

State budget borrowing requirements' financing plan and its background

March 2018

THE MOST IMPORTANT INFORMATION

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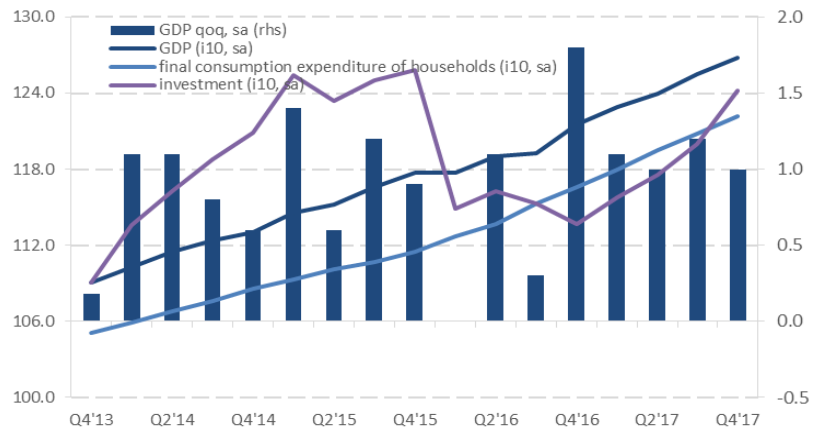


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

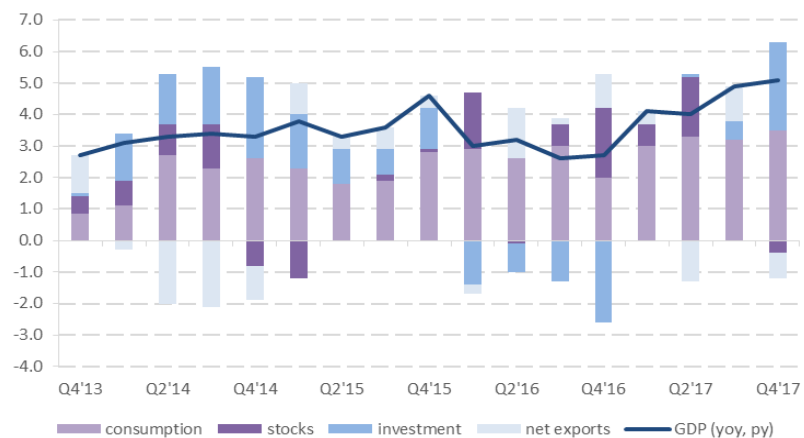
In the fourth quarter of 2017 GDP went up by 1.0% (qoq, sa) as compared to 1.2% (qoq, sa) in the previous quarter. In the fourth quarter of 2017 growth of households consumption remained strong and a noticeable acceleration in investments dynamics (qoq, sa) was observed. Increase in private consumption was a consequence of a positive labour market situation, robust sentiment of consumers and implementation of family support programme "Family 500+".



Contributions to Polish GDP growth

pp, py - average prices of previous year
source: GUS, MoF own calculation

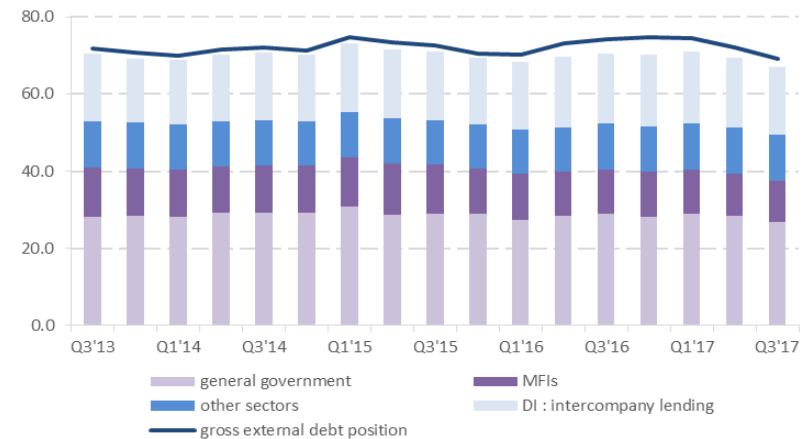
In the fourth quarter of 2017 GDP was 5.1% higher than a year ago as compared to 4.9% a quarter ago which represented the strongest reading since the end of 2011. Domestic demand was the only source of GDP growth on the back of investments (contribution of 2.8 pp) and households consumption (2.5 pp). Net exports contribution to GDP growth, due to noticeably higher imports than exports dynamics, was negative (0.8 pp), as well as the contribution of inventories (0.4 pp). Investments were 11.3% higher than a year ago which indicated a significant improvement compared to the first three quarters of 2017. Higher dynamics of investments was likely a result of an improvement of their dynamics in general government sector.



Polish gross external debt position

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

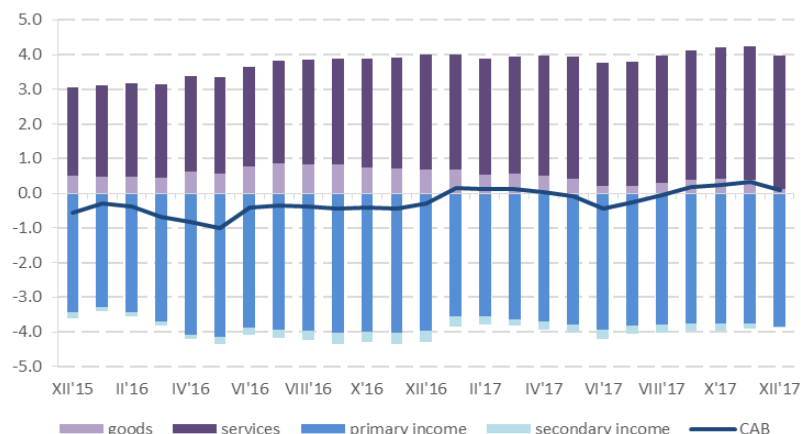
At the end of the third quarter of 2017 gross external debt reached EUR 313.1bn (69.1% of GDP) and was EUR 6.9bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 38.8%. At the end of December 2017 official reserve assets reached EUR 94.5bn and 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 December 2017, according to the preliminary data, current account surplus decreased to 0.1% of GDP (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 the capital account.

