

State budget borrowing requirements' financing plan and its background

June 2018

THE MOST IMPORTANT INFORMATION

I. Current macroeconomic situation	2-3
II. Statistical data	4
III. Background of borrowing requirements' financing	5-10
• MoF's comment	10
IV. Monthly supply plan of Treasury securities	11

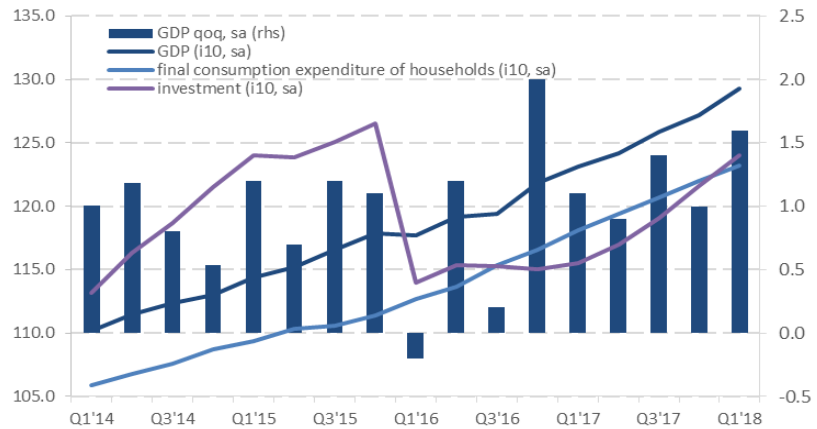


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

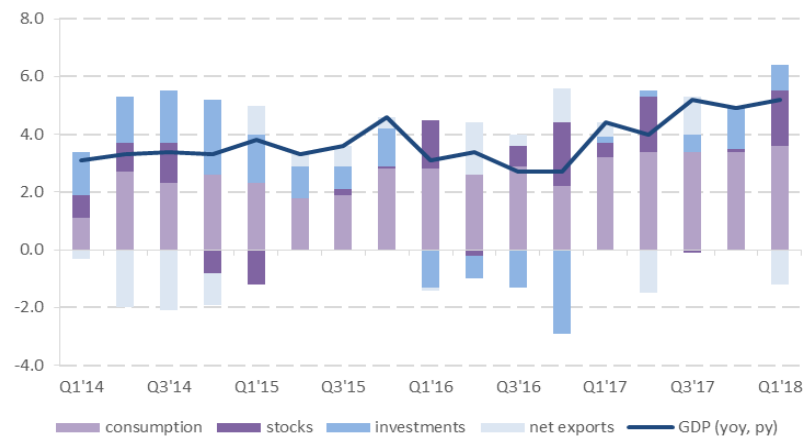
In the first quarter of 2018 GDP growth accelerated to 1.6% (qoq, sa) from 1.0% (qoq, sa) a quarter earlier. At the beginning of this year growth of households consumption (qoq, sa) remained close to the average of the last two years. Investments also continued its upward trend at the pace observed in the second half of 2017. Increase in 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

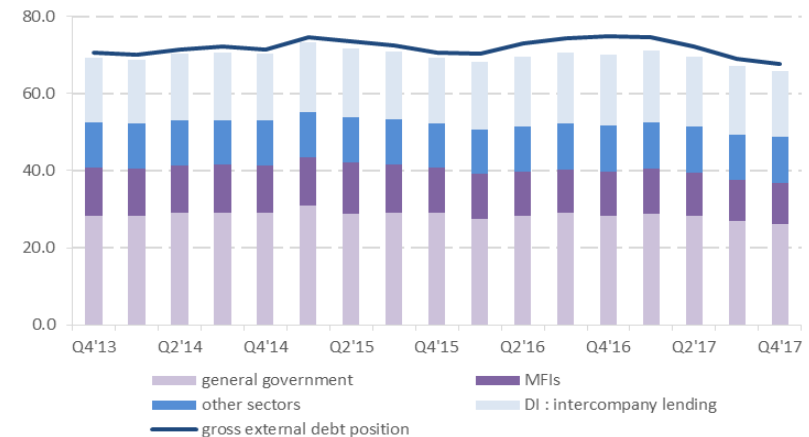
In the first quarter of 2018 GDP was 5.2% higher than a year ago as compared to 4.9% in the previous quarter. Domestic demand was the only source of GDP growth, mainly on the back of households consumption (contribution of 3.0 pp) and increase in stocks (1.9 pp). On the other hand, net exports contribution to GDP growth was negative (1.2 pp). Investments were 8.1% higher than a year ago which was the highest growth since the first quarter of 2015. We assume that this improvement was, to a large extent, an effect of higher investments dynamics of general government sector.



Polish gross external debt position

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

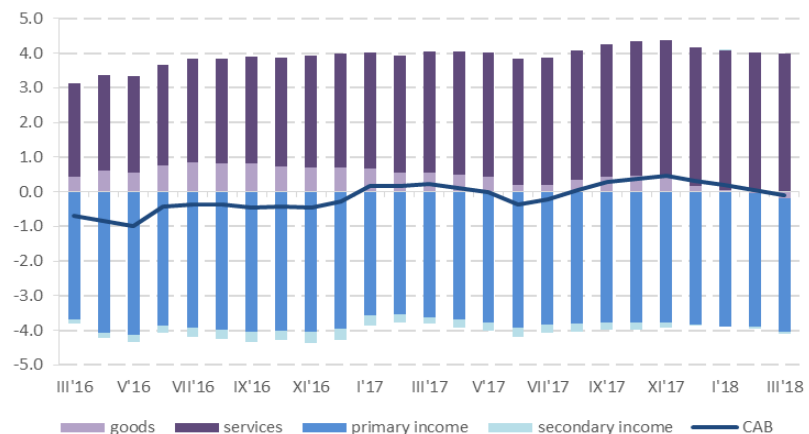
At the end of the fourth quarter of 2017 gross external debt reached nearly EUR 316.0bn (67.8% of GDP) and was EUR 2.9bn higher than in the previous quarter. The share of general government sector debt in total debt slightly decreased to 38.7%. At the end of March 2018 official reserve assets reached about EUR 96.9bn 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 March 2018, according to the preliminary data, current account balance was slightly negative and amounted to 0.1% of GDP (in 12-month terms of GDP). Data were close to 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.

