

State budget borrowing requirements' financing plan and its background

1st quarter 2017

January 2017

THE MOST IMPORTANT INFORMATION

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Gross domestic product of Poland

constant prices, yoy
source: GUS

In the third quarter of 2016 growth of economic activity in Poland slowed. GDP went up 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 a 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 Polish 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 earlier 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 before. Contrary to the previous quarter net exports had also negative contribution (-0.3 pp as compared to 1.0 pp in the second quarter of 2016) due to higher imports than exports dynamics (in yoy terms).

Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

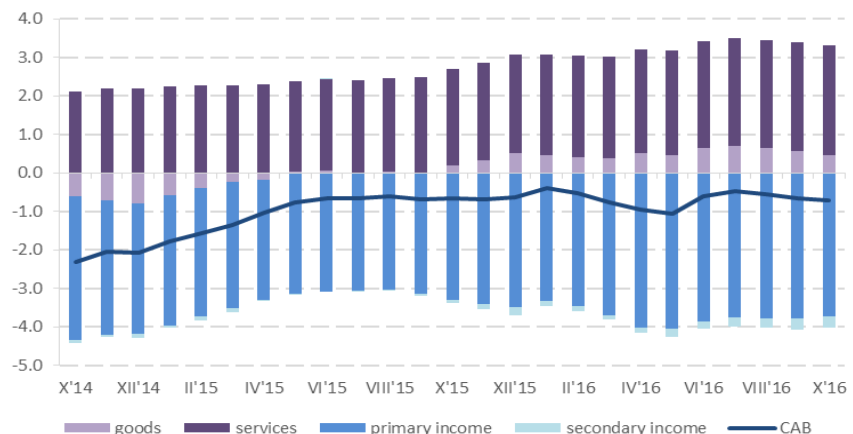
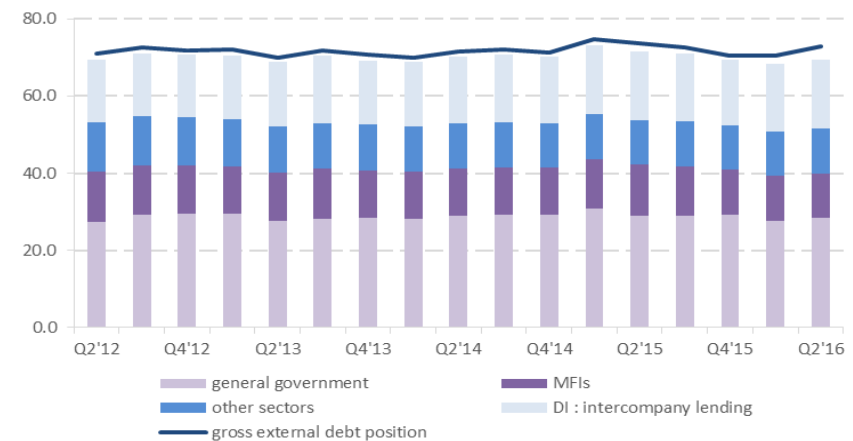
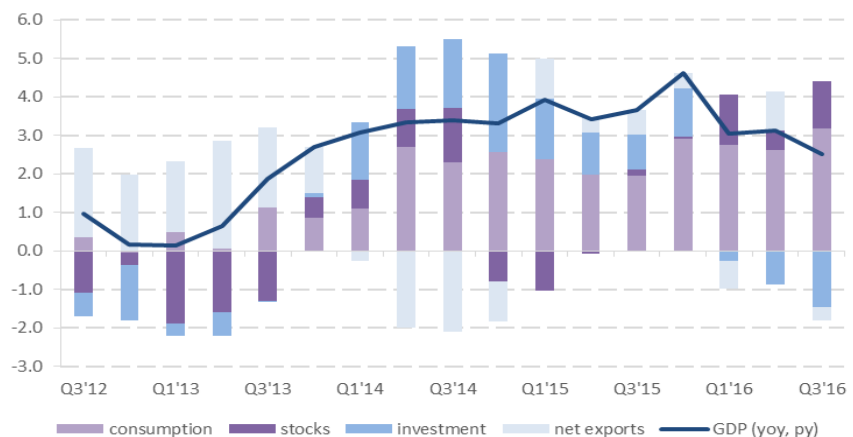
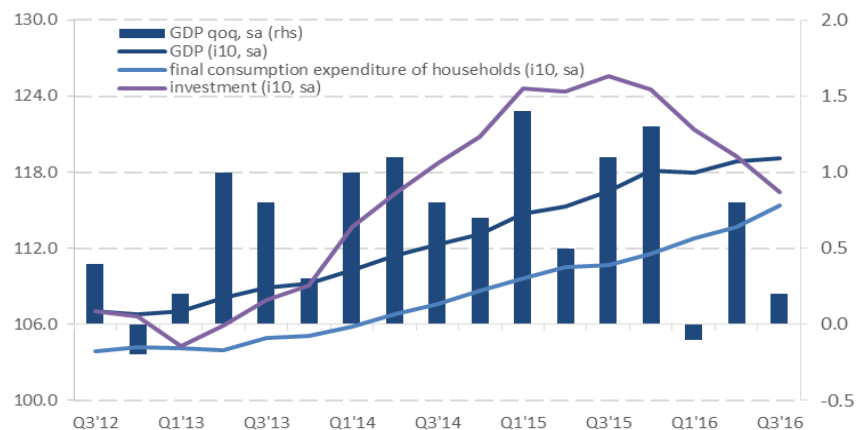
Gross external debt reached EUR 309.2bn (72.7% of GDP) at the end of the second quarter of 2016 and was EUR 8.5bn higher than in the previous quarter. The share of the general government sector debt in total debt decreased slightly to 38.9%. Official reserve assets reached EUR 104.2bn at the end of November 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 October 2016, according to the preliminary data, C/A deficit stabilised at 0.7% of GDP (in 12-month terms of GDP). Data was above 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, to a lesser extent, inflow of EU structural funds classified on the capital account.

