Ministry of Finance | Republic of Poland

Public Debt Department

State budget borrowing requirements' financing plan and its background

4th quarter 2017

October 2017

THE MOST IMPORTANT INFORMATION

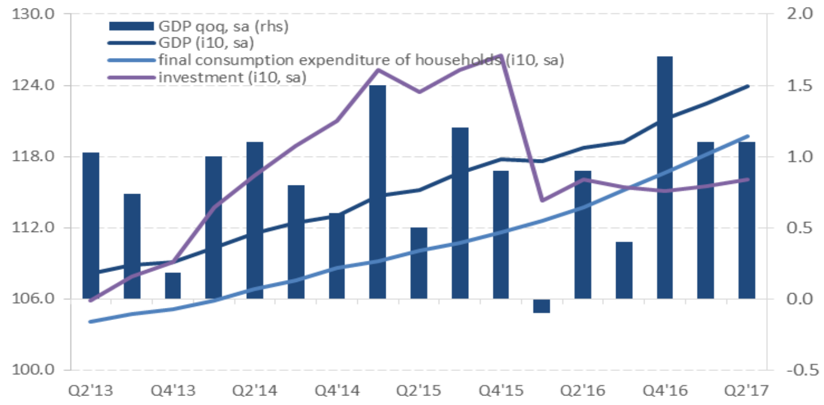
12 Świętokrzyska Street, 00-916 Warsaw Republic of Poland | tel.: +48 22 694 50 00 | fax: +48 22 694 50 08

www.mf.gov.pl

Gross domestic product of Poland

constant prices, yoy
source: GUS

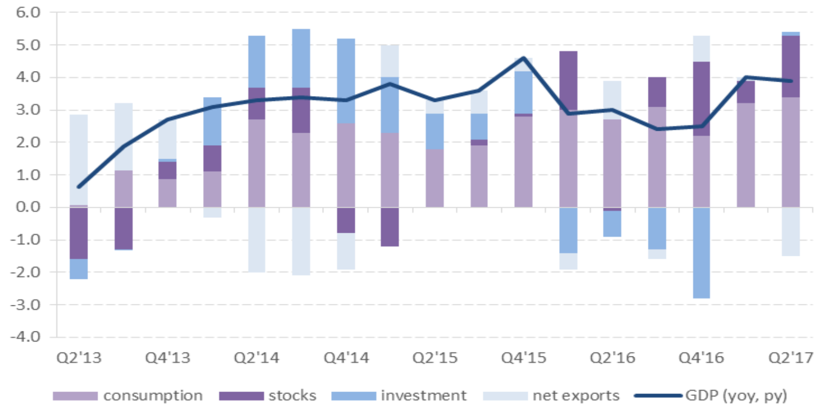
In the second quarter of 2017 GDP went up by 1.1% (qoq, sa) similarly to the previous quarter. In the same period growth of households consumption remained strong and a slight acceleration in investments dynamics was observed.
Increase in private consumption was a consequence of positive labour market situation, robust sentiment of consumers and implementation of the family support programme “Family 500+”. Weak dynamics of investments activity stemmed from low absorption of EU funds due to switching from 2007-2013 to 2014-2020 financial framework.



Contributions to Polish GDP growth

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

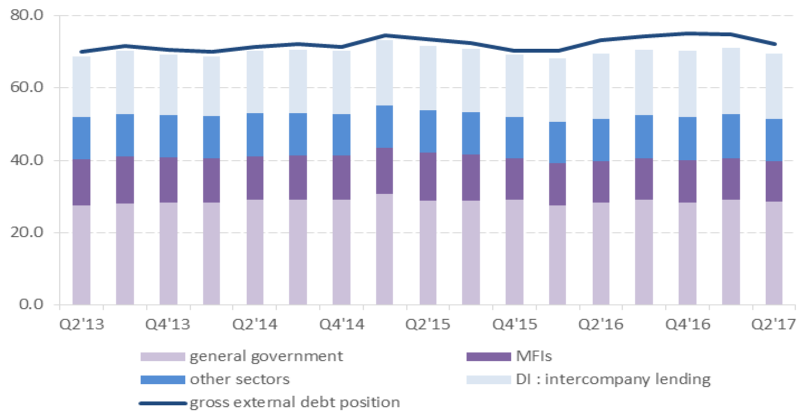
In the second quarter of 2017 GDP was 3.9% higher than a year ago as compared to 4.0% in the previous quarter. Domestic demand was the only source of GDP growth (in yoy terms) on the back of households consumption (contribution of 2.9 pp) and strong increase in inventories (1.9 pp). Contribution to GDP of investments, which were only 0.8% higher than a year before, was slightly positive. Net exports contribution to GDP growth was negative (1.5 pp) due to significantly higher imports than exports dynamics.



Polish gross external debt position

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

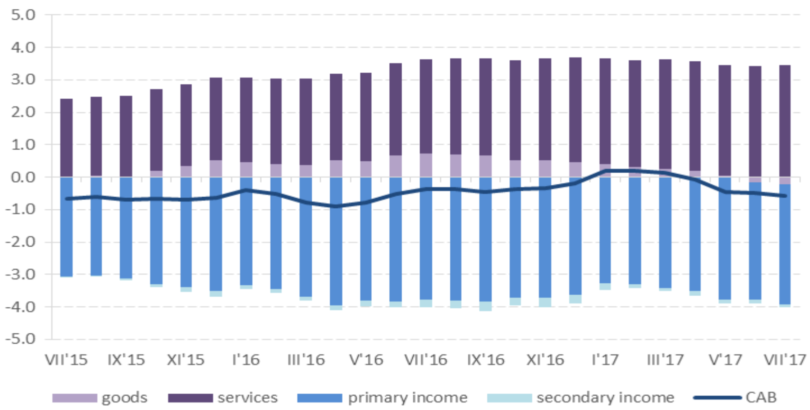
At the end of the second quarter of 2017 gross external debt reached EUR 318.9bn (72.3% of GDP) and was EUR 3.6bn lower than in the previous quarter. The share of general government sector debt in total debt increased to 39.3%. At the end of July 2017 official reserve assets reached EUR 93.6bn and remained broadly adequate, covering about 5 months of imports.