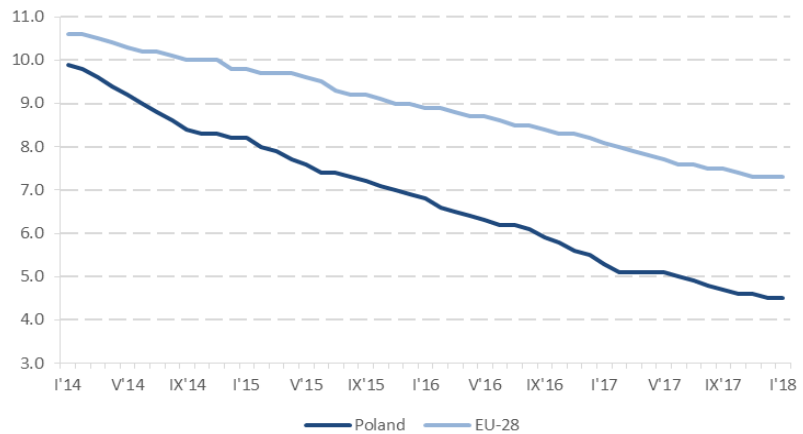




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

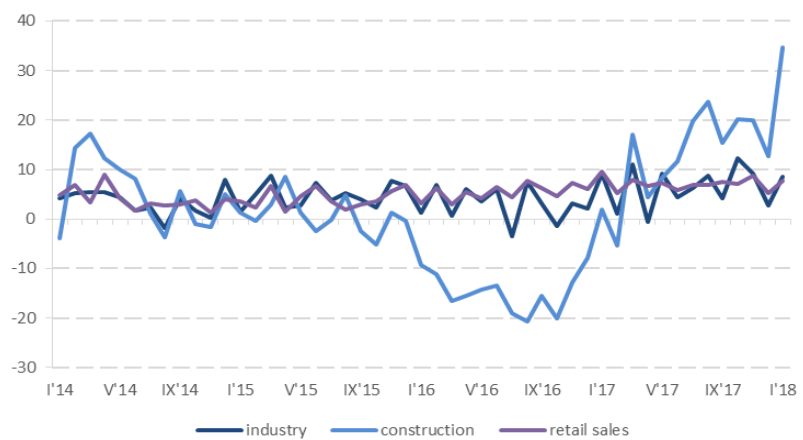
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In January 2018 it amounted to 4.5% (versus 7.3% in EU on average) and was at the same level as in the previous month and 0.8 pp lower than a year earlier. In January 2018 harmonised unemployment rate (sa) in Poland remained at the lowest level in historical terms.



Monthly indicators of the real sector

sold production in constant prices, yoy, raw data
source: GUS

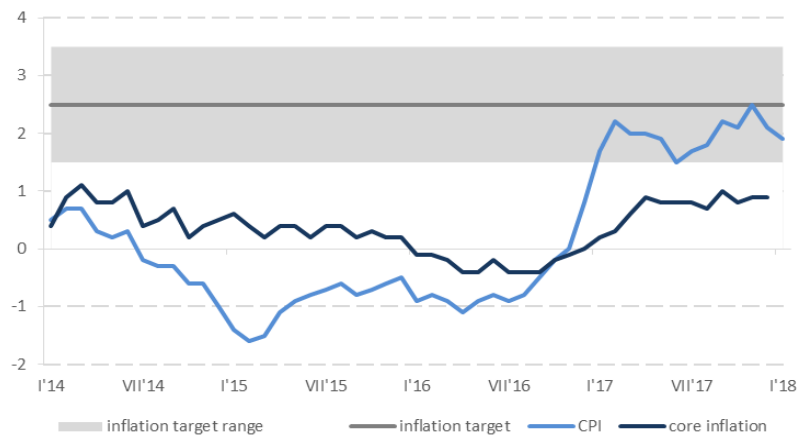
In January 2018 industrial output went down by 0.8% (mom, sa). As a result, production was 8.6% higher than a year ago (nsa). Data were slightly better than market expectations. Construction production jumped by 8.8% following two months of relatively high growth (mom, sa). As a result, production was 34.7% (nsa) higher than a year before. Data were much better than expectations. Real retail sales increased in January (by 0.8% mom, sa MoF) following an unexpected drop in the previous month. As a result, their level was 7.7% (nsa) higher than in the same month of 2017. Data were above market expectations.