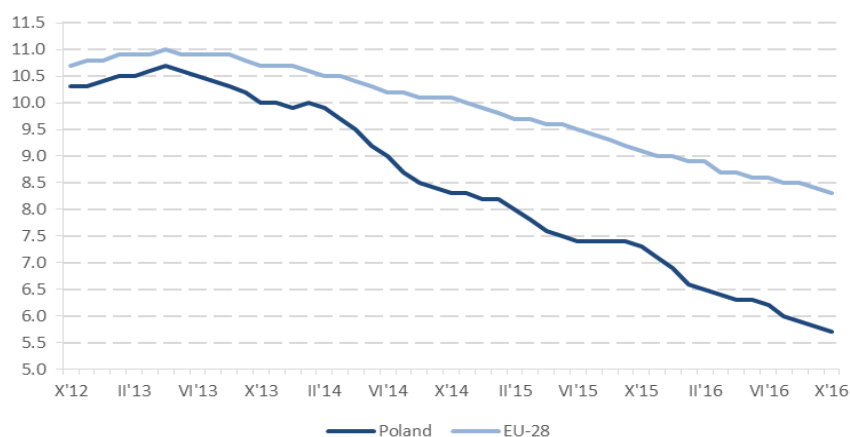




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

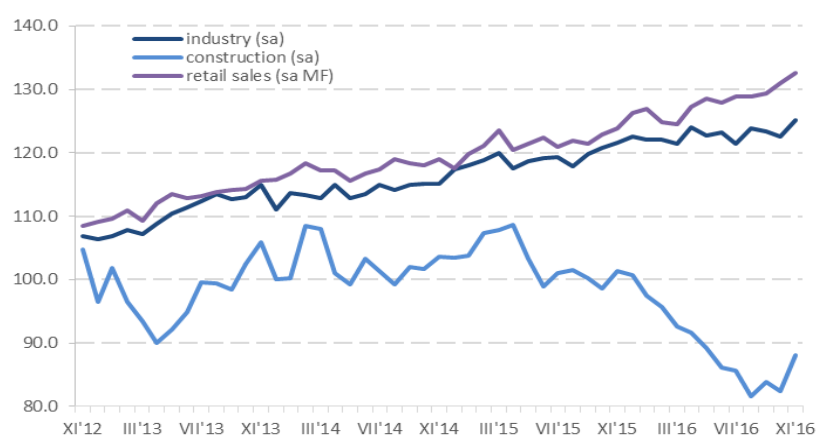
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In October 2016 it amounted to 5.7% (versus 8.3% in EU on average) and it was 0.1 pp lower than a month before and 1.6 pp lower than a year earlier. In October 2016 harmonised unemployment rate (sa) in Poland reached the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



Monthly indicators of the real sector

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

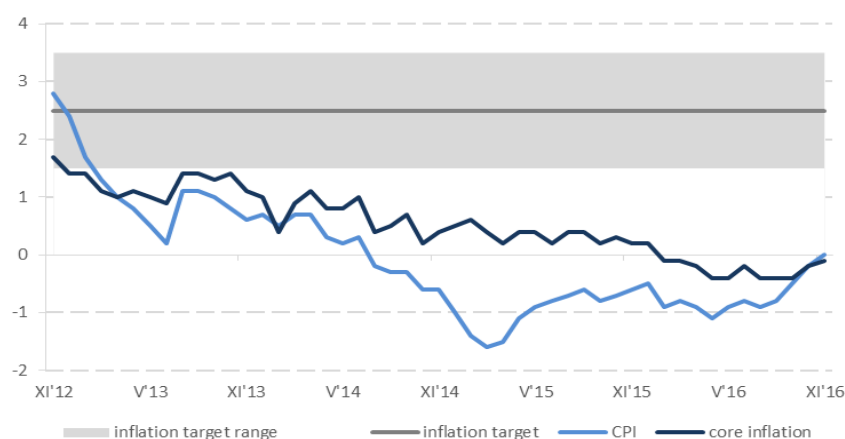
In November 2016 industrial output went up by 2.1% (mom, sa). As a result production was 3.3% higher than a year ago (nsa). Data was better than market expectations. In November 2016 construction production expanded by 6.7% after a decrease in the previous month (mom, sa). As a result its level was 12.8% (nsa) lower than a year before. Data was above expectations. In November 2016 real retail sales increased by 1.2% (mom, sa MoF) after similar pace of growth in the previous month. Its level was 7.4% (nsa) higher than in the same month of 2015. Data was significantly better than market expectations.



Inflation

percent, yoy
source: GUS, NBP

From July 2014 till October 2016 there was CPI deflation mainly caused by a drop of commodity prices (energy and food). In November 2016 consumer prices stayed at the previous year level (0.0% yoy). Data was consistent with the market expectations. Since the beginning of 2016 core inflation (CPI excluding food and energy prices) has remained below zero (in November amounted to -0.1%, yoy). After almost 4 years of deflation in producer prices, since September these prices has been higher than a year before (by 1.7% in November).

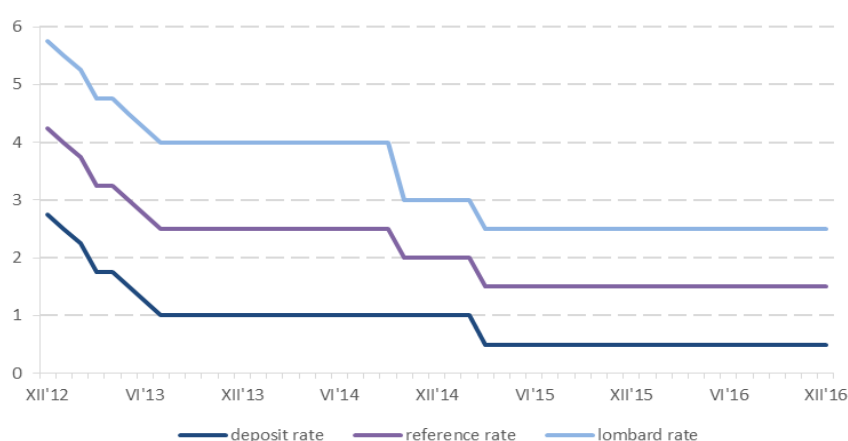


NBP interest rates

percent, end of period
source: NBP

In December 2016 the Monetary Policy Council kept NBP's interest rates unchanged 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 (December 5th, 2016) sees no NBP rate move till the end of 2017.



