

State budget borrowing requirements' financing plan and its background

March 2017

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
IV. Monthly supply plan of Treasury securities	12



I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

In the fourth quarter of 2016 growth of economic activity in Poland accelerated. GDP went up by 1.7% (qoq, sa) following an increase of 0.4% in the third quarter of 2016. Exports and imports rebounded after a relatively weaker previous quarter. On the other hand, the pace of growth of households consumption was lower and investments decreased for the fifth time in a row, however at a lower pace. Increase in private consumption 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 fourth quarter of 2016 GDP was 2.7% higher than a year ago as compared to 2.5% in the previous quarter. Data was in line with GUS preliminary estimation. Domestic demand was the main source of GDP growth due to households consumption (contribution of 2.1 pp), increase in inventories (1.4 pp) and public consumption (0.5 pp). Negative contribution to GDP growth came again from investments (-1.6 pp), which were 5.8% lower than a year before. Contrary to the previous quarter net exports had a positive contribution (0.3 pp as compared to -0.3 pp in the third quarter of 2016) due to higher exports than imports (in yoy terms).

Polish gross external debt position

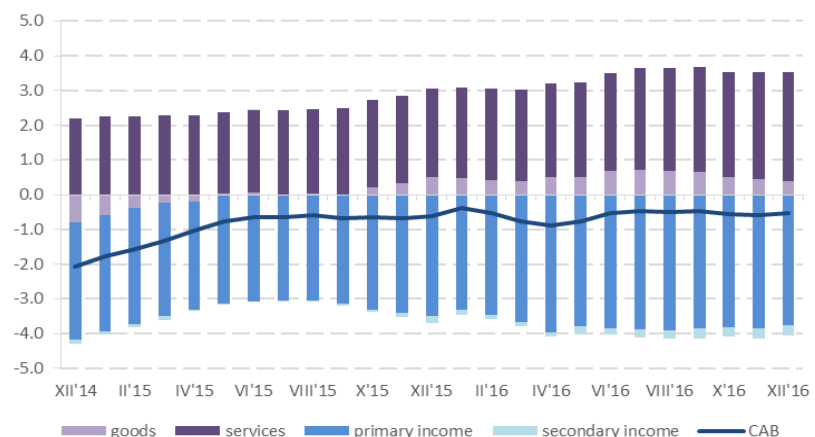
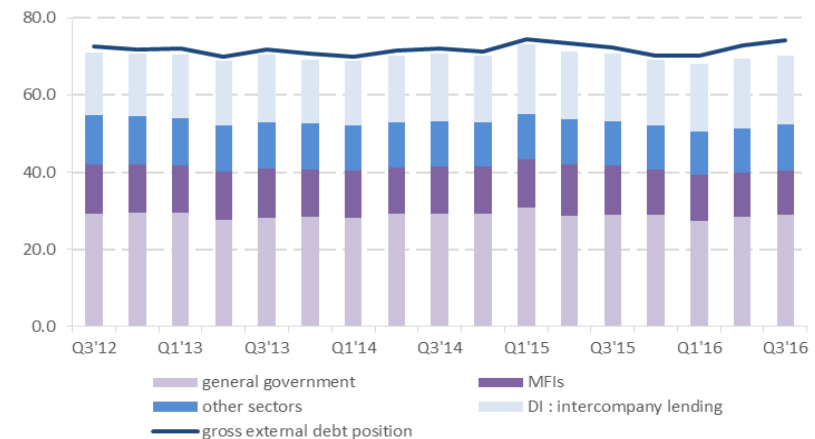
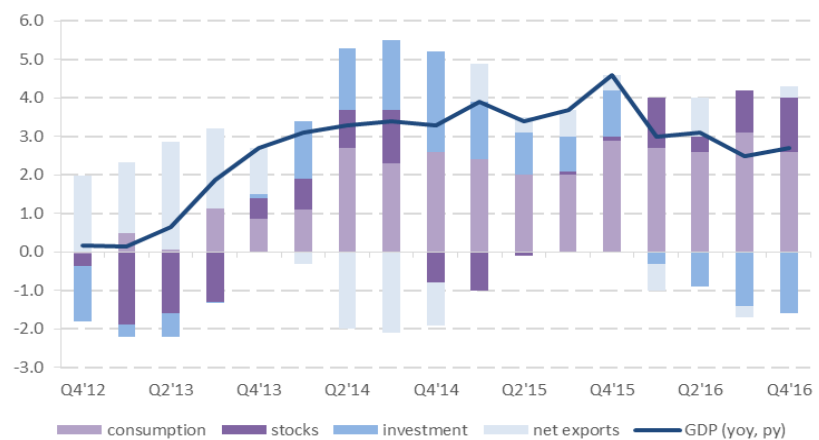
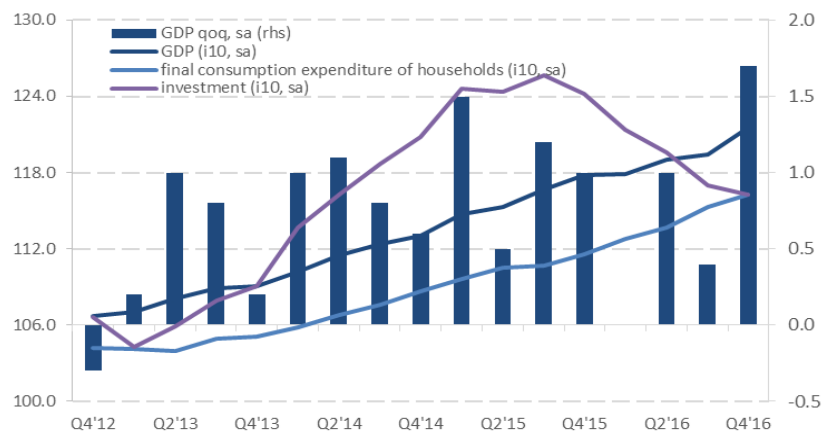
percent of GDP
source: NBP, GUS, MoF own calculation

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 106.2bn at the end of January 2017 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

