

State budget borrowing requirements' financing plan and its background

September 2018

THE MOST IMPORTANT INFORMATION

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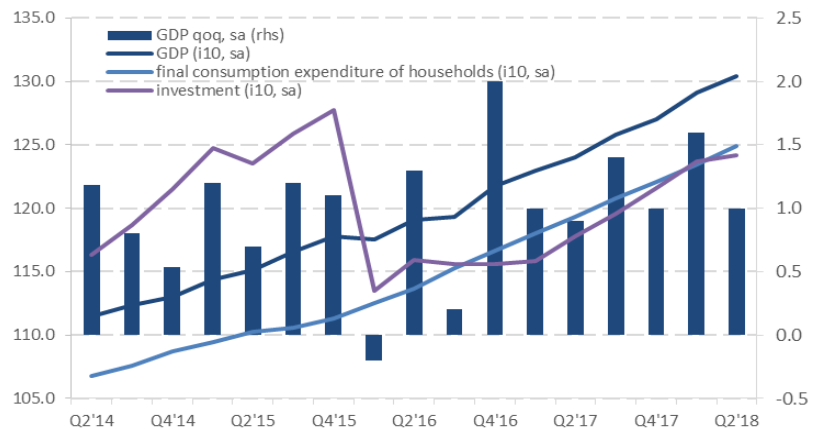


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

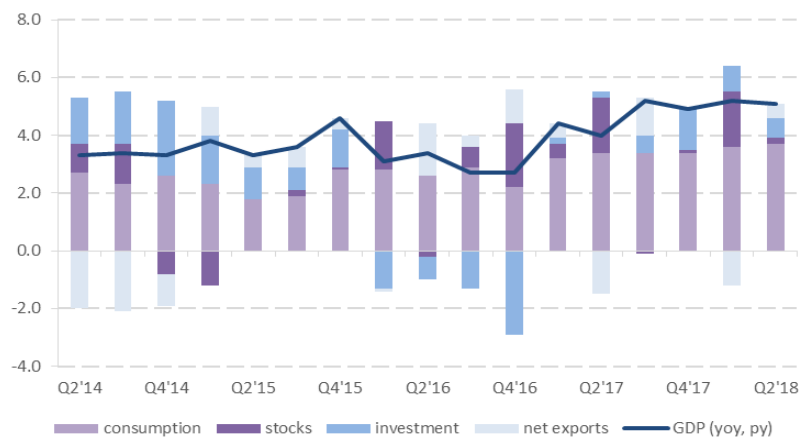
In the second quarter of 2018 GDP increased by 1.0% (qoq, sa) compared to 1.6% in the prior quarter. The rate of growth of households consumption (qoq, sa) remained close to the average of the last two years, while the dynamics of investment decreased. High dynamics of private consumption was a consequence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

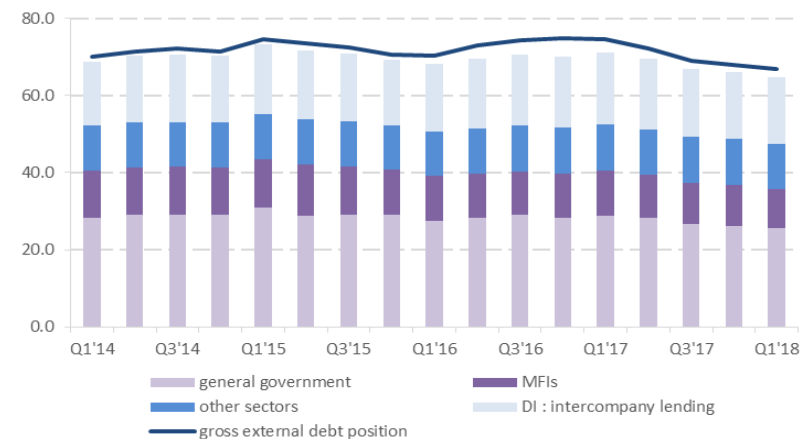
In the second quarter of 2018 GDP was 5.1% higher than a year ago as compared to 5.2% in the previous quarter. The main source of GDP growth was households consumption which was 4.9% higher than a year before. Relatively low rate of growth was noticed in the case of investment (4.5% compared to 8.1%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

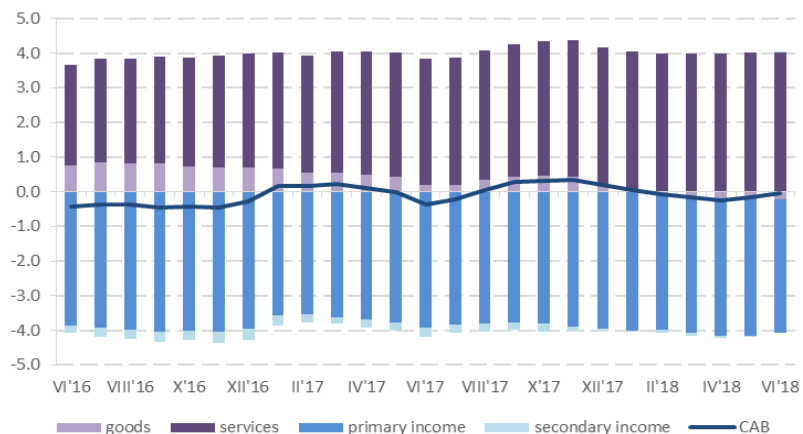
At the end of the first quarter of 2018 gross external debt reached EUR 318.1bn (66.8% of GDP) and was EUR 1.3bn higher than in the previous quarter. The share of general government sector debt in total debt slightly decreased to 38.3%. At the end of June 2018 official reserve assets reached c. EUR 93.5bn 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 June 2018, according to the preliminary data, current account was nearly balanced (in 12-month terms). 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.