II. STATISTICAL DATA

	Unit	2015			2016		
		Q02	Q03	Q04	Q01	Q02	Q03
GDP¹⁾							
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
Balance of payments							
	Unit	2016			2016		
		M06	M07	M08	M09	M10	M11
Goods: exports (EUR)	YoY	5.7	-5.1	8.5	1.5	-3.1	-
Goods: imports (EUR)	YoY	0.4	-6.8	10.7	3.2	0.2	-
Current account balance ²⁾	% of GDP	-0.6	-0.5	-0.6	-0.7	-0.7	-
Balance on goods ²⁾	% of GDP	0.7	0.7	0.6	0.6	0.5	-
Official Reserve Assets	EUR mln	99 174.4	98 242.2	98 717.5	100 078.0	103 157.6	104 192.5
Inflation							
Consumer Price Index (CPI)	YoY	-0.8	-0.9	-0.8	-0.5	-0.2	0.0
Core inflation (CPI excluding food and energy prices)	YoY	-0.2	-0.4	-0.4	-0.4	-0.2	-0.1
Producer Price Index (PPI)	YoY	-0.8	-0.5	-0.1	0.2	0.6	1.7
Production							
Sold production of industry ³⁾	YoY	6.0	-3.4	7.5	3.2	-1.3	3.3
	MoM SA	0.4	-1.5	2.1	-0.4	-0.7	2.1
Construction and assembly production ³⁾	YoY	-13.0	-18.8	-20.5	-15.3	-20.1	-12.8
	MoM SA	-3.6	-0.6	-4.7	2.7	-1.6	6.7
Manufacturing PMI	SA	51.8	50.3	51.5	52.2	50.2	51.9
Households and labour market							
Retail sales ³⁾	YoY	6.5	4.4	7.8	6.3	4.6	7.4
Average paid employment in enterprise sector	YoY	3.1	3.2	3.1	3.2	3.1	3.1
	MoM	0.3	0.2	0.0	0.2	0.1	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	6.1	5.8	5.5	4.4	3.8	4.0
	MoM	1.9	1.2	-1.7	0.1	0.5	1.5
Harmonised unemployment rate (Eurostat)	%, SA	6.2	6.0	5.9	5.8	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, IHS Markit, M&F calculation based on NBP, GUS data</small>							
State Treasury debt							
	Unit	2015			2016		
		M05	M06	M07	M08	M09	M10
State Treasury debt (acc. to the place of issue criterion)	face value, PLN mio	890 714.6	898 988.8	889 350.6	899 200.8	902 709.5	910 750.4
Domestic debt	face value, PLN mio	588 305.5	592 249.3	586 844.2	596 203.1	602 632.0	603 339.4
	%	66.0	65.9	66.0	66.3	66.8	66.2
Foreign debt	face value, PLN mio	302 409.1	306 739.5	302 506.4	302 997.7	300 077.4	307 411.0
	%	34.0	34.1	34.0	33.7	33.2	33.8
Public debt (domestic definition)							
	Unit	2015			2016		
		Q02	Q03	Q04	Q01	Q02	Q03 ¹⁾
Public debt (acc. to the place of issue criterion)	face value, PLN mio	858 209.3	876 405.4	877 282.4	899 249.9	936 951.0	939 562.3
Domestic debt	face value, PLN mio	564 481.1	579 092.1	570 482.7	600 023.7	614 898.4	624 336.0
	%	65.8	66.1	65.0	66.7	65.6	66.4
Foreign debt	face value, PLN mio	293 728.2	297 313.3	306 799.8	299 226.2	322 052.6	315 226.3
	%	34.2	33.9	35.0	33.3	34.4	33.6
General Government debt (EU definition)							
General Government debt	face value, PLN mio	892 160.3	911 162.0	919 659.4	938 564.7	977 914.9	978 493.6

1) Intra data

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2017

The level of financing of the 2017 State budget borrowing requirements, after holding the auction on January 5th, reached the level of 29%, of which ca. 26% due to the prefinancing in 2016 (the final level will be known following the closure of the budget year).

** net requirements acc. to the Budget Act; debt redemptions as of December 31, 2016*

Gross borrowing requirements in 2017*

Total: PLN 168.7bn, of which:



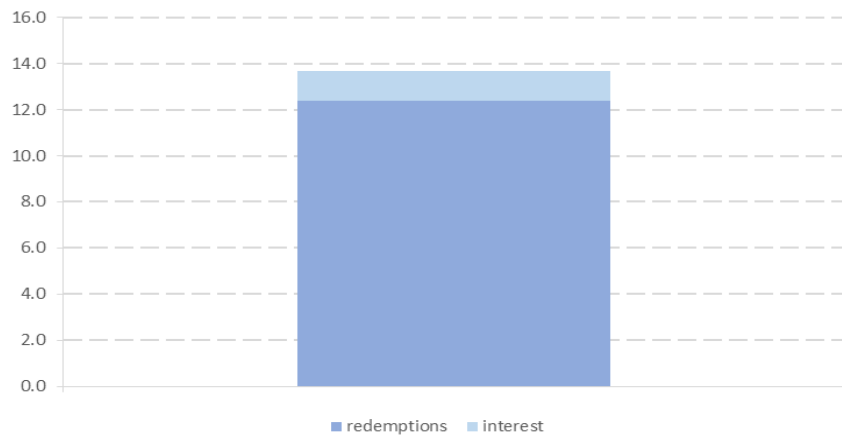
Financing of the borrowing requirements at the level of 29%

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

as of December 31, 2016, PLN bn

Value of funds transferred from the State budget to the market in January shall amount to PLN 13.7bn, of which:

- TS redemptions: PLN 12.4bn,
- interest payments: PLN 1.3bn.

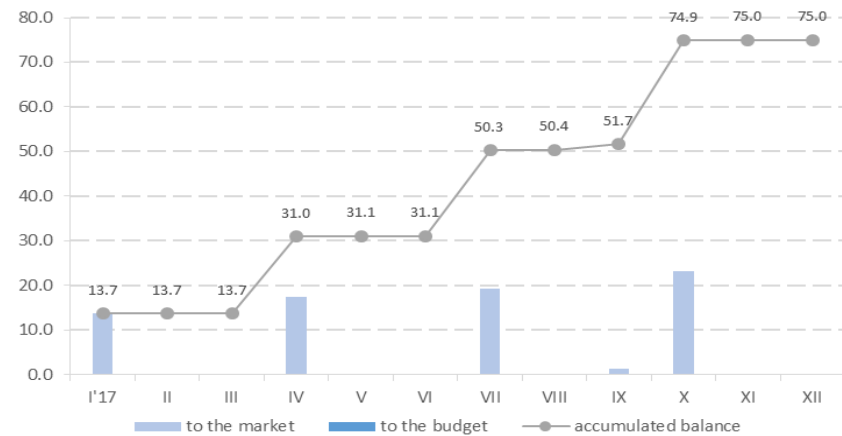


Flows of funds between the market and the budget*

as of December 31, 2016, PLN bn

As of December 31, 2016, to the end of the 2017 year the funds to be transferred to the market shall amount to PLN 75.0bn.

