Ministry of Finance | Republic of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

December 2016

THE MOST IMPORTANT INFORMATION

I. Current macroeconomic situation ………………………………………….. 2-3

II. Statistical data …………………………………………………...……...…… 4

III. Background of borrowing requirements' financing ……….....…..………… 5-11

- MoF's comment ……………………………………………………………. 11
- Standard&Poor's comment ……..…………………………………………. 11

IV. Monthly supply plan of Treasury securities ……......…………….……... 12

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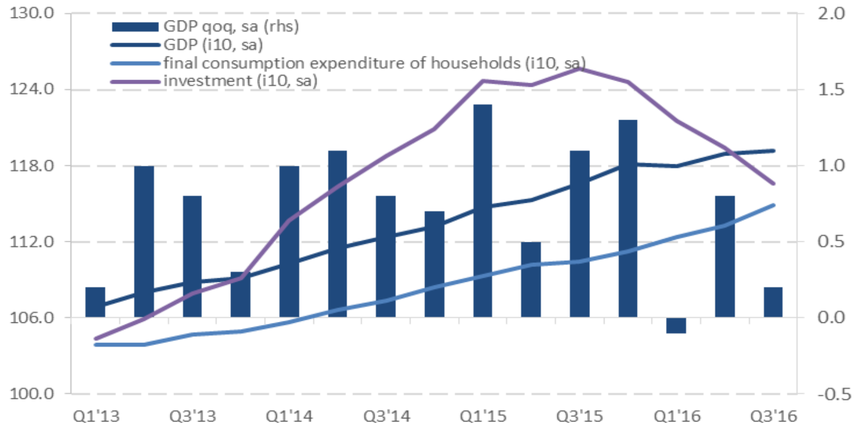
I. MACROECONOMIC SITUATION

Gross domestic product of Poland

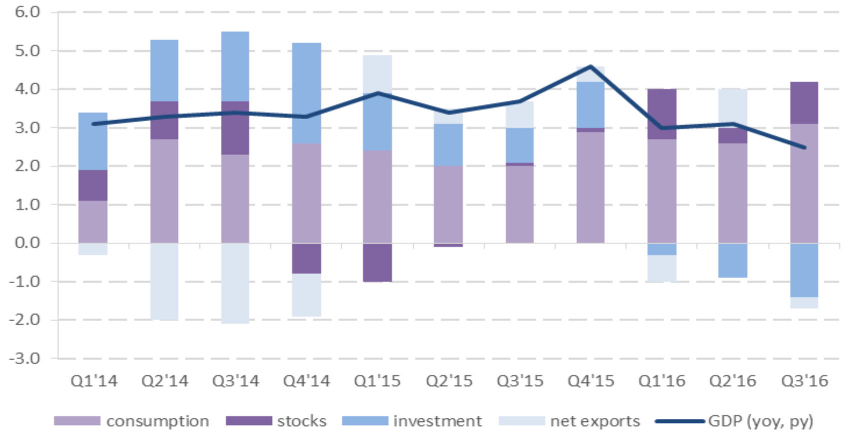
constant prices, yoy
source: GUS



In the third quarter of 2016 a slowdown in the dynamics of economic activity in Poland was observed. GDP went up only by 0.2% (qoq, sa), following an increase of 0.8% in the second quarter of 2016. The pace of growth (qoq, sa) of households consumption accelerated. On the other hand investments decreased for the fourth time in a row. Exports and imports also declined slightly. The acceleration in private consumption dynamics was a consequence of positive labour market situation, robust consumer sentiment and realisation of family support programme “Family 500+”. Weak dynamics of investments activity was a consequence of low absorption of EU funds due to the process of switching from the 2007-2013 to the 2014-2020 financial framework.

Contributions to Poland’s GDP growth

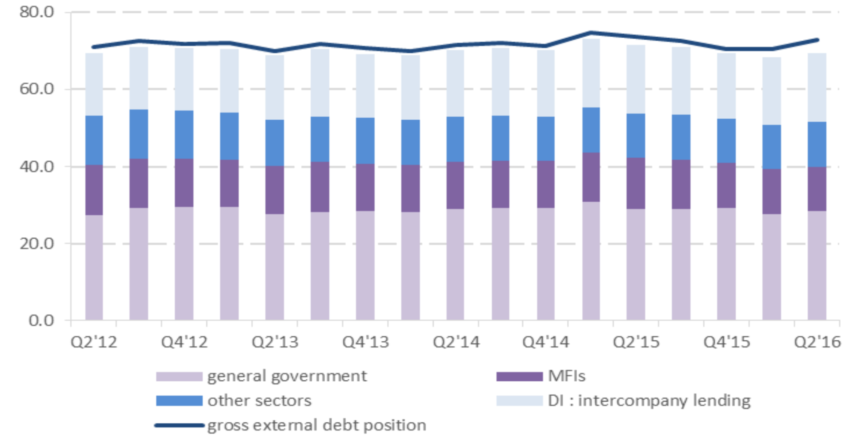
percentage points
source: GUS; py - average prices of previous year



In the third quarter of 2016 GDP was 2.5% higher than a year ago as compared to 3.1% in the previous quarter. Data was below market expectations. Domestic demand was the only source of GDP growth due to households consumption (contribution of 2.3 pp), increase in inventories (1.1 pp) and public consumption (0.8 pp). Negative contribution to GDP growth came again from investments (-1.4 pp), which were 7.7% lower than a year ago. Contrary to the previous quarter net exports had also negative contribution (-0.3 pp compared to 1.0 pp in the second quarter of 2016) due to higher imports than exports dynamics (in yoy terms).

