

State budget borrowing requirements' financing plan and its background

February 2017

THE MOST IMPORTANT INFORMATION

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I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

According to the preliminary data real GDP growth amounted to 2.8% in 2016, following 3.9% growth a year earlier. The final consumption expenditure of households increased by 3.6%, which was the highest pace of growth since 2008. Gross fixed capital formation decreased by 5.5%. 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+". On the other hand 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 2016 domestic demand was the main source of GDP growth mainly due to the final consumption expenditure of households and, to a lesser extent, inventories with a contribution of 2.1 pp and about 1.0 pp, respectively. The net exports contribution was also slightly positive (0.1 pp vs 0.6 pp in 2015). Gross fixed capital formation had negative contribution to GDP growth in 2016 (1.1 pp).

Polish gross external debt position

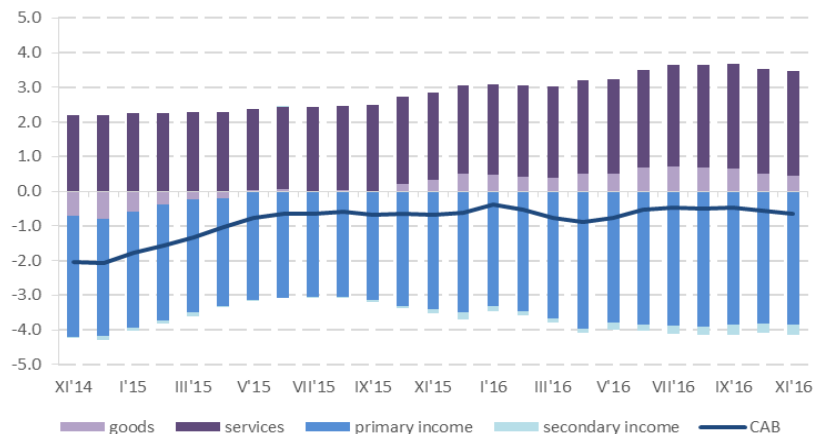
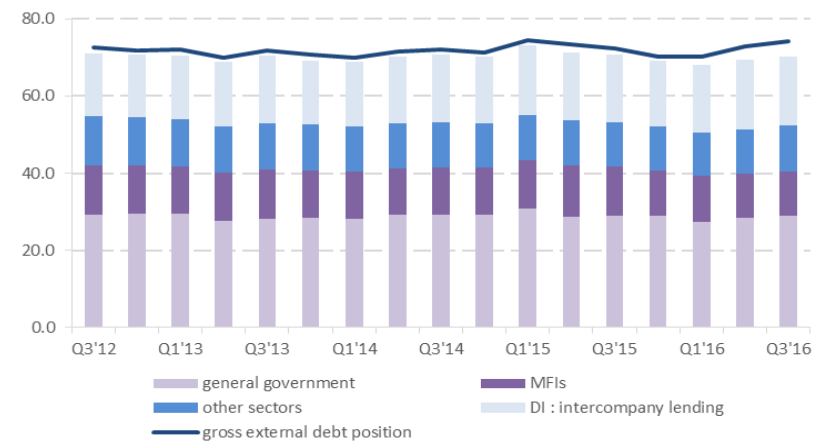
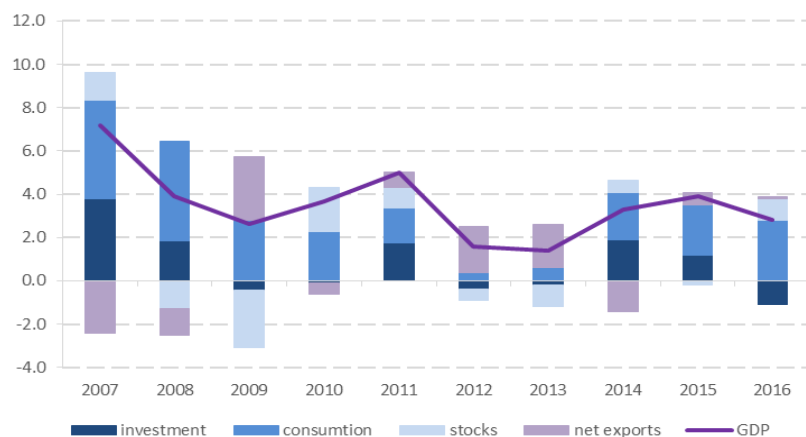
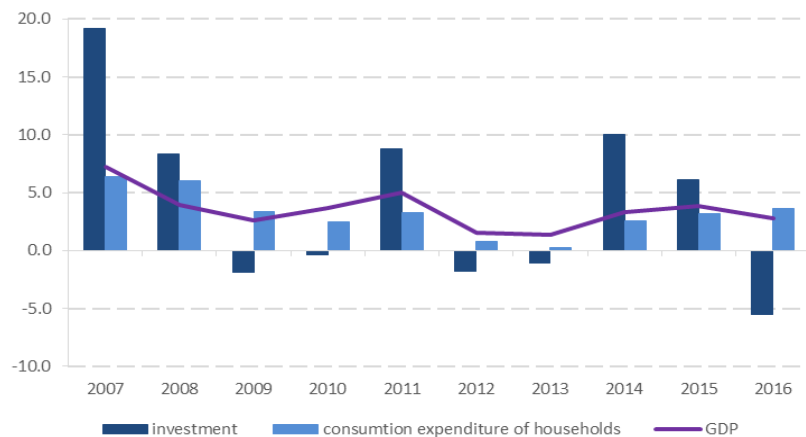
percent of GDP
source: NBP, GUS, MoF own calculation

Gross external debt reached EUR 315.1bn (74.2% of GDP) at the end of the third quarter of 2016 and was EUR 4.9bn higher than in the previous quarter. The share of general government sector debt in total debt increased slightly to 39.1%. Official reserve assets reached EUR 108.1bn at the end of December 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