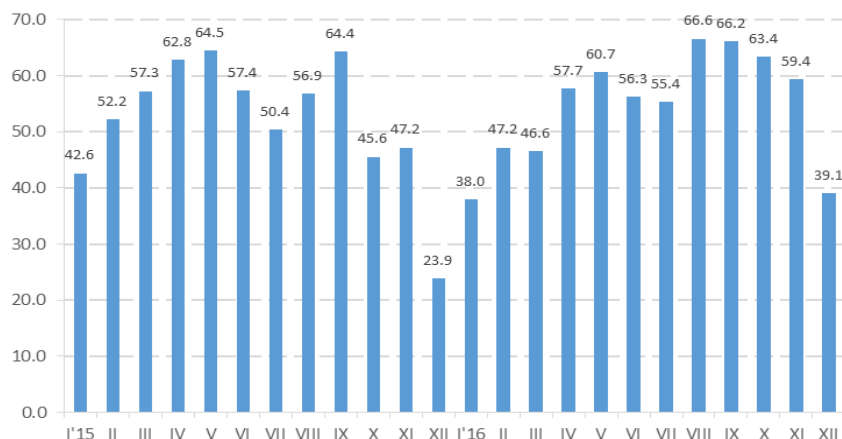
** figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.*



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.



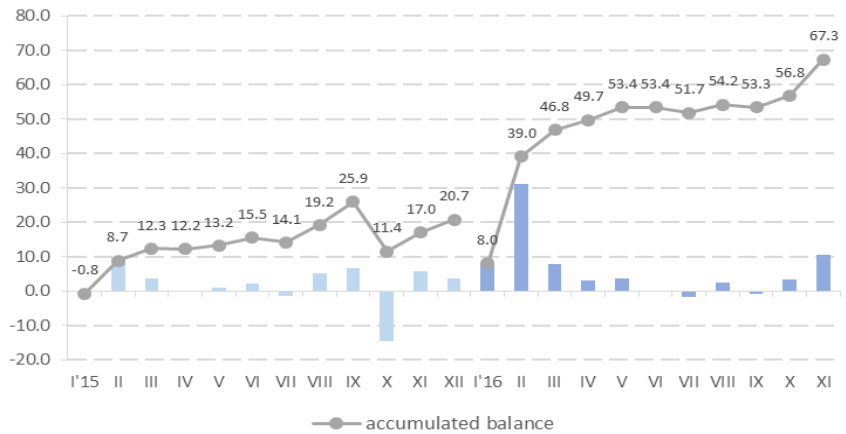


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

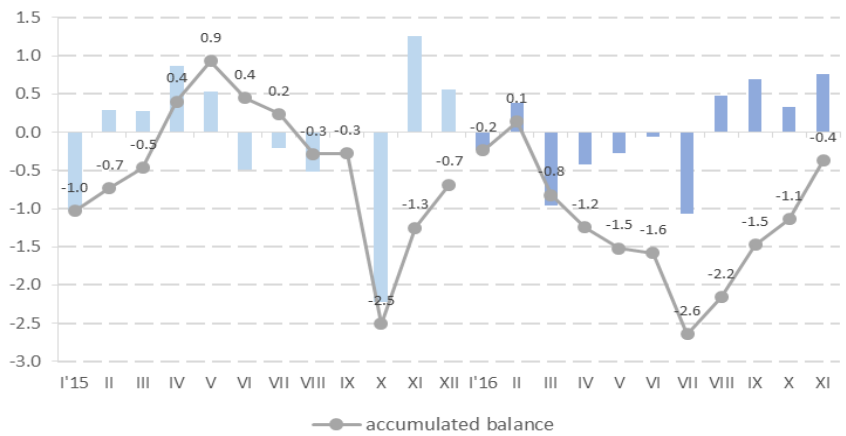
In the period of I-XI 2016 debt held by domestic banks increased by PLN 67.3bn comparing to PLN 17.0bn increase during the same period of 2015.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

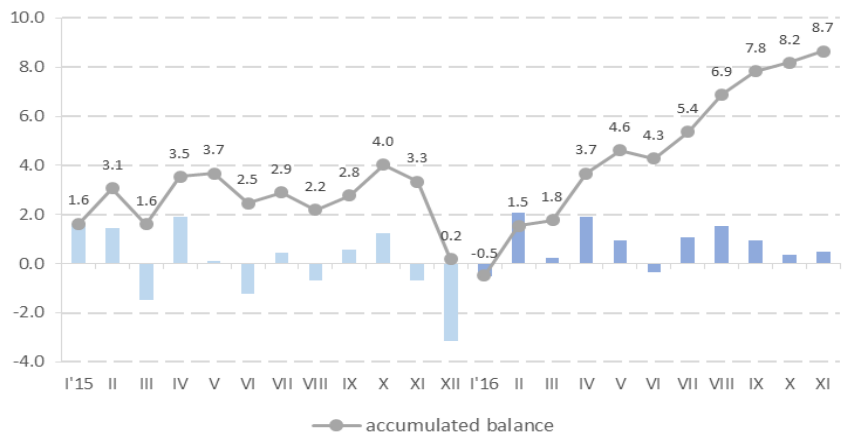
In the period of I-XI 2016 there was a decrease of PLN 0.4bn in debt held by insurance companies. During the same period of 2015 there was a decrease of PLN 1.3bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

