

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

September 2020

### 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

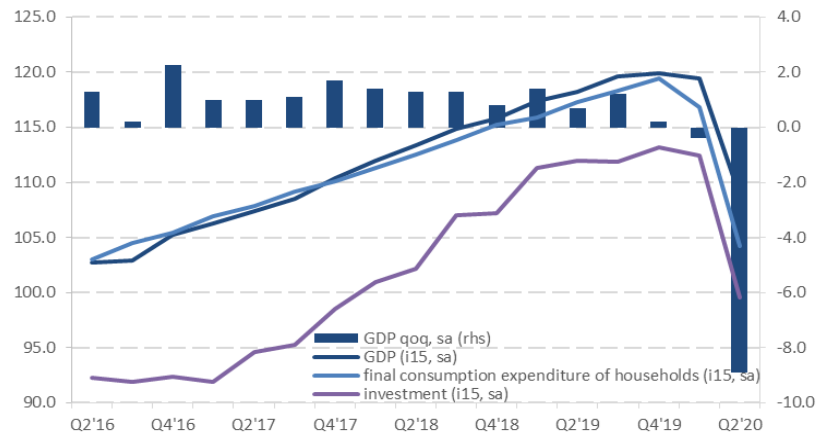


## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland

constant prices  
source: GUS, Eurostat

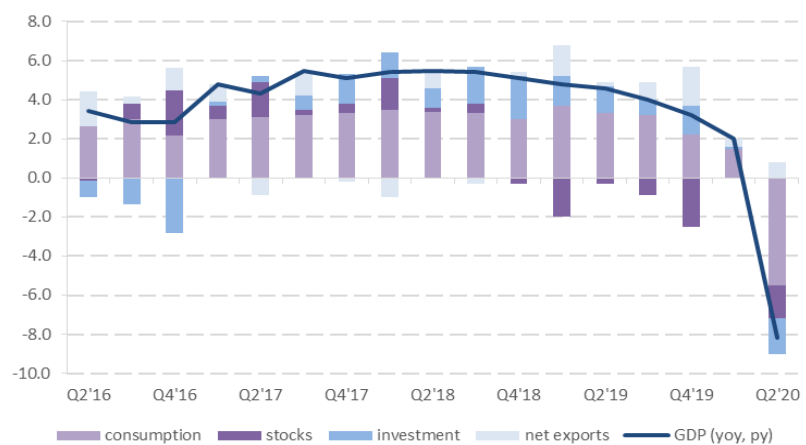
In the second quarter GDP contracted by 8.9% (qoq, sa), after a slight decrease by 0.4% a quarter earlier. This meant that the Polish economy was in a technical recession, defined as drop for two consecutive quarters (qoq, sa). Consumption in the household sector and investment decreased by 10.8% and 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 (-12.1% qoq, sa).



### Contributions to Polish GDP growth

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

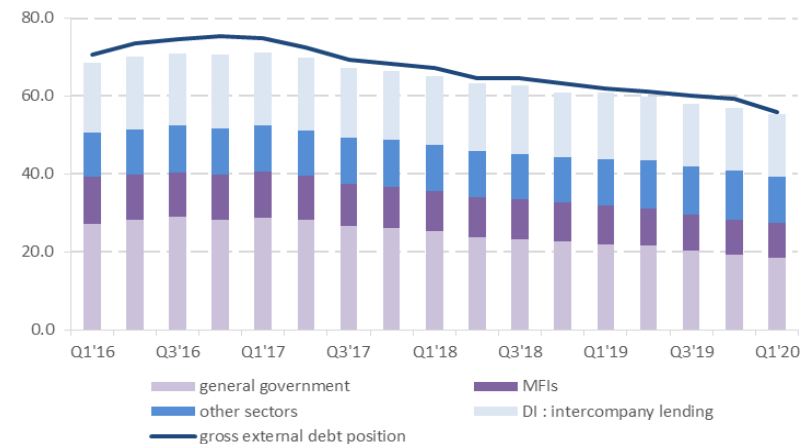
In the second quarter of 2020 GDP was 8.2% (py) lower than in the previous year. Household consumption and investment decreased by 10.9% (yoy, py). The decline in imports (17.5%) was deeper than that of exports (14.3%) - as a result, net exports made a positive contribution to GDP growth. On the other 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