Inflation

percent, yoy
source: GUS, NBP

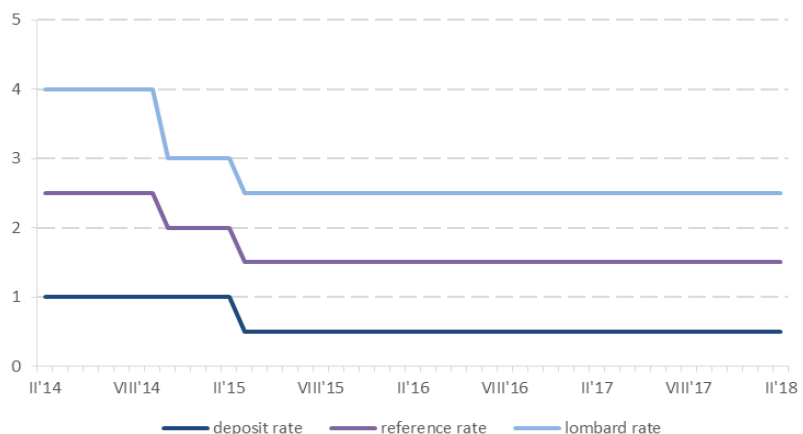
In January 2018, according to preliminary data, consumer prices rose by 0.3% (mom). As a result, consumer prices were higher by 1.9% than a year before. Data were consistent with market expectations. Since the beginning of 2017 core inflation (CPI excluding food and energy prices) has been positive and in December it amounted to 0.9% yoy (no data for January 2018). In January producer prices increased by 0.1% (mom) and their annual growth fell to 0.2%.



NBP interest rates

percent, end of period
source: NBP

In February 2018 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 (February, 2nd) sees no NBP rate move till the end of 2018.





II. STATISTICAL DATA

	Unit	2016		2017			
		Q03	Q04	Q01	Q02	Q03	Q04
GDP¹⁾							
Gross domestic product	Y oY	2.6	2.7	4.1	4.0	4.9	5.1
	QoQ SA	0.3	1.8	1.1	1.0	1.2	1.0
Final consumption expenditure of the households sector	Y oY	4.1	4.7	4.7	4.9	4.8	4.9
	QoQ SA	1.4	1.2	1.2	1.2	1.1	1.1
Final consumption expenditure of the general government sector	Y oY	2.8	-1.4	0.5	2.1	1.9	5.4
	QoQ SA	1.1	-0.2	0.5	1.8	0.4	1.3
Gross fixed capital formation	Y oY	-6.9	-9.7	-0.5	0.9	3.3	11.3
	QoQ SA	-0.9	-1.4	1.9	1.6	2.0	3.5
Exports of goods and services	Y oY	7.3	8.4	9.6	3.1	7.6	6.8
	QoQ SA	-1.0	2.7	2.1	0.1	2.7	1.6
Imports of goods and services	Y oY	7.2	6.3	9.7	6.0	5.7	9.2
	QoQ SA	0.6	0.1	4.9	0.0	0.8	4.0
Gross value added	Y oY	2.6	2.9	3.8	3.7	4.8	4.8
	QoQ SA	0.5	1.8	0.8	1.2	1.1	0.9
Contribution to GDP growth¹⁾							
Final consumption expenditure of the households sector	pp	2.5	2.3	2.9	2.9	2.9	2.5
Final consumption expenditure of the general government sector	pp	0.5	-0.3	0.1	0.4	0.3	1.0
Gross fixed capital formation	pp	-1.3	-2.6	0.0	0.1	0.6	2.8
Changes in inventories	pp	0.7	2.2	0.7	1.9	0.0	-0.4
Balance of trade turnover	pp	0.2	1.1	0.4	-1.3	1.1	-0.8
Gross value added	pp	2.3	2.5	3.4	3.3	4.1	4.3
Taxes less subsidies	pp	0.3	0.2	0.7	0.7	0.8	0.8
GDP structure¹⁾							
Final consumption expenditure of the households sector	% of GDP	60.1	49.9	64.5	59.1	59.7	49.6
Final consumption expenditure of the general government sector	% of GDP	17.3	18.9	16.9	17.3	16.8	18.9
Gross fixed capital formation	% of GDP	17.4	24.4	11.7	16.2	17.0	25.6
Changes in inventories	% of GDP	1.5	2.6	2.0	2.3	1.4	2.0
Exports of goods and services	% of GDP	52.3	48.9	57.1	54.3	53.5	49.5
Imports of goods and services	% of GDP	49.4	45.4	52.9	50.0	49.2	46.3
	Unit	2017					2018
		M08	M09	M10	M11	M12	M01
Balance of payments							
Goods: exports (EUR)	Y oY	11.5	10.0	15.5	14.9	2.1	-
Goods: imports (EUR)	Y oY	7.8	7.5	14.8	15.7	10.9	-
Current account balance ²⁾	% of GDP	-0.1	0.2	0.2	0.3	0.1	-
Balance on goods ²⁾	% of GDP	0.3	0.4	0.4	0.4	0.1	-
Official Reserve Assets	EUR m	92 192.0	94 368.1	95 099.3	95 821.5	94 549.8	94 393.2
Inflation							
Consumer Price Index (CPI)	Y oY	1.8	2.2	2.1	2.5	2.1	1.9
Core inflation (CPI excluding food and energy prices)	Y oY	0.7	1.0	0.8	0.9	0.9	-
Producer Price Index (PPI)	Y oY	3.0	3.2	3.0	1.8	0.3	0.2
Production							
Sold production of industry ³⁾	Y oY	8.8	4.4	12.3	9.2	2.8	8.6
	MoM SA	3.2	-1.3	1.6	-0.4	1.8	-0.8
Construction and assembly production ³⁾	Y oY	23.6	15.3	20.2	19.9	12.8	34.7
	MoM SA	-0.2	0.1	-0.5	3.5	3.6	8.8
Manufacturing PMI	SA	52.5	53.7	53.4	54.2	55.0	54.6
Households and labour market							
Retail sales ³⁾	Y oY	6.9	7.5	7.1	8.8	5.2	7.7
Average paid employment in enterprise sector	Y oY	4.6	4.5	4.4	4.5	4.6	3.8
	M oM	0.1	0.1	0.1	0.3	0.2	2.0
Average monthly gross wages and salaries in enterprise sector (real)	Y oY	4.8	3.8	5.2	3.9	5.1	5.3
	M oM	-0.1	-0.8	1.8	0.3	7.7	-8.0
Harmonised unemployment rate (Eurostat)	% SA	4.8	4.7	4.6	4.6	4.5	4.5
<small>1) Please note that quarterly data currently are not consistent 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	2017					
		M07	M08	M09	M10	M11	M12
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	939 923.8	936 494.3	940 729.2	932 008.3	935 006.5	928 471.8
Domestic debt	face value, PLN m	645 203.1	642 221.8	643 185.0	637 934.6	646 064.2	644 531.9
	%	68.6	68.6	68.4	68.4	69.1	69.4
Foreign debt	face value, PLN m	294 720.7	294 272.5	297 544.2	294 073.7	288 942.2	283 939.9
	%	31.4	31.4	31.6	31.6	30.9	30.6
	Unit	2016		2017			
		Q02	Q03	Q04	Q01	Q02	Q03
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	936 951.4	939 584.5	965 199.0	974 756.4	977 234.8	972 207.5
Domestic debt	face value, PLN m	614 898.8	624 258.2	630 171.6	657 487.8	666 500.9	659 481.7
	%	65.6	66.5	65.3	67.5	68.2	67.8
Foreign debt	face value, PLN m	322 052.6	315 226.3	335 027.4	317 268.6	310 733.9	312 725.8
	%	34.4	33.5	34.7	32.5	31.8	32.2
General Government debt (EU definition)							
General Government debt	face value, PLN m	977 849.9	978 459.5	1 006 283.9	1 013 072.7	1 016 038.2	1 010 855.6

