

State budget borrowing requirements' financing plan and its background

May 2018

THE MOST IMPORTANT INFORMATION

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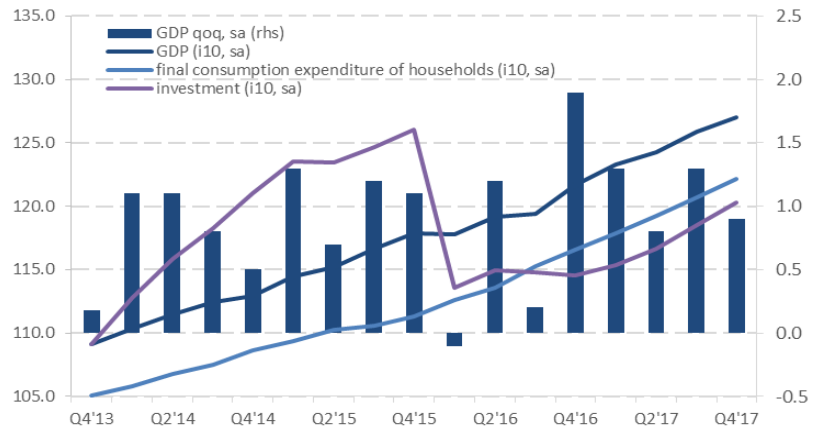


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

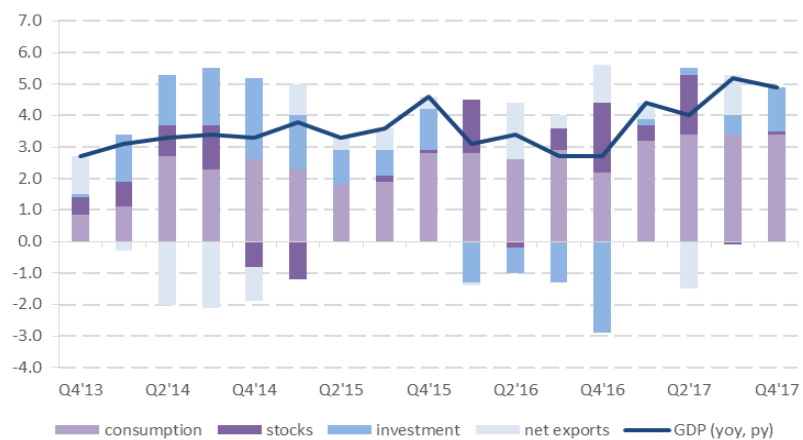
According to the revised data in the fourth quarter of 2017 GDP went up by 0.9% (qoq, sa) as compared to 1.3% (qoq, sa) a quarter earlier. In the fourth quarter of 2017 growth of households consumption (qoq, sa) remained strong. Investments also continued its upward trend. Increase in private consumption was a consequence of a positive labour market situation, robust sentiment of consumers and implementation of family support programme "Family 500+".



Contributions to Polish GDP growth

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

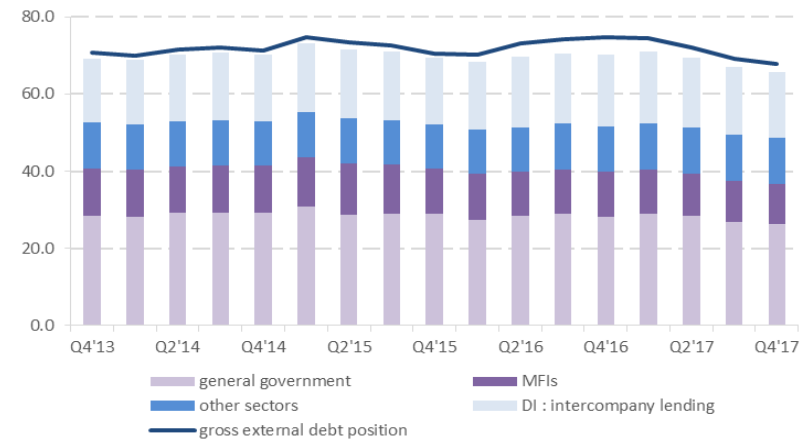
In the fourth quarter of 2017 GDP was 4.9% higher than a year ago as compared to 5.2% in the previous quarter. Domestic demand was the only source of GDP growth on the back of households consumption (contribution of 2.5 pp) and investments (1.4 pp). Net exports contribution to GDP growth was neutral. Investments were 5.4% higher than a year ago, which indicated a improvement in comparison to the first three quarters of 2017. This improvement was however smaller than signaled by previous estimations.



Polish gross external debt position

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

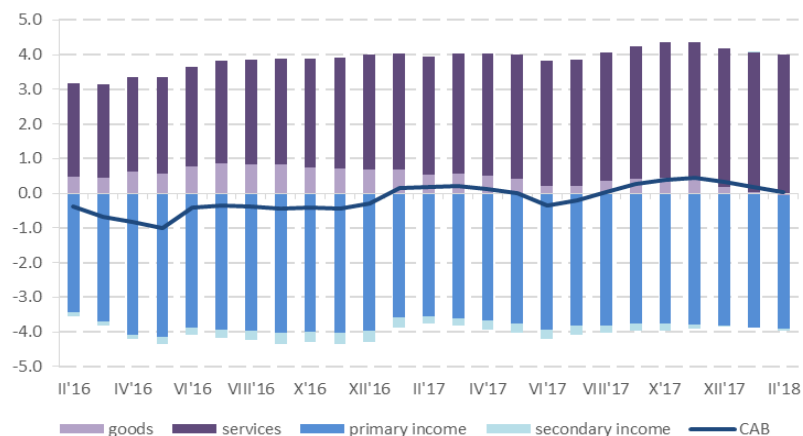
At the end of the fourth quarter of 2017 gross external debt reached nearly EUR 316.0bn (67.8% of GDP) and was EUR 2.9bn higher than in the previous quarter. The share of general government sector debt in total debt slightly decreased to 38.7%. At the end of February 2018 official reserve assets reached about EUR 95bn 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 February 2018, according to the preliminary data, current account was nearly balanced (in 12-month terms of GDP). Data was 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 capital account.