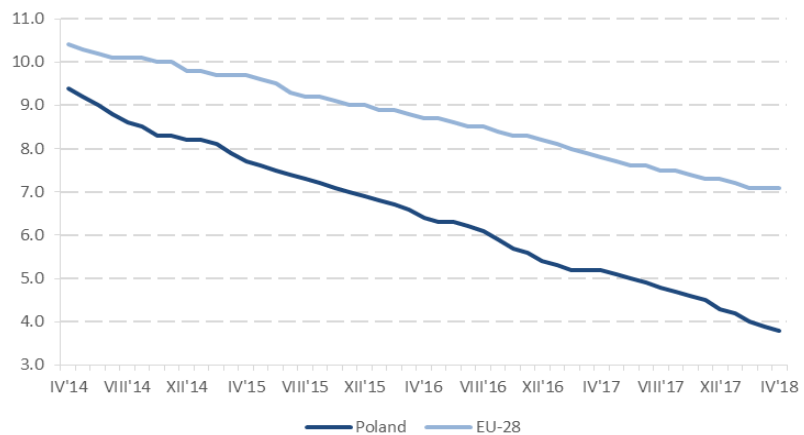




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

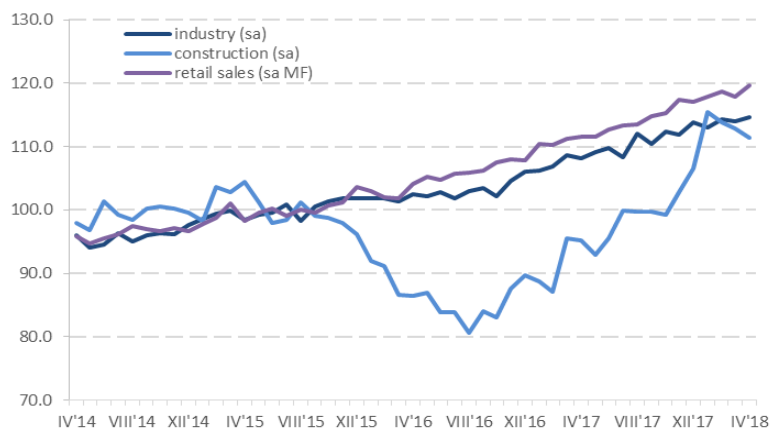
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In April 2018 it amounted to 3.8% (versus 7.1% in EU on average) and was 0.1 pp lower than a month before and 1.4 pp lower than a year earlier. In April 2018 harmonised unemployment rate (sa) in Poland reached the lowest level in historical terms.



Monthly indicators of the real sector

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

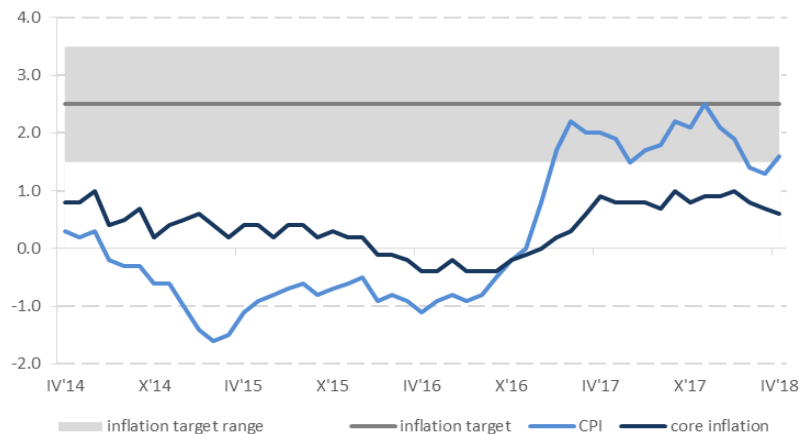
In April 2018 industrial output went up by 0.5% (mom, sa). As a result, production was 9.3% higher than a year ago (nsa). Data were close to market expectations. Construction production decreased for the third time in a row (mom, sa). Production was 19.7% (nsa) higher than a year before. Data were below expectations. Real retail sales increased in April, following a drop in the previous month (mom, sa MoF). Their level was 4.0% (nsa) higher than in the same month of 2017. Retail sales dynamics was affected by regulations restricting trade on Sundays and this year's term of Easter. Data were below market expectations.



Inflation

percent, yoy
source: GUS, NBP

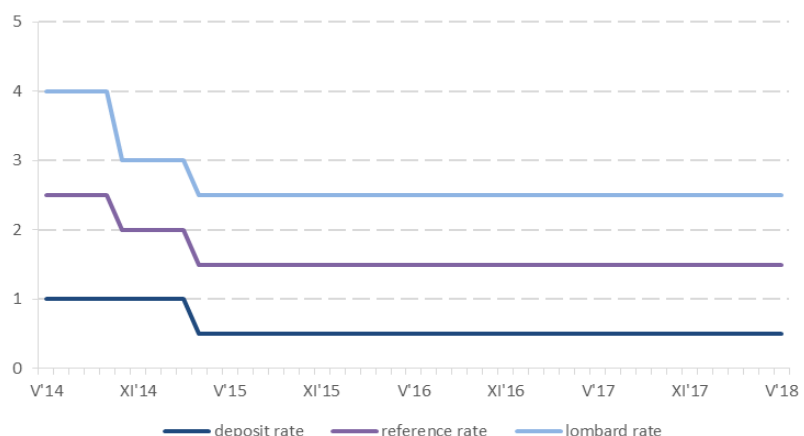
In April 2018 consumer prices rose by 0.5% (mom). As a result, annual rate of inflation achieved 1.6%, slightly above the lower band of inflation target. Data were a bit higher than market expectations. Core inflation (CPI excluding food and energy prices) has been within the range of 0.6% - 1.0% for more than a year (in April it amounted to 0.6% yoy). In April producer prices increased by 0.3% (mom) and their level was 1.1% higher than a year ago.



