

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

November 2016

### THE MOST IMPORTANT INFORMATION

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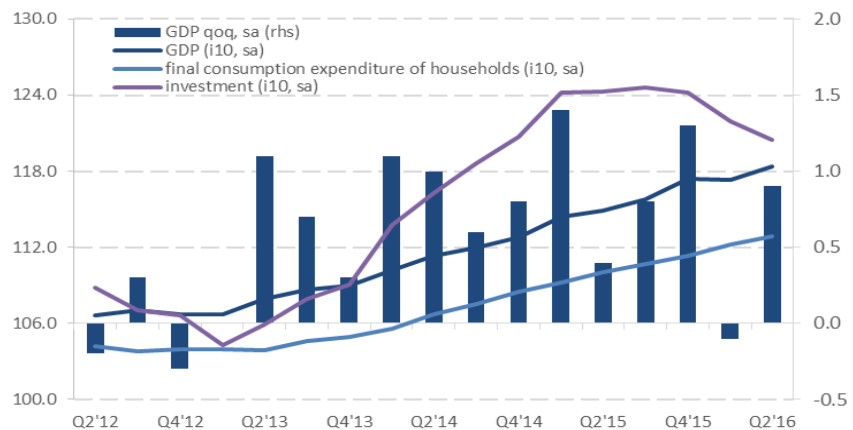


## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland\*

constant prices, yoy  
source: GUS

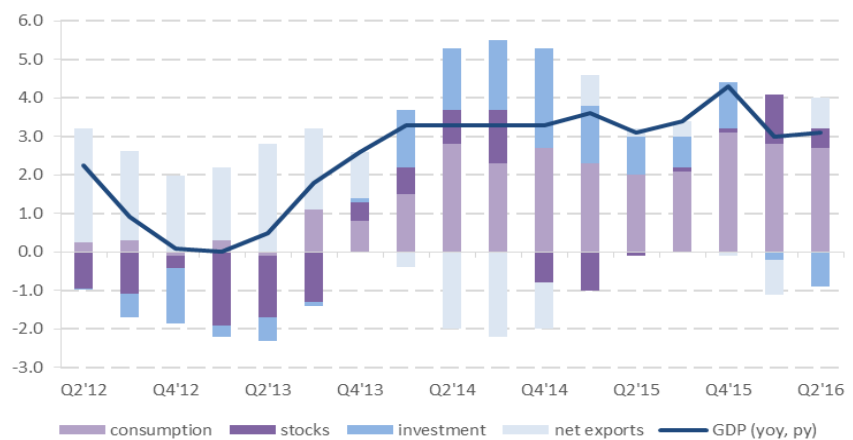
In the second quarter of 2016 Polish economy returned to the upward trend. GDP increased by 0.9% (qoq, sa) following a decrease of 0.1% in the first quarter of 2016. The pace of growth (qoq, sa) of households consumption slightly deaccelerated and investments decreased for the third time in a row. On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

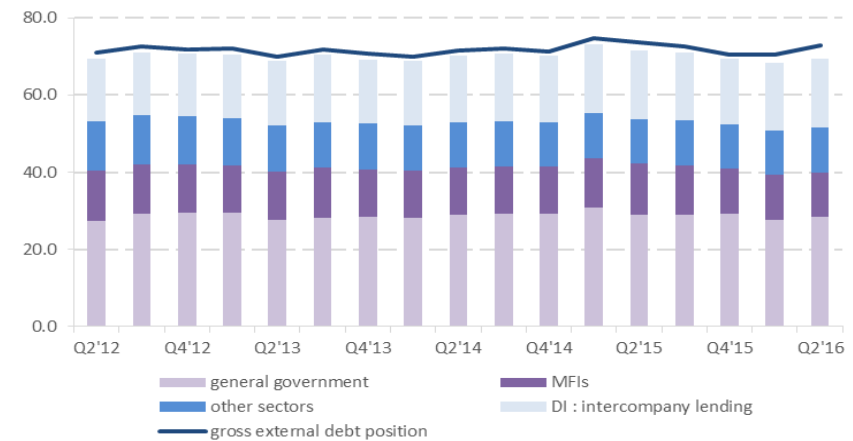
In the second quarter of 2016 GDP was 3.1% higher than a year ago as compared to 3.0% in the previous quarter. Data was below market expectations. Domestic demand was the main source of GDP growth, mainly due to households consumption (contribution of 1.9 pp), public consumption (0.8 pp) and increase in inventories (0.5 pp). Contrary to the previous quarter net exports had also a 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

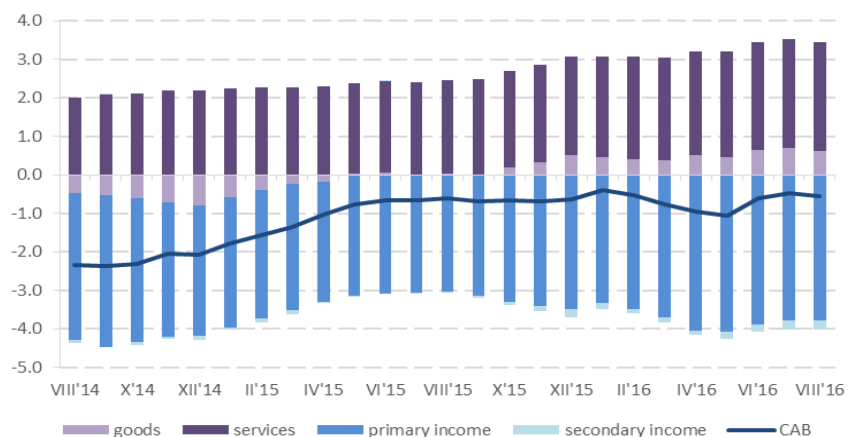
Gross external debt reached EUR 309.2bn (73.0% of GDP) at the end of the second quarter of 2016 and was EUR 8.5bn higher than in the previous quarter. The share of general government sector debt in total debt slightly decreased to 38.9%. Official reserve assets reached EUR 100.1bn at the end of September 2016 and remained broadly adequate covering around 6 months of imports.



### Current account balance

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

In August 2016, according to the preliminary data, C/A deficit increased to 0.6% 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.

