

## State budget borrowing requirements' financing plan and its background

4th quarter 2018

October 2018

### THE MOST IMPORTANT INFORMATION

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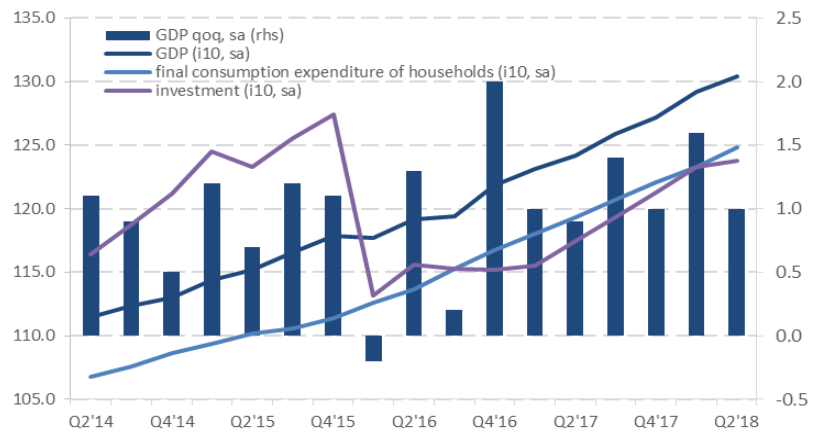


## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland

constant prices, seasonally adjusted data  
source: Eurostat

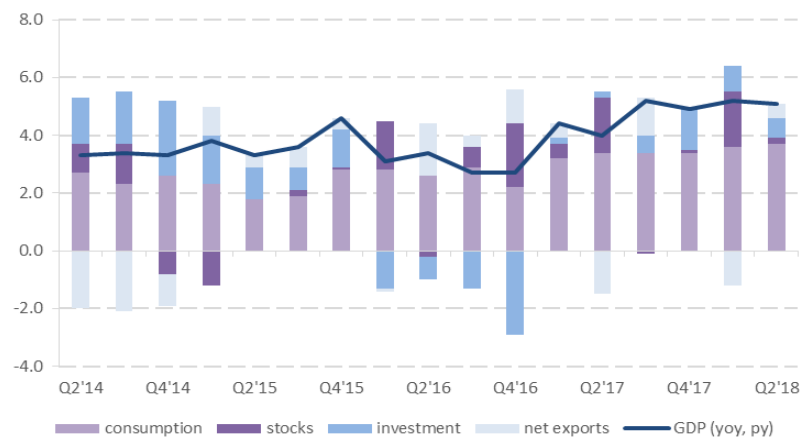
In the second quarter of 2018 GDP increased by 1.0% (qoq, sa) compared to 1.6% in the prior quarter. The rate of growth of households consumption (qoq, sa) remained close to the average of the last two years, while the dynamics of investment decreased. Sustained high dynamics of private consumption was a consequence of positive labour market situation and robust sentiment of consumers.



### Contributions to Polish GDP growth

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

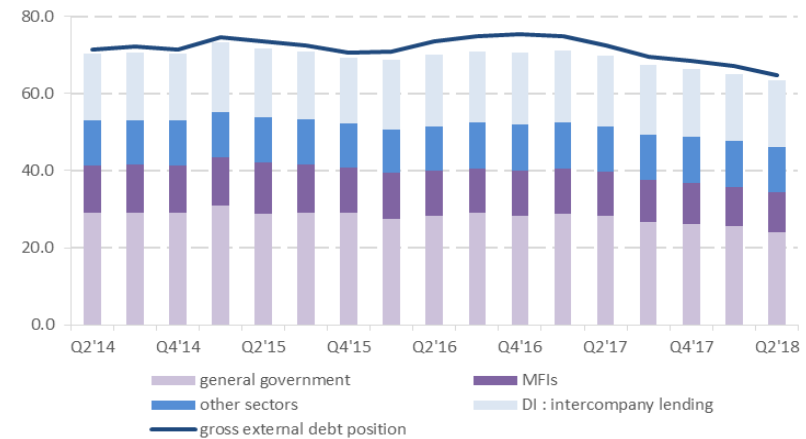
In the second quarter of 2018 GDP was 5.1% higher than a year ago as compared to 5.2% in the previous quarter. The main source of GDP growth was households consumption, which was 4.9% higher than a year before. Relatively low rate of growth was noticed in the case of investment (4.5% compared to 8.1% in the first quarter). Inventories and net exports contributions to GDP growth were positive (0.2 pp and 0.5 pp, respectively).



### Polish gross external debt position

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

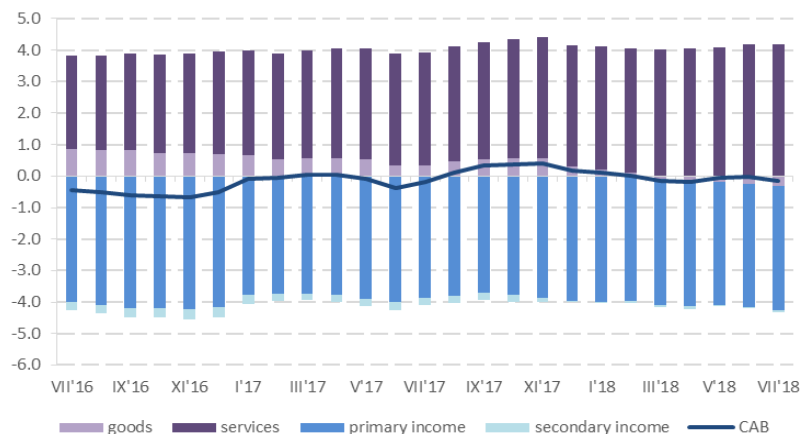
At the end of the second quarter of 2018 gross external debt reached EUR 311.5bn (64.7% of GDP) and was EUR 8.9bn lower than in the previous quarter. The share of the general government sector debt in the total debt decreased to 37.2%. At the end of July 2018 official reserve assets reached about EUR 95.6bn and remained broadly adequate, covering nearly 5 months of imports.



### Current account balance

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

In July 2018, according to the preliminary data, current account deficit amounted to 0.1% of GDP (in 12-month terms). 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.



