

State budget borrowing requirements' financing plan and its background

4th quarter 2016

October 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 previous 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 previous quarter net exports had also positive contribution (0.8 pp as compared to -0.9 pp in the first quarter of 2016) due to higher exports than imports dynamics (yoy). Negative contribution to GDP growth came again from investments (-0.9 pp), lower by 4.9% vs a year ago.

Poland's gross external debt position

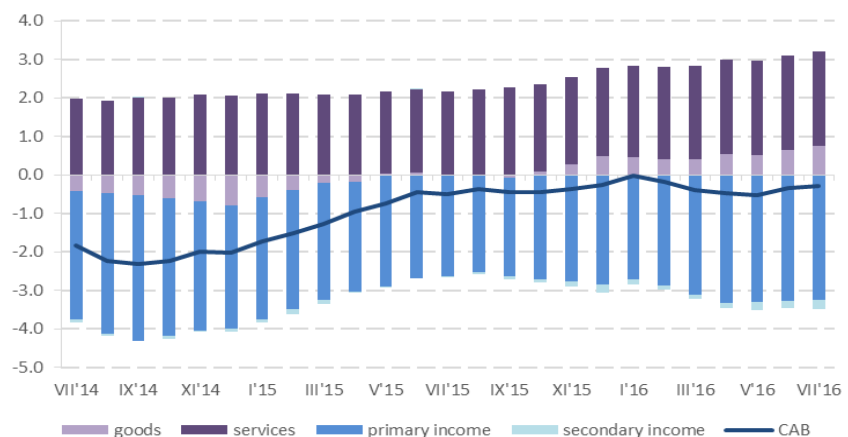
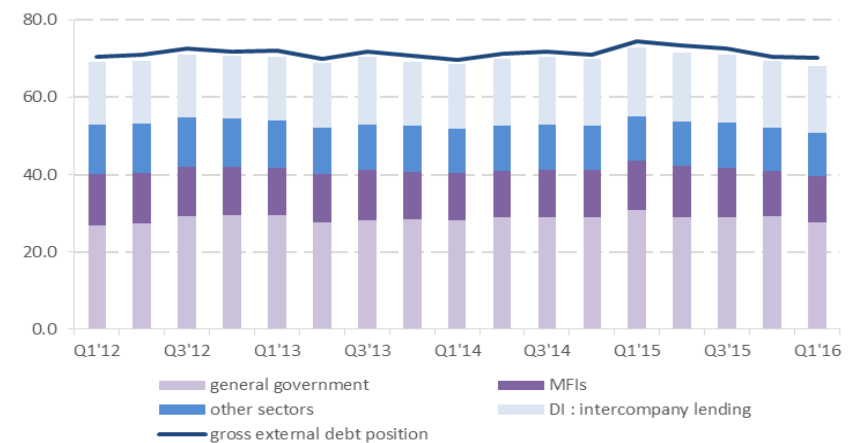
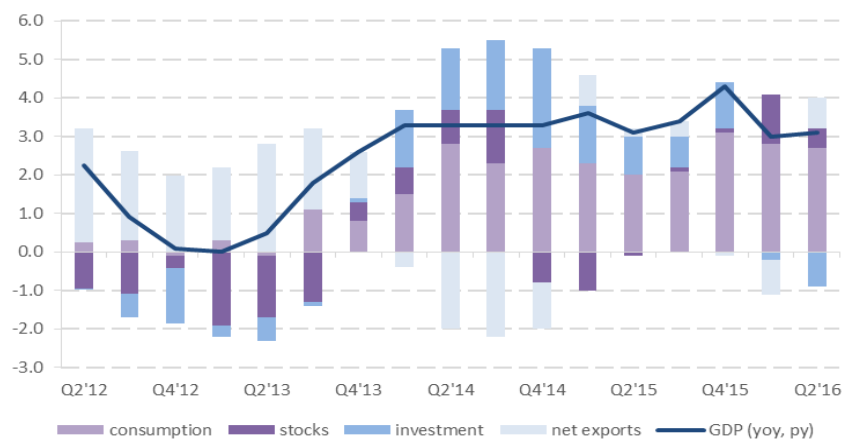
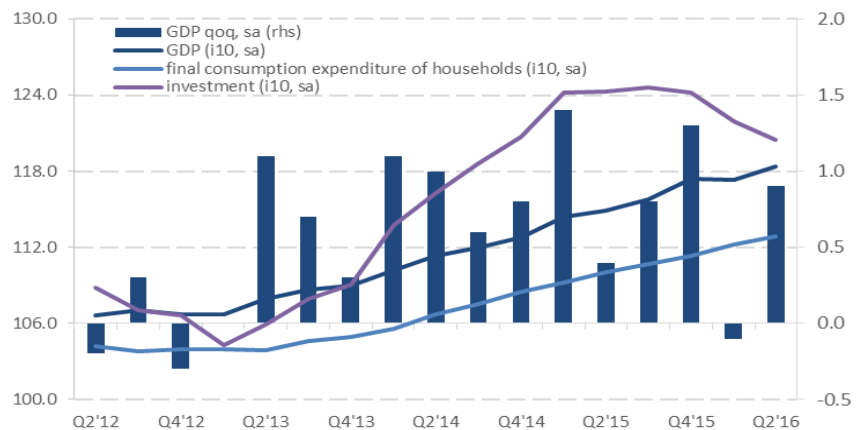
percent of GDP
source: NBP, GUS, MoF own calculation

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 98.7bn at the end of August 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 July 2016, according to the preliminary data, C/A deficit stabilized at 0.3% of GDP (in 12-month terms of GDP). Data was below 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.