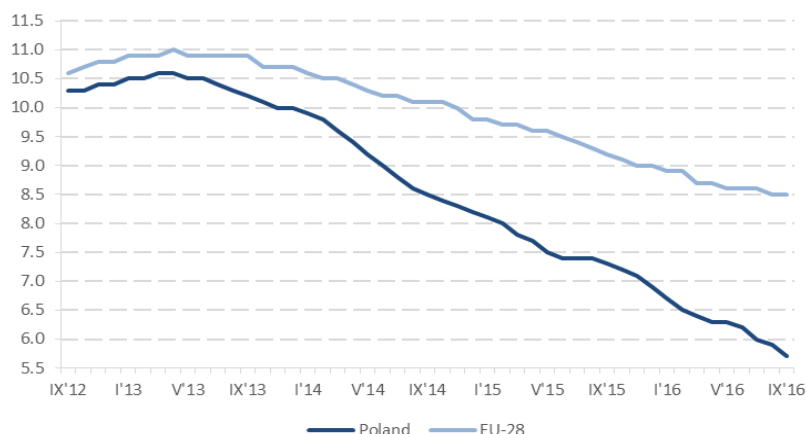


\* Please note that the quarterly national accounts data are currently inconsistent with revised annual data.

## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

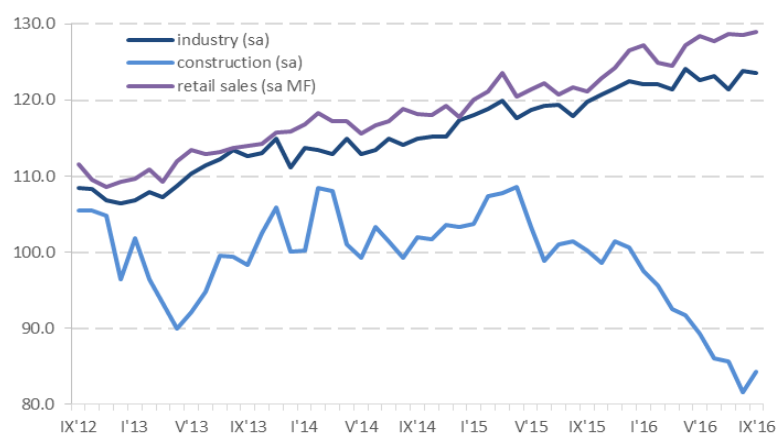
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In September 2016 it amounted to 5.7% (versus 8.5% in EU on average) and was 0.2 pp lower than a month before and 1.6 pp lower than a year before. In September 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



## Monthly indicators of the real sector

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

In September 2016 industrial output went down by 0.2% (mom, sa). As a result production was 3.2% higher than a year ago (nsa). Data was close to market expectations. In September 2016 construction production recovered increasing by 3.3% after nine months of diminishing (mom, sa). However, its level was 15.3% (nsa) lower than a year before. In September 2016 real retail sales increased by 0.3% (mom, sa MoF) after a slight drop in the previous month. Its level was 6.3% (nsa) higher than in the same month of 2015. Data was worse than market expectations.



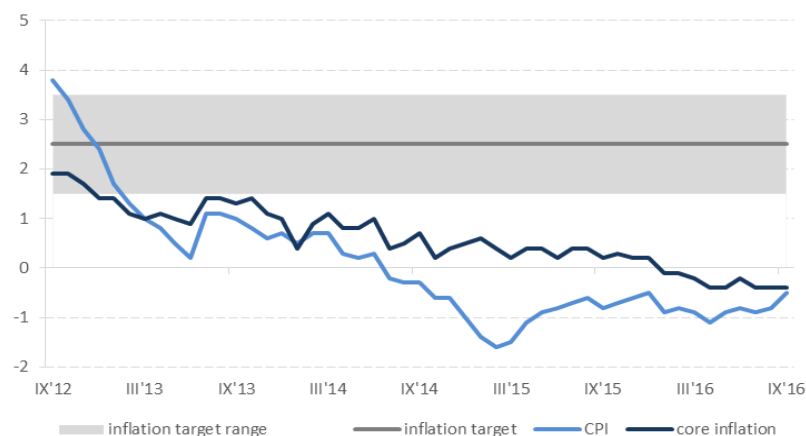
## Inflation

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 September 2016 deflation amounted to 0.5% (yoy). Data was slightly lower than market expectations.

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

After almost 4 years of deflation in producer prices, in September these prices were higher by 0.2% in comparison to the last year.

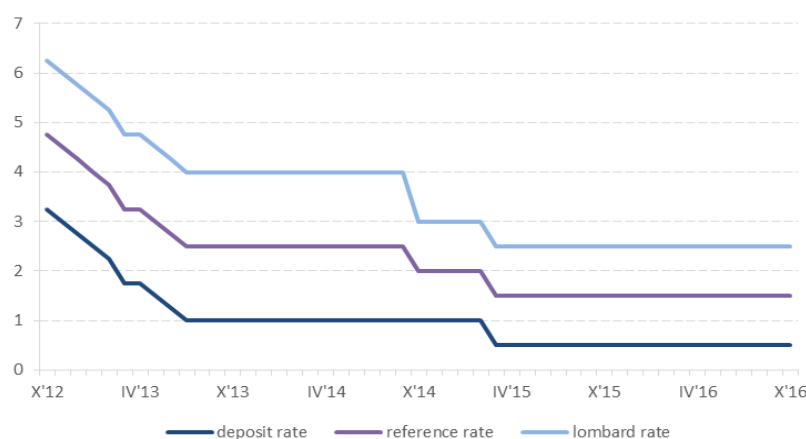


## NBP interest rates

percent, end of period  
source: NBP

In October 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 (October 3rd, 2016) sees no NBP rate move till the end of 2017.





