

State budget borrowing requirements' financing plan and its background

4th quarter 2020
October 2020

THE MOST IMPORTANT INFORMATION

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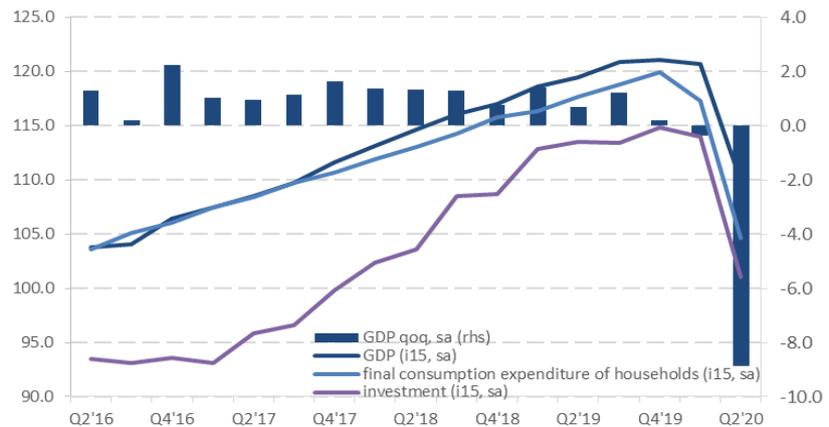


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices
source: GUS, Eurostat

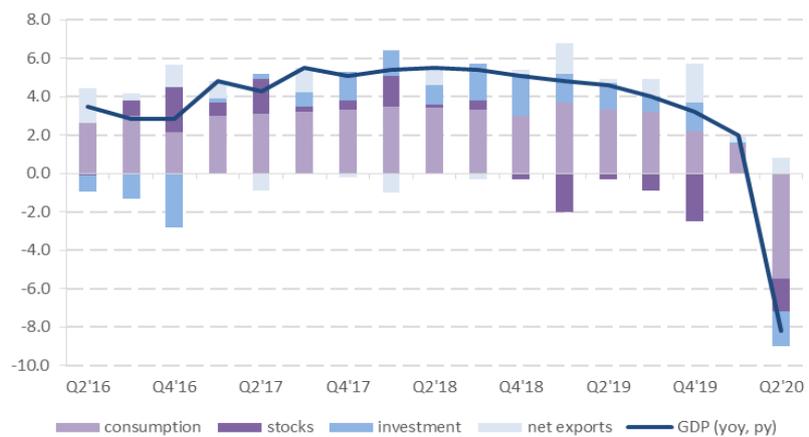
In the second quarter of 2020 GDP contracted by 8.9% (qoq, sa) after a slight decrease by 0.4% a quarter earlier. This meant that the Polish economy was in a technical recession, defined as a drop for two consecutive quarters (qoq, sa). Consumption in the household sector and investment decreased by 10.8% and 11.4%, respectively (qoq, sa). Foreign trade turnover also declined significantly (exports by 15.9%, imports by 18% qoq, sa). The performance of the Polish economy in the second quarter was better than that recorded by the euro area economy (-11.8% qoq, sa).



Contributions to Polish GDP growth

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

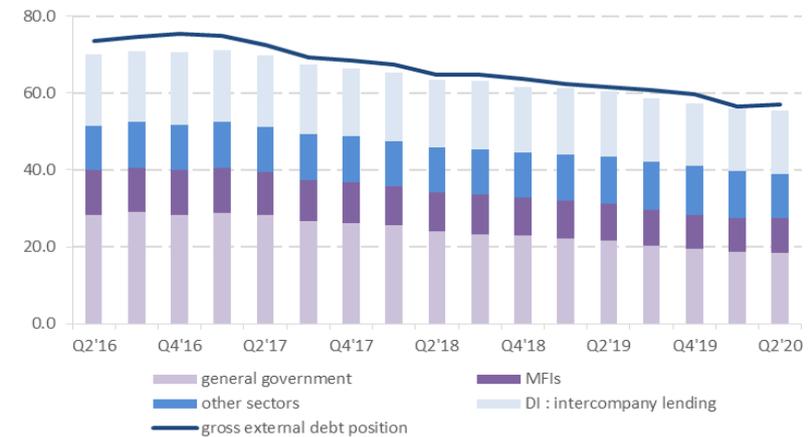
In the second quarter of 2020 GDP was 8.2% (py) lower than in the previous year. Household consumption and investment decreased by 10.9% (yoy, py). The decline in imports (17.5%) was deeper than that of exports (14.3%) - as a result, net exports made a positive contribution to GDP growth. On the other hand, inventories had a negative contribution to GDP growth. The only category the level of which was higher than in the previous year was public consumption (by 4.8%). The sharp decline in economic activity in the second quarter was a direct result of the COVID-19 epidemic along with the introduction of measures to contain the spread of the virus.



Polish gross external debt position

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

At the end of the second quarter of 2020 gross external debt reached EUR 299.0bn (57.1% of GDP) and was EUR 3.1bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 32.4%. At the end of June 2020 official reserve assets reached EUR 116.1bn and remained broadly adequate, covering over 5 months of imports.