NBP interest rates

percent, end of period
source: NBP

In May 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 (May, 11th) sees no NBP rate move till the end of the third quarter 2019.





II. STATISTICAL DATA

	Unit	2016 Q04	2017 Q01	Q02	Q03	Q04	2018 Q01
GDP¹⁾							
Gross domestic product	YoY	2.7	4.4	4.0	5.2	4.9	5.2
	QoQ SA	2.0	1.1	0.9	1.4	1.0	1.6
Final consumption expenditure of the households sector	YoY	4.7	4.5	4.9	4.7	5.0	4.8
	QoQ SA	1.1	1.2	1.1	1.1	1.1	1.0
Final consumption expenditure of the general government sector	YoY	-1.2	2.1	2.9	3.3	4.8	3.6
	QoQ SA	0.3	0.7	1.8	0.7	1.0	0.6
Gross fixed capital formation	YoY	-10.2	1.4	1.3	3.6	5.4	8.1
	QoQ SA	-0.3	0.4	1.3	1.8	2.1	2.0
Exports of goods and services	YoY	8.4	11.2	4.5	9.2	8.2	1.1
	QoQ SA	2.6	3.8	-0.3	2.2	1.0	-1.1
Imports of goods and services	YoY	6.2	11.1	8.0	7.0	8.9	3.5
	QoQ SA	1.1	3.3	1.9	1.1	1.7	-0.1
Gross value added	YoY	2.8	4.1	3.8	5.1	4.6	5.2
	QoQ SA	1.3	1.4	0.8	1.2	0.9	1.0
Contribution to GDP growth¹⁾							
Final consumption expenditure of the households sector	pp	2.3	2.9	2.9	2.8	2.5	3.0
Final consumption expenditure of the general government sector	pp	-0.2	0.4	0.5	0.6	0.9	0.6
Gross fixed capital formation	pp	-2.8	0.2	0.2	0.6	1.3	0.9
Changes in inventories	pp	2.1	0.5	1.9	-0.1	0.2	1.9
Balance of trade turnover	pp	1.2	0.5	-1.5	1.3	0.0	-1.2
Gross value added	pp	2.4	3.7	3.3	4.5	4.1	4.6
Taxes less subsidies	pp	0.2	0.8	0.7	0.8	0.8	0.6
GDP structure¹⁾							
Final consumption expenditure of the households sector	% of GDP	50.0	64.2	58.9	59.4	50.3	63.8
Final consumption expenditure of the general government sector	% of GDP	18.9	17.1	17.5	16.9	19.0	16.8
Gross fixed capital formation	% of GDP	24.3	11.8	16.2	16.9	24.4	12.2
Changes in inventories	% of GDP	2.6	1.7	2.4	1.3	2.4	3.3
Exports of goods and services	% of GDP	48.9	57.8	55.0	54.3	49.9	55.1
Imports of goods and services	% of GDP	45.4	53.3	50.8	49.6	46.6	51.9
Balance of payments							
	Unit	2017 M11	M12	2018 M01	M02	M03	M04
Goods: exports (EUR)	YoY	15.5	2.6	11.7	5.5	-2.0	-
Goods: imports (EUR)	YoY	15.9	10.9	16.3	8.3	1.6	-
Current account balance ²⁾	% of GDP	0.5	0.3	0.2	0.1	-0.1	-
Balance on goods ²⁾	% of GDP	0.4	0.2	0.0	0.0	-0.2	-
Official Reserve Assets	EUR m	95 821.5	94 549.8	94 393.2	94 964.6	96 913.3	93 546.1
Inflation							
Consumer Price Index (CPI)	YoY	2.5	2.1	1.9	1.4	1.3	1.6
Core inflation (CPI excluding food and energy prices)	YoY	0.9	0.9	1.0	0.8	0.7	0.6
Producer Price Index (PPI)	YoY	1.8	0.3	0.2	-0.1	0.5	1.1
Production							
Sold production of industry ³⁾	YoY	9.2	2.8	8.7	7.3	1.6	9.3
	MoM SA	-0.4	1.8	-0.6	1.1	-0.3	0.5
Construction and assembly production ³⁾	YoY	19.9	12.8	34.7	31.3	16.2	19.7
	MoM SA	3.5	3.6	8.4	-1.3	-1.0	-1.2
Manufacturing PMI	SA	54.2	55.0	54.6	53.7	53.7	53.9
Households and labour market							
Retail sales ³⁾	YoY	8.8	5.2	7.7	7.7	8.8	4.0
Average paid employment in enterprise sector	YoY	4.5	4.6	3.8	3.7	3.7	3.7
	MoM	0.3	0.2	2.0	0.2	0.1	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	3.9	5.1	5.3	5.4	5.4	6.1
	MoM	0.3	7.7	-8.0	0.4	6.3	-1.4
Harmonised unemployment rate (Eurostat)	% SA	4.5	4.3	4.2	4.0	3.9	3.8
<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>							
State Treasury debt							
	Unit	2017 M10	M11	M12	2018 M01	M02	M03
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	932 008.3	935 006.5	928 473.0	934 690.1	952 017.4	958 125.6
Domestic debt	face value, PLN m	637 934.6	646 064.2	644 533.1	649 437.6	659 382.7	664 034.7
	%	68.4	69.1	69.4	69.5	69.3	69.3
Foreign debt	face value, PLN m	294 073.7	288 942.2	283 939.9	285 252.5	292 634.7	294 091.0
	%	31.6	30.9	30.6	30.5	30.7	30.7
Public debt (domestic definition)							
	Unit	2016 Q03	Q04	2017 Q01	Q02	Q03	Q04
Public debt (acc. to the place of issue criterion)	face value, PLN m	939 584.5	965 199.0	974 765.7	977 224.4	972 206.6	961 836.3
Domestic debt	face value, PLN m	624 358.2	630 171.6	657 497.0	666 497.6	659 480.8	662 552.4
	%	66.5	65.3	67.5	68.2	67.8	68.9
Foreign debt	face value, PLN m	315 226.3	335 027.4	317 268.6	310 726.7	312 725.8	299 283.9
	%	33.5	34.7	32.5	31.8	32.2	31.1
General Government debt (EU definition)							
General Government debt	face value, PLN m	978 908.5	1 006 584.9	1 013 385.5	1 016 347.9	1 011 018.5	1 003 398.6