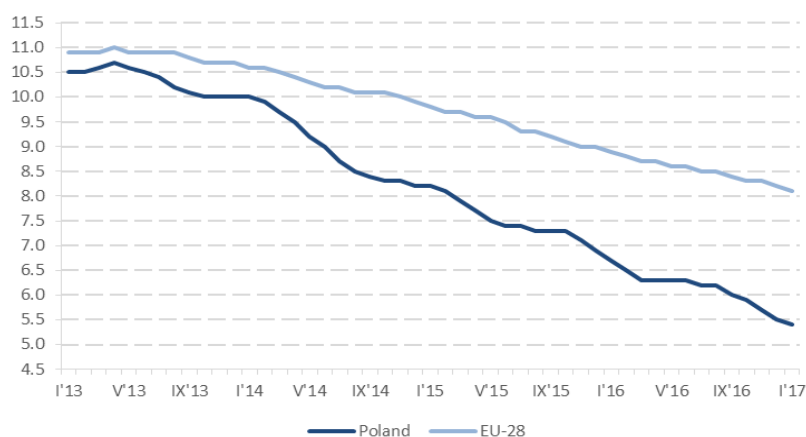
In December 2016, according to the preliminary data, C/A deficit decreased to 0.5% of GDP (in 12-month terms of GDP). Data was slightly better than market expectations. C/A deficit was with a wide margin covered by long-term capital, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on capital account.



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

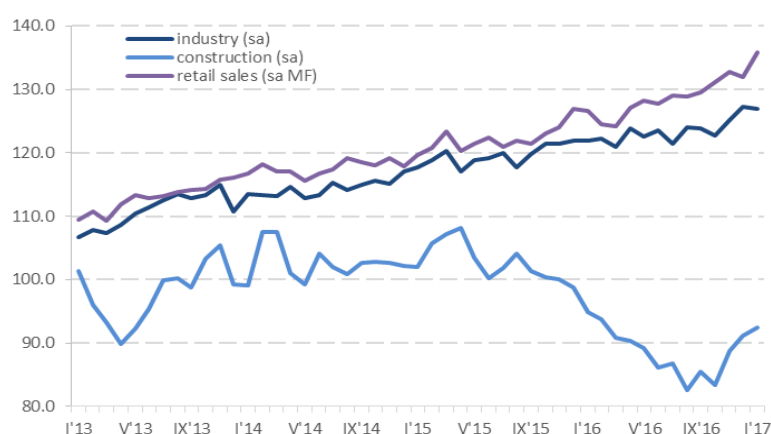
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In January 2017 it amounted to 5.4% (versus 8.1% in EU on average) and it was 0.1 pp lower than a month before and 1.3 pp lower than a year earlier. In January 2017 harmonised unemployment rate (sa) in Poland reached the historically lowest level.



Monthly indicators of the real sector

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

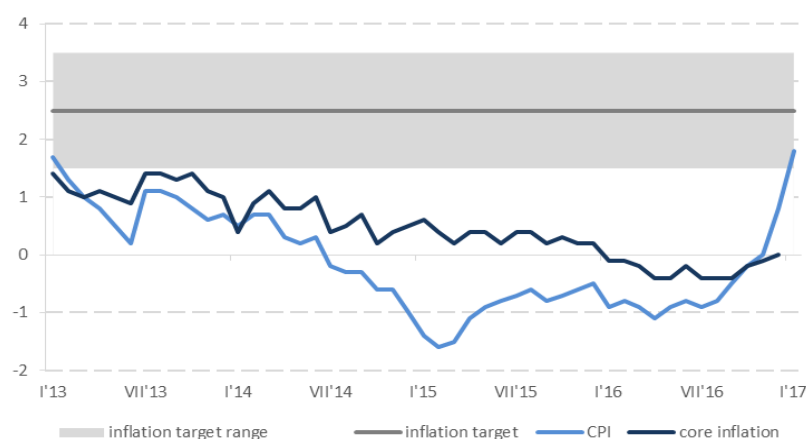
In January 2017 industrial output went down by 0.2% (mom, sa). As a result production was 9.0% higher than a year ago (nsa). Data was better than market expectations. In January 2017 construction production expanded for the third time in a row (mom, sa). As a result its level was 2.1% (nsa) higher than a year before. Data was above expectations. In January 2017 real retail sales increased by 3% (mom, sa MoF) which overcompensated the drop in the previous month. As a result its level was 9.6% (nsa) higher than in the same month of 2016. Data overshoot market expectations.



Inflation

percent, yoy
source: GUS, NBP

Since July 2014 till October 2016 there was CPI deflation mainly caused by the drop of commodity prices (energy and food). In the last three months inflation visibly accelerated and in January 2017, according to preliminary data, amounted to 1.8%. Data was higher than market expectations. Since the beginning of 2016 core inflation (CPI excluding food and energy prices) remained below zero and in December it amounted to 0.0% yoy (no January data yet). After almost 4 years of deflation in producer prices, since September 2016 these prices have been rising rapidly and in January were higher than a year before by 4.1%.

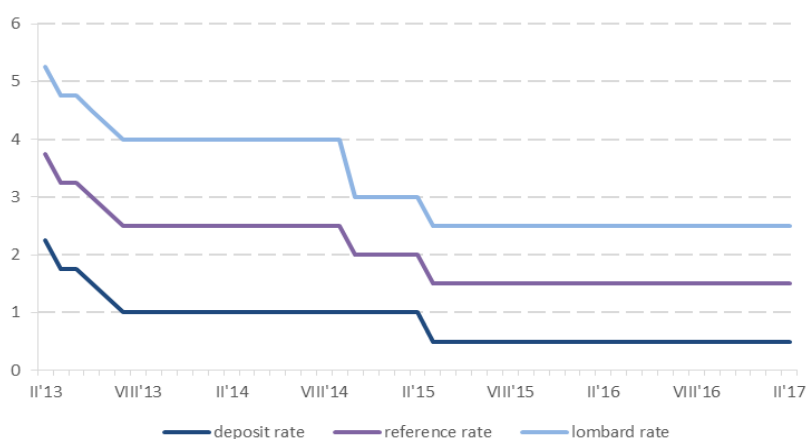


NBP interest rates

percent, end of period
source: NBP

In February 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 (March, 2nd) sees no NBP rate move till the end of 2017.





