

State budget borrowing requirements' financing plan and its background

November 2018

THE MOST IMPORTANT INFORMATION

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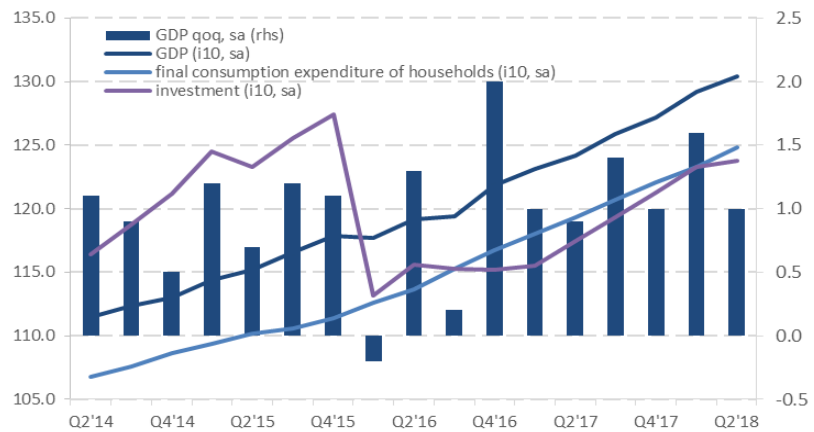


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

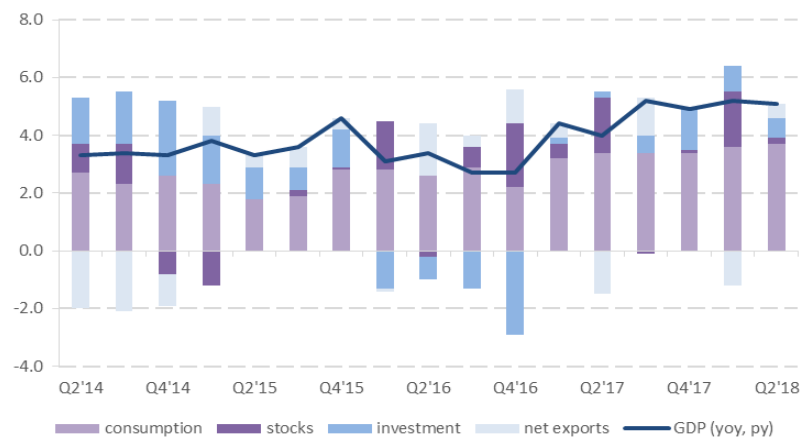
In the second quarter of 2018 GDP increased by 1.0% (qoq, sa) compared to 1.6% in the prior quarter. The rate of growth of households consumption (qoq, sa) remained close to the average of the last two years, while the dynamics of investment decreased. Sustained high dynamics of private consumption was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

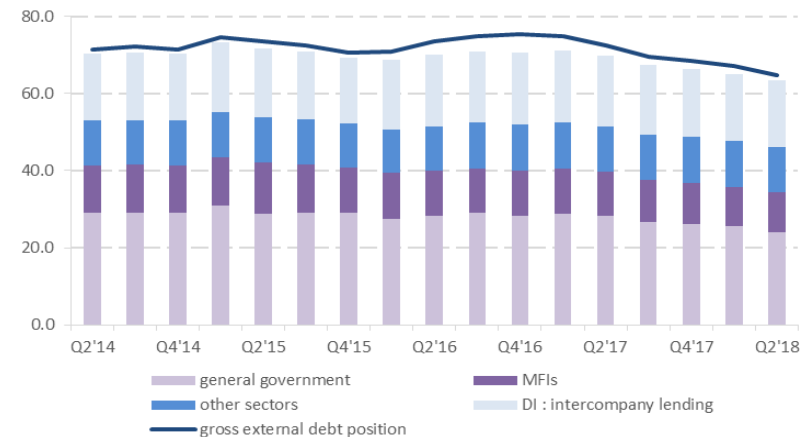
In the second quarter of 2018 GDP was 5.1% higher than a year ago as compared to 5.2% in the previous quarter. The main source of GDP growth was households consumption, which was 4.9% higher than a year before. Relatively low rate of growth was noticed in the case of investment (4.5% compared to 8.1% 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

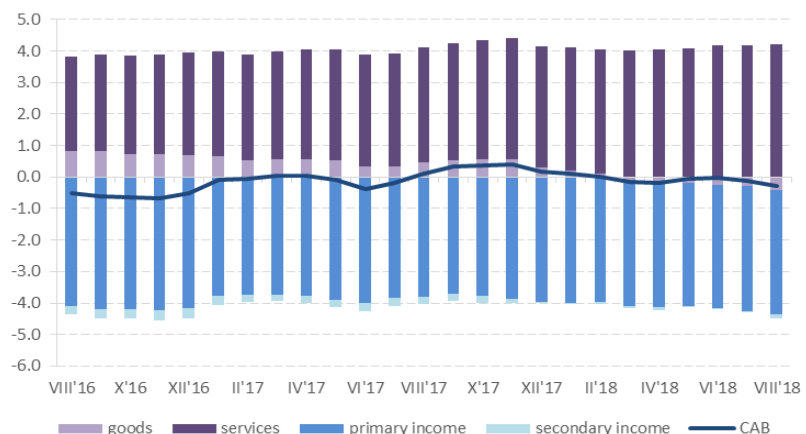
At the end of the second quarter of 2018 gross external debt reached EUR 311.5bn (64.7% of GDP) and was EUR 8.9bn lower than in the previous quarter. The share of the general government sector debt in the total debt decreased to 37.2%. At the end of August 2018 official reserve assets reached about EUR 97.1bn 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 August 2018, according to the preliminary data, current account deficit amounted to 0.3% of GDP (in 12-month terms). Data were slightly 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.