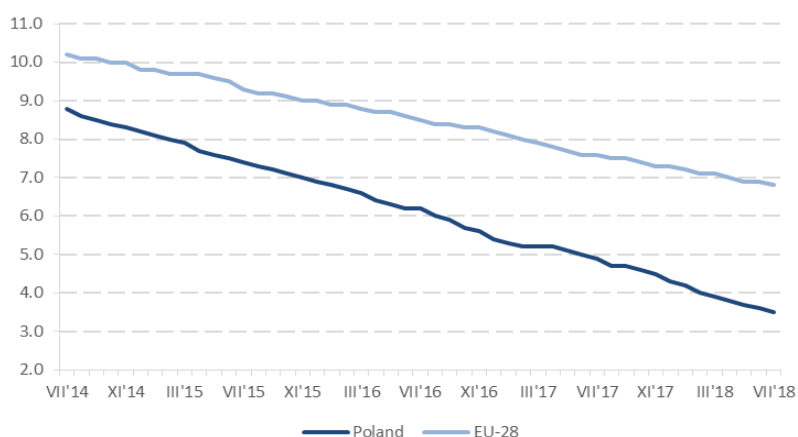




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has continued its downward trend since mid-2013. In July 2018 it amounted to 3.5% (versus 6.8% in EU on average) and decreased by 0.1 pp as compared with a month earlier and was 1.4 pp lower than a year earlier. In July 2018 harmonised unemployment rate (sa) in Poland reached the new lowest level.



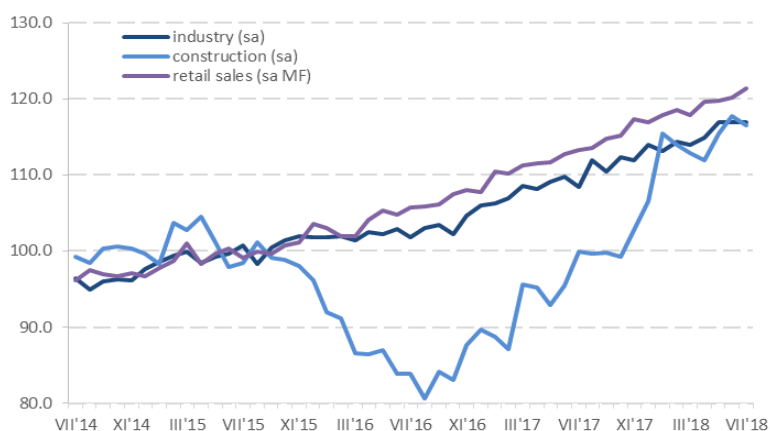
Monthly indicators of the real sector

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

In July 2018 industrial output stabilised (mom, sa). As a result, production was 10.3% higher than a year ago (nsa). Data were slightly better than market expectations.

Construction production decreased by 1% following two months of relatively high growth (mom, sa). Production was 18.7% (nsa) higher than a year before.

Real retail sales increased for the fourth time in a row and its growth rate accelerated to 1% (mom, sa MoF). Their level was 7.1% (nsa) higher than in the same month of 2017. Data were above market expectations.

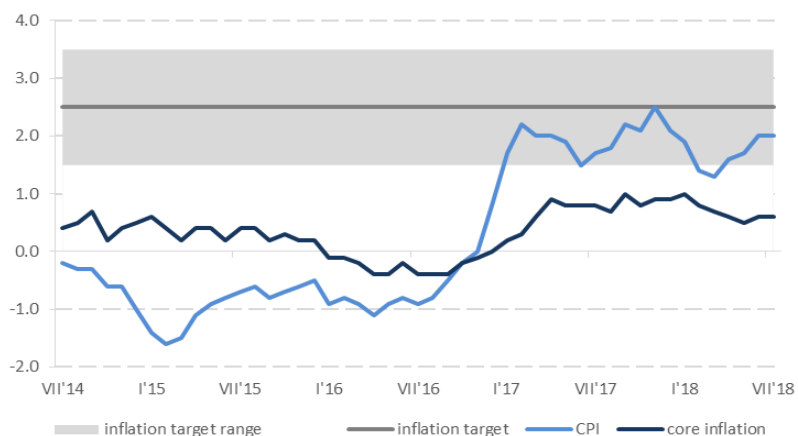


Inflation

percent, yoy
source: GUS, NBP

In July 2018 consumer prices fell by 0.2% (mom). As a result, annual rate of inflation stabilized at 2.0%, i.e. below the inflation target but above the lower band of this target. Data were slightly lower than market expectations. Core inflation (CPI excluding food and energy prices) amounted to 0.6% (yoy) in July and has been within the range of 0.5% - 1.0% for almost 1.5 year.

In July producer prices increased by 0.1% (mom) and their level was 3.4% higher than a year ago.