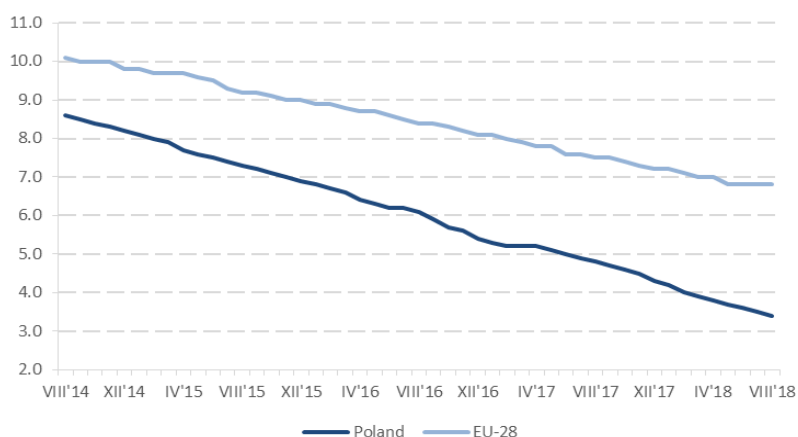
## I. MACROECONOMIC SITUATION



### Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

Harmonised unemployment rate has continued its downward trend since mid-2013. In August 2018 it amounted to 3.4% (versus 6.8% in EU on average) and decreased by 0.1 pp as compared with a month before and was 1.4 pp lower than a year earlier. In August 2018 harmonised unemployment rate in Poland reached the new lowest level.



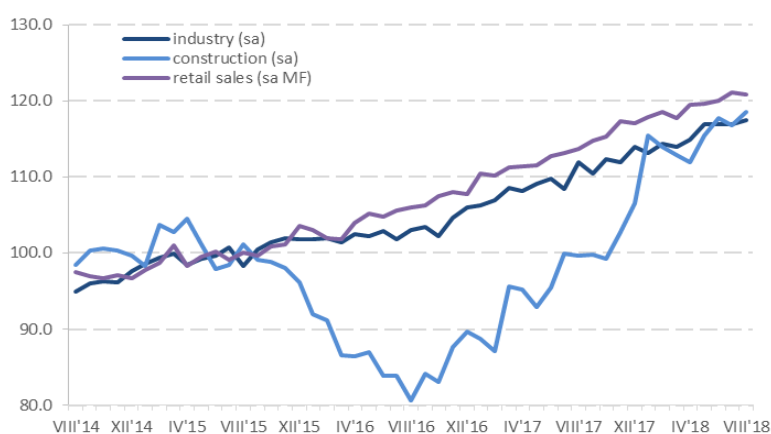
### Monthly indicators of the real sector

sold production in constant prices, i15, seasonally adjusted data; source: GUS

In August 2018 industrial output went up by 0.5% (mom, sa). As a result, production was 5.0% higher than a year ago (nsa). Data were close to market expectations.

Construction production increased by 1.6% following a drop in the previous month (mom, sa). Production was 20% higher than a year before (nsa).

Real retail sales decreased slightly in August following growth in the four previous months (mom, sa MoF). Their level was 6.7% (nsa) higher than in the same month of 2017. Data met market expectations.



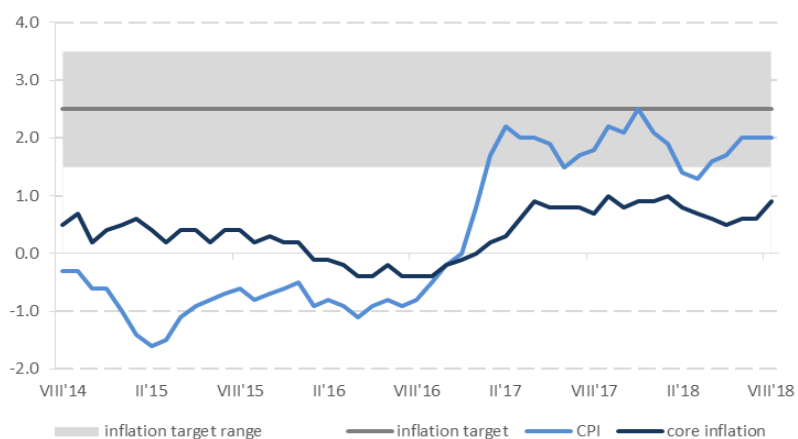
### Inflation

percent, yoy  
source: GUS, NBP

In August 2018 consumer prices were stable (mom). As a result annual rate of inflation stabilized at 2.0%, i.e. below the inflation target but above the lower band of this target. Data were consistent with market expectations.

Core inflation (CPI excluding food and energy prices) increased to 0.9% (yoy) in August and has been within the range of 0.5%-1.0% for 1.5 year.

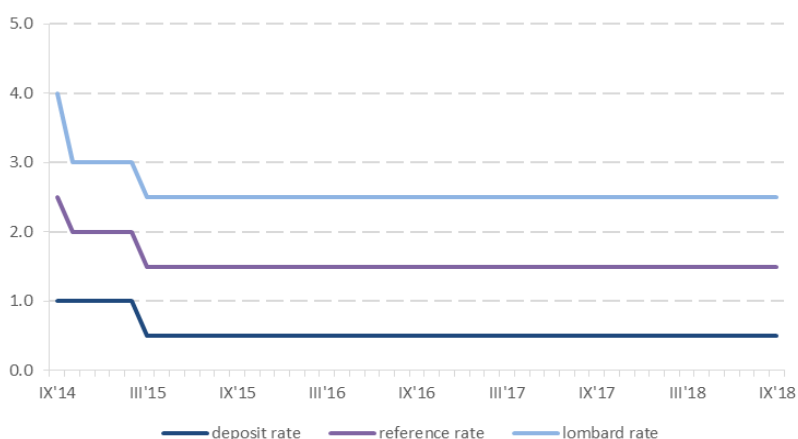
In August producer prices were stable (mom) and their level was 3.0% higher than a year ago.



### NBP interest rates

percent, end of period  
source: NBP

In September 2018, 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 (September, 24) sees no NBP rate move till the end of 2019.