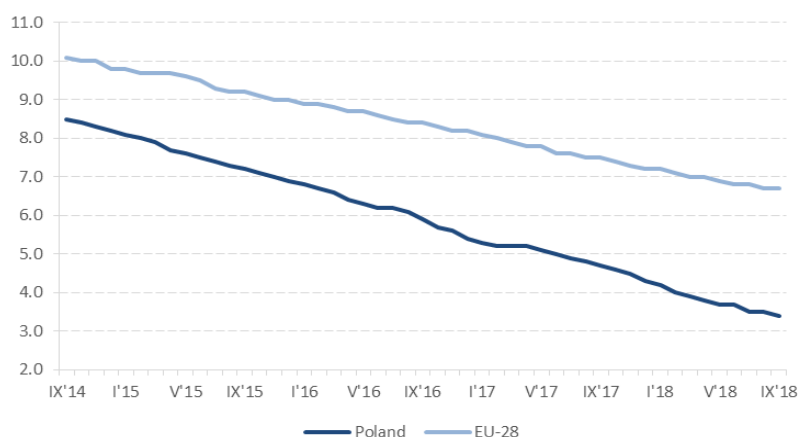




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

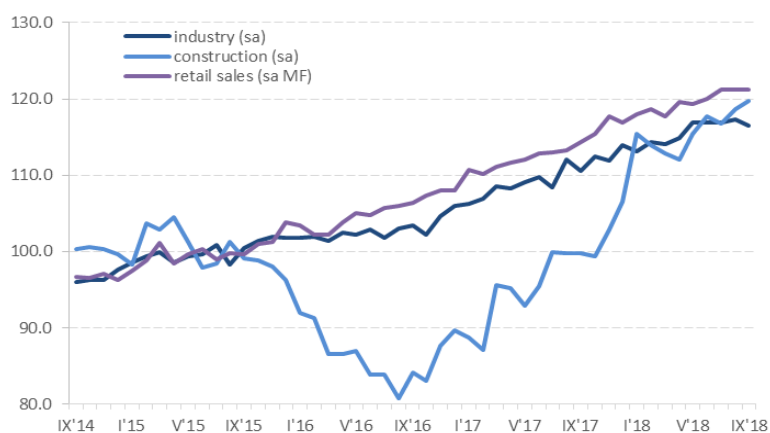
Harmonised unemployment rate has continued its downward trend since mid-2013. In September 2018 it amounted to 3.4% (versus 6.7% in EU on average) and decreased by 0.1 pp as compared with a month before and was 1.3 pp lower than a year earlier. In September 2018 harmonised unemployment rate in Poland reached the new lowest level.



Monthly indicators of the real sector

sold production in constant prices, i15, seasonally adjusted data; source: Eurostat, GUS, MoF own calculation

In September 2018 industrial output went down by 0.7% (mom, sa). As a result, production was 2.8% higher than a year ago (nsa). Data were below market expectations. Construction production increased second time in a row (0.9% mom, sa). Production was 16.4% higher than a year before (nsa). Data were below MoF's expectations. Real retail sales stayed at the level recorded in August (mom, sa MoF). Their level was 3.6% (nsa) higher than in the same month of 2017. Data were below market expectations.



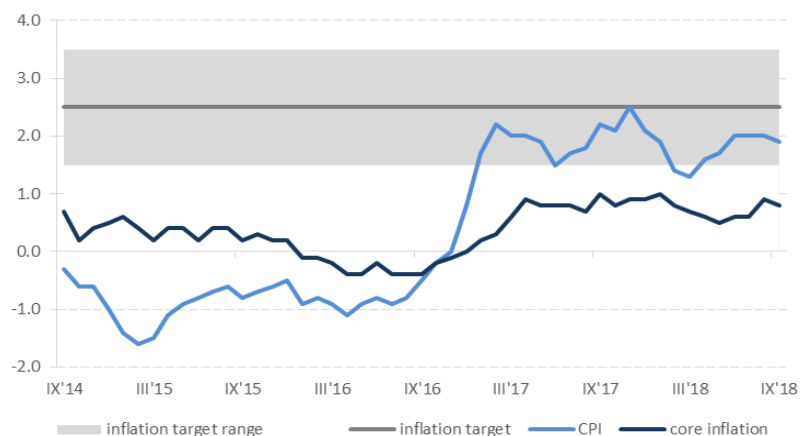
Inflation

percent, yoy
source: GUS, NBP

In September 2018 consumer prices increased by 0.2% (mom). As a result, annual rate of inflation fell to 1.9%, 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) achieved 0.8% (yoy) in September and has been within the range of 0.5%-1.0% for 1.5 year.

In September producer prices rose by 0.4% (mom) and their level was 2.9% higher than a year ago.