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



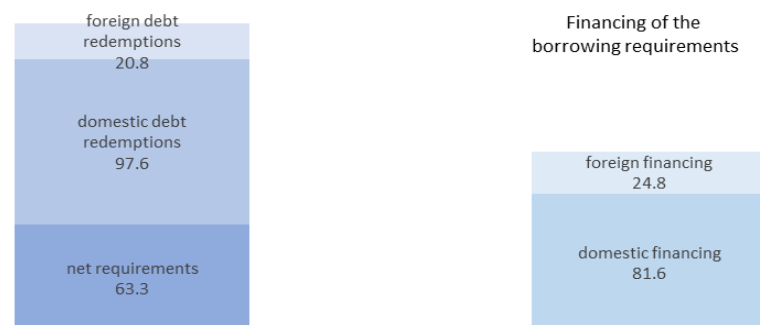
Gross borrowing requirements in 2018

as of May 31, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 59% was a result of:

- T-bond sale on domestic market: PLN 35.5bn,
- switch auctions in 2018: PLN 11.6bn,
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions and buy-backs in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn.

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



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

as of May 31, 2018

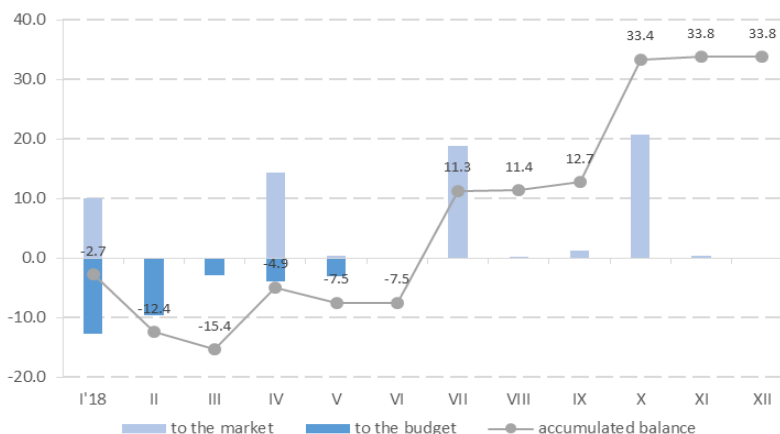
In June there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of May 31, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 41.3bn.

* 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

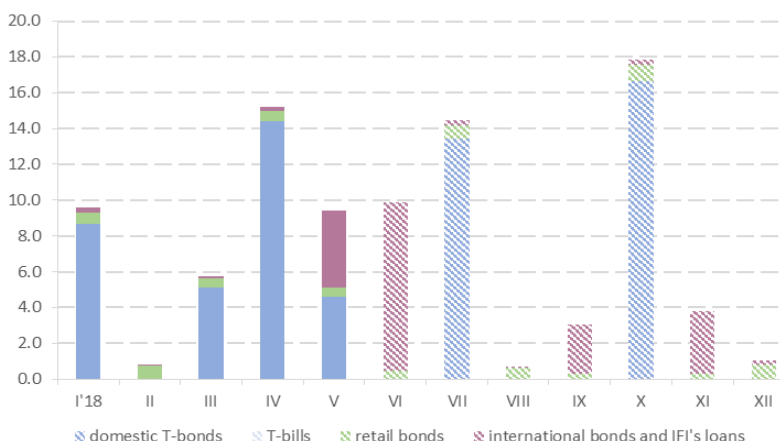


State Treasury debt redemptions in 2018

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

The nominal amount of debt to be redeemed in 2018 is equal to PLN 50.7bn, including:

- T-bonds: PLN 30.1bn,
- T-retail bonds: PLN 4.1bn,
- bonds and loans incurred on foreign markets: PLN 16.5bn.





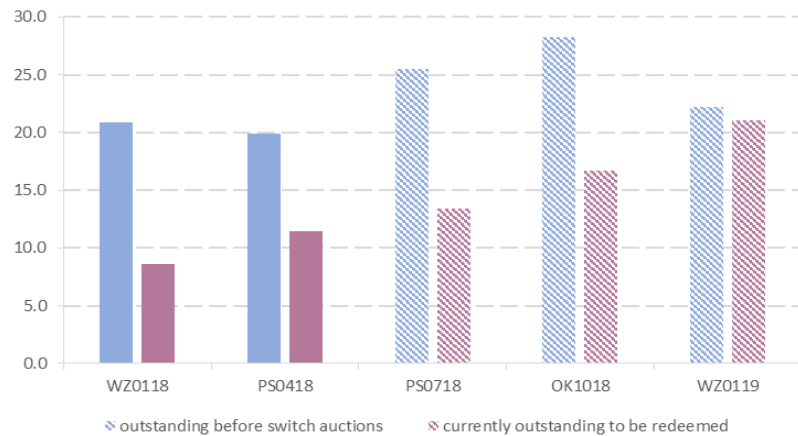
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with T-bonds' redemptions maturing in 2018 and 2019

as of May 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 12.0bn (40%),
- OK1018: PLN 11.6bn (35%),
- WZ0119: PLN 1.1bn (5%).