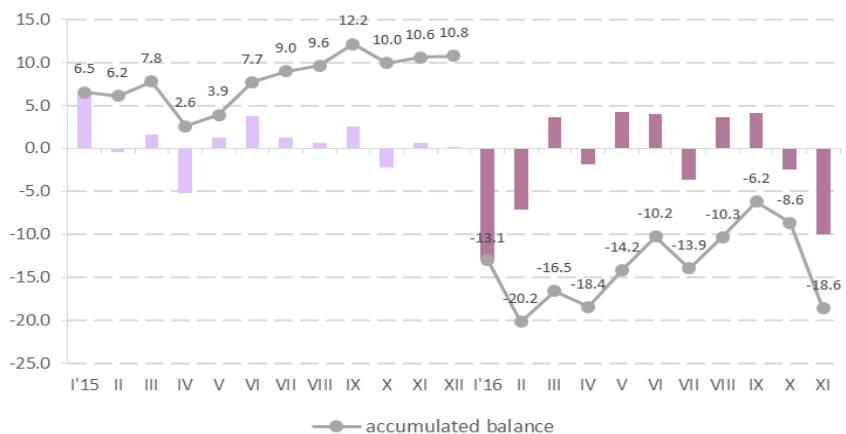
In the period of I-XI 2016 there was an increase of PLN 8.7bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 3.3bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-XI 2016 outflow of foreign capital from the domestic TS market amounted to PLN 18.6bn comparing to inflow of PLN 10.6bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 188.1bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

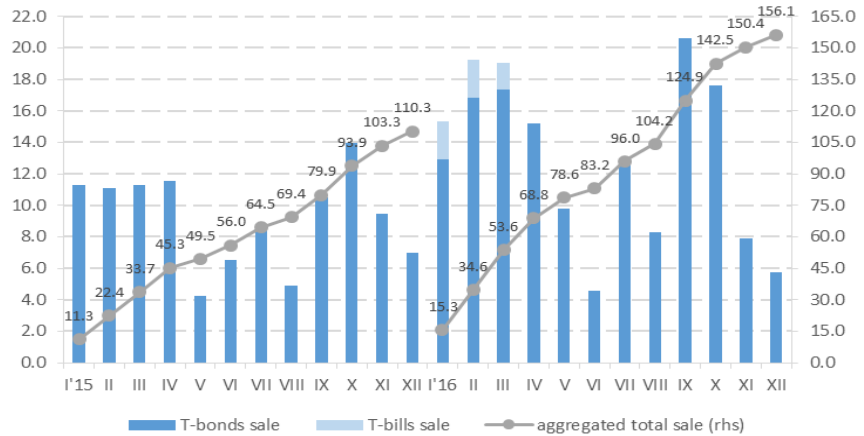


Sale of T-bonds and T-bills in 2015 and 2016

auction date, nominal amount, PLN bn

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

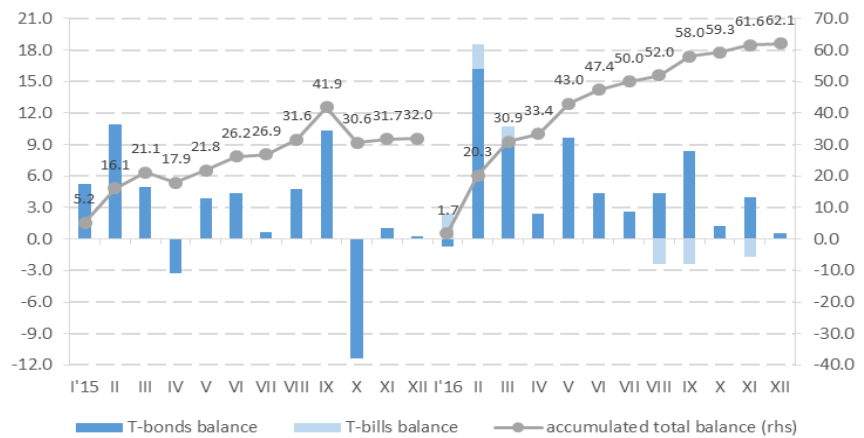
- T-bonds amounted to PLN 149.6bn versus PLN 110.3bn in the same period of 2015,
- T-bills amounted to PLN 6.5bn (since April 2013 to December 2015 T-bills were not offered).



Balance of T-bonds and T-bills in 2015 and 2016

auction date, nominal amount, PLN bn

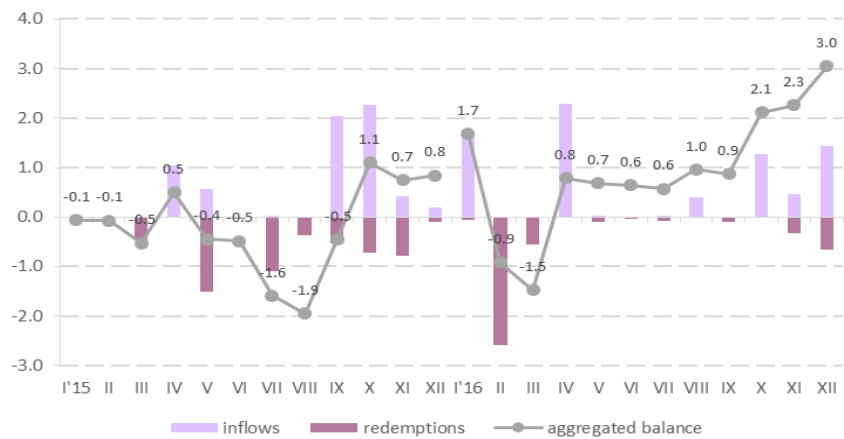
In the period of I-XII 2016 indebtedness in T-bonds increased by PLN 62.1bn.



External financing in 2015 and 2016

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

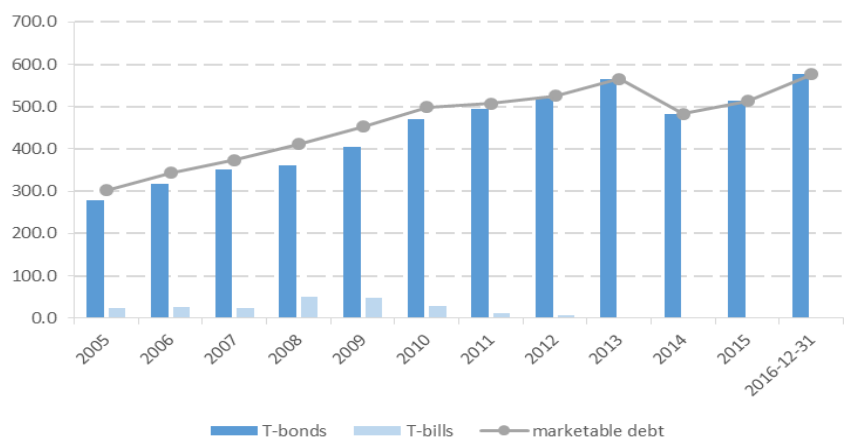
Net financing on foreign markets in the period of I-XII 2016 was positive and amounted to EUR 3.0bn, which resulted from positive balance of T-bonds issuance of EUR 3.2bn and negative balance of loans incurred from IFIs at the level of EUR 0.2bn.