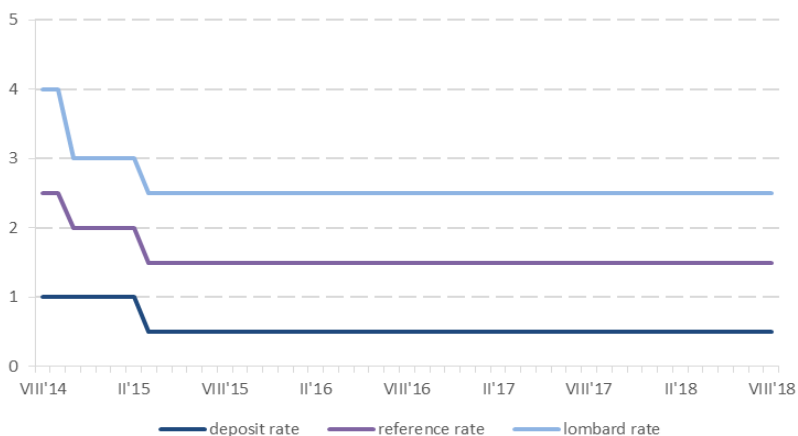


NBP interest rates

percent, end of period
source: NBP

In July 2018, the Monetary Policy Council kept the 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 (July, 9th) 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 M02	M03	M04	M05	M06	M07
Goods: exports (EUR)	YoY	5.9	-1.6	8.9	2.7	9.0	-
Goods: imports (EUR)	YoY	8.1	1.4	11.1	1.5	10.2	-
Current account balance ¹⁾	% of GDP	-0.1	-0.2	-0.2	-0.2	0.0	-
Balance on goods ¹⁾	% of GDP	0.0	-0.1	-0.2	-0.2	-0.2	-
Official Reserve Assets	EUR m	94 964.6	96 913.3	93 546.1	96 248.2	93 539.5	95 635.7
Inflation							
Consumer Price Index (CPI)	YoY	1.4	1.3	1.6	1.7	2.0	2.0
Core inflation (CPI excluding food and energy prices)	YoY	0.8	0.7	0.6	0.5	0.6	0.6
Producer Price Index (PPI)	YoY	-0.1	0.5	1.0	3.0	3.7	3.4
Production							
Sold production of industry ²⁾	YoY	7.3	1.6	9.3	5.2	6.7	10.3
	MoM SA	1.1	-0.3	0.8	1.7	0.0	0.0
Construction and assembly production ²⁾	YoY	31.3	16.1	19.7	20.7	24.7	18.7
	MoM SA	-1.3	-0.9	-0.8	3.0	2.0	-1.0
Manufacturing PMI	SA	53.7	53.7	53.9	53.3	54.2	52.9
Households and labour market							
Retail sales ²⁾	YoY	7.7	8.8	4.0	6.1	8.2	7.1
Average paid employment in enterprise sector	YoY	3.7	3.7	3.7	3.7	3.7	3.5
	MoM	0.2	0.1	0.1	0.0	0.2	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.4	5.4	6.1	5.2	5.4	5.1
	MoM	0.4	6.3	-1.4	-3.2	3.1	-0.3
Harmonised unemployment rate (Eurostat)	%, SA	4.0	3.9	3.8	3.7	3.6	3.5
<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 M01	M02	M03	M04	M05	M06
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	934 690.1	952 017.4	958 125.9	948 740.0	962 023.0	956 144.6
Domestic debt	face value, PLN m	649 437.6	659 382.7	664 034.9	653 452.5	661 313.6	662 516.2
	%	69.5	69.3	69.3	68.9	68.7	69.3
Foreign debt	face value, PLN m	285 252.5	292 634.7	294 091.0	295 287.5	300 709.4	293 628.4
	%	30.5	30.7	30.7	31.1	31.3	30.7
Public debt (domestic definition)							
	Unit	2016 Q04	2017 Q01	Q02	Q03	Q04	2018 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	965 199.0	974 765.7	977 224.4	972 220.4	961 818.8	989 179.3
Domestic debt	face value, PLN m	630 171.6	657 497.0	666 497.6	659 494.8	662 534.9	679 814.5
	%	65.3	67.5	68.2	67.8	68.9	68.7
Foreign debt	face value, PLN m	335 027.4	317 268.6	310 726.7	312 725.6	299 283.9	309 364.9
	%	34.7	32.5	31.8	32.2	31.1	31.3
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 006 584.9	1 013 385.5	1 016 347.9	1 011 032.0	1 003 377.2	1 029 010.9

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2018

as of August 31, 2018, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 68% (acc. to the 2018 Budget Act¹) and 78% (acc. to the budget execution estimate²) was a result of:

- T-bond sale on the domestic market: PLN 44.5bn,
- 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 September

as of August 31, 2018, PLN bn

Value of funds transferred from the State budget to the market in September shall amount to PLN 1.3bn (interest payments).

Flows of funds between the market and the budget*

as of August 31, 2018, PLN bn

To the end of the 2018 the funds to be transferred to the market shall amount to PLN 17.7bn.