## II. STATISTICAL DATA

	Unit	2017 Q01	Q02	Q03	Q04	2018 Q01	Q02
<b>GDP</b>							
Gross domestic product	YoY	4.4	4.0	5.2	4.9	5.2	5.1
	QoQ SA	1.0	0.9	1.4	1.0	1.6	1.0
Final consumption expenditure of the households sector	YoY	4.5	4.9	4.7	5.0	4.8	4.9
	QoQ SA	1.2	1.1	1.2	1.1	1.1	1.2
Final consumption expenditure of the general government sector	YoY	2.1	2.9	3.3	4.8	3.6	4.4
	QoQ SA	1.2	0.9	1.0	1.1	0.7	0.9
Gross fixed capital formation	YoY	1.4	1.3	3.6	5.4	8.1	4.5
	QoQ SA	0.2	1.7	1.5	1.7	1.7	0.4
Exports of goods and services	YoY	11.2	4.5	9.2	8.2	1.1	6.9
	QoQ SA	3.9	-1.1	2.5	2.1	-1.0	3.7
Imports of goods and services	YoY	11.1	8.0	7.0	8.9	3.5	6.5
	QoQ SA	3.4	1.5	1.4	2.1	0.3	2.3
Gross value added	YoY	4.1	3.8	5.1	4.6	5.2	5.0
	QoQ SA	1.3	0.9	0.9	1.0	1.2	1.2
<b>Contribution to GDP growth</b>							
Final consumption expenditure of the households sector	pp	2.9	2.9	2.8	2.5	3.0	2.9
Final consumption expenditure of the general government sector	pp	0.4	0.5	0.6	0.9	0.6	0.8
Gross fixed capital formation	pp	0.2	0.2	0.6	1.3	0.9	0.7
Changes in inventories	pp	0.5	1.9	-0.1	0.2	1.9	0.2
Balance of trade turnover	pp	0.5	-1.5	1.3	0.0	-1.2	0.5
Gross value added	pp	3.7	3.3	4.5	4.1	4.6	4.3
Taxes less subsidies	pp	0.8	0.7	0.8	0.8	0.6	0.8
<b>GDP structure</b>							
Final consumption expenditure of the households sector	% of GDP	64.2	58.9	59.4	50.3	63.8	59.5
Final consumption expenditure of the general government sector	% of GDP	17.1	17.5	16.9	19.0	16.8	17.5
Gross fixed capital formation	% of GDP	11.8	16.2	16.9	24.4	12.2	16.2
Changes in inventories	% of GDP	1.7	2.4	1.3	2.4	3.3	2.0
Exports of goods and services	% of GDP	57.8	55.0	54.3	49.9	55.1	56.0
Imports of goods and services	% of GDP	53.3	50.8	49.6	46.6	51.9	52.0
	Unit	2018 M03	M04	M05	M06	M07	M08
<b>Balance of payments</b>							
Goods: exports (EUR)	YoY	-6.2	8.0	3.0	8.6	10.9	-
Goods: imports (EUR)	YoY	-1.6	11.2	3.3	10.4	12.6	-
Current account balance <sup>1)</sup>	% of GDP	-0.2	-0.2	0.0	0.0	-0.1	-
Balance on goods <sup>1)</sup>	% of GDP	-0.1	-0.2	-0.2	-0.2	-0.3	-
Official Reserve Assets	EUR m	96 913.3	93 546.1	96 248.2	93 539.5	95 635.7	97 059.2
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	1.3	1.6	1.7	2.0	2.0	2.0
Core inflation (CPI excluding food and energy prices)	YoY	0.7	0.6	0.5	0.6	0.6	0.9
Producer Price Index (PPI)	YoY	0.5	1.0	3.0	3.7	3.4	3.0
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	1.6	9.3	5.2	6.7	10.3	5.0
	MoM SA	-0.3	0.8	1.7	0.0	0.0	0.5
Construction and assembly production <sup>2)</sup>	YoY	16.1	19.7	20.7	24.7	18.7	20.0
	MoM SA	-0.9	-0.8	3.0	2.0	-0.8	1.6
Manufacturing PMI	SA	53.7	53.9	53.3	54.2	52.9	51.4
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	8.8	4.0	6.1	8.2	7.1	6.7
Average paid employment in enterprise sector	YoY	3.7	3.7	3.7	3.7	3.5	3.4
	MoM	0.1	0.1	0.0	0.2	0.1	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.4	6.1	5.2	5.4	5.1	4.7
	MoM	6.3	-1.4	-3.2	3.1	-0.3	-0.6
Harmonised unemployment rate (Eurostat)	%, SA	3.9	3.8	3.7	3.6	3.5	3.4
<small>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</small>							
	Unit	2018 M02	M03	M04	M05	M06	M07
<b>State Treasury debt</b>							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	952 017.4	958 125.9	948 740.0	962 023.0	956 144.6	946 563.8
Domestic debt	face value, PLN m	659 382.7	664 034.9	653 452.5	661 313.6	662 516.2	660 758.6
	%	69.3	69.3	68.9	68.7	69.3	69.8
Foreign debt	face value, PLN m	292 634.7	294 091.0	295 287.5	300 709.4	293 628.4	285 805.2
	%	30.7	30.7	31.1	31.3	30.7	30.2
	Unit	2017 Q01	Q02	Q03	Q04	2018 Q01	Q02
<b>Public debt (domestic definition)</b>							
Public debt (acc. to the place of issue criterion)	face value, PLN m	974 765.7	977 224.4	972 220.4	961 841.5	989 195.8	985 150.3
Domestic debt	face value, PLN m	657 497.0	666 497.6	659 494.8	662 517.4	679 791.0	676 230.7
	%	67.5	68.2	67.8	68.9	68.7	68.6
Foreign debt	face value, PLN m	317 268.6	310 726.7	312 725.6	299 324.1	309 404.9	308 919.6
	%	32.5	31.8	32.2	31.1	31.3	31.4
<b>General Government debt (EU definition)</b>							
General Government debt	face value, PLN m	1 016 016.5	1 018 978.9	1 013 663.0	1 005 688.2	1 031 392.7	1 032 002.4

Source: MoF

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Gross borrowing requirements in 2018

as of September 30, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 71% (acc. to the 2018 Budget Act<sup>1</sup>) and 81% (acc. to the budget execution estimate<sup>2</sup>) was a result of:

- T-bond sale on the domestic market: PLN 48.9bn,
- switch auctions in 2018: PLN 20.4bn,
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 5.0bn,
- switch auctions and buy-backs in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn.

<sup>1</sup> Gross borrowing requirements acc. to the 2018 Budget Act: PLN 181.7bn.

<sup>2</sup> Gross borrowing requirements in 2018 acc. to the 2019 draft Budget Act: PLN 159.5bn.

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

as of September 30, 2018, PLN bn

Value of funds transferred from the State budget to the market in October shall amount to PLN 15.9bn, of which:

- TS redemptions: PLN 11.9bn,
- interest payments: PLN 4.0bn.

#### Flows of funds between the market and the budget\*

as of September 30, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 16.4bn.