Current account balance

percent of GDP, in 12-month terms
source: NBP, GUS, MoF own calculation

In July 2020, according to the revised quarterly data, current account surplus increased to 2.8% of GDP (in 12-month terms). Following the rebound of economic activity after the lockdown in Poland's key trade partners exports dynamics improved. In consequence its level was again higher than in the corresponding month of the previous year. Imports dynamics were still lower than exports influenced by low oil prices. Financial results of companies remained weaker than a year ago decreasing foreign direct investors' income on their capital involvement in Polish entities in consequence reducing primary income deficit.





Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In August 2020 harmonised unemployment rate (sa) slightly decreased by 0.1 pp to 3.1% and was only by 0.2 pp higher than the historical minimum observed in November and December 2019. In August 2020 it was lower than in the EU-27 on average (7.4%) and eurozone (8.1%).



Monthly indicators of the real sector

sold production in constant prices
source: Eurostat, GUS, MoF own calculation

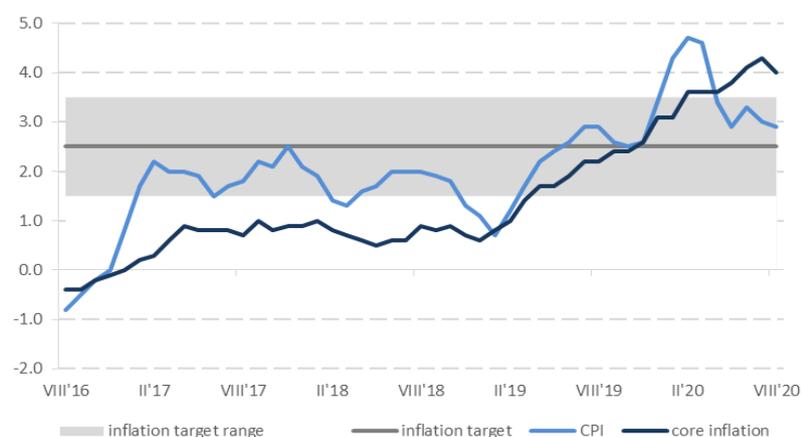
In August 2020 industrial production increased by 0.6% (mom, sa) and was 1.5% higher than a year ago (nsa). Data were below market expectations. Construction production decreased by 0.1% (m/m, sa) and it was the sixth drop in a row. As a result, construction production was 12.1% (nsa) lower than a year before. Data were below expectations. Real retail sales increased for the fourth time in a row (mom, sa MoF). As a result, retail sales were 0.5% (nsa) higher than in the same month of 2019. Data again were below market expectations.



Inflation

percent, yoy
source: GUS, NBP

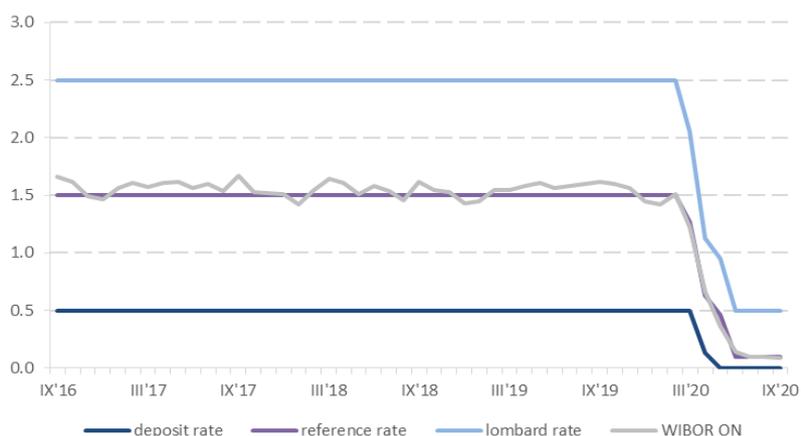
In July and August inflation rate decreased respectively to 3.0% and 2.9% (yoy) and stayed within the acceptable deviation from the inflation target. Falling inflation was influenced mainly by lower pace of growth of food prices. According to the preliminary data in September, inflation rate achieved 3.2% and was above the market expectations. Core inflation (CPI excluding food and energy prices) is still high and in August it amounted to 4.0% (yoy). Producer prices during the last six months stayed below the previous year levels (in August deflation rate was 1.2% yoy).



NBP interest rates

percent, end of period
source: NBP, Refinitiv

In September 2020 the MPC kept NBP's interest rates on hold. The reference rate remained at 0.1%, the lombard rate at 0.5% and the deposit rate at 0.0%. In March-May 2020 the reference rate was lowered by 140 bps in total. Cuts in key interest rates along with purchases by NBP of bonds in the secondary market are to mitigate the negative effects of the pandemic, limiting the scale of economic activity decline and supporting income of households and enterprises. Concurrently these measures reduce the risk of inflation falling below the inflation target in the medium term.