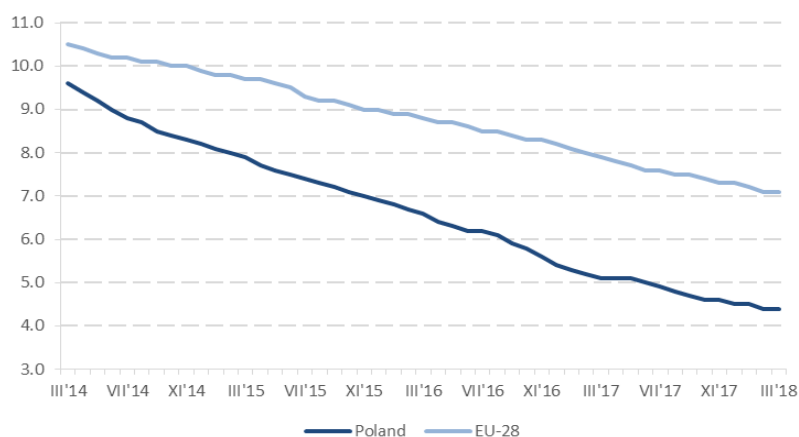




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

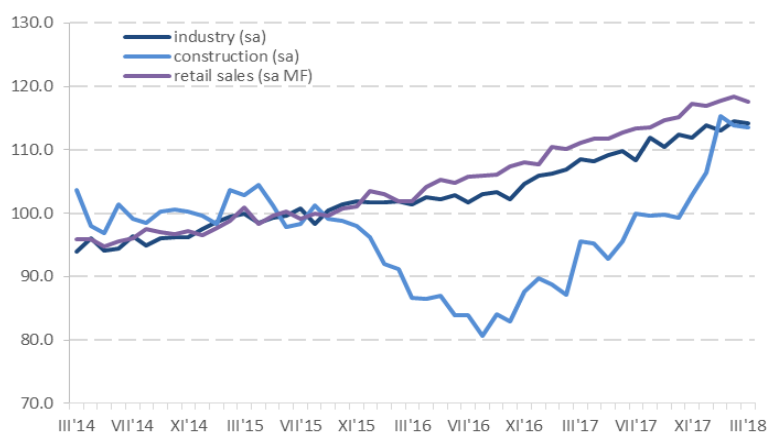
Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In March 2018 it amounted to 4.4% (versus 7.1% in EU on average) and was the same as a month before and 0.7 pp lower than a year earlier. In March 2018 harmonised unemployment rate (sa) in Poland remained at the lowest level in historical terms.



Monthly indicators of the real sector

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

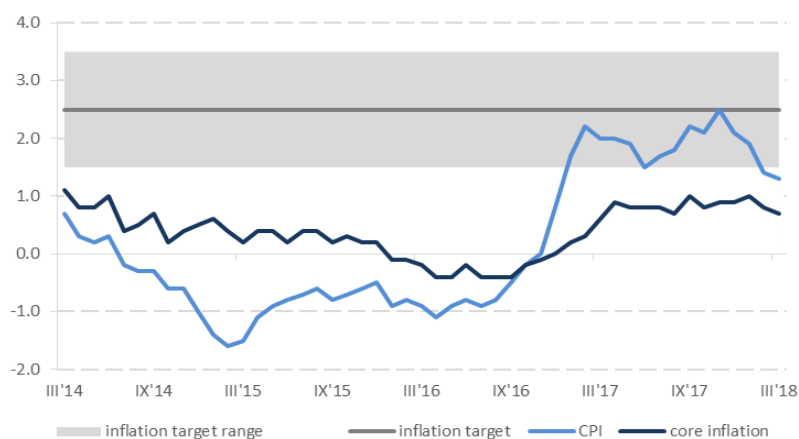
In March 2018 industrial output went down by 0.3% (mom, sa). As a result, production was 1.8% higher than a year ago (nsa). Its yearly dynamics was negatively affected by calendar effects. Data was below market expectations. Construction production decreased by 0.4% (mom, sa). Production was 16.2% (nsa) higher than a year before. Significantly lower annual dynamics in March 2018 was mainly the result of a high base from the previous year. Data met expectations. Real retail sales decreased in March by 0.7% mom, sa MoF. Their level was 8.8% (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 was above market expectations.



Inflation

percent, yoy
source: GUS, NBP

In March 2018 consumer prices fell by 0.1% (mom). As a result annual rate of inflation achieved 1.3% and was below the lower band of inflation target. Data was considerably lower than market expectations. Core inflation (CPI excluding food and energy prices) has been within the range of 0.7% - 1.0% for a one year (in March it amounted to 0.7% yoy). In March producer prices increased by 0.4% (mom) and their level was 0.3% higher than a year ago.

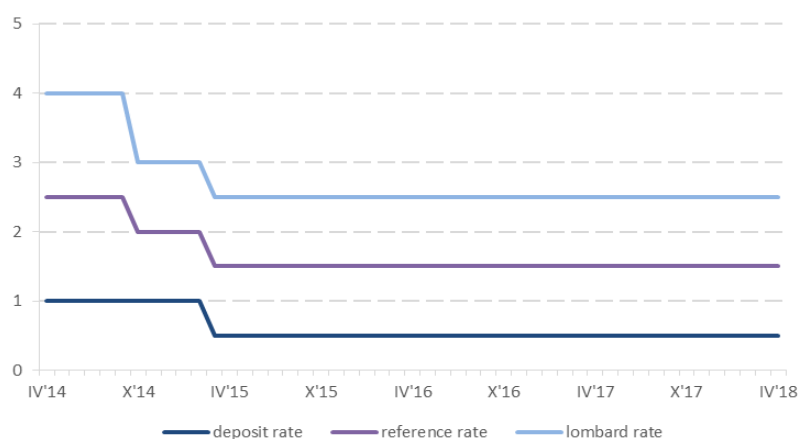


NBP interest rates

percent, end of period
source: NBP

In April 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 (April, 5th) sees no NBP rate move till the end of the third quarter 2019.