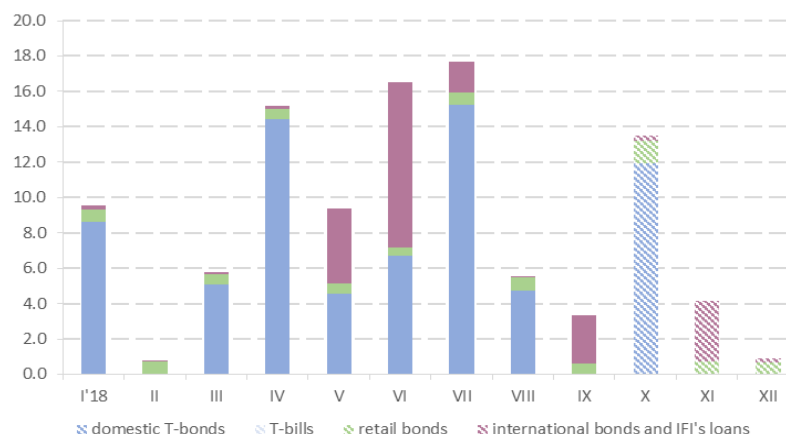
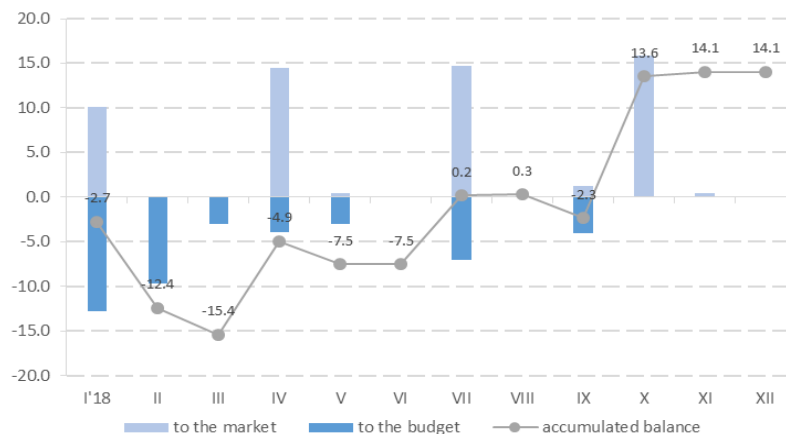
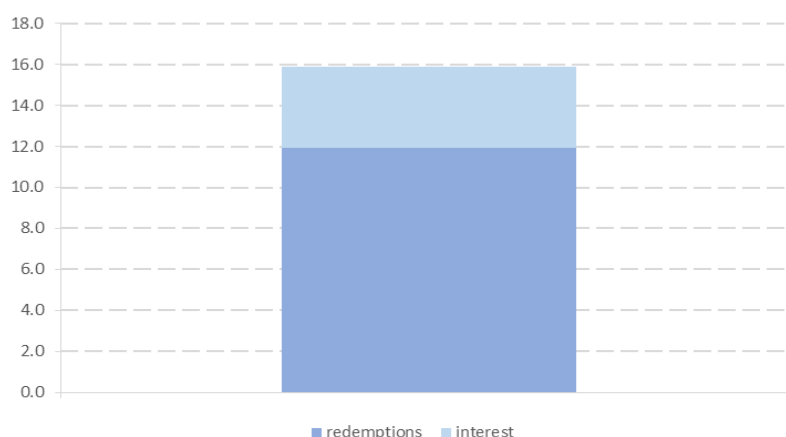
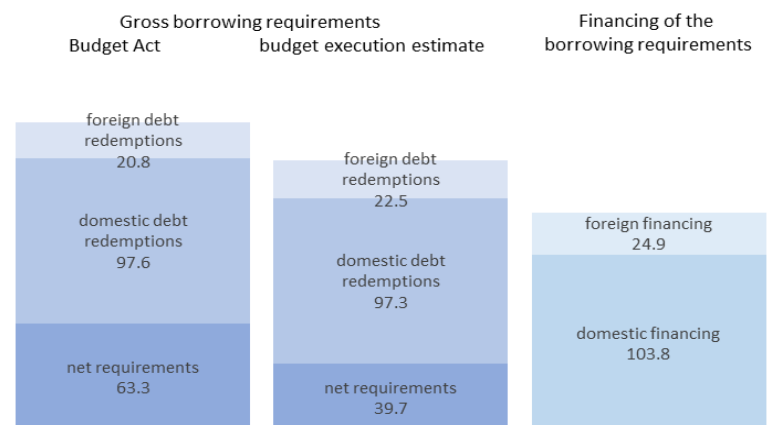
\* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented

#### State Treasury debt redemptions in 2018

as of September 30, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 18.5bn, including:

- T-bonds: PLN 11.9bn,
- T-retail bonds: PLN 2.7bn,
- bonds and loans incurred on foreign markets: PLN 3.9bn.





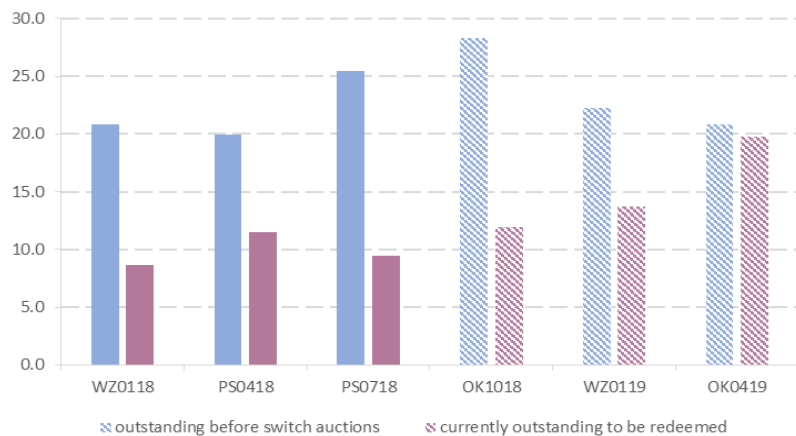
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Reducing refinancing risk connected with redemptions of T-securities maturing in 2018 and 2019

as of September 30, 2018, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2018 and 2019:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 8.4bn (42%),
- PS0718: PLN 16.0bn (63%),
- OK1018: PLN 16.3bn (58%),
- WZ0119: PLN 8.5bn (38%),
- OK0419: PLN 1.1bn (5%).