Structure of marketable debt

PLN bn

At the end of December 2016 the marketable domestic debt amounted to PLN 576.8bn comparing to PLN 513.4bn at the end of 2015.



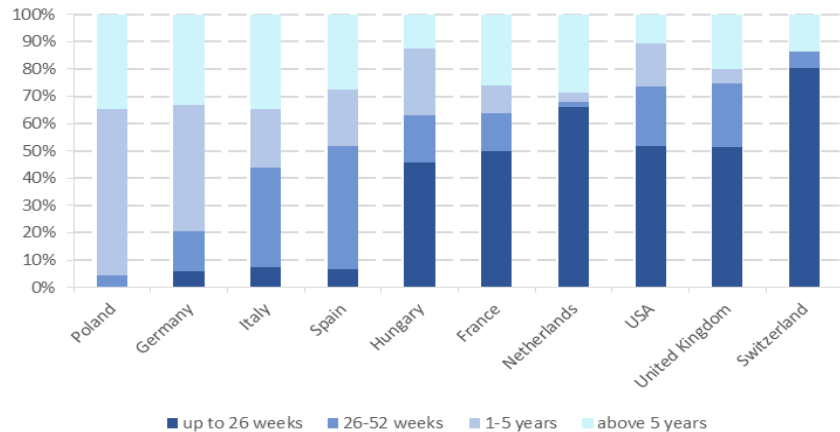


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

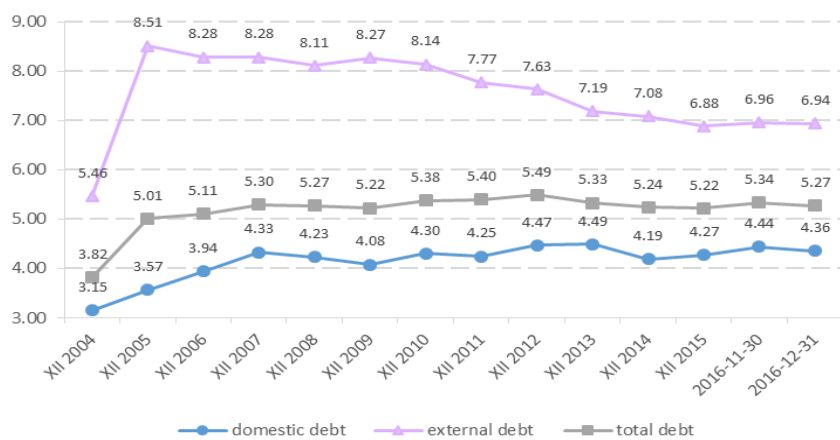
auctions and syndicates, local currency, ytd in the period of January 1 - December 31, 2016

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



Average maturity

At the end of December 2016 the average maturity of domestic debt amounted to 4.36 (while at the end of 2015 it was 4.27). The average of total debt amounted to 5.27 (5.22 at the end of 2015).

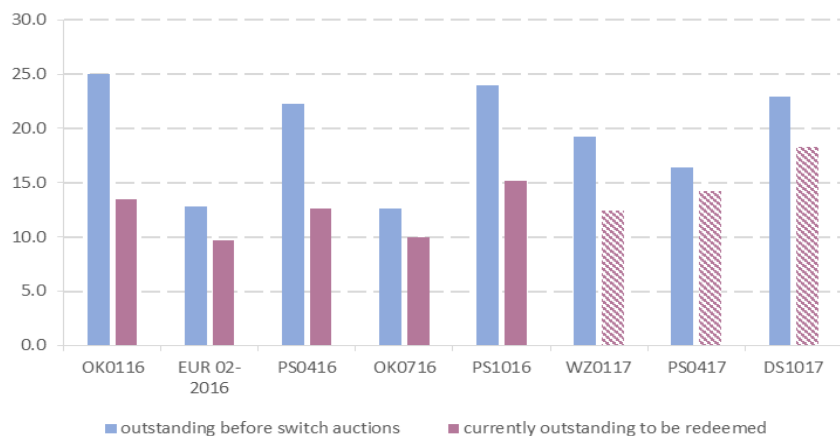


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2016 and 2017

as of December 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 6.8bn (35%),
- PS0417: PLN 2.2bn (13%),
- DS1017: PLN 4.6bn (20%).

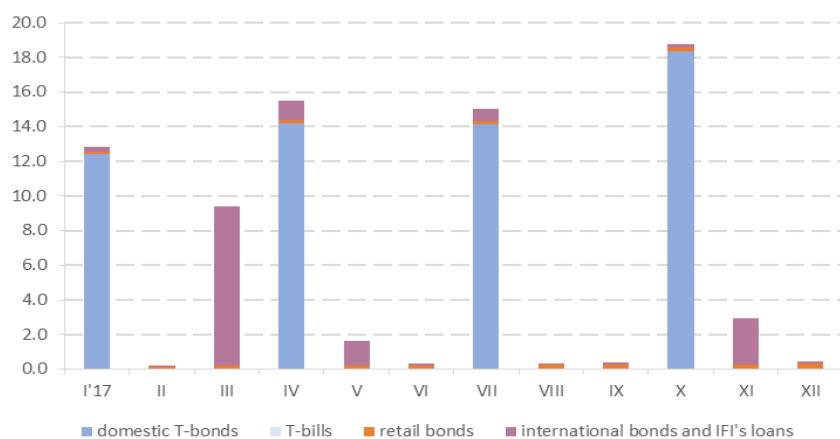


State Treasury debt redemptions in 2017

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

The nominal amount of debt to be redeemed in 2017 is equal to PLN 77.8bn, including:

- T-bonds: PLN 59.0bn,
- T-retail bonds: PLN 2.6bn,
- bonds and loans incurred on foreign markets: PLN 16.1bn.