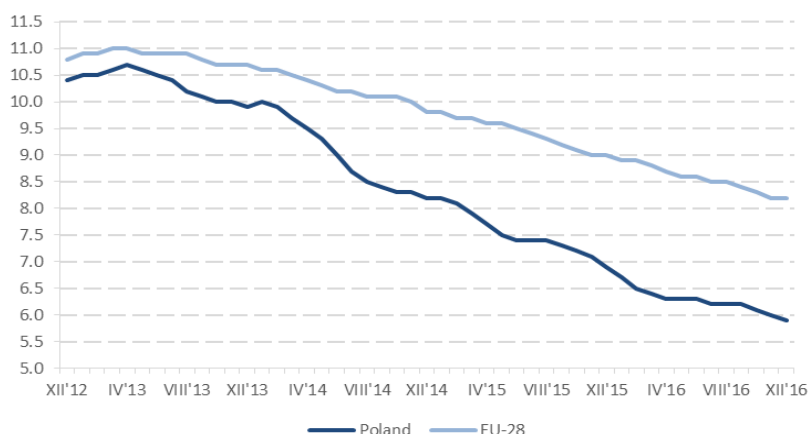
In November 2016, according to the preliminary data, C/A deficit increased to 0.7% of GDP (in 12-month terms of GDP). Data was slightly worse than market expectations. C/A deficit was, with a wide margin, covered by long-term capital, i.e. inflow of direct investments of non-residents and, to a lesser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



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In December 2016 it amounted to 5.9% (versus 8.2% in EU on average) and it was 0.1 pp lower than a month before and 1.0 pp lower than a year earlier. In December 2016 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



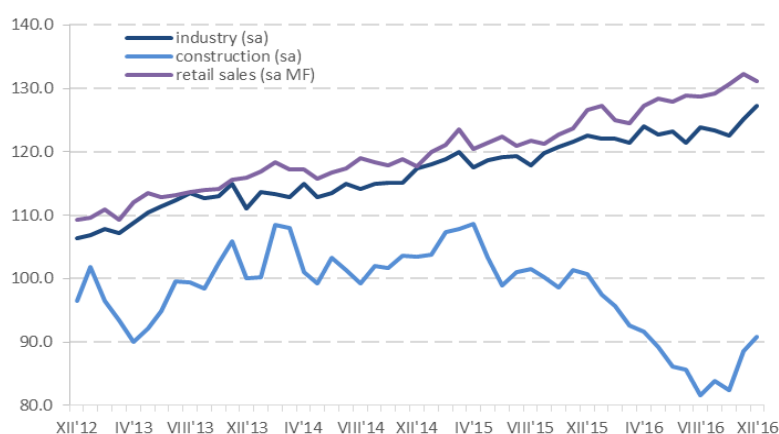
Monthly indicators of the real sector

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

In December 2016 industrial output went up by 1.6% (mom, sa). As a result, production was 2.3% higher than a year ago (nsa). Data was better than market expectations.

In December 2016 construction production expanded by 2.5% following significant improvement in the previous month (mom, sa). As a result its level was 8% (nsa) lower than a year before. Data was above expectations.

In December 2016 real retail sales declined by 0.8% (mom, sa MoF) after increases in the previous three months. Its level was 6.1% (nsa) higher than in the same month of 2015. Data met market expectations.



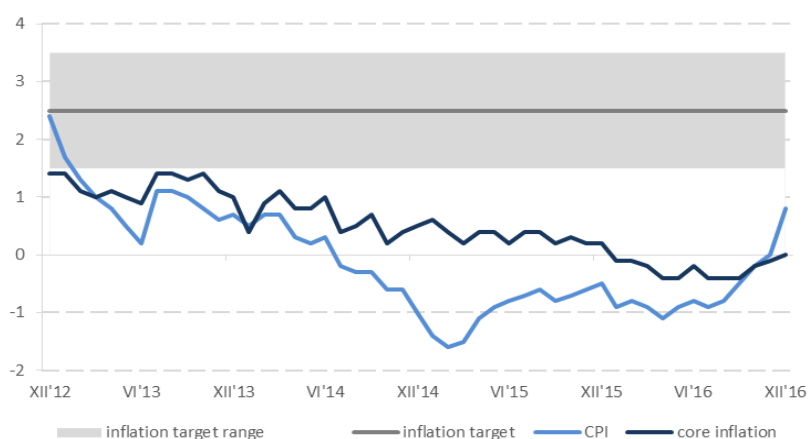
Inflation

percent, yoy
source: GUS, NBP

Since 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 last year level (0.0% yoy) and in December increased to 0.8%. Data was higher than market expectations.

Since the beginning of 2016 core inflation (CPI excluding food and energy prices) has remained below zero and in December it amounted to 0.0% (yoy).

After almost 4 years of deflation in producer prices, since September 2016 these prices have been higher than a year before (in December by 3.0%).

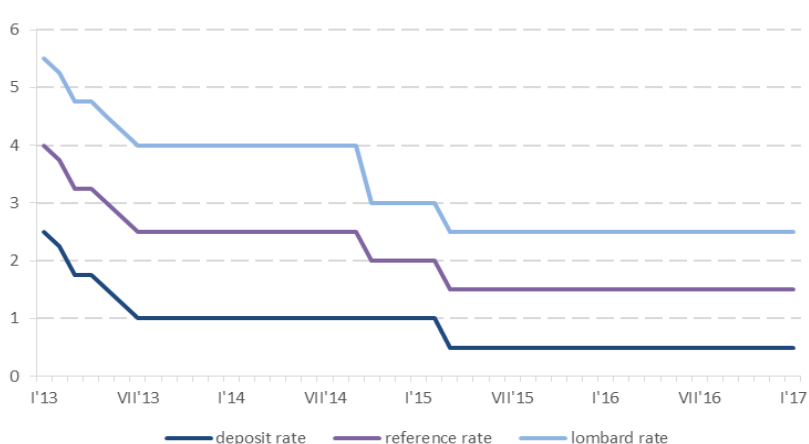


NBP interest rates

percent, end of period
source: NBP

In January 2017 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 (January, 9th) sees no NBP rate move till the end of 2017.