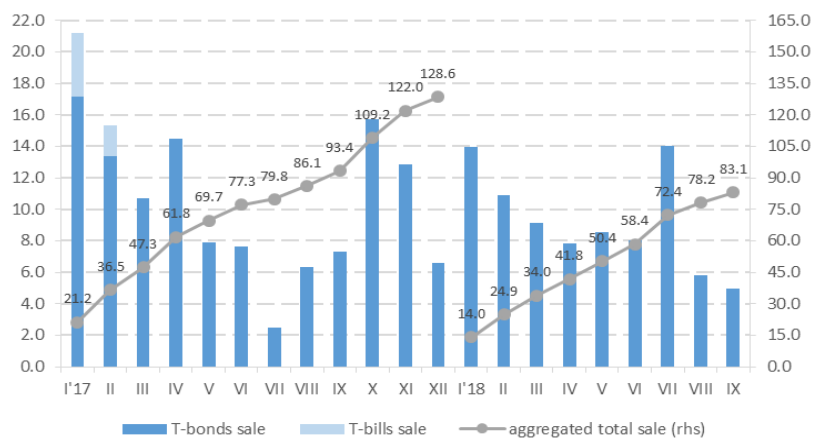


#### Sale of T-bonds and T-bills in the period of I-IX 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-IX 2018:

- aggregated total sale of T-bonds amounted to PLN 83.1bn versus PLN 87.5bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

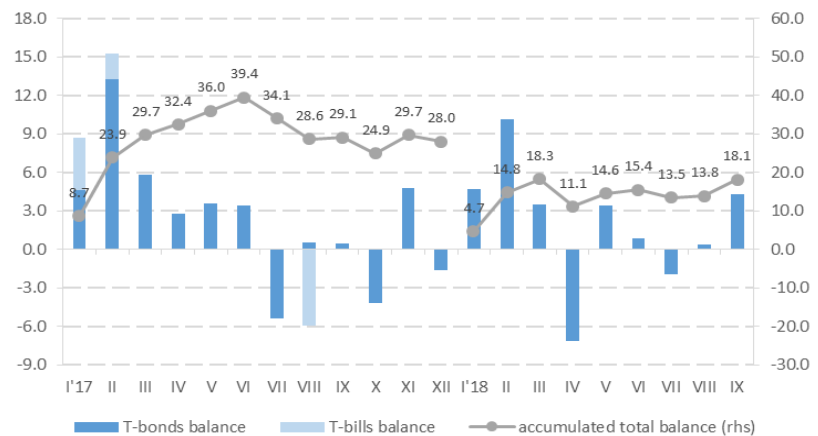


#### Balance of T-bonds and T-bills in the period of I-IX 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-IX 2018 indebtedness in:

- T-bonds increased by PLN 18.1bn versus an increase of PLN 29.1bn in the same period of 2017,
- T-bills remained the same, likewise in the same period of 2017.

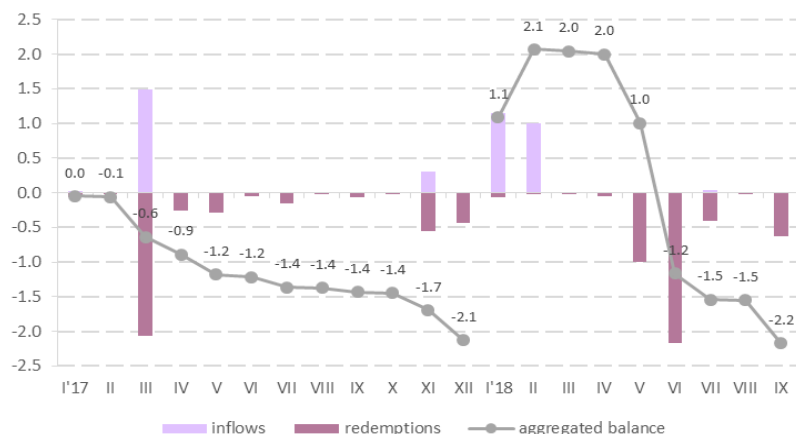


#### External financing in the period of I-IX 2018 and in 2017

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

Net financing on foreign markets in the period of I-IX 2018 was negative and amounted to EUR 2.2bn (negative balance of EUR 1.4bn in the same period of 2017) which resulted from:

- negative balance of T-bonds of EUR 1.9bn (negative balance of EUR 1.0bn in the same period of 2017),
- negative balance of loans incurred from IFIs of EUR 0.3bn (negative balance of EUR 0.4bn in the same period of 2017).



