

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

1st quarter 2018

January 2018

### THE MOST IMPORTANT INFORMATION

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## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland\*

constant prices, yoy  
source: Eurostat, GUS

In the third quarter of 2017 GDP went up by 1.2% (qoq, sa) as compared to 0.9% (qoq, sa) in the previous quarter. In the third quarter of 2017 growth of households consumption remained strong and a further slight acceleration in investments dynamics was observed. Increase in private consumption was a consequence of a positive labour market situation, robust sentiment of consumers and implementation of the family support programme "Family 500+".

\* quarterly data currently are not consistent with revised annual data

### Contributions to Polish GDP growth\*

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

In the third quarter of 2017 GDP was 4.9% higher than a year ago as compared to 4.0% in the previous quarter. Domestic demand was the main source of GDP growth on the back of households consumption (contribution of 2.9 pp) and, to a lesser extent, investments (0.6 pp). Net exports contribution to GDP growth, contrary to the previous quarter, was positive (1.1 pp) due to higher exports than imports dynamics. On the other hand contribution of inventories was neutral. The pace of growth of investments amounted to 3.3% in the third quarter and was higher than in the first half of 2017, however lower than expectations. Higher dynamics of investments was mainly a result of improvement of their dynamics in general government sector.

\* quarterly data currently are not consistent with revised annual data

### Polish gross external debt position

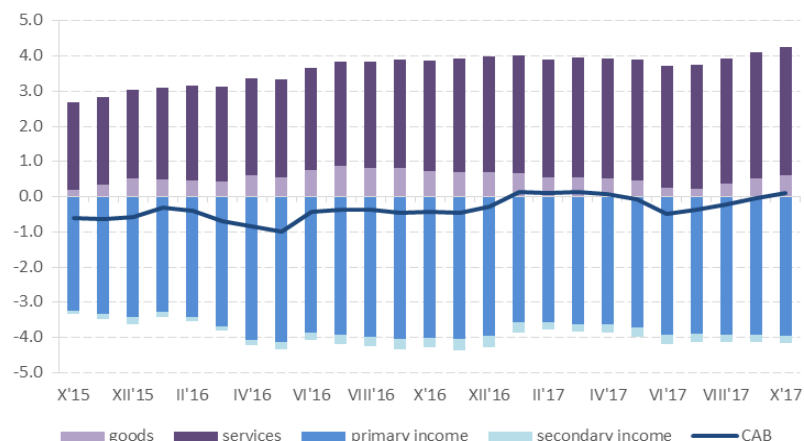
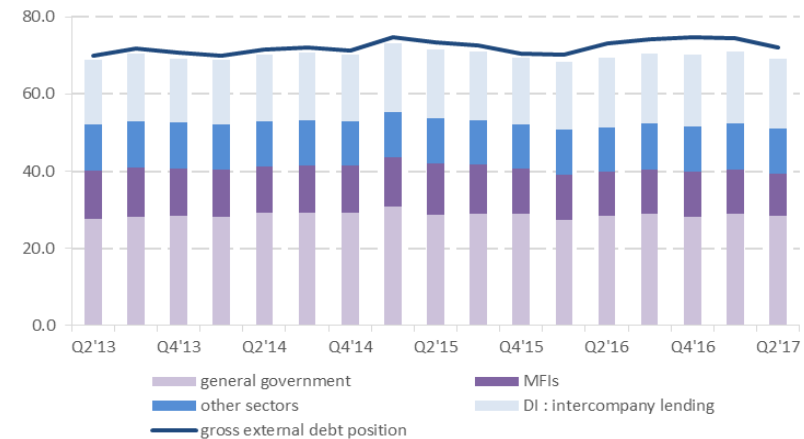
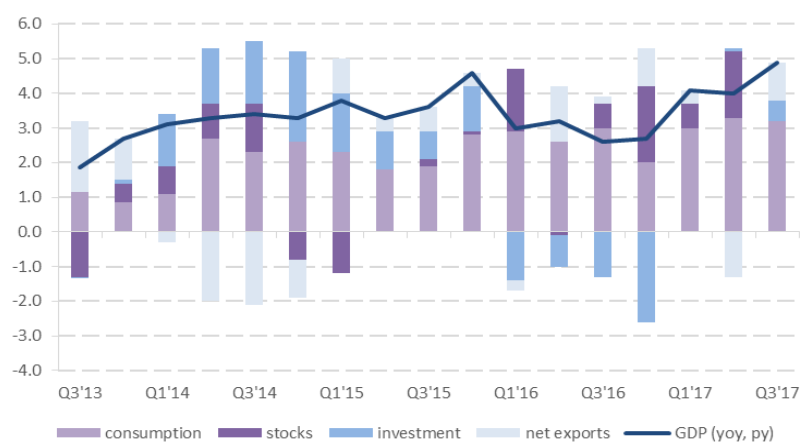
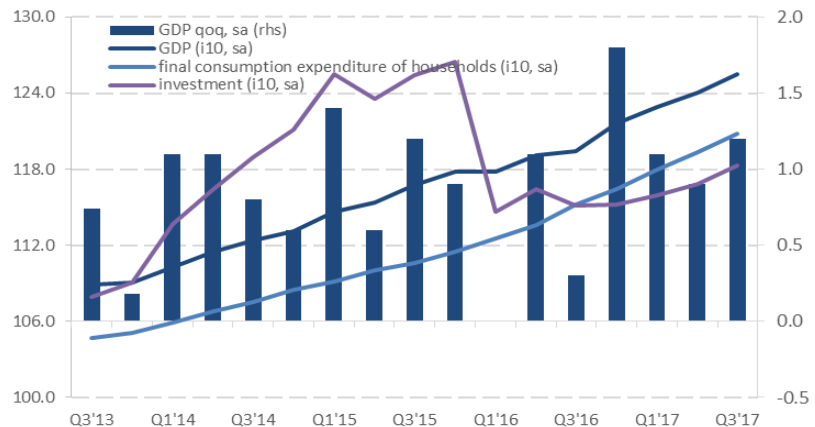
percent of GDP  
source: NBP, GUS, MoF own calculation

At the end of the second quarter of 2017 gross external debt reached EUR 318.9bn (72.0% of GDP) and was EUR 3.6bn lower than in the previous quarter. The share of general government debt in total debt increased to 39.3%. At the end of October 2017 official reserve assets reached EUR 95.1bn 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 October 2017, according to the preliminary data, current account balance was slightly positive and amounted to 0.1% of GDP (in 12-month terms of GDP). Data were better than 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.