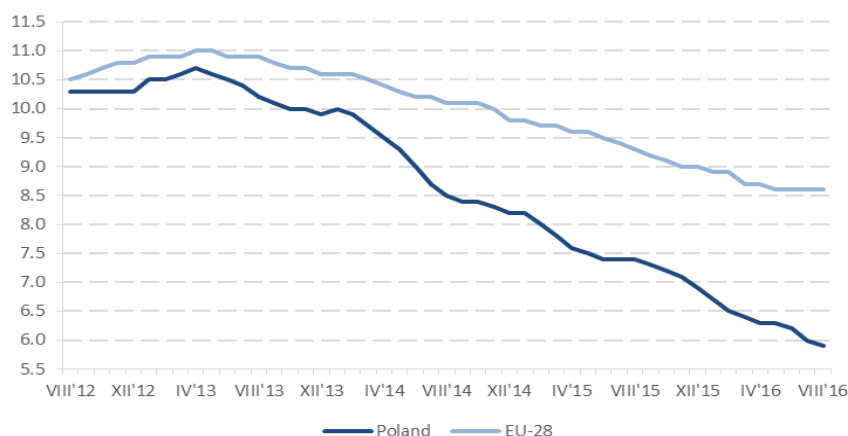




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In August 2016 it amounted to 5.9% (versus 8.6% in EU on average) and it was 0.1 pp lower than a month before and 1.5 pp lower than a year before. In August 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



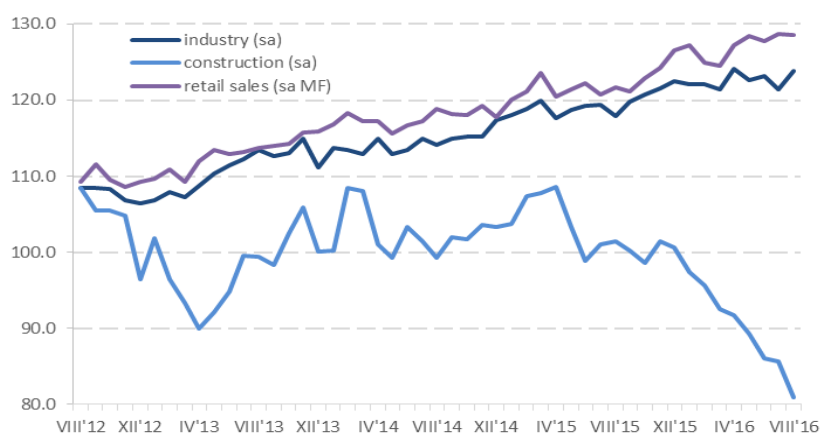
Monthly indicators of the real sector

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

In August 2016 industrial output went up by 2.1% (mom, sa). As a result production was 7.5% higher than a year ago (nsa). Data was better than market expectations.

In August 2016 construction production plummeted (5.5% mom, sa). It was the ninth decrease in a row. As a result its level was 20.5% (nsa) lower than a year before.

In August 2016 real retail sales declined slightly (mom, sa MoF) after an increase in the previous month. Its level was 7.8% (nsa) higher than in the same month of 2015. Data was noticeably better than market expectations.



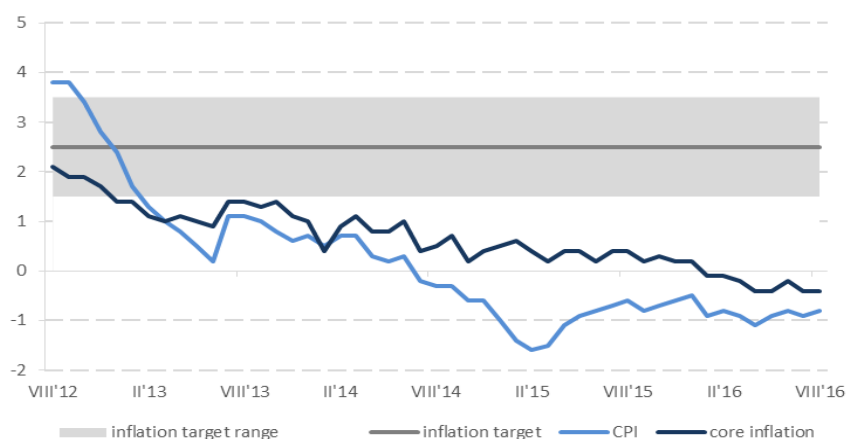
Inflation

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 August 2016 deflation amounted to 0.8% (yoy). Data was slightly higher than market expectations.

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

Deflation in producer prices has been lasting over 3.5 years (0.1% yoy in August 2016).

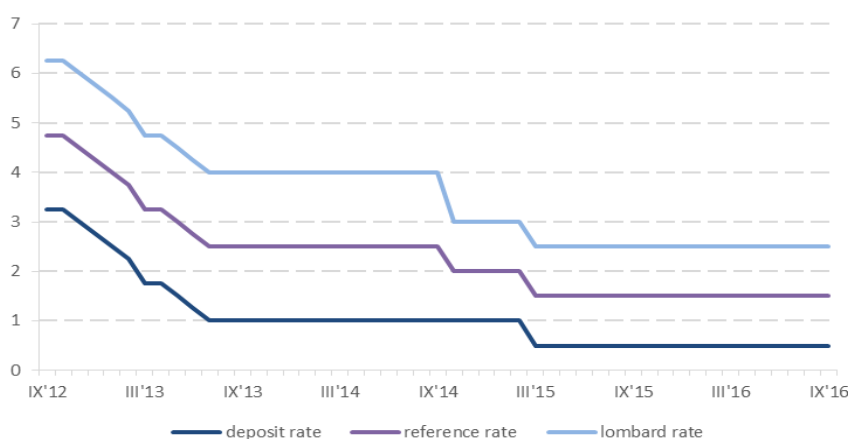


NBP interest rates

percent, end of period
source: NBP

In September 2016 the Monetary Policy Council 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 a sustainable growth path and maintaining macroeconomic balance.