II. STATISTICAL DATA

	Unit	2016		2017			
		Q03	Q04	Q01	Q02	Q03	Q04
GDP¹⁾							
Gross domestic product	YoY	2.7	2.7	4.4	4.0	5.2	4.9
	QoQ SA	0.2	1.9	1.3	0.8	1.3	0.9
Final consumption expenditure of the households sector	YoY	4.0	4.7	4.5	4.9	4.7	5.0
	QoQ SA	1.5	1.1	1.1	1.2	1.2	1.2
Final consumption expenditure of the general government sector	YoY	2.9	-1.2	2.1	2.9	3.3	4.8
	QoQ SA	1.1	0.3	0.8	1.7	0.7	0.9
Gross fixed capital formation	YoY	-6.9	-10.2	1.4	1.3	3.6	5.4
	QoQ SA	-0.1	-0.2	0.7	1.1	1.6	1.5
Exports of goods and services	YoY	7.4	8.4	11.2	4.5	9.2	8.2
	QoQ SA	-0.8	2.8	2.8	0.3	3.0	2.0
Imports of goods and services	YoY	6.9	6.2	11.1	8.0	7.0	8.9
	QoQ SA	2.5	1.4	2.3	2.6	1.7	2.5
Gross value added	YoY	2.7	2.8	4.1	3.8	5.1	4.6
	QoQ SA	0.4	1.3	1.4	0.7	1.2	0.9
Contribution to GDP growth¹⁾							
Final consumption expenditure of the households sector	pp	2.4	2.4	2.8	2.9	2.8	2.5
Final consumption expenditure of the general government sector	pp	0.5	-0.2	0.4	0.5	0.6	0.9
Gross fixed capital formation	pp	-1.3	-2.9	0.2	0.2	0.6	1.4
Changes in inventories	pp	0.7	2.2	0.5	1.9	-0.1	0.1
Balance of trade turnover	pp	0.4	1.2	0.5	-1.5	1.3	0.0
Gross value added	pp	2.3	2.5	3.6	3.3	4.4	4.1
Taxes less subsidies	pp	0.4	0.2	0.8	0.7	0.8	0.8
GDP structure¹⁾							
Final consumption expenditure of the households sector	% of GDP	60.1	50.0	64.2	58.9	59.4	50.3
Final consumption expenditure of the general government sector	% of GDP	17.3	18.9	17.1	17.5	16.9	19.0
Gross fixed capital formation	% of GDP	17.4	24.3	11.8	16.2	16.9	24.4
Changes in inventories	% of GDP	1.5	2.6	1.7	2.4	1.3	2.4
Exports of goods and services	% of GDP	52.3	48.9	57.8	55.0	54.3	49.9
Imports of goods and services	% of GDP	49.4	45.4	53.3	50.8	49.6	46.6
Balance of payments							
	Unit	2017			2018		
		M10	M11	M12	M01	M02	M03
Goods: exports (EUR)	YoY	15.8	15.5	2.6	11.7	5.7	-
Goods: imports (EUR)	YoY	15.4	15.9	10.9	16.3	8.3	-
Current account balance ²⁾	% of GDP	0.4	0.5	0.3	0.2	0.0	-
Balance on goods ²⁾	% of GDP	0.5	0.4	0.2	0.0	0.0	-
Official Reserve Assets	EUR m	95 099.3	95 821.5	94 549.8	94 393.2	94 964.6	96 913.3
Inflation							
Consumer Price Index (CPI)	YoY	2.1	2.5	2.1	1.9	1.4	1.3
Core inflation (CPI excluding food and energy prices)	YoY	0.8	0.9	0.9	1.0	0.8	0.7
Producer Price Index (PPI)	YoY	3.0	1.8	0.3	0.2	-0.1	0.3
Production							
Sold production of industry ³⁾	YoY	12.3	9.2	2.8	8.7	7.3	1.8
	MoM SA	1.6	-0.4	1.8	-0.6	1.1	-0.3
Construction and assembly production ³⁾	YoY	20.2	19.9	12.8	34.7	31.3	16.2
	MoM SA	-0.5	3.5	3.6	8.4	-1.3	-0.4
Manufacturing PMI	SA	53.4	54.2	55.0	54.6	53.7	53.7
Households and labour market							
Retail sales ³⁾	YoY	7.1	8.8	5.2	7.7	7.7	8.8
Average paid employment in enterprise sector	YoY	4.4	4.5	4.6	3.8	3.7	3.7
	MoM	0.1	0.3	0.2	2.0	0.2	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.2	3.9	5.1	5.3	5.4	5.4
	MoM	1.8	0.3	7.7	-8.0	0.4	6.3
Harmonised unemployment rate (Eurostat)	%, SA	4.6	4.6	4.5	4.5	4.4	4.4
<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			2018		
		M09	M10	M11	M12	M01	M02
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	940 729.2	932 008.3	935 006.5	928 471.8	934 688.9	952 016.2
Domestic debt	face value, PLN m	643 185.0	637 934.6	646 064.2	644 531.9	649 436.4	659 381.5
	%	68.4	68.4	69.1	69.4	69.5	69.3
Foreign debt	face value, PLN m	297 544.2	294 073.7	288 942.2	283 939.9	285 252.5	292 634.7
	%	31.6	31.6	30.9	30.6	30.5	30.7
Public debt (domestic definition)							
	Unit	2016		2017			
		Q03	Q04	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