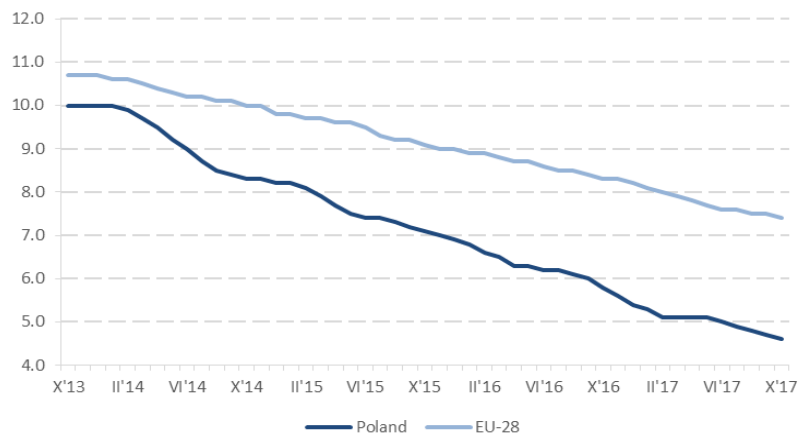




## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

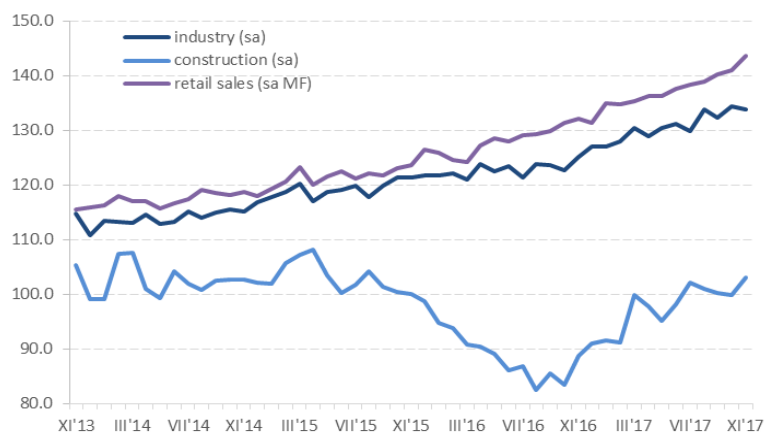
Harmonised unemployment rate has continued its downward trend since mid-2013. In October 2017 it amounted to 4.6% (versus 7.4% in EU on average) and was 0.1 pp lower than a month before and 1.2 pp lower than a year earlier. In October 2017 harmonised unemployment rate in Poland reached the historically lowest level.



## Monthly indicators of the real sector

sold production in constant prices, i10, seasonally adjusted data  
source: Eurostat, GUS, MoF own calculation

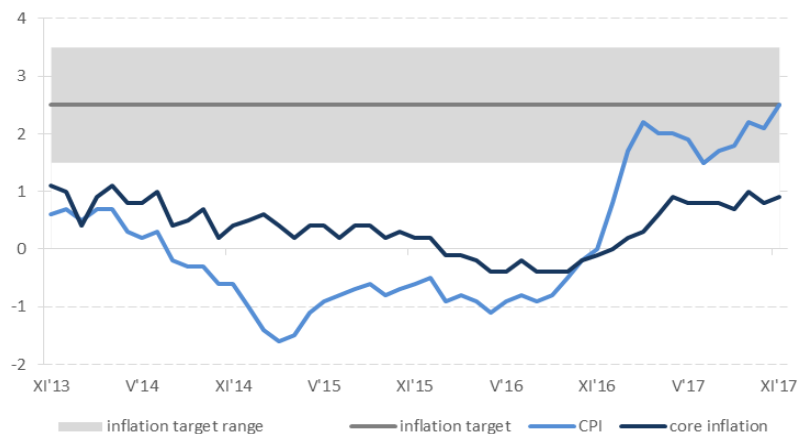
In November 2017 industrial output went down by 0.5% (mom, sa). As a result, production was 9.1% higher than a year ago (nsa). Data were in line with market expectations. Construction production recovered in November growing by 3.2% (mom, sa). The increase compensated losses registered in three previous months. As a result production was 19.7% (nsa) higher than a year before. Data were better than expectations. Real retail sales increased in November by 1.9% (mom, sa MoF). It was the ninth month of growth in a row. As a result their level was 8.8% (nsa) higher than in the same month of 2016. Data were above market expectations.



## Inflation

percent, yoy  
source: GUS, NBP

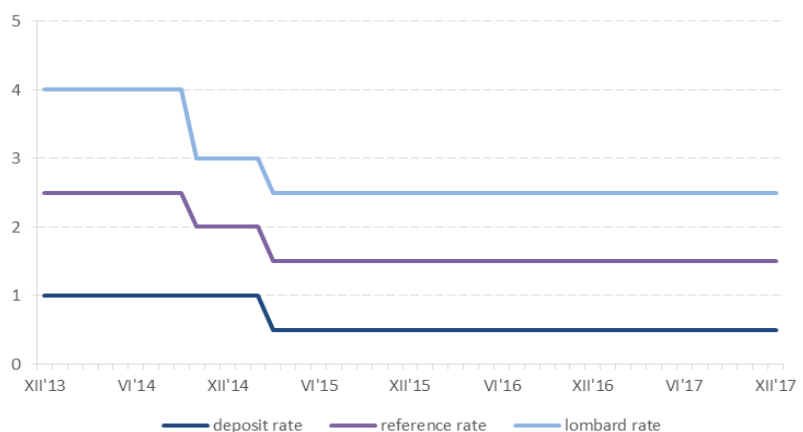
In November 2017 CPI rate rose by 0.5% (mom), among which food prices and energy prices increased markedly (by 1.0% and 1.2%, respectively). As a result, consumer prices were higher by 2.5% than a year before and inflation reached the inflation target. Data were higher than market expectations. Since the beginning of 2017 core inflation (CPI excluding food and energy prices) has been positive and in November it amounted to 0.9% (yoy). Producer prices increased by 0.1% (mom) and their annual growth decreased markedly to 1.8%.