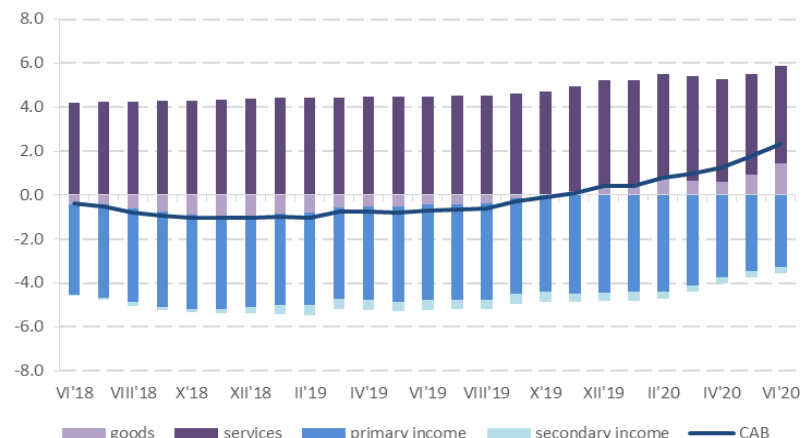
At the end of the first quarter of 2020 gross external debt reached EUR 299.3bn (55.9% of GDP) and was EUR 14.8bn lower than in the previous quarter. The share of general government sector debt in total debt increased to 33.3%. At the end of June 2020 official reserve assets reached EUR 115.1bn and remained 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 June 2020, according to the preliminary data, current account surplus increased to 2.3% of GDP (in 12-month terms). Following the re-opening of economies of Poland's key trade partners exports dynamics improved supported in June by two additional working days. In consequence its level was higher than in the corresponding month of the previous year. Imports dynamics were significantly lower than exports influenced by low oil prices and lower imports of automotive parts and new passenger cars. In addition, due to lower foreign direct investors' income on their capital involvement in Polish entities, primary income deficit narrowed.