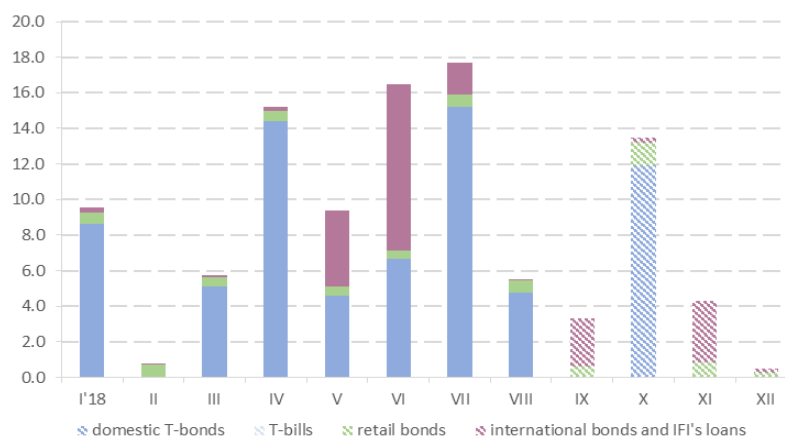
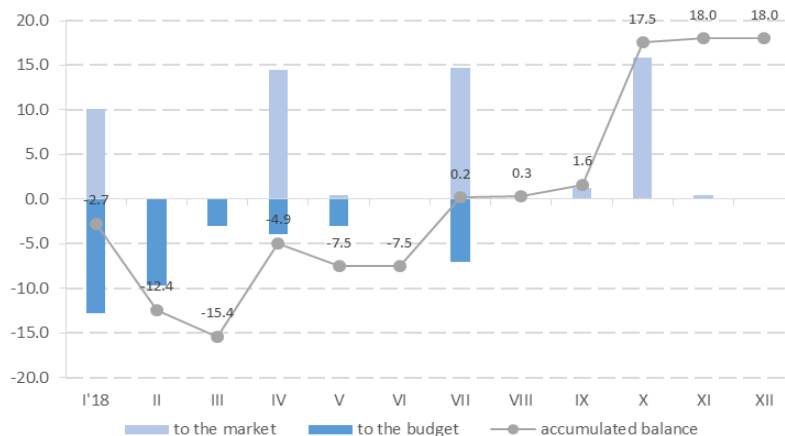
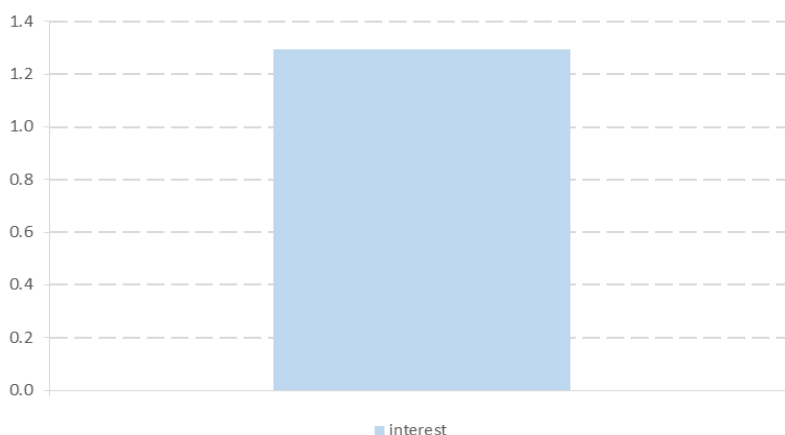
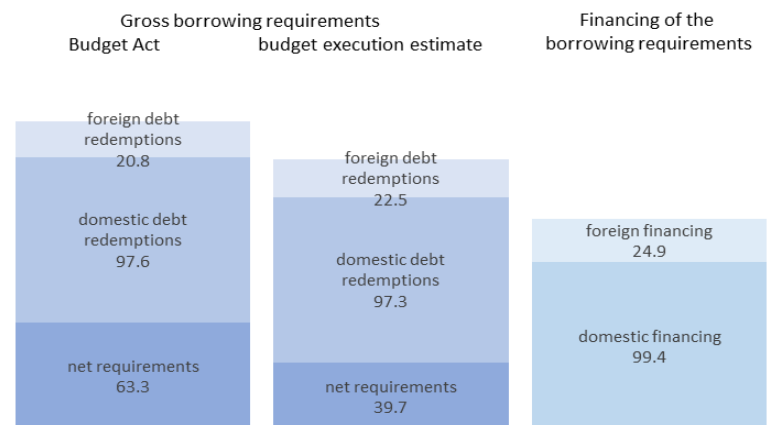
* figures include sale, redemptions and interest payments on wholesale bonds and T-bills; monthly financing plans will depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented

State Treasury debt redemptions in 2018

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

The nominal amount of debt to be redeemed in 2018 is equal to PLN 21.6bn, including:

- T-bonds: PLN 11.9bn,
- T-retail bonds: PLN 3.0bn,
- bonds and loans incurred on foreign markets: PLN 6.7bn.





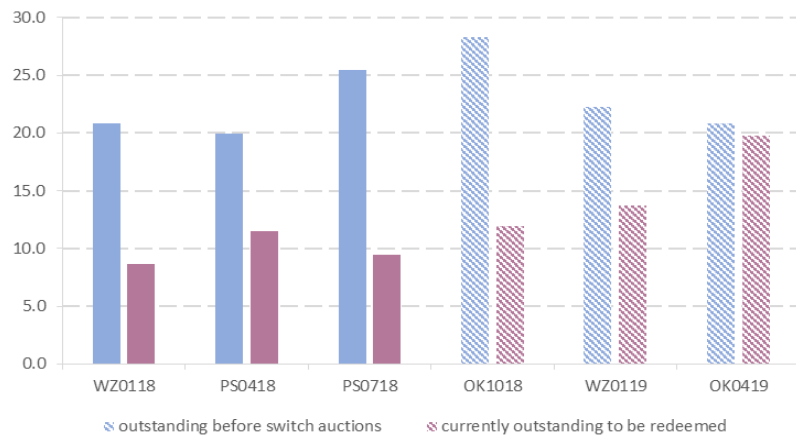
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of August 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%).

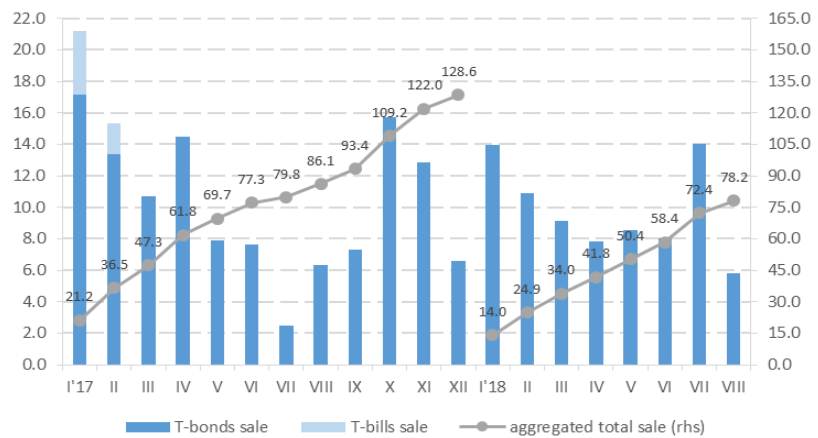


Sale of T-bonds and T-bills in the period of I-VIII 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-VIII 2018:

- aggregated total sale of T-bonds amounted to PLN 78.2bn versus PLN 80.2bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.