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



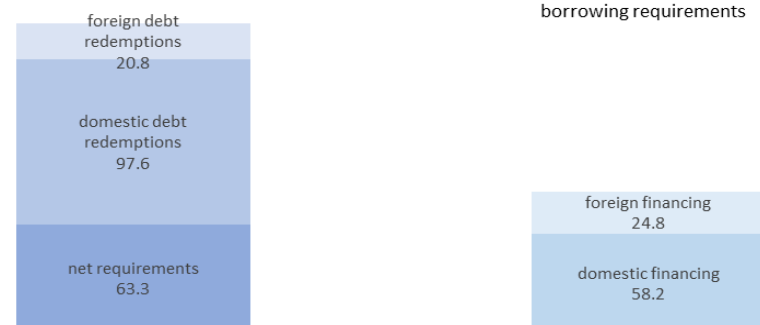
Gross borrowing requirements in 2018

as of February 28, 2018

Financing of the State budget borrowing requirements at the level of ca. 46% was a result of:

- T-bond sale on domestic market: PLN 23.7bn,
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn (initial data, the final level will be known following the closure of the budget year).

Gross borrowing requirements
Total: PLN 181.7bn, of which:



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

as of February 28, 2018

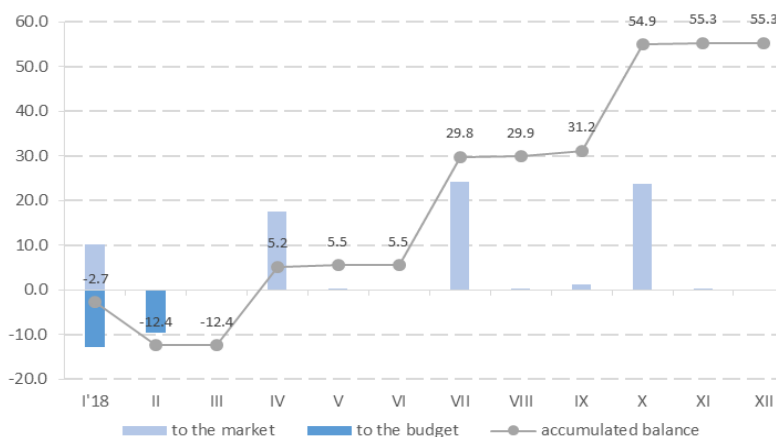
In March there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of February 28, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 67.7bn.

* 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

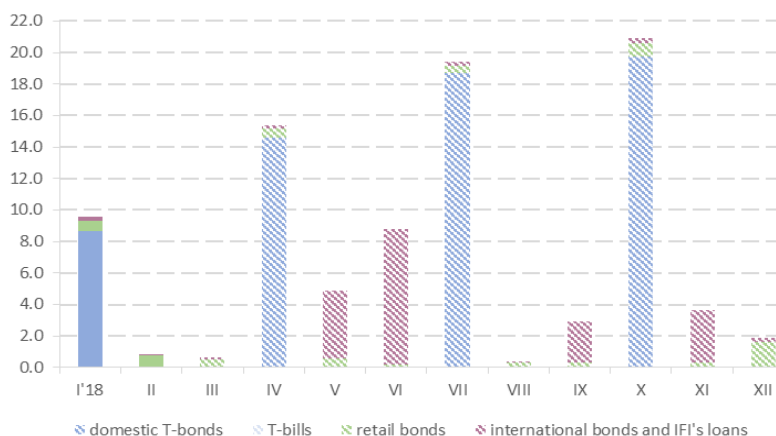


State Treasury debt redemptions in 2018

as of February 28, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 78.9bn, including:

- T-bonds: PLN 53.1bn,
- T-retail bonds: PLN 5.9bn,
- bonds and loans incurred on foreign markets: PLN 20.0bn.





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with T-bonds' redemptions maturing in 2018

as of February 28, 2018, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2018:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 5.3bn (27%),
- PS0718: PLN 6.8bn (27%),
- OK1018: PLN 8.5bn (30%).