Poland's gross external debt position

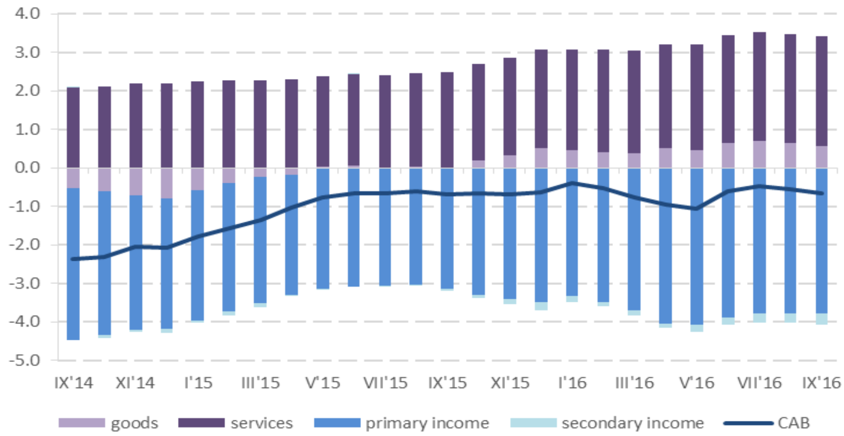
percent of GDP
source: NBP, GUS, MoF own calculation



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 decreased slightly to 38.9%. Official reserve assets reached EUR 103.2bn at the end of October 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

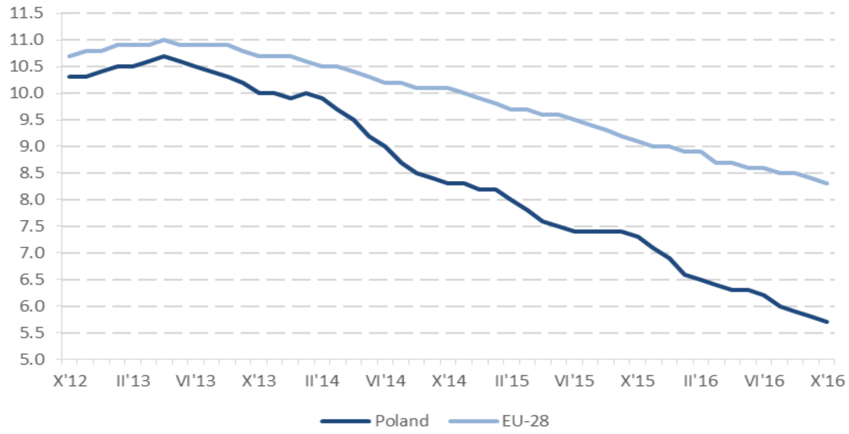


In September 2016, according to the preliminary data, C/A deficit increased to 0.7% of GDP (in 12-month terms of GDP) from 0.6% of GDP in the previous month. Data was below market expectations. C/A deficit was with a wide margin covered by long-term capital, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on capital account.

Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

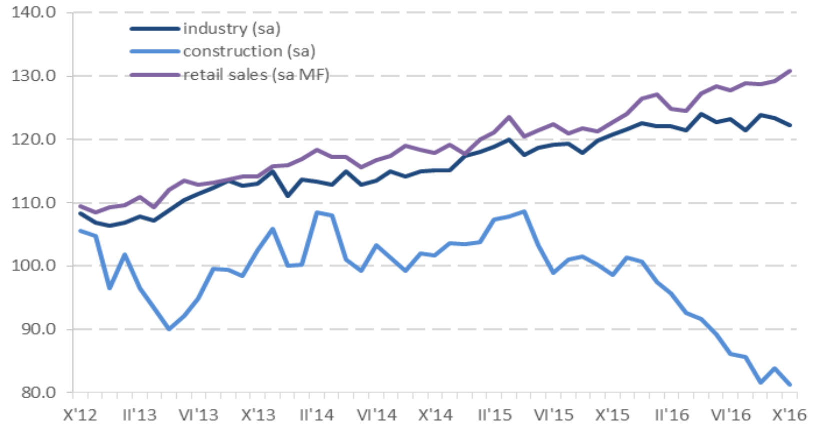
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In October 2016 it amounted to 5.7% (versus 8.3% in EU on average) and it was 0.1 pp lower than a month before and 1.6 pp lower than a year before. In October 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



Monthly indicators of the real sector

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

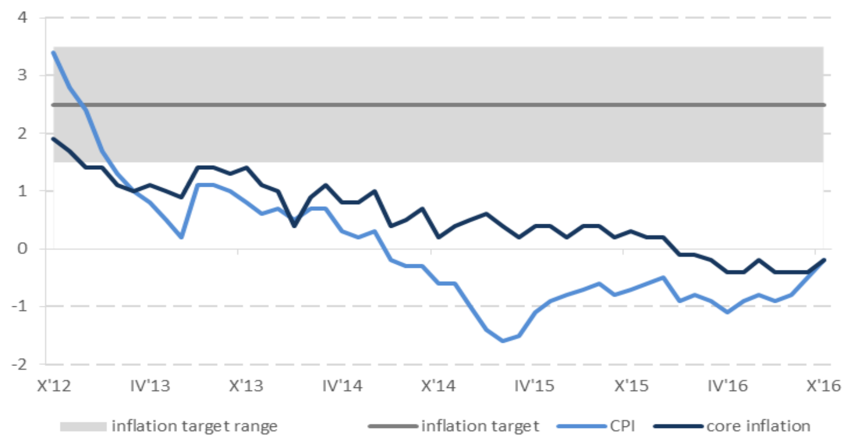
In October 2016 industrial output went down by 0.9% (mom, sa). As a result production was 1.3% lower than a year ago (nsa). Data was below market expectations. In October 2016 construction production dropped by 3.0% after unexpected growth in the previous month (mom, sa). However, its level was 20.1% (nsa) lower than a year before. Data was below market expectations. In October 2016 real retail sales accelerated (mom, sa MoF) after two relatively weak months. Its level was 4.6% (nsa) higher than in the same month of 2015. Data was worse than market expectations.



Inflation

percent, yoy
source: GUS, NBP

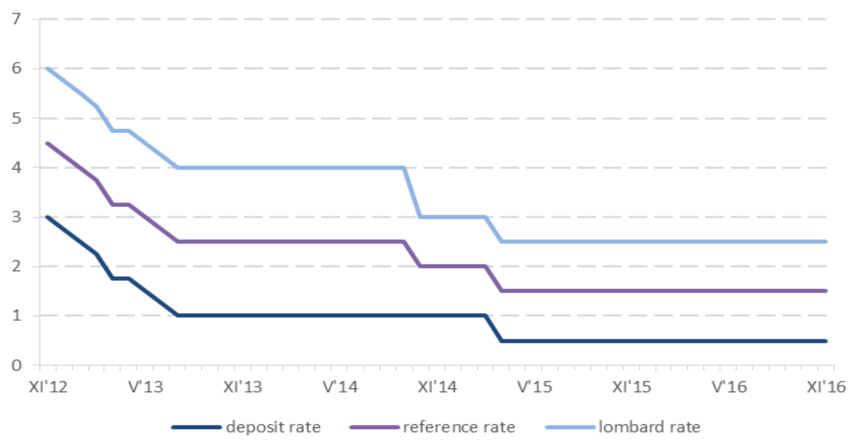
Since July 2014 consumer prices have been lower than a year before mainly because of a drop of commodity prices (energy and food). In October 2016 deflation amounted to 0.2% (yoy). Data was slightly higher than market expectations.
Since the beginning of 2016 core inflation (CPI excluding food and energy prices) has remained below zero (in October amounted to -0.2%, yoy).
After almost 4 years of deflation in producer prices, in September and October these prices were higher than a year before (respectively by 0.2% and 0.6%).