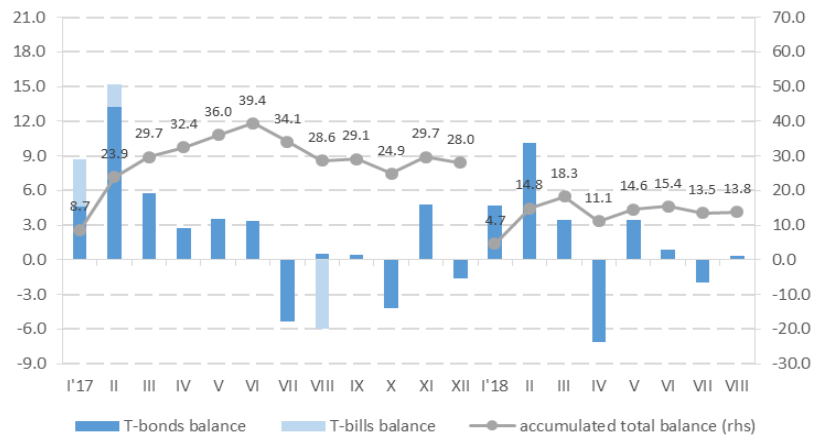


Balance of T-bonds and T-bills in the period of I-VIII 2018 and in 2017

auction date, nominal amount, PLN bn

In the period of I-VIII 2018 indebtedness in:

- T-bonds increased by PLN 13.8bn versus an increase of PLN 28.6bn in the same period of 2017,
- T-bills remained the same, likewise in the same period of 2017.

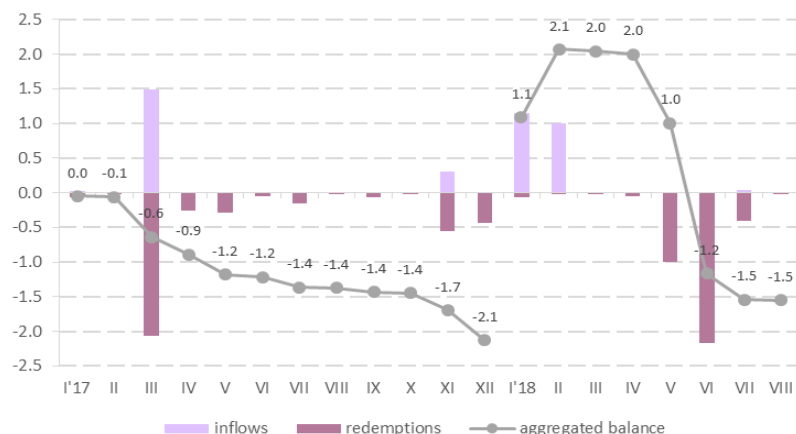


External financing in the period of I-VIII 2018 and in 2017

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

Net financing on foreign markets in the period of I-VIII 2018 was negative and amounted to EUR 1.5bn (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),
- positive balance of loans incurred from IFIs of EUR 0.3bn (negative balance of EUR 0.4bn in the same period of 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

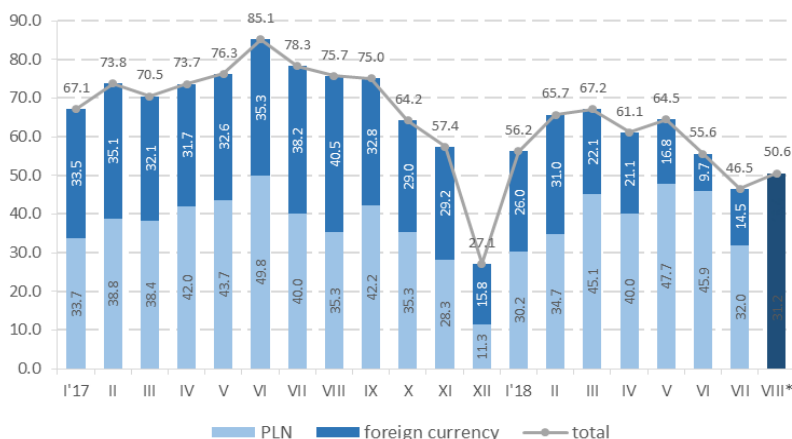


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

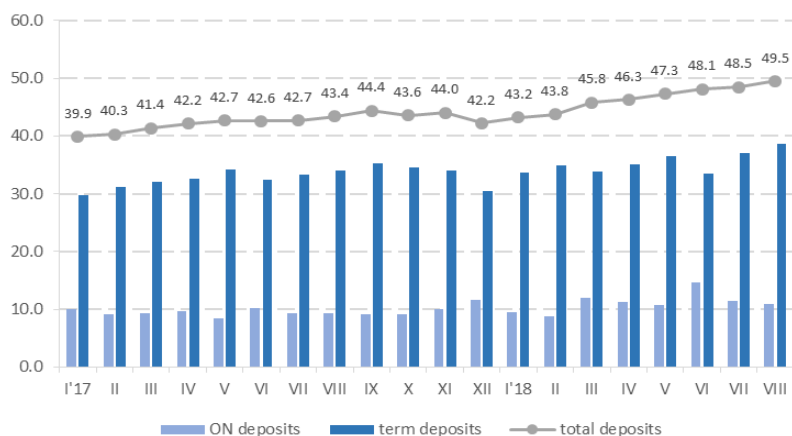
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

