

State budget borrowing requirements' financing plan and its background

June 2017

THE MOST IMPORTANT INFORMATION

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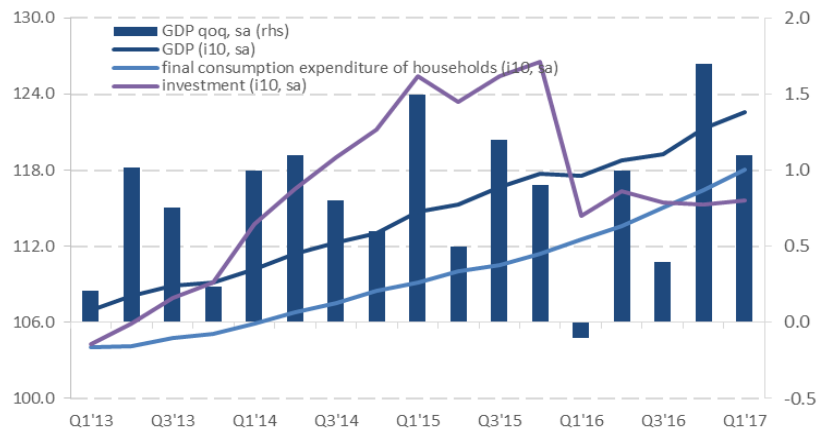


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

In the first quarter of 2017 GDP went up by 1.1% (qoq, sa) following a significant increase in the previous quarter (1.7%). Data were 0.1 pp higher than CSO flash estimate. In the first quarter of 2017 an acceleration in the pace of growth of households consumption was observed. In addition, investments went up slightly after two consecutive quarters of decrease. 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 investment activity was a consequence of low absorption of EU funds due to the process of switching from the 2007-2013

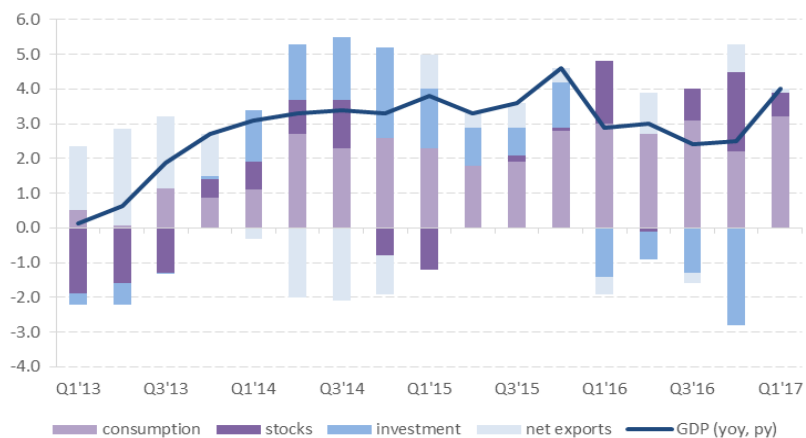


Contributions to Polish GDP growth

percentage points

source: GUS; py - average prices of previous year

In the first quarter of 2017 GDP was 4.0% higher than a year ago as compared to 2.5% in the previous quarter. Domestic demand was the main source of GDP growth due to households consumption (contribution of 3.0 pp) and increase in inventories (contribution of 0.7 pp). On the other hand contribution of investments, which were 0.4% lower than a year before, to GDP was neutral. Due to higher imports than exports (in yoy terms) net exports positive contribution to GDP growth decreased (to 0.1 pp).

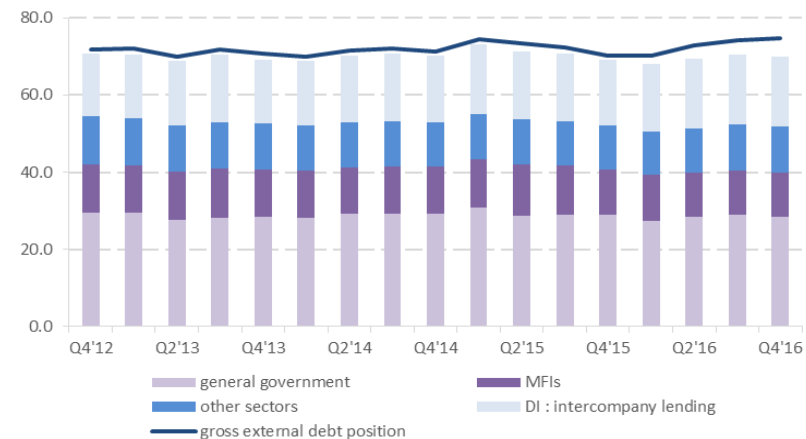


Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

Gross external debt reached EUR 317.4bn (74.8% of GDP) at the end of the fourth quarter of 2016 and was EUR 1.4bn higher than in the previous quarter. The share of general government sector debt in total debt decreased to 38.0%. Official reserve assets reached EUR 100.4bn at the end of April 2017 and remained broadly adequate, covering around 6 months of imports.

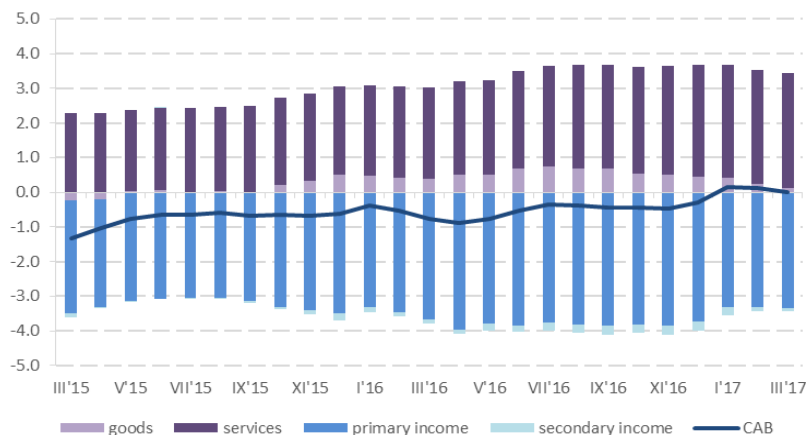


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In March 2017, according to the preliminary data, C/A was nearly balanced (in 12-month terms of GDP). Data were below market expectations. The inflow of long term capital also continued, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on capital account.