II. STATISTICAL DATA

	Unit	2015 Q03	Q04	2016 Q01	Q02	Q03	Q04
GDP¹⁾							
Gross domestic product	YoY	3.7	4.6	3.0	3.1	2.5	2.7
	QoQ SA	1.2	1.0	0.0	1.0	0.4	1.7
Final consumption expenditure of the households sector	YoY	3.3	3.1	3.2	3.3	3.9	4.2
	QoQ SA	0.2	0.8	1.0	0.8	1.4	0.8
Final consumption expenditure of the general government sector	YoY	-0.2	7.1	4.2	3.9	4.9	2.7
	QoQ SA	0.4	2.4	0.5	0.7	1.1	0.6
Gross fixed capital formation	YoY	4.7	4.5	-2.2	-5.0	-7.7	-5.8
	QoQ SA	1.0	-1.2	-2.3	-1.5	-2.2	-0.6
Exports of goods and services	YoY	6.5	9.1	6.7	11.4	6.8	8.6
	QoQ SA	3.7	2.0	1.2	3.7	0.3	2.8
Imports of goods and services	YoY	5.3	8.4	8.7	10.0	7.8	8.5
	QoQ SA	2.3	3.3	2.3	2.7	-0.1	1.9
Gross value added	YoY	3.6	4.5	2.8	2.9	2.4	2.7
	QoQ SA	1.0	0.9	0.5	0.5	0.6	1.6
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	2.0	1.6	2.0	1.9	2.3	2.1
Final consumption expenditure of the general government sector	pp.	0.0	1.3	0.7	0.7	0.8	0.5
Gross fixed capital formation	pp.	0.9	1.2	-0.3	-0.9	-1.4	-1.6
Changes in inventories	pp.	0.1	0.1	1.3	0.4	1.1	1.4
Balance of trade turnover	pp.	0.7	0.4	-0.7	1.0	-0.3	0.3
Gross value added	pp.	3.2	4.0	2.5	2.6	2.1	2.4
Taxes less subsidies	pp.	0.5	0.6	0.5	0.5	0.4	0.3
GDP structure							
Final consumption expenditure of the households sector	% of GDP	60.0	48.9	63.9	58.8	59.9	49.8
Final consumption expenditure of the general government sector	% of GDP	17.3	19.5	17.3	17.6	17.4	19.5
Gross fixed capital formation	% of GDP	19.3	27.4	13.3	16.6	17.3	25.4
Changes in inventories	% of GDP	0.8	0.5	0.8	1.0	1.9	1.9
Exports of goods and services	% of GDP	50.1	46.4	53.6	54.2	51.9	48.6
Imports of goods and services	% of GDP	48.3	43.2	49.6	49.0	49.3	45.7
	Unit	2016 M08	M09	M10	M11	M12	2017 M01
Balance of payments							
Goods: exports (EUR)	YoY	9.2	2.7	-2.3	4.7	6.7	-
Goods: imports (EUR)	YoY	10.8	3.1	2.1	6.2	9.0	-
Current account balance ²⁾	% of GDP	-0.5	-0.5	-0.5	-0.6	-0.5	-
Balance on goods ²⁾	% of GDP	0.7	0.7	0.5	0.5	0.4	-
Official Reserve Assets	EUR mln	98 717.5	100 078.0	103 157.6	104 192.5	108 063.9	106 181.5
Inflation							
Consumer Price Index (CPI)	YoY	-0.8	-0.5	-0.2	0.0	0.8	1.8
Core inflation (CPI excluding food and energy prices)	YoY	-0.4	-0.4	-0.2	-0.1	0.0	-
Producer Price Index (PPI)	YoY	-0.1	0.2	0.6	1.8	3.2	4.1
Production							
Sold production of industry ³⁾	YoY	7.5	3.2	-1.3	3.1	2.1	9.0
	MoM SA	2.1	-0.2	-0.9	2.0	1.5	-0.2
Construction and assembly production ³⁾	YoY	-20.5	-15.3	-20.1	-12.8	-8.0	2.1
	MoM SA	-4.8	3.5	-2.5	6.4	2.7	1.4
Manufacturing PMI	SA	51.5	52.2	50.2	51.9	54.3	54.8
Households and labour market							
Retail sales ³⁾	YoY	7.8	6.3	4.6	7.4	6.1	9.6
Average paid employment in enterprise sector	YoY	3.1	3.2	3.1	3.1	3.1	4.5
	MoM	0.0	0.2	0.1	0.2	0.1	2.8
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.5	4.4	3.8	4.0	1.9	2.4
	MoM	-1.7	0.1	0.5	1.5	6.3	-8.1
Harmonised unemployment rate (Eurostat)	%, SA	6.2	6.0	5.9	5.7	5.5	5.4
<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>							
	Unit	2016 M07	M08	M09	M10	M11	M12
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN mio	889 350.6	899 200.8	902 709.5	910 750.4	923 339.9	928 661.2
Domestic debt	face value, PLN mio	586 844.2	596 203.1	602 632.0	603 339.4	606 188.1	609 197.9
	%	66.0	66.3	66.8	66.2	65.7	65.6
Foreign debt	face value, PLN mio	302 506.4	302 997.7	300 077.4	307 411.0	317 151.8	319 463.2
	%	34.0	33.7	33.2	33.8	34.3	34.4
	Unit	2015 Q02	Q03	Q04	2016 Q01	Q02	Q03 ¹⁾
Public debt (domestic definition)							
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
<small>1) Interim data Source: MoF</small>							