Current account balance

percent of GDP, in 12-month terms
source: NBP, GUS, MoF own calculation

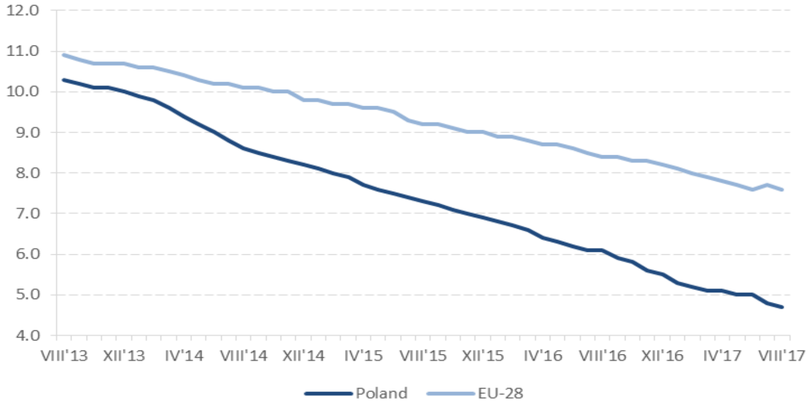
In July 2017, according to the preliminary data, current account deficit amounted to 0.6% of GDP (in 12-month terms of GDP). Data were slightly below market expectations. C/A deficit was fully covered by long-term capital, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on capital account.



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

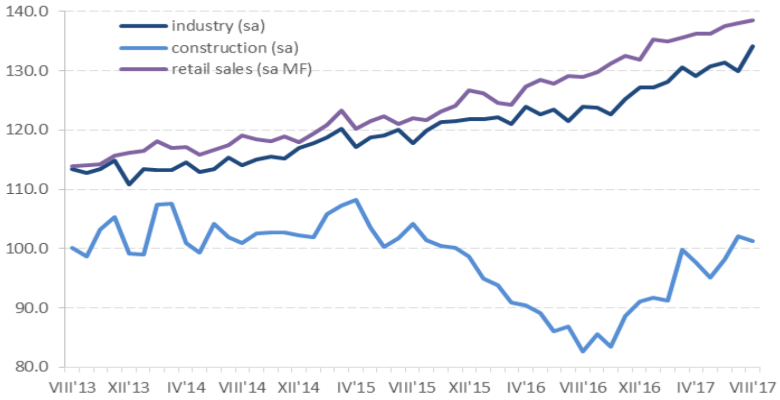
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In August 2017 it amounted to 4.7% (versus 7.6% in EU on average) and was at the same level as in the previous month and 1.4 pp lower than a year earlier. In August 2017 harmonised unemployment rate (sa) in Poland was at the historically lowest level.



Monthly indicators of the real sector

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

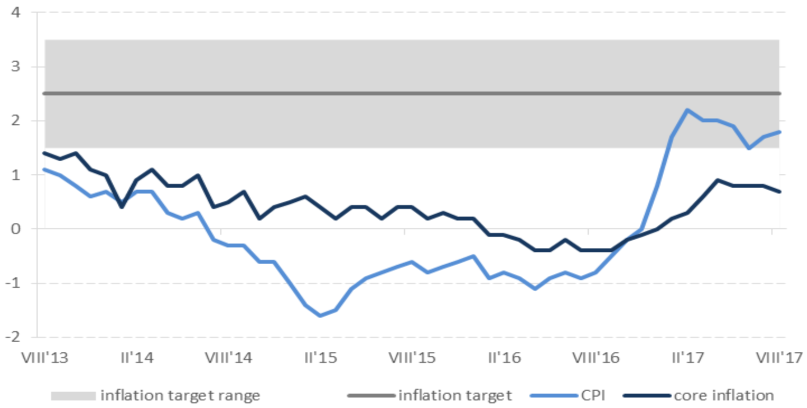
In August 2017 industrial output went up by 3.2% (mom, sa). As a result, production was 8.8% higher than a year ago (nsa). Data were above market expectations.
Construction production went down by 0.8% following a rebound in the previous month (mom, sa). As a result, its level was 23.5% (nsa) higher than a year before. Data were worse than expectations. Real retail sales increased by 0.3% (mom, sa MoF) following similar growth in the previous month.
As a result, their level was 6.9% (nsa) higher than in the same month of 2016. Data were a bit better than market expectations.



Inflation

percent, yoy
source: GUS, NBP

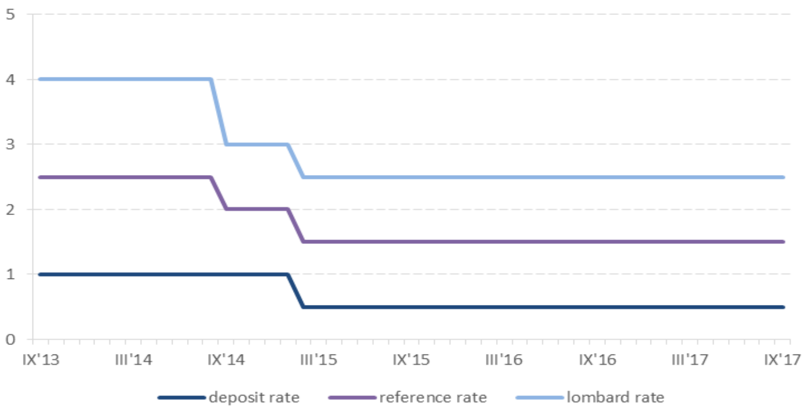
After CPI deflation (since July 2014 till October 2016), in the first quarter of 2017, in line with commodity prices increase, inflation visibly accelerated to 2.0%. In the second quarter inflation rate decreased to 1.8% and in August it stayed at this level (data were consistent with market expectations). Since the beginning of 2017 core inflation (CPI excluding food and energy prices) has been positive and in August it amounted to 0.7% (yoy). After almost 4 years of deflation in producer prices, since September 2016 these prices were rising rapidly and in the first quarter of 2017 were higher than a year before by 4.4%. In the second quarter of 2017 annual dynamics decreased to 2.8% and in August it amounted to 3.0%.



NBP interest rates

percent, end of period
source: NBP

In September 2017 the Monetary Policy Council kept NBP 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 (August, 31th) sees no NBP rate move till the end of the third quarter of 2018.