## NBP interest rates

percent, end of period  
source: NBP

In December 2017 the Monetary Policy Council kept NBP's interest rates unchanged with the reference rate at 1.50%. The decision was in line with market expectations. In the Council's assessment, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance. The latest Reuters' poll median forecast (December, 1st) sees no NBP rate move till the end of the third quarter of 2018.





## II. STATISTICAL DATA

	Unit	2016 Q02	Q03	Q04	2017 Q01	Q02	Q03
<b>GDP<sup>1)</sup></b>							
Gross domestic product	YoY	3.2	2.6	2.7	4.1	4.0	4.9
	QoQ SA	1.1	0.3	1.8	1.1	0.9	1.2
Final consumption expenditure of the households sector	YoY	3.4	4.1	4.7	4.7	4.9	4.8
	QoQ SA	0.9	1.4	1.1	1.3	1.2	1.2
Final consumption expenditure of the general government sector	YoY	3.1	2.8	-1.4	0.5	2.1	1.9
	QoQ SA	-0.8	1.0	0.1	0.1	1.5	0.4
Gross fixed capital formation	YoY	-4.6	-6.9	-9.7	-0.5	0.9	3.3
	QoQ SA	1.5	-1.1	0.1	0.6	0.8	1.2
Exports of goods and services	YoY	11.9	7.3	8.4	9.6	3.1	7.6
	QoQ SA	5.1	-1.0	2.7	2.1	0.1	2.7
Imports of goods and services	YoY	9.4	7.2	6.3	9.7	6.0	5.7
	QoQ SA	3.2	0.4	0.8	4.7	-0.3	0.6
Gross value added	YoY	3.1	2.6	2.9	3.8	3.7	4.8
	QoQ SA	0.4	0.6	1.8	0.7	1.3	1.1
<b>Contribution to GDP growth<sup>1)</sup></b>							
Final consumption expenditure of the households sector	pp	2.0	2.5	2.3	2.9	2.9	2.9
Final consumption expenditure of the general government sector	pp	0.6	0.5	-0.3	0.1	0.4	0.3
Gross fixed capital formation	pp	-0.9	-1.3	-2.6	0.0	0.1	0.6
Changes in inventories	pp	-0.1	0.7	2.2	0.7	1.9	0.0
Balance of trade turnover	pp	1.6	0.2	1.1	0.4	-1.3	1.1
Gross value added	pp	2.8	2.3	2.5	3.4	3.3	4.1
Taxes less subsidies	pp	0.4	0.3	0.2	0.7	0.7	0.8
<b>GDP structure<sup>1)</sup></b>							
Final consumption expenditure of the households sector	% of GDP	58.7	60.1	49.9	64.5	59.1	59.7
Final consumption expenditure of the general government sector	% of GDP	17.7	17.3	18.9	16.9	17.3	16.8
Gross fixed capital formation	% of GDP	16.8	17.4	24.4	11.7	16.2	17.0
Changes in inventories	% of GDP	0.6	1.5	2.6	2.0	2.3	1.4
Exports of goods and services	% of GDP	54.6	52.3	48.9	57.1	54.3	53.5
Imports of goods and services	% of GDP	49.2	49.4	45.4	52.9	50.0	49.2
<b>Balance of payments</b>							
	Unit	2017 M06	M07	M08	M09	M10	M11
Goods: exports (EUR)	YoY	6.5	12.4	12.1	10.2	15.4	-
Goods: imports (EUR)	YoY	13.0	12.8	7.6	5.7	12.9	-
Current account balance <sup>2)</sup>	% of GDP	-0.5	-0.4	-0.2	0.0	0.1	-
Balance on goods <sup>2)</sup>	% of GDP	0.2	0.2	0.4	0.5	0.6	-
Official Reserve Assets	EUR m	97 969.5	93 577.6	92 192.0	94 368.1	95 099.3	-
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	1.5	1.7	1.8	2.2	2.1	2.5
Core inflation (CPI excluding food and energy prices)	YoY	0.8	0.8	0.7	1.0	0.8	0.9
Producer Price Index (PPI)	YoY	1.8	2.2	3.0	3.2	3.0	1.8
<b>Production</b>							
Sold production of industry <sup>3)</sup>	YoY	4.4	6.2	8.7	4.2	12.3	9.1
	MoM SA	0.5	-0.9	3.0	-1.1	1.6	-0.5
Construction and assembly production <sup>3)</sup>	YoY	11.6	19.8	23.5	15.5	20.3	19.7
	MoM SA	3.2	4.0	-1.0	-0.8	-0.4	3.2
Manufacturing PMI	SA	53.1	52.3	52.5	53.7	53.4	54.2
<b>Households and labour market</b>							
Retail sales <sup>3)</sup>	YoY	5.8	6.8	6.9	7.5	7.1	8.8
Average paid employment in enterprise sector	YoY	4.3	4.5	4.6	4.5	4.4	4.5
	MoM	0.2	0.3	0.1	0.1	0.1	0.3
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.5	3.1	4.8	3.8	5.2	3.9
	MoM	2.9	0.1	-0.1	-0.8	1.8	0.3
Harmonised unemployment rate (Eurostat)	% SA	5.0	4.9	4.8	4.7	4.6	-
<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>							
<b>State Treasury debt</b>							
	Unit	2017 M05	M06	M07	M08	M09	M10
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	940 531.7	945 695.5	939 931.1	936 501.5	940 729.2	932 008.3
Domestic debt	face value, PLN m	647 159.0	650 210.3	645 203.1	642 221.8	643 185.0	637 934.6
	%	68.8	68.8	68.6	68.6	68.4	68.4
Foreign debt	face value, PLN m	293 372.6	295 485.2	294 728.0	294 279.7	297 544.2	294 073.7
	%	31.2	31.2	31.4	31.4	31.6	31.6
<b>Public debt (domestic definition)</b>							
	Unit	2016 Q02	Q03	Q04	2017 Q01	Q02	Q03
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	624 358.2	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
<b>General Government debt (EU definition)</b>							
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

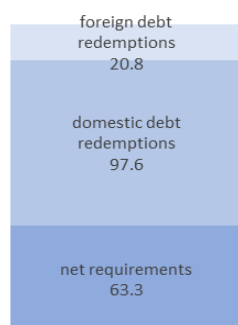
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Gross borrowing requirements in 2018

The level of financing of the 2018 State budget borrowing requirements as of January 4th, reached ca. 32%, of which ca. 27% due to the prefinancing in 2017 (the final level will be known following the closure of the budget year).