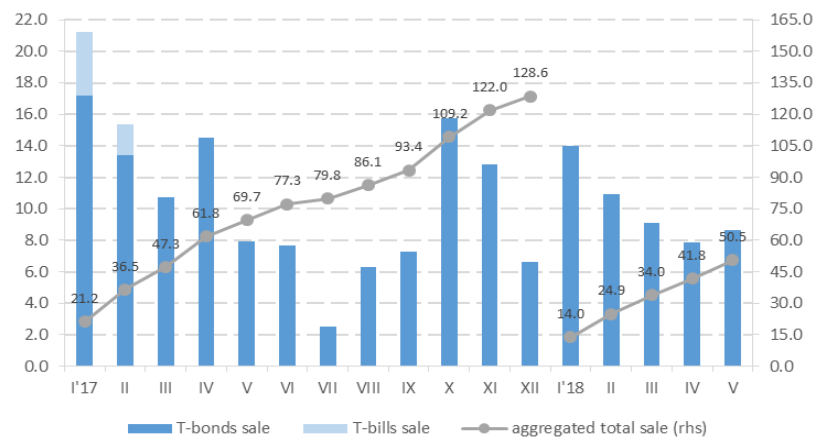


Sale of T-bonds and T-bills in the period of I-V 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-V 2018:

- aggregated total sale of T-bonds amounted to PLN 50.5bn versus PLN 63.7bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

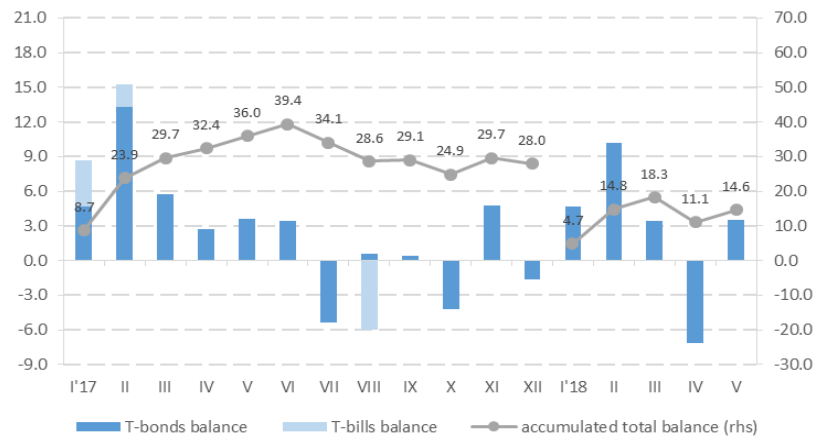


Balance of T-bonds and T-bills in the period of I-V 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-V 2018 indebtedness in:

- T-bonds increased by PLN 14.6bn versus increase of PLN 30.0bn in the same period of 2017,
- T-bills remained the same versus increase of PLN 6.0bn in the same period of 2017.

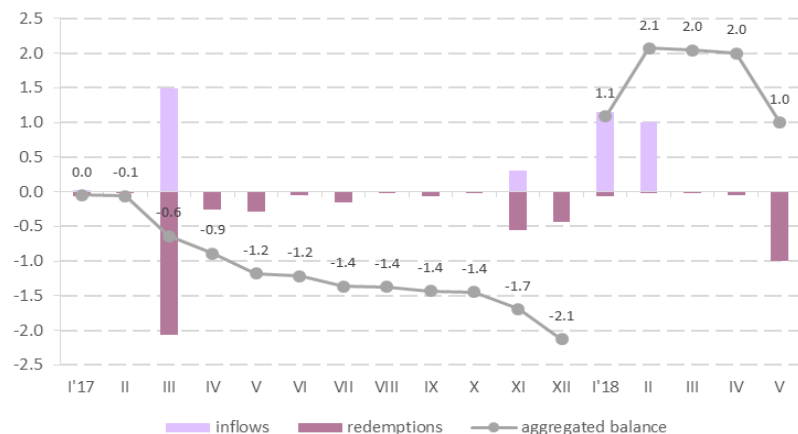


External financing in the period of I-V 2018 and in 2017

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

Net financing on foreign markets in the period of I-V 2018 was positive and amounted to EUR 1.0bn (negative balance of EUR 1.2bn in the same period of 2017) which resulted from:

- positive balance of T-bonds of EUR 0.1bn (negative balance of EUR 0.9bn in the same period of 2017),
- positive balance of loans incurred from IFIs of EUR 0.9bn (negative balance of EUR 0.3bn in the same period of 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

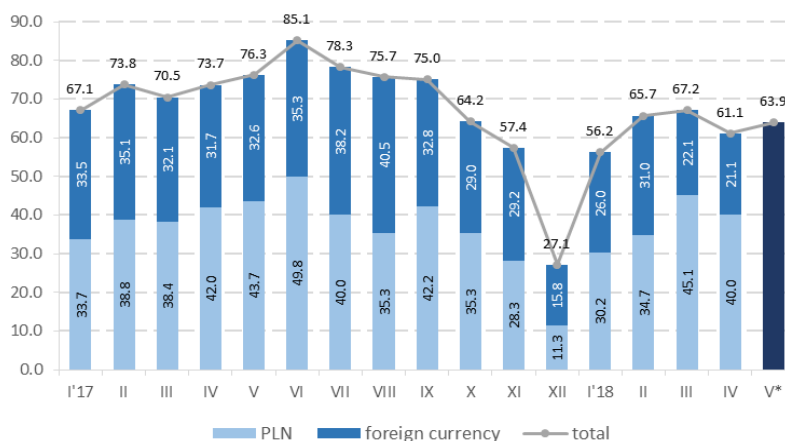


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.