II. STATISTICAL DATA

	Unit	2016 Q01	Q02	Q03	Q04	2017 Q01	Q02
GDP							
Gross domestic product	YoY	2.9	3.0	2.4	2.5	4.0	3.9
	QoQ SA	-0.1	0.9	0.4	1.7	1.1	1.1
Final consumption expenditure of the households sector	YoY	3.4	3.4	4.1	4.5	4.7	4.9
	QoQ SA	1.0	0.9	1.3	1.2	1.3	1.3
Final consumption expenditure of the general government sector	YoY	4.5	4.2	3.8	-0.2	1.0	2.4
	QoQ SA	1.0	-0.6	1.1	0.3	0.1	1.5
Gross fixed capital formation	YoY	-9.8	-4.5	-6.7	-9.8	-0.4	0.8
	QoQ SA	-9.6	1.6	-0.7	-0.2	0.3	0.5
Exports of goods and services	YoY	7.1	11.8	7.8	9.3	8.3	2.8
	QoQ SA	1.2	4.8	-0.4	2.5	1.2	0.0
Imports of goods and services	YoY	8.7	10.1	8.7	8.2	8.7	6.1
	QoQ SA	1.4	3.6	0.6	1.1	3.6	0.1
Gross value added	YoY	2.7	2.8	2.2	2.5	3.7	3.7
	QoQ SA	0.5	0.2	0.7	1.7	0.7	1.4
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.2	2.0	2.5	2.2	3.0	2.9
Final consumption expenditure of the general government sector	pp	0.8	0.7	0.6	0.0	0.2	0.5
Gross fixed capital formation	pp	-1.4	-0.8	-1.3	-2.8	0.0	0.1
Changes in inventories	pp	1.8	-0.1	0.9	2.3	0.7	1.9
Balance of trade turnover	pp	-0.5	1.2	-0.3	0.8	0.1	-1.5
Gross value added	pp	2.4	2.5	2.0	2.3	3.3	3.2
Taxes less subsidies	pp	0.5	0.5	0.4	0.2	0.7	0.7
GDP structure							
Final consumption expenditure of the households sector	% of GDP	64.2	58.8	60.2	50.1	64.9	59.4
Final consumption expenditure of the general government sector	% of GDP	17.4	17.7	17.3	19.0	16.9	17.4
Gross fixed capital formation	% of GDP	12.3	16.8	17.5	24.4	11.7	16.2
Changes in inventories	% of GDP	1.1	0.6	1.5	2.7	2.0	2.4
Exports of goods and services	% of GDP	53.9	54.5	52.4	49.0	56.4	54.1
Imports of goods and services	% of GDP	49.6	49.1	49.6	45.7	52.6	50.2

	Unit	2017 M03	M04	M05	M06	M07	M08
Balance of payments							
Goods: exports (EUR)	YoY	15.1	1.4	16.2	8.7	10.7	-
Goods: imports (EUR)	YoY	16.8	3.3	21.4	15.0	12.5	-
Current account balance[1)]	% of GDP	0.1	-0.1	-0.5	-0.5	-0.6	-
Balance on goods[1)]	% of GDP	0.3	0.2	0.1	-0.1	-0.2	-
Official Reserve Assets	EUR m	104 705.6	100 403.9	98 195.2	97 969.5	93 577.6	92 192.0
Inflation							
Consumer Price Index (CPI)	YoY	2.0	2.0	1.9	1.5	1.7	1.8
Core inflation (CPI excluding food and energy prices)	YoY	0.6	0.9	0.8	0.8	0.8	0.7
Producer Price Index (PPI)	YoY	4.8	4.2	2.4	1.8	2.2	3.0
Production							
Sold production of industry[2)]	YoY	11.1	-0.6	9.2	4.4	6.2	8.8
	MoM SA	1.9	-1.1	1.2	0.5	-0.9	3.2
Construction and assembly production[2)]	YoY	17.2	4.3	8.4	11.6	19.8	23.5
	MoM SA	9.4	-2.1	-2.7	3.2	4.0	-0.8
Manufacturing PMI	SA	53.5	54.1	52.7	53.1	52.3	52.5
Households and labour market							
Retail sales[2)]	YoY	7.9	6.7	7.4	5.8	6.8	6.9
Average paid employment in enterprise sector	YoY	4.5	4.6	4.5	4.3	4.5	4.6
	MoM	0.1	0.2	0.0	0.2	0.3	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	3.1	2.0	3.4	4.5	3.1	4.8
	MoM	6.4	-2.2	-2.2	2.9	0.1	-0.1
Harmonised unemployment rate (Eurostat)	%, SA	5.1	5.1	5.0	5.0	4.8	4.7

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	2017 M02	M03	M04	M05	M06	M07
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	945 151.0	941 428.8	942 548.0	940 531.7	945 695.5	939 931.1
Domestic debt	face value, PLN m	633 076.6	639 484.9	643 216.7	647 159.0	650 210.3	645 203.1
	%	67.0	67.9	68.2	68.8	68.8	68.6
Foreign debt	face value, PLN m	312 074.5	301 943.8	299 331.4	293 372.6	295 485.2	294 728.0
	%	33.0	32.1	31.8	31.2	31.2	31.4

	Unit	2016 Q01	Q02	Q03	Q04	2017 Q01	Q02
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	899 250.3	936 951.4	939 584.5	965 199.0	974 756.1	977 216.4
Domestic debt	face value, PLN m	600 024.1	614 898.8	624 358.2	630 171.6	657 487.5	666 482.5
	%	66.7	65.6	66.5	65.3	67.5	68.2
Foreign debt	face value, PLN m	299 226.2	322 052.6	315 226.3	335 027.4	317 268.6	310 733.9
	%	33.3	34.4	33.5	34.7	32.5	31.8
General Government debt (EU definition)							
General Government debt	face value, PLN m	938 481.7	977 839.1	978 443.2	1 006 278.7	1 013 056.9	1 016 004.2

Source: MoF

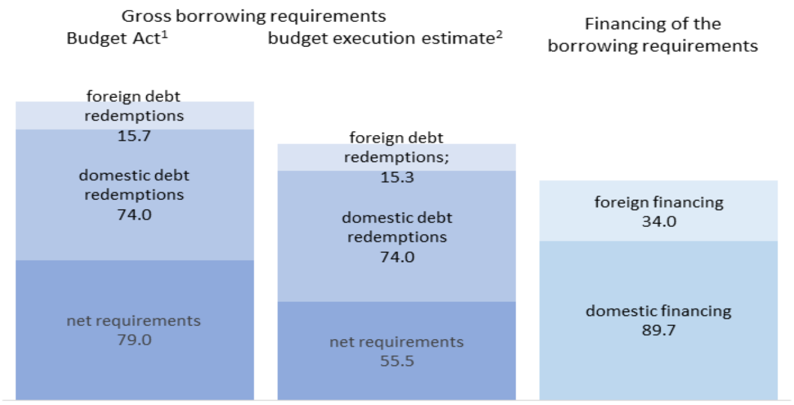
Gross borrowing requirements in 2017

as of September 30, 2017, PLN bn

Financing of the State budget borrowing requirements at the level of 73% (acc. to the Budget Act) and 85% (acc. to the budget execution estimate) was a result of:

- T-bond sale on domestic market: PLN 58.1bn,
- switch auctions in 2017: PLN 14.9bn,
- T-bond sale on foreign markets: PLN 6.4bn (EUR 1.5bn),
- loans incurred from IFIs: PLN 0.2bn,
- switch auctions in 2016: PLN 13.4bn,
- and higher than planned financial resources at the end of 2016: PLN 30.8bn.