II. STATISTICAL DATA

	Unit	2019				2020	
		Q01	Q02	Q03	Q04	Q01	Q02
GDP							
Gross domestic product	YoY	4.8	4.6	4.0	3.2	2.0	-8.2
	QoQ SA	1.4	0.7	1.2	0.2	-0.4	-8.9
Final consumption expenditure of the households sector	YoY	3.9	4.4	3.9	3.3	1.2	-10.9
	QoQ SA	0.5	1.2	0.9	1.0	-2.2	-10.8
Final consumption expenditure of the general government sector	YoY	7.4	4.3	5.4	3.2	4.3	4.8
	QoQ SA	1.5	0.7	1.3	0.7	1.0	0.9
Gross fixed capital formation	YoY	11.6	8.8	4.6	6.1	0.9	-10.9
	QoQ SA	3.8	0.6	-0.1	1.2	-0.7	-11.4
Exports of goods and services	YoY	8.5	3.6	4.9	2.0	0.6	-14.3
	QoQ SA	1.8	-1.1	1.3	0.0	0.5	-15.9
Imports of goods and services	YoY	5.9	3.6	3.5	-2.0	-0.2	-17.5
	QoQ SA	0.1	0.2	0.1	-0.9	0.2	-18.0
Gross value added	YoY	4.7	4.6	4.0	3.2	2.0	-7.9
	QoQ SA	0.9	0.9	0.9	0.6	-0.8	-9.1
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.4	2.5	2.3	1.6	0.7	-6.3
Final consumption expenditure of the general government sector	pp	1.3	0.8	0.9	0.6	0.8	0.8
Gross fixed capital formation	pp	1.5	1.4	0.8	1.5	0.1	-1.8
Changes in inventories	pp	-2.0	-0.3	-0.9	-2.5	0.0	-1.7
Balance of trade turnover	pp	1.6	0.2	0.9	2.0	0.4	0.8
Gross value added	pp	4.2	4.0	3.4	2.7	1.8	-6.9
Taxes less subsidies	pp	0.6	0.6	0.6	0.5	0.2	-1.9
GDP structure							
Final consumption expenditure of the households sector	% of GDP	61.8	57.8	58.0	49.5	61.3	55.2
Final consumption expenditure of the general government sector	% of GDP	17.4	17.4	17.4	19.1	17.8	19.6
Gross fixed capital formation	% of GDP	13.3	16.8	17.6	25.3	13.0	16.0
Changes in inventories	% of GDP	1.3	2.0	1.1	-0.2	1.2	0.2
Exports of goods and services	% of GDP	59.4	57.2	55.8	51.5	57.1	52.4
Imports of goods and services	% of GDP	54.1	52.1	50.8	45.9	51.3	44.3
Balance of payments							
	Unit	2020					
		M03	M04	M05	M06	M07	M08
Goods: exports (EUR)	YoY	-6.6	-29.3	-19.6	2.6	2.1	-
Goods: imports (EUR)	YoY	-3.9	-28.4	-28.2	-10.3	-4.8	-
Current account balance ¹⁾	% of GDP	1.1	1.2	1.6	2.3	2.8	-
Balance on goods ¹⁾	% of GDP	0.4	0.4	0.7	1.2	1.4	-
Official Reserve Assets	EUR m	110 119.5	108 643.8	119 444.2	115 057.5	116 100.8	116 822.1
Inflation							
Consumer Price Index (CPI)	YoY	4.6	3.4	2.9	3.3	3.0	2.9
Core inflation (CPI excluding food and energy prices)	YoY	3.6	3.6	3.8	4.1	4.3	4.0
Producer Price Index (PPI)	YoY	-0.3	-1.4	-1.7	-0.8	-0.6	-1.2
Production							
Sold production of industry ²⁾	YoY	-2.5	-24.6	-16.9	0.5	1.1	1.5
	MoM SA	-7.3	-20.7	12.7	9.9	5.8	0.6
Construction and assembly production ²⁾	YoY	3.7	-0.9	-5.1	-2.3	-10.9	-12.1
	MoM SA	-4.0	-2.7	-3.2	-3.4	-3.6	-0.1
Manufacturing PMI	SA	42.4	31.9	40.6	47.2	52.8	50.6
Households and labour market							
Retail sales ²⁾	YoY	-8.9	-22.9	-7.7	-1.3	3.0	0.5
Average paid employment in enterprise sector	YoY	0.3	-2.1	-3.2	-3.3	-2.3	-1.5
	MoM	-0.5	-2.4	-1.4	0.2	1.1	0.7
Average monthly gross wages and salaries in enterprise sector (real)	YoY	1.6	-1.4	-1.6	0.2	0.8	1.2
	MoM	2.8	-3.6	-2.9	2.6	2.0	-0.7
Harmonised unemployment rate (Eurostat)	%, SA	3.0	3.2	3.3	3.3	3.2	3.1
<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	2020					
		M02	M03	M04	M05	M06	M07
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	997 398.5	1 036 440.1	1 077 179.8	1 087 381.6	1 088 191.6	1 094 346.6
Domestic debt	face value, PLN m	728 279.6	753 740.8	816 931.9	834 354.4	835 023.5	838 440.1
	%	73.0	72.7	75.8	76.7	76.7	76.6
Foreign debt	face value, PLN m	269 118.9	282 699.4	260 247.9	253 027.2	253 168.1	255 906.5
	%	27.0	27.3	24.2	23.3	23.3	23.4
Public debt (domestic definition)							
	Unit	2019				2020	
		Q01	Q02	Q03	Q04	Q01	Q02
Public debt (acc. to the place of issue criterion)	face value, PLN m	1 005 633.5	998 220.7	1 001 190.9	990 923.4	1 045 470.5	1 097 304.1
Domestic debt	face value, PLN m	706 607.9	708 264.6	713 568.9	716 158.6	744 613.3	825 504.5
	%	70.3	71.0	71.3	72.3	71.2	75.2
Foreign debt	face value, PLN m	299 025.7	289 956.1	287 622.0	274 764.7	300 857.2	271 799.6
	%	29.7	29.0	28.7	27.7	28.8	24.8
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 056 556.1	1 051 755.9	1 055 625.3	1 045 325.1	1 103 399.6	1 262 023.4

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2020

as of September 30, 2020, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 98% (acc. to the draft of the amended Budget Act approved by the Council of the Ministers) was a result of:

- T-bond sale on domestic market: PLN 95.3bn,
- switch auctions in 2020: PLN 30.2bn,
- T-bills sale on domestic market: PLN 10.8bn,
- T-bond sale on foreign markets: PLN 16.2bn,
- loans incurred from IFIs: PLN 1.7bn,
- switch auctions in 2019: PLN 47.4bn,
- and higher financial resources at the end of 2019: PLN 27.6bn.