II. STATISTICAL DATA

	Unit	2011	2012	2013	2014	2015	2016
GDP¹⁾							
Gross domestic product	YoY	5.0	1.6	1.4	3.3	3.9	2.8
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the households sector	YoY	3.3	0.8	0.3	2.6	3.2	3.6
	QoQ SA	-	-	-	-	-	-
Final consumption expenditure of the general government sector	YoY	-1.8	-0.3	2.5	4.1	2.3	-
	QoQ SA	-	-	-	-	-	-
Gross fixed capital formation	YoY	8.8	-1.8	-1.1	10.0	6.1	-5.5
	QoQ SA	-	-	-	-	-	-
Exports of goods and services	YoY	7.9	4.6	6.1	6.7	7.7	-
	QoQ SA	-	-	-	-	-	-
Imports of goods and services	YoY	5.8	-0.3	1.7	10.0	6.6	-
	QoQ SA	-	-	-	-	-	-
Gross value added	YoY	5.0	1.7	1.5	3.3	3.8	2.7
	QoQ SA	-	-	-	-	-	-
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	2.0	0.5	0.2	1.5	1.9	2.1
Final consumption expenditure of the general government sector	pp.	-0.3	-0.1	0.5	0.7	0.4	-
Gross fixed capital formation	pp.	1.8	-0.4	-0.2	1.9	1.2	-1.1
Changes in inventories	pp.	0.9	-0.5	-1.0	0.5	-0.2	1.0
Balance of trade turnover	pp.	0.7	2.1	1.9	-1.3	0.6	0.1
Gross value added	pp.	4.4	1.5	1.3	2.9	3.3	2.3
Taxes less subsidies	pp.	0.6	0.1	0.1	0.4	0.6	0.5
GDP structure							
Final consumption expenditure of the households sector	% of GDP	60.5	60.6	60.1	59.3	57.7	-
Final consumption expenditure of the general government sector	% of GDP	18.1	17.9	18.1	18.1	18.0	-
Gross fixed capital formation	% of GDP	20.7	19.8	18.8	19.7	20.1	-
Changes in inventories	% of GDP	1.7	1.2	0.2	0.6	0.4	-
Exports of goods and services	% of GDP	42.6	44.4	46.3	47.6	49.6	-
Imports of goods and services	% of GDP	44.5	44.9	44.4	46.1	46.5	-
Balance of payments							
	Unit	2016					
		M07	M08	M09	M10	M11	M12
Goods: exports (EUR)	YoY	-5.2	9.2	2.7	-2.3	4.6	-
Goods: imports (EUR)	YoY	-6.9	10.8	3.1	2.1	6.4	-
Current account balance ²⁾	% of GDP	-0.5	-0.5	-0.5	-0.5	-0.7	-
Balance on goods ²⁾	% of GDP	0.7	0.7	0.7	0.5	0.4	-
Official Reserve Assets	EUR mln	98 242.2	98 717.5	100 078.0	103 157.6	104 192.5	108 063.9
Inflation							
Consumer Price Index (CPI)	YoY	-0.9	-0.8	-0.5	-0.2	0.0	0.8
Core inflation (CPI excluding food and energy prices)	YoY	-0.4	-0.4	-0.4	-0.2	-0.1	0.0
Producer Price Index (PPI)	YoY	-0.5	-0.1	0.2	0.6	1.8	3.0
Production							
Sold production of industry ³⁾	YoY	-3.4	7.5	3.2	-1.3	3.1	2.3
	MoM SA	-1.5	2.1	-0.4	-0.7	2.2	1.6
Construction and assembly production ³⁾	YoY	-18.8	-20.5	-15.3	-20.1	-12.8	-8.0
	MoM SA	-0.6	-4.7	2.7	-1.6	7.4	2.5
Manufacturing PMI	SA	50.3	51.5	52.2	50.2	51.9	54.3
Households and labour market							
Retail sales ³⁾	YoY	4.4	7.8	6.3	4.6	7.4	6.1
Average paid employment in enterprise sector	YoY	3.2	3.1	3.2	3.1	3.1	3.1
	MoM	0.2	0.0	0.2	0.1	0.2	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.8	5.5	4.4	3.8	4.0	1.9
	MoM	1.2	-1.7	0.1	0.5	1.5	6.3
Hamorised unemployment rate (Eurostat)	% SA	6.2	6.2	6.2	6.1	6.0	5.9
<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, MoF calculation based on NBP, GUS data</small>							
State Treasury debt							
	Unit	2015					
		M06	M07	M08	M09	M10	M11
State Treasury debt (acc. to the place of issue criterion)	face value, PLN mio	898 988.8	889 350.6	899 200.8	902 709.5	910 750.4	923 339.9
Domestic debt	face value, PLN mio	592 249.3	586 844.2	596 203.1	602 632.0	603 339.4	606 188.1
	%	65.9	66.0	66.3	66.8	66.2	65.7
Foreign debt	face value, PLN mio	306 739.5	302 506.4	302 997.7	300 077.4	307 411.0	317 151.8
	%	34.1	34.0	33.7	33.2	33.8	34.3
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) Initial data
Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



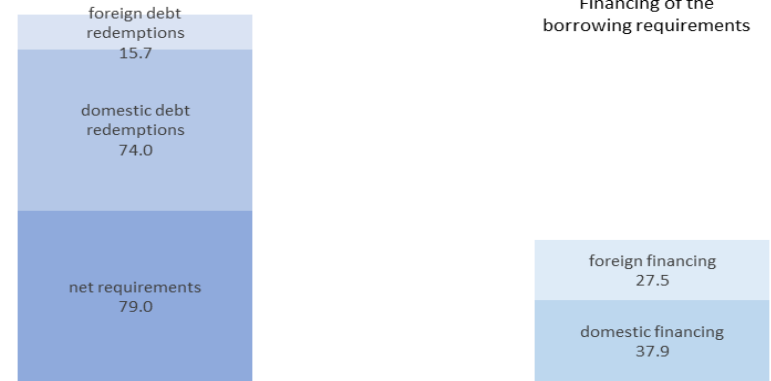
Gross borrowing requirements in 2017

The level of financing of the 2017 State budget borrowing requirements, after holding the auction on February 2nd, reached the level of 39%, 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:



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

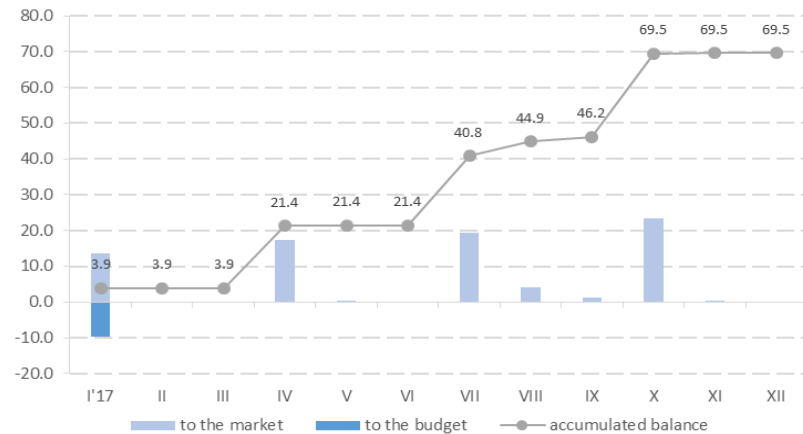
In February there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of January 31, 2017, PLN bn

As of January 31, 2017, to the end of the year the funds to be transferred to the market shall amount to PLN 65.6bn.

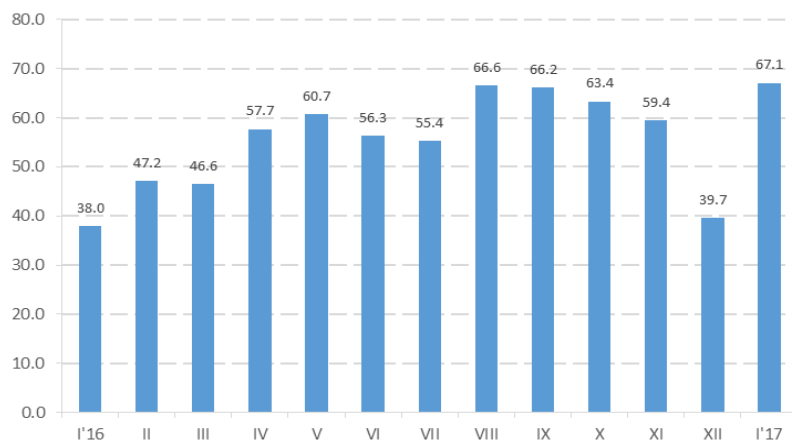
** figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.*



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.



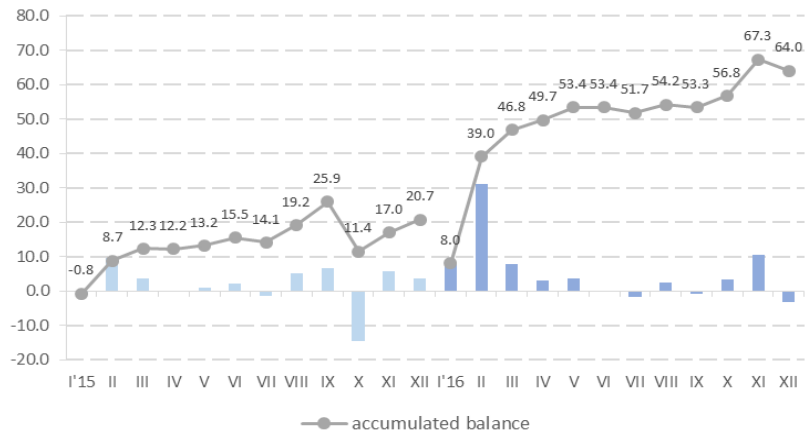


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

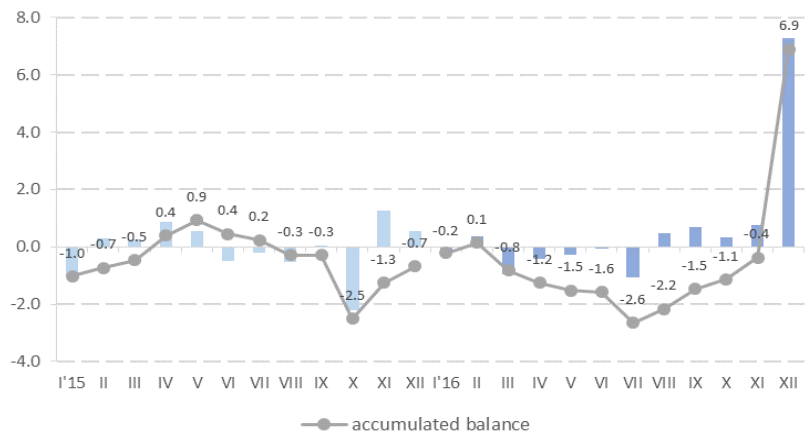
In the period of I-XII 2016 debt held by domestic banks increased by PLN 64.0bn comparing to PLN 20.7bn increase during the same period of 2015.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

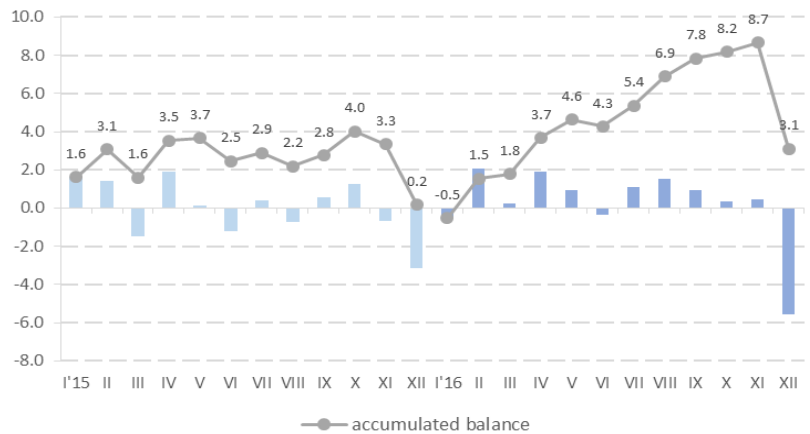
In the period of I-XII 2016 there was an increase of PLN 6.9bn in debt held by insurance companies. During the same period of 2015 there was a decrease of PLN 0.7bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