NBP interest rates

percent, end of period
source: NBP

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



II. STATISTICAL DATA

	Unit	2015 Q02	Q03	Q04	2016 Q01	Q02	Q03
GDP[1)]							
Gross domestic product	YoY	3.4	3.7	4.6	3.0	3.1	2.5
	QoQ SA	0.5	1.1	1.3	-0.1	0.8	0.2
Final consumption expenditure of the households sector	YoY	3.3	3.3	3.1	3.2	3.3	3.9
	QoQ SA	0.8	0.2	0.8	1.0	0.8	1.4
Final consumption expenditure of the general government sector	YoY	-0.2	-0.2	7.1	4.2	3.9	4.9
	QoQ SA	0.9	0.4	2.5	0.4	0.7	1.1
Gross fixed capital formation	YoY	6.1	4.7	4.5	-2.2	-5.0	-7.7
	QoQ SA	-0.2	1.0	-0.8	-2.5	-1.7	-2.4
Exports of goods and services	YoY	6.1	6.5	9.1	6.7	11.4	6.8
	QoQ SA	-0.2	3.5	2.6	0.9	3.1	-0.4
Imports of goods and services	YoY	5.4	5.3	8.4	8.7	10.0	7.8
	QoQ SA	0.4	2.2	3.4	2.3	2.7	-0.1
Gross value added	YoY	3.3	3.6	4.5	2.8	2.9	2.4
	QoQ SA	1.0	0.9	1.3	0.3	0.3	0.5
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.0	2.0	1.6	2.0	1.9	2.3
Final consumption expenditure of the general government sector	pp	0.0	0.0	1.3	0.7	0.7	0.8
Gross fixed capital formation	pp	1.1	0.9	1.2	-0.3	-0.9	-1.4
Changes in inventories	pp	-0.1	0.1	0.1	1.3	0.4	1.1
Balance of trade turnover	pp	0.4	0.7	0.4	-0.7	1.0	-0.3
Gross value added	pp	2.9	3.2	4.0	2.5	2.6	2.1
Taxes less subsidies	pp	0.5	0.5	0.6	0.5	0.5	0.4
GDP structure							
Final consumption expenditure of the households sector	% of GDP	59.4	60.0	48.9	63.9	58.8	59.9
Final consumption expenditure of the general government sector	% of GDP	17.7	17.3	19.5	17.3	17.6	17.4
Gross fixed capital formation	% of GDP	18.1	19.3	27.4	13.3	16.6	17.3
Changes in inventories	% of GDP	0.5	0.8	0.6	0.8	1.0	
Exports of goods and services	% of GDP	50.3	50.1	46.4	53.6	54.2	51.9
Imports of goods and services	% of GDP	47.0	48.3	43.2	49.6	49.0	49.3

	Unit	2016 M05	M06	M07	M08	M09	M10
Balance of payments							
Goods: exports (EUR)	YoY	0.0	5.7	-5.1	8.5	1.5	-
Goods: imports (EUR)	YoY	1.5	0.4	-6.8	10.7	3.2	-
Current account balance[2)]	% of GDP	-1.1	-0.6	-0.5	-0.6	-0.7	-
Balance on goods[2)]	% of GDP	0.5	0.7	0.7	0.6	0.6	-
Official Reserve Assets	EUR mln	97 044.3	99 174.4	98 242.2	98 717.5	100 078.0	103 157.6
Inflation							
Consumer Price Index (CPI)	YoY	-0.9	-0.8	-0.9	-0.8	-0.5	-0.2
Core inflation (CPI excluding food and energy prices)	YoY	-0.4	-0.2	-0.4	-0.4	-0.4	-0.2
Producer Price Index (PPI)	YoY	-0.4	-0.8	-0.5	-0.1	0.2	0.6
Production							
Sold production of industry[3)]	YoY	3.2	6.0	-3.4	7.5	3.2	-1.3
	MoM SA	-1.1	0.4	-1.5	2.1	-0.4	-0.9
Construction and assembly production[3)]	YoY	-13.7	-13.0	-18.8	-20.5	-15.3	-20.1
	MoM SA	-2.6	-3.6	-0.6	-4.7	2.7	-3.0
Manufacturing PMI	SA	52.1	51.8	50.3	51.5	52.2	50.2
Households and labour market							
Retail sales[2)]	YoY	4.3	6.5	4.4	7.8	6.3	4.6
Average paid employment in enterprise sector	YoY	2.8	3.1	3.2	3.1	3.2	3.1
	MoM	0.1	0.3	0.2	0.0	0.2	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.0	6.1	5.8	5.5	4.4	3.8
	MoM	-3.5	1.9	1.2	-1.7	0.1	0.5
Harmonised unemployment rate (Eurostat)	%, SA	6.3	6.2	6.0	5.9	5.8	5.7

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, HSBC, Markit

	Unit	2016 M04	M05	M06	M07	M08	M09
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN mio	881 873.7	890 714.6	898 988.8	889 350.6	899 200.8	902 709.5
Domestic debt	face value, PLN mio	578 209.0	588 305.5	592 249.3	586 844.2	596 203.1	602 632.0
	%	65.6	66.0	65.9	66.0	66.3	66.8
Foreign debt	face value, PLN mio	303 664.7	302 409.1	306 739.5	302 506.4	302 997.7	300 077.4
	%	34.4	34.0	34.1	34.0	33.7	33.2

	Unit	2015 Q01	Q02	Q03	Q04	2016 Q01	Q02[1)]
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN mio	848 182.9	858 209.3	876 405.2	877 282.4	899 243.7	936 876.7
Domestic debt	face value, 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	face value, 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	face value, 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

Gross borrowing requirements in 2016

State budget borrowing requirements for 2016 has been fully funded. We have started the prefinancing of the next year's borrowing needs.