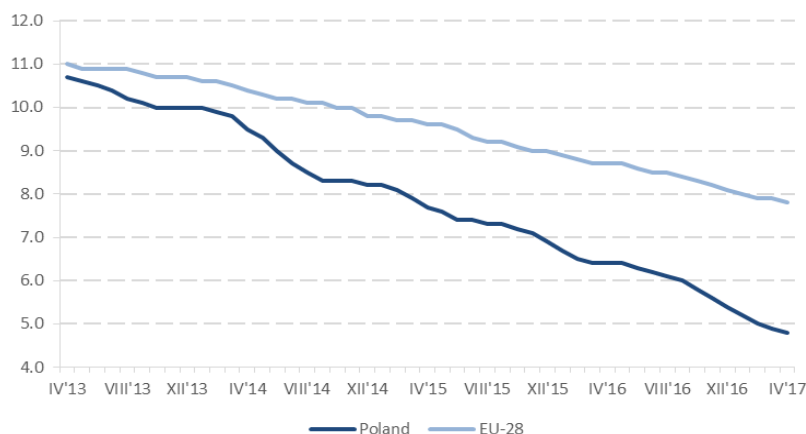




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In April 2017 it amounted to 4.8% (versus 7.8% in EU on average) and it was 0.1 pp lower than in previous month and 1.6 pp lower than a year earlier. In April 2017 harmonised unemployment rate (sa) in Poland was at the historically lowest level.



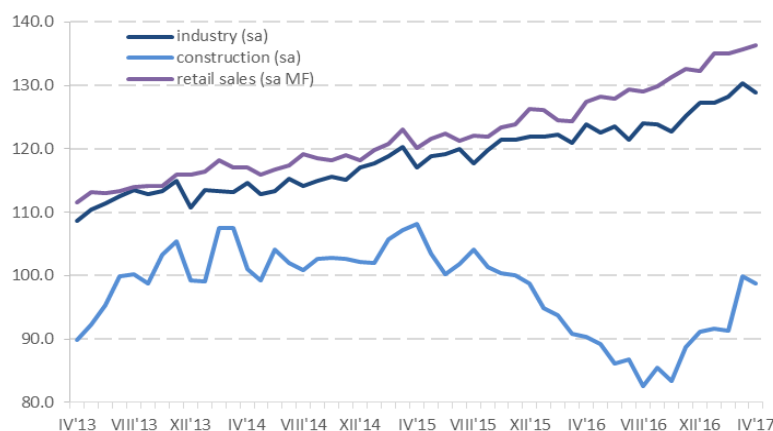
Monthly indicators of the real sector

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

In April 2017 industrial output went down by 1.2% (mom, sa). As a result, production was 0.6% lower than a year ago (nsa). Data were below market expectations.

Construction production decreased by 1.2% following skyrocketing in the previous month (mom, sa). As a result, its level was 4.3% (nsa) higher than a year before. Data were below expectations.

Real retail sales increased fourth time in a row (by 0.4% mom, sa MoF). As a result, its level was 6.7% (nsa) higher than in the same month of 2016. Data were slightly below market expectations.



Inflation

percent, yoy
source: GUS, NBP

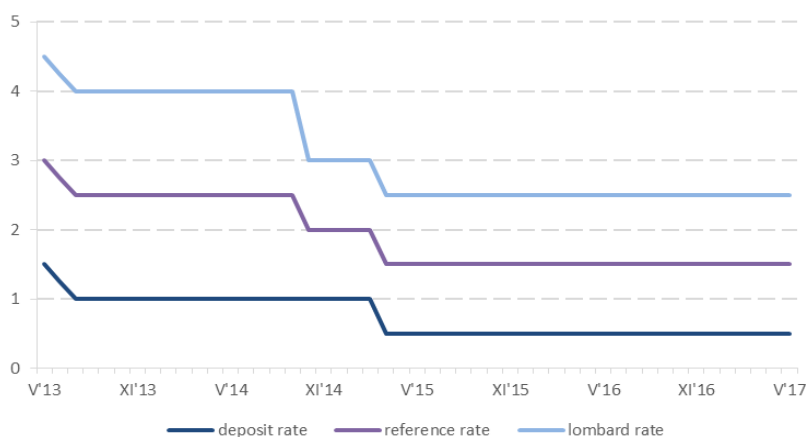
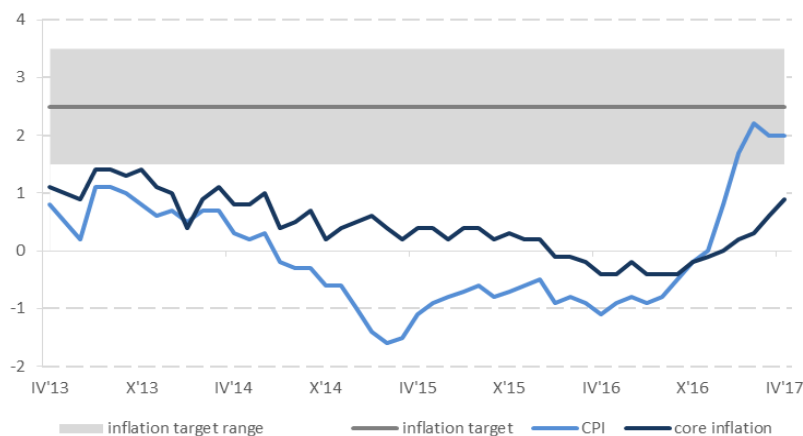
Since July 2014 till October 2016 there was CPI deflation, mainly caused by the drop of commodity prices (energy and food). At the turn of 2016/17, in line with energy prices increase, inflation visibly accelerated and in the first quarter of 2017 it amounted to 2.0%. In April inflation rate stayed at the same level and data were in line with the market expectations. Since the beginning of 2017 core inflation (CPI excluding food and energy prices) has been already positive and in April it rose to 0.9% (yoy). After almost 4 years of deflation in producer prices, since September 2016 these prices have been rising rapidly and in April were higher than a year before by 4.3%.