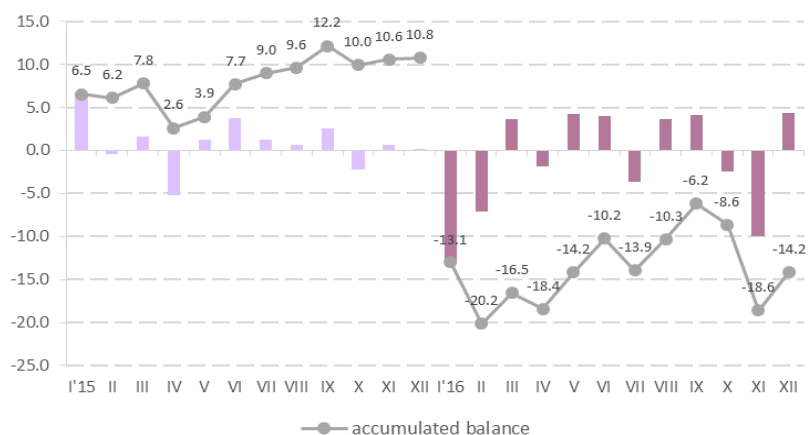
In the period of I-XII 2016 there was an increase of PLN 3.1bn in debt held by investment funds. During the same period of 2015 there was an increase of PLN 0.2bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-XII 2016 outflow of foreign capital from the domestic TS market amounted to PLN 14.2bn comparing to inflow of PLN 10.8bn in the same period of 2015. Foreign investors' holdings reached the level of PLN 192.6bn.



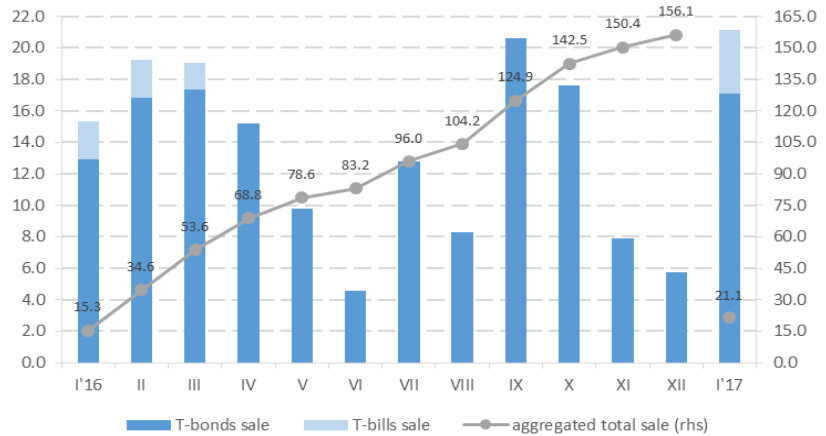
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Sale of T-bonds and T-bills in January 2017 and 2016

auction date, nominal amount, PLN bn

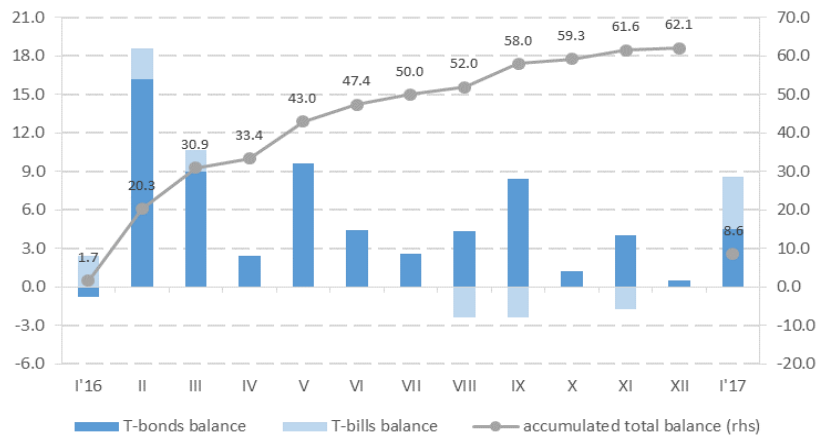
- In January 2017 aggregated total sale of:
- T-bonds amounted to PLN 17.1bn versus PLN 12.9bn in the same period of 2016,
 - T-bills amounted to PLN 4.0bn versus PLN 2.4bn in the same period of 2016.



Balance of T-bonds and T-bills in January 2017 and 2016

auction date, nominal amount, PLN bn

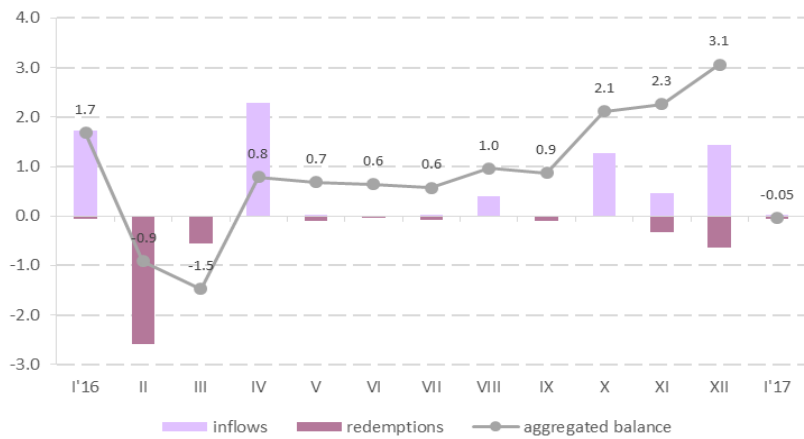
- In January 2017 indebtedness in:
- T-bonds increased by PLN 4.6bn,
 - T-bills increased by PLN 4.0bn.