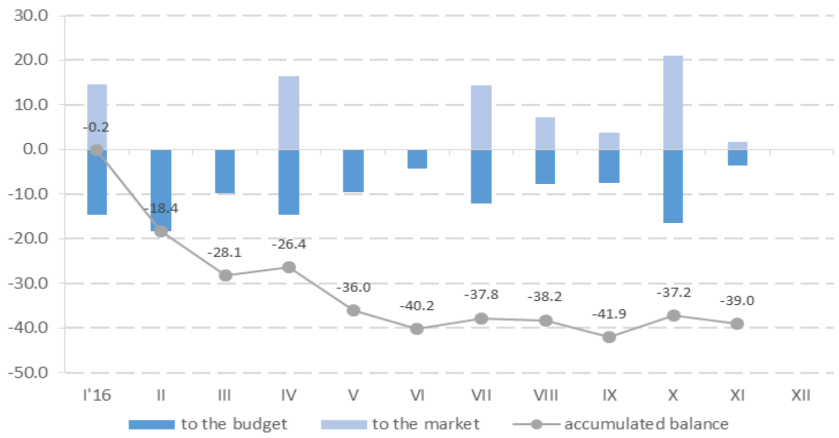
Flows of funds into the market related to domestic T-securities transfers in December

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

Flows of funds between the market and the budget*
as of November 30, 2016, PLN bn

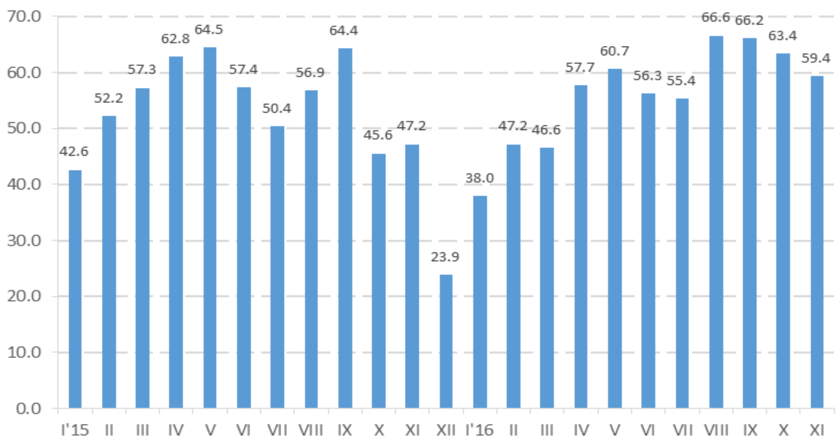
There will be no funds linked to wholesale TS redemptions and interest payments transferred to the market until the end of this year.

** 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.*



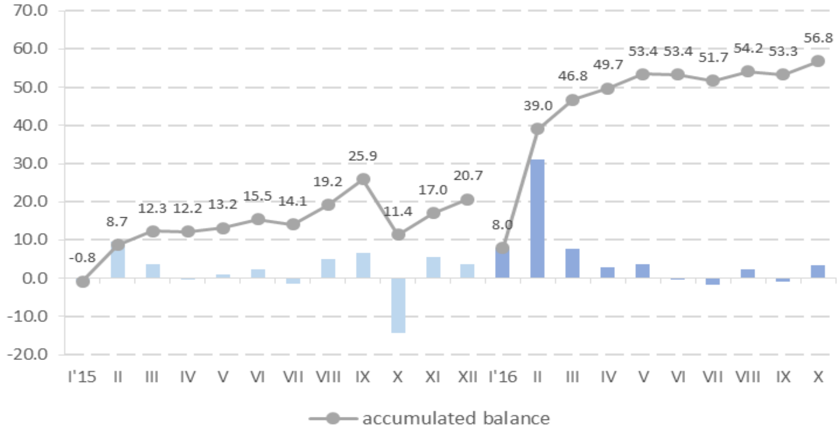
Funds in PLN and in foreign currency on budgetary accounts at the end of month
funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.



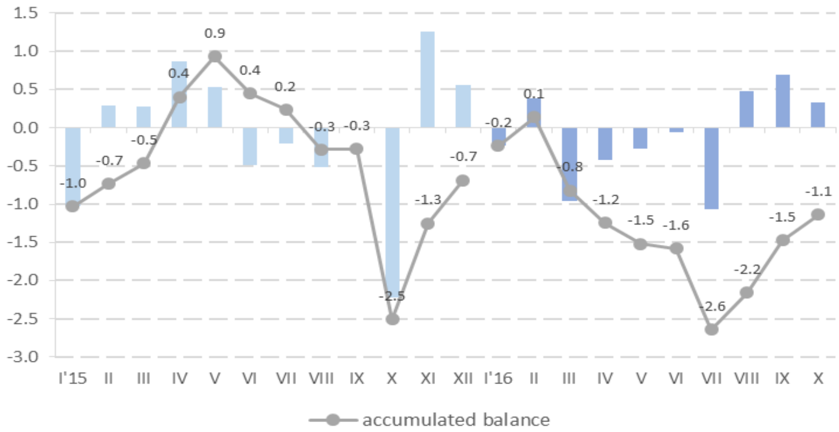
Change of debt in domestic Treasury securities held by banks
without buy-sell-back transactions with MoF, PLN bn

In the period of I-X 2016 debt held by domestic banks increased by PLN 56.8bn comparing to PLN 11.4bn increase during the same period of 2015.



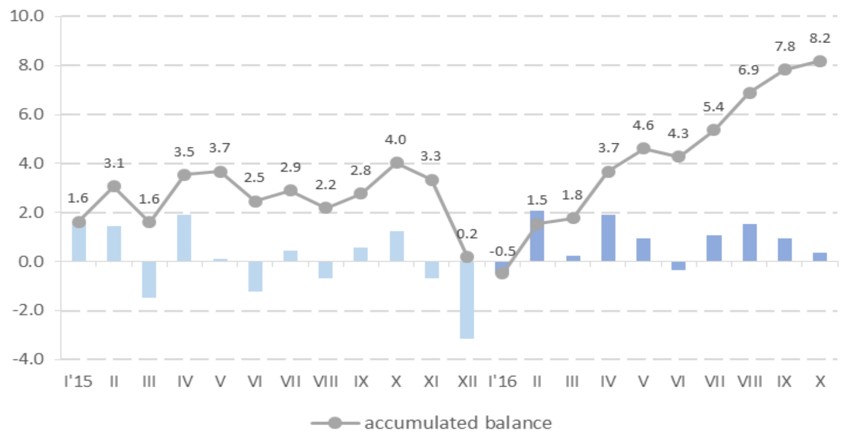
Change of debt in domestic Treasury securities held by insurance companies
PLN bn

In the period of I-X 2016 there was a decrease of PLN 1.1bn in debt held by insurance companies. During the same period of 2015 there was a decrease of PLN 2.5bn.