[1] Net requirements acc. to the Budget Act; debt redemptions as of December 31, 2016 (total: PLN 168.7bn).
[2] Budget execution estimate from the 2018 Budget Act (total: PLN 144.8bn).

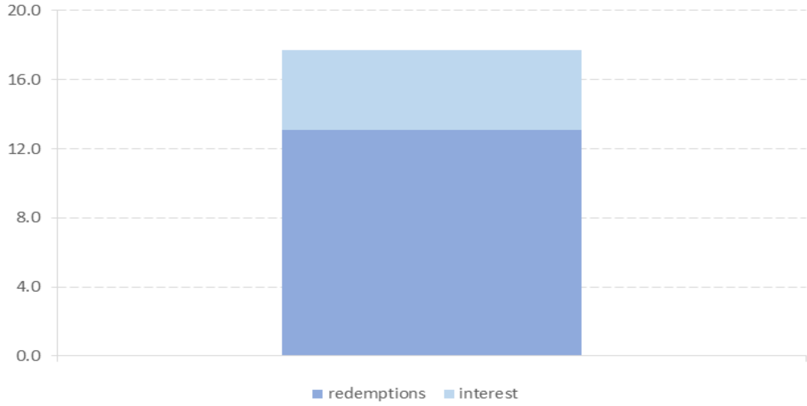


Outflows of funds related to domestic marketable T-securities transfers in October

as of September 30, 2017, PLN bn

Value of funds transferred from the State budget to the market in October shall amount to PLN 17.7bn, of which:

- TS redemptions: PLN 13.1bn,
- interest payments: PLN 4.7bn.

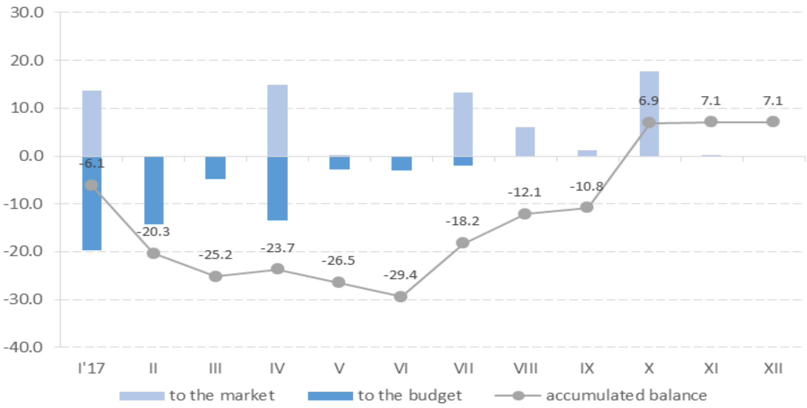


Flows of funds between the market and the budget*

as of September 30, 2017, PLN bn

As of September 30, 2017 to the end of the year the funds to be transferred to the market shall amount to PLN 17.9bn.

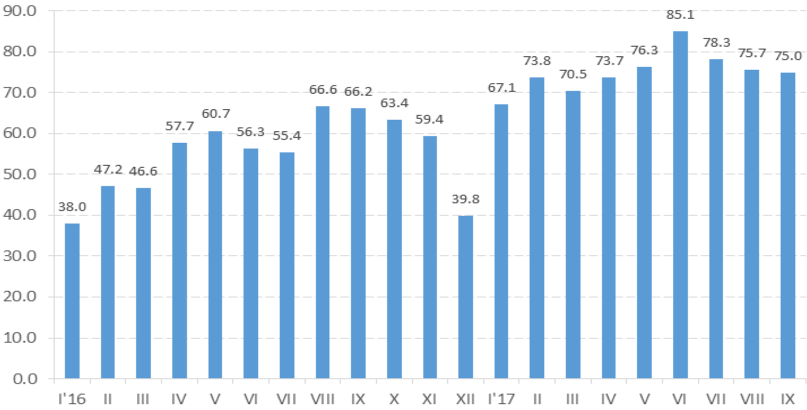
** figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.*



Funds in PLN and in foreign currency on budgetary accounts at the end of month

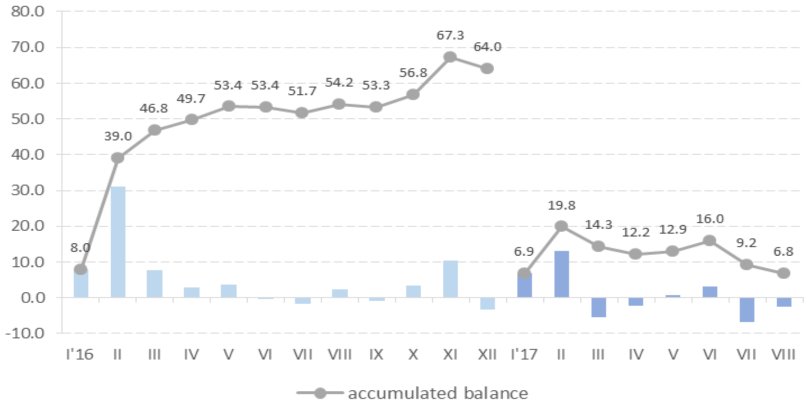
funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.



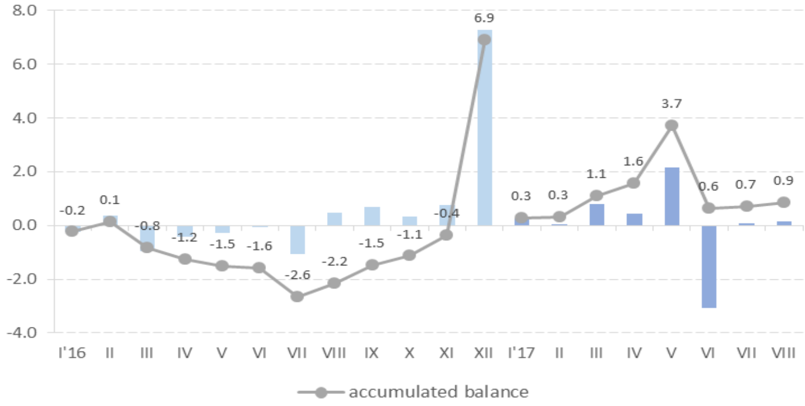
Change of debt in domestic Treasury securities held by banks
without buy-sell-back transactions with MoF, PLN bn

In the period of I-VIII 2017 debt held by domestic banks increased by PLN 6.8bn comparing to PLN 54.2bn increase during the same period of 2016.