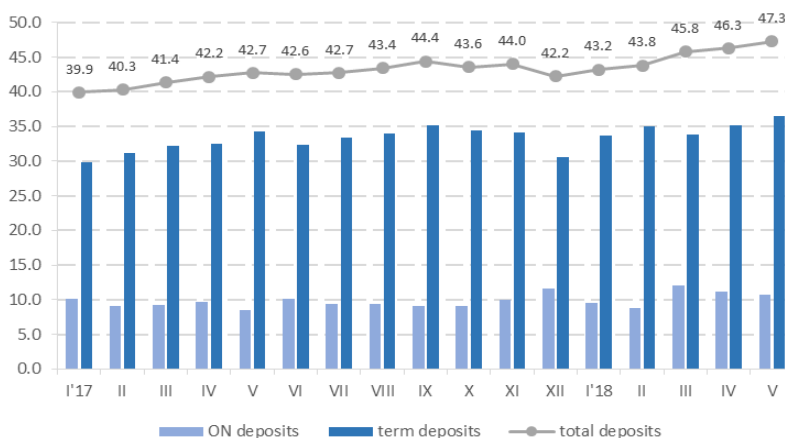
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

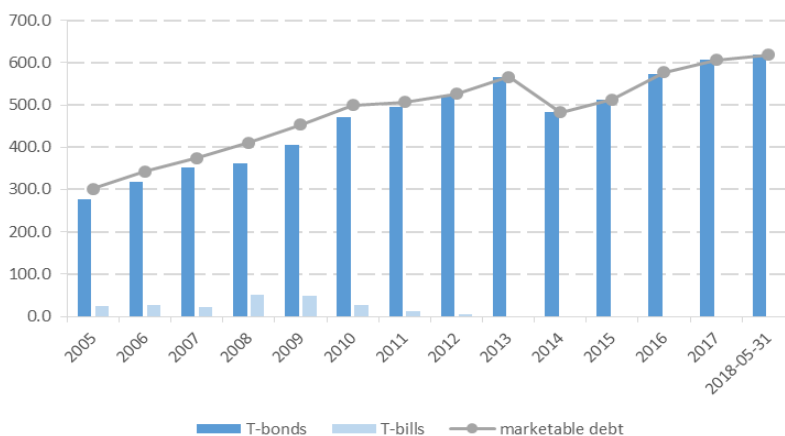
As a result of consolidation of public finance sector liquidity management there were PLN 47.3bn funds accumulated at the end of May 2018, of which PLN 36.5bn was on term deposits and PLN 10.7bn on ON deposits.



Structure of marketable debt

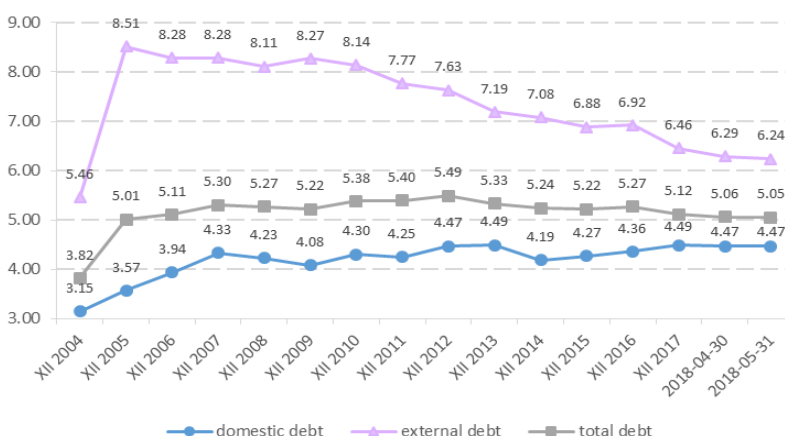
PLN bn

At the end of May 2018 the marketable domestic debt amounted to PLN 618.8bn comparing to PLN 605.7bn at the end of 2017.



Average maturity

At the end of May 2018 the average maturity of domestic debt amounted to 4.47 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.05 (5.12 at the end of 2017).

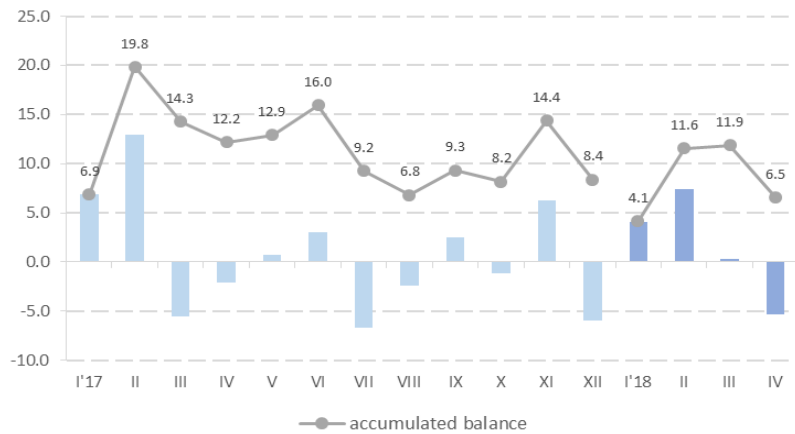




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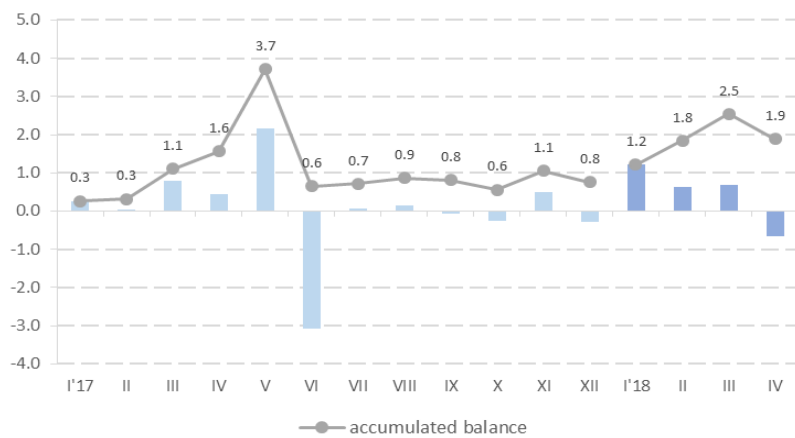
Change of debt in domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-IV 2018 there was an increase of debt by PLN 6.5bn comparing to PLN 12.2bn increase during the same period of 2017. Banks' holdings reached the level of PLN 250.4bn.