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2017

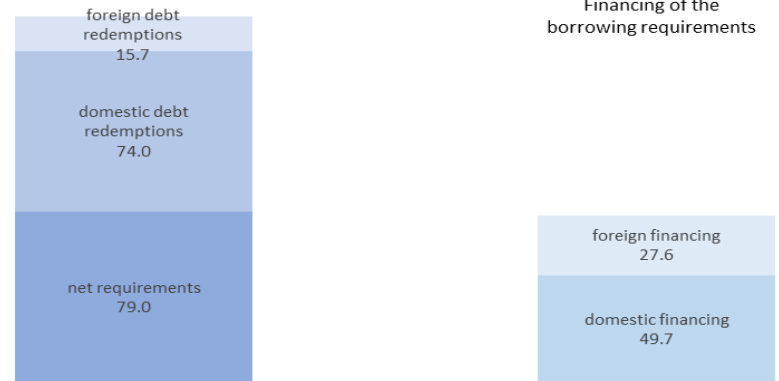
Financing of the State budget borrowing requirements, after holding the switch auction on March 2nd, at the level of ca. 46% was a result of:

- T-bond sale on domestic market: PLN 28.7bn,
- switch auctions: PLN 4.7bn,
- switch auctions in 2016: PLN 13.4bn,
- loans incurred from IFIs: PLN 0.1bn,
- and higher than planned financial resources at the end of 2016: PLN 30.4bn (initial data, 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 March

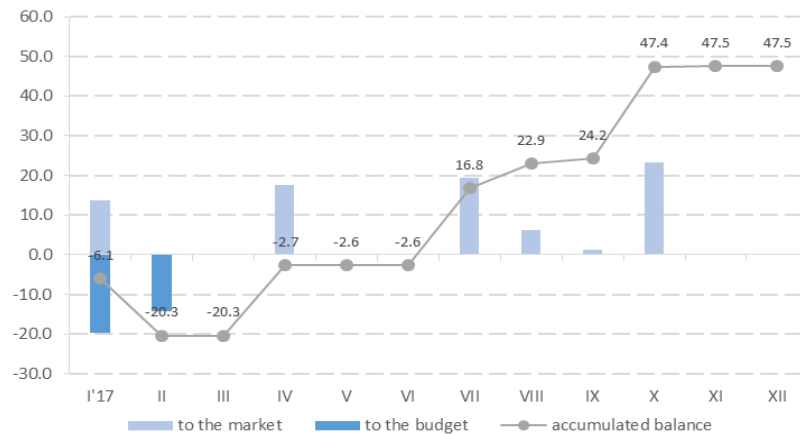
In March there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of February 28, 2017, PLN bn

As of February 28, 2017, to the end of the year the funds to be transferred to the market shall amount to PLN 67.9bn.

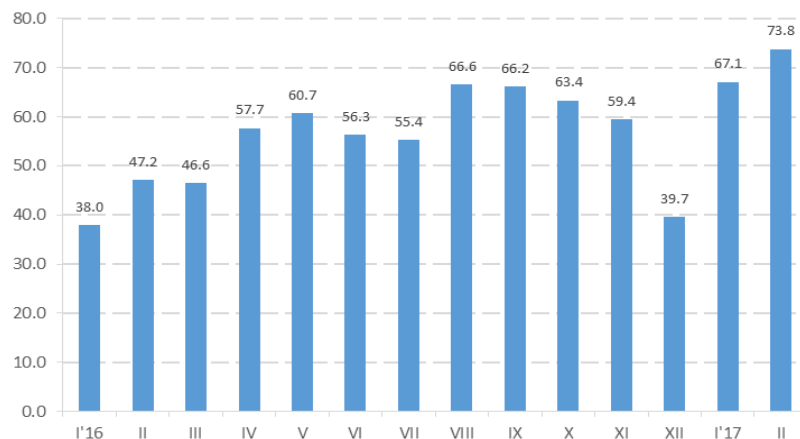
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



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.



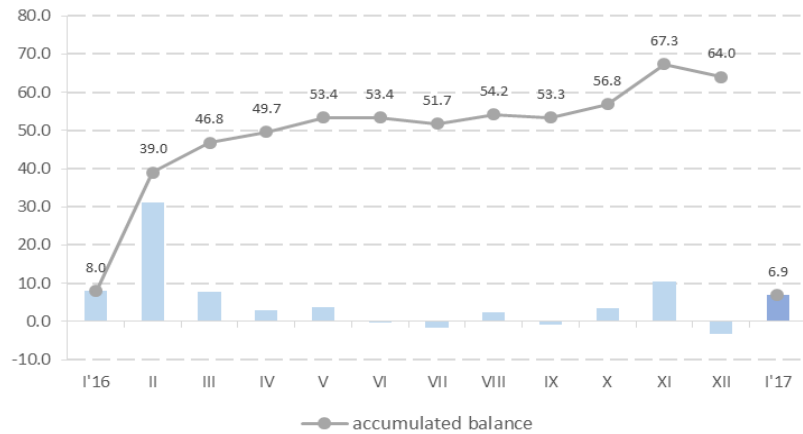


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

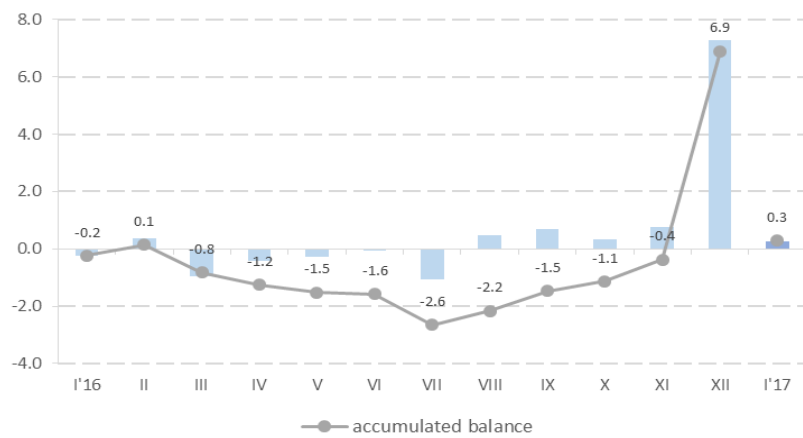
In January 2017 debt held by domestic banks increased by PLN 6.9bn comparing to PLN 8.0bn increase during the same period of 2016.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