NBP interest rates

percent, end of period
source: NBP

In May 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 (May, 10th) sees no NBP rate move till the end of 2017.



II. STATISTICAL DATA

	Unit	2015 Q04	2016 Q01	Q02	Q03	Q04	2017 Q01
GDP							
Gross domestic product	YoY	4.6	2.9	3.0	2.4	2.5	4.0
	QoQ SA	0.9	-0.1	1.0	0.4	1.7	1.1
Final consumption expenditure of the households sector	YoY	2.9	3.4	3.4	4.1	4.5	4.7
	QoQ SA	0.8	1.0	0.9	1.3	1.2	1.4
Final consumption expenditure of the general government sector	YoY	7.2	4.5	4.2	3.8	-0.2	1.0
	QoQ SA	2.4	1.0	-0.3	0.7	0.2	0.0
Gross fixed capital formation	YoY	4.5	-9.8	-4.5	-6.7	-9.8	-0.4
	QoQ SA	0.9	-9.6	1.7	-0.7	-0.2	0.3
Exports of goods and services	YoY	9.1	7.1	11.8	7.8	9.3	8.3
	QoQ SA	2.2	1.4	4.0	0.1	3.1	1.8
Imports of goods and services	YoY	8.4	8.7	10.1	8.7	8.2	8.7
	QoQ SA	3.7	1.5	3.1	0.8	1.3	3.8
Gross value added	YoY	4.5	2.7	2.8	2.2	2.5	3.7
	QoQ SA	0.8	0.5	0.4	0.6	1.6	0.5
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp.	1.4	2.2	2.0	2.5	2.2	3.0
Final consumption expenditure of the general government sector	pp.	1.4	0.8	0.7	0.6	0.0	0.2
Gross fixed capital formation	pp.	1.3	-1.4	-0.8	-1.3	-2.8	0.0
Changes in inventories	pp.	0.1	1.8	-0.1	0.9	2.3	0.7
Balance of trade turnover	pp.	0.4	-0.5	1.2	-0.3	0.8	0.1
Gross value added	pp.	4.0	2.4	2.5	2.0	2.3	3.3
Taxes less subsidies	pp.	0.6	0.5	0.5	0.4	0.2	0.7
GDP structure							
Final consumption expenditure of the households sector	% of GDP	48.8	64.2	58.8	60.2	50.1	64.9
Final consumption expenditure of the general government sector	% of GDP	19.5	17.4	17.7	17.3	19.0	16.9
Gross fixed capital formation	% of GDP	27.4	12.3	16.8	17.5	24.4	11.7
Changes in inventories	% of GDP	0.6	1.1	0.6	1.5	2.7	1.9
Exports of goods and services	% of GDP	46.3	53.9	54.5	52.4	49.0	56.4
Imports of goods and services	% of GDP	43.2	49.6	49.1	49.6	45.7	52.6
	Unit	2016 M11	M12	2017 M01	M02	M03	M04
Balance of payments							
Goods: exports (EUR)	YoY	5.8	5.2	13.9	4.9	14.9	-
Goods: imports (EUR)	YoY	6.3	7.1	16.1	9.9	18.9	-
Current account balance ¹⁾	% of GDP	-0.5	-0.3	0.1	0.1	0.0	-
Balance on goods ¹⁾	% of GDP	0.5	0.5	0.4	0.2	0.1	-
Official Reserve Assets	EUR mln	104 192.5	108 063.9	106 181.5	104 658.4	104 705.6	100 404.0
Inflation							
Consumer Price Index (CPI)	YoY	0.0	0.8	1.7	2.2	2.0	2.0
Core inflation (CPI excluding food and energy prices)	YoY	-0.1	0.0	0.2	0.3	0.6	0.9
Producer Price Index (PPI)	YoY	1.8	3.2	4.0	4.5	4.8	4.3
Production							
Sold production of industry ²⁾	YoY	3.1	2.1	9.1	1.1	11.1	-0.6
	MoM SA	2.0	1.5	0.0	0.8	1.9	-1.2
Construction and assembly production ²⁾	YoY	-12.8	-8.0	2.1	-5.3	17.2	4.3
	MoM SA	6.4	2.7	0.7	-0.4	9.4	-1.2
Manufacturing PMI	SA	51.9	54.3	54.8	54.2	53.5	54.1
Households and labour market							
Retail sales ²⁾	YoY	7.4	6.1	9.5	5.2	7.9	6.7
Average paid employment in enterprise sector	YoY	3.1	3.1	4.5	4.6	4.5	4.6
	MoM	0.2	0.1	2.8	0.3	0.1	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.0	1.9	2.5	1.8	3.1	2.0
	MoM	1.5	6.3	-8.1	0.3	6.4	-2.2
Harmonised unemployment rate (Eurostat)	%, SA	5.6	5.4	5.2	5.0	4.9	4.8
¹⁾ Data in 12-month terms ²⁾ 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							
	Unit	2015 M10	M11	M12	2017 M01	M02	M03
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN mio	910 750.4	923 339.9	928 666.2	930 061.2	945 151.0	941 428.3
Domestic debt	face value, PLN mio	603 339.4	606 188.1	609 202.9	617 912.8	633 076.6	639 484.5
	%	66.2	65.7	65.6	66.4	67.0	67.9
Foreign debt	face value, PLN mio	307 411.0	317 151.8	319 463.2	312 148.3	312 074.5	301 943.8
	%	33.8	34.3	34.4	33.6	33.0	32.1
	Unit	2015 Q03	Q04	2016 Q01	Q02	Q03	Q04 ¹⁾
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN mio	876 405.4	877 282.4	899 250.3	936 951.4	939 584.5	965 198.1
Domestic debt	face value, PLN mio	579 092.1	570 482.6	600 024.1	614 898.8	624 358.2	630 170.8
	%	66.1	65.0	66.7	65.6	66.5	65.3
Foreign debt	face value, PLN mio	297 313.3	306 799.8	299 226.2	322 052.6	315 226.3	335 027.4
	%	33.9	35.0	33.3	34.4	33.5	34.7
General Government debt (EU definition)							
General Government debt	face value, PLN mio	911 315.6	919 576.5	938 481.7	977 839.1	978 443.2	1 006 272.3
¹⁾ initial data Source: MoF							