The latest Reuters' poll median forecast (September, 5th, 2016) sees no NBP 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					
		M03	M04	M05	M06	M07	M08
Goods: exports (EUR)	YoY	0.8	4.8	-0.7	6.4	-4.8	-
Goods: imports (EUR)	YoY	1.1	0.3	0.4	2.4	-7.3	-
Current account balance ¹⁾	% of GDP	-0.4	-0.5	-0.5	-0.3	-0.3	-
Balance on goods ¹⁾	% of GDP	0.4	0.6	0.5	0.7	0.7	-
Official Reserve Assets	EUR min	88 533.2	92 282.6	97 044.3	99 174.4	98 242.2	98 717.5
Inflation							
Consumer Price Index (CPI)	YoY	-0.9	-1.1	-0.9	-0.8	-0.9	-0.8
Core inflation (CPI excluding food and energy prices)	YoY	-0.2	-0.4	-0.4	-0.2	-0.4	-0.4
Producer Price Index (PPI)	YoY	-1.9	-1.2	-0.4	-0.8	-0.5	-0.1
Production							
Sold production of industry ²⁾	YoY	0.7	6.0	3.2	6.0	-3.4	7.5
	MoM SA	-0.6	2.2	-1.1	0.4	-1.5	2.1
Construction and assembly production ²⁾	YoY	-15.8	-14.9	-13.7	-13.0	-18.8	-20.5
	MoM SA	-3.2	-1.0	-2.6	-3.6	0.6	-5.5
Manufacturing PMI	SA	53.8	51.0	52.1	51.8	50.3	51.5
Households and labour market							
Retail sales ²⁾	YoY	3.0	5.5	4.3	6.5	4.4	7.8
Average paid employment in enterprise sector	YoY	2.7	2.8	2.8	3.1	3.2	3.1
	MoM	0.3	0.1	0.1	0.3	0.2	0.0
Average monthly gross wages and salaries in enterprise sector (re)	YoY	4.2	5.8	5.0	6.1	5.8	5.5
	MoM	5.1	-1.2	-3.5	1.9	1.2	-1.7
Harmonised unemployment rate (Eurostat)	% SA	6.4	6.3	6.3	6.2	6.0	5.9
<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, HSEC, Market</small>							
State Treasury debt							
	Unit	2016					
		M02	M03	M04	M05	M06	M07
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	858 000.9	858 423.4	881 873.7	890 714.6	898 988.8	889 350.6
Domestic debt	nominal, PLN mio	563 190.6	574 572.0	578 209.0	588 305.5	592 249.3	586 844.2
	%	65.6	66.9	65.6	66.0	65.9	66.0
Foreign debt	nominal, PLN mio	294 810.3	283 851.4	303 664.7	302 409.1	306 739.5	302 506.4
	%	34.4	33.1	34.4	34.0	34.1	34.0
Public debt (domestic definition)							
	Unit	2015				2016	
		Q01	Q02	Q03	Q04	Q01	Q02 ¹⁾
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	848 182.9	858 209.3	876 405.2	877 282.4	899 243.7	936 876.7
Domestic debt	nominal, PLN mio	559 042.0	564 481.1	579 091.9	570 482.7	600 017.7	614 824.1
	%	65.9	65.8	66.1	65.0	66.7	65.6
Foreign debt	nominal, PLN mio	289 140.9	293 728.2	297 313.3	306 799.8	299 226.1	322 052.6
	%	34.1	34.2	33.9	35.0	33.3	34.4
General Government debt (EU definition)							
General Government debt	nominal, PLN mio	881 424.0	890 836.5	910 021.2	920 092.4	938 541.2	977 814.2
<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. 91% was a result of:

- T-bond sale on domestic market: PLN 94.1bn,
- switch auctions in 2016: PLN 15.9bn,
- 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,
- and higher than planned financial resources at the end of 2015: PLN16.9bn.

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

as of September 30, 2016, PLN bn

Value of funds transferred from the State budget to the market in October shall amount to PLN 21.1bn, of which:

- TS redemptions: PLN 15.2bn,
- interest payments: PLN 5.9bn.

Flows of funds between the market and the budget*

as of September 30, 2016, PLN bn

As of September 30, 2016, to the end of the year the funds to be transferred to the market shall amount to PLN 22.8bn.

* 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.

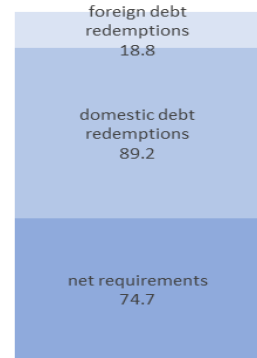
Funds in PLN and in foreign currency on budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