## II. STATISTICAL DATA

	Unit	2015				2016	
		Q01	Q02	Q03	Q04	Q01	Q02
<b>GDP<sup>1)</sup></b>							
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
<b>Contribution to GDP growth</b>							
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
<b>GDP structure</b>							
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
<b>Balance of payments</b>							
	Unit	2016					
		M04	M05	M06	M07	M08	M09
Goods: exports (EUR)	YoY	4.1	0.0	5.7	-5.1	8.0	-
Goods: imports (EUR)	YoY	0.3	1.5	0.4	-6.8	10.4	-
Current account balance <sup>2)</sup>	% of GDP	-0.9	-1.1	-0.6	-0.5	-0.6	-
Balance on goods <sup>2)</sup>	% of GDP	0.5	0.5	0.7	0.7	0.6	-
Official Reserve Assets	EUR min	92 282.6	97 044.3	99 174.4	98 242.2	98 717.5	100 078.0
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	-1.1	-0.9	-0.8	-0.9	-0.8	-0.5
Core inflation (CPI excluding food and energy prices)	YoY	-0.4	-0.4	-0.2	-0.4	-0.4	-0.4
Producer Price Index (PPI)	YoY	-1.2	-0.4	-0.8	-0.5	-0.1	0.2
<b>Production</b>							
Sold production of industry <sup>3)</sup>	YoY	6.0	3.2	6.0	-3.4	7.5	3.2
	MoM SA	2.2	-1.1	0.4	-1.5	2.1	-0.2
Construction and assembly production <sup>3)</sup>	YoY	-14.9	-13.7	-13.0	-18.8	-20.5	-15.3
	MoM SA	-1.0	-2.6	-3.6	-0.6	-4.7	3.3
Manufacturing PMI	SA	51.0	52.1	51.8	50.3	51.5	52.2
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	5.5	4.3	6.5	4.4	7.8	-
Average paid employment in enterprise sector	YoY	2.8	2.8	3.1	3.2	3.1	3.2
	MoM	0.1	0.1	0.3	0.2	0.0	0.2
Average monthly gross wages and salaries in enterprise sector (re)	YoY	5.8	5.0	6.1	5.8	5.5	4.4
	MoM	-1.2	-3.5	1.9	1.2	-1.7	0.1
Harmonised unemployment rate (Eurostat)	%, SA	6.3	6.3	6.2	6.0	5.9	5.7
<small>1) Please note that quarterly national accounts data are currently inconsistent with revised annual data                  2) Data in 12-month terms                  3) 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>							
<b>State Treasury debt</b>							
	Unit	2016					
		M03	M04	M05	M06	M07	M08
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	858 423.4	881 873.7	890 714.6	898 988.8	889 350.6	899 200.8
Domestic debt	nominal, PLN mio	574 572.0	578 209.0	588 305.5	592 249.3	586 844.2	596 203.1
	%	66.9	65.6	66.0	65.9	66.0	66.3
Foreign debt	nominal, PLN mio	283 851.4	303 664.7	302 409.1	306 739.5	302 506.4	302 997.7
	%	33.1	34.4	34.0	34.1	34.0	33.7
<b>Public debt (domestic definition)</b>							
	Unit	2015		2016			
		Q01	Q02	Q03	Q04	Q01	Q02 <sup>1)</sup>
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
<b>General Government debt (EU definition)</b>							
General Government debt	nominal, PLN mio	882 736.6	892 160.3	911 161.9	919 659.4	938 559.1	977 832.1

1) Initial data  
Source: MoF

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Gross borrowing requirements in 2016

Financing of the State budget borrowing requirements at the level of ca. 98% was a result of:

- T-bond sale on domestic market: PLN 111.2bn,
- switch auctions in 2016: PLN 15.9bn,
- T-bond sale on foreign markets: PLN 25.4bn (EUR 4.0bn, 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 November

as of October 31, 2016, PLN bn

Value of funds transferred from the State budget to the market in November shall amount to PLN 1.7bn, of which:

- TS redemptions: PLN 1.7bn,
- interest payments: PLN 0.04bn.

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

as of October 31, 2016, PLN bn

As of October 31, 2016, to the end of the year the funds to be transferred to the market shall amount to PLN 1.7bn.

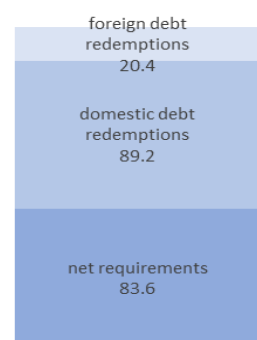
\* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.

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

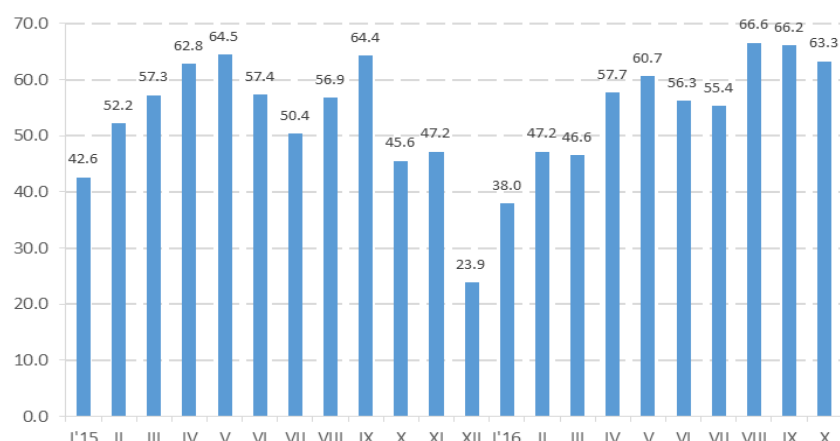
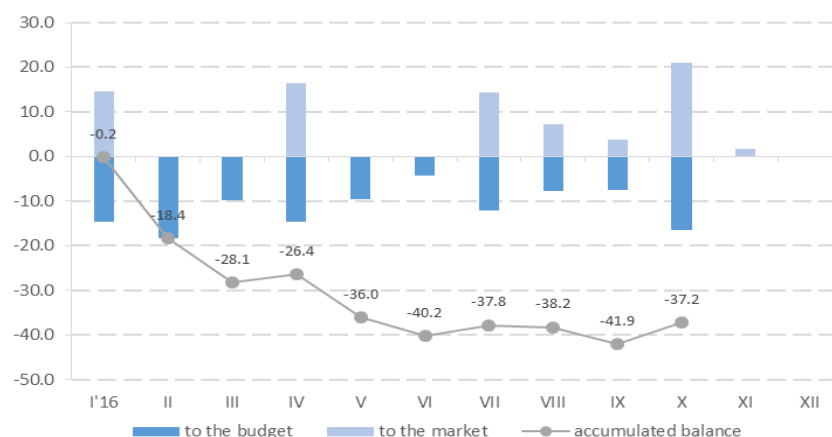
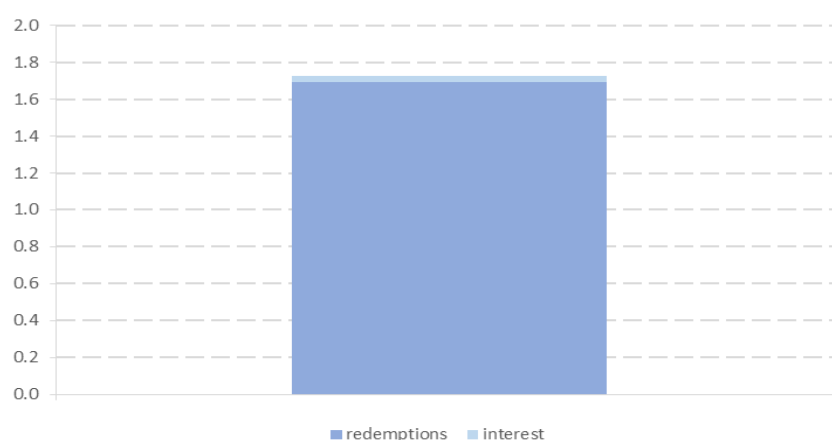
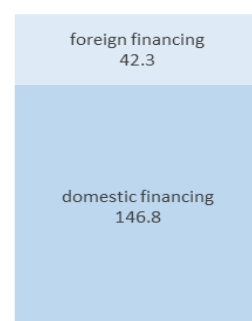
funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.