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



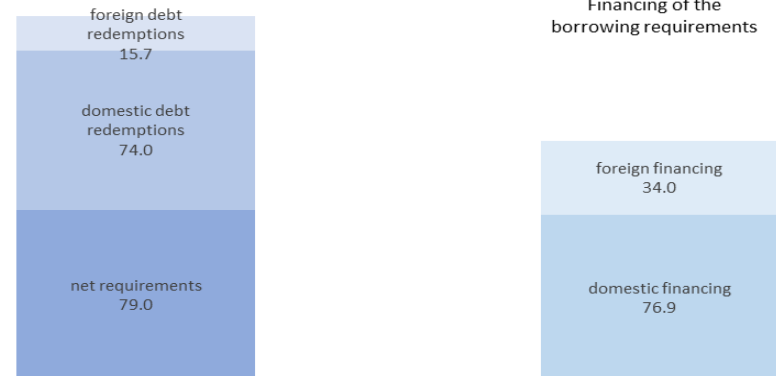
Gross borrowing requirements in 2017

Financing of the State budget borrowing requirements at the level of ca. 66% was a result of:

- T-bond sale on domestic market: PLN 51.1bn,
- switch auctions in 2017: PLN 9.1bn,
- T-bond sale on foreign markets: PLN 6.4bn (EUR 1.5bn),
- loans incurred from IFIs: PLN 0.1bn,
- switch auctions in 2016: PLN 13.4bn,
- and higher than planned financial resources at the end of 2016: PLN 30.8bn.

Gross borrowing requirements in 2017

Total: PLN 168.7bn, of which:



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

as of May 31, 2017, PLN bn

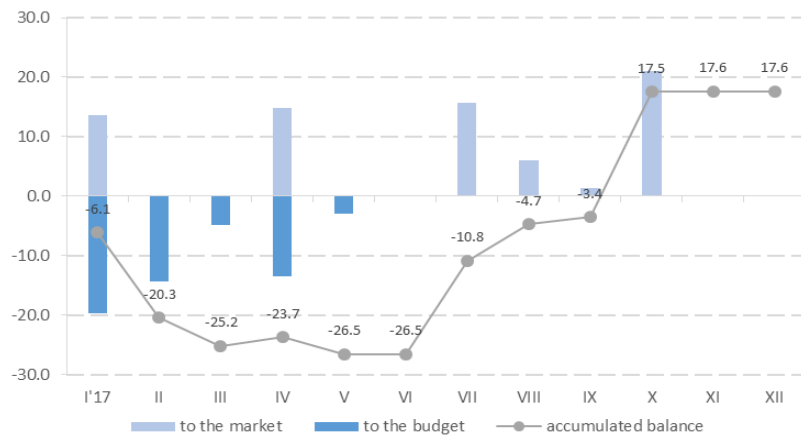
In June there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of May 31, 2017, PLN bn

As of May 31st, 2017 to the end of the year the funds to be transferred to the market shall amount to PLN 44.1bn.

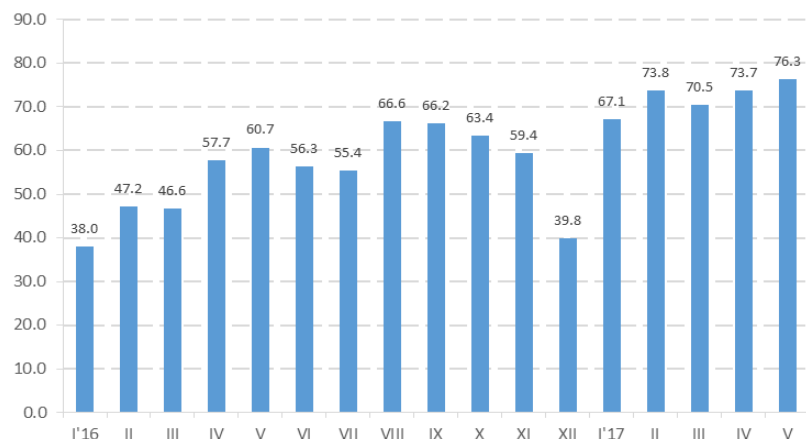
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



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.



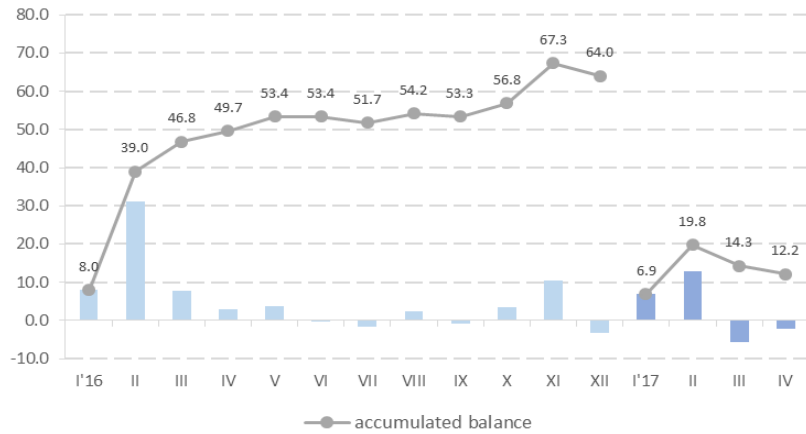


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in domestic Treasury securities held by banks

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

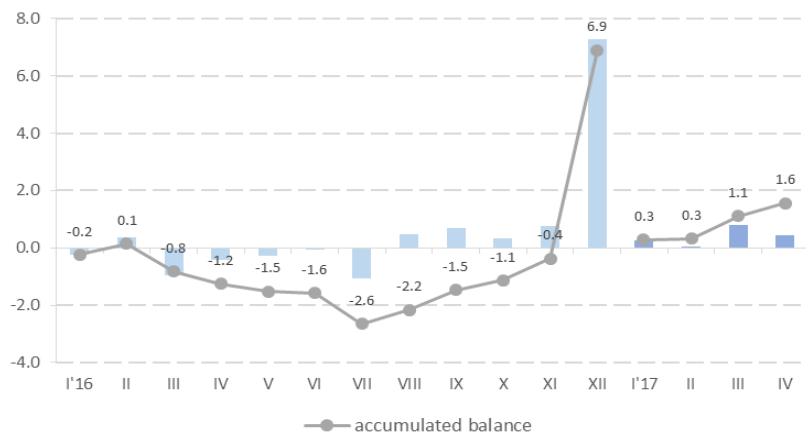
In the period of I-IV 2017 debt held by domestic banks increased by PLN 12.2bn comparing to PLN 49.7bn increase during the same period of 2016.