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

plan as of September 30, 2020

Value of funds transferred from the State budget to the market in October shall amount to PLN 13.1bn, of which:

- TS redemptions: PLN 8.5bn,
- interest payments: PLN 4.6bn.

Flows of funds between the domestic market and the budget*

as at the end of month, PLN bn

From October to the end of 2020 the funds to be transferred to the domestic market shall amount to PLN 13.6bn (as of September 30, 2020).

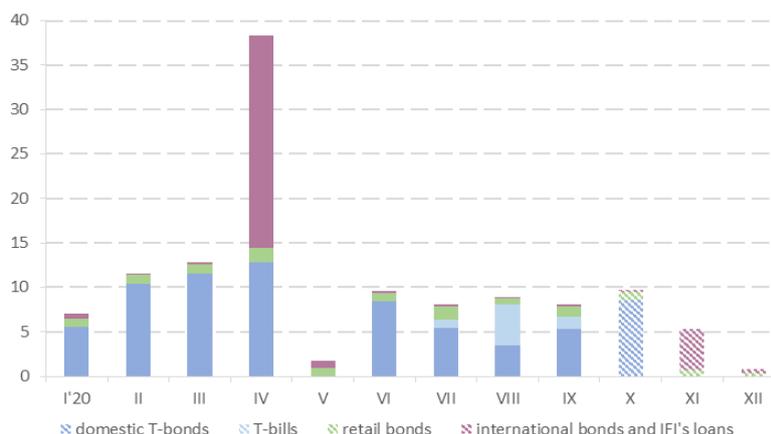
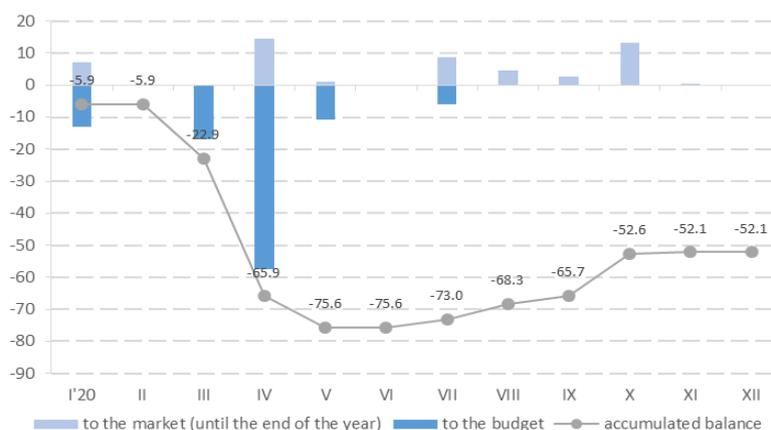
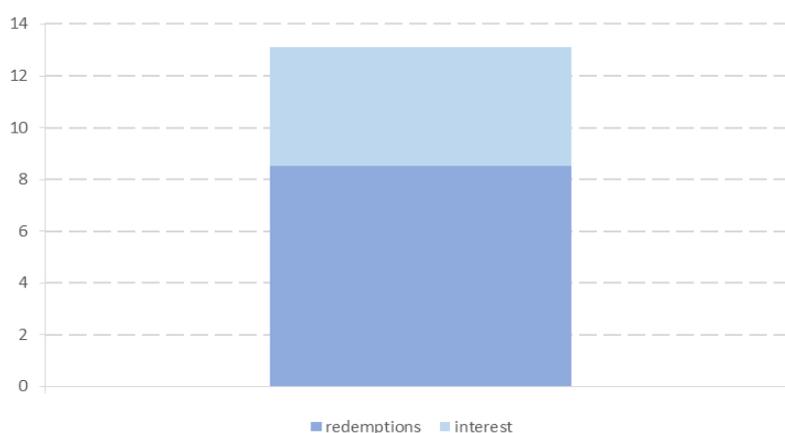
* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of October to the end of 2020 is not presented.

State Treasury debt redemptions in 2020

as at the end of month, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2020 (as of September 30, 2020) is equal to PLN 15.7bn, including:

- T-bonds: PLN 8.5bn,
- retail bonds: PLN 2.1bn,
- bonds and loans incurred on foreign markets: PLN 5.1bn.





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020 and 2021

as of September 30, 2020, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2020 and 2021:

- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 19.3bn (65% of the issuance),
- OK0720: PLN 12.2bn (78% of the issuance),
- DS1020: PLN 9.5bn (53% of the issuance),
- WZ0121: PLN 13.2bn (51% of the issuance),
- PS0421: PLN 7.1bn (27% of the issuance),
- OK0521: PLN 0.7bn (4% of the issuance),
- PS0721: PLN 2.4bn (8% of the issuance).