Gross borrowing requirements in 2016 (acc. to the amended Budget Act)  
Total: PLN 193.2bn, of which:



Financing of the borrowing requirements



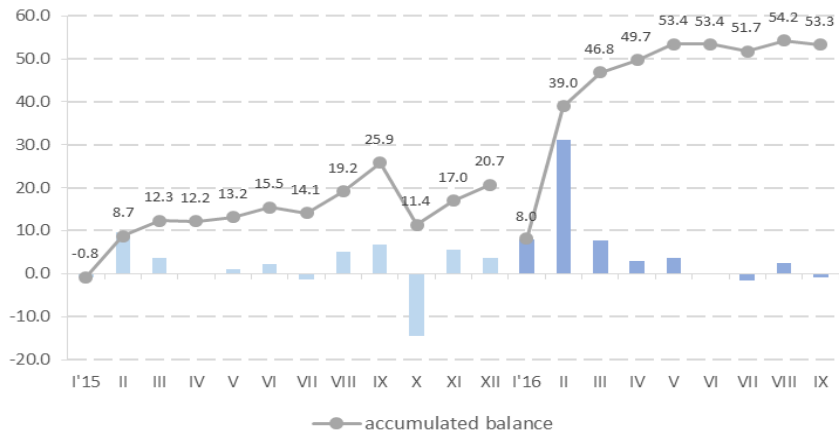


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

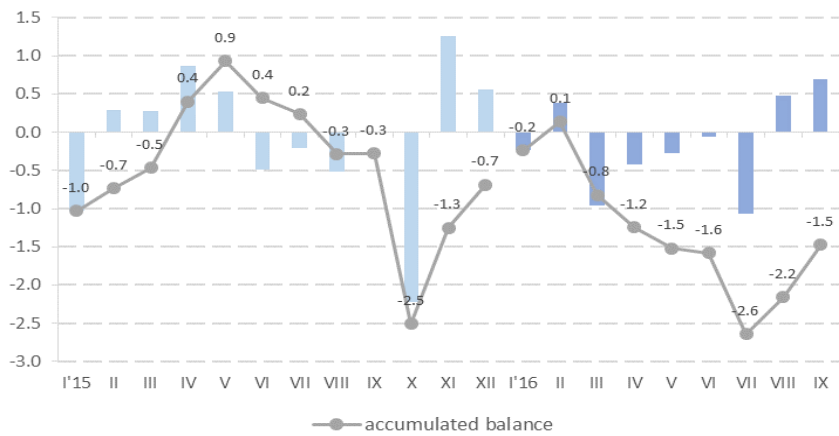
In the period of I-IX 2016 debt held by domestic banks increased by PLN 53.3bn comparing to PLN 25.9bn increase during the same period of 2015.



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

PLN bn

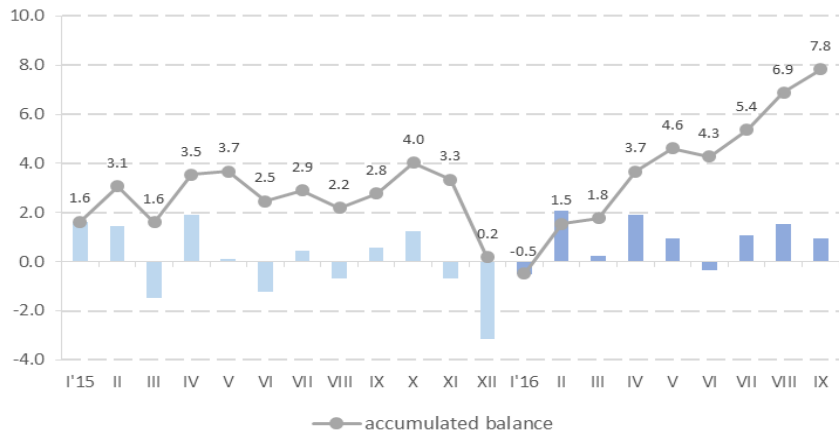
In the period of I-IX 2016 there was a decrease of PLN 1.5bn in debt held by insurance companies. During the same period of 2015 there was a decrease of PLN 0.3bn.



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

PLN bn

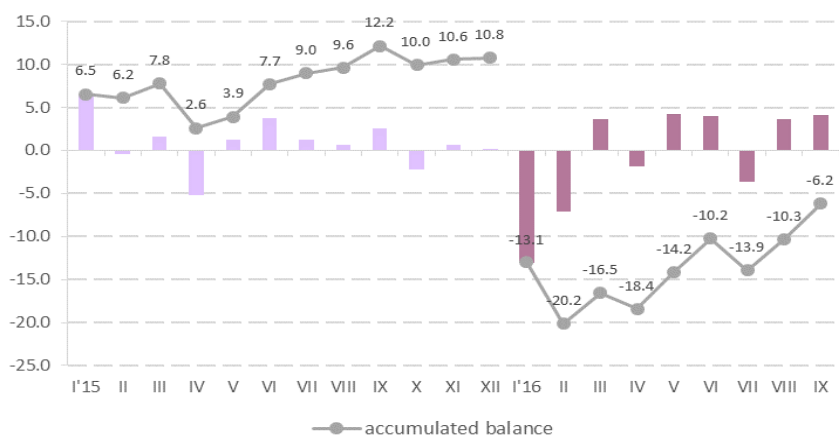
In the period of I-IX 2016 there was an increase of PLN 7.8bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 2.8bn.