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

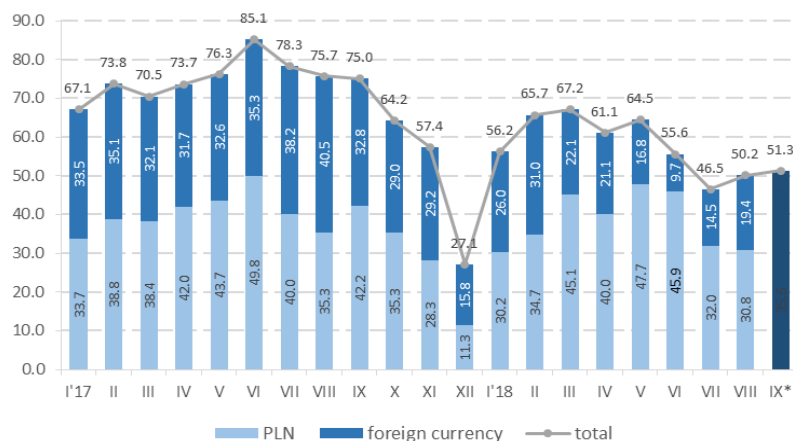


#### Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

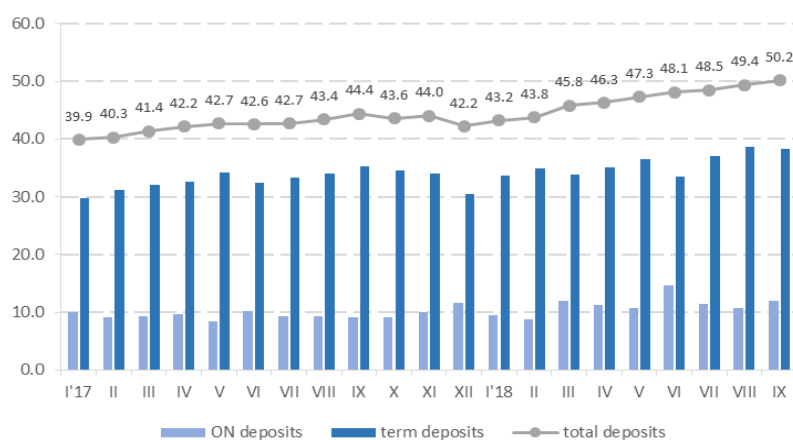
\* estimated data



#### Consolidation of public finance sector liquidity management

PLN bn

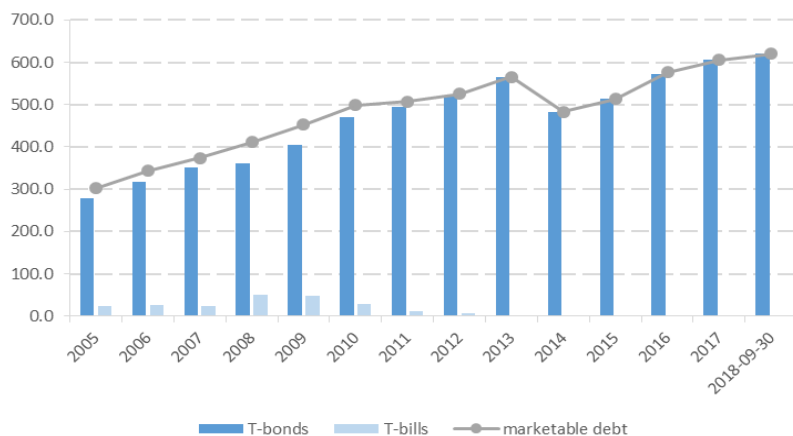
As a result of consolidation of the public finance sector liquidity management there were PLN 50.2bn funds accumulated at the end of September 2018, of which: PLN 38.3bn was on term deposits and PLN 11.9bn on ON deposits.



#### Structure of marketable debt

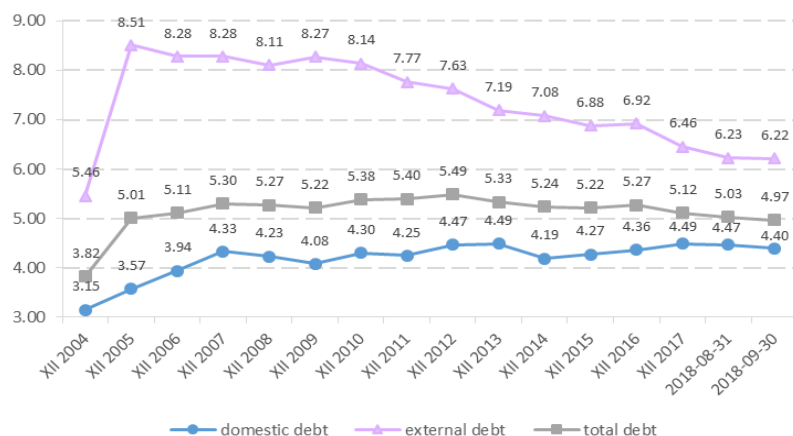
PLN bn

The marketable domestic debt amounted to PLN 620.6bn at the end of September 2018 (while at the end of 2017 it was 4.49). 2018 comparing to PLN 605.7bn at the end of 2017.



#### Average maturity

The average maturity of domestic debt amounted to 4.40 at the end of September 2018 (while at the end of 2017 it was 4.49). The average of total debt amounted to 4.97 (5.12 at the end of 2017).



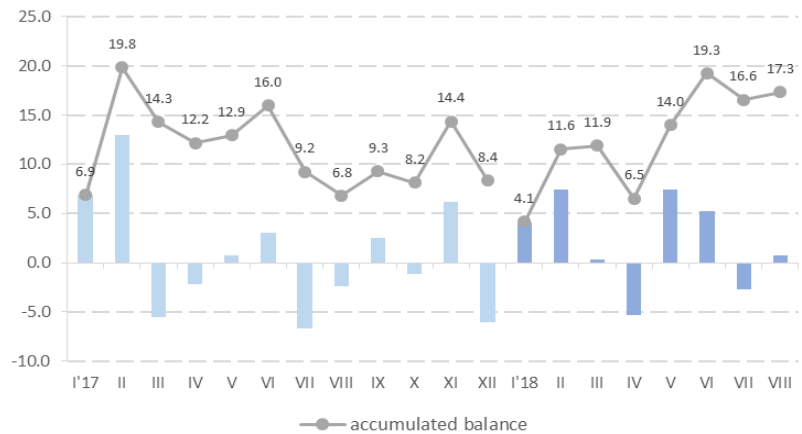




### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

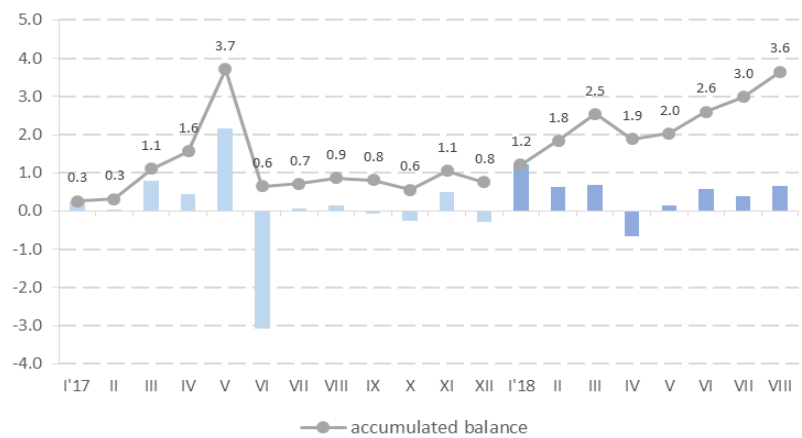
#### Change of debt in the domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-VIII 2018 there was an increase of debt by PLN 17.3bn comparing to PLN 6.8bn increase during the same period of 2017. Banks' holdings reached the level of PLN 261.2bn.