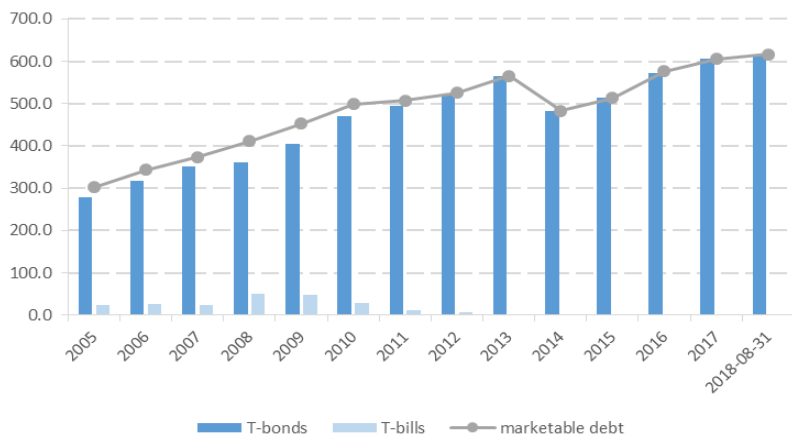
As a result of consolidation of the public finance sector liquidity management there were PLN 49.5bn funds accumulated at the end of August 2018, of which: PLN 38.6bn was on term deposits and PLN 10.9bn on ON deposits.



Structure of marketable debt

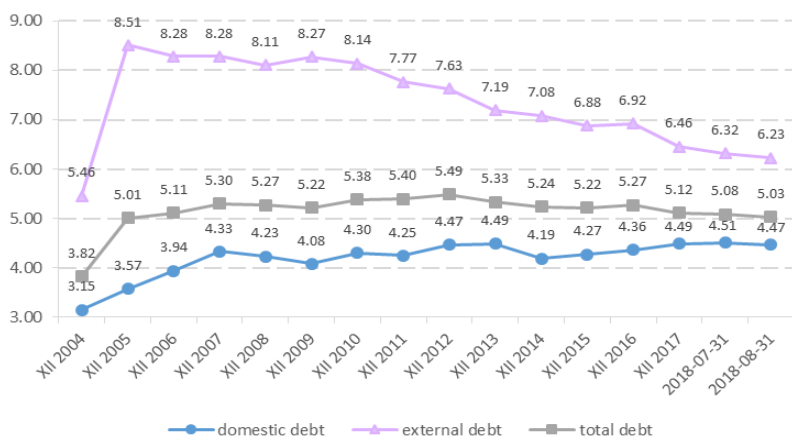
PLN bn

The marketable domestic debt amounted to PLN 616.6bn at the end of August 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 4.47 at the end of August 2018 (while at the end of 2017 it was 4.49). The average of total debt amounted to 5.03 (5.12 at the end of 2017).

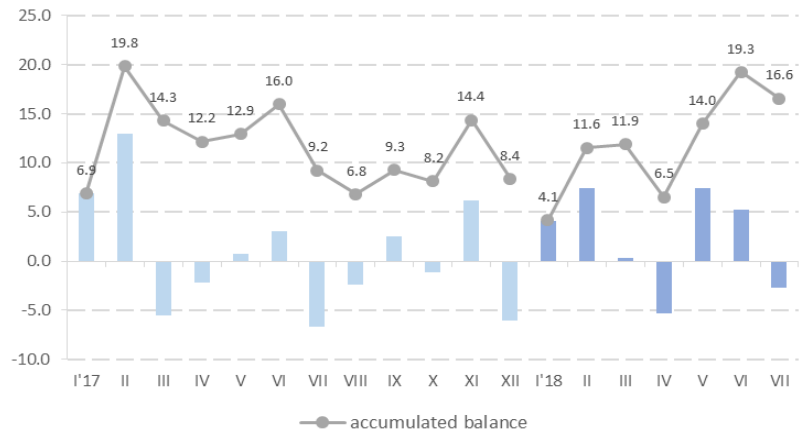




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

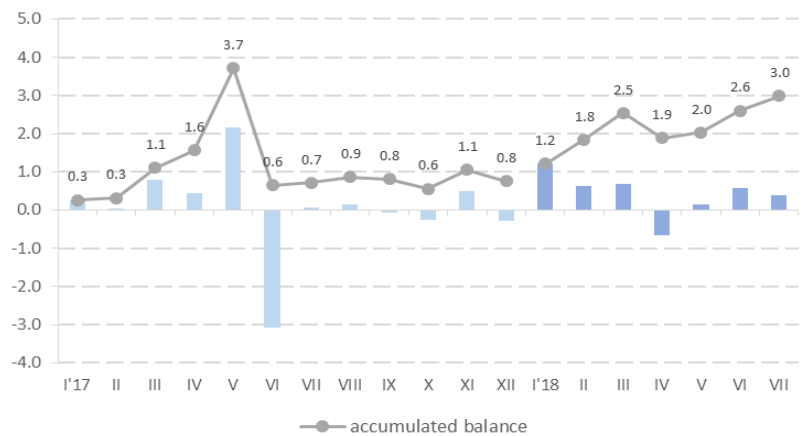
Change of debt in the domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-VII 2018 there was an increase of debt by PLN 16.6bn comparing to PLN 9.2bn increase during the same period of 2017. Banks' holdings reached the level of PLN 260.5bn.