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

PLN bn

In the period of I-IX 2016 outflow of foreign capital from the domestic TS market amounted to PLN 6.2bn comparing to inflow of PLN 12.2bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 200.6bn.



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

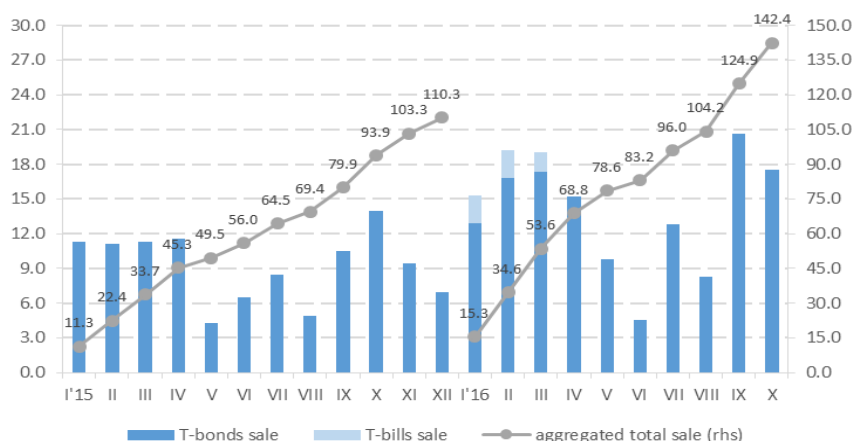


#### Sale of T-bonds and T-bills in the period of I-X 2016 and 2015

auction date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 135.9bn versus PLN 93.9bn,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).

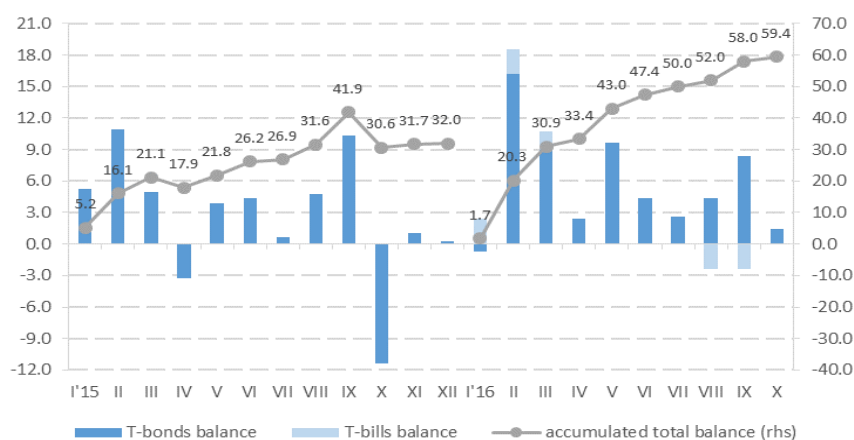


#### Balance of T-bonds and T-bills in the period of I-X 2016 and 2015

auction date, nominal amount, PLN bn

In the period of I-X 2016 indebtedness in:

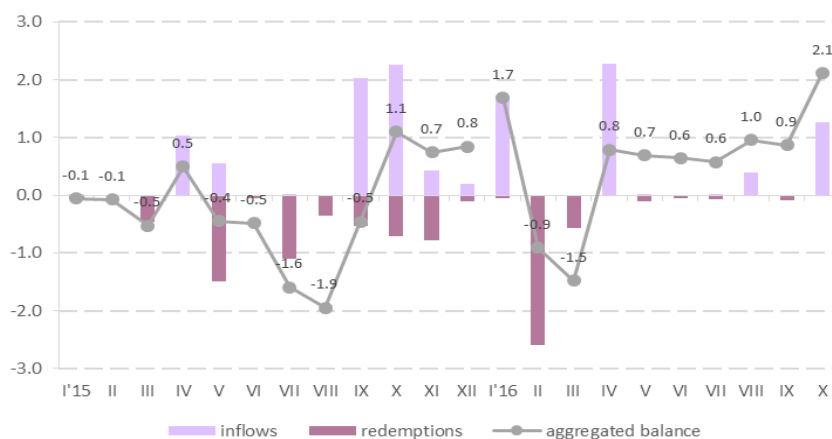
- T-bonds increased by PLN 57.7bn,
- T-bills increased by PLN 1.7bn.



#### External financing in the period of I-X 2016 and 2015

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

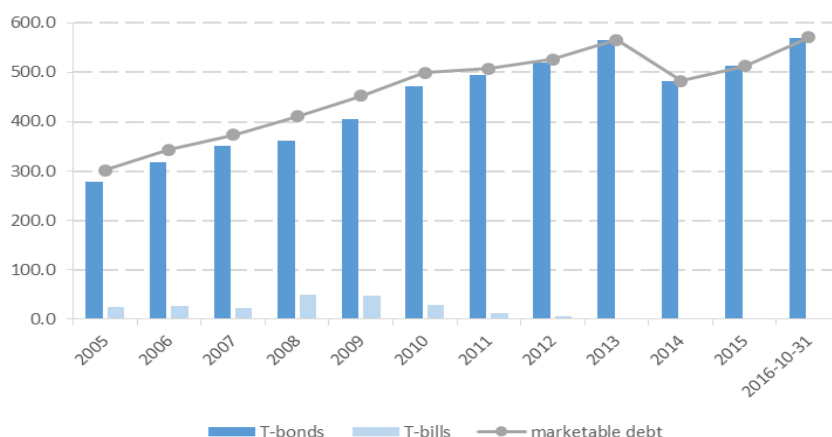
Net financing on foreign markets in the period of I-X 2016 was positive and amounted to EUR 2.1bn, which resulted from positive balance of T-bonds issuance of EUR 3.1bn and negative balance of loans incurred from IFIs at the level of EUR 1.0bn.



#### Structure of marketable debt

PLN bn

At the end of October 2016 the marketable domestic debt amounted to PLN 571.1bn comparing to PLN 513.4bn at the end of 2015.