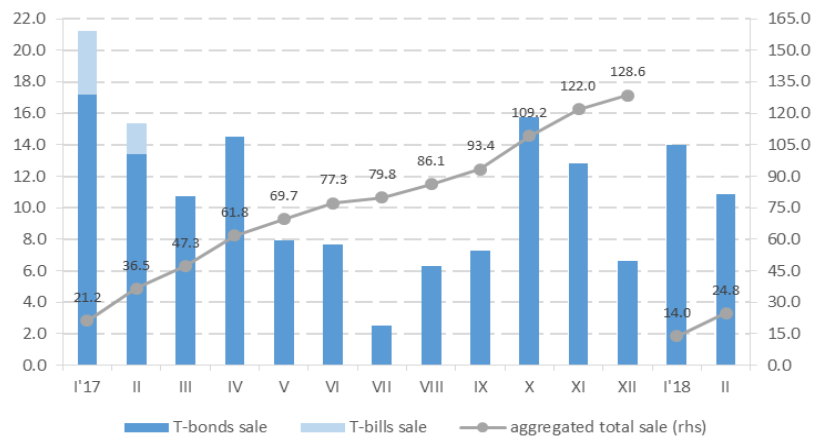


Sale of T-bonds and T-bills in the period of I-II 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-II 2018:

- aggregated total sale of T-bonds amounted to PLN 24.8bn versus PLN 30.6bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

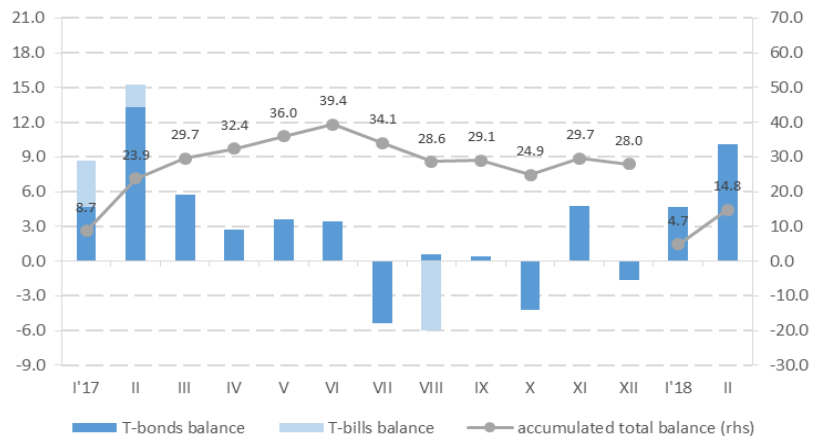


Balance of T-bonds and T-bills in the period of I-II 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-II 2018 indebtedness in:

- T-bonds increased to PLN 14.8bn versus increase of PLN 17.9bn in the same period of 2017,
- T-bills remained the same versus increase of PLN 6.0bn in the same period of 2017.

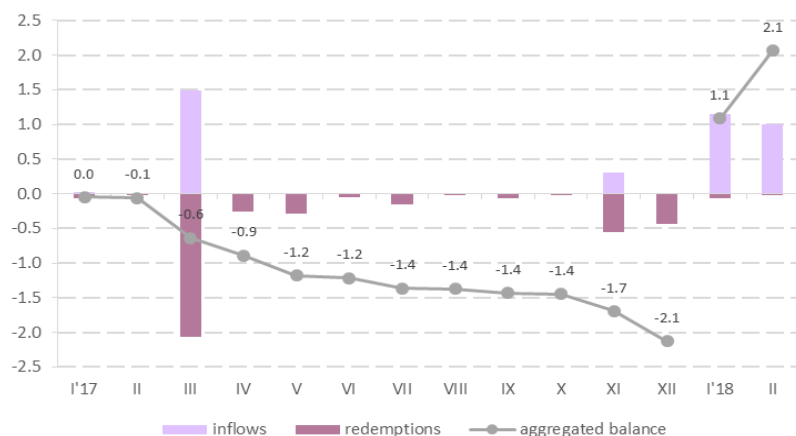


External financing in the period of I-II 2018 and in 2017

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 2018 was positive and amounted to EUR 2.1bn (negative balance of PLN 0.06bn in the same period of 2017) which resulted from:

- positive balance of T-bonds of EUR 1.0bn (zero balance in 2017),
- positive balance of loans incurred from IFIs of EUR 1.1bn (negative balance of EUR 0.06bn in 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

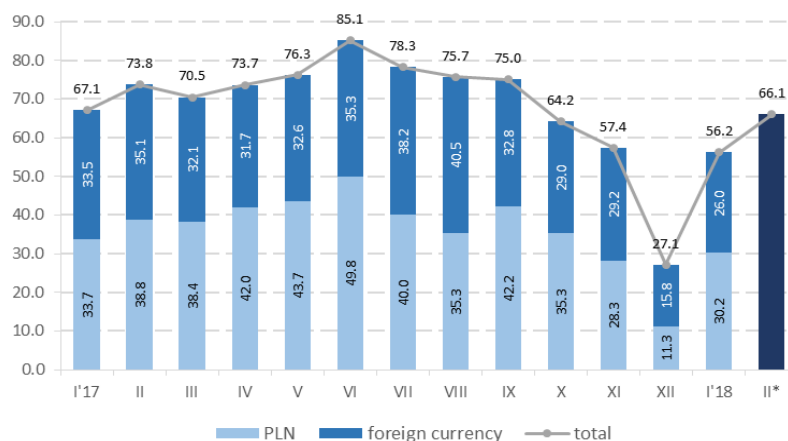


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.

