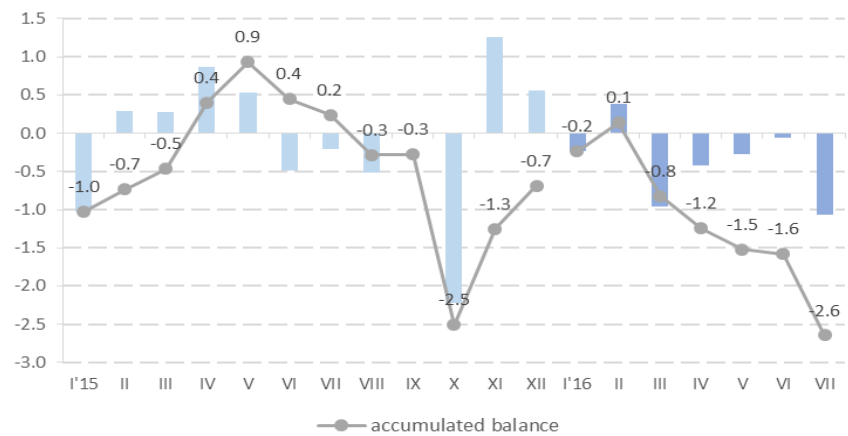
In the period of I-VII 2016 debt held by domestic banks increased by PLN 51.7bn comparing to PLN 14.1bn increase during the same period of 2015.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

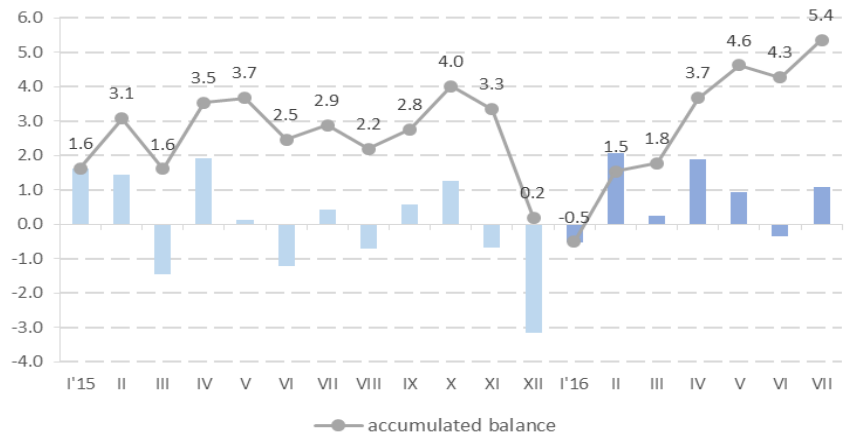
In the period of I-VII 2016 there was a decrease of PLN 2.6bn in debt held by insurance companies. During the same period of 2015 there was an increase of PLN 0.2bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

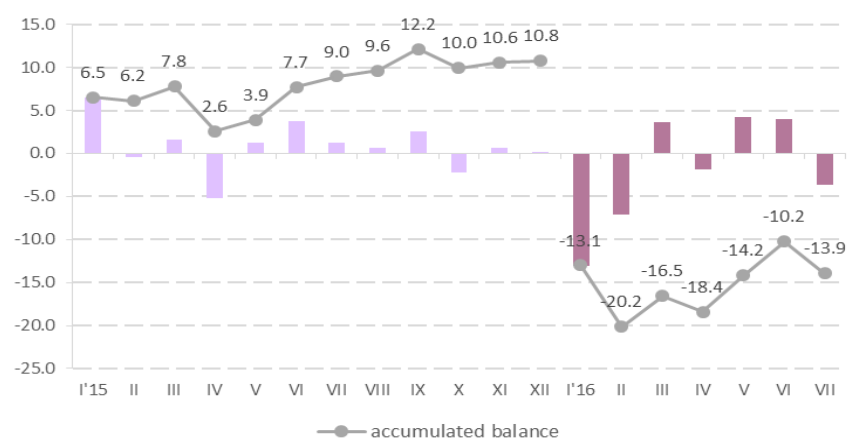
In the period of I-VII 2016 there was an increase of PLN 5.4bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 2.9bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the the period of I-VII 2016 outflow of foreign capital from the domestic TS market amounted to PLN 13.9bn comparing to inflow of PLN 9.0bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 192.8bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