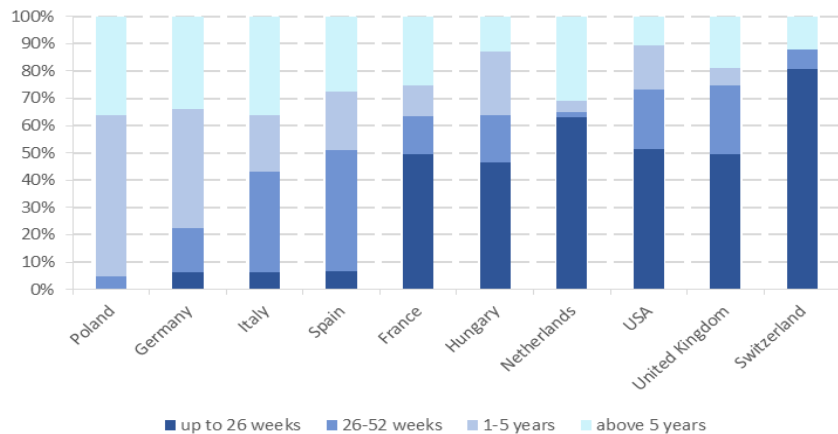


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

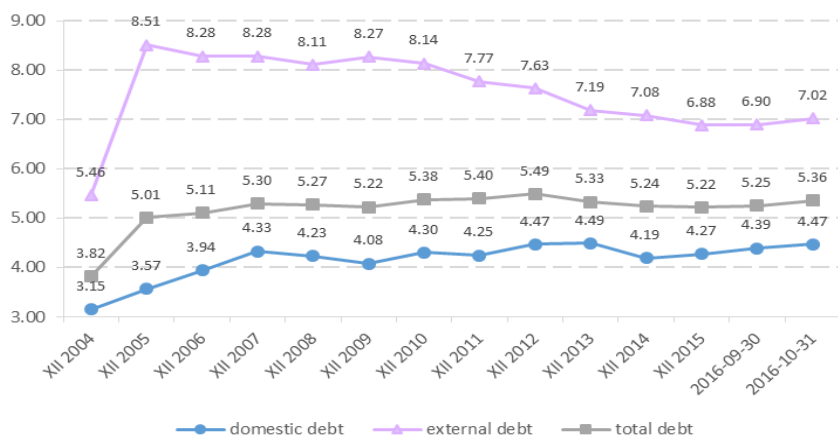
auctions and syndicates, local currency, ytd in the period of January 1 - October 31, 2016

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



#### Average maturity

At the end of October 2016 the average maturity of domestic debt amounted to 4.47 (while at the end of 2015 it was 4.27). The average of total debt amounted to 5.36 (5.22 at the end of 2015).

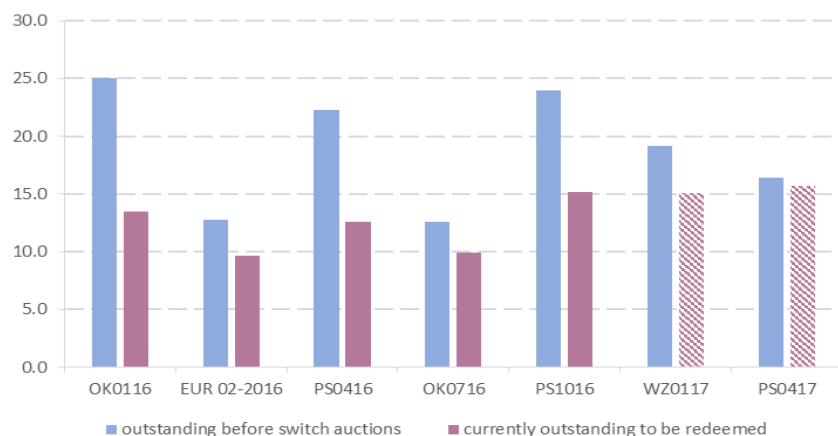


#### Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016 and 2017

as of October 31, 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%).

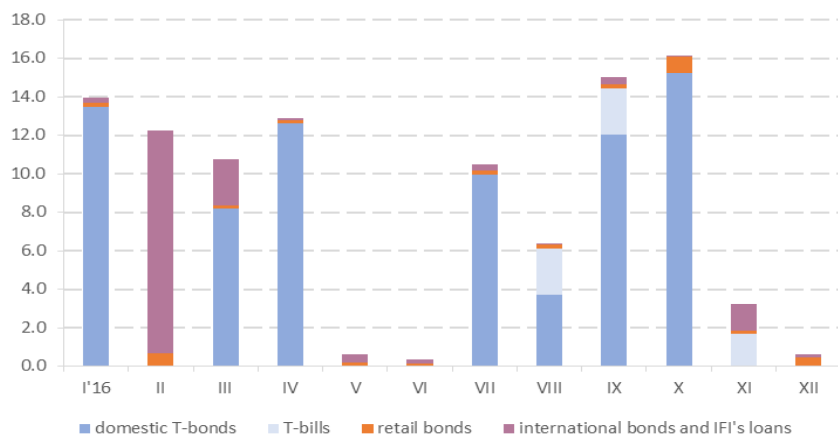


#### State Treasury debt redemptions in 2016

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

The nominal amount of debt to be redeemed in 2016 is equal to PLN 3.9bn, including:

- T-retail bonds: PLN 0.6bn,
- T-bills: PLN 1.7bn,
- bonds and loans incurred on foreign markets: PLN 1.6bn.





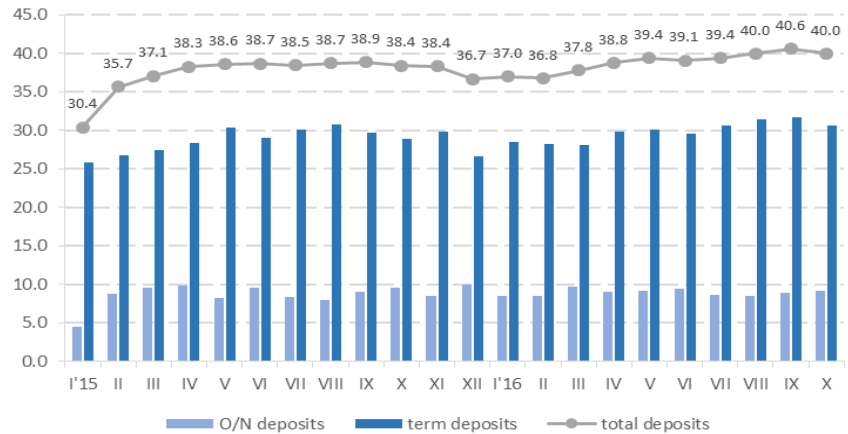
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Consolidation of public finances liquidity management