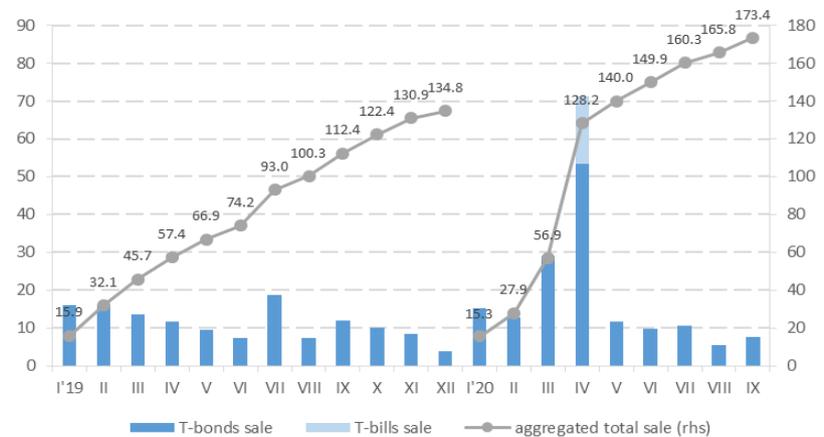


Sale of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

In the period of I-IX 2020 aggregated total sale of:

- T-bonds amounted to PLN 155.7bn versus PLN 112.4bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).

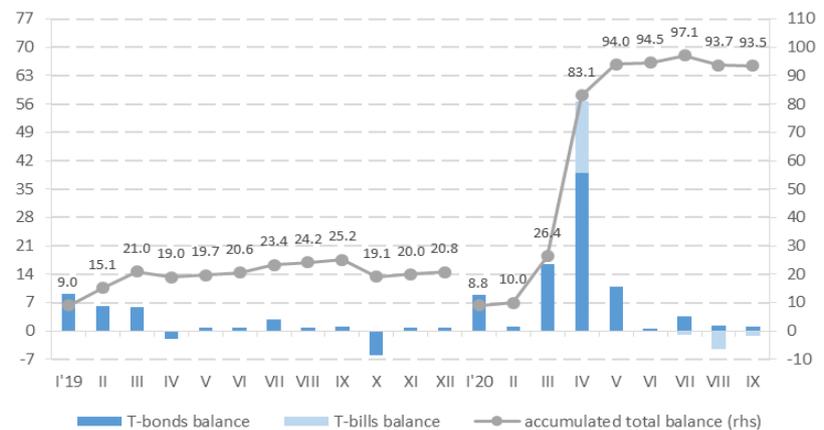


Balance of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

In the period of I-IX 2020 indebtedness in:

- T-bonds increased by PLN 82.6bn versus an increase of PLN 25.2bn in the same period of 2019,
- T-bills increased by PLN 10.9bn (T-bills were not offered since February 2017).

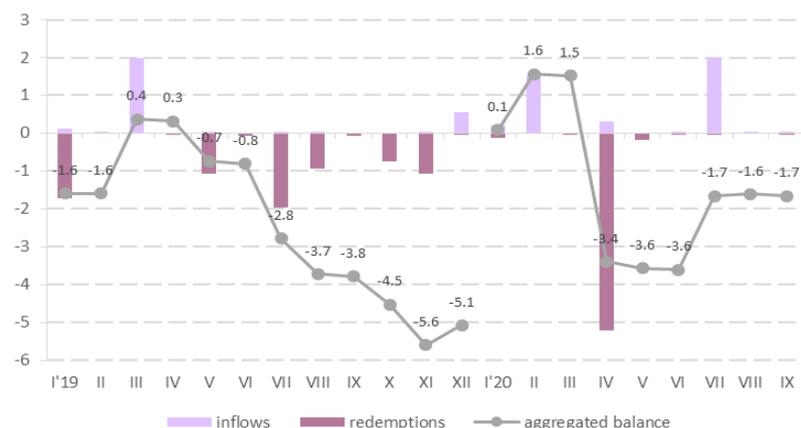


External financing in 2019 and 2020

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

Net financing on foreign markets in the period of I-IX 2020 was negative and amounted to EUR 1.7bn (negative balance of EUR 3.8bn in the same period of 2019) which resulted from:

- negative balance of T-bonds of EUR 1.5bn (negative balance of EUR 2.9bn in the same period of 2019),
- negative balance of loans incurred from IFIs of EUR 0.1bn (negative balance of EUR 0.9bn in the same period of 2019).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

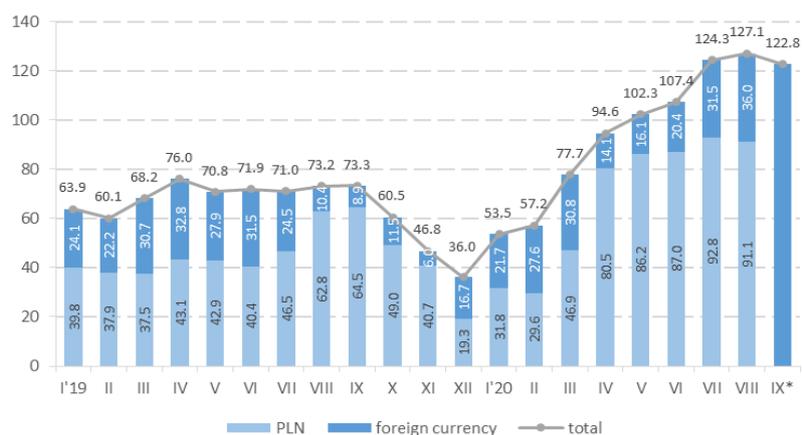


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of September 2020 there was equivalent of PLN 122.8bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