Change of debt in domestic Treasury securities held by insurance companies

PLN bn

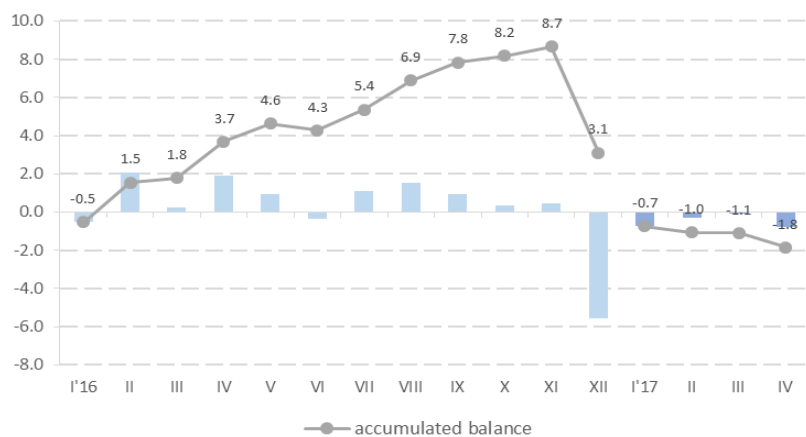
In the period of I-IV 2017 there was an increase of PLN 1.6bn in debt held by insurance companies. During the same period of 2016 there was a decrease of PLN 1.2bn.



Change of debt in domestic Treasury securities held by investment funds

PLN bn

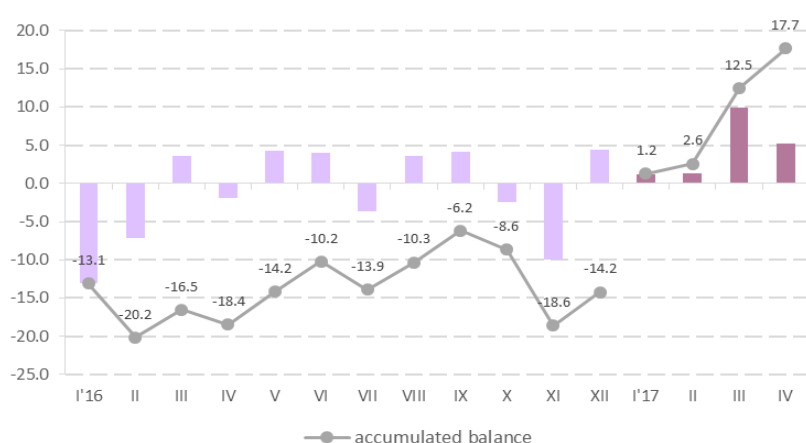
In the period of I-IV 2017 there was a decrease of PLN 1.8bn in debt held by investment funds. During the same period of 2016 there was an increase of PLN 3.7bn.



Change of debt in domestic Treasury securities held by foreign investors

PLN bn

In the period of I-IV 2017 inflow of foreign capital to the domestic TS market amounted to PLN 17.7bn comparing to outflow of PLN 18.4bn in the same period of 2016. Foreign investors' holdings reached the level of PLN 210.2bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

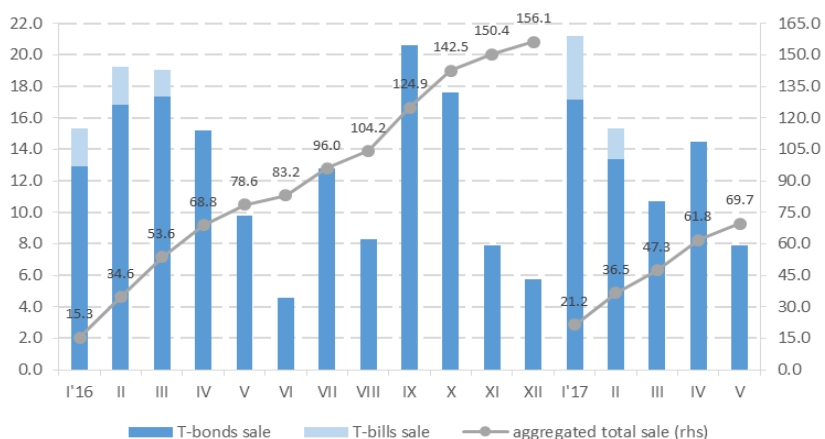


Sale of T-bonds and T-bills in the period of I-V 2017 and 2016

auction date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 63.7bn versus PLN 72.1bn in the same period of 2016,
- T-bills amounted to PLN 6.0bn versus PLN 6.5bn in the same period of 2016.