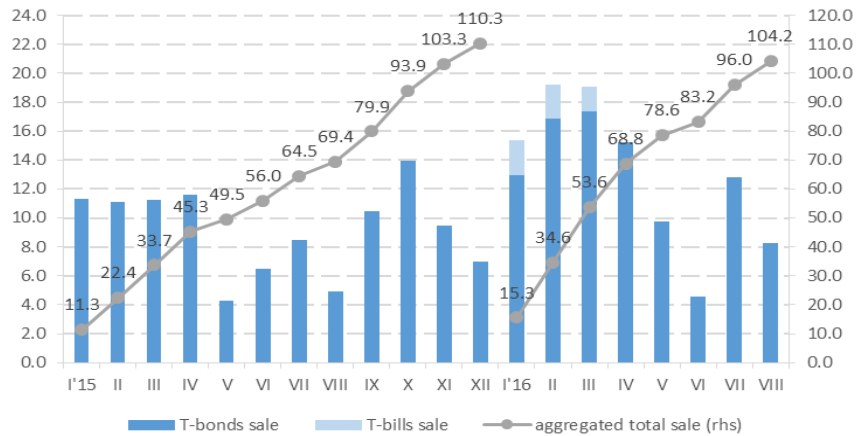


Sale of T-bonds and T-bills in the period of I-VIII 2016 and 2015

auction date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 97.7bn versus PLN 69.4bn in the same period of 2015,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).

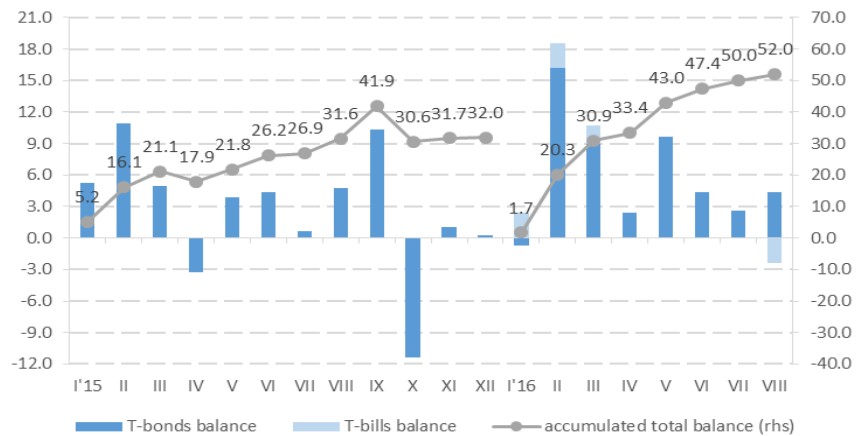


Balance of T-bonds and T-bills in the period of I-VIII 2016 and 2015

auction date, nominal amount, PLN bn

In the period of I-VIII 2016 indebtedness in:

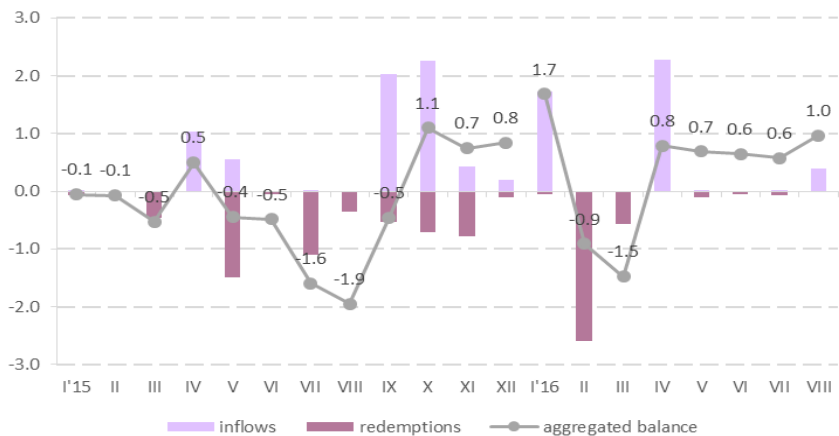
- T-bonds increased by PLN 47.9bn,
- T-bills increased by PLN 4.1bn.



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

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

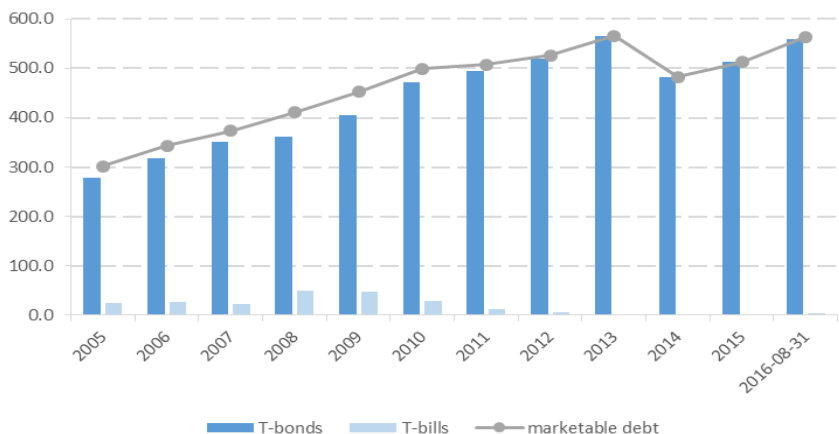
Net financing on foreign markets in the period of I-VIII 2016 was positive and amounted to EUR 1.0bn, which resulted from positive balance of T-bonds issuance of EUR 1.8bn and negative balance of loans incurred from IFIs at the level of EUR 0.9bn.



Structure of marketable debt

PLN bn

At the end of August 2016 the marketable domestic debt amounted to PLN 563.7bn comparing to PLN 513.4bn at the end of 2015.