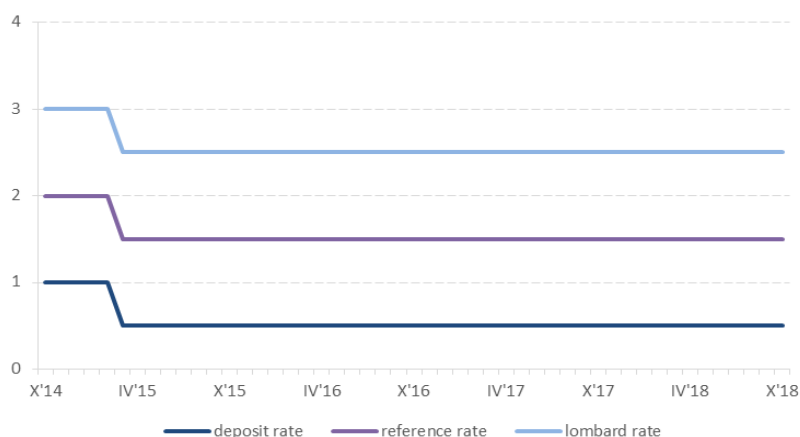


NBP interest rates

percent, end of period
source: NBP

In October 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 (October, 1st) sees no NBP rate move till the end of 2019.





II. STATISTICAL DATA

	Unit	2017 Q01	Q02	Q03	Q04	2018 Q01	Q02
GDP							
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
Contribution to GDP growth							
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
GDP structure							
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
Balance of payments							
	Unit	2018 M04	M05	M06	M07	M08	M09
Goods: exports (EUR)	YoY	9.1	1.1	6.2	9.2	7.4	-
Goods: imports (EUR)	YoY	12.4	1.4	7.9	10.3	11.2	-
Current account balance ¹⁾	% of GDP	-0.2	0.0	0.0	-0.1	-0.3	-
Balance on goods ¹⁾	% of GDP	-0.2	-0.2	-0.2	-0.3	-0.4	-
Official Reserve Assets	EUR m	93 546.1	96 248.2	93 539.5	95 635.7	97 059.2	97 129.6
Inflation							
Consumer Price Index (CPI)	YoY	1.6	1.7	2.0	2.0	2.0	1.9
Core inflation (CPI excluding food and energy prices)	YoY	0.6	0.5	0.6	0.6	0.9	0.8
Producer Price Index (PPI)	YoY	1.0	3.0	3.7	3.4	3.0	2.9
Production							
Sold production of industry ²⁾	YoY	9.3	5.2	6.7	10.3	5.0	2.8
	MoM SA	0.8	1.7	0.0	0.0	0.3	-0.7
Construction and assembly production ²⁾	YoY	19.7	20.7	24.7	18.7	20.1	16.4
	MoM SA	-0.8	3.0	2.0	-0.8	1.6	0.9
Manufacturing PMI	SA	53.9	53.3	54.2	52.9	51.4	50.5
Households and labour market							
Retail sales ²⁾	YoY	4.0	6.1	8.2	7.1	6.7	3.6
Average paid employment in enterprise sector	YoY	3.7	3.7	3.7	3.5	3.4	3.2
	MoM	0.1	0.0	0.2	0.1	0.0	-0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	6.1	5.2	5.4	5.1	4.7	4.7
	MoM	-1.4	-3.2	3.1	-0.3	-0.6	-0.7
Harmonised unemployment rate (Eurostat)	%, SA	3.8	3.7	3.7	3.5	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>							
State Treasury debt							
	Unit	2018 M03	M04	M05	M06	M07	M08
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	958 125.9	948 740.0	962 023.0	956 144.6	946 563.8	948 935.2
Domestic debt	face value, PLN m	664 034.9	653 452.5	661 313.6	662 516.2	660 758.6	661 500.8
	%	69.3	68.9	68.7	69.3	69.8	69.7
Foreign debt	face value, PLN m	294 091.0	295 287.5	300 709.4	293 628.4	285 805.2	287 434.4
	%	30.7	31.1	31.3	30.7	30.2	30.3
Public debt (domestic definition)							
	Unit	2017 Q01	Q02	Q03	Q04	2018 Q01	Q02
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
General Government debt (EU definition)							
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 October 31, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 81% (acc. to the 2018 Budget Act¹) and 93% (acc. to the budget execution estimate²) was a result of:

- T-bond sale on the domestic market: PLN 68.0bn,
- 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.

¹ Gross borrowing requirements acc. to the 2018 Budget Act: PLN 181.7bn.

² 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 November as of October 31, 2018, PLN bn

Value of funds transferred from the State budget to the market in November shall amount to PLN 0.5bn (interest payments).

Flows of funds between the market and the budget*

as of October 31, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 0.5bn.