Gross borrowing requirements  
Total: PLN 181,7bn, of which:



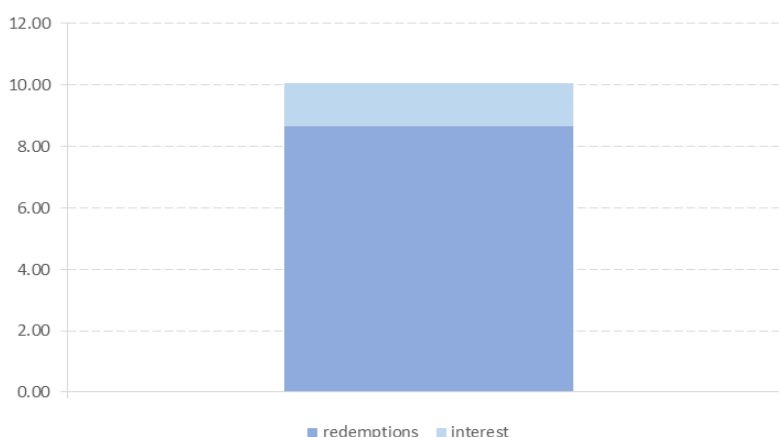
Financing of the borrowing requirements at the level of ca. 32%

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

as of December 31, 2017, PLN bn

Value of funds transferred from the State budget to the market in January shall amount to PLN 10.0bn, of which:

- TS redemptions: PLN 8.6bn,
- interest payments: PLN 1.4bn.

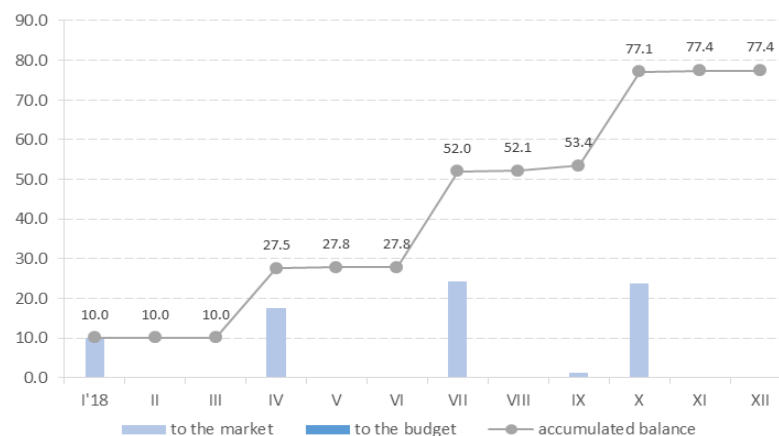


#### Flows of funds between the market and the budget\*

as of December 31, 2017, PLN bn

As of December 31, 2017, to the end of the 2018 the funds to be transferred to the market shall amount to PLN 77.4bn

\* 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

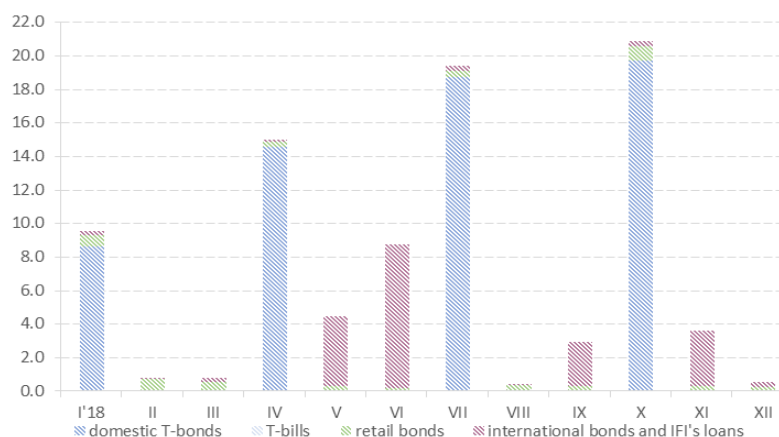


#### State Treasury debt redemptions in 2018

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

The nominal amount of debt to be redeemed in 2018 is equal to PLN 87.2bn, including:

- T-bonds: PLN 61.7bn,
- T-retail bonds: PLN 5.4bn,
- bonds and loans incurred on foreign markets: PLN 20.1bn.





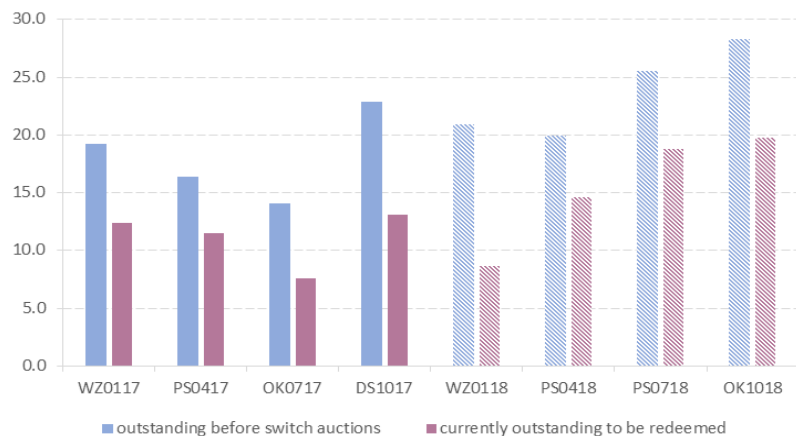
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Reducing refinancing risk connected with T-bonds' redemptions maturing in 2017 and 2018

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

Buy-back of T-bonds maturing in 2017 and 2018:

- WZ0117: PLN 6.8bn (35%),
- PS0417: PLN 4.9bn (30%),
- OK0717: PLN 6.5bn (46%),
- DS1017: PLN 9.9bn (43%),
- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 5.3bn (27%),
- PS0718: PLN 6.8bn (27%),
- OK1018: PLN 8.5bn (30%).