External financing in January 2017 and 2016

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

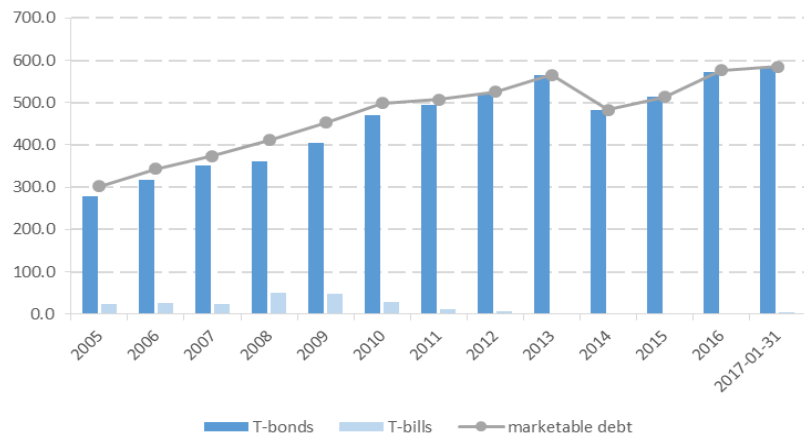
Net financing on foreign markets in January 2017 was negative and amounted to EUR 0.05bn.



Structure of marketable debt

PLN bn

At the end of January 2017 the marketable domestic debt amounted to PLN 585.0bn comparing to PLN 576.7bn at the end of 2016.



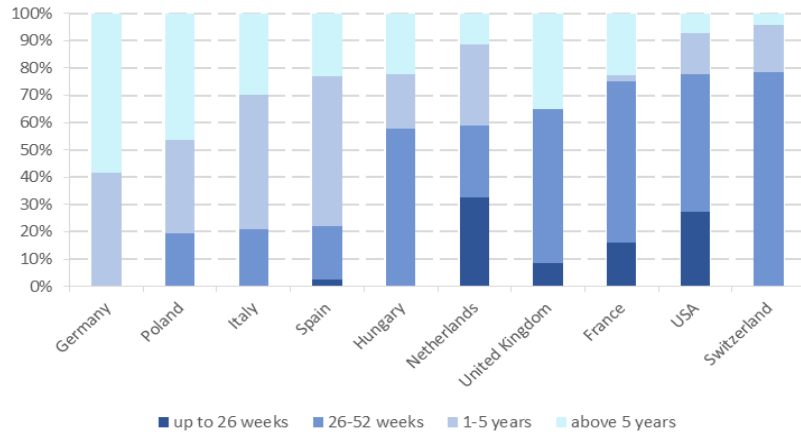


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

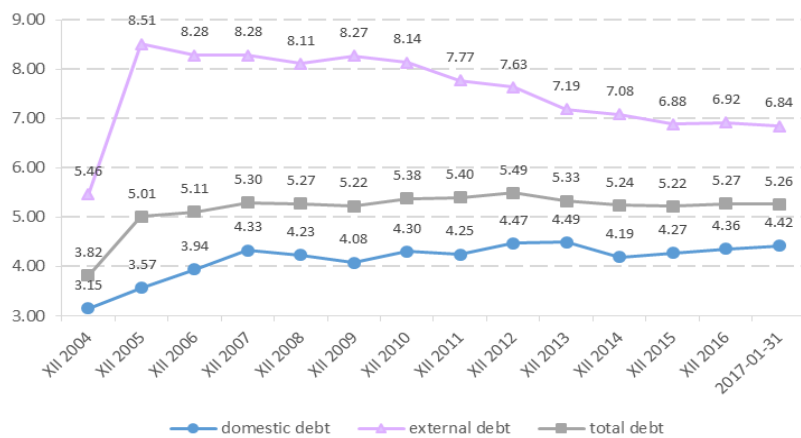
auctions and syndicates, local currency, ytd in the period of 1 - 31 January, 2017

The sale of TS in Poland in 2017 is dominated by securities maturing up to 5 years.



Average maturity

At the end of January 2017 the average maturity of domestic debt increased to 4.42 (while at the end of 2016 it was 4.36). The average of total debt amounted to 5.26 (5.27 at the end of 2016).

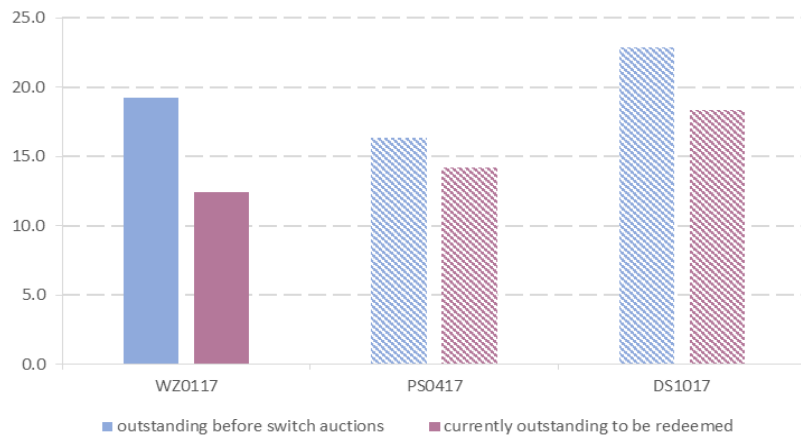


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2017

as of January 31, 2017, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2017 (by switch):

- WZ0117: PLN 6.8bn (35%),
- PS0417: PLN 2.2bn (13%),
- DS1017: PLN 4.6bn (20%).

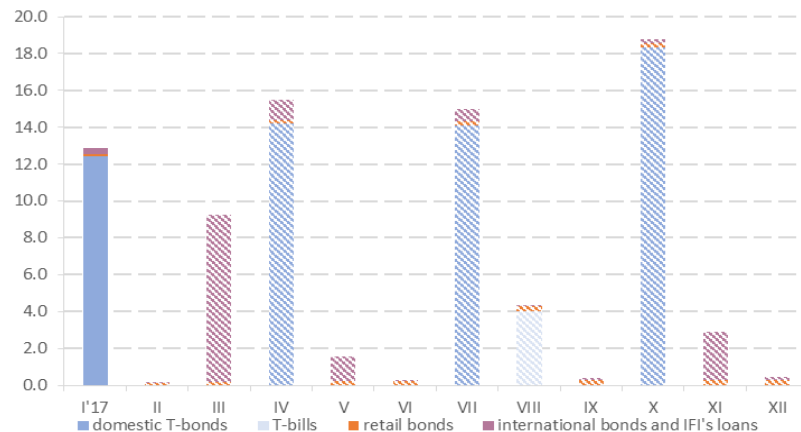


State Treasury debt redemptions in 2017

as of January 31, 2017, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2017 is equal to PLN 68.6bn, including:

- T-bonds: PLN 46.6bn,
- T-retail bonds: PLN 2.5bn,
- T-bills: PLN 4.0bn,
- bonds and loans incurred on foreign markets: PLN 15.5bn.