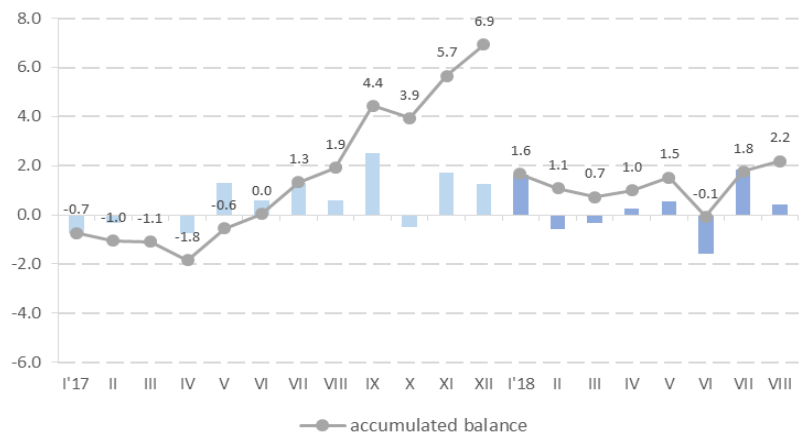
#### Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-VIII 2018 there was an increase of debt by PLN 3.6bn comparing to PLN 0.9bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 63.4bn.



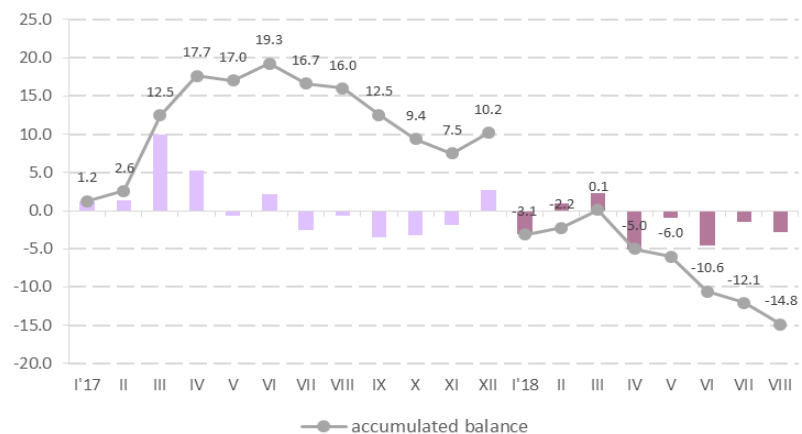
#### Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-VIII 2018 there was an increase of debt by PLN 2.2bn comparing to PLN 1.9bn increase in the same period of 2017. Investment funds' holdings reached the level of PLN 59.3bn.



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

In the period of I-VIII 2018 there was a decrease of debt by PLN 14.8bn comparing to PLN 16.0bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 187.9bn.





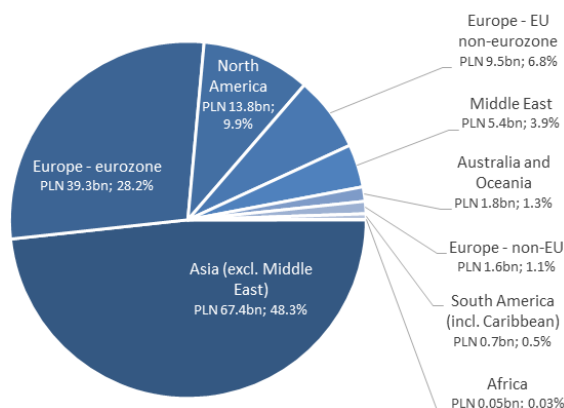
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Geographical distribution of the domestic Treasury securities held by non-residents

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

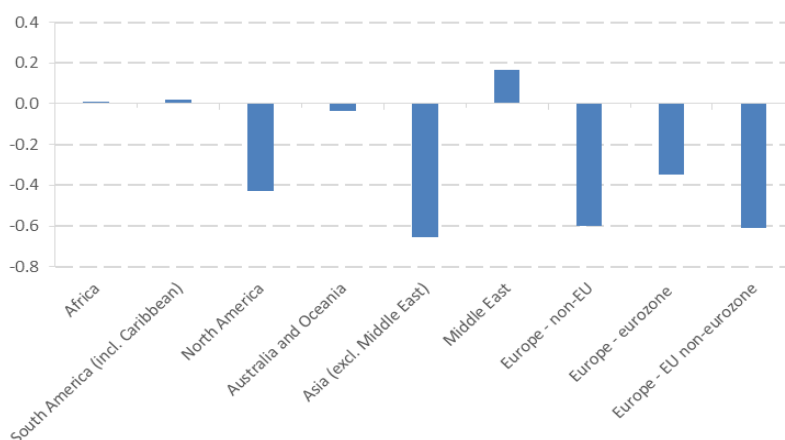
The non-residents' share in the domestic Treasury securities market decreased by PLN 2.8bn in August 2018. The foreign investors' portfolio amounted to PLN 187.9bn, which constituted 29.6% share in total debt in Treasury securities (30.0% in the previous month).



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

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

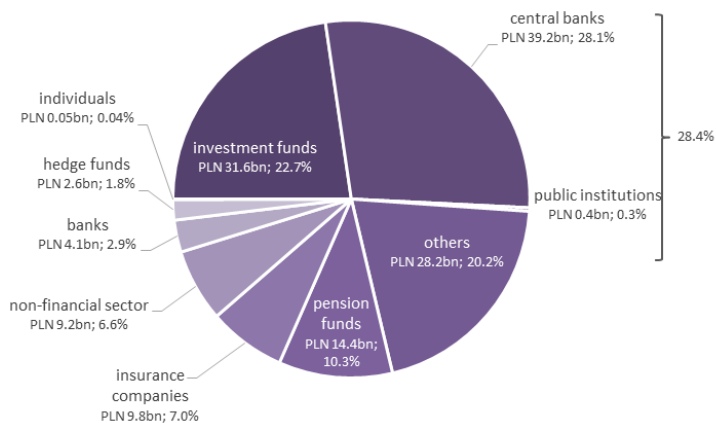
In August 2018 the highest increase was recorded by investors from Middle East (PLN 0.2bn), while the highest decrease was noted by Asian investors (PLN 0.7bn).



#### Institutional distribution of the domestic Treasury securities held by non-residents

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

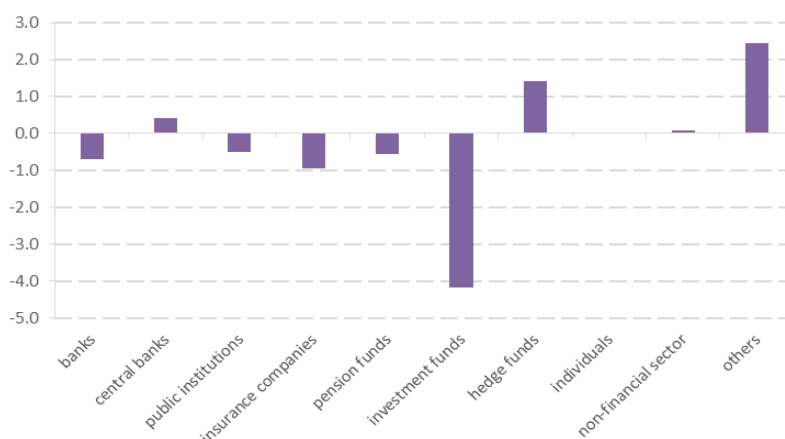
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 28.4% at the end of August 2018.