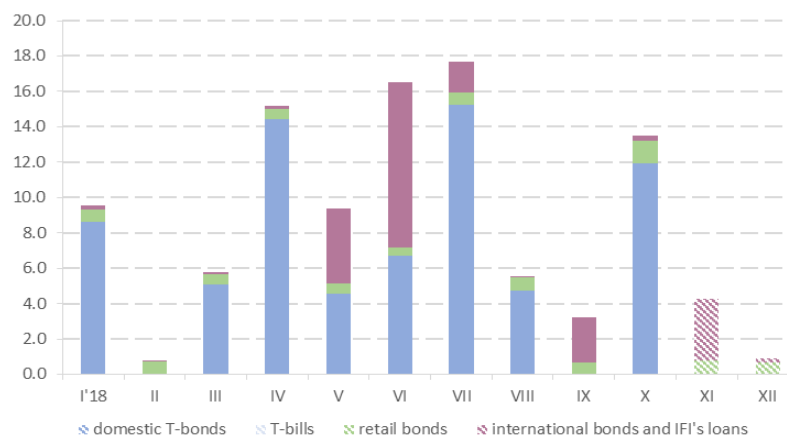
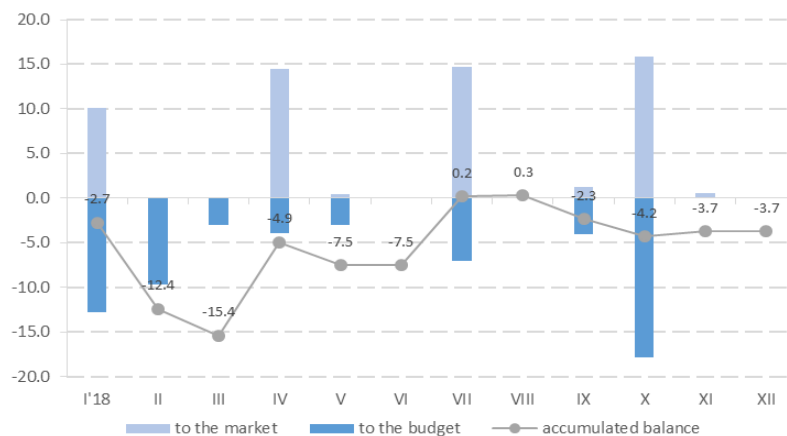
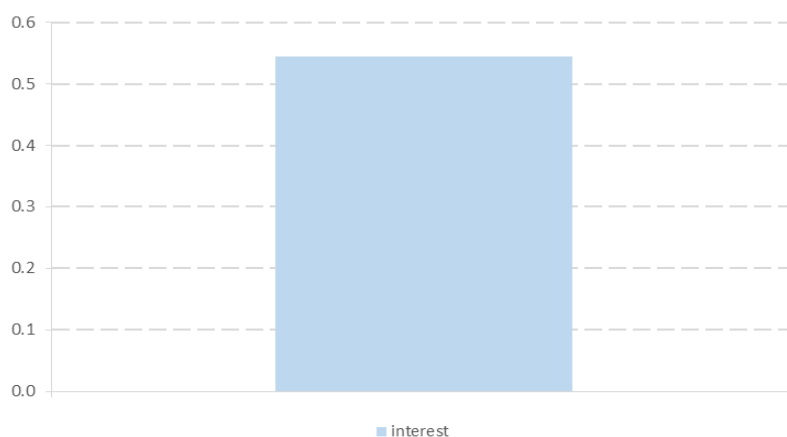
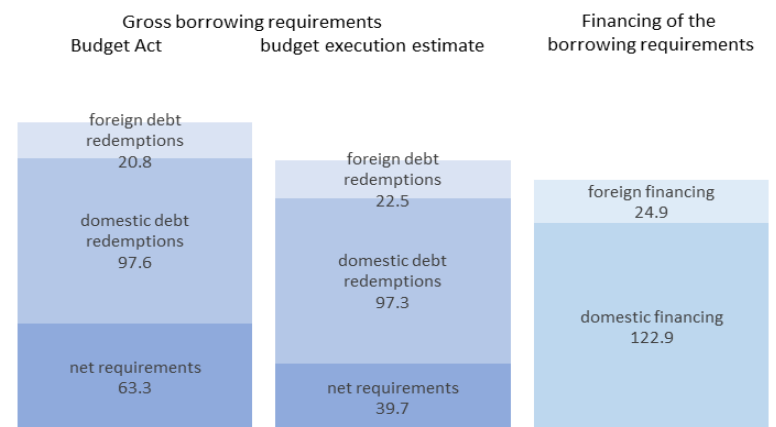
* figures include sale, redemptions and interest payments on wholesale Treasury securities; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented

State Treasury debt redemptions in 2018

as of October 31, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 5.2bn, including:

- retail bonds: PLN 1.4bn,
- bonds and loans incurred on foreign markets: PLN 3.7bn.





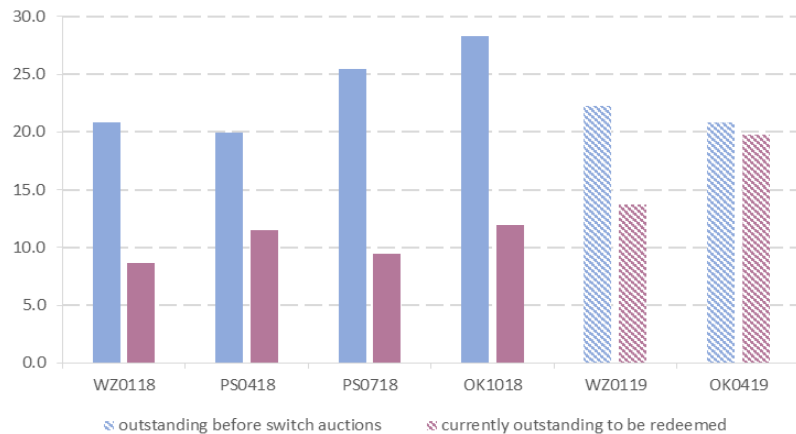
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of October 31, 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%).