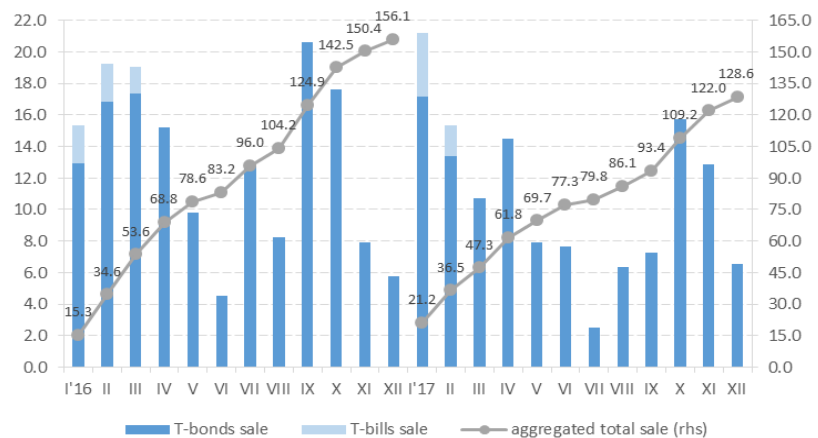


#### Sale of T-bonds and T-bills in the period of I-XII 2017 and in 2016

auction date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 122.6bn versus PLN 149.6bn in the same period of 2016,
- T-bills amounted to PLN 6.0bn versus PLN 6.5bn in the same period of 2016.

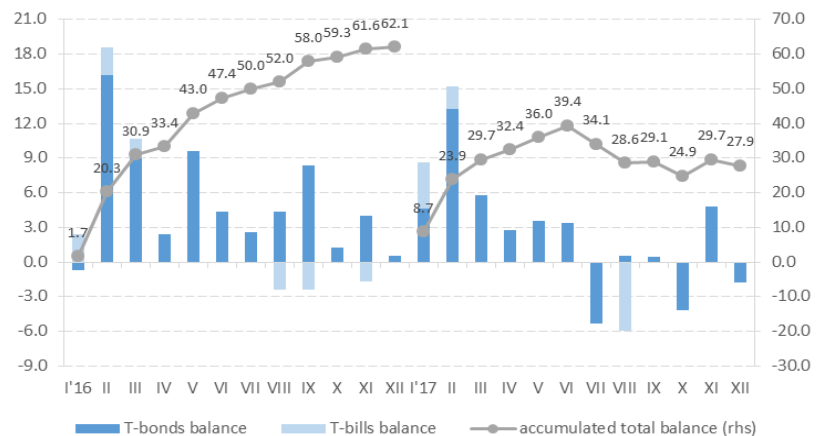


#### Balance of T-bonds and T-bills in the period of I-XII 2017 and in 2016

auction date, nominal amount, PLN bn

In the period of I-XII 2017 indebtedness in:

- T-bonds increased to PLN 27.9bn versus increase of PLN 62.1bn in the same period of 2016,
- T-bills remained the same.



#### External financing in the period of I-XII 2017 and in 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-XII 2017 was negative and amounted to EUR 2.1bn (positive balance of EUR 3.1 in the same period of 2016), which resulted from:

- negative balance of T-bonds of EUR 1.5bn (positive balance of EUR 3.2bn in 2016),
- negative balance of loans incurred from IFIs of EUR 0.6bn (negative balance of EUR 0.2bn in 2016).



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

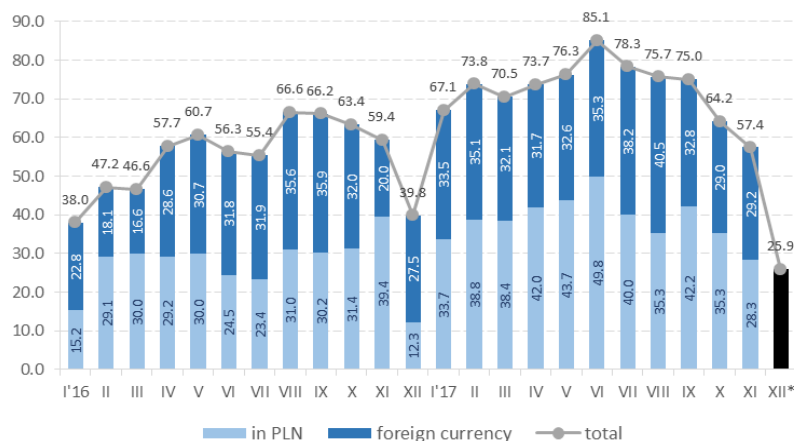


#### Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The accumulated funds ensure liquidity in borrowing needs financing.