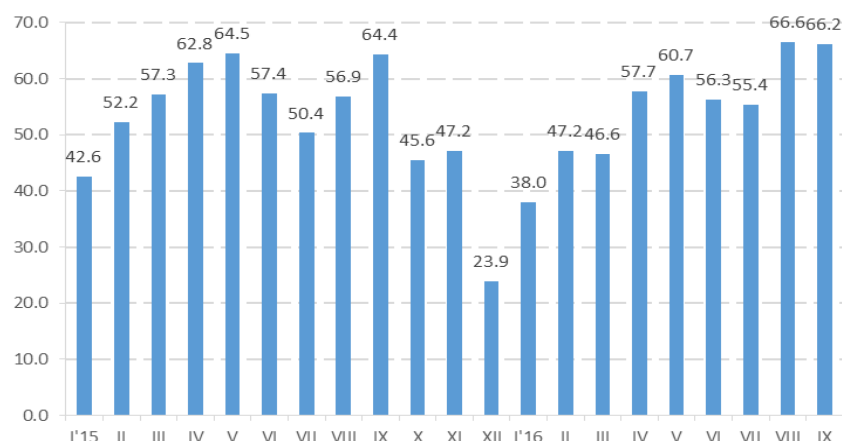
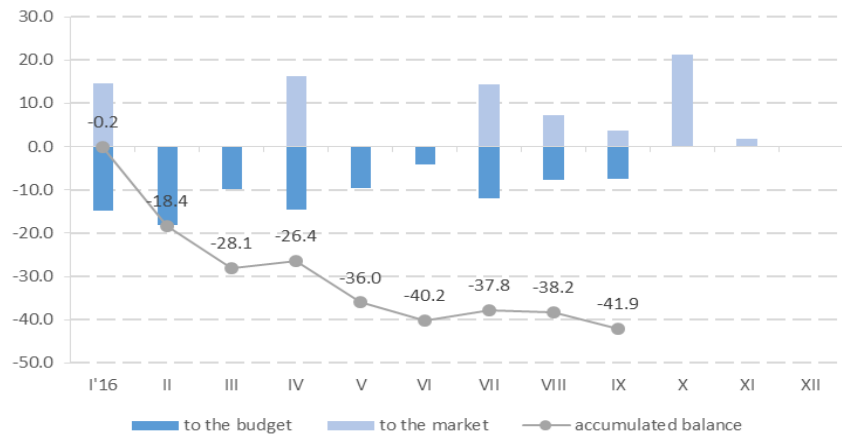
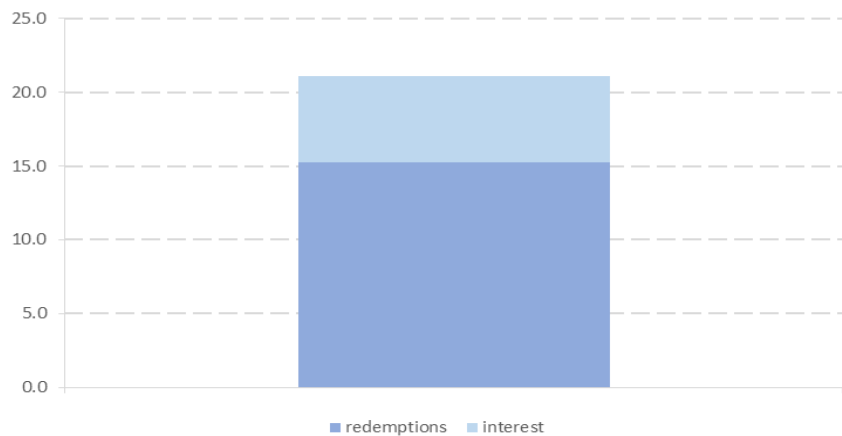
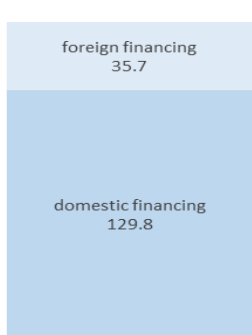
The funds ensure liquidity in borrowing needs financing.

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

Total: PLN 182.7bn, of which:



Financing of the borrowing requirements



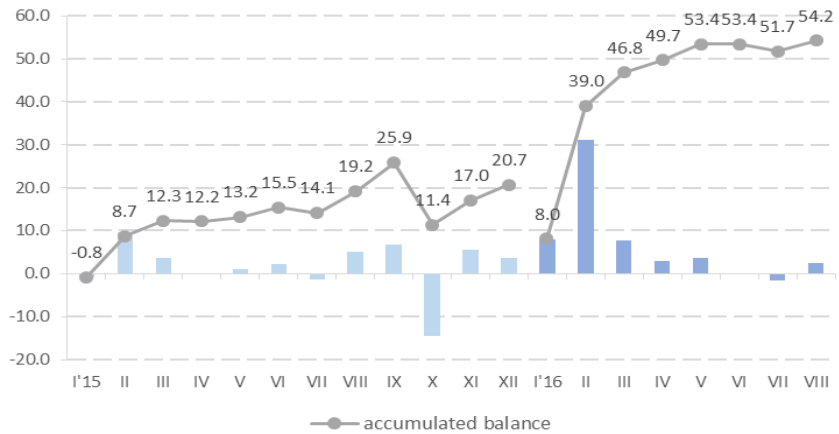


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

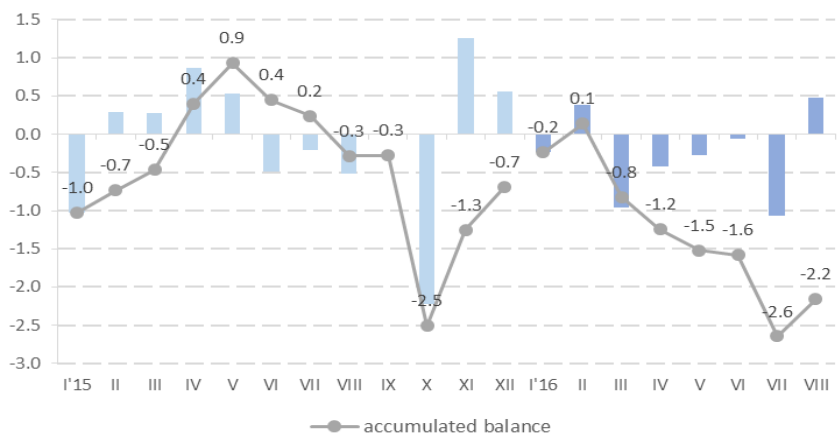
In the period of I-VIII 2016 debt held by domestic banks increased by PLN 54.2bn comparing to PLN 19.2bn increase during the same period of 2015.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

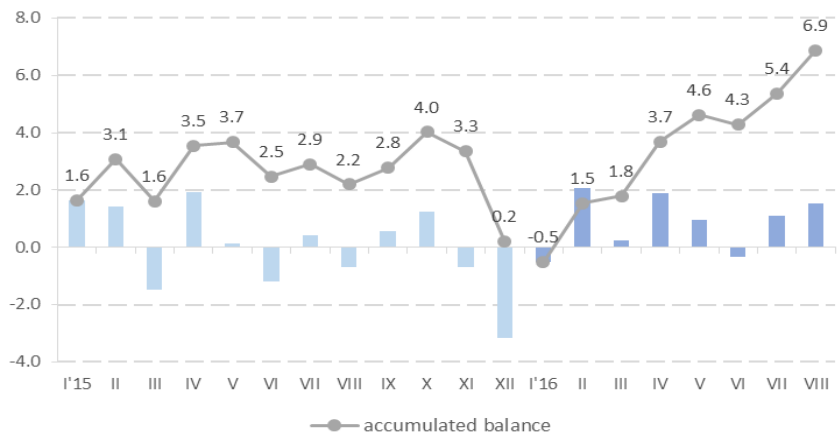
In the period of I-VIII 2016 there was a decrease of PLN 2.2bn in debt held by insurance companies. During the same period of 2015 there was a decrease of PLN 0.3bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