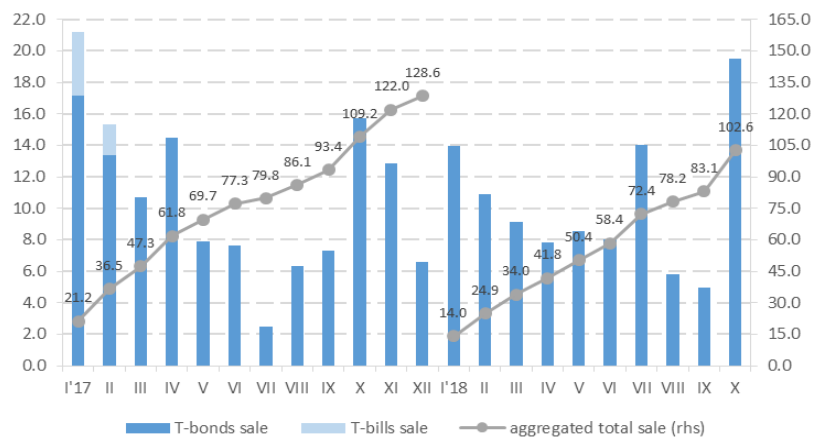


Sale of T-bonds and T-bills in the period of I-X 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-X 2018:

- aggregated total sale of T-bonds amounted to PLN 102.6bn versus PLN 103.2bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

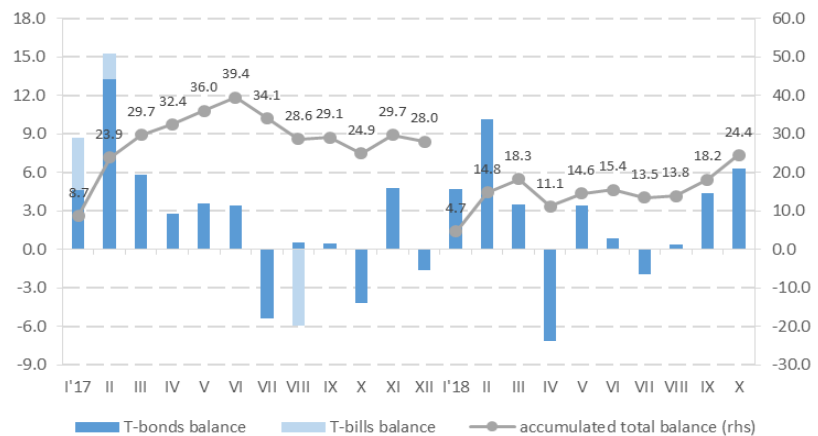


Balance of T-bonds and T-bills in the period of I-X 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-X 2018 indebtedness in:

- T-bonds increased by PLN 24.4bn versus an increase of PLN 24.9bn in the same period of 2017,
- T-bills remained the same, likewise in the same period of 2017.

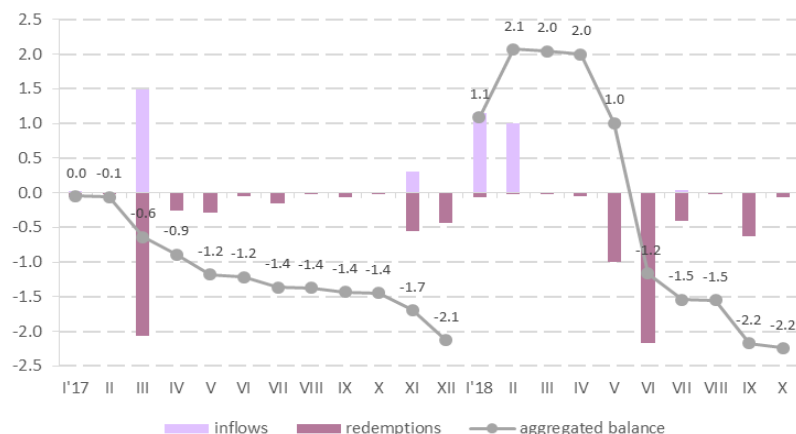


External financing in the period of I-X 2018 and in 2017

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

Net financing on foreign markets in the period of I-X 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 0.4bn (negative balance of EUR 0.4bn in the same period of 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

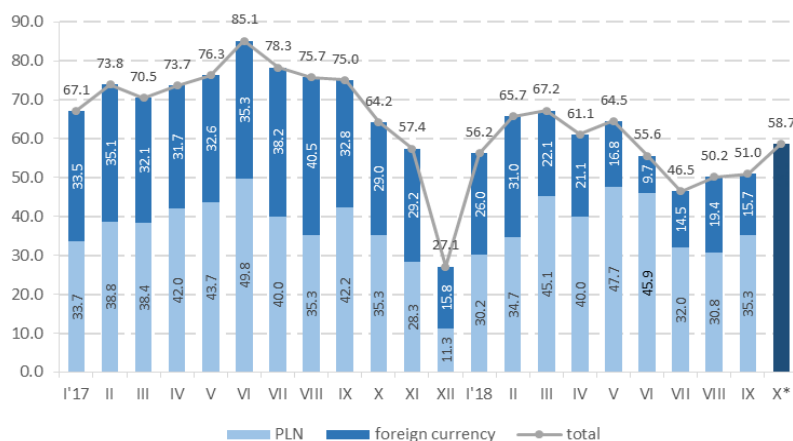


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

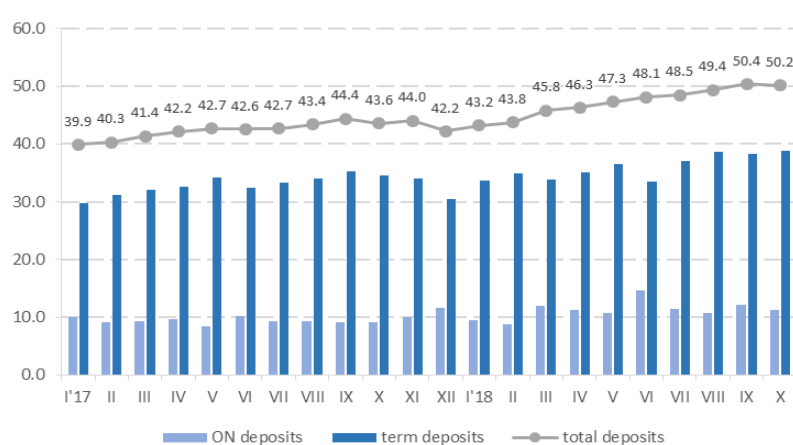
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