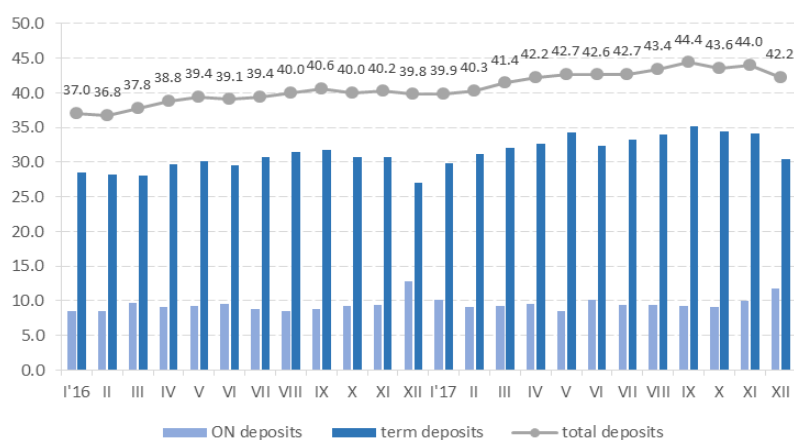
\* preliminary data



#### Consolidation of public finance sector liquidity management

PLN bn

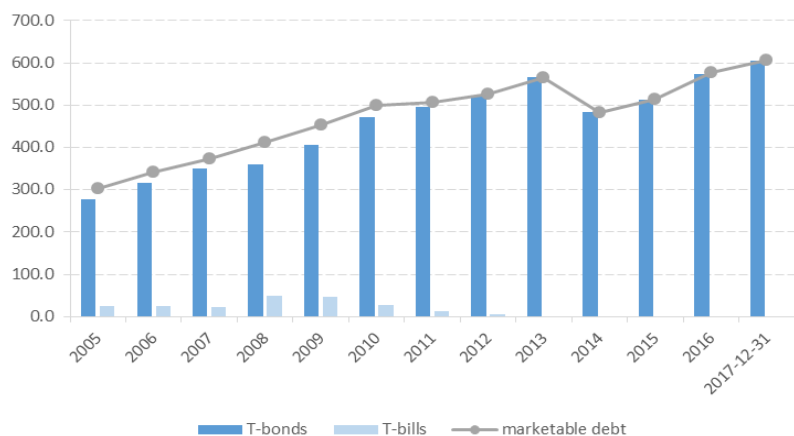
As a result of consolidation of public finance sector liquidity management there were PLN 42.2bn funds accumulated at the end of December 2017, of which PLN 30.5bn was as term deposits and PLN 11.7bn on ON deposits.



#### Structure of marketable debt

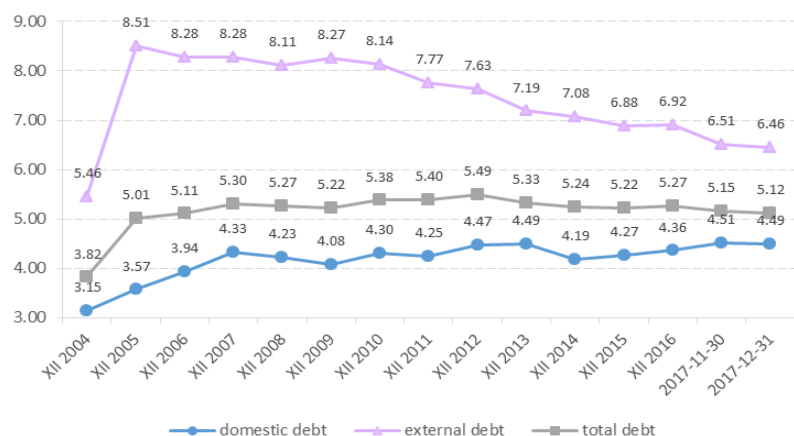
PLN bn

At the end of December 2017 the marketable domestic debt amounted to PLN 605.7bn comparing to PLN 576.7bn at the end of 2016.



#### Average maturity

At the end of December 2017 the average maturity of domestic debt amounted to 4.49 (while at the end of 2016 it was 4.36). The average of total debt decreased to 5.12 (5.27 at the end of 2016).



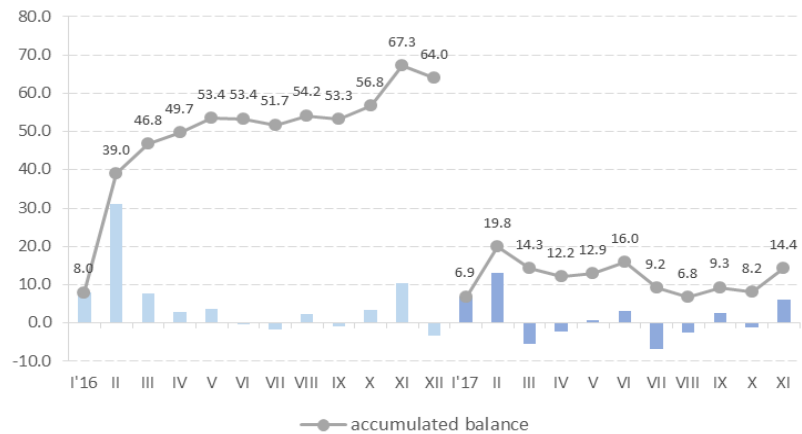


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Change of debt in domestic Treasury securities held by banks

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

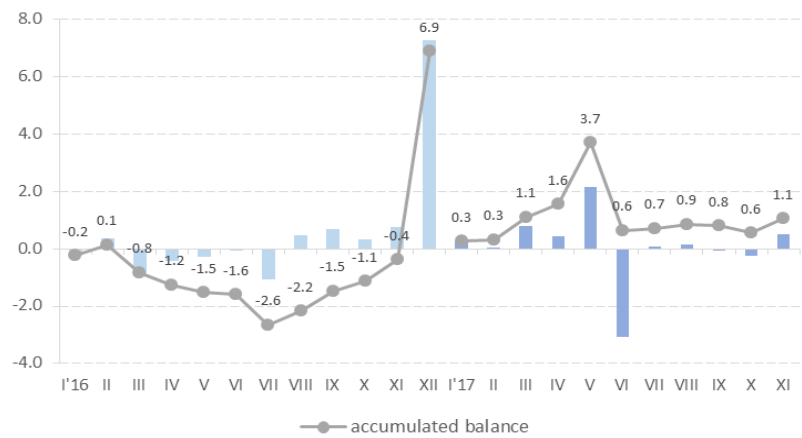
In the period of I-XI 2017 there was an increase of debt by PLN 14.4bn comparing to PLN 67.3bn increase during the same period of 2016. Banks' holdings reached the level of PLN 249.9bn.