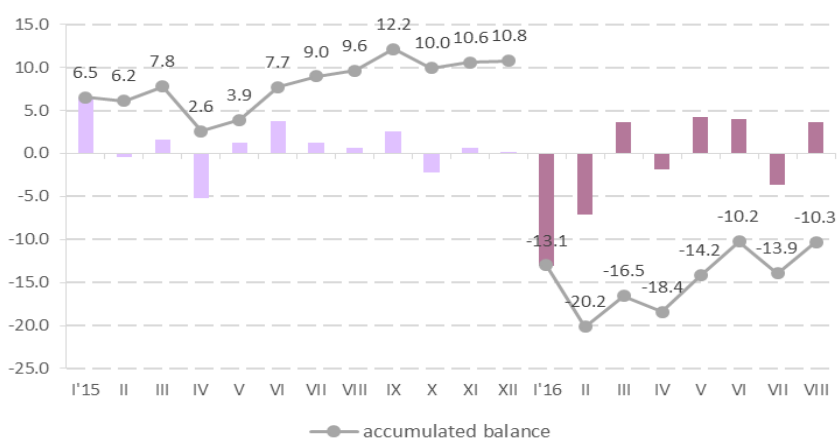
In the period of I-VIII 2016 there was an increase of PLN 6.9bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 2.2bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-VIII 2016 outflow of foreign capital from the domestic TS market amounted to PLN 10.3bn comparing to inflow of PLN 9.6bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 196.4bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

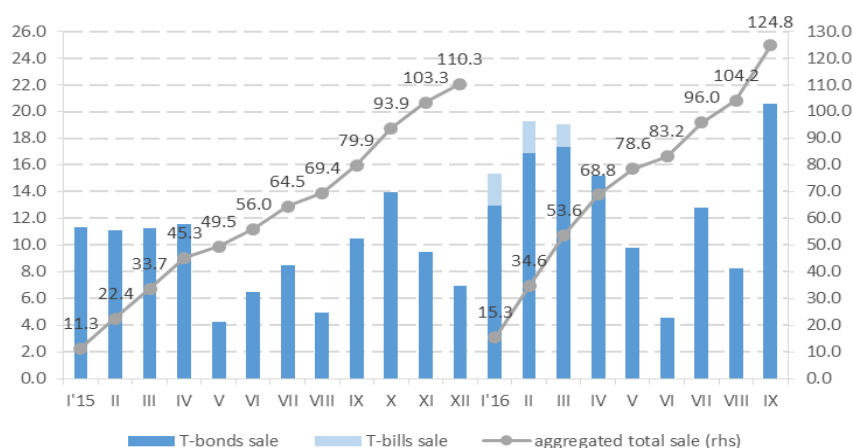


Sale of T-bonds and T-bills in the period of I-IX 2016 and 2015

auction date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 118.3bn versus PLN 79.9bn in the same period of 2015,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).

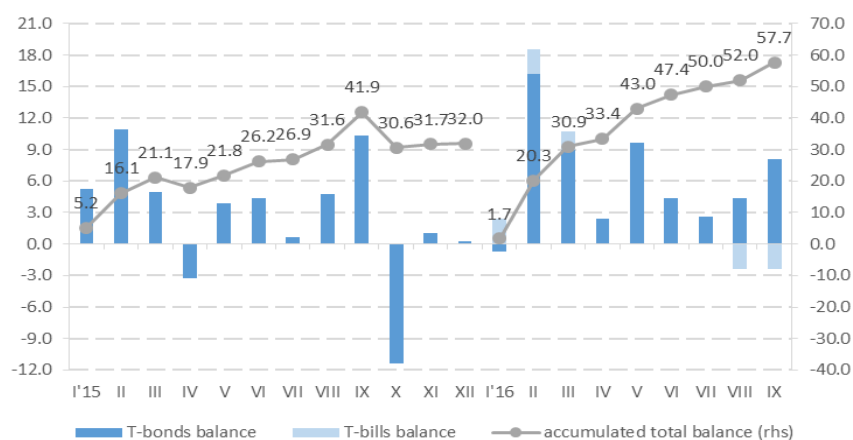


Balance of T-bonds and T-bills in the period of I-IX 2016 and 2015

auction date, nominal amount, PLN bn

In the period of I-IX 2016 indebtedness in:

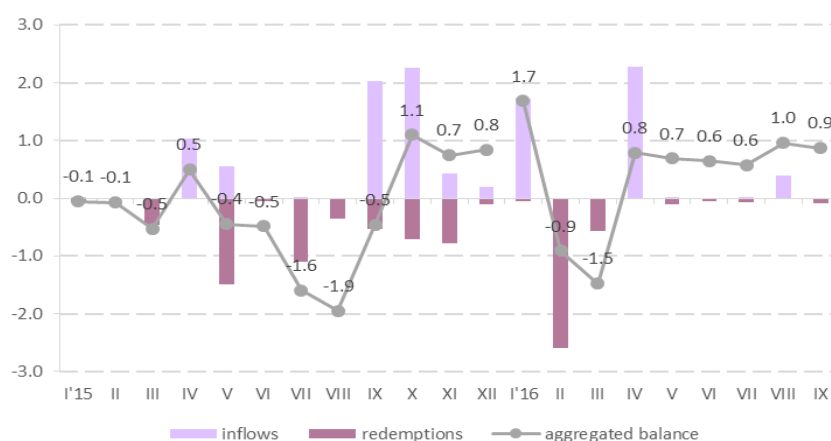
- T-bonds increased by PLN 56.0bn,
- T-bills increased by PLN 1.7bn.