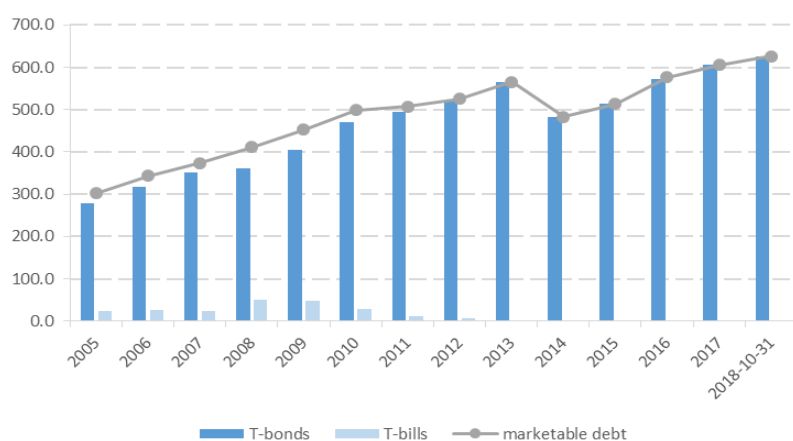
As a result of consolidation of the public finance sector liquidity management there were PLN 50.2bn funds accumulated at the end of October 2018, of which: PLN 38.9bn was on term deposits and PLN 11.3bn on ON deposits.



Structure of marketable debt

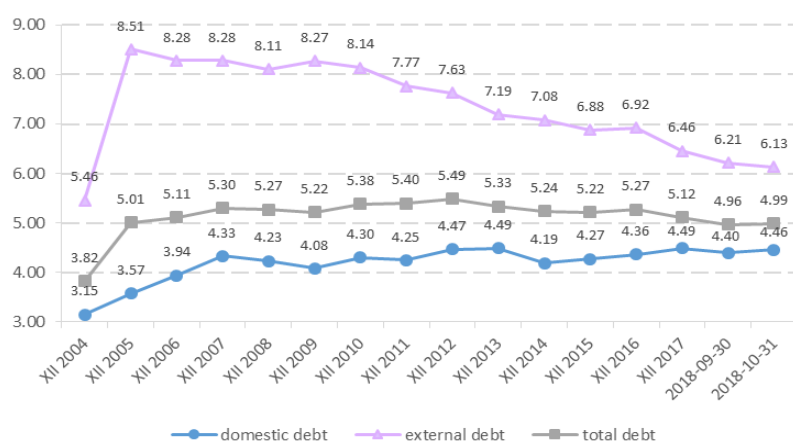
PLN bn

The marketable domestic debt amounted to PLN 626.7bn at the end of October 2018 (while at the end of 2017 it was 4.49) comparing to PLN 605.7bn at the end of 2017.



Average maturity

The average maturity of domestic debt amounted to 4.46 at the end of October 2018 (while at the end of 2017 it was 4.49). The average of total debt amounted to 4.99 (5.12 at the end of 2017).

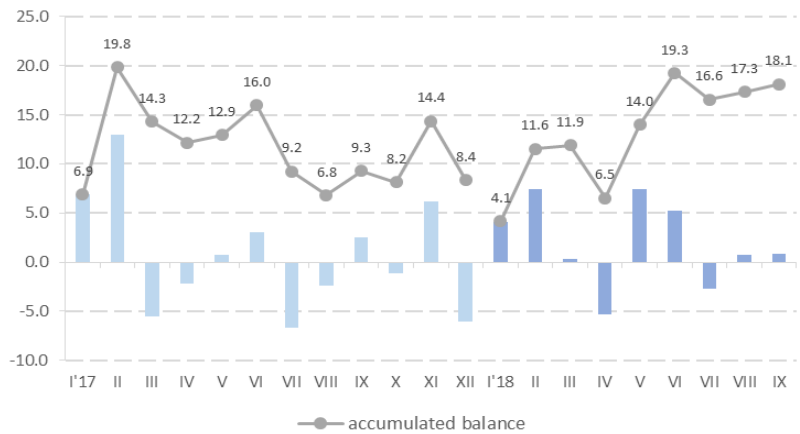




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

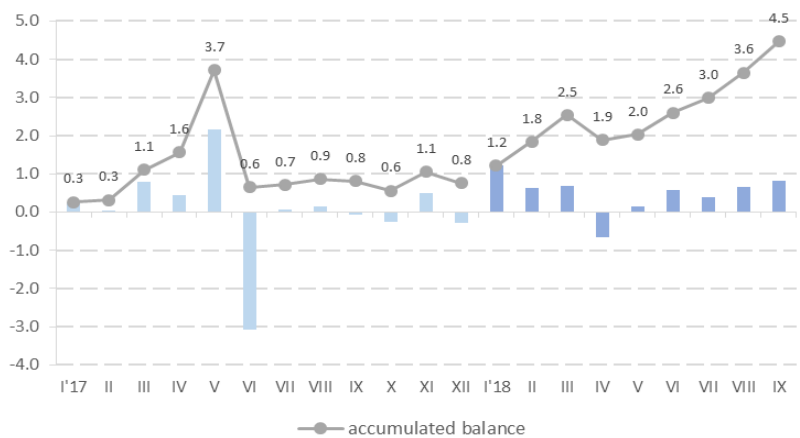
Change of debt in the domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-IX 2018 there was an increase of debt by PLN 18.1bn comparing to PLN 9.3bn increase during the same period of 2017. Banks' holdings reached the level of PLN 262.0bn.