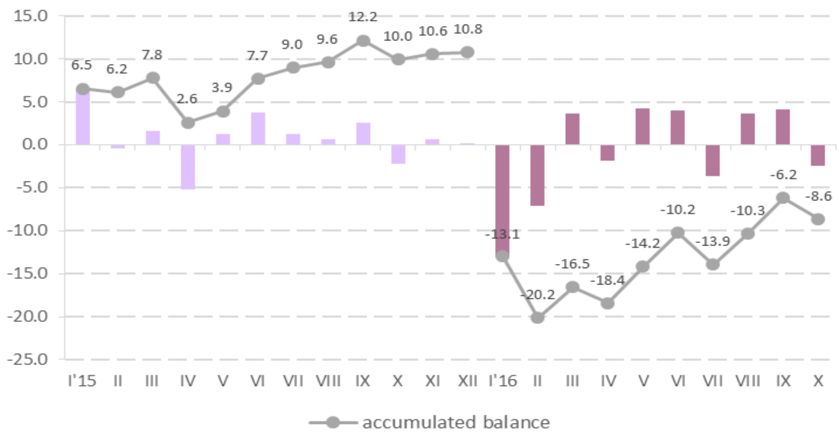
Change of debt in domestic Treasury securities held by investment funds
PLN bn

In the period of I-X 2016 there was an increase of PLN 8.2bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 4.0bn.



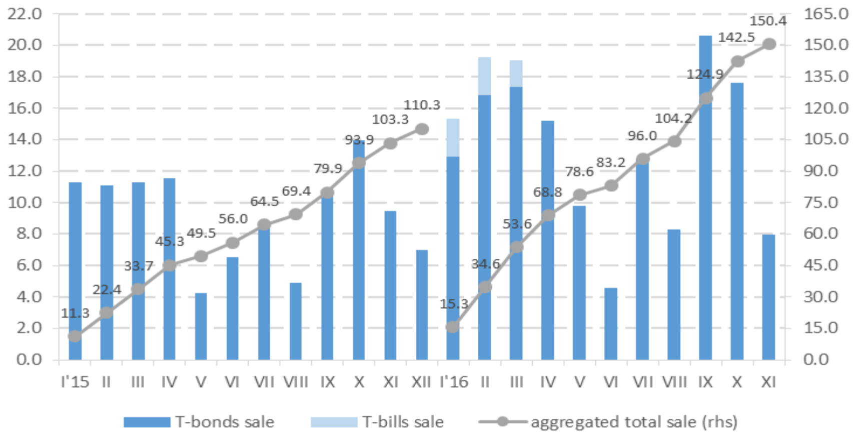
Change of debt in domestic Treasury securities held by foreign investors
PLN bn

In the period of I-X 2016 outflow of foreign capital from the domestic TS market amounted to PLN 8.6bn comparing to inflow of PLN 10.0bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 198.1bn.



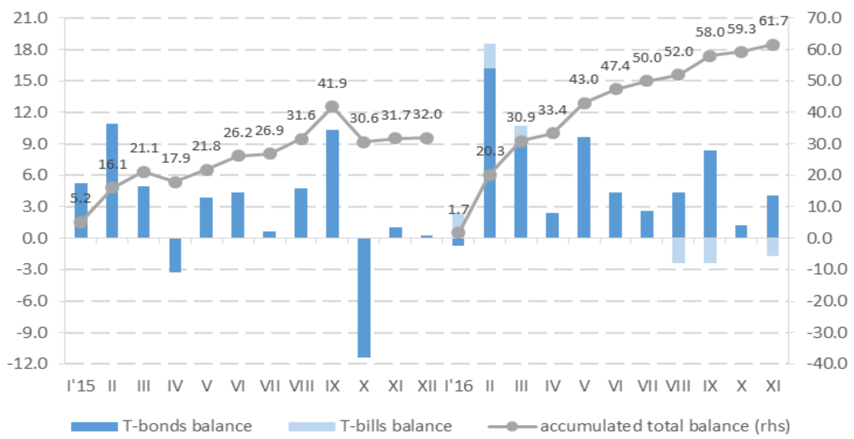
Sale of T-bonds and T-bills in the period of I-XI 2016 and 2015
auction date, nominal amount, PLN bn

In the period of I-XI 2016 aggregated total sale of:
- T-bonds amounted to PLN 144.0bn versus PLN 103.3bn in the same period of 2015,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).



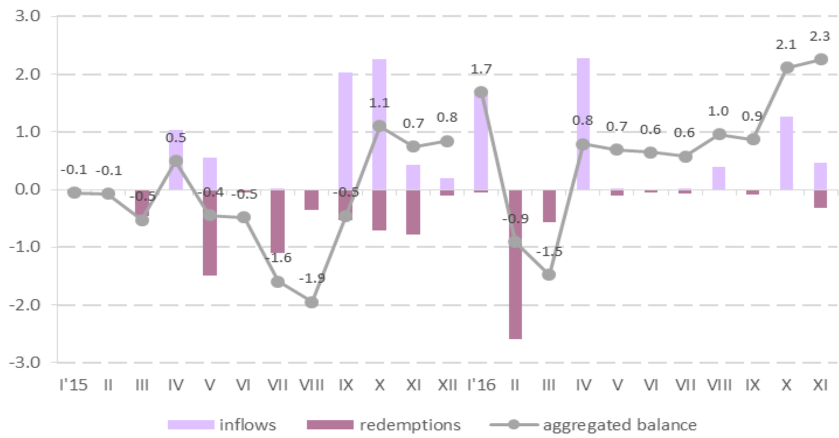
Balance of T-bonds and T-bills in the period of I-XI 2016 and 2015
auction date, nominal amount, PLN bn

In the period of I-XI 2016 indebtedness in T-bonds increased by PLN 61.7bn.