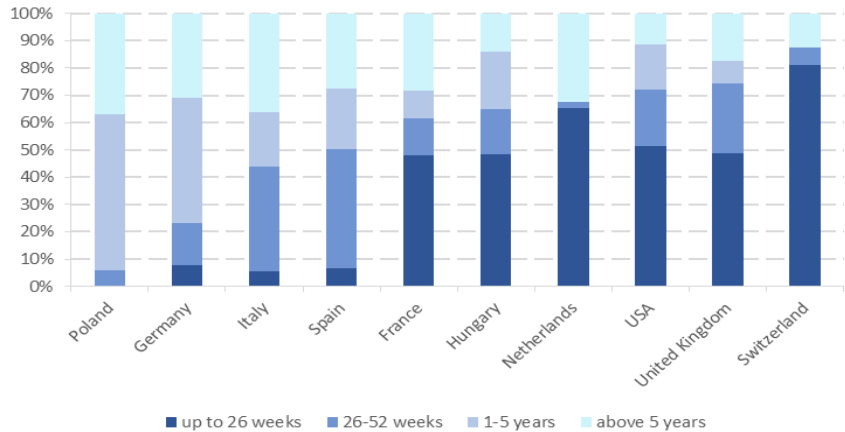


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

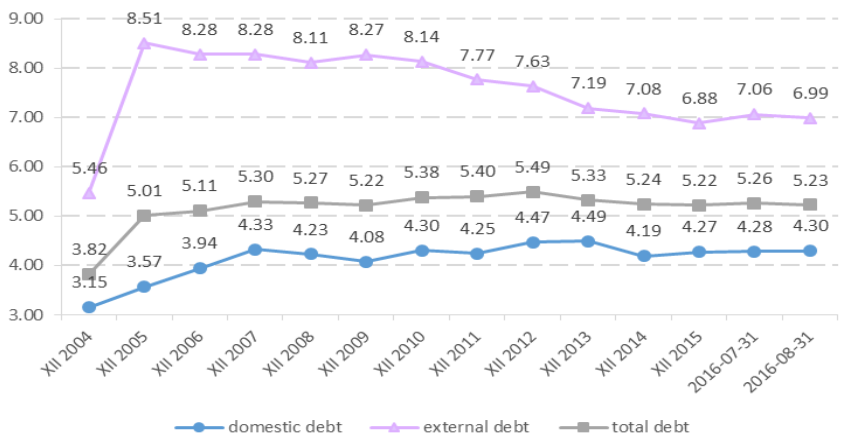
auctions and syndicates, local currency, ytd in the period of January 1 - August 31, 2016

The sale of TS in Poland in 2016 is dominated by securities maturing in 1 to 5 years.



Average maturity

At the end of August 2016 the average maturity of domestic debt increased to 4.30 (while at the end of 2015 it was 4.27). The average maturity of total debt increased to 5.23 (5.22 at the end of 2015).

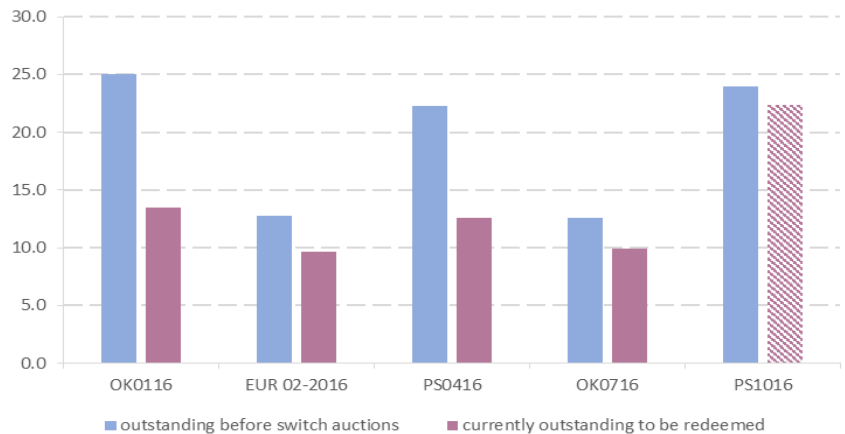


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016

as of August 31, 2016, nominal amount, 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%).

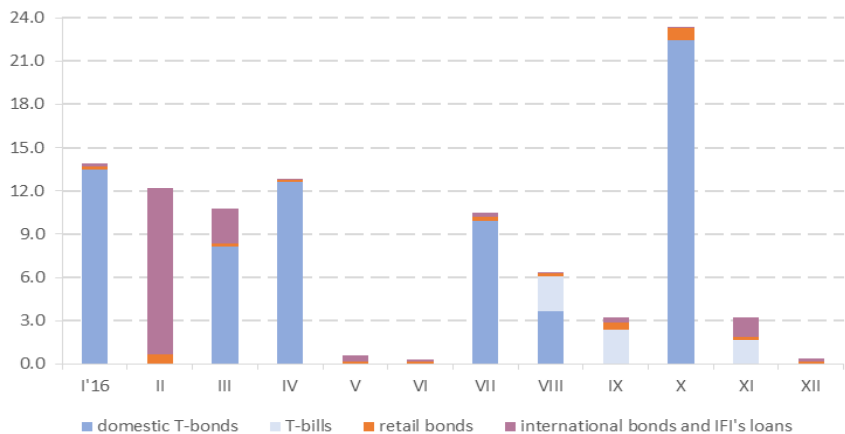


State Treasury debt redemptions in 2016

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

The nominal amount of debt to be redeemed in 2016 is equal to PLN 30.2bn, including:

- T-bonds: PLN 22.4bn,
- T-retail bonds: PLN 1.7bn,
- T-bills: PLN 4.1bn,
- bonds and loans incurred on foreign markets: PLN 2.0bn.