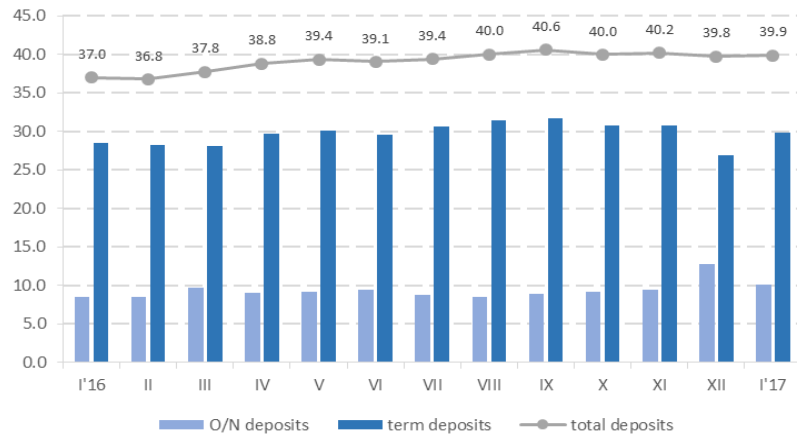
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

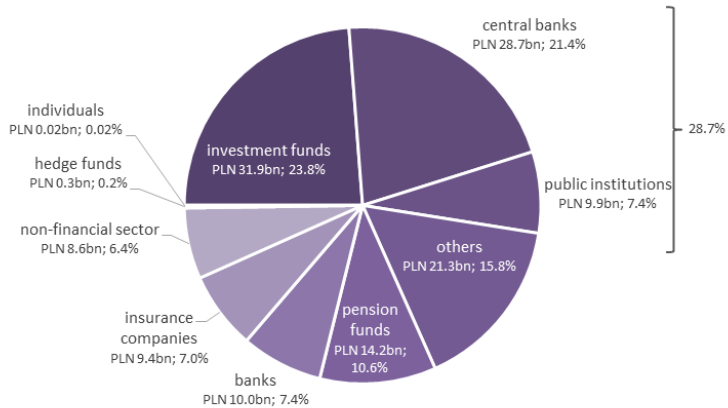
As a result of consolidation of public finances liquidity management there were PLN 39.9bn funds accumulated at the end of January, of which PLN 29.8bn was as term deposits and PLN 10.1bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

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

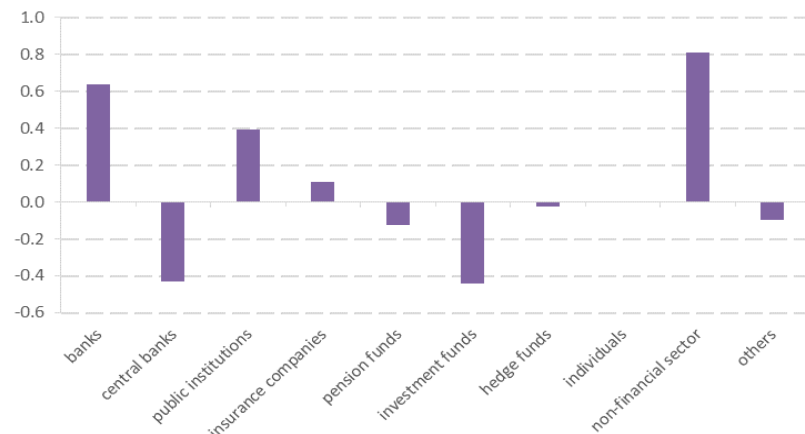
In December 2016 the share of non-residents in the domestic Treasury securities market increased by PLN 4.4bn. The foreign investors' portfolio amounted to PLN 192.6bn which constituted 32.8% share in total debt in Treasury securities (32.2% in the previous month). As of the end of December 2016 central banks and public institutions' share in foreign holdings amounted to 28.7%.



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

change in December 2016, mom, PLN bn

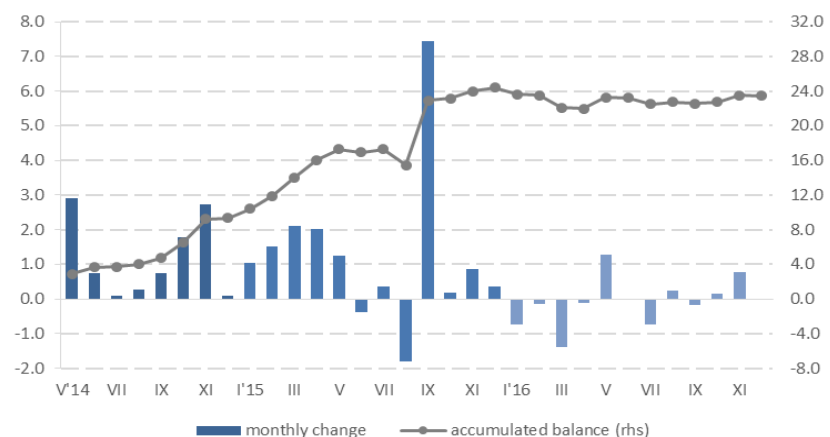
In December 2016 the highest increases were noted by entities from non-financial sector (PLN 0.8bn) and banks (PLN 0.6bn). The highest decreases were recorded by investment funds and central banks (PLN 0.4bn each).