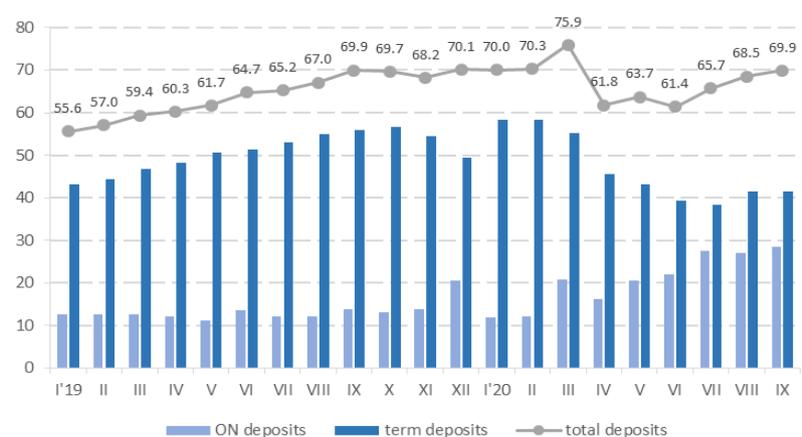
* Estimated data.



Consolidation of public finance sector liquidity management

PLN bn

As a result of consolidation of the public finance sector liquidity management there were PLN 69.9bn funds accumulated at the end of September 2020, of which: PLN 41.4bn was on term deposits and PLN 28.5bn on ON deposits.



Structure of domestic marketable debt

PLN bn

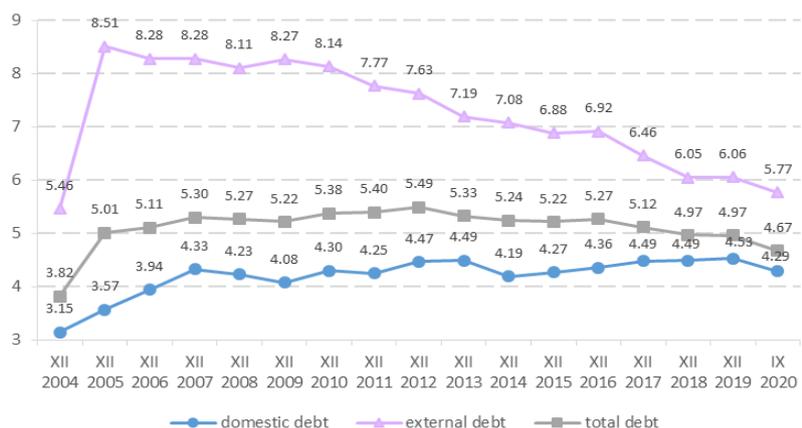
The marketable domestic debt amounted to PLN 745.8bn at the end of September 2020 comparing to PLN 646.0bn at the end of 2019.



Average maturity

years

The average maturity of the domestic debt amounted to 4.29 years at the end of September 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.67 years (4.97 years at the end of 2019).

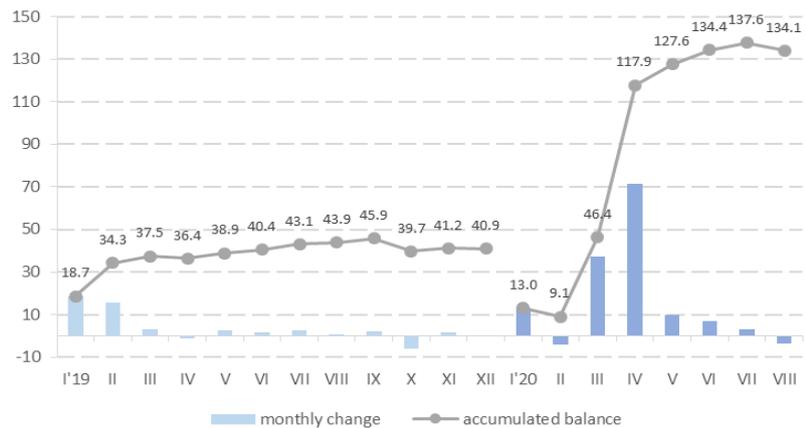




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

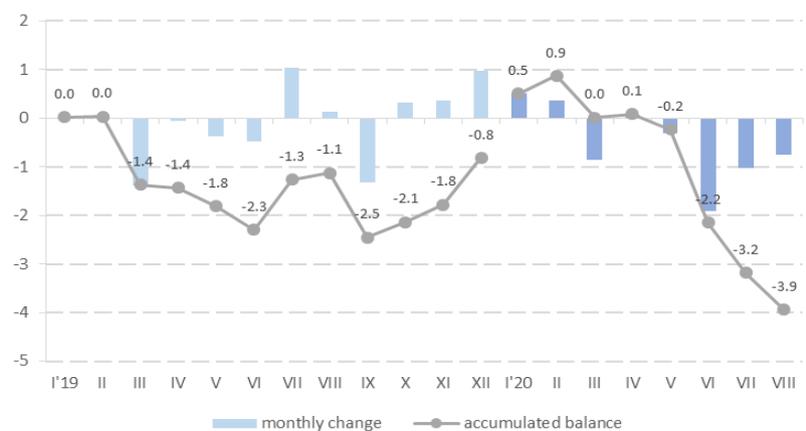
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-VIII 2020 there was an increase of debt by PLN 134.1bn comparing to PLN 43.9bn increase during the same period of 2019. Banks' holdings reached the level of PLN 439.0bn.