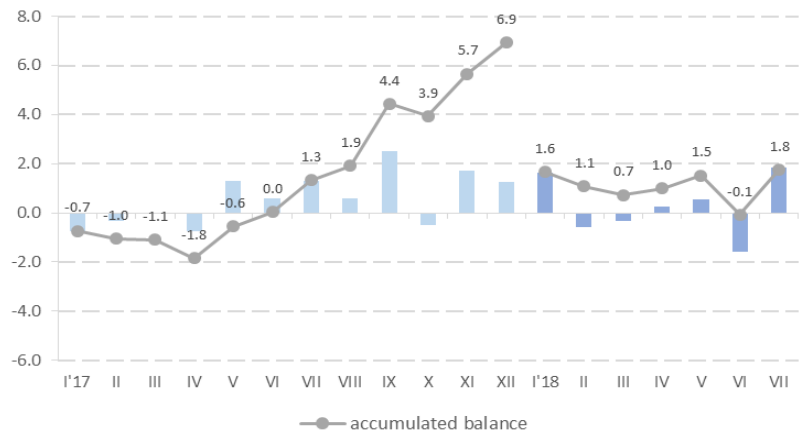
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-VII 2018 there was an increase of debt by PLN 3.0bn comparing to PLN 0.7bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 62.8bn.



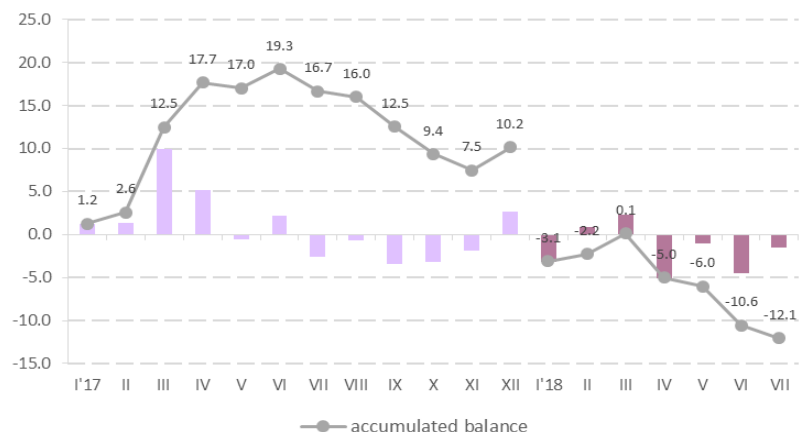
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-VII 2018 there was an increase of debt by PLN 1.8bn comparing to PLN 1.3bn increase in the same period of 2017. Investment funds' holdings reached the level of PLN 58.9bn.



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

In the period of I-VII 2018 there was a decrease of debt by PLN 12.1bn comparing to PLN 16.7bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 190.6bn.



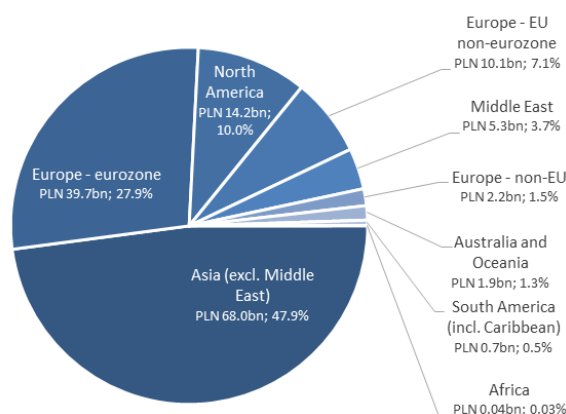
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

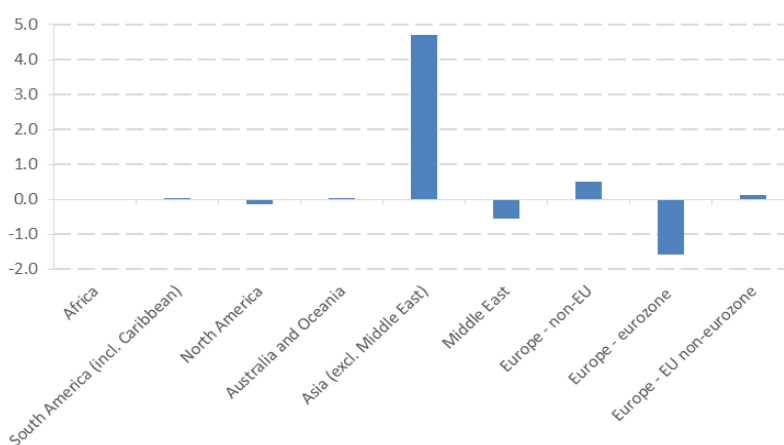
The non-residents' share in the domestic Treasury securities market decreased by PLN 1.5bn in July 2018. The foreign investors' portfolio amounted to PLN 190.6bn, which constituted 30.0% share in total debt in Treasury securities (30.2% in the previous month).