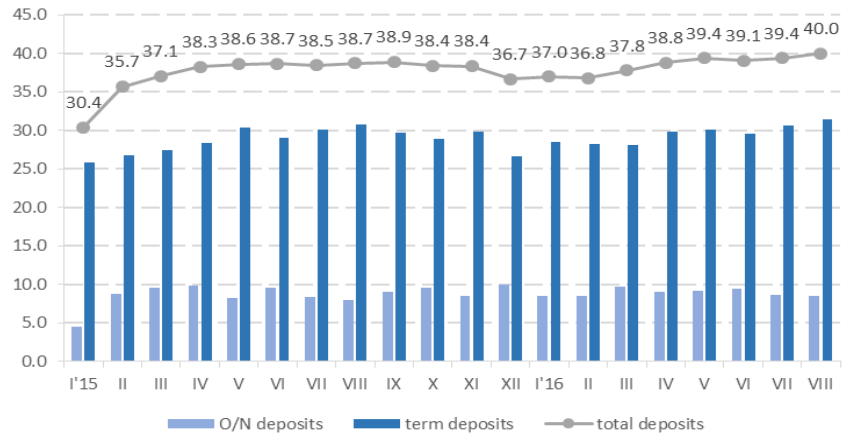
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

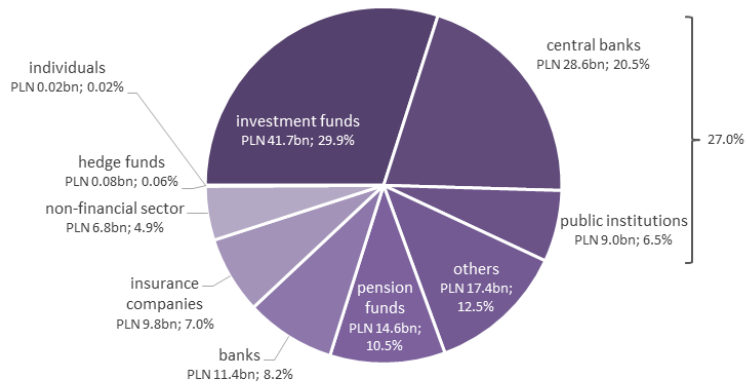
As a result of consolidation of public finances liquidity management there were PLN 40.0bn funds accumulated at the end of August, of which PLN 31.5bn was as term deposits and PLN 8.5bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

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

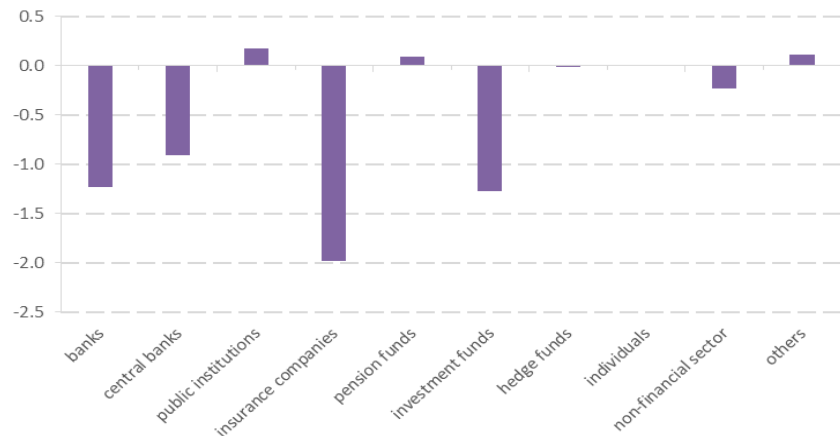
In July 2016 the share of non-residents in the domestic Treasury securities market decreased by PLN 3.7bn. The foreign investors' portfolio amounted to PLN 192.8bn which constituted 34.8% share in total debt in marketable Treasury securities (35.1% in the previous month). As of the end of July 2016 central banks and public institutions' share in foreign holdings amounted to 27.0%.