PLN bn

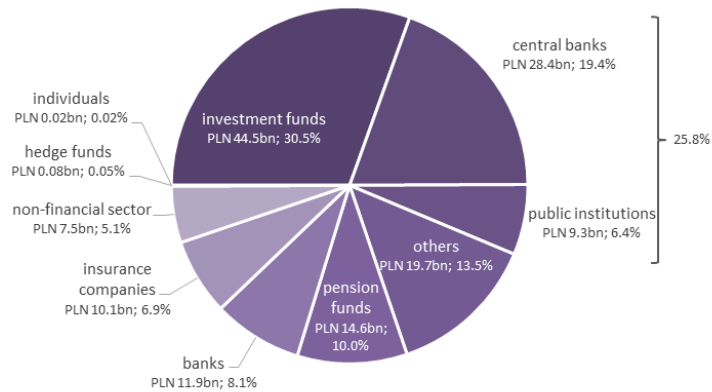
As a result of consolidation of public finances liquidity management there were PLN 40.0bn funds accumulated at the end of October, of which PLN 30.7bn was as term deposits and PLN 9.2bn on O/N deposits.



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

as of September 30, 2016, the chart presents data excluding omnibus accounts

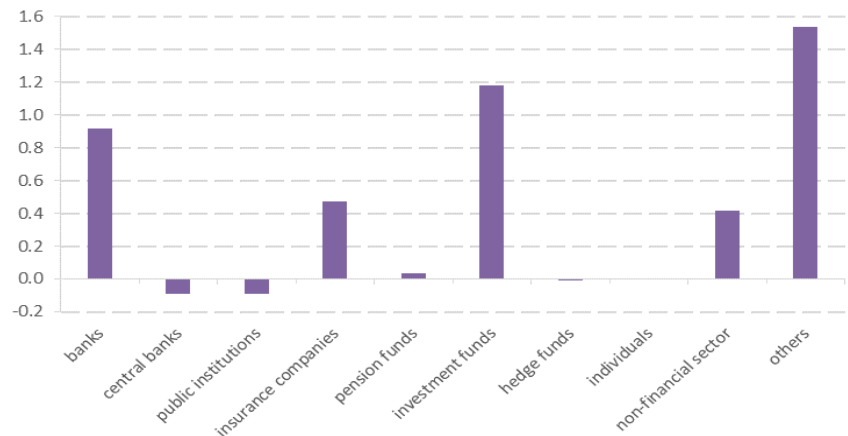
In September 2016 the share of non-residents in the domestic Treasury securities market increased by PLN 4.1bn. The foreign investors' portfolio amounted to PLN 200.6bn which constituted 35.2% share in total debt in marketable Treasury securities (34.8% in the previous month). As of the end of September 2016 central banks and public institutions' share in foreign holdings amounted to 25.8%.



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

change in September 2016, mom, PLN bn

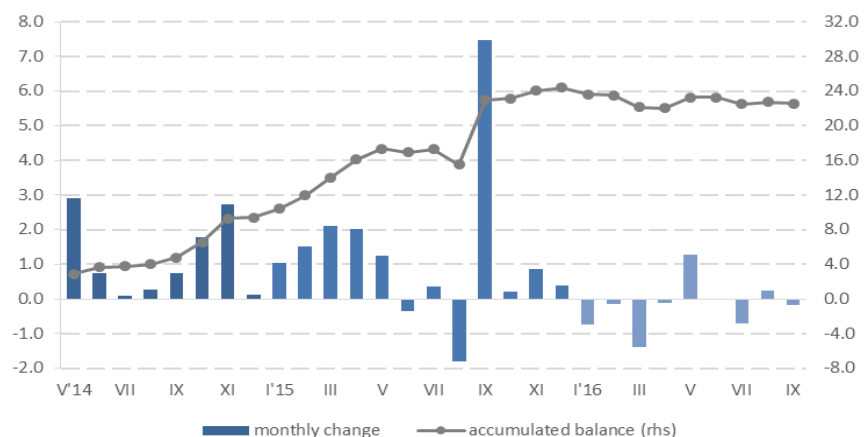
In September 2016 the highest increases were noted by entities from "others" category (PLN 1.5bn), investment funds (PLN 1.2bn) and banks (PLN 0.9bn). The only decreases were recorded by central banks and public institutions (PLN 0.1bn each).



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

change in September 2016, PLN bn

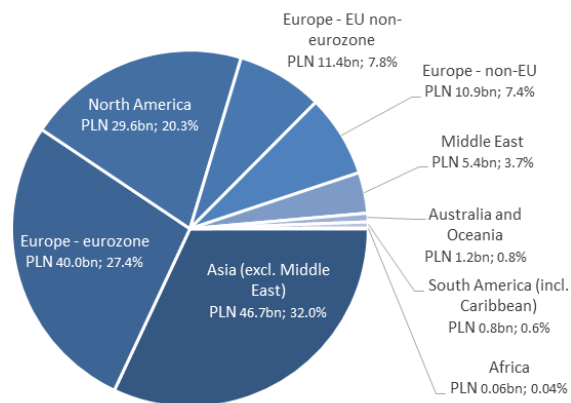
In September 2016 central banks and public institutions' involvement in the Polish debt market decreased by PLN 0.2bn. Since the end of April 2014 to the end of September 2016, when the detailed information is available, portfolios of those entities increased by PLN 22.6bn.



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

as of September 30, 2016, excluding omnibus accounts

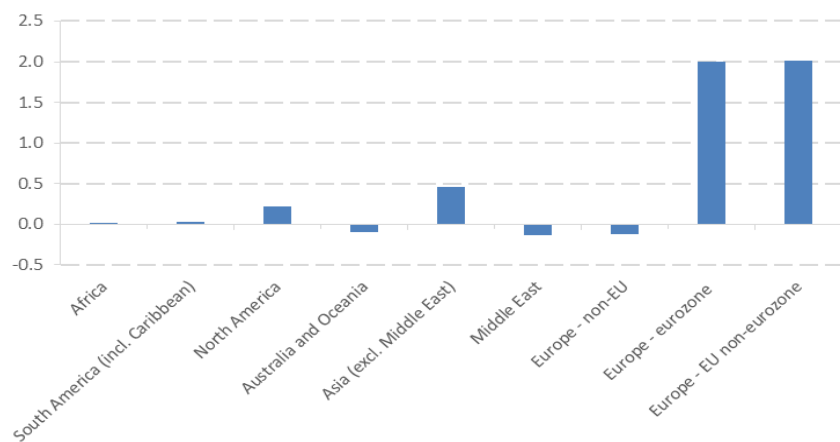
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in September 2016, mom, PLN bn

In September 2016 the highest increases were recorded by investors from the EU, both inside and outside the eurozone, by PLN 2bn each. Slight decreases in the involvement in the domestic Treasury securities market were noted by investors from the Middle East, European countries excluding EU, as well as Australia and Oceania (by 0.1bn each).