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

PLN bn

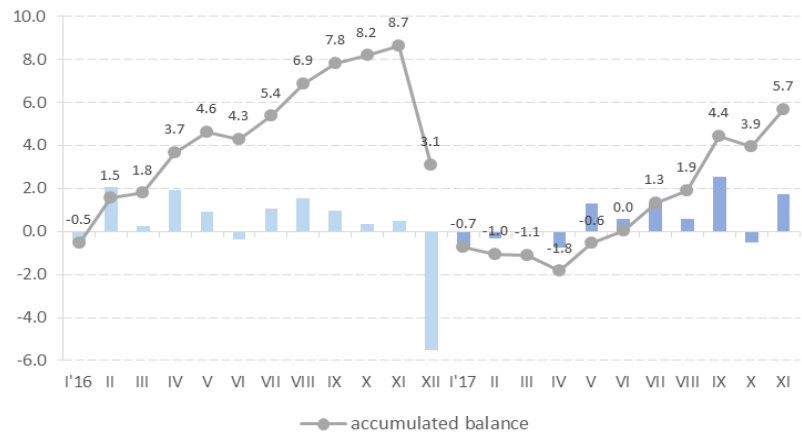
In the period of I-XI 2017 there was an increase of debt by PLN 1.1bn comparing to PLN 0.4bn decrease during the same period of 2016. Insurance companies' holdings reached the level of PLN 60.1bn.



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

PLN bn

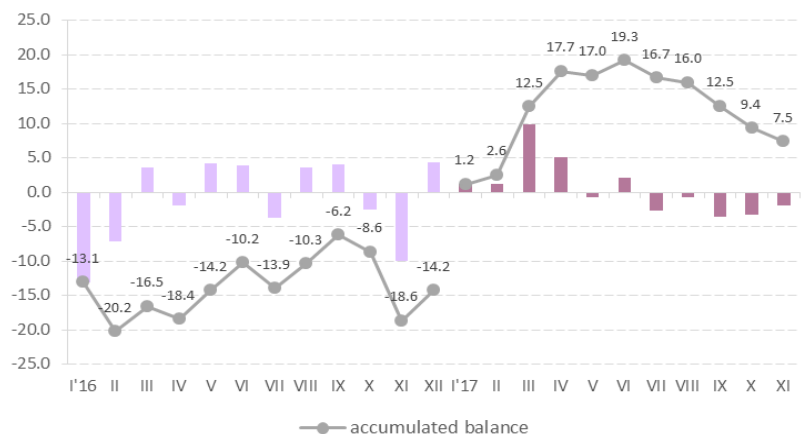
In the period of I-XI 2017 there was an increase of debt by PLN 5.7bn comparing to PLN 8.7bn increase during the same period of 2016. Investment funds' holdings reached the level of PLN 55.9bn.



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

PLN bn

In the period of I-XI 2017 there was an increase of debt by PLN 7.5bn comparing to PLN 18.6bn decrease during the same period of 2016. Foreign investors' holdings reached the level of PLN 200.0bn.





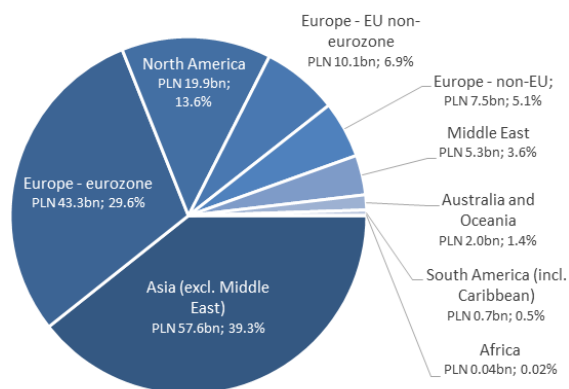
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

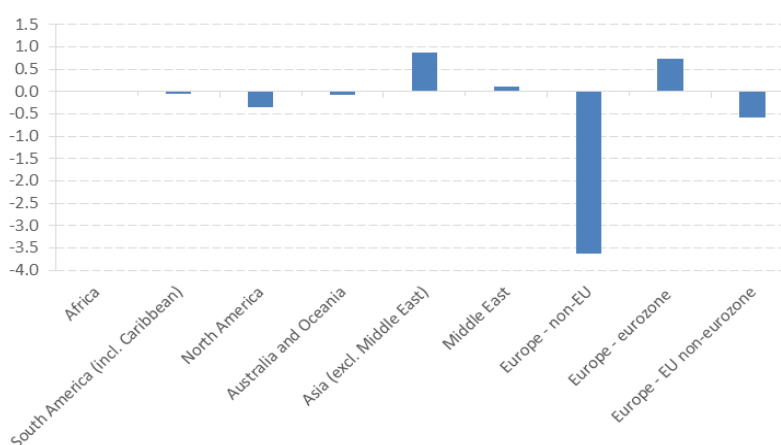
In November 2017 the non-residents' share in the domestic Treasury securities market decreased by PLN 1.9bn. The foreign investors' portfolio amounted to PLN 200.0bn, which constituted 32.1% share in total debt in Treasury securities (32.8% in the previous month).



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

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

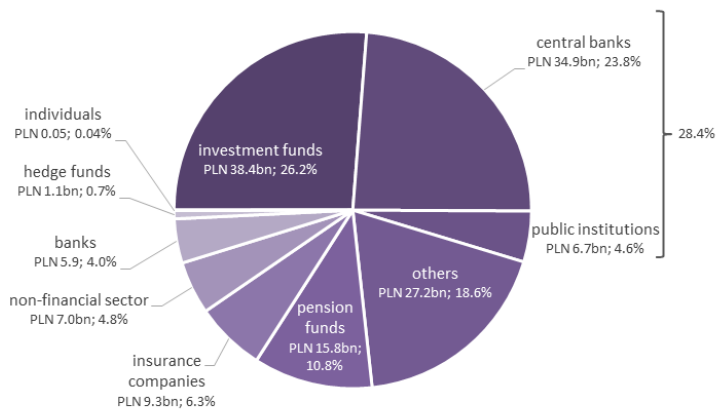
In November 2017 the highest increase was recorded by Asia (PLN 0.9bn) and the highest decrease was recorded by investors from Europe - non-EU (PLN 3.6bn).