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

change in July 2016, mom, PLN bn

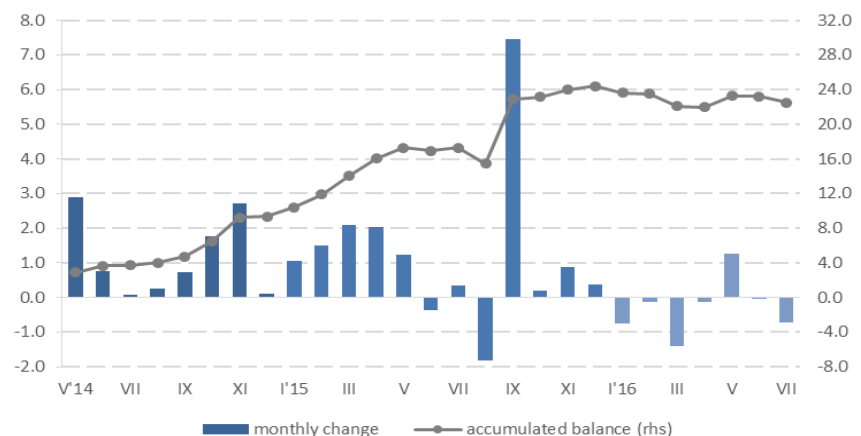
In July 2016 insignificant increases were noted by public institutions (PLN 0.2bn), entities from the category "others" and pension funds (each by PLN 0.1bn), as well as individuals (PLN 2m). The other entities reduced their portfolios. The highest decrease was recorded by insurance companies which amounted to nearly PLN 2.0bn.



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

change in July 2016, PLN bn

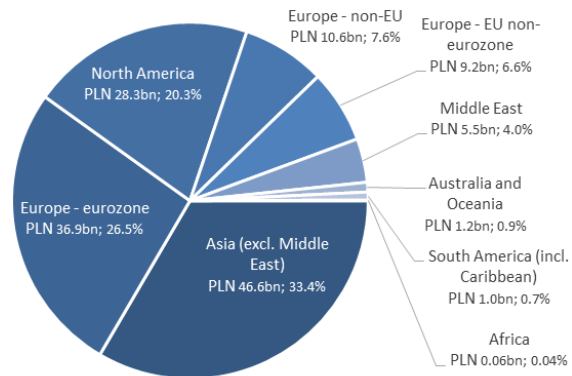
In July 2016 central banks and public institutions' involvement in the Polish debt market decreased by PLN 0.7bn. Since the end of April 2014 to the end of July 2016, when the detailed information is available, portfolios of those entities increased by PLN 22.5bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of July 31, 2016, excluding omnibus accounts

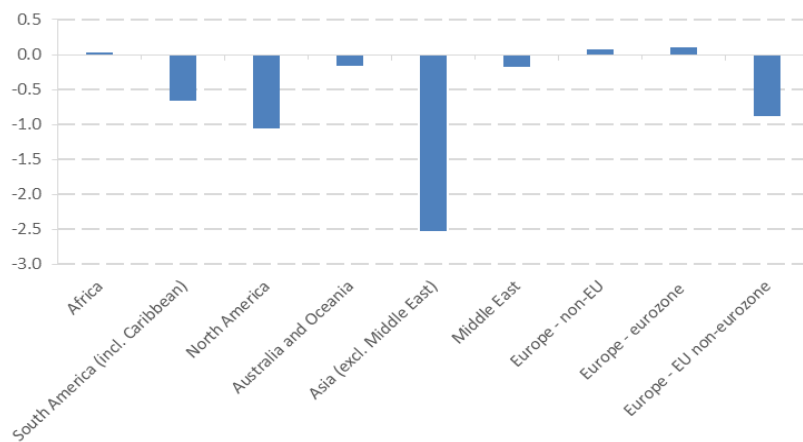
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in July 2016, mom, PLN bn

In July 2016 investors mostly decreased their involvement in the domestic Treasury securities market with the highest recorded by Asian investors (PLN 2.5bn).