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

change in December 2016, PLN bn

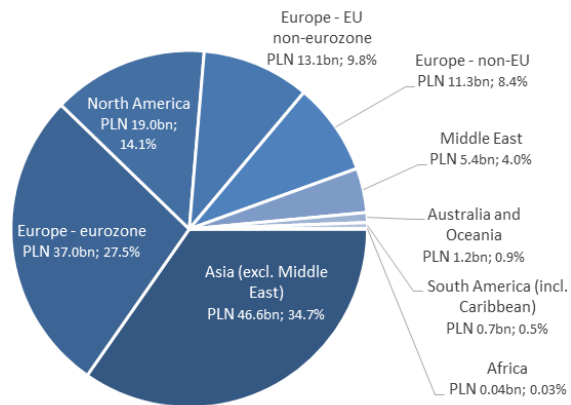
In December 2016 central banks and public institutions' involvement in the Polish debt market slightly decreased by PLN 0.04n. Since the end of April 2014 to the end of December 2016, when the detailed information is available, portfolios of those entities increased by PLN 23.5bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of December 31, 2016, excluding omnibus accounts

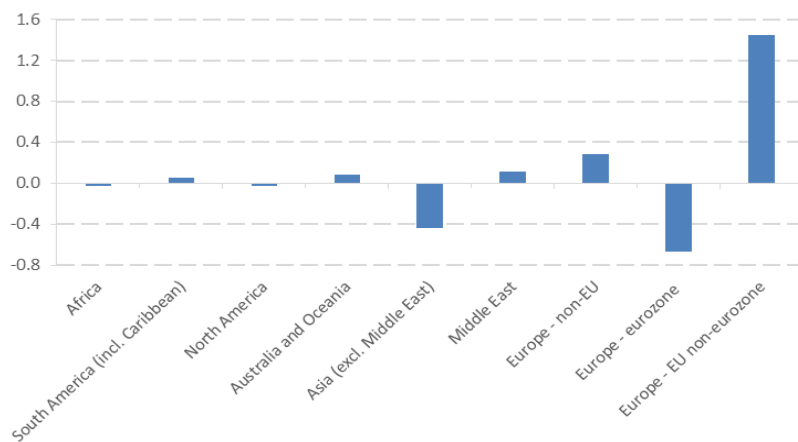
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in December 2016, mom, PLN bn

In December 2016 the highest increase was recorded by investors from EU non-eurozone countries (PLN 1.5bn). The highest decreases were noted by entities from the euro area and Asian countries (respectively, PLN 0.7bn and PLN 0.4bn).



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

as of December 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	18 355.0	17.4%
Japan	18 186.5	17.2%
Luxembourg	15 674.7	14.8%
Norway	9 471.5	9.0%
United Kingdom	8 109.5	7.7%
Ireland	6 490.6	6.1%
Germany	6 318.4	6.0%
Netherlands	4 484.0	4.2%
Denmark	3 724.2	3.5%
Austria	2 472.1	2.3%
United Arab Emirates	2 278.1	2.2%
Switzerland	1 584.1	1.5%
Australia	1 098.8	1.0%
Others	7 370.4	7.0%
Total	105 617.8	100.0%



MoF comment

Piotr Nowak, Undersecretary of State, MoF

31-01-2017

The T-bonds supply for February was determined in line with the new model, i.e. at both auctions planned for February we will offer three tenors of fixed-interest T-bonds (2, 5 and 10 years) and two floaters. The offer at the second auction may be supplemented by T-bonds of WS or IZ type. The supply in February will be significantly lower than in January. At the first auction we will offer PLN 3-5bn.

In December 2016 foreign investors increased their portfolios of PLN denominated Treasury securities by PLN 4.4bn. Thus, the debt held by foreign investors in T-bonds reached PLN 192.6bn at the end of 2016. In the whole year the non-residents' involvement decreased by PLN 14.2bn which was mainly the result of reduction of the debt securities portfolio of the shortest maturities (up to 1 year – decrease of PLN 24.0bn and for T-bonds of 1-3 years – decrease of PLN 7.3bn). In case of T-bonds with maturity above 3 years an inflow of PLN 17.1bn was recorded. In January we are observing inflow of foreign capital to the market, concentrated in medium- and long-term securities.

FitchRatings' comment

FitchRatings: Fitch Affirms Poland at 'A-'; Outlook Stable

13-01-2017

Poland's 'A-' ratings are supported by its solid macro fundamentals, including a healthy banking system and sound monetary framework.

(...) Fitch expects GDP growth will accelerate to 3.0% in 2017 and 3.2% in 2018 from 2.7% in 2016. Demand will benefit from acceleration in EU funds' disbursements, the fall in the unemployment rate (5.7% in October 2016 from 7.4% a year ago) and the ramp up in family 500+ social transfers.

The agency expects the government deficit will be 3.0% of GDP in 2017, up from an estimated 2.5% in 2016. (...) Fitch's forecasts assume the 3% of GDP EU deficit criterion will remain a strong fiscal anchor.

(...) According to Fitch's debt dynamics analysis, government debt should peak at 54.6% of GDP in 2017 from an estimated 53% in 2016 and stabilise close to that level.

(...) Fitch expects the current account to have improved slightly, to -0.4% of GDP in 2016 from -0.6% in 2015 and -2.1% in 2014. This reflects primarily a stronger trade balance (based on data for the first three quarters of 2016). (...) Improved capital inflows from EU funds should support a gradual decline in net external debt, to 28.6% of GDP by 2018 from 31.4% in 2016.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN FEBRUARY 2017

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
2 FEB 2017	6 FEB 2017	OK0419 / PS0422 / WZ1122/ WZ0126 / DS0727	3,000-5,000*
16 FEB 2017	20 FEB 2017	OK0419 / PS0422 / WZ1122/ WZ0126 / DS0727 / possible T-bond of WS or IZ type	3,000-7,000**

* At the auction on February 2nd, 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 0.5bn, PS0422 - PLN 1.6bn, WZ1122 - PLN 1.3bn, WZ0126 - PLN 0.4bn and DS0727 - PLN 2.2bn.

** 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)
6 FEB 2017	8 FEB 2017	29-week	30 AUG 2017	1,000-2,000
20 FEB 2017	22 FEB 2017	27-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
DOS0219	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.10%
TOZ0220	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI0221	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO0227	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS0223	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD0229	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period