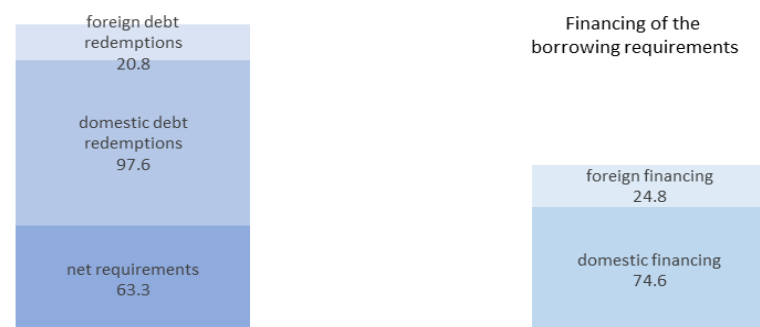


Gross borrowing requirements in 2018 as of May 2, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 55% was a result of:

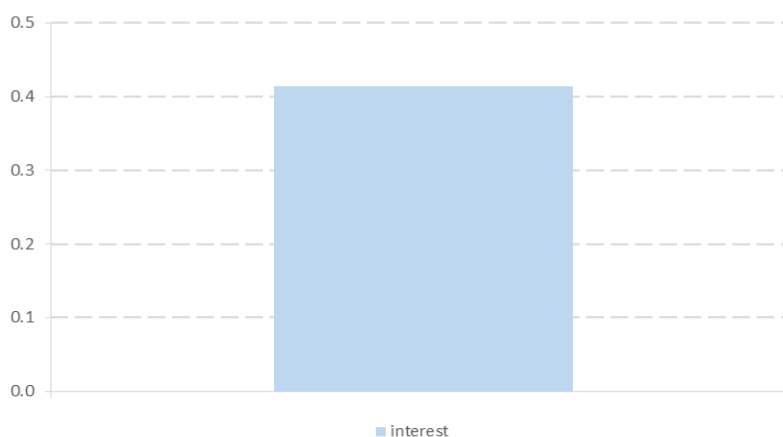
- T-bond sale on domestic market: PLN 32.0bn,
- switch auctions in 2018: PLN 8.1bn,
- T-bond sale on foreign markets: PLN 4.1bn (EUR 1.0bn),
- loans incurred from IFIs: PLN 4.8bn,
- switch auctions and buy-backs in 2017: PLN 32.2bn,
- higher financial resources at the end of 2017: PLN 18.1bn.

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



Outflows of funds related to domestic marketable T-securities transfers in May as of April 30, 2018, PLN bn

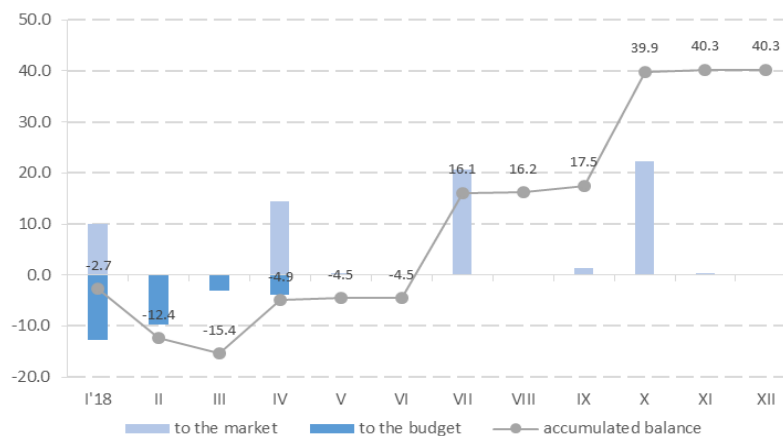
Value of funds transferred from the State budget to the market in May shall amount to PLN 0.4bn (interest payments).



Flows of funds between the market and the budget* as of April 30, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 45.2bn.

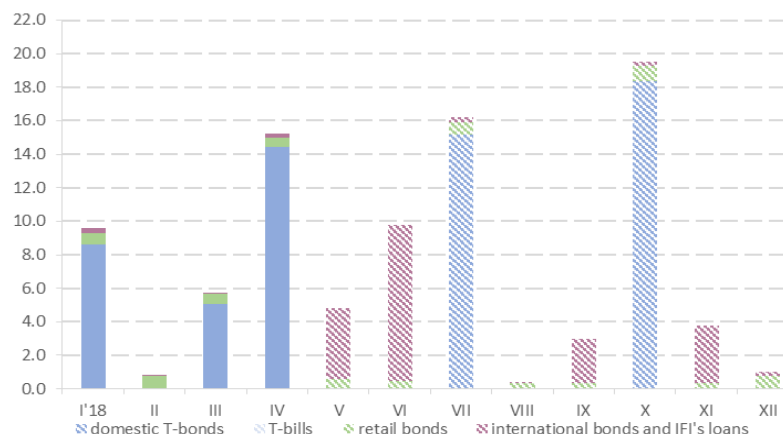
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented



State Treasury debt redemptions in 2018 as of April 30, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2018 is equal to PLN 58.5bn, including:

- T-bonds: PLN 33.6bn,
- T-retail bonds: PLN 4.4bn,
- bonds and loans incurred on foreign markets: PLN 20.5bn.