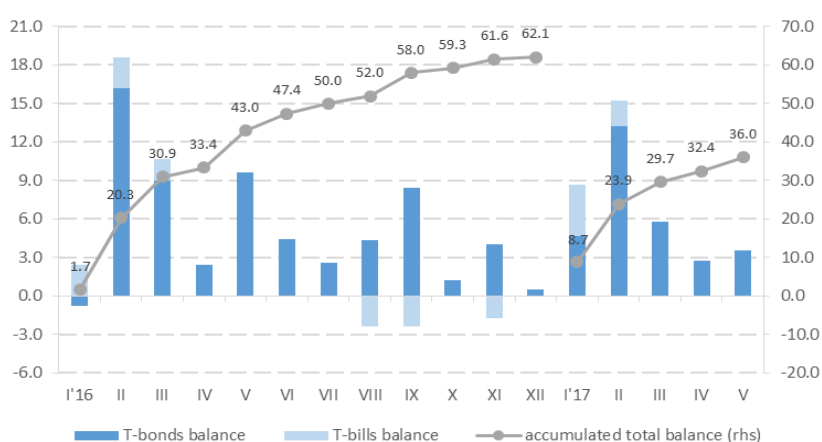


Balance of T-bonds and T-bills in the period of I-V 2017 and 2016

auction date, nominal amount, PLN bn

In the period of I-V 2017 indebtedness in:

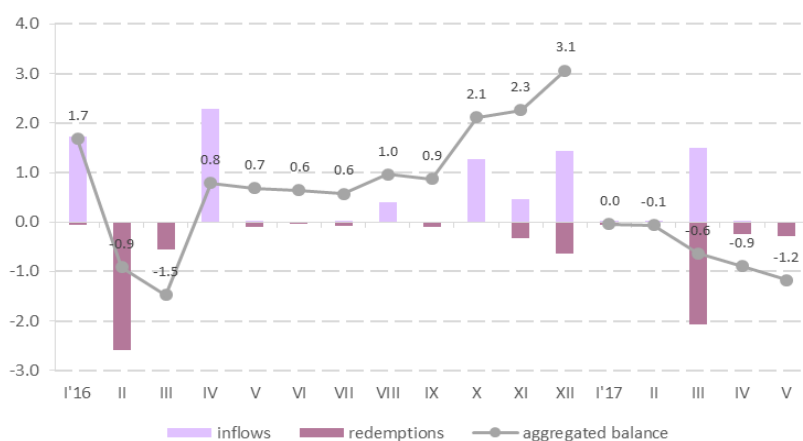
- T-bonds increased by PLN 30.0bn,
- T-bills increased by PLN 6.0bn.



External financing in the period of I-V 2017 and 2016

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

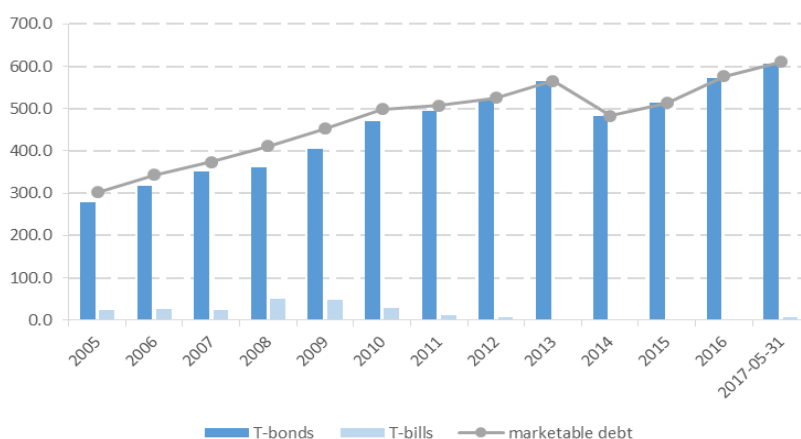
Net financing on foreign markets in the period of I-V 2017 was negative and amounted to EUR 1.2bn, which resulted from negative balance of T-bonds issuance of EUR 0.9bn and negative balance of loans incurred from IFIs at the level of EUR 0.3bn.



Structure of marketable debt

PLN bn

At the end of May 2017 the marketable domestic debt amounted to PLN 611.1bn comparing to PLN 576.7bn at the end of 2016.



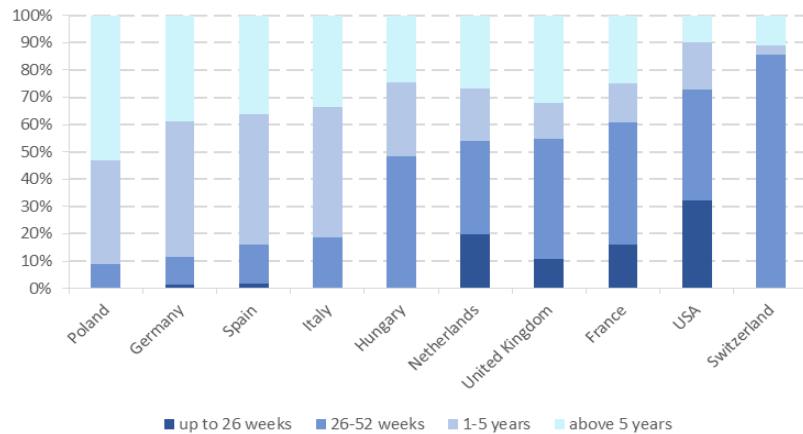


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Maturity breakdown of T-securities in Poland and other countries

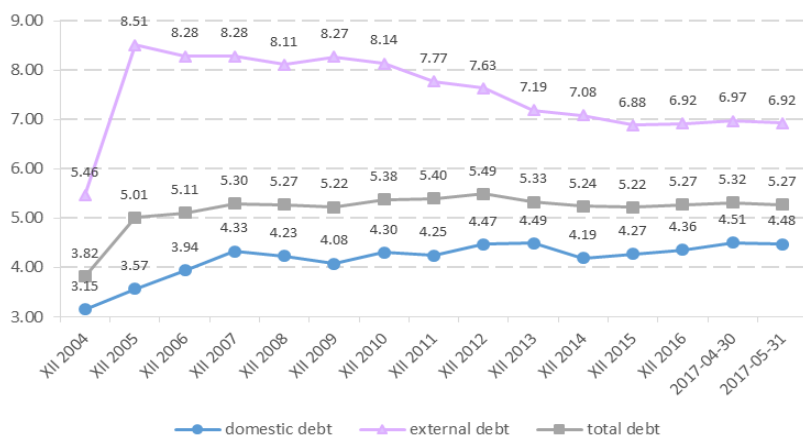
auctions and syndicates, local currency, ytd in the period of January 1 - May 31, 2017

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



Average maturity

At the end of May 2017 the average maturity of domestic debt amounted to 4.48 (while at the end of 2016 it was 4.36). The average of total debt amounted to 5.27 (5.27 at the end of 2016).