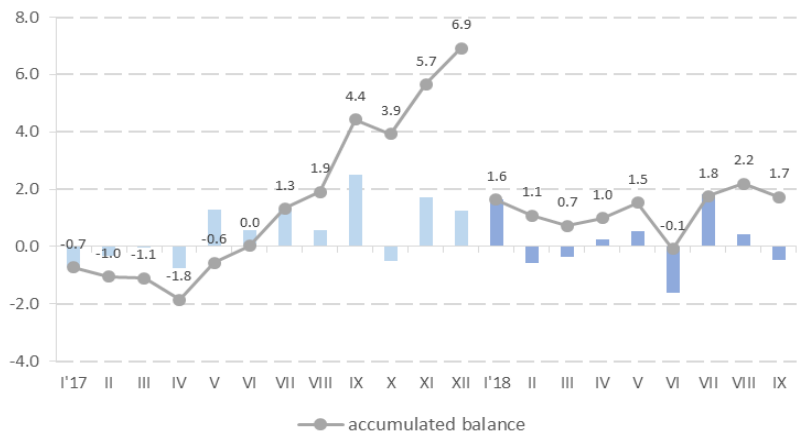
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-IX 2018 there was an increase of debt by PLN 4.5bn comparing to PLN 0.8bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 64.3bn.



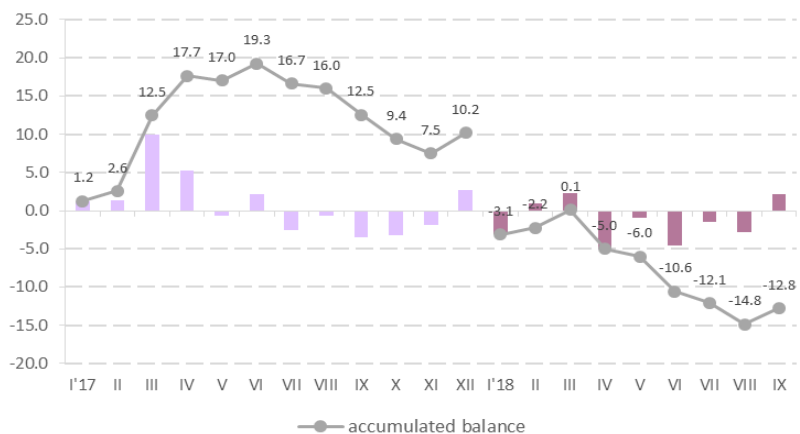
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-IX 2018 there was an increase of debt by PLN 1.7bn comparing to PLN 4.4bn increase in the same period of 2017. Investment funds' holdings reached the level of PLN 58.8bn.



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

In the period of I-IX 2018 there was a decrease of debt by PLN 12.8bn comparing to PLN 12.5bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 190.0bn.



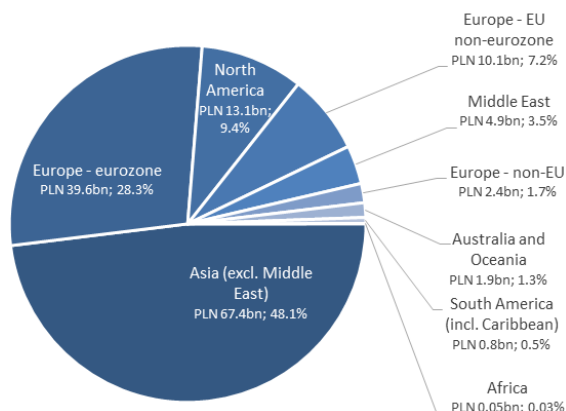
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of September 30, 2018, the chart presents data excluding omnibus accounts

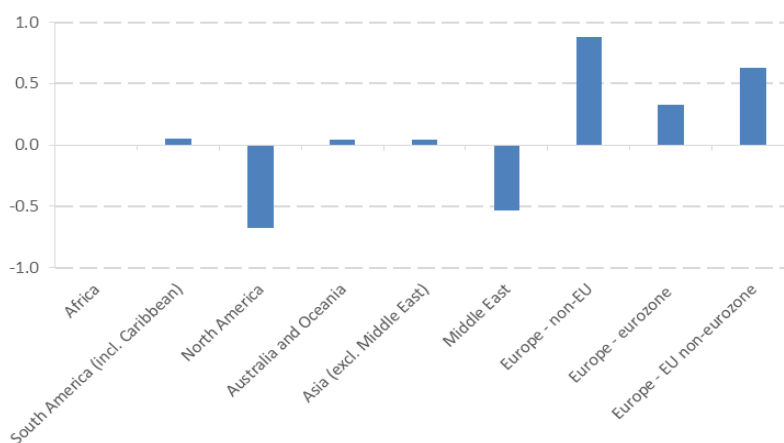
The non-residents' share in the domestic Treasury securities market increased by PLN 2.1bn in September 2018. The foreign investors' portfolio amounted to PLN 190.0bn, which constituted 29.7% share in total debt in Treasury securities (29.6% in the previous month).