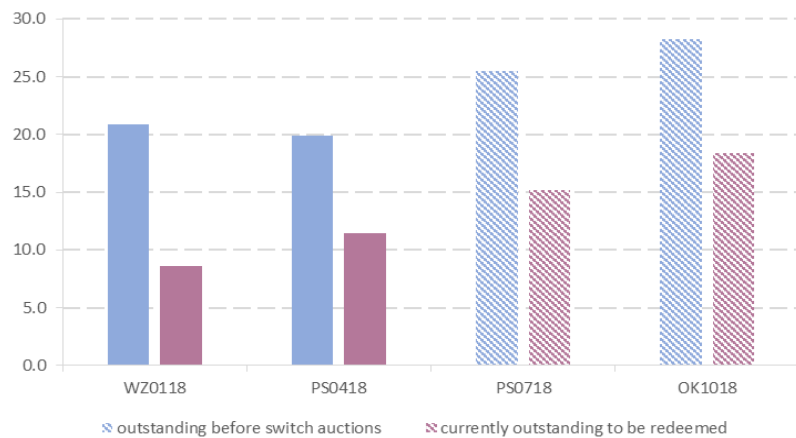
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

Buy-back of T-bonds maturing in 2018:

- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 8.4bn (42%),
- PS0718: PLN 10.3bn (40%),
- OK1018: PLN 9.9bn (35%).

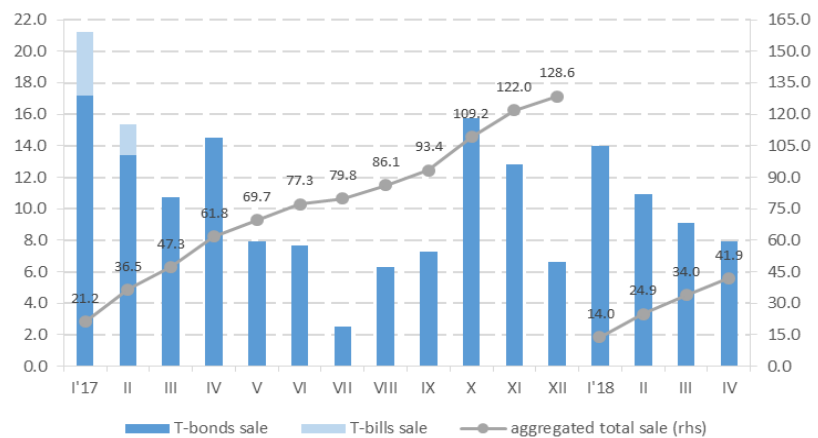


Sale of T-bonds and T-bills in the period of I-IV 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-IV 2018:

- aggregated total sale of T-bonds amounted to PLN 41.9bn versus PLN 55.8bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

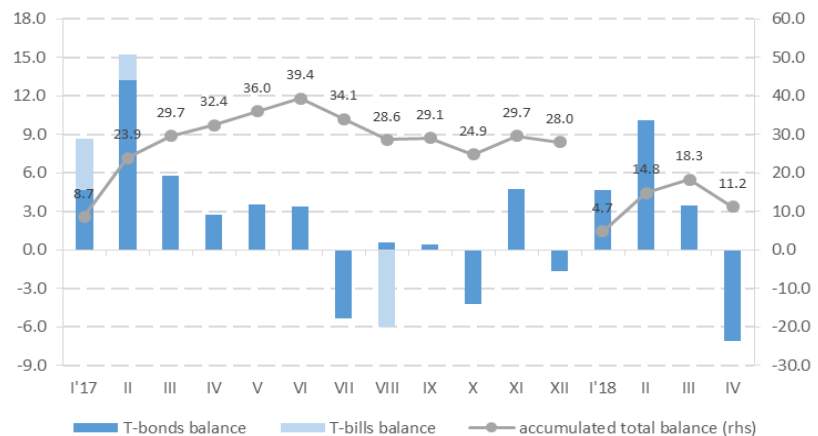


Balance of T-bonds and T-bills in the period of I-IV 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-IV 2018 indebtedness in:

- T-bonds increased by PLN 11.2bn versus increase of PLN 26.5bn in the same period of 2017,
- T-bills remained the same versus increase of PLN 6.0bn in the same period of 2017.

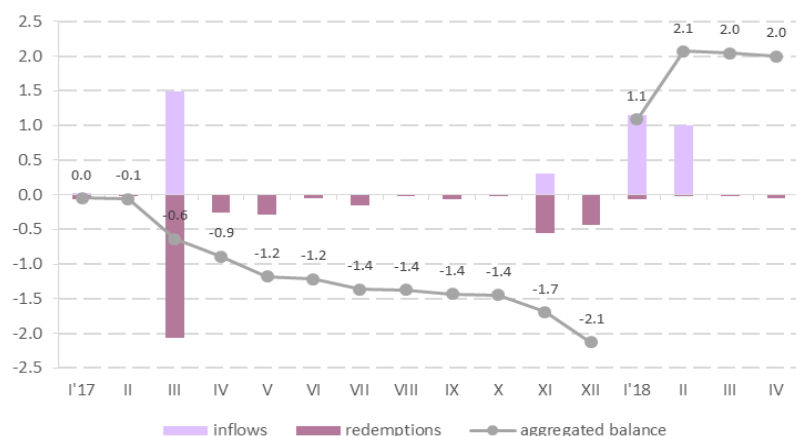


External financing in the period of I-IV 2018 and in 2017

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

Net financing on foreign markets in the period of I-IV 2018 was positive and amounted to EUR 2.0bn (negative balance of EUR 0.9bn in the same period of 2017) which resulted from:

- positive balance of T-bonds of EUR 1.0bn (negative balance of EUR 0.7bn in 2017),
- positive balance of loans incurred from IFIs of EUR 1.0bn (negative balance of EUR 0.2bn in 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