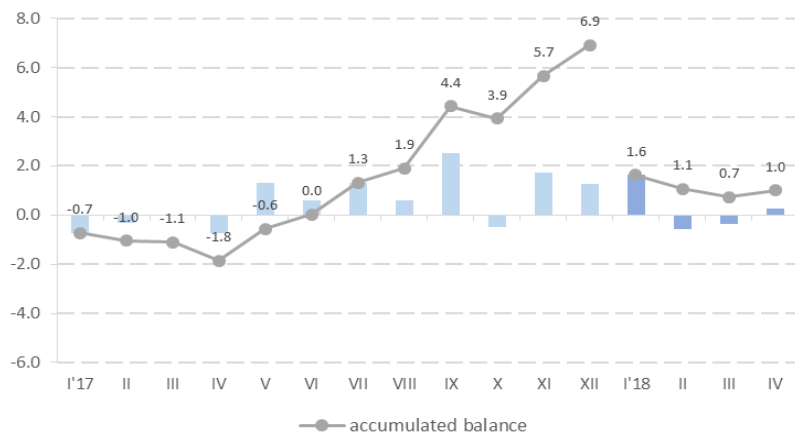
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In the period of I-IV 2018 there was an increase of debt by PLN 1.9bn comparing to PLN 1.6bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 61.7bn.



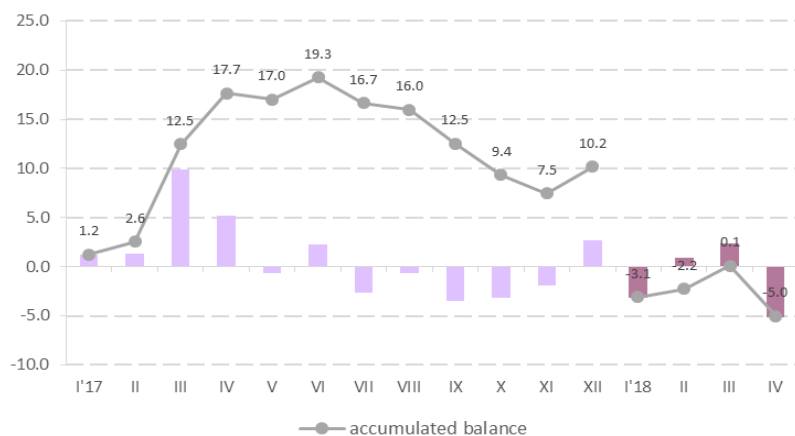
Change of debt in domestic Treasury securities held by investment funds PLN bn

In the period of I-IV 2018 there was an increase of debt by PLN 1.0bn comparing to PLN 1.8bn decrease during the same period of 2017. Investment funds' holdings reached the level of PLN 58.1bn.



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

In the period of I-IV 2018 there was a decrease of debt by PLN 5.0bn comparing to PLN 17.7bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 197.7bn.



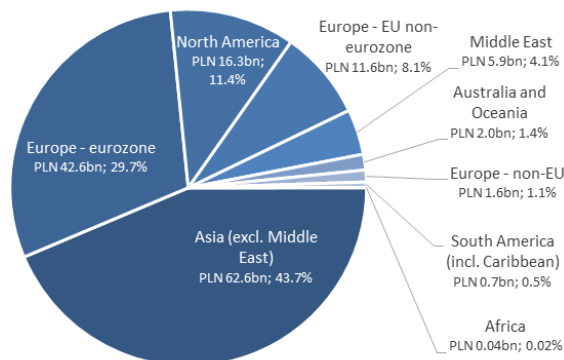
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of domestic Treasury securities held by non-residents

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

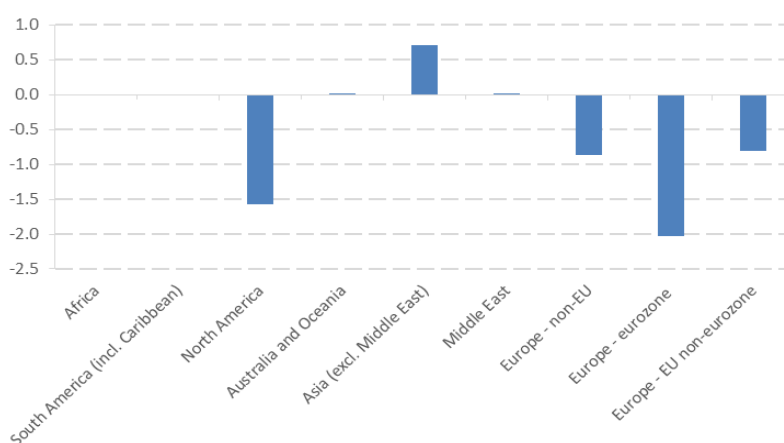
In April 2018 the non-residents' share in the domestic Treasury securities market decreased by PLN 5.1bn. The foreign investors' portfolio amounted to PLN 197.7bn, which constituted 31.5% share in total debt in Treasury securities (31.7% in the previous month).