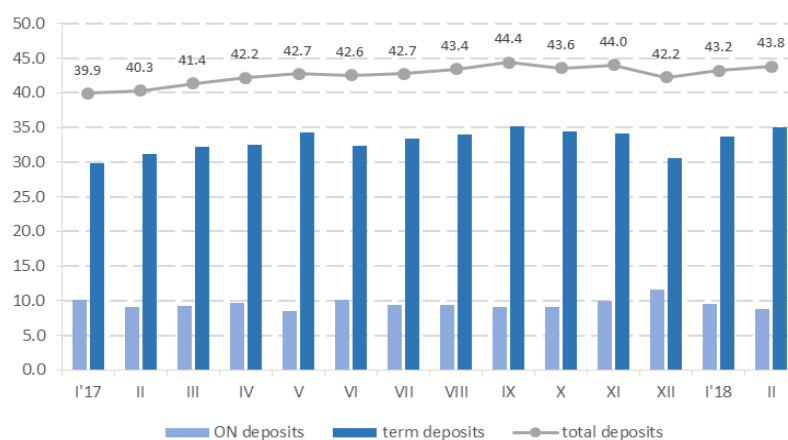
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

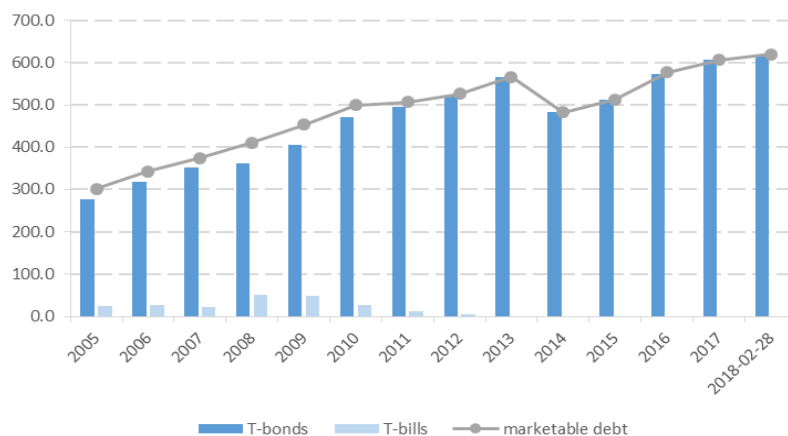
As a result of consolidation of public finance sector liquidity management there were PLN 43.8bn funds accumulated at the end of February 2018, of which PLN 35.0bn was as term deposits and PLN 8.8bn on ON deposits.



Structure of marketable debt

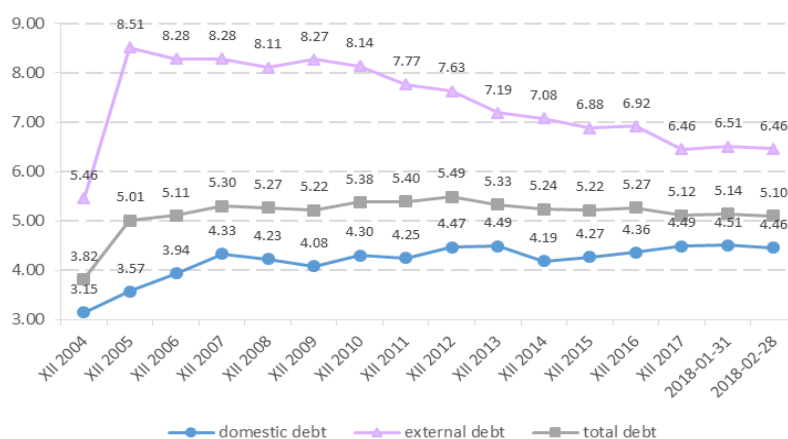
PLN bn

At the end of February 2018 the marketable domestic debt amounted to PLN 619.9bn comparing to PLN 605.7bn at the end of 2017.



Average maturity

At the end of February 2018 the average maturity of domestic debt amounted to 4.46 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.10 (5.12 at the end of 2017).

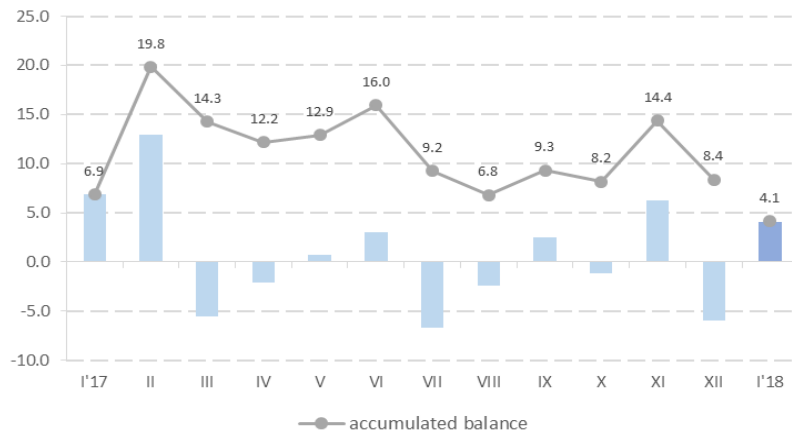




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

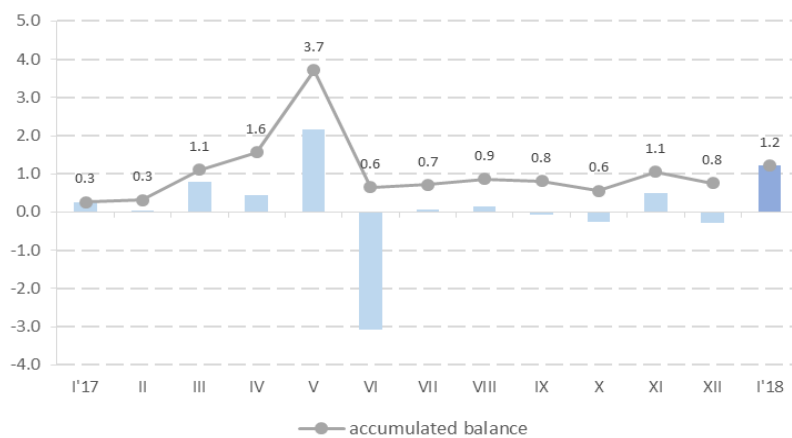
Change of debt in domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In January 2018 there was an increase of debt by PLN 4.1bn comparing to PLN 6.9bn increase during the same period of 2017. Banks' holdings reached the level of PLN 248.0bn.