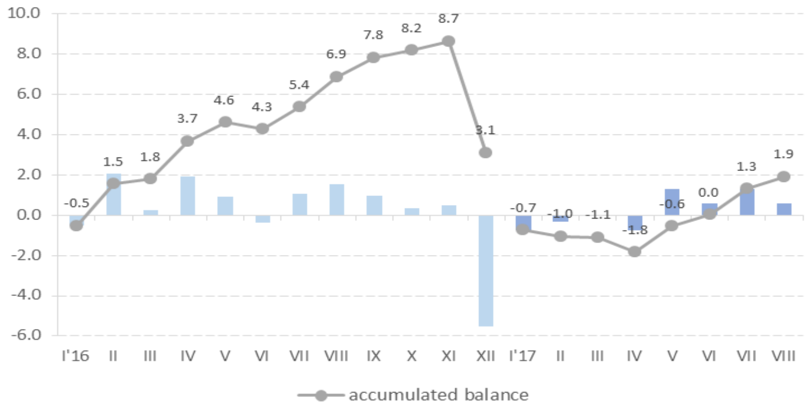
Change of debt in domestic Treasury securities held by insurance companies
PLN bn

In the period of I-VIII 2017 there was an increase of PLN 0.9bn in debt held by insurance companies. During the same period of 2016 there was a decrease of PLN 2.2bn.



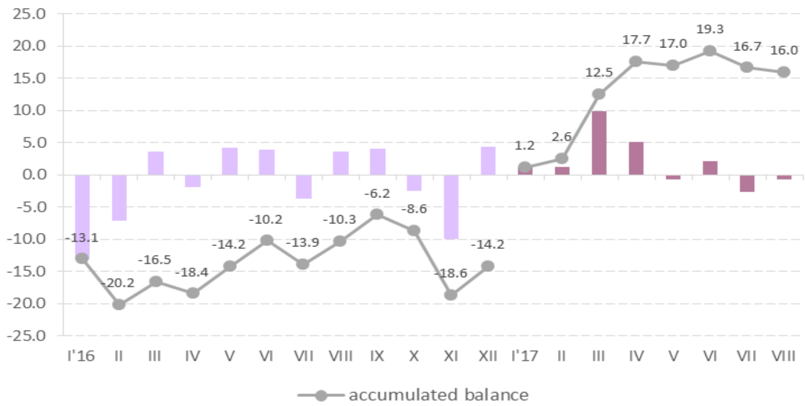
Change of debt in domestic Treasury securities held by investment funds
PLN bn

In the period of I-VIII 2017 there was an increase of PLN 1.9bn in debt held by investment funds. During the same period of 2016 there was an increase of PLN 6.9bn.



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

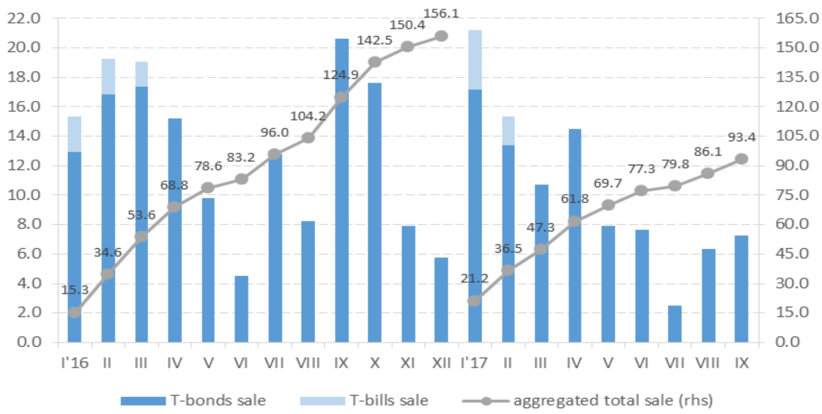
In the period of I-VIII 2017 inflow of foreign capital to the domestic TS market amounted to PLN 16.0bn comparing to outlow of PLN 10.3bn in the same period of 2016. Foreign investors' holdings reached the level of PLN 208.6bn.



Sale of T-bonds and T-bills in the period of I-IX 2017 and 2016
auction date, nominal amount, PLN bn

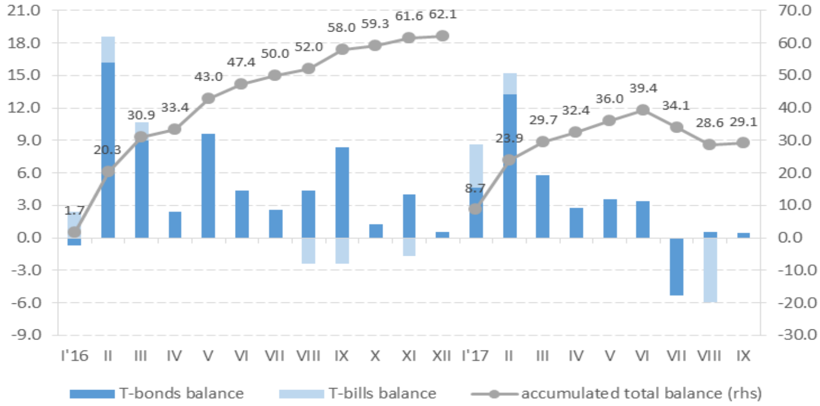
In the period of I-IX 2017 aggregated total sale of:

- T-bonds amounted to PLN 87.4bn versus PLN 118.4bn in the same period of 2016,
- T-bills amounted to PLN 6.0bn versus PLN 6.5bn in the same period of 2016.



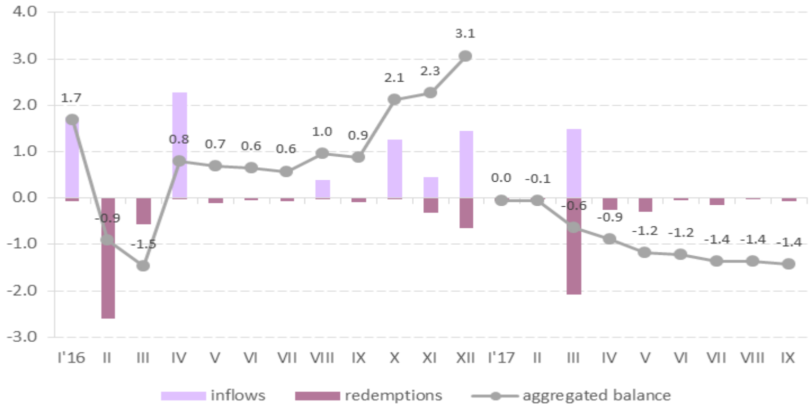
Balance of T-bonds and T-bills in the period of I-IX 2017 and 2016
auction date, nominal amount, PLN bn

In the period of I-IX 2017 indebtedness in T-bonds increased by PLN 29.1bn.