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

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

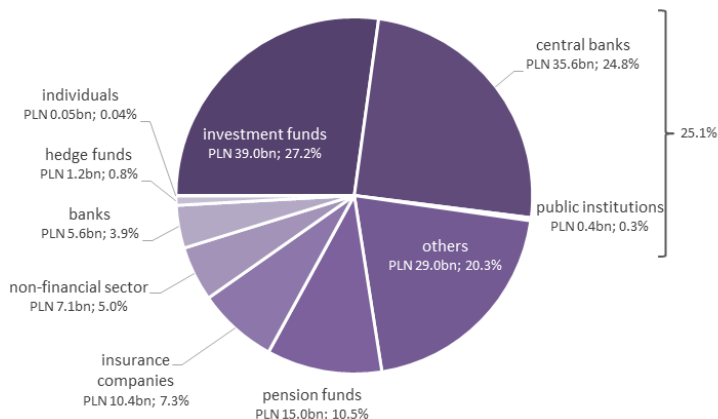
In April 2018 the highest increase was recorded by Asian investors (PLN 0.7bn). The highest decrease was noted by investors from the euro area (PLN 2.0bn).



Institutional distribution of domestic Treasury securities held by non-residents

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

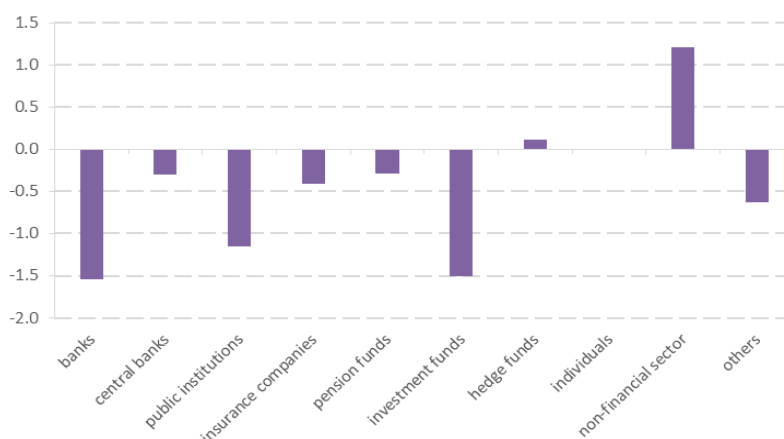
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of April 2018 central banks and public institutions' share in foreign holdings amounted to 25.1%.



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

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

In April 2018 the highest increase was recorded by investors from the non-financial sector (PLN 1.2bn) and the highest decrease was noted by banks and investment funds (by PLN 1.5bn each).



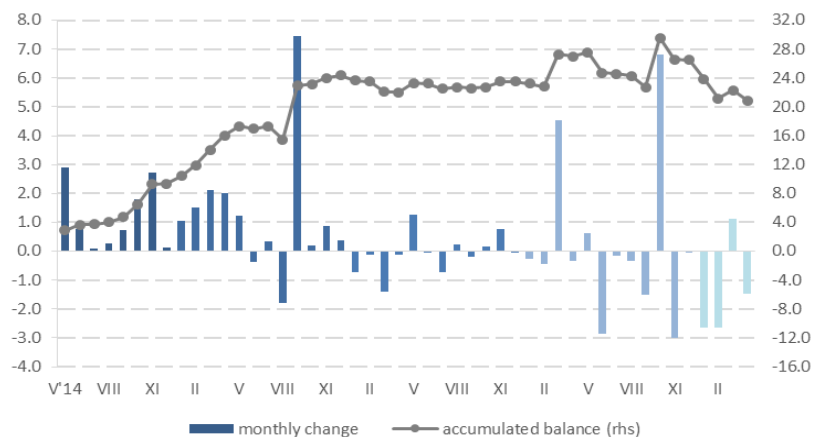


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in April 2018, PLN bn

In April 2018 central banks and public institutions' involvement decreased by PLN 1.5bn. In the period from the end of April 2014 to the end of April 2018, for which the detailed information is available, portfolios of those entities increased by PLN 20.9bn.



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

as of April 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	22 553.6	20.9%
Luxembourg	16 648.5	15.4%
United States	15 333.4	14.2%
Ireland	8 852.9	8.2%
United Kingdom	8 121.2	7.5%
Netherlands	7 302.4	6.8%
Germany	6 389.3	5.9%
United Arab Emirates	3 394.0	3.1%
Hong Kong	3 378.3	3.1%
Australia	1 804.4	1.7%
Denmark	1 532.4	1.4%
Switzerland	1 372.2	1.3%
France	1 359.6	1.3%
Taiwan (Province of China)	1 148.1	1.1%
Others	8 664.0	8.0%
Total	107 854.4	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

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By the end of May 59% of the 2018 gross borrowing requirements was financed. Liquidity situation of the State budget remains very good - there shall be ca. PLN 62bn on the budget accounts at the end of May.

In June, according to the quarterly issuance plan, we are going to hold one sale auction and one switch auction. Low supply at the cash auction to be held on June 28th and settled in July, responds to the budget liquidity situation. It is therefore not excluded that, there will be no need to hold this auction. The final decision will be announced, as is customary, 2 days before the auction, taking into account the budgetary and market situation.

Due to the redemption of 5-year bonds indebtedness in domestic Treasury securities fell down by PLN 11.2bn in April, of which decrease in holdings of banks amounted to PLN 5.3bn and non-residents to PLN 5.1bn.

In June the offer on the retail market will be extended with a new bond type – premium bonds – with a short, 10-month maturity, guaranteed interest income and a possibility to win additional cash premium.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN JUNE 2018



T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
28 JUN 2018	2 JUL 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	0 - 3,000*

* The auction will be held depending on the budgetary and market situation.

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 JUN 2018 / 19 JUN 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	PS0718	13,457
		OK1018	16,671
		WZ0119	21,090

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0918 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
POS0419 10-month	100.00 PLN (99.90 PLN for rolling-over)	Fixed 1.50% + chance to win a cash premium
DOS0620 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0621 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0622 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0628 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0624 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0630 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period