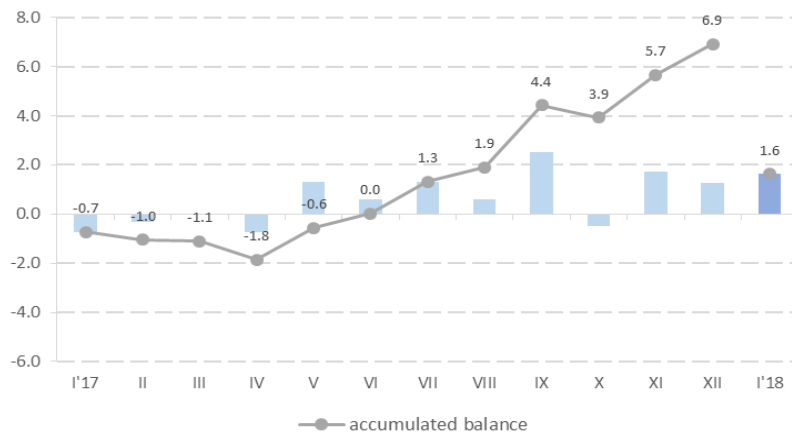
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In January 2018 there was an increase of debt by PLN 1.2bn comparing to PLN 0.3bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 61.0bn.



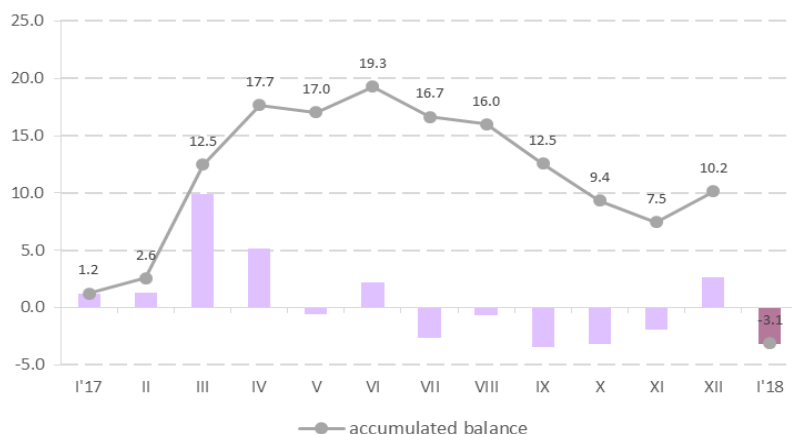
Change of debt in domestic Treasury securities held by investment funds PLN bn

In January 2018 there was an increase of debt by PLN 1.6bn comparing to PLN 0.7bn decrease during the same period of 2017. Investment funds' holdings reached the level of PLN 58.8bn.



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

In January 2018 there was a decrease of debt by PLN 3.1bn comparing to PLN 1.2bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 199.6bn.



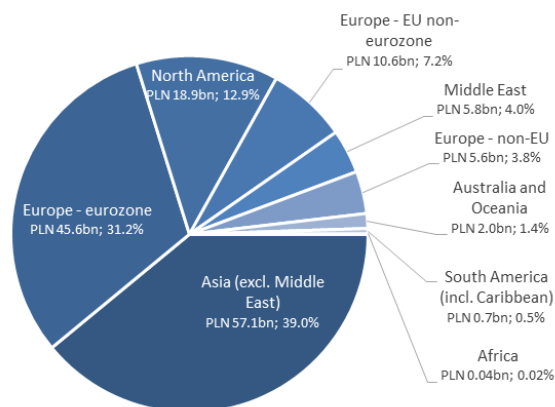
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of domestic Treasury securities held by non-residents

as of January 31, 2018, the chart presents data excluding omnibus accounts

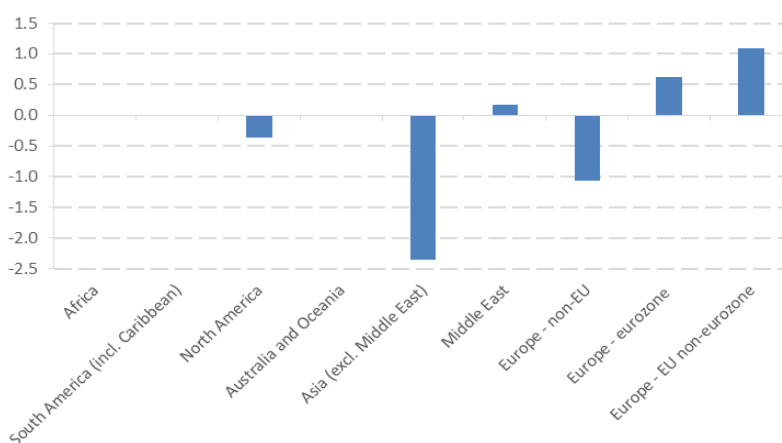
In January 2018 the non-residents' share in the domestic Treasury securities market decreased by PLN 3.1bn. The foreign investors' portfolio amounted to PLN 199.6bn, which constituted 31.9% share in total debt in Treasury securities (32.6% in the previous month).