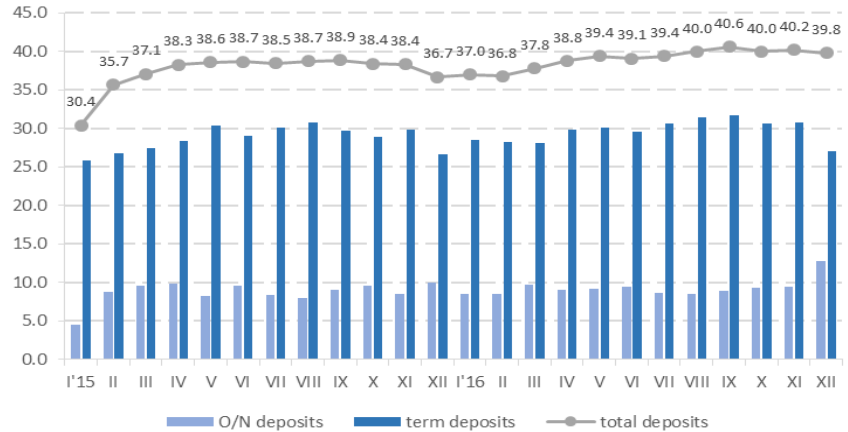




Consolidation of public finances liquidity management

PLN bn

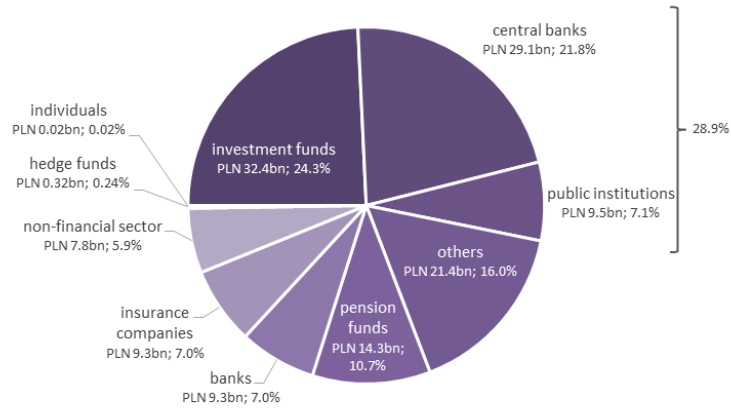
As a result of consolidation of public finances liquidity management there were PLN 39.8bn funds accumulated at the end of December, of which PLN 27.0bn was as term deposits and PLN 12.8bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

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

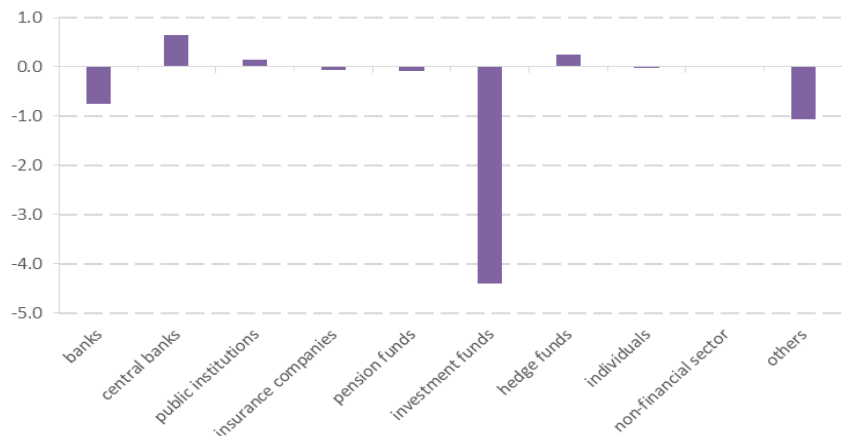
In November 2016 the share of non-residents in the domestic Treasury securities market decreased by PLN 10.0bn. The foreign investors' portfolio amounted to PLN 188.1bn which constituted 32.8% share in total debt in marketable Treasury securities (34.7% in the previous month). As of the end of November 2016 central banks and public institutions' share in foreign holdings amounted to 28.9%.



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

change in November 2016, mom, PLN bn

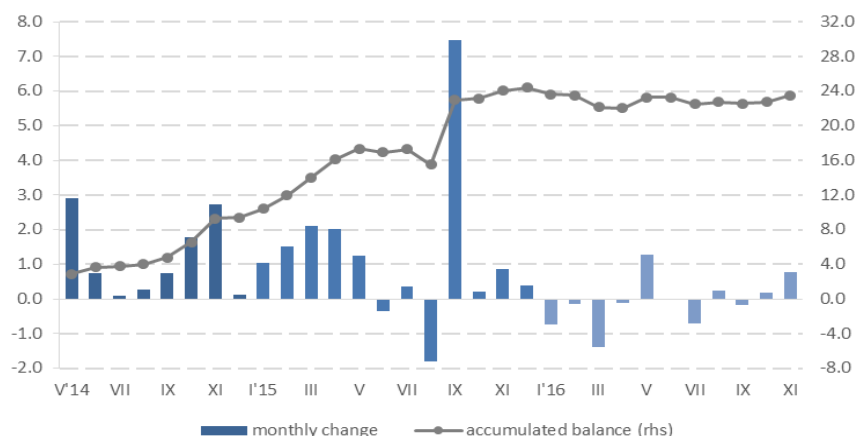
In November 2016 the highest decrease was noted by investment funds (PLN 4.4bn), while the highest increase was recorded by central banks (PLN 0.6bn).



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

change in November 2016, PLN bn

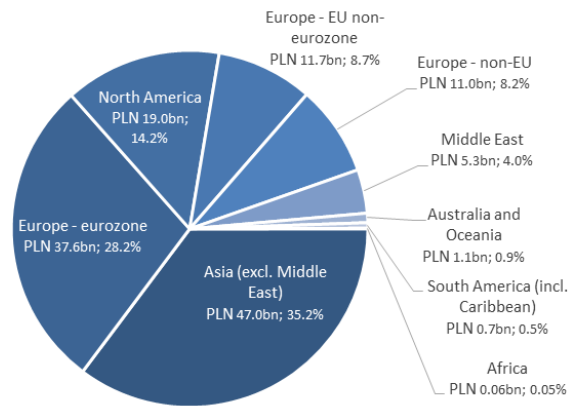
In November 2016 central banks and public institutions' involvement in the Polish debt market increased by PLN 0.8bn. Since the end of April 2014 to the end of November 2016, when the detailed information is available, portfolios of those entities increased by PLN 23.5bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of November 30, 2016, excluding omnibus accounts