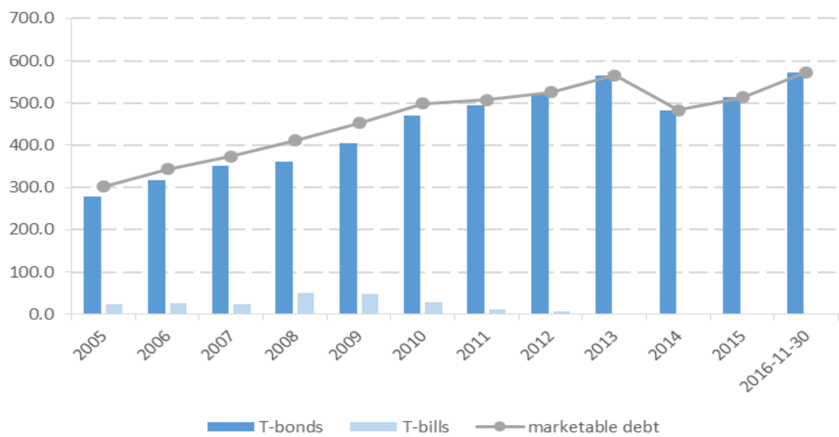
External financing in the period of I-XI 2016 and 2015
bonds issued on foreign markets and loans received from IFIs, settlement date, EUR bn

Net financing on foreign markets in the period of I-XI 2016 was positive and amounted to EUR 2.3bn, 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 0.8bn.



Structure of marketable debt
PLN bn

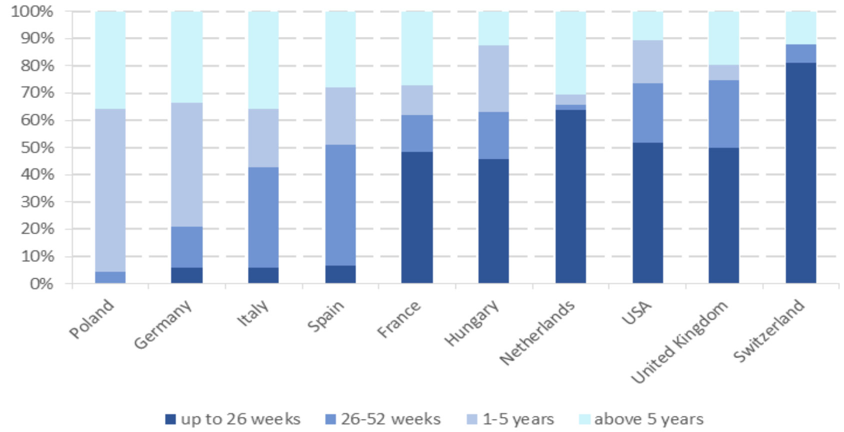
At the end of November 2016 the marketable domestic debt amounted to PLN 573.3bn comparing to PLN 513.4bn at the end of 2015.



Maturity breakdown of T-securities in Poland and other countries

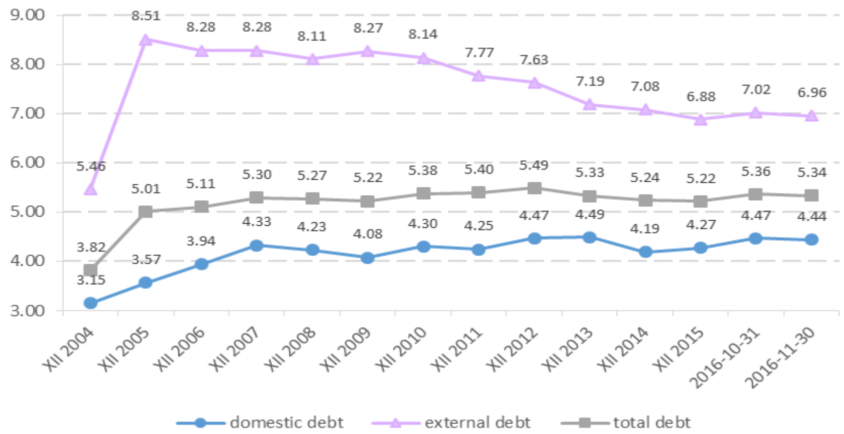
auctions and syndicates, local currency, ytd in the period of January 1 - November 30, 2016

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



Average maturity

At the end of November 2016 the average maturity of domestic debt amounted to 4.44 (while at the end of 2015 it was 4.27). The average of total debt accounted to 5.34 (5.22 at the end of 2015).

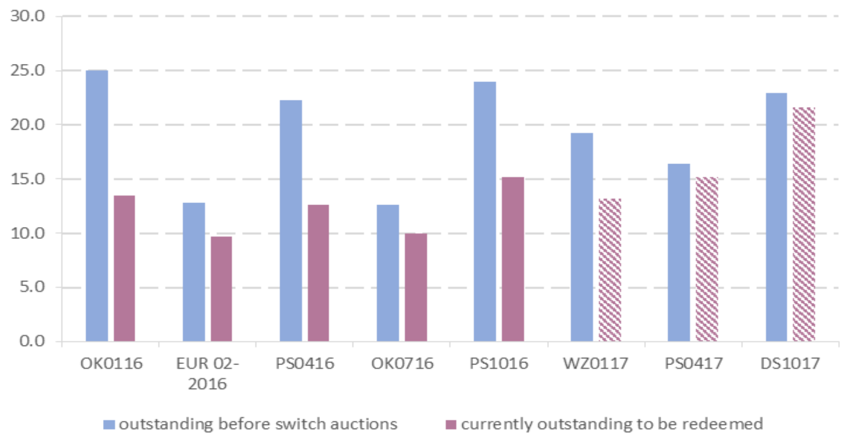


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016 and 2017

as of November 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 6.0bn (31%),
- PS0417: PLN 1.2bn (8%),
- DS1017: PLN 1.3bn (6%).

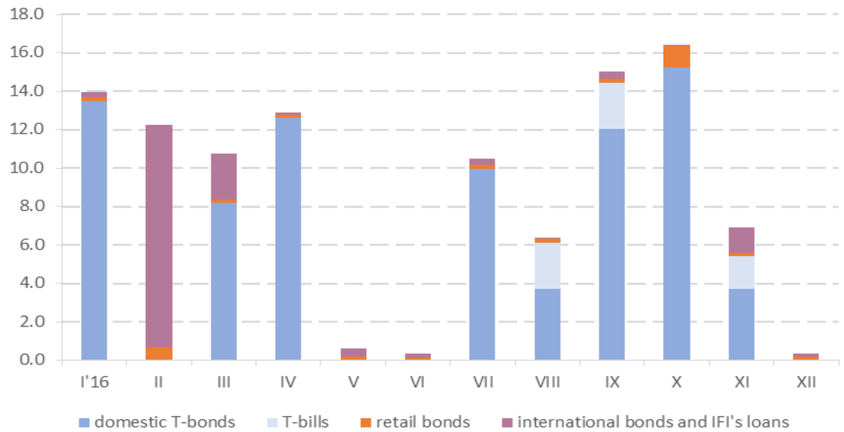


State Treasury debt redemptions in 2016

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

The nominal amount of debt to be redeemed in 2016 is equal to PLN 0.4bn, including:

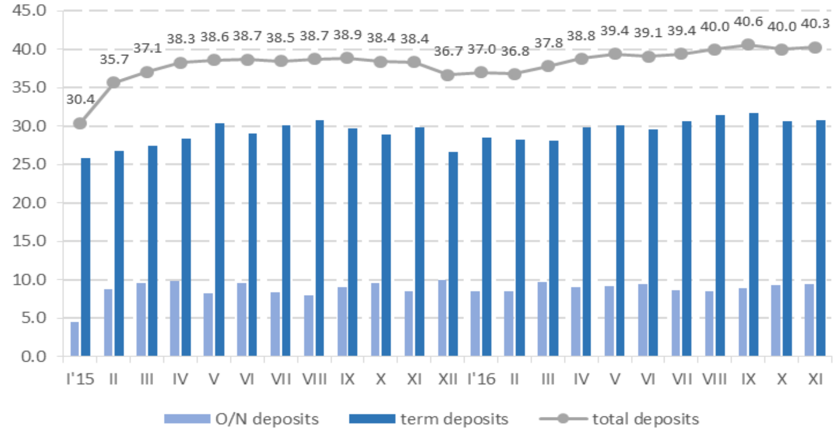
- retail T-bonds: PLN 0.2bn,
- loans incurred on foreign markets: PLN 0.2bn.



Consolidation of public finances liquidity management

PLN bn

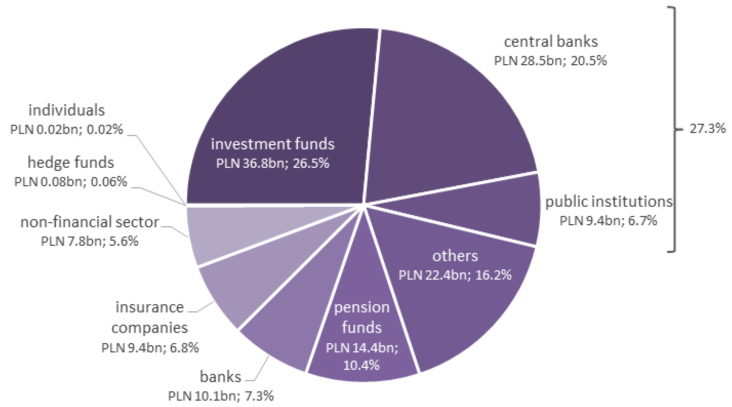
As a result of consolidation of public finances liquidity management there were PLN 40.3bn funds accumulated at the end of November, of which PLN 30.8bn was as term deposits and PLN 9.5bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

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

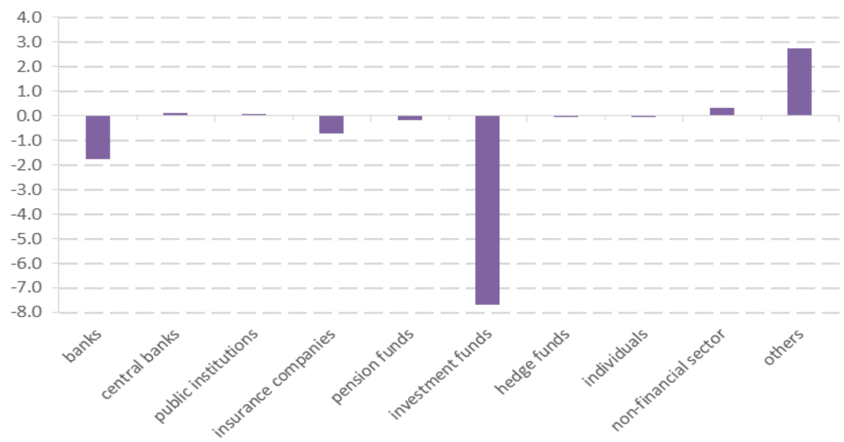
In October 2016 the share of non-residents in the domestic Treasury securities market decreased by PLN 2.4bn. The foreign investors' portfolio amounted to PLN 198.1bn which constituted 34.7% share in total debt in marketable Treasury securities (35.2% in the previous month). As of the end of October 2016 central banks and public institutions' share in foreign holdings amounted to 27.3%.



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

change in October 2016, mom, PLN bn

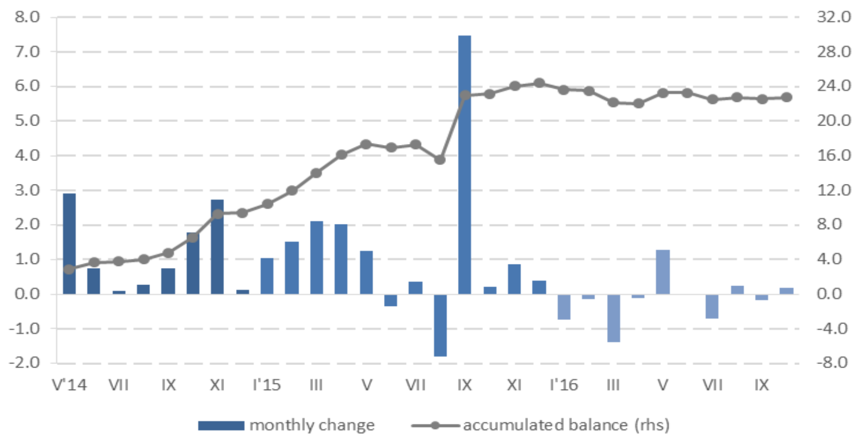
In October 2016 the highest increase was noted by entities from "others" category (PLN 2.8bn), while investment funds recorded the highest decrease (PLN 7.7bn).



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

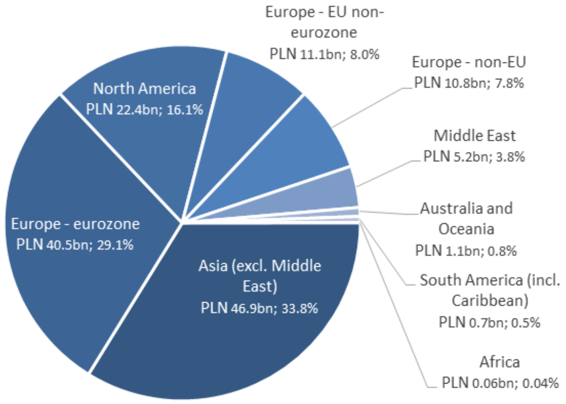
change in October 2016, PLN bn

In October 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 October 2016, when the detailed information is available, portfolios of those entities increased by PLN 22.7bn.