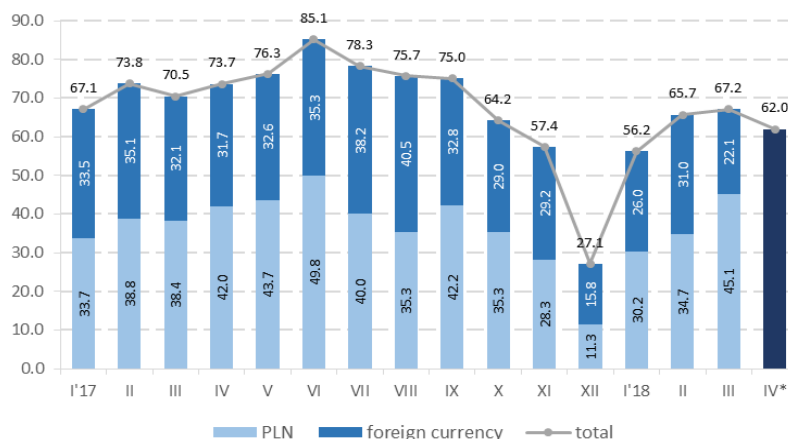


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in borrowing needs financing.

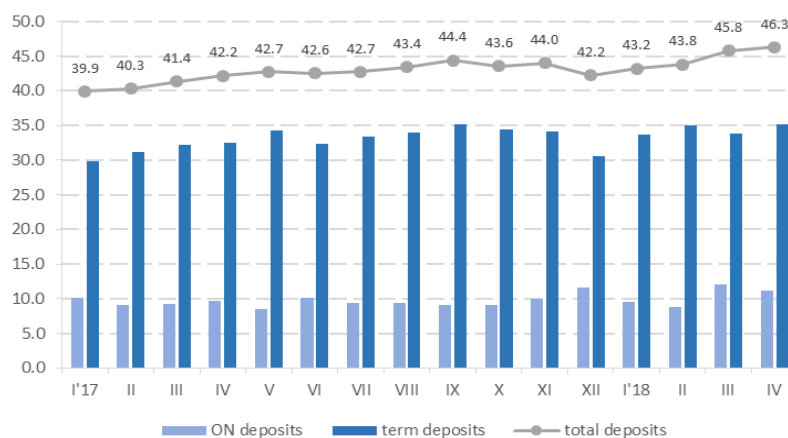
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

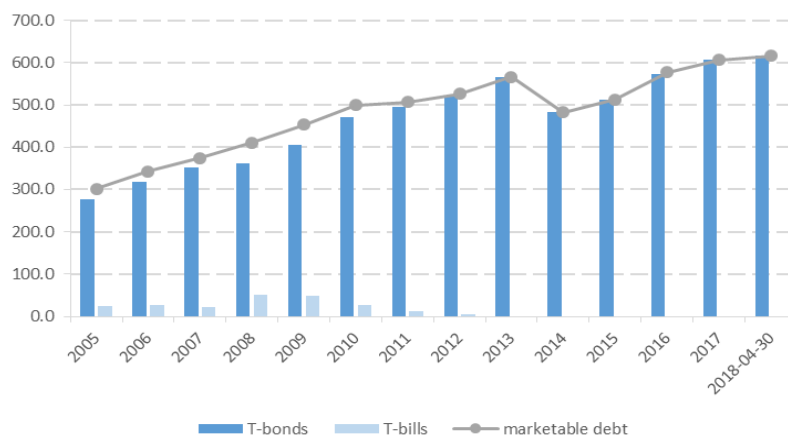
As a result of consolidation of public finance sector liquidity management there were PLN 46.3bn funds accumulated at the end of April 2018, of which PLN 35.1bn was as term deposits and PLN 11.2bn on ON deposits.



Structure of marketable debt

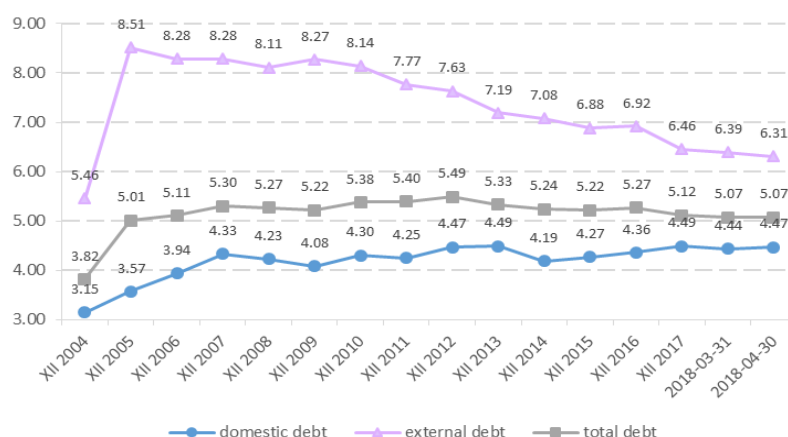
PLN bn

At the end of April 2018 the marketable domestic debt amounted to PLN 615.6bn comparing to PLN 605.7bn at the end of 2017.



Average maturity

At the end of April 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 5.07 (5.12 at the end of 2017).

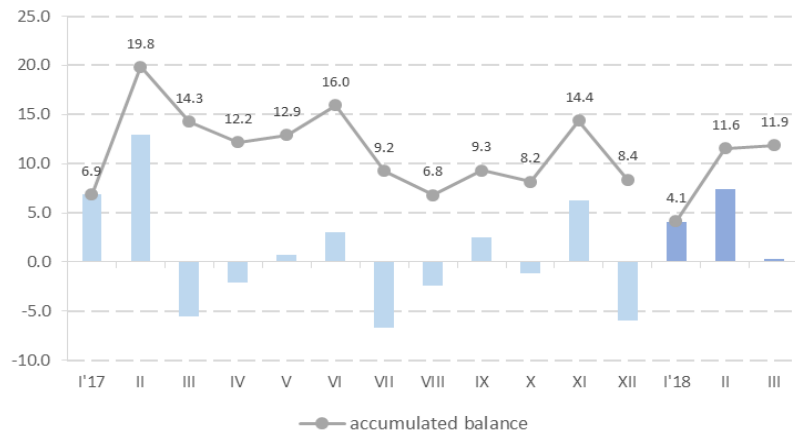




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

In the period of I-III 2018 there was an increase of debt by PLN 11.9bn comparing to PLN 14.3bn increase during the same period of 2017. Banks' holdings reached the level of PLN 255.8bn.