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

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

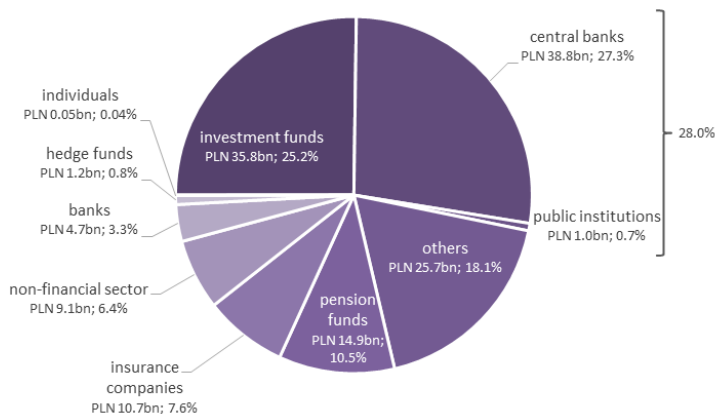
In July 2018 the highest increase was recorded by Asian investors (PLN 4.7bn). The highest decrease was noted by investors from the eurozone (PLN 1.6bn).



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

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

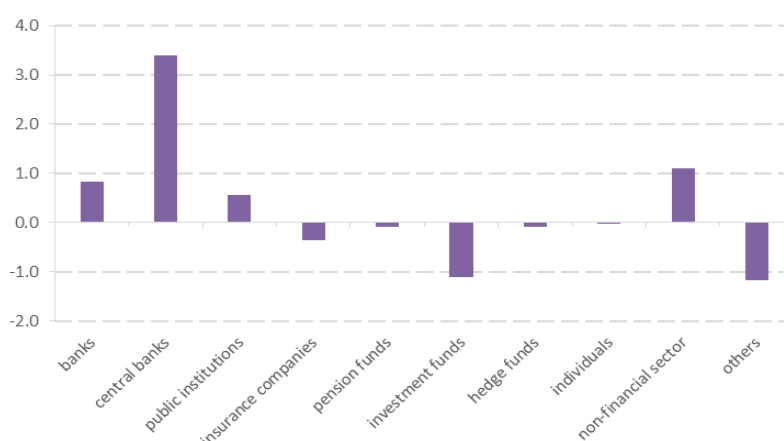
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 28.0% at the end of July 2018.



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

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

In July 2018 the highest increase was recorded by central banks (PLN 3.4bn) and the highest decrease was noted by investors from the category "others" (PLN 1.2bn).



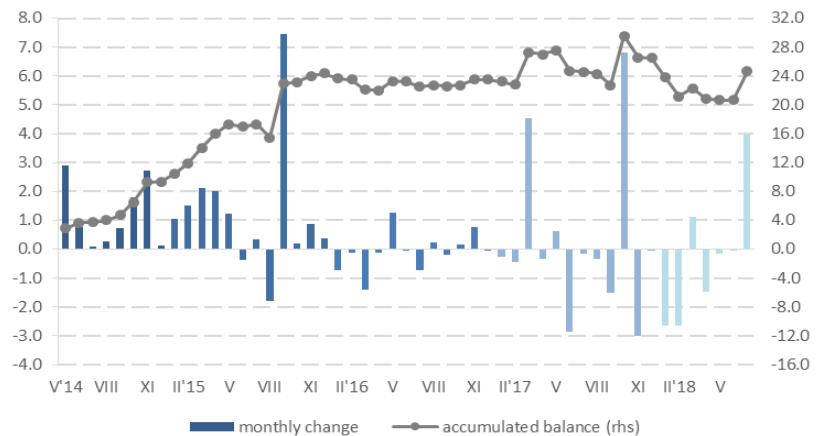


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in July 2018, PLN bn

Central banks and public institutions' involvement increased by PLN 4.0bn in July 2018. In the period from the end of April 2014 to the end of July 2018, for which the detailed information is available, portfolios of those entities increased by PLN 24.7bn.



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

as of July 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	24 914.7	24.1%
Luxembourg	15 431.6	14.9%
United States	13 220.4	12.8%
Ireland	8 306.3	8.0%
Netherlands	7 207.0	7.0%
United Kingdom	6 841.2	6.6%
Germany	6 245.0	6.0%
Hong Kong	3 176.5	3.1%
United Arab Emirates	2 641.0	2.6%
Australia	1 632.3	1.6%
Denmark	1 599.8	1.5%
Switzerland	1 369.6	1.3%
Singapore	1 041.7	1.0%
Others	9 597.3	9.3%
Total	103 224.6	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-08-2018

By the end of August the level of financing of the current year's gross borrowing requirements amounted to 68% according to the 2018 Budget Act and 78% according to the 2019 draft Budget Act. Simultaneously, ca. 6% of the borrowing needs for 2019 was already prefinanced by switch auctions. There is about PLN 52bn on the budget accounts.

In line with the quarterly issuance calendar, in September one sale auction (...) and one switch auction will be organized.

In July the domestic T-bond debt decreased by PLN 1.9bn. The change was a result of reduction in debt holdings of domestic banks and non-residents, as well as increase in debt held by domestic non-banking sector. The decrease in holdings of non-residents by PLN 1.5bn resulted mainly from the redemption of bonds maturing in July (PLN 1.9bn held by foreign investors).

IV. SUPPLY PLAN OF TREASURY SECURITIES IN SEPTEMBER 2018



T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
6 SEP 2018	10 SEP 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528 / WS0429	3,000-4,000*

* At the auction on September 6, 2018 the Ministry of Finance sold T-bonds at the level of PLN 4.0bn, of which: OK0720 - PLN 0.3bn, PS0123 - PLN 1.5bn, WZ0524 - PLN 0.9bn, WS0428 - PLN 1.0bn, WZ0528 - PLN 0.3bn, WS0429 - PLN 0.1bn.

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
20 SEP 2018 / 24 SEP 2018	OK0720 / PS0123 / WZ0524 / WS0428 / WZ0528	OK1018	11,923
		WZ0119	13,712
		OK0419	19,793

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1218 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed 1.50% per year
DOS0920 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed 2.10%
TOZ0921 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0922 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0928 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0924 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0930 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period