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

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

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

- WZ0117: PLN 6.8bn (35%),
- PS0417: PLN 4.9bn (30%),
- OK0717: PLN 4.0bn (29%),
- DS1017: PLN 6.8bn (30%).

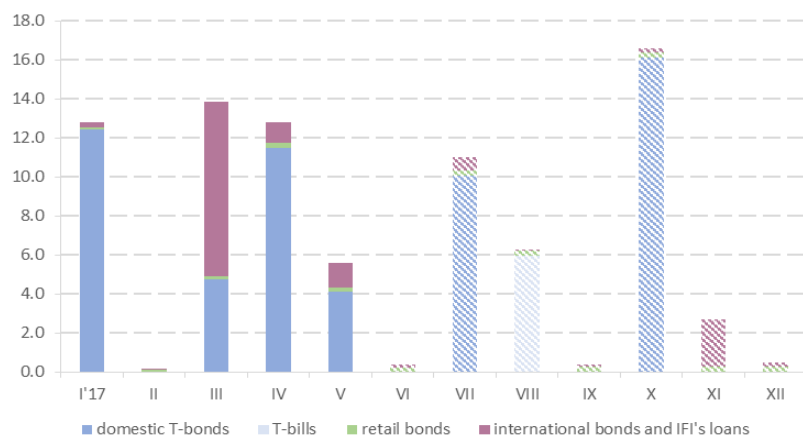


State Treasury debt redemptions in 2017

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

The nominal amount of debt to be redeemed in 2017 is equal to PLN 37.8bn, including:

- T-bonds: PLN 26.2bn,
- T-retail bonds: PLN 1.8bn,
- T-bills: PLN 6.0bn,
- bonds and loans incurred on foreign markets: PLN 3.8bn.



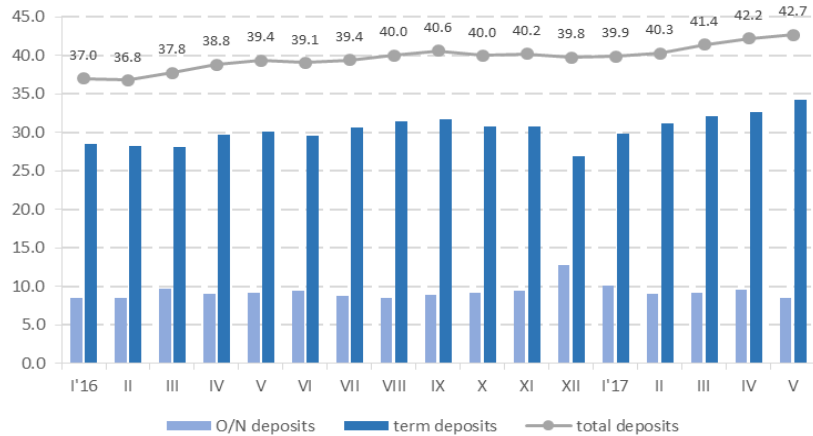
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Consolidation of public finances liquidity management

PLN bn

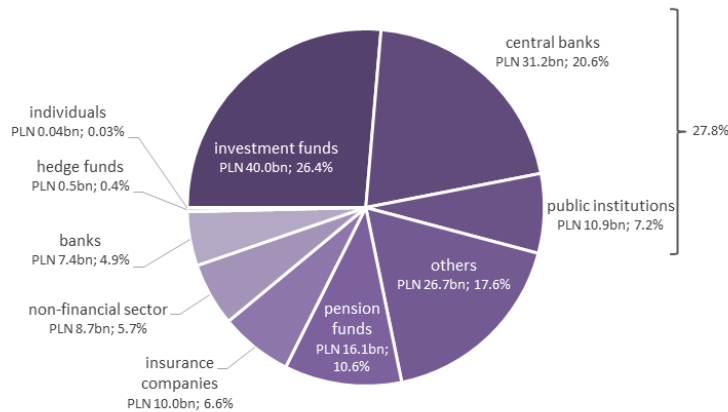
As a result of consolidation of public finances liquidity management there were PLN 42.7bn funds accumulated at the end of May 2017, of which PLN 34.3bn was on term deposits and PLN 8.5bn on O/N deposits.



Institutional distribution of domestic Treasury securities held by non-residents

as of April 30, 2017, the chart presents data excluding omnibus accounts

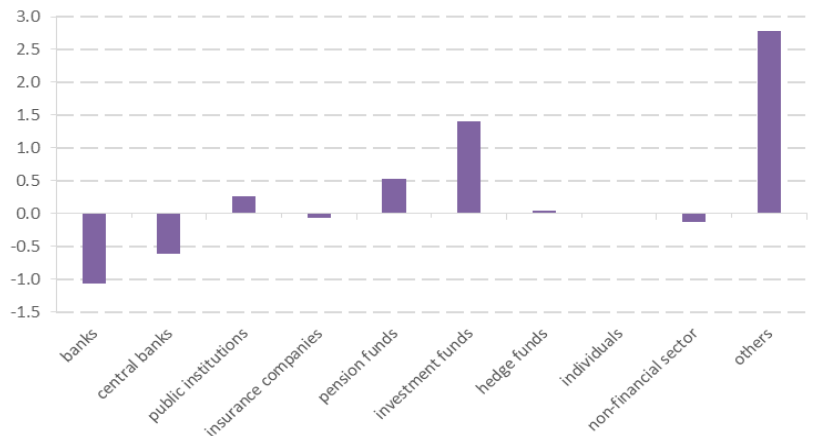
In April 2017 the non-residents' share in the domestic Treasury securities market increased by PLN 5.2bn. The foreign investors' portfolio amounted to PLN 210.2bn which constituted 33.9% share in total debt in Treasury securities (33.2% in the previous month). As of the end of April 2017 central banks and public institutions' share in foreign holdings amounted to 27.8%.