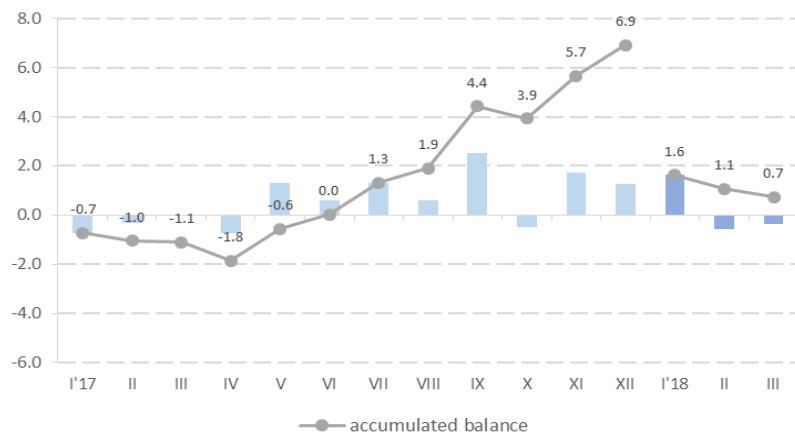
Change of debt in domestic Treasury securities held by insurance companies PLN bn

In the period of I-III 2018 there was an increase of debt by PLN 2.5bn comparing to PLN 1.1bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 62.3bn.



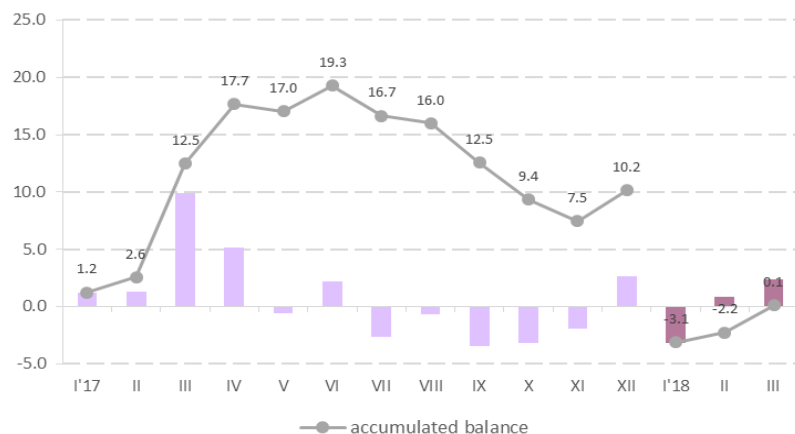
Change of debt in domestic Treasury securities held by investment funds PLN bn

In the period of I-III 2018 there was an increase of debt by PLN 0.7bn comparing to PLN 1.1bn decrease during the same period of 2017. Investment funds' holdings reached the level of PLN 57.8bn.



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

In the period of I-III 2018 there was an increase of debt by PLN 0.1bn comparing to PLN 12.5bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 202.8bn.



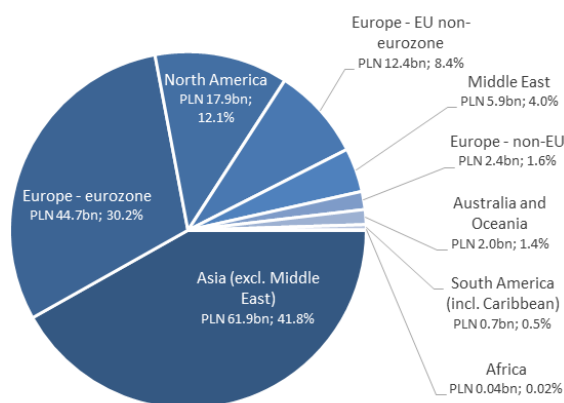
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of domestic Treasury securities held by non-residents

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

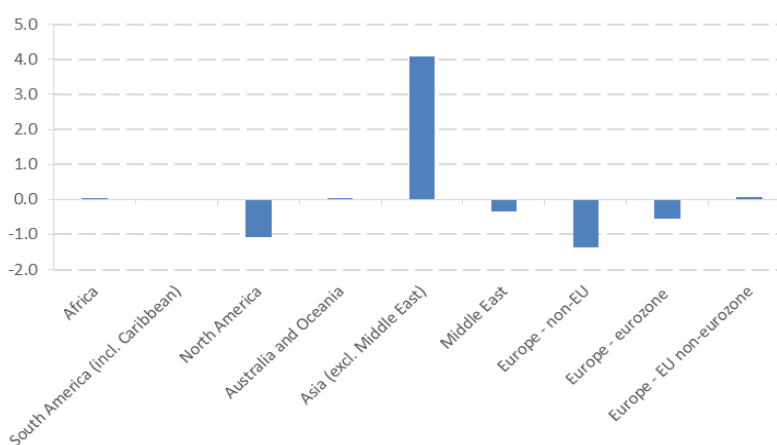
In March 2018 the non-residents' share in the domestic Treasury securities market increased by PLN 2.4bn. The foreign investors' portfolio amounted to PLN 202.8bn, which constituted 31.7% share in total debt in Treasury securities (31.5% in the previous month).