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

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

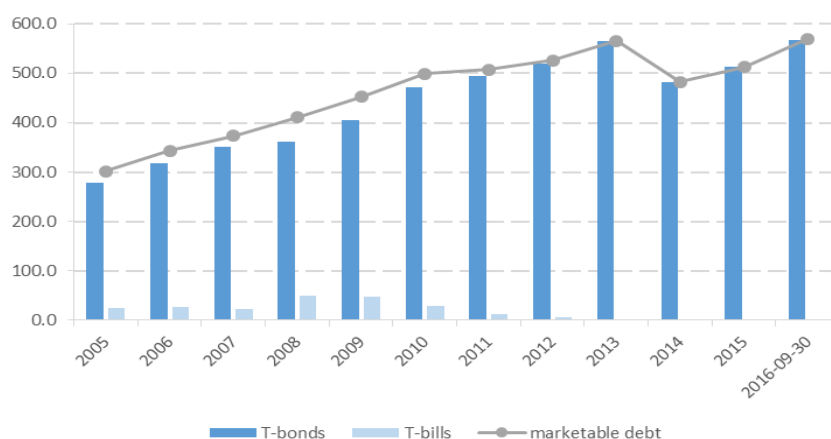
Net financing on foreign markets in the period of I-IX 2016 was positive and amounted to EUR 0.9bn, which resulted from positive balance of T-bonds issuance of EUR 1.8bn and negative balance of loans incurred from IFIs at the level of EUR 1.0bn.



Structure of marketable debt

PLN bn

At the end of September 2016 the marketable domestic debt amounted to PLN 569.6bn comparing to PLN 513.4bn at the end of 2015.



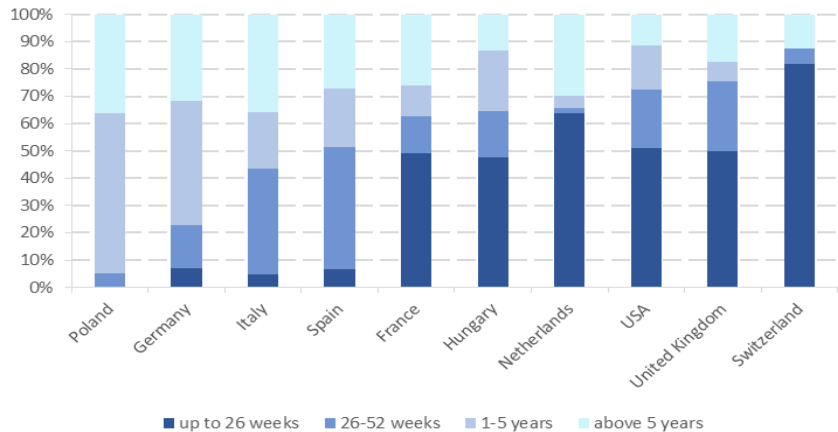


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

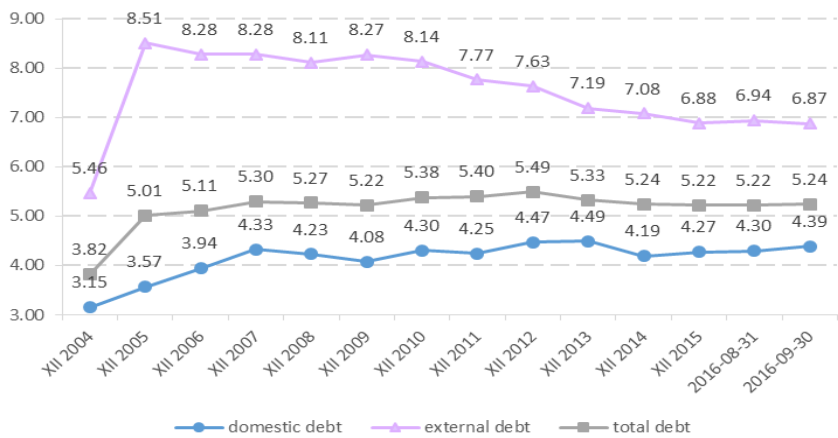
auctions and syndicates, local currency, ytd in the period of January 1 - September 30, 2016

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



Average maturity

At the end of September 2016 the average maturity of domestic debt increased to 4.39 (while at the end of 2015 it was 4.27). The average of total debt increased to 5.24 (5.22 at the end of 2015).

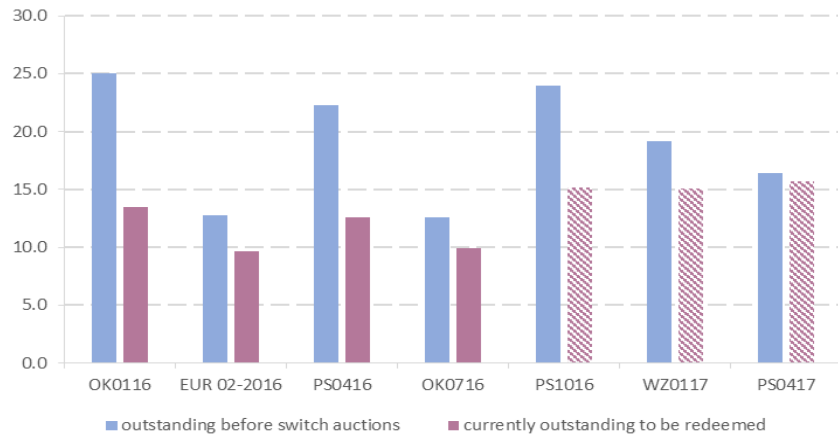


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016 and 2017

as of September 30, 2016, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2016 and 2017 (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 8.8bn (37%),
- WZ0117: PLN 4.2bn (22%),
- PS0417: PLN 0.7bn (4%).