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

as of September 30, 2016, excluding omnibus accounts and central banks, countries with more than 1% share, PLN m

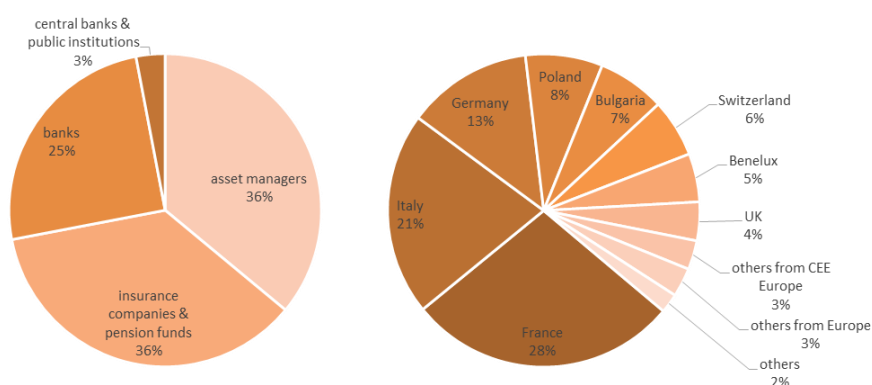
Countries	Outstanding in nominal value (PLN mio)	Share in non-residents holdings (%)
United States	28 762.3	24.5%
Japan	18 873.1	16.1%
Luxembourg	17 325.4	14.7%
Norway	8 899.1	7.6%
United Kingdom	7 432.4	6.3%
Ireland	6 513.3	5.5%
Germany	5 202.6	4.4%
Netherlands	4 687.8	4.0%
Austria	3 432.7	2.9%
Denmark	2 773.0	2.4%
United Arab Emirates	2 088.8	1.8%
France	1 768.6	1.5%
Switzerland	1 700.0	1.4%
Others	8 092.9	6.9%
<b>Total</b>	<b>117 551.9</b>	<b>100.0%</b>

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

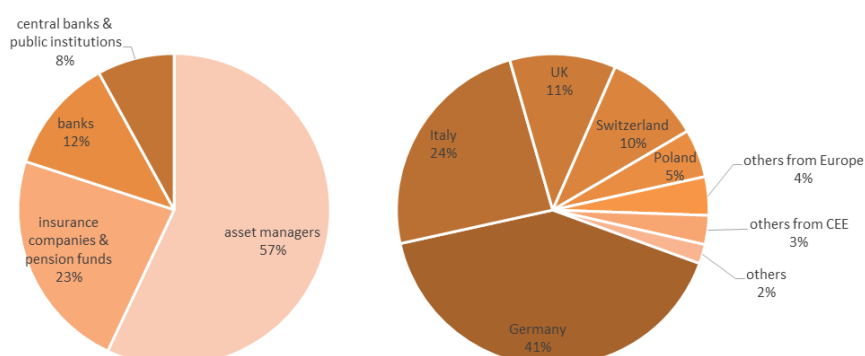


#### EUR denominated bond issues

<b>Amount:</b>	EUR 750m
<b>Maturity date:</b>	October 25th, 2028
<b>Coupon:</b>	1.000%
<b>Spread:</b>	48bp over mid-swap
<b>Yield:</b>	1.058%
<b>Launch date:</b>	October 18th, 2016
<b>Bookrunners:</b>	Banco Santander, Barclays, BNP Paribas, Citigroup and Commerzbank



<b>Amount:</b>	EUR 500m
<b>Maturity date:</b>	October 25th, 2046
<b>Coupon:</b>	2.000%
<b>Spread:</b>	120bp over mid-swap
<b>Yield:</b>	2.122%
<b>Launch date:</b>	October 18th, 2016
<b>Bookrunners:</b>	Banco Santander, Barclays, BNP Paribas, Citigroup and Commerzbank





### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### MoF comment

**Piotr Nowak, Undersecretary of State, MoF**

*28-10-2016*

By the end of October we completed financing of the State budget borrowing requirements in the amount presented in the Budget Act for 2016. Considering EUR denominated bonds in private placement that was priced yesterday, the level of State budget borrowing requirements, after the amendment of the 2016 budget, reaches ca. 98%. However, it should be marked that the amendment referred to an increase in European funds budget of PLN 8.9bn only and it does not necessarily imply higher T-bond issuance versus initially planned in the budget.

In November two auctions are planned: one switch (November 3rd) and one sale auction (November 17th). Conversely, T-bills auctions are not planned. At the switch auction we will offer T-bonds of 2- and 10-year maturity, fixed income and index-linked bonds. Three series of T-bonds maturing in 2017 will be redeemed – January and April (i.e. series with the closest maturity date) and October (i.e. series of the highest value). The offer at the sale auction will depend on the market situation, with the exclusion of T-bonds to be sold at the switch auction.

In September foreign investors increased their portfolios of PLN denominated Treasury securities by PLN 4.1bn, mainly due to increase in non-residents' involvement in long-term bonds (PLN 2.9bn).

## V. SUPPLY PLAN OF TREASURY SECURITIES IN NOVEMBER 2016



### Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding* (PLN m)
3 NOV 2016 / 7 NOV 2016	OK1018 / IZ0823 / DS0727	WZ0117	13,189
		PS0417	15,151
		DS1017	21,629

\* after auction settlement

### Treasury bond auction

Auction date	Settlement date	Series	Planned offer (PLN m)
17 NOV 2016	21 NOV 2016	choice will depend on market conditions, excl. bonds offered at the 1st auction	3,000-7,000

*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
DOS1118	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ1119	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.10% in the first coupon period
COI1120	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.30% in the first coupon period
EDO1126	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.50% in the first coupon period
ROS1122	PLN 100.00	Floating (inflation rate + 1.75%) 2.60% in the first coupon period
ROD1128	PLN 100.00	Floating (inflation rate + 2.00%) 3.00% in the first coupon period