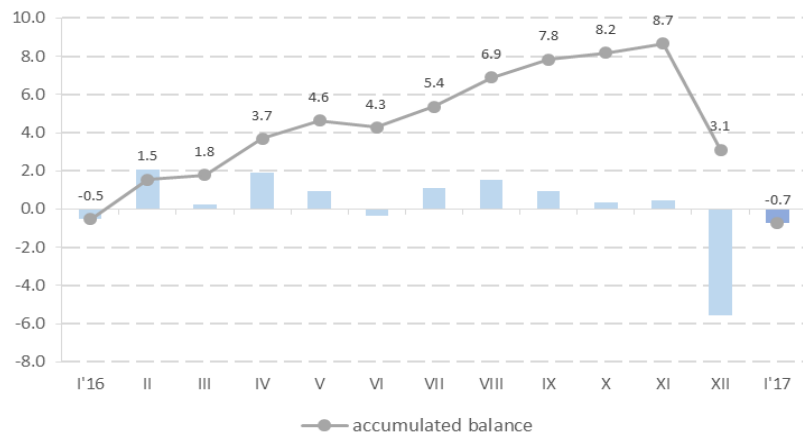
In January 2017 there was an increase of PLN 0.3bn in debt held by insurance companies. During the same period of 2016 there was a decrease of PLN 0.2bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

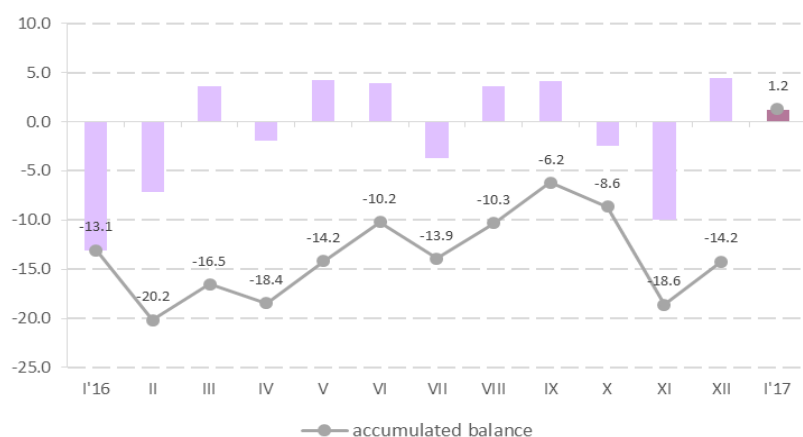
In January 2017 there was a decrease of PLN 0.7bn in debt held by investment funds. During the same period of 2016 there was a decrease of PLN 0.5bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In January 2017 inflow of foreign capital to the domestic TS market amounted to PLN 1.2bn comparing to outflow of PLN 13.1bn in the same period of 2016. Foreign investors' holdings reached the level of PLN 193.8bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

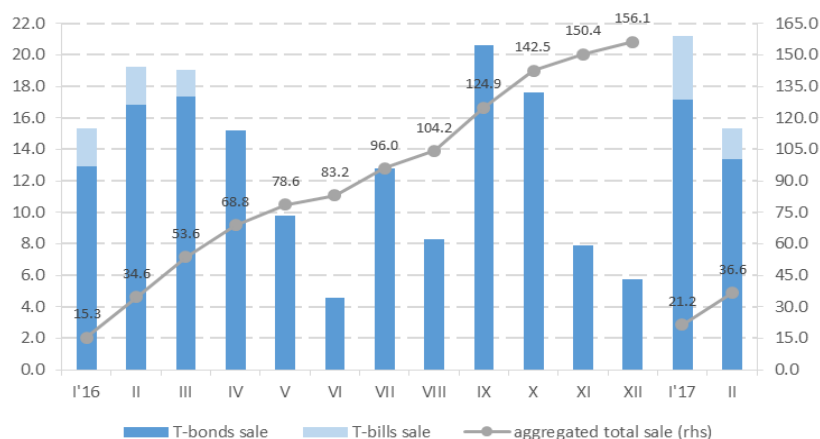


Sale of T-bonds and T-bills in the period of I-II 2017 and 2016

auction date, nominal amount, PLN bn

In the period of I-II 2017 aggregated total sale of:

- T-bonds amounted to PLN 30.6bn versus PLN 29.8bn in the same period of 2016,
- T-bills amounted to PLN 6.0bn versus PLN 4.8bn in the same period of 2016.

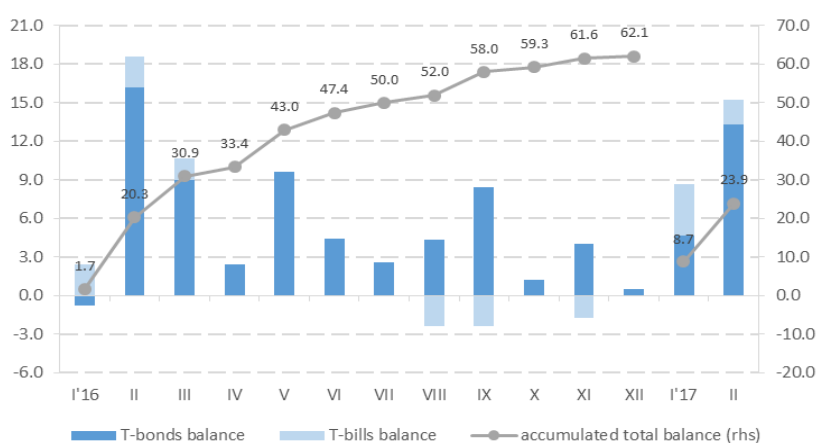


Balance of T-bonds and T-bills in the period of I-II 2017 and 2016

auction date, nominal amount, PLN bn

In the period of I-II 2017 indebtedness in:

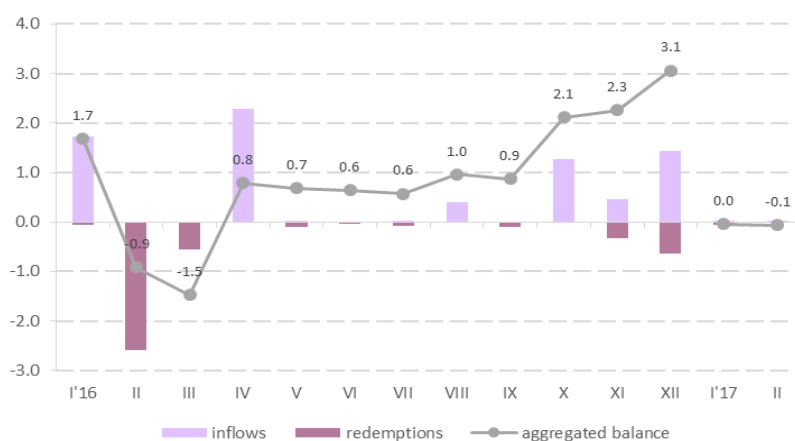
- T-bonds increased by PLN 17.9bn,
- T-bills increased by PLN 6.0bn.



External financing in the period of I-II and 2016

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

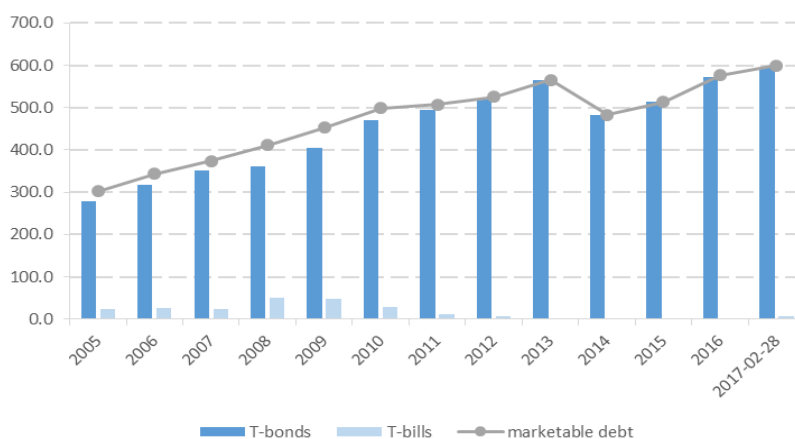
Net financing on foreign markets in the period of I-II 2017 was negative and amounted to EUR 0.1bn, which resulted from negative balance of loans incurred from IFIs.



Structure of marketable debt

PLN bn

At the end of February 2017 the marketable domestic debt amounted to PLN 600.0bn comparing to PLN 576.7bn at the end of 2016.



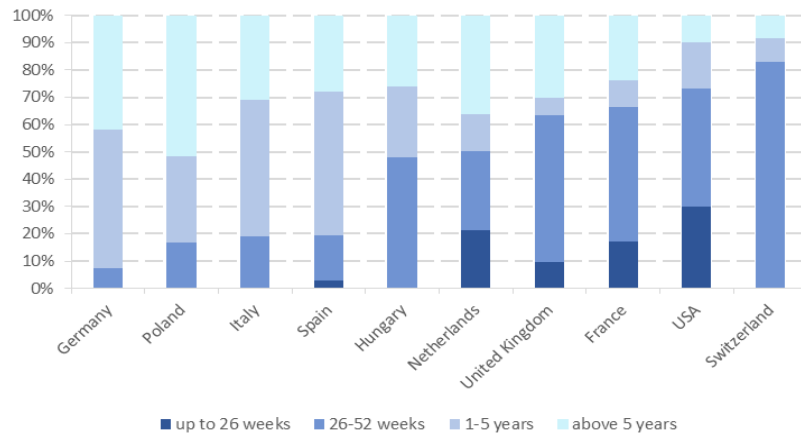


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

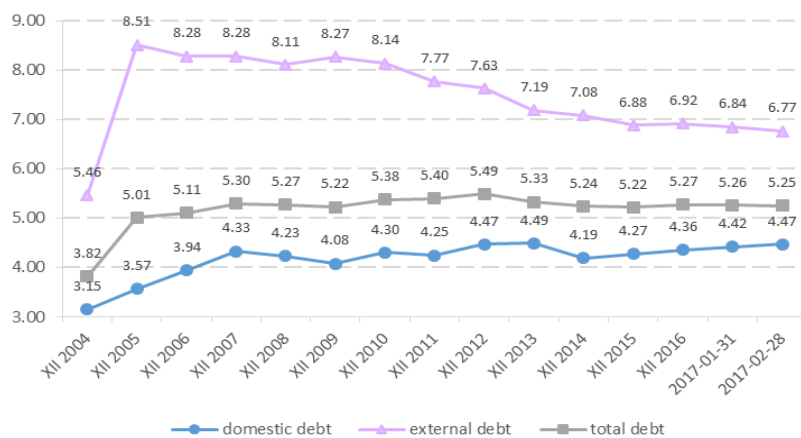
auctions and syndicates, local currency, ytd in the period of 1 - 28 February, 2017

The sale of TS in Poland is dominated by securities maturing above 5 years.



Average maturity

At the end of February 2017 the average maturity of domestic debt increased to 4.47 (while at the end of 2016 it was 4.36). The average of total debt amounted to 5.25 (5.27 at the end of 2016).