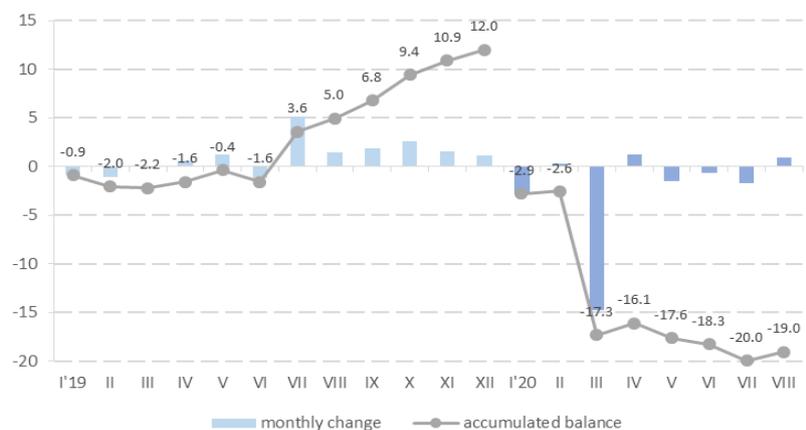
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-VIII 2020 there was a decrease of debt by PLN 3.9bn comparing to PLN 1.1bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 60.3bn.



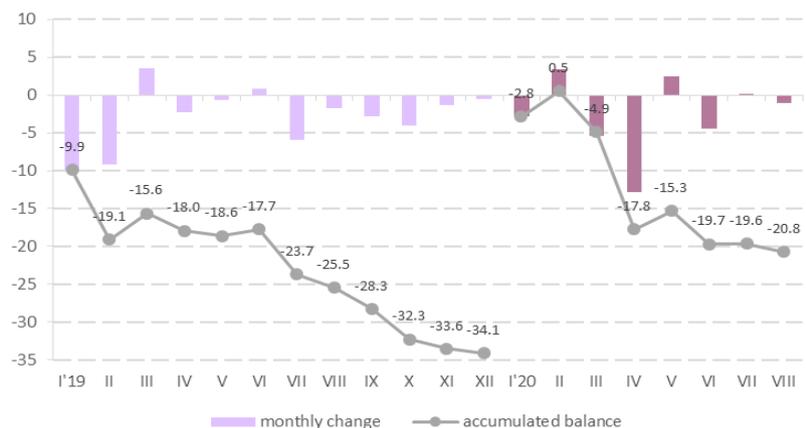
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-VIII 2020 there was a decrease of debt by PLN 19.0bn comparing to PLN 5.0bn increase in the same period of 2019. Investment funds' holdings reached the level of PLN 48.3bn.



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

In the period of I-VIII 2020 there was a decrease of debt by PLN 20.8bn comparing to PLN 25.5bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 136.6bn.



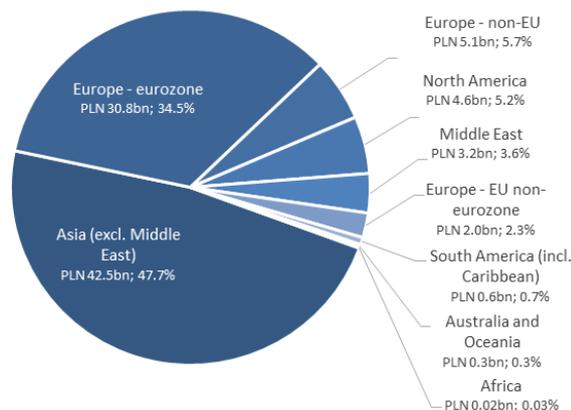
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of August 31, 2020, the chart presents data excluding omnibus accounts

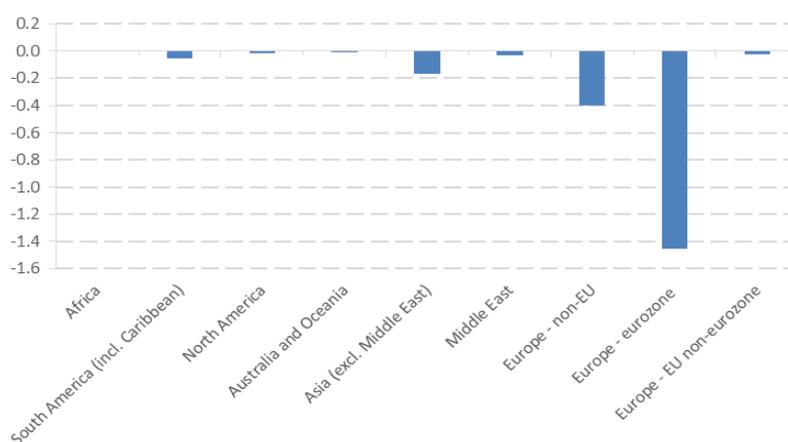
The non-residents' share in the domestic Treasury securities market decreased by PLN 1.1bn in August 2020. The foreign investors' portfolio amounted to PLN 136.6bn, which constituted 17.4% share in total debt in Treasury securities (17.5% in the previous month).