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

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

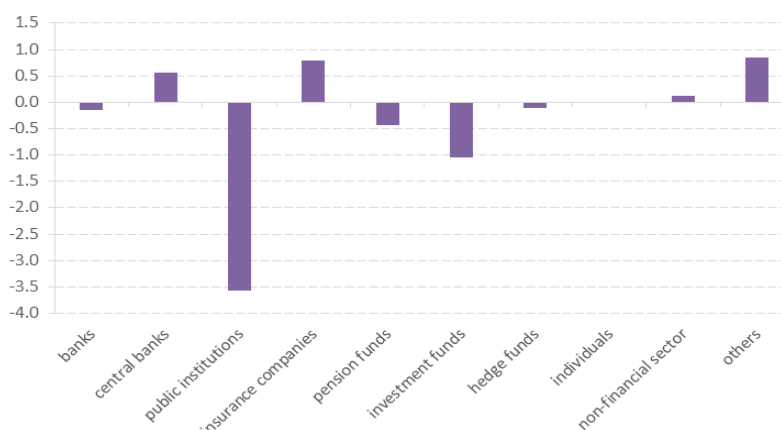
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of November 2017 central banks and public institutions' share in foreign holdings amounted to 28.4%.



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

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

In November 2017 the highest increase was recorded by entities from "others" category (PLN 0.8bn) and the highest decrease was recorded by public institutions (PLN 3.6bn).



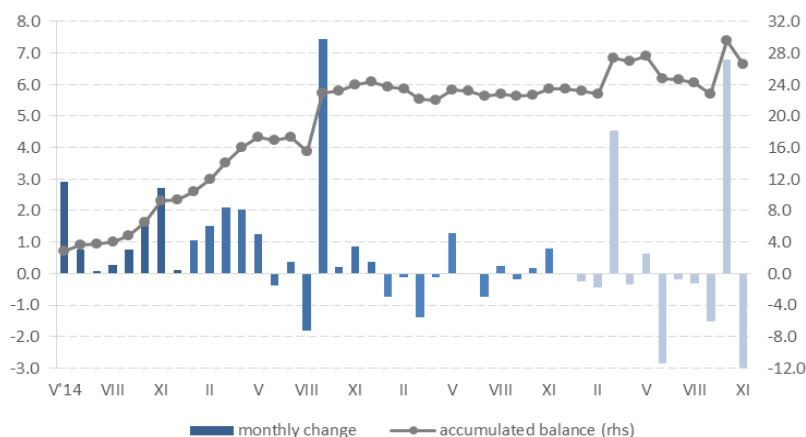


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in November 2017, PLN bn

In November 2017 central banks and public institutions' involvement in the Polish debt market decreased by PLN 3.0bn. In the period from the end of April 2014 to the end of November 2017, for which the detailed information is available, portfolios of those entities increased by PLN 26.5bn.



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

as of November 30, 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	19 728.8	17.7%
United States	18 819.9	16.9%
Luxembourg	18 770.8	16.8%
Ireland	7 976.0	7.2%
United Kingdom	6 713.6	6.0%
Netherlands	6 611.5	5.9%
Germany	5 847.8	5.2%
Norway	5 798.8	5.2%
Hong Kong	2 192.4	2.0%
United Arab Emirates	2 000.5	1.8%
France	1 855.4	1.7%
Australia	1 786.2	1.6%
Switzerland	1 501.0	1.3%
Denmark	1 488.5	1.3%
Taiwan (Province of China)	1 225.8	1.1%
Others	9 214.1	8.3%
<b>Total</b>	<b>111 531.2</b>	<b>100.0%</b>

#### Comment

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

29-12-2017

According to our preliminary estimates, over one fourth of next year's borrowing requirements has been financed this year. At the end of this year, amount of liquid funds will be visibly higher than PLN 20bn. Final figures will be available after the closure of the budget year.

In January, we will hold two sale actions. Supply on the second one takes into consideration redemption of the bond WZ0118 and interest payments in the total amount of PLN 10.0bn. No T-bill auctions are planned. At the beginning of the year, we will receive EUR 1.2bn from European Investment Bank's loans.

In the first quarter of 2018, issues on foreign markets are also possible, however, we take into account the strategic target of reducing share of foreign currency debt in the total State Treasury debt below 30%. In 2017, we were significantly closer to this target - the share will decrease from 34.4% to probably less than 31%.

In November, foreign investors decreased their portfolios of PLN denominated T-bonds by PLN 1.9bn, which implies the growth of PLN 7.5bn from the beginning of the year. In December, we observed an inflow of foreign investors.

## IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q1 2018



### General assumptions

- in the first quarter of 2018 T-bond auctions are planned according to the announced yearly issuance calendar,
- offer of T-bonds on the domestic market will depend on the budget and market situation, as well as the 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:**  
five or six auctions, total supply PLN 20.0-35.0bn, the structure of T-bonds to be offered will be subject to the market situation,
- **switch auctions:**  
in January and February auctions are not planned, possible auction in March (subject to the market situation) – securities offered to repurchase would be T-bonds maturing in 2018.

### 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 markets,
- loans from International Financial Institutions of EUR 1.2bn,
- possible private placement issuance.



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

### T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
4 JAN 2018	8 JAN 2018	OK0720 / PS0123 / WZ1122/ WS0428 / WZ0528	3,000-5,000*
26 JAN 2018	30 JAN 2018	OK0720 / PS0123 / WZ1122/ WS0428 / WZ0528 / possible T-bond either WS or IZ type	5,000-9,000**

\* At the auction on January 4th, 2018 the Ministry of Finance sold T-bonds at the level of PLN 6.0bn (including PLN 1.0bn sold at the non-competitive auction), of which: OK0720 - PLN 0.9bn, WZ1122 - PLN 1.3bn, PS0123 - PLN 1.8bn, WS0428 - PLN 1.3bn and WZ0528 - PLN 0.7bn.

\*\* 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

### T-bill auctions

Sale auctions of Treasury bills are not planned.

### Offer on the retail market

T-bond	Issue price	Coupon
OTS0418 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0120 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0121 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0122 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0128 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0124 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0130 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period