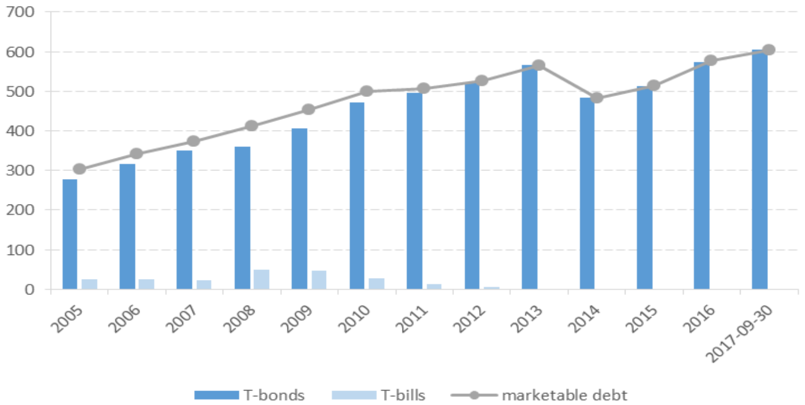
External financing in the period of I-IX 2017 and 2016
bonds issued on foreign markets and loans received from IFIs, settlement date, EUR bn

Net financing on foreign markets in the period of I-IX 2017 was negative and amounted to EUR 1.4bn, which resulted from negative balance of T-bonds issuance of EUR 1.0bn and negative balance of loans incurred from IFIs at the level of EUR 0.4bn.



Structure of marketable debt
PLN bn

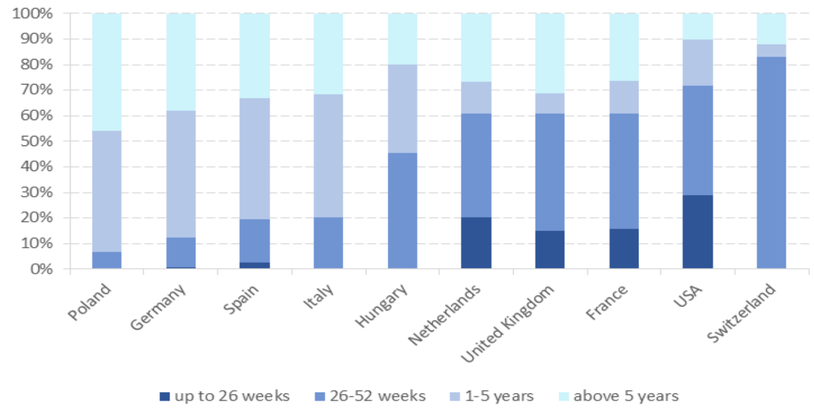
At the end of September 2017 the marketable domestic debt amounted to PLN 605.2bn comparing to PLN 576.7bn at the end of 2016.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

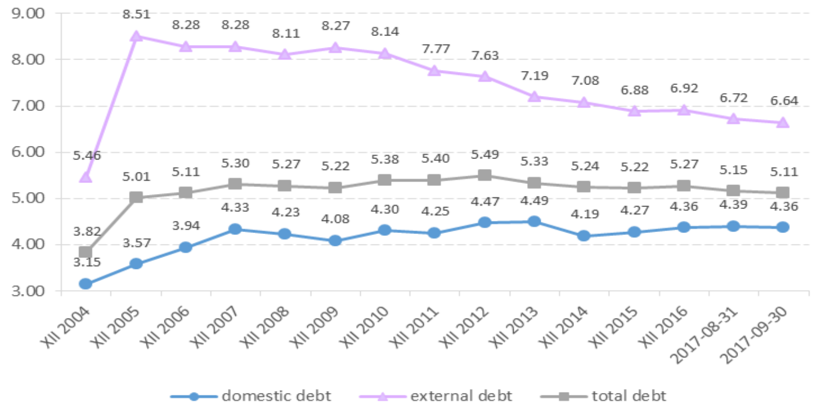
Maturity breakdown of T-securities in Poland and other countries
auctions and syndicates, local currency, ytd in the period of January 1 - September 30, 2017

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



Average maturity

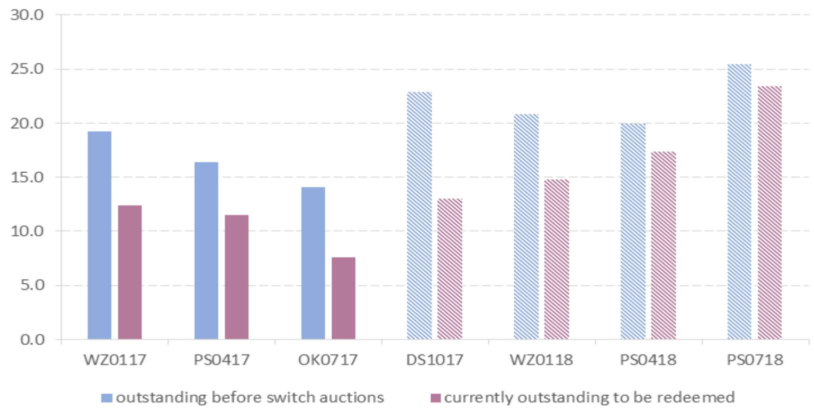
At the end of September 2017 the average maturity of domestic debt amounted to 4.36 (4.36 at the end of 2016). The average of total debt amounted to 5.11 (5.27 at the end of 2016).