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

change in January 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

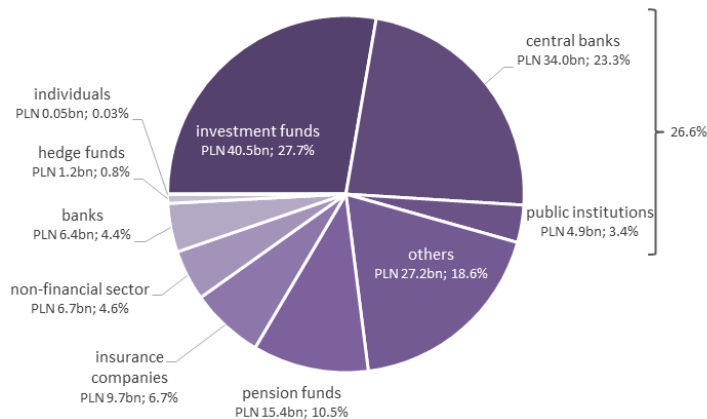
In January 2018 the highest increase was recorded by EU non-eurozone investors (PLN 1.1bn) and the highest decrease was recorded by Asian investors (PLN 2.3bn).



Institutional distribution of domestic Treasury securities held by non-residents

as of January 31, 2018, the chart presents data excluding omnibus accounts

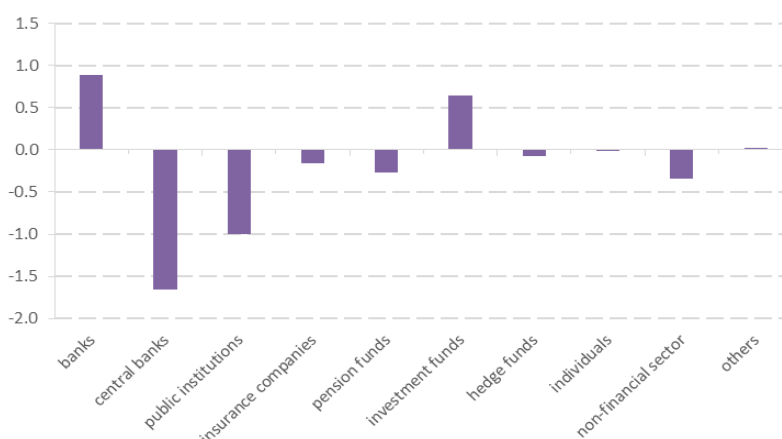
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of January 2018 central banks and public institutions' share in foreign holdings amounted to 26.6%.



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

change in January 2018, mom, PLN bn, the chart presents data excluding omnibus accounts

In January 2018 the highest increase was recorded by banks (PLN 0.9bn) and the highest decrease was recorded by central banks (PLN 1.7bn).



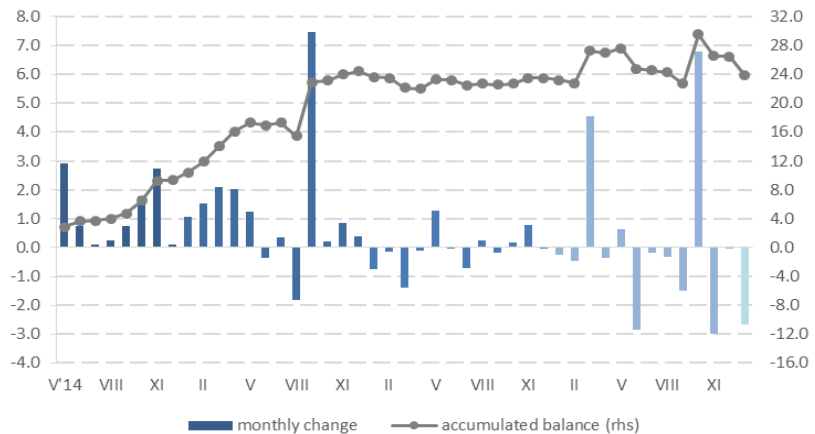


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in January 2018, PLN bn

In January 2018 central banks and public institutions' involvement in the Polish debt market decreased by PLN 2.7bn. In the period from the end of April 2014 to the end of January 2018, for which the detailed information is available, portfolios of those entities increased by PLN 23.8bn.



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

as of January 31, 2018, 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	20 040.8	17.9%
Luxembourg	19 444.0	17.3%
United States	17 803.2	15.9%
Ireland	8 836.9	7.9%
United Kingdom	7 015.7	6.3%
Germany	6 779.7	6.0%
Netherlands	6 676.7	6.0%
Norway	4 029.7	3.6%
Hong Kong	2 603.5	2.3%
United Arab Emirates	2 596.9	2.3%
France	1 819.2	1.6%
Australia	1 754.2	1.6%
Denmark	1 500.7	1.3%
Switzerland	1 398.8	1.2%
Taiwan (Province of China)	1 165.8	1.0%
Others	8 737.5	7.8%
Total	112 203.3	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

28-02-2018

At the end of February the level of financing the State budget gross borrowing requirements amounted to 46%. The level of liquid funds on the budgetary accounts reached ca. PLN 67bn.

Because of the favourable budget liquidity situation there will be one T-bond sale auction with moderate supply of PLN 3-5bn and one T-bond switch auction in March (T-bonds maturing in 2018 will be offered to repurchase).

IV. SUPPLY PLAN OF TREASURY SECURITIES IN MARCH 2018



T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
27 MARCH 2018	29 MARCH 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either 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-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
15 MARCH 2018 / 19 MARCH 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	PS0418	14,599
		PS0718	18,729
		OK1018	19,736

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0618 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0320 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0321 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0322 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0328 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0324 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0330 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period