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

as of July 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	27 446.8	24.8%
Japan	18 489.9	16.7%
Luxembourg	17 492.1	15.8%
Norway	8 574.3	7.7%
United Kingdom	6 328.3	5.7%
Germany	5 684.7	5.1%
Ireland	4 576.6	4.1%
Netherlands	4 111.9	3.7%
Austria	2 734.9	2.5%
United Arab Emirates	2 251.3	2.0%
Denmark	1 750.6	1.6%
Switzerland	1 704.2	1.5%
France	1 284.0	1.2%
Australia	1 165.1	1.1%
Others	7 158.3	6.5%
Total	110 752.9	100.0%

MoF comments

Piotr Nowak, Undersecretary of State, MoF

30-08-2016, interview for the Polish Press Agency (fragments)

After August we financed ca. 82% of the State budget borrowing requirements for 2016. At the sale auction of September 1st, 2016 we will offer OK1018, WZ1122 and DS0726 with the total supply in the range of PLN 4-7bn. That will be the last auction with the current 10-year benchmark bond (DS0726) in the offer.

In September a switching auction will be held as well. T-bonds maturing in 2017 will be redeemed which will start a process of prefinancing the next year's borrowing needs. The information on types of securities to be offered will be published closer to the auction date, depending on the market situation.

We are not planning T-bills to be issued in the near future.

In July foreign investors decreased their portfolios of PLN denominated Treasury securities by PLN 3.7bn, mainly due to redemption of bonds maturing on July 25th, 2016 (PLN 2.2bn). A considerable part of those funds was reinvested at the auction on July 28th, 2016. Because of the settlement date of the transaction which falls in August, those flows will appear in the data for that month. In the current month [August] we have observed an increase in non-residents' involvement in medium- and long-term bonds, and the corresponding decrease in short-term bonds portfolio.

In August we issued a 3-year bond denominated in Chinese yuan (Panda bonds) with a nominal amount of RMB 3bn. The issue attracted wide interest among Chinese investors, the demand was twice higher than the amount offered. The entire programme amounts to RMB 6bn, thus another issue may be considered this or next year.

Issuance of Panda bonds

The first issuance of Panda bonds

MoF's announcement, 25-08-2016

On August 25th, 2016 the Ministry of Finance priced a 3-year bond denominated in Chinese yuan - Panda bonds - for a nominal amount of RMB 3bn. The bond maturing on 26 August 2019 yields 3.4% p.a.

Simultaneously the Ministry entered into a hedging transaction swapping the proceeds into euros. After swap the yield was negative at -0.173% p.a.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN SEPTEMBER 2016

Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
1 SEP 2016	5 SEP 2016	OK1018 / WZ1122 / DS0726	4,000-7,000*

* At the auction of September 1st, 2016 the Ministry of Finance sold T-bond OK-series at the level of PLN 1,748.5m, WZ-series at the level of PLN 2,515m (including PLN 304m at the non-competitive auction) and DS-series at the level of PLN 3,330m (including PLN 302m at the non-competitive auction).

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
22 SEP 2016 / 26 SEP 2016	choice will depend on the market conditions, excluding bonds offered at the first auction	PS1016	22,420
		WZ0117	19,208
		PS0417	16,382

T-bill auctions

Sale auctions of T-bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
DOS0918	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0919	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI0920	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO0926	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period