Reducing refinancing risk connected with T-bonds' redemptions maturing in 2017 and 2018
as of September 30, 2017, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2017 and 2018 (by switch):

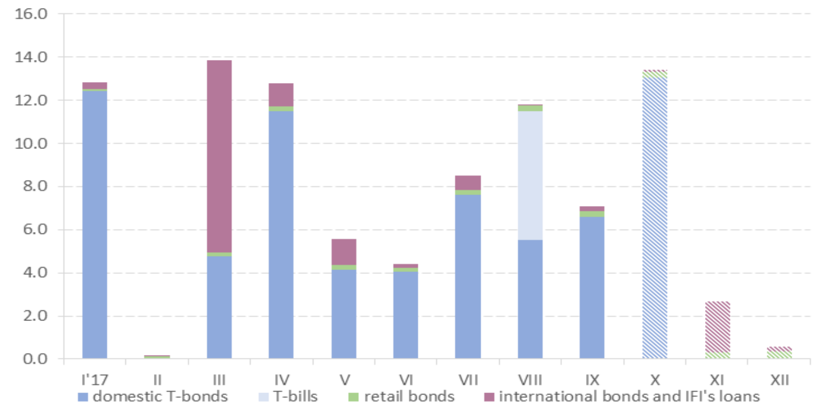
- WZ0117: PLN 6.8bn (35%),
- PS0417: PLN 4.9bn (30%),
- OK0717: PLN 6.5bn (46%),
- DS1017: PLN 9.9bn (43%),
- WZ0118: PLN 6.1bn (29%),
- PS0418: PLN 2.5bn (13%),
- PS0718: PLN 2.0bn (8%).



State Treasury debt redemptions in 2017
as of September 30, 2017, nominal amount, PLN bn

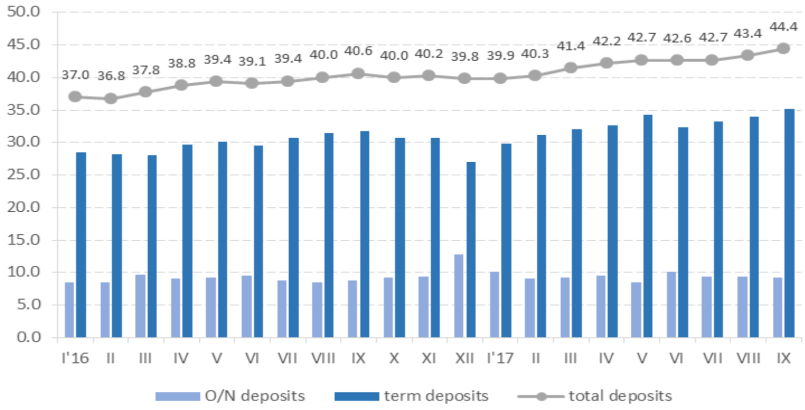
The nominal amount of debt to be redeemed in 2017 is equal to PLN 16.6bn, including:

- T-bonds: PLN 13.1bn,
- T-retail bonds: PLN 0.9bn,
- bonds and loans incurred on foreign markets: PLN 2.7bn.



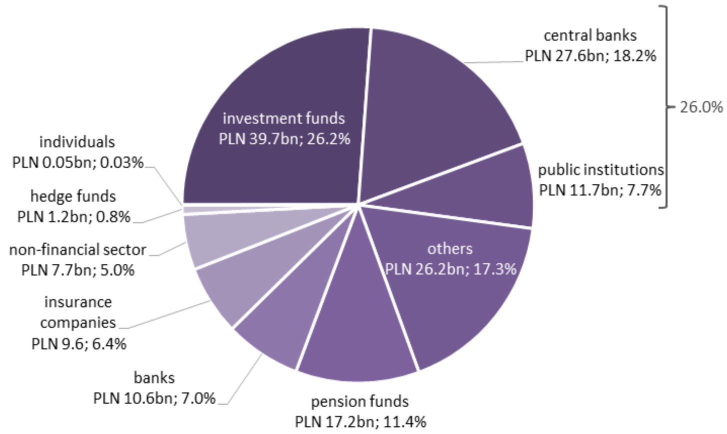
Consolidation of public finances liquidity management
PLN bn

As a result of consolidation of public finances liquidity management there were PLN 44.4bn funds accumulated at the end of September 2017, of which PLN 35.2bn was as term deposits and PLN 9.2bn on O/N deposits.



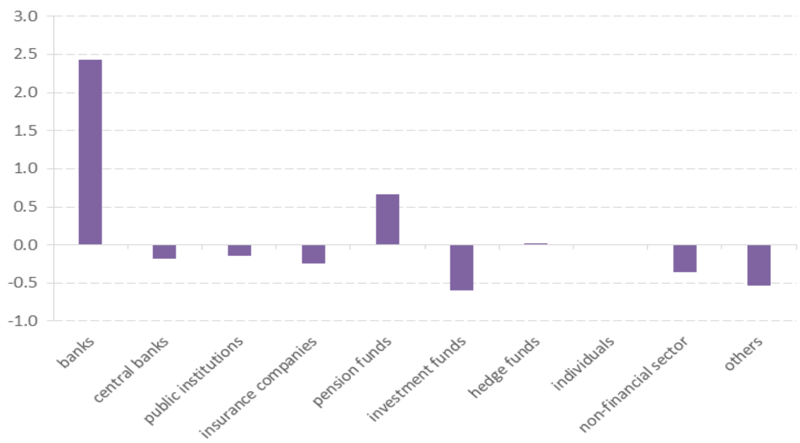
Institutional distribution of domestic Treasury securities held by non-residents
as of August 31, 2017, the chart presents data excluding omnibus accounts

In August 2017 the non-residents' share in the domestic Treasury securities market decreased by PLN 0.7bn. The foreign investors' portfolio amounted to PLN 208.6bn, which constituted 33.7% share in total debt in Treasury securities (33.6% in the previous month). As of the end of August 2017 central banks and public institutions' share in foreign holdings amounted to 26.0%.



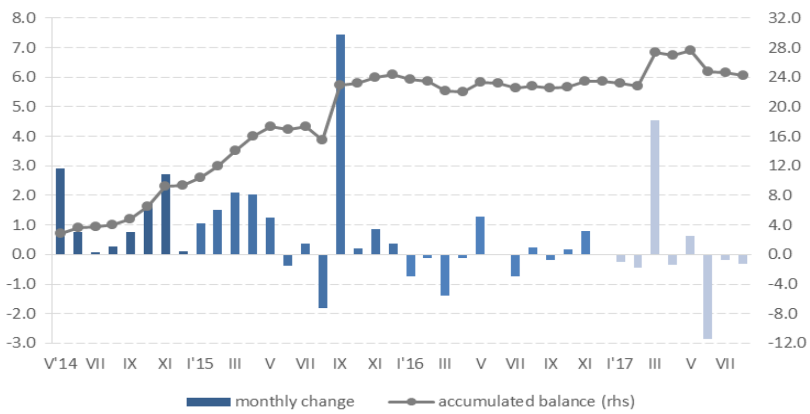
Change of debt in domestic Treasury securities held by non-residents by institutions
change in August 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

In August 2017 the highest increase recorded banks (PLN 2.4bn). The highest decreases were recorded by investment funds (PLN 0.6bn) and entities from "others" category (PLN 0.5bn).