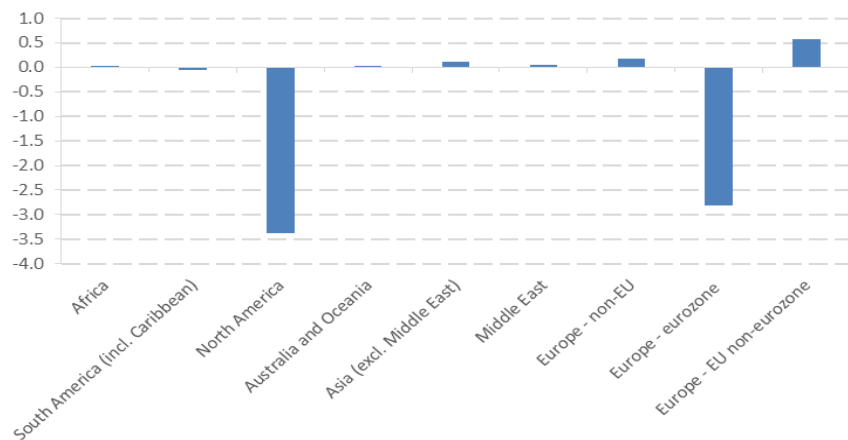
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in November 2016, mom, PLN bn

In November 2016 the highest changes were recorded by investors from North America (decrease of PLN 3.4bn) and the euro area (decrease of PLN 2.8bn).



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

as of November 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	18 383.1	17.6%
Japan	18 301.4	17.5%
Luxembourg	15 689.9	15.0%
Norway	9 078.4	8.7%
United Kingdom	6 982.1	6.7%
Ireland	6 671.0	6.4%
Germany	5 684.0	5.4%
Netherlands	4 923.9	4.7%
Denmark	3 500.9	3.4%
Austria	2 834.3	2.7%
United Arab Emirates	2 169.4	2.1%
Switzerland	1 652.3	1.6%
Others	8 488.1	8.1%
Total	104 358.8	100.0%



MoF comment

Piotr Nowak, Undersecretary of State, MoF

29-12-2016

The TS supply for January was determined in line with the new model, consulted with investors and announced on December 22nd, 2016. At both auctions planned for January 5th and 23rd we will offer a wide range of bonds, comprising three tenors of the fixed-interest T-bonds (from 2 to 10 years) and two floaters, which, if an interest from investors arises, may be supplemented at the second auction by T-bonds of WS or IZ type. The supply for the second auction takes into account the redemption of WZ0117 series and interest payments in the total amount of PLN 13.7bn. The final sale structure will be based on objectives of the debt management strategy and demand for particular bonds. We assume that the sale of a particular bond on the auction will be limited to 50% of the upper value of the offer range.

We hope that the new policy of determining the structure of the T-bonds offer will help to decrease the secondary market volatility, especially in the periods before the auctions, as well as to limit the risk of the mismatch between the offer on the auction and current market sentiment. After the 1st quarter we will review the new model and, if needed, we will introduce some modifications.

As announced, we are planning to hold T-bills auctions after a one-year break. At two auctions planned for January we will offer T-bills maturing in August. T-bills auctions, as a rule, will be held on Mondays and detailed information will be included in the monthly Treasury securities supply plans. The proceeds from T-bills sale will supplement the liquid funds reserve in a period of excessive borrowing needs, therefore mainly in the first months of 2017. Depending on the budget and market conditions we consider regular issuances of T-bills of standard maturities (e.g. of 26- or 52-week).

In the 1st quarter of 2017 issuances on foreign markets are possible, both public and as a private placements.

In November foreign investors decreased their portfolios of PLN denominated Treasury securities which resulted from the situation on the international markets after the US presidential elections. The non-residents' involvement decreased by PLN 10bn in total, of which PLN 5.5bn constituted investors from the US and Luxembourg, mainly investment funds, and the remaining PLN 4.6bn was connected to omnibus accounts. At the same time foreign central banks and public institutions increased their portfolios by PLN 0.8bn in total. In December we are observing substantial inflows from foreign investors.



IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q1 2017

General assumptions

- in the first quarter of 2017 T-bond auctions are planned according to the announced yearly issuance calendar and new rules concerning the policy of determining the structure of the offer on the auctions announced on December 22th, 2016,
- offer of T-bonds on the domestic market will depend on the market situation and the consultations with investors,
- auctions of Treasury bills will be held within the confines of the State budget liquidity management,
- foreign financing will be determined by the situation on the international financial market and the domestic market,
- the announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

- **sale auctions:**
five or six auctions, total supply PLN 25.0-38.0bn, the structure of the sold T-bonds will be subject to the market situation,
- **switch auctions:**
in January and February auctions are not planned, possible auction in March (subject to the market situation) – securities offered to repurchase would be T-bonds maturing in 2017.

Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

Foreign financing

- possible issuance of bonds on the international markets,
- possible loans from International Financial Institutions up to EUR 0.1bn,
- possible private placement issuance.

V. SUPPLY PLAN OF TREASURY SECURITIES IN JANUARY 2017



T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
5 JAN 2017	10 JAN 2017	OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727	3,000-5,000*
23 JAN 2017	25 JAN 2017	OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 / possible T-bond of WS or IZ type	5,000-10,000**

* At the auction on January 5th, 2017 the Ministry of Finance sold T-bonds at the level of PLN 6.0bn (including PLN 1.0bn sold at the non-competitive auction), of which: OK0419 - PLN 1.0bn, PS0422 - PLN 1.6bn, DS0727 - PLN 1.5bn, WZ1122 - PLN 1.1bn and WZ0126 - PLN 0.8bn.

** 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

Auction date	Settlement date	T-bill	Maturity date	Planned offer (PLN m)
9 JAN 2017	11 JAN 2017	33-week	30 AUG 2017	1,000-2,000
16 JAN 2017	18 JAN 2017	32-week	30 AUG 2017	1,000-2,000

The Minister of Finance is entitled to organize non-competitive auctions where T-bills will be sold at a minimum price of bids accepted at the sale auction.

Offer on the retail market

T-bond	Issue price	Coupon
DOS0119	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.00%
TOZ0120	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI0121	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO0127	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS0123	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD0129	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period