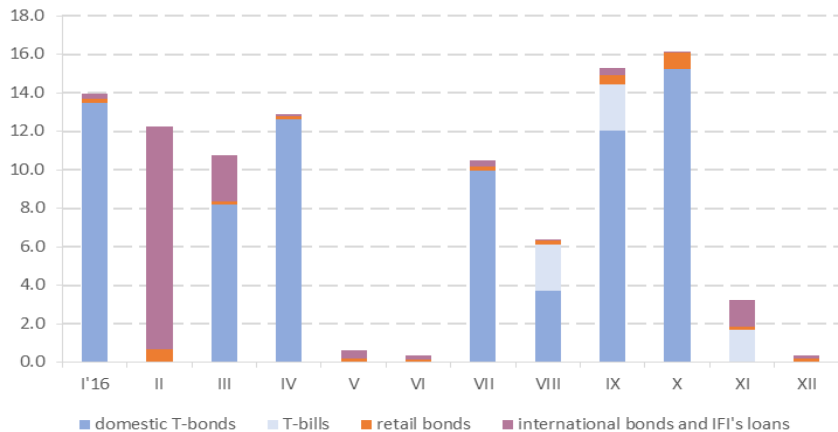


State Treasury debt redemptions in 2016

as of September 30, 2016, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2016 is equal to PLN 19.8bn, including:

- T-bonds: PLN 15.2bn,
- T-retail bonds: PLN 1.2bn,
- T-bills: PLN 1.7bn,
- bonds and loans incurred on foreign markets: PLN 1.6bn.



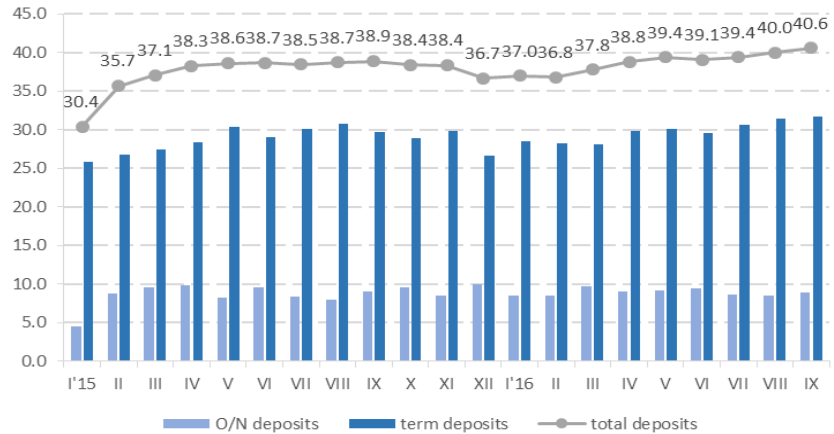
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

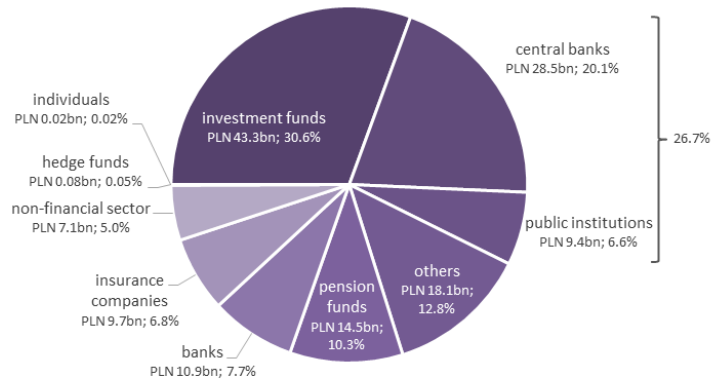
As a result of consolidation of public finances liquidity management there were PLN 40.6bn funds accumulated at the end of September, of which PLN 31.7bn was as term deposits and PLN 8.9bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

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

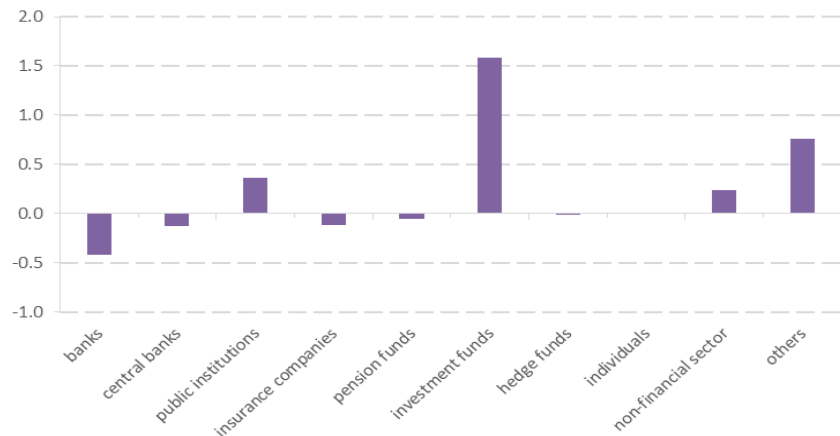
In August 2016 the share of non-residents in the domestic Treasury securities market increased by PLN 3.6bn. The foreign investors' portfolio amounted to PLN 196.4bn which constituted 34.8% share in total debt in marketable Treasury securities (no change vs previous month). As of the end of August 2016 central banks and public institutions' share in foreign holdings amounted to 26.7%.



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

change in August 2016, mom, PLN bn

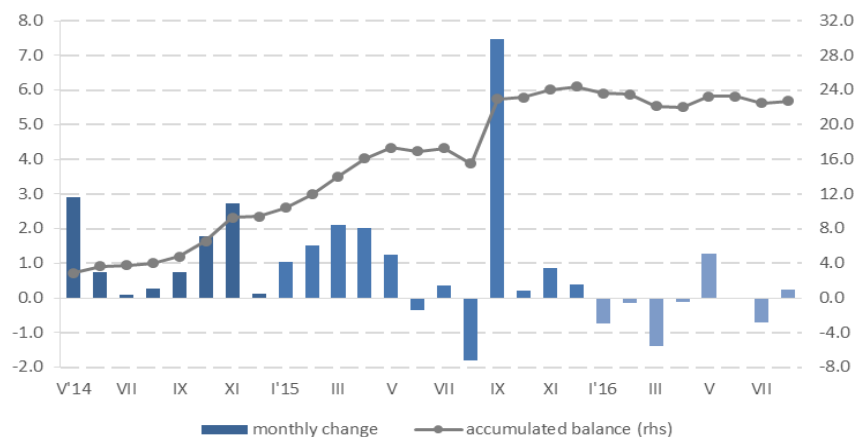
In August 2016 the highest increase was noted by investment funds (PLN 1.6bn). On the other hand the highest decrease of PLN 0.4bn was recorded by banks.