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

change in April 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

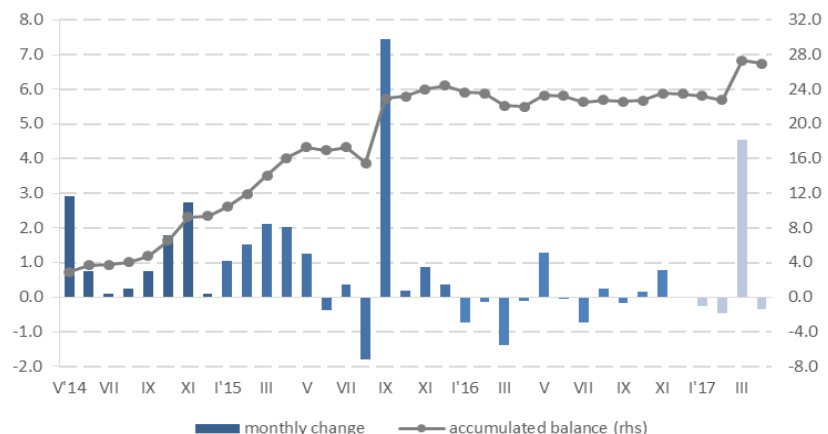
In April 2017 the highest increase was recorded in the category "others" (PLN 2.8bn). The highest decrease was recorded by banks (PLN 1.1bn).



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

change in April 2017, PLN bn

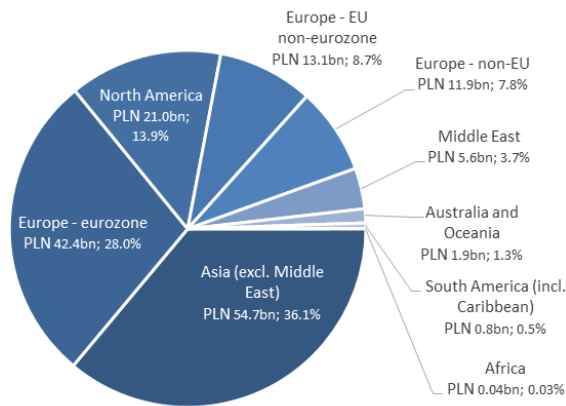
In April 2017 central banks and public institutions' involvement in the Polish debt market decreased by PLN 0.3bn. Since the end of April 2014 to the end of April 2017, when the detailed information is available, portfolios of those entities increased by PLN 27.0bn.



Geographical distribution of domestic Treasury securities held by non-residents

as of April 30, 2017, the chart presents data excluding omnibus accounts

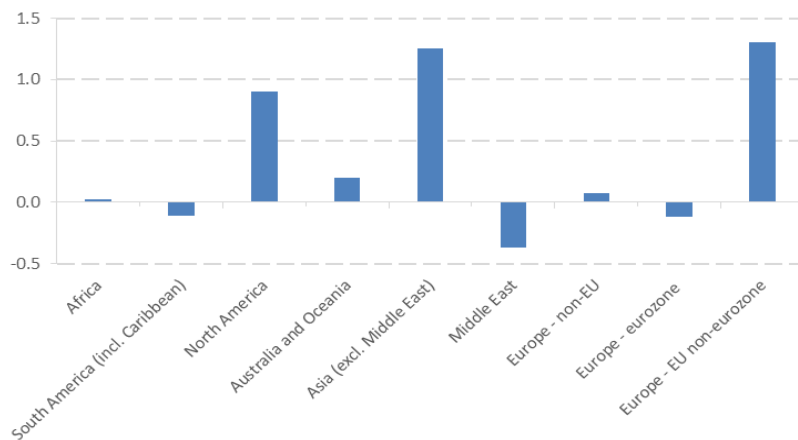
Geographical structure of domestic Treasury securities held by non-residents, as well as institutional distribution, is well-diversified.



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

change in April, 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

In April 2017 the highest increases were recorded by investors from EU non-Eurozone countries and Asia (PLN 1.3bn each). The highest decrease was noted by investors from the Middle East (PLN 0.4bn).



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

as of April 30, 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	20 450.8	17.0%
United States	20 158.8	16.8%
Luxembourg	17 244.6	14.3%
Norway	10 053.0	8.4%
United Kingdom	9 035.7	7.5%
Ireland	8 637.9	7.2%
Germany	6 720.8	5.6%
Netherlands	5 515.4	4.6%
Denmark	2 849.1	2.4%
United Arab Emirates	2 603.6	2.2%
Hong Kong	2 527.7	2.1%
Australia	1 755.6	1.5%
Switzerland	1 545.8	1.3%
France	1 465.7	1.2%
Austria	1 206.9	1.0%
Others	8 579.2	7.1%
Total	120 350.7	100.0%



MoF comment

Piotr Nowak, Undersecretary of State, MoF

31-05-2017

The level of financing the State budget borrowing requirements for 2017 at the end of May reached ca. 66% and the amount of liquid funds ca. PLN 77bn.

In June, similarly to May, we will hold one T-bond sale auction (June 9th) and one T-bond switch auction (June 22nd). Because of the good budget liquidity situation and current level of financing of the borrowing needs, the planned supply will still be limited and on the sale auction will amount only to PLN 3bn. The value of T-bond sale auctions in the whole second quarter will be at the level of PLN 20bn, which is the lower limit of the announced quarterly plan range. Similarly to the previous months, we do not plan any T-bill auctions.

March is another month when foreign investors increased their portfolios of PLN denominated Treasury securities – the inflow amounted to PLN 5.2bn and mainly was related to T-bonds with maturity above 7 years.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN JUNE 2017

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
9 JUN 2017	13 JUN 2017	OK0419 / PS0422 / WZ1122 / WZ0126 / DS0727 / WS0447	3,000

*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 Economic Development and Finance is entitled to organize non-competitive auctions where bonds will be sold at a minimum clean price.*

Treasury bond switching auction

Auction/ settlement date	Settlement T-bond	Source T-bond	Outstanding (PLN m)
22 JUN 2017/ 26 JUN 2017	OK0419 / PS0422 / WZ1122/ WZ0126 / DS0727 / possible T-bond of WS or IZ type	OK0717	10,089
		DS1017	16,124
		WZ0118	20,874

T-bill auctions

Sale auctions of T-bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
DOS0619	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.10%
TOZ0620	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI0621	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO0627	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS0623	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD0629	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period