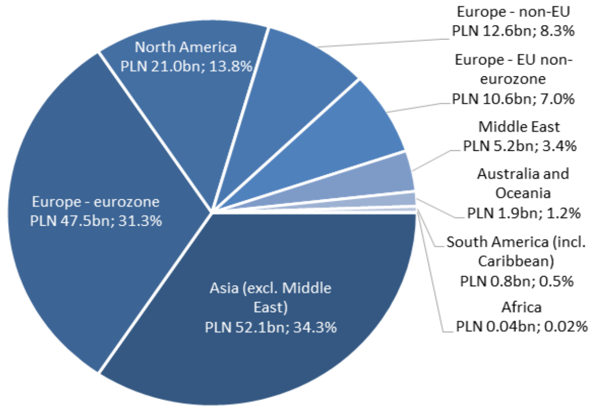
Change of debt in domestic Treasury securities held by central banks and public institutions
change in August 2017, PLN bn

In August 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 August 2017, when the detailed information is available, portfolios of those entities increased by PLN 24.3bn.



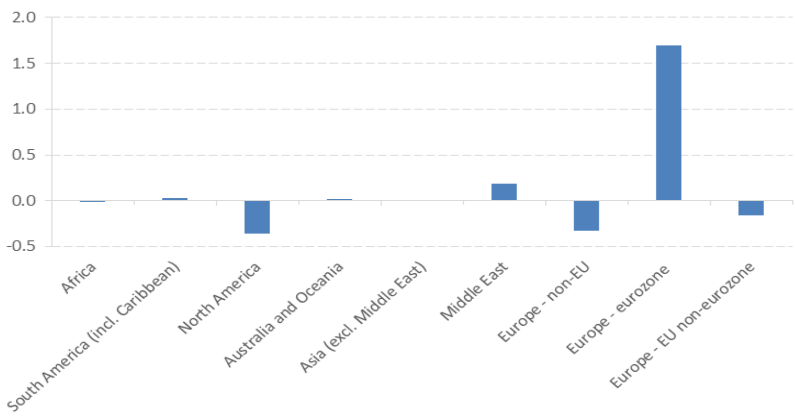
Geographical distribution of domestic Treasury securities held by non-residents
as of August 31, 2017, the chart presents data excluding omnibus accounts

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 August, 2017, mom, PLN bn, the chart presents data excluding omnibus accounts

In August 2017 the highest increase was recorded by investors from the eurozone (PLN 1.7bn). The highest decrease was noted by investors from North America (PLN 0.4bn).



Structure of non-residents' holdings in Treasury securities by countries
as of August 31, 2017, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings (%)
Japan	21 302.4	17.2%
United States	19 975.3	16.1%
Luxembourg	19 066.2	15.4%
Norway	10 821.4	8.7%
Ireland	7 866.9	6.3%
United Kingdom	6 714.1	5.4%
Germany	6 560.2	5.3%
Netherlands	6 086.2	4.9%
Austria	3 600.6	2.9%
France	2 569.7	2.1%
Hong Kong	2 466.7	2.0%
United Arab Emirates	2 356.0	1.9%
Denmark	1 968.0	1.6%
Australia	1 669.9	1.3%
Switzerland	1 545,1	1.2%
Others	9 473,6	7.6%
Total	**124 042.4**	**100.0%**

MoF comment

Piotr Nowak, Undersecretary of State, MoF
30-06-2017

(…) Switch auction was the only auction in September which financed mainly next year's borrowing needs as most of bought back bonds would mature in 2018. The amount of liquid funds was ca. PLN 75bn.

Because of the persisting favourable budget liquidity situation and projected borrowing requirements to the end of the year supply on sale auctions will be between PLN 8-16bn in the fourth quarter. In October we will organize one switch auction and one sale auction with supply of PLN 4-8bn. The offer will include standard bond types.

Since October, in response to the need of retail buyers on short-term Treasury securities, retail bonds offer will be enhanced by a new 3-month bond with a coupon of 1.5%.

In August foreign investors decreased their portfolios of PLN denominated Treasury securities by PLN 0.7bn, which was also observed in September.

The Public Sector Debt Management Strategy

On September 26, 2017 *The Public Debt Management Strategy in the years 2018-2021* was approved by the Council of Ministers. The summary of the strategy is available on the MoF's website: www.mf.gov.pl.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2017

General assumptions

- In the fourth quarter of 2017 T-bond auctions are planned according to the announced yearly issuance calendar taking into account modifications in October and December (shifting auction dates from October 23rd to October 25th and from December 7th to December 15th) as a result of timing of rating agencies assessments,
- offer of T-bonds on the domestic market will depend on budget and market situation and consultations with investors,
- auctions of T-bills are not planned,
- current five benchmarks (three fixed rate and two floating rate) will continue to be offered at T-bond auctions with an option of adding T-bonds of either WS or IZ type,
- foreign financing will be determined by the budget situation and conditions on international financial markets and the domestic market,
- the announced plan may be modified subject to the market and budget situation, in particular holding buy-backs auctions is possible.

Offer of T-bonds on the domestic market

- **sale auctions:**

  two auctions, total supply PLN 8.0-16.0bn,
- **switch auctions:**

  three auctions – T-bonds maturing in 2018 would be offered to repurchase.

Foreign financing

- possible issuance of bonds on the international markets,
- possible loans from International Financial Institutions of ca. EUR 1.0bn,
- possible private placement issuances.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN OCTOBER 2017

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
25 OCT 2017	27 OCT 2017	OK0720 / WZ1122 / PS0123 / WZ0126 / DS0727 / possible T-bond of WS or IZ type	4,000-8,000

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)
5 OCT 2017/ 9 OCT 2017	OK0419 / WZ1122 / PS0123/ WZ0126 / DS0727	WZ0118	12,400
		PS0418	16,912
		PS0718	21,642
		OK1018	26,418

** after auction settlement*

T-bill auctions

Sale auctions of T-bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0118 3-month	100.00 PLN	Fixed 1.50%
DOS1019	PLN 100.00 (99.90 PLN for rolling-over)	Fixed, 2.10%
TOZ1020	PLN 100.00 (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M) 2.20% in the first coupon period
COI1021	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%) 2.40% in the first coupon period
EDO1027	PLN 100.00 (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%) 2.70% in the first coupon period
ROS1023	PLN 100.00	Floating (inflation rate + 1.75%) 2.80% in the first coupon period
ROD1029	PLN 100.00	Floating (inflation rate + 2.00%) 3.20% in the first coupon period