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

change in August 2016, PLN bn

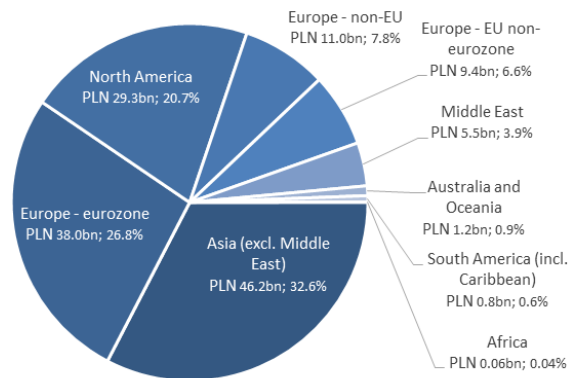
In August 2016 central banks and public institutions' involvement in the Polish debt market increased by PLN 0.2bn. Since the end of April 2014 to the end of August 2016, when the detailed information is available, portfolios of those entities increased by PLN 22.7bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of August 31, 2016, excluding omnibus accounts

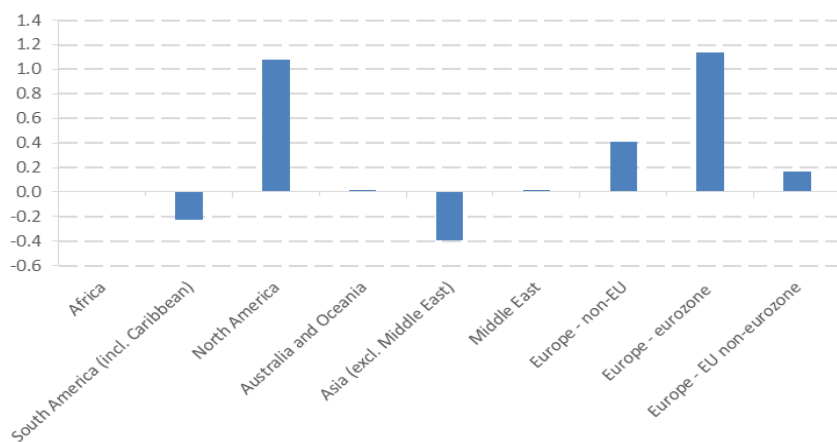
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in August 2016, mom, PLN bn

In August 2016 investors from the eurozone and North America increased their involvement in the domestic Treasury securities market with the highest record of PLN 1.1bn each. The biggest drop of PLN 0.4bn was noted by Asian investors.



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

as of August 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	28 526.5	25.2%
Japan	18 215.4	16.1%
Luxembourg	17 312.0	15.3%
Norway	8 933.9	7.9%
United Kingdom	5 933.2	5.2%
Ireland	5 514.3	4.9%
Germany	5 386.6	4.8%
Netherlands	4 419.1	3.9%
Austria	2 873.2	2.5%
Denmark	2 259.9	2.0%
United Arab Emirates	2 231.5	2.0%
Switzerland	1 748.8	1.5%
France	1 401.1	1.2%
Australia	1 166.5	1.0%
Others	7 166.9	6.3%
Total	113 089.0	100.0%



MoF comments

Piotr Nowak, Undersecretary of State, MoF

30-09-2016, interview for the Polish Press Agency (fragments)

After three quarters we financed ca. 91% of the State budget borrowing requirements for 2016. In the fourth quarter, as planned, we will organize five T-bond auctions. Depending on the market situation these may be three sale and two switch auctions or four sale auctions and one switch.

At the first sale auction in October we will offer a new 10-year benchmark bond (DS0727). About PLN 21bn will be transferred to the market on October 25th due to redemption and T-bonds interest payments which will affect the supply at the second auction. Issuance of a new 5-year benchmark bond (PS0422) has been planned.

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

In August foreign investors increased their portfolios of PLN denominated Treasury securities by PLN 3.6bn, mainly due to increase in non-residents' involvement in medium- and long-term bonds (PLN 9.1bn) and a corresponding decrease in short-term bonds portfolio, especially of those with maturity up to one year (PLN 4.5bn).



IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2016

General assumptions

- In the fourth 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 the consultations with investors,
- Possible auctions of Treasury 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 market 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

- three-four auctions of total supply PLN 14.0-28.0bn; the structure of the sold T-bonds will be subject to the market situation.

Switch auctions

- one-two auctions – securities offered to repurchase would be T-bonds maturing in 2017.

Foreign financing

- Possible issuance of bonds on the international markets,
- possible loans from International Financial Institutions up to EUR 0.9bn,
- possibility of additional financing by issuance of bonds in the private placement system.

V. SUPPLY PLAN OF TREASURY SECURITIES IN OCTOBER 2016



Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
6 OCT 2016	10 OCT 2016	OK1018 / DS0727	3,000-6,000
21 OCT 2016	25 OCT 2016	choice will depend on market conditions, excl. bonds offered at the 1st auction	5,000-10,000

*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
DOS1018	PLN 100.00 (99.70 PLN for rolling-over)	Fixed, 2.00%
TOZ1019	PLN 100.00 (99.70 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI1020	PLN 100.00 (99.70 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO1026	PLN 100.00 (99.70 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period
ROS1022	PLN 100.00	Floating (inflation rate + 1.75%) 2.60% in the first coupon period
ROD1028	PLN 100.00	Floating (inflation rate + 2.00%) 3.00% in the first coupon period