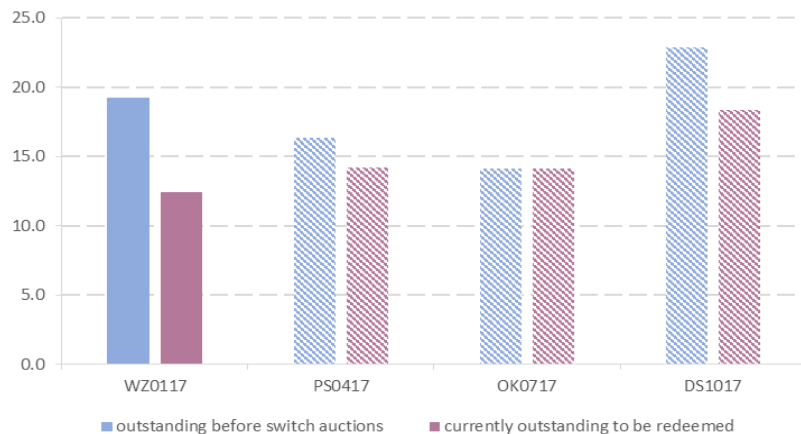


Reducing refinancing risk connected with T-bonds' redemptions maturing in 2017

as of February 28, 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%),
- OK0717 :PLN 0.0bn (0%),
- DS1017: PLN 4.6bn (20%).

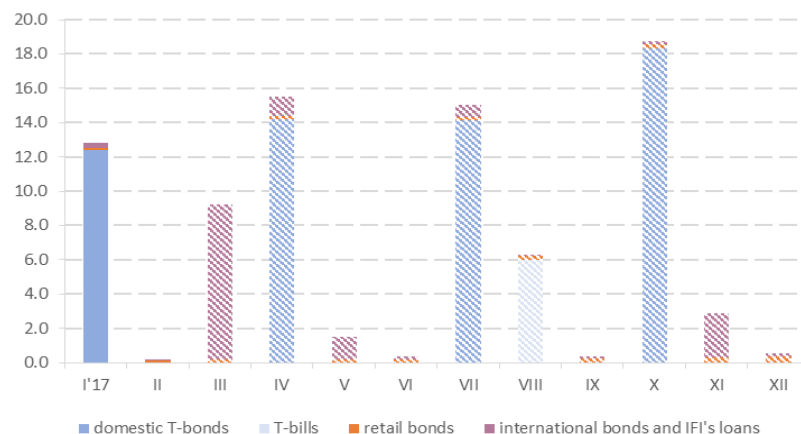


State Treasury debt redemptions in 2017

as of February 28, 2017, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2017 is equal to PLN 70.5bn, including:

- T-bonds: PLN 46.6bn,
- T-retail bonds: PLN 2.4bn,
- T-bills: PLN 6.0bn,
- bonds and loans incurred on foreign markets: PLN 15.5bn.



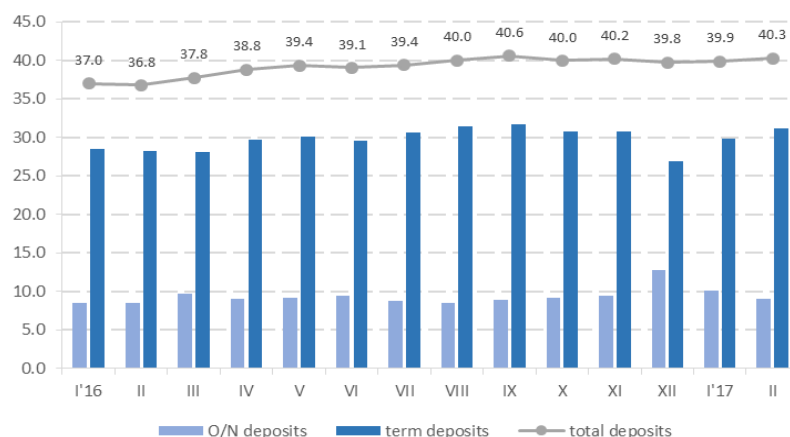
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

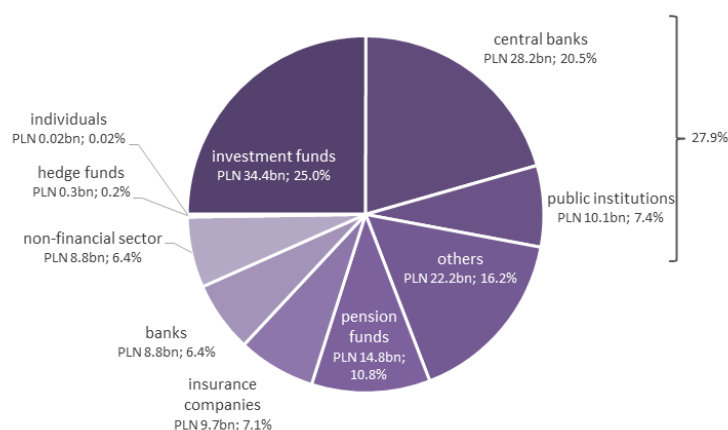
As a result of consolidation of public finances liquidity management there were PLN 40.3bn funds accumulated at the end of February 2017, of which PLN 31.2bn was as term deposits and PLN 9.1bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

as of January 31, 2017, the chart presents data excluding omnibus accounts

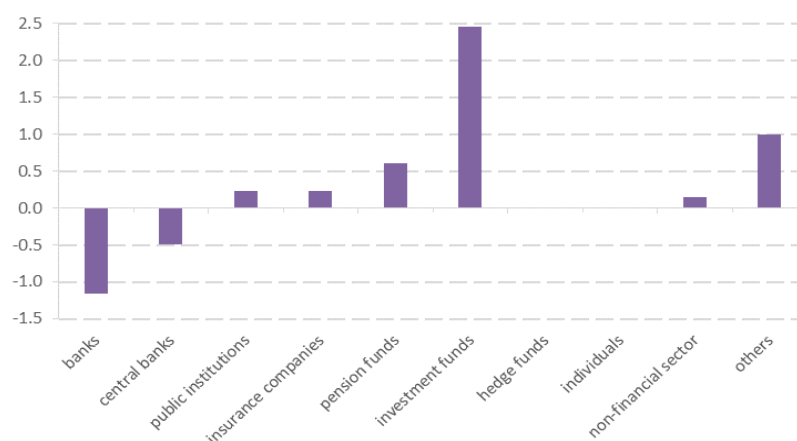
In January 2017 the non-residents' share in the domestic Treasury securities market increased by PLN 1.2bn. The foreign investors' portfolio amounted to PLN 193.8bn which constituted 32.5% share in total debt in Treasury securities (32.8% in the previous month). As of the end of January 2017 central banks and public institutions' share in foreign holdings amounted to 27.9%.