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

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

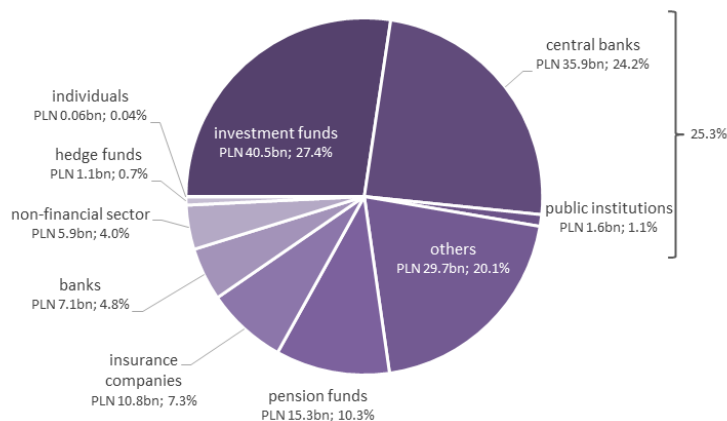
In March 2018 the highest increase was recorded by Asian investors (PLN 4.1bn). The highest decrease was noted by European non-EU investors (PLN 1.4bn).



Institutional distribution of domestic Treasury securities held by non-residents

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

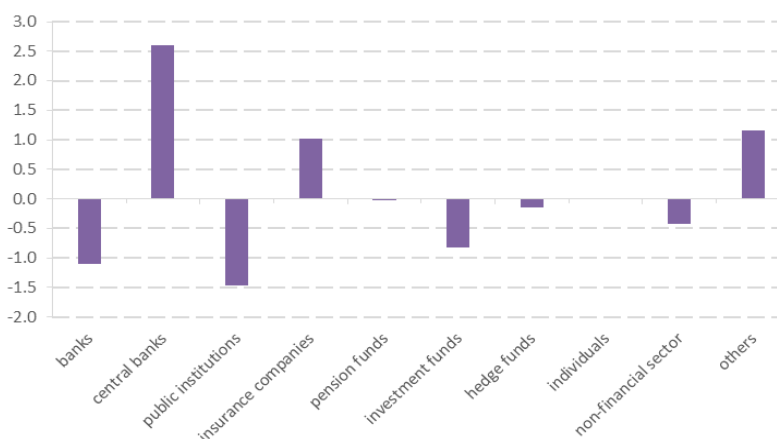
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. As of the end of March 2018 central banks and public institutions' share in foreign holdings amounted to 25.3%.



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

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

In March 2018 the highest increase was recorded by central banks (PLN 2.6bn) and the highest decrease was noted by public institutions (PLN 1.5bn).



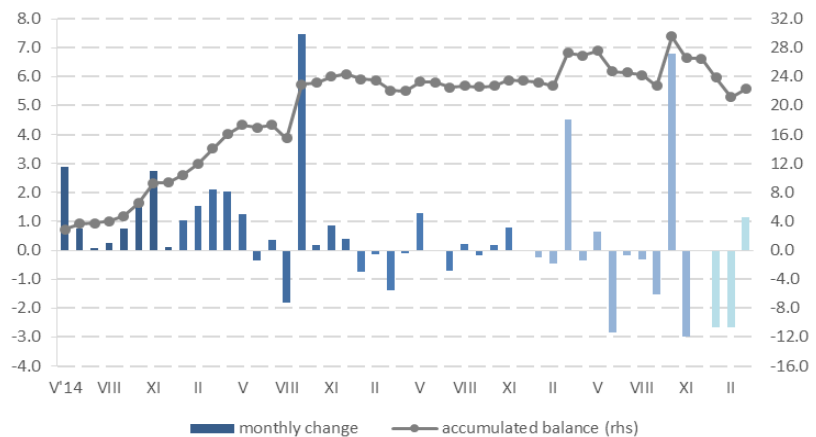


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in March 2018, PLN bn

In March 2018 central banks and public institutions' involvement in the Polish debt market increased by PLN 1.1bn. In the period from the end of April 2014 to the end of March 2018, for which the detailed information is available, portfolios of those entities increased by PLN 22.3bn.



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

as of March 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	21 631.5	19.3%
Luxembourg	17 917.6	16.0%
United States	16 850.5	15.0%
Ireland	9 418.8	8.4%
United Kingdom	8 837.0	7.9%
Netherlands	7 207.9	6.4%
Germany	6 017.6	5.4%
United Arab Emirates	3 390.6	3.0%
Hong Kong	3 379.3	3.0%
France	2 116.7	1.9%
Australia	1 774.5	1.6%
Denmark	1 548.7	1.4%
Switzerland	1 406.1	1.3%
Taiwan (Province of China)	1 159.9	1.0%
Others	9 417.5	8.4%
Total	112 074.1	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

27-04-2018

By the end of April 55% of the 2018 gross borrowing requirements was financed. Liquidity situation of the State budget remains very good - there shall be ca. PLN 60bn on the budget accounts at the end of April.

In the second quarter we reduced the planned supply of T-bonds offered at sale auctions to PLN 15-25bn. The realization so far shows that one may expect sales volume to be closer to the lower range. In May T-bond series maturing in January 2019, among others, will be offered to repurchase which will formally begin the process of prefinancing the next year's borrowing needs.

Foreign investors increased their portfolio of domestic T-bonds by PLN 2.3bn in March. In April an outflow may be possible due to redemption of PS0418 series.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN MAY 2018



T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
24 MAY 2018	28 MAY 2018	OK0720 / PS0123 / 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 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)
10 MAY 2018 / 14 MAY 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528	PS0718	13,457
		OK1018	16,671
		WZ0119	21,090

* after auction settlement

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0818 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0520 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0521 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0522 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0528 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0524 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0530 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period