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

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

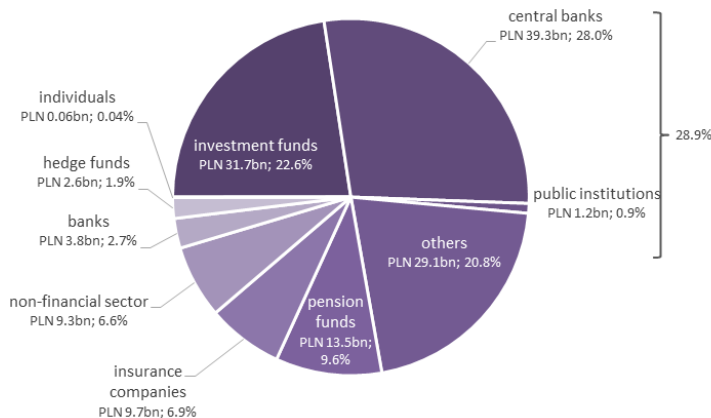
In September 2018 the highest increase was recorded by investors from Europe - non-EU countries (PLN 0.9bn), while the highest decrease was noted by investors from North America (PLN 0.7bn).



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

as of September 30, 2018, the chart presents data excluding omnibus accounts

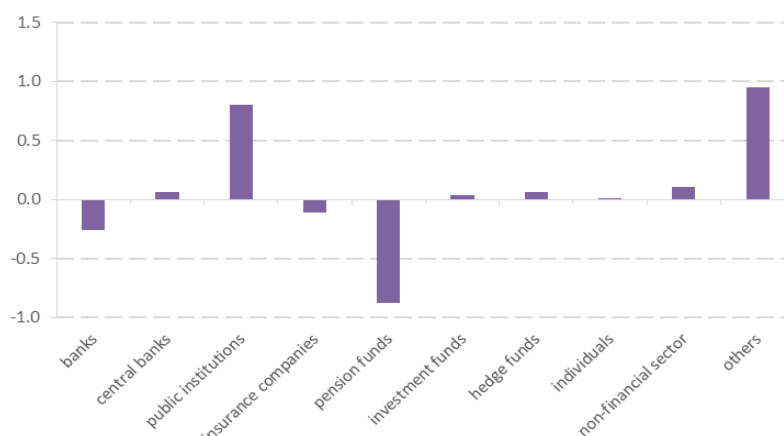
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 28.9% at the end of September 2018.



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

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

In September 2018 the highest increase was recorded by investors from the category "others" (PLN 0.9bn) and the highest decrease was noted by pension funds (PLN 0.9bn).



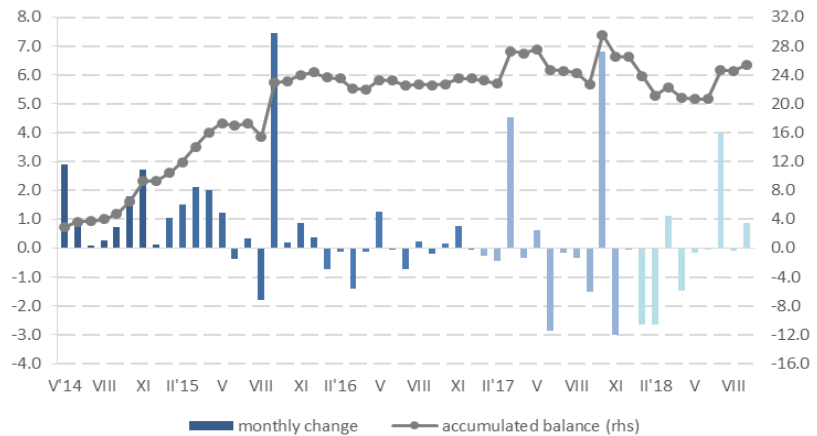


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in September 2018, PLN bn

Central banks and public institutions' involvement increased by PLN 0.9bn in September 2018. In the period from the end of April 2014 to the end of September 2018, for which the detailed information is available, portfolios of those entities increased by PLN 25.4bn.



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

as of September 30, 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	23 458.4	23.2%
Luxembourg	15 205.8	15.0%
United States	12 105.7	12.0%
Ireland	8 571.2	8.5%
Netherlands	7 534.8	7.5%
United Kingdom	6 870.7	6.8%
Germany	5 800.9	5.7%
Hong Kong	3 576.5	3.5%
United Arab Emirates	2 324.2	2.3%
Australia	1 643.6	1.6%
Denmark	1 595.2	1.6%
Switzerland	1 376.8	1.4%
Taiwan (Province of China)	1 101.6	1.1%
Singapore	1 101.5	1.1%
Others	8 774.7	8.7%
Total	101 041.7	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-10-2018

By the end of October the level of financing of the current year's gross borrowing requirements amounted to 93% according to the budget execution estimate from the draft Budget Act for 2019. Simultaneously, ca. 6% of the borrowing needs for 2019 was already prefinanced by switch auctions. There is about PLN 57bn on budget accounts.

In November one sale and one switch auction will be organised.

In September non-residents increased their holdings of domestic T-bonds by PLN 2.1bn. Involvement of domestic banks increased by PLN 0.8bn and domestic non-banking sector increased by PLN 1.5bn

IV. SUPPLY PLAN OF TREASURY SECURITIES IN NOVEMBER 2018



T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
29 NOV 2018	3 DEC 2018	OK0521 / PS0424 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	3,000-6,000

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-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
15 NOV 2018 / 19 NOV 2018	OK0521 / PS0424 / WZ0524 / WS0428 / WZ0528	WZ0119	13,712
		OK0419	19,793
		PS0719	22,876

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0219 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS1120 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ1121 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI1122 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO1128 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS1124 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD1130 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period