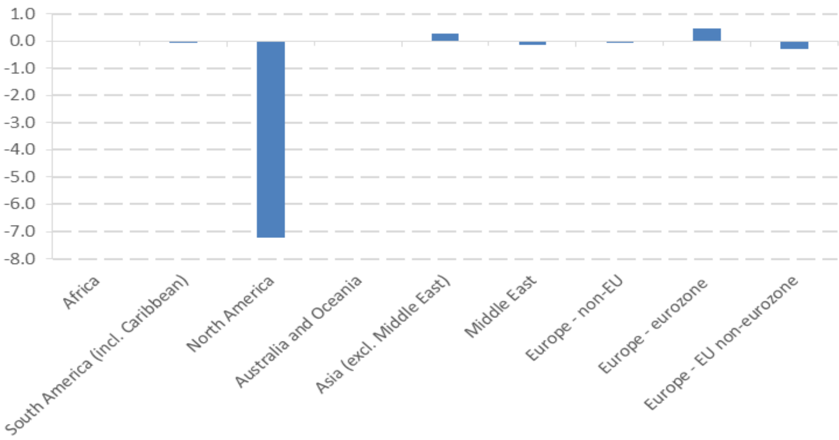
Geographical distribution of domestic Treasury securities held by non-residents
as of October 31, 2016, excluding omnibus accounts

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 October 2016, mom, PLN bn

In October 2016 the highest change was recorded by investors from North America - a decrease of PLN 7.2bn.



Structure of non-residents' holdings in Treasury securities by countries
as of October 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	21 628.1	19.6%
Japan	18 763.3	17.0%
Luxembourg	17 895.8	16.2%
Norway	8 917.9	8.1%
Ireland	7 103.1	6.4%
United Kingdom	6 404.7	5.8%
Germany	5 637.3	5.1%
Netherlands	4 492.4	4.1%
Denmark	3 524.2	3.2%
Austria	2 335.5	2.1%
United Arab Emirates	2 123.6	1.9%
France	1 893.4	1.7%
Switzerland	1 630.4	1.5%
Others	7 984.1	7.2%
Total	**110 333.5**	100.0%

MoF comment

Piotr Nowak, Undersecretary of State, MoF
30-11-2016

The State budget borrowing requirements for 2016 have been fully funded. One T-bond switching auction is planned for December at which we will buy back T-bonds maturing in 2017, offering current on-the-runs, excluding floaters and long-term fixed-rate bonds.

Managing the debt structure and debt servicing costs over time, we will hold a buy-back auction of USD nominated T-bonds maturing in 2019. Depending on the market and budget situation, a buy-back auction on the domestic market is also possible.

There are no plans to issue T-bills in December. We are considering T-bills to appear in the offer again next year.

In October foreign investors decreased their portfolios of PLN denominated Treasury securities by PLN 2.4bn, among others due to the redemption of PS1016 series that fell due this month (non-residents' involvement of PLN 4.0bn).

Standard&Poor's comment

Standard&Poor's: Poland Outlook Revised To Stable On Reduced Concerns Over Central Bank Independence; 'BBB+' FC Rating Affirmed
02-12-2016

(…) On Dec. 2, 2016, S&P Global Ratings revised its outlook on the Republic of Poland to stable from negative. At the same time, the 'BBB+/A-2' long- and short-term foreign currency sovereign credit ratings and the 'A-/A-2' long- and short-term local currency sovereign credit ratings were affirmed.

The outlook revision reflects the reduction in our near-term concerns over a further weakening of key institutions, most importantly Poland's central bank, caused by the government's efforts to change and control Poland's key independent institutions. Moreover, the outlook revision reflects our opinion that the weaker-than-initially expected economic growth this year will not negatively impact public finances.

(…) This year's economic growth will likely be weaker than we expected. Since the beginning of the year, a mixture of reduced EU funds absorption and lower business confidence has affected investment and construction activity. Moreover, the boost to household consumption from the so-called Family 500+, a newly introduced government child benefit program, has been somewhat smaller than expected. As a result, we have lowered our real GDP forecast from 3.5% to 3.0% for 2016. However, we expect a gradual increase in investment activity as implementation of EU co-sponsored projects accelerates. Moreover, wage growth and improvements in the labor market could result in consumption growth, leading to average annual real GDP growth of around 3.2% during our two-year forecast horizon.

(…) We expect general government debt will remain on a gradually increasing trend over our 2016-2019 forecast horizon and reach 53% of GDP by 2019, with net government debt at 51%.

(…) On the external side, we expect Poland's current account will remain in a deficit position over the forecast horizon. Strong import demand, a result of domestic consumption driven growth, and rising import prices should lead to a gradual widening of the current account deficit to around 1.1% of GDP in 2019. Nevertheless, we think Poland's demonstrated ability to draw on EU funds, in addition to continued inflows of foreign direct investment, should comfortably finance these deficits. Even though Poland saw some portfolio outflows earlier in the year, net portfolio flows are positive and we believe that it benefits from some important external buffers--such as its flexible credit line with the International Monetary Fund, its flexible exchange rate, and a much lower current account deficit than during previous episodes of financial market turbulence.

(…) Poland's financial sector is generally profitable, well capitalized, and predominantly (56%) deposit funded, and we classify it in group '5' of our Banking Industry Country Risk Assessment (...).

Please find attached the reference to the MoF's announcement:
>> Standard and Poor's rating agency affirmed Poland's credit rating with outlook raised to stable

IV. SUPPLY PLAN OF TREASURY SECURITIES IN DECEMBER 2016

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding* (PLN m)
15 DEC 2016/ 19 DEC 2016	choice will depend on the market conditions	WZ0117	13,189
		PS0417	15,151
		DS1017	21,629

Buy-back auction of USD nominated T-bonds

Auction/ settlement date	Buy-back T-bonds		Nominal value of buyback (USD m)
	Series	Maturity date	
7 DEC 2016/ 9 DEC 2016	USD20190715	15 JUL 2019	up to 1,000

Buy-back auction of T-bonds on the domestic market

Possible buy-back auction on the domestic market. Securities offered to repurchase would be T-bonds maturing in 2017.

T-bill auctions

Sale auctions of T-bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
DOS1218	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ1219	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI1220	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO1226	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS1222	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD1228	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period