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

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

In August 2018 the highest increase was recorded by investors from the category "others" (PLN 2.5bn) and the highest decrease was noted by investment funds (PLN 4.2bn).



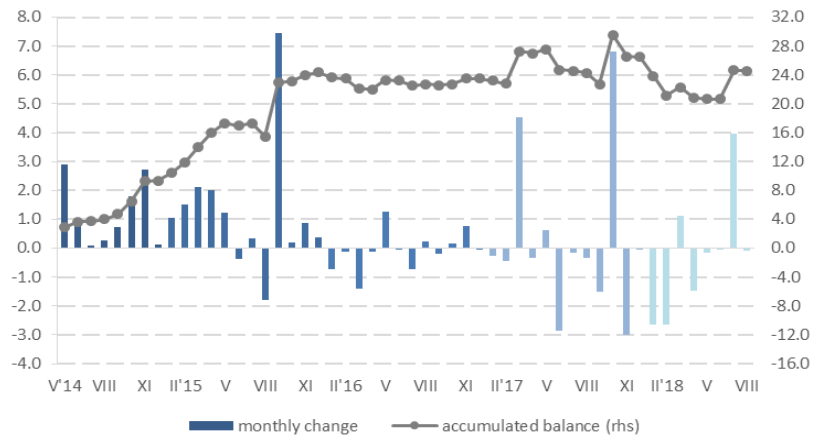


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in August 2018, PLN bn

Central banks and public institutions' involvement decreased slightly by PLN 0.1bn in August 2018. In the period from the end of April 2014 to the end of August 2018, for which the detailed information is available, portfolios of those entities increased by PLN 24.5bn.



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

as of August 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	23 865.2	23.8%
Luxembourg	14 992.2	14.9%
United States	12 779.7	12.7%
Ireland	8 553.0	8.5%
Netherlands	7 317.6	7.3%
United Kingdom	6 260.2	6.2%
Germany	6 045.0	6.0%
Hong Kong	3 176.5	3.2%
United Arab Emirates	2 798.5	2.8%
Australia	1 598.8	1.6%
Denmark	1 588.2	1.6%
Switzerland	1 358.3	1.4%
Taiwan (Province of China)	1 116.2	1.1%
Singapore	1 101.0	1.1%
Others	7 784.4	7.8%
<b>Total</b>	<b>100 334.7</b>	<b>100.0%</b>

#### Comment

#### Piotr Nowak, Undersecretary of State, MoF

28-09-2018

By the end of September 81% of the 2018 gross borrowing requirements from the 2019 draft Budget Act was financed. Simultaneously, ca. 6% of the 2019 borrowing needs was already prefinanced through switch auctions. There is about PLN 51bn on the budget accounts.

In October we are going to hold two sale auctions. The offer at the second auction planned for October 26, takes into account ca. PLN 28bn of funds that will be transferred to the market as a result of redemption and interest payments from T-bonds, as well as bonds issued to finance the needs of the National Road Fund.

Moreover, by the end of the year we are going to hold two or three more T-bond auctions, including one sale auction. Current budget and market situation will determine the final number of auctions.

In August there were no Treasury securities auctions, thus a slight increase in indebtedness (by PLN 0.4bn) resulted only from the balance of sale and redemption of retail bonds. Domestic investors increased their involvement by PLN 3.1bn, of which PLN 2.4bn by non-banking sector. Non-residents' holdings decreased by PLN 2.8bn.

#### The Public Sector Debt Management Strategy

On September 25, 2018 *The Public Debt Management Strategy in the years 2019-2022* was approved by the Council of Ministers. The summary of the strategy is available on the MoF's website: [www.mf.gov.pl](http://www.mf.gov.pl).

## IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2018



### General assumptions

- in the fourth quarter of 2018 T-bond auctions are planned according to the announced modified yearly issuance calendar,
- offer of T-bonds on the domestic market will depend on the budget and market situation, as well as consultations with investors,
- possible auctions of Treasury bills will be held within the confines of the State budget liquidity management,
- foreign financing will be determined by the situation on the international financial market and the domestic market,
- the announced plan may be modified subject to the market situation.

### Offer of T-bonds on the domestic market

- **sale auctions:**  
Three auctions with total supply of PLN 11.0-22.0bn,
- **switch auctions:**  
Two or three auctions – subject to the budget and market situation – T-bonds maturing in 2019 would be offered to repurchase.

### Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

### Foreign financing

- possible issuance of bonds on the international market,
- loans from international financial institutions up to EUR 0.6bn,
- possible private placement issuances.



## V. SUPPLY PLAN OF TREASURY SECURITIES IN OCTOBER 2018

### T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
<b>4 OCT 2018</b>	8 OCT 2018	OK0720 / PS0424 / WZ0524 / WS0428 / WZ0528 / WS0447	3,000-6,000*
<b>26 OCT 2018</b>	30 OCT 2018	OK0720 / PS0424 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	5,000-10,000**

\* At the auction on October 4, 2018 the Ministry of Finance sold T-bonds at the level of PLN 6.0bn, of which: OK0720 - PLN 0.9bn, PS0424 - PLN 2.7bn, WZ0524 - PLN 0.9bn, WS0428 - PLN 1.2bn, WZ0528 - PLN 0.3bn, WS0447 - PLN 0.02bn.

\*\* The final offer and the supply will be announced 2 days before the auction, taking into account 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 Treasury bills are not planned.

### Offer on the retail market

T-bond	Issue price	Coupon
OTS0119 3-month	PLN 100.00 (PLN 100.00 for rolling-over)	Fixed 1.50% per year
DOS1020 2-year	PLN 100.00 (99.80 PLN for rolling-over)	Fixed 2.10%
TOZ1021 3-year	PLN 100.00 (PLN 99.70 for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI1022 4-year	PLN 100.00 (PLN 99.60 for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO1028 10-year	PLN 100.00 (PLN 99.50 for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS1024 family bonds 6-year	PLN 100.00	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD1030 family bonds 12-year	PLN 100.00	Floating (inflation rate + 2.00%); 3.20% in the first coupon period