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

change in August 2020, mom, PLN bn, the chart presents data excluding omnibus accounts

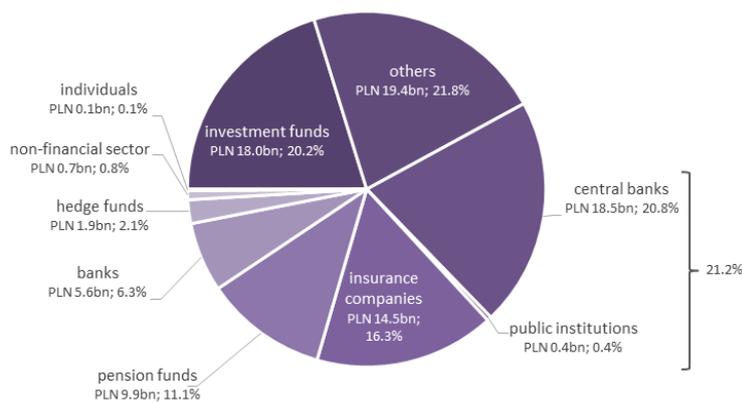
In August 2020 the highest decrease was noted by eurozone investors (PLN 1.5bn).



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

as of August 31, 2020, the chart presents data excluding omnibus accounts

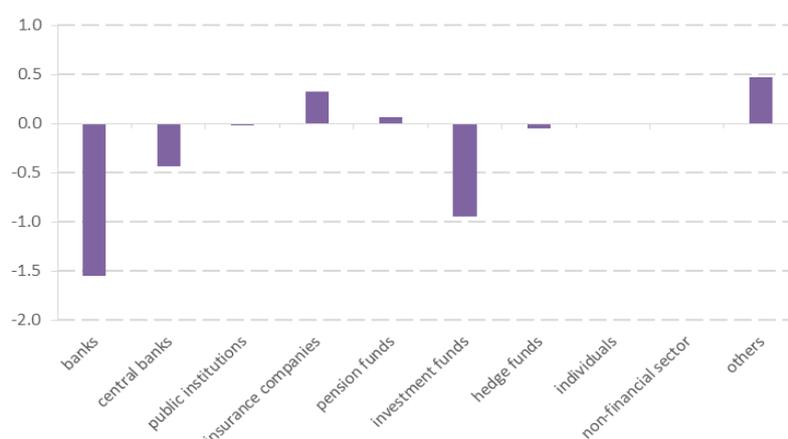
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 21.2% at the end of August 2020.



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

change in August 2020, mom, PLN bn, the chart presents data excluding omnibus accounts

In August 2020 the highest increase was recorded by investors categorized as "others" (PLN 0.5bn), while the highest decrease was noted by banks (PLN 1.6bn).





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in August 2020, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.4bn in August 2020. In the period from the end of April 2014 to the end of August 2020, for which the detailed information is available, portfolios of those entities increased by PLN 3.8bn.



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

as of August 31, 2020, excluding omnibus accounts and central banks, countries with more than 1% share

	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	22 744.8	32.2%
Luxembourg	8 547.8	12.1%
Netherlands	7 137.1	10.1%
Germany	5 096.5	7.2%
Ireland	4 791.6	6.8%
United States	3 948.5	5.6%
United Kingdom	3 492.6	4.9%
France	2 646.8	3.8%
United Arab Emirates	1 429.0	2.0%
Switzerland	1 405.8	2.0%
Austria	1 238.5	1.8%
Hong Kong	952.7	1.4%
Denmark	889.7	1.3%
Italy	837.5	1.2%
Others	5 404.2	7.7%
Total	70 563.3	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

30-09-2020

(...) The level of financing of the borrowing requirements resulting from the amendment to this year's budget act adopted by the Council of Ministers is ca. 98%.

Two switching auctions are planned for October and, by the end of the year one sale and two switching auctions or three switching auctions, depending on budgetary and market conditions.

In September indebtedness in domestic Treasury securities decreased by PLN 3.1bn. The involvement of domestic banks decreased by PLN 3.6bn and foreign investors by PLN 1.1bn, while domestic non-banking sector increased by PLN 1.6bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2020



General assumptions

- in the fourth quarter of 2020 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 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, as well as by the budget conditions,
- the announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

- **sale auctions:**
possible one auction, with total supply up to PLN 5.0bn, the structure of T-bonds will be subject to the market situation,
- **switch auctions:**
between four and five auctions, subject to the budget and market situation, T-bonds maturing in 2021 would be offered to repurchase.

Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

Foreign financing

- possible issuances of bonds on the international market,
- loans from international financial institutions,
- possible loans from the EU under the instrument for temporary support to mitigate unemployment risks in an emergency (SURE),
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN OCTOBER 2020

T-bond switching auctions

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
8 OCT 2020 / 12 OCT 2020	OK0423 / PS0425 / WZ1126 / WZ1129 / DS1030	DS1020	8.540
		WZ0121	12.823
		PS0421	19.685
		OK0521	15.756
		PS0721	27.839
22 OCT 2020 / 26 OCT 2020	OK0423 / PS0425 / WZ1126 / WZ1129 / DS1030 possible T-bond either of WS or IZ type	WZ0121	12.823
		PS0421	19.685
		OK0521	15.756
		PS0721	27.839
		DS1021	16.182

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0121 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS1022 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ1023 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI1024 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO1030 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS1026 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD1032 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period