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

change in January 2017, mom, PLN bn

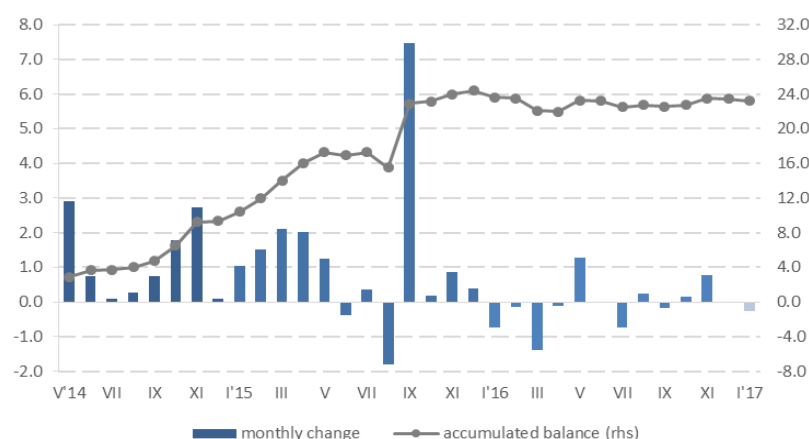
In January 2017 the highest increase was noted by investment funds (PLN 2.5bn) and the highest decrease was recorded by banks (PLN 1.2bn).



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

change in January 2017, PLN bn

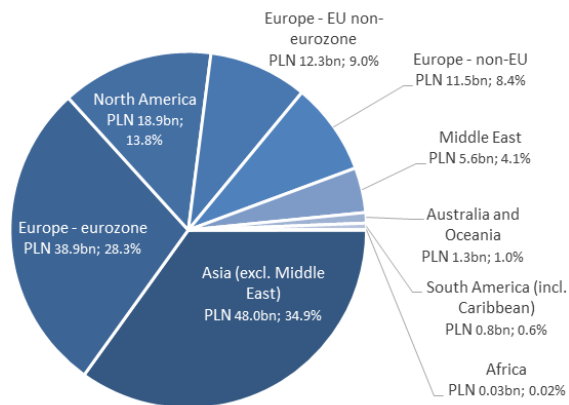
In January 2017 central banks and public institutions' involvement in the Polish debt market decreased by PLN 0.3bn. Since the end of April 2014 to the end of January 2017, when the detailed information is available, portfolios of those entities increased by PLN 23.2bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of January 31, 2017, excluding omnibus accounts

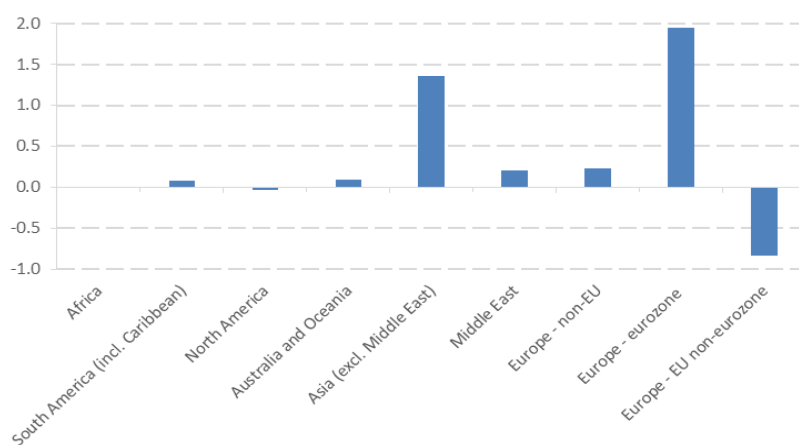
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in January 31, 2017, mom, PLN bn

In January 2017 the highest increase was recorded by investors from the eurozone (PLN 1.9bn). The highest decrease was noted by EU non-eurozone countries (PLN 0.8bn).



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

as of January 31, 2017, 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 (%)
Japan	18 952.8	17.4%
United States	18 332.8	16.8%
Luxembourg	15 671.9	14.4%
Norway	9 703.7	8.9%
United Kingdom	7 187.7	6.6%
Ireland	6 725.8	6.2%
Germany	6 230.1	5.7%
Netherlands	4 678.6	4.3%
Austria	3 838.6	3.5%
Denmark	3 754.3	3.4%
United Arab Emirates	2 295.2	2.1%
Switzerland	1 585.4	1.5%
Hong Kong	1 350.9	1.2%
Australia	1 181.3	1.1%
Others	7 648.5	7.0%
Total	109 137.4	100.0%



MoF comment

Piotr Nowak, Undersecretary of State, MoF

28-02-2017

In March we will hold two auctions – first switch auction [held], then T-bond sale auction. At both 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 March will be significantly lower than in the first two months of the year. At the sale auction we will offer up to PLN 5bn. No T-bill auctions are planned for March.

In January 2017 foreign investors increased their portfolios of PLN denominated Treasury securities by PLN 1.2bn, reaching the level of PLN 193.8bn (i.e. 32.5% of debt in domestic Treasury securities). As in last year, the inflow was concentrated in T-bonds with maturity above 3 years. In February we are observing further inflow of foreign capital to the market.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN MARCH 2017

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding* (PLN m)
2 MAR 2017/ 6 MAR 2017	OK0419 / PS0422 / WZ1122/ WZ0126 / DS0727	PS0417	11,505
		OK0717	12,950
		DS1017	17,402

* after auction settlement

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
23 MAR 2017	27 MAR 2017	OK0419 / PS0422 / WZ1122/ WZ0126 / DS0727 / possible T-bond of WS or IZ type	3,000-5,000

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
DOS0319	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.10%
TOZ0320	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI0321	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO0327	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS0323	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD0329	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period