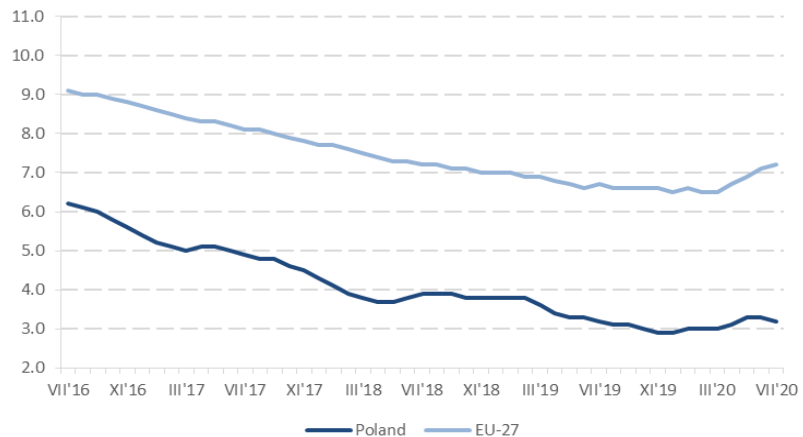




## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

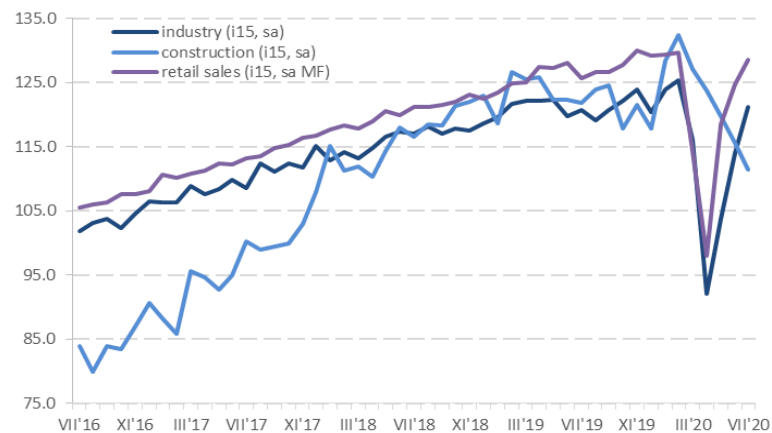
In July 2020 harmonised unemployment rate (sa) slightly decreased by 0.1 pp to 3.2% after stabilization in the previous month and was lower than in the EU-27 on average (7.2%) and eurozone (7.9%).



## Monthly indicators of the real sector

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

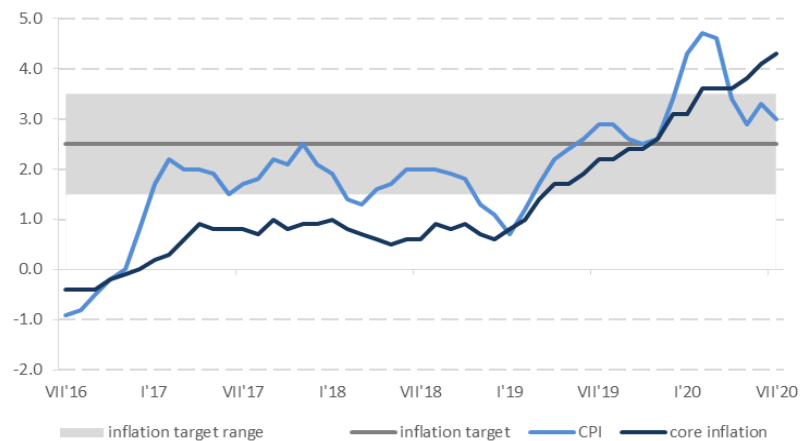
In July 2020 industrial production increased by 6.2% (mom, sa) and was 1.1% higher than a year ago (nsa). Data were above market expectations. Construction production dropped for the fifth time in a row (mom, sa). As a result, it was 10.9% (nsa) lower than a year before. Data were below expectations. Real retail sales increased significantly following jumps in two previous months (mom, sa MoF). As a result retail sales were 3% (nsa) higher than in the same month of 2019. Data again were above market expectations.



## Inflation

percent, yoy  
source: GUS, NBP

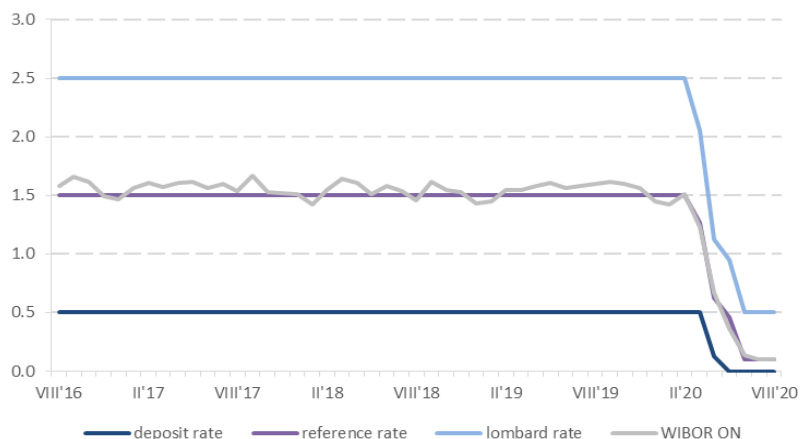
In the second quarter of 2020 inflation rate decreased to 3.2% yoy (after reaching 4.5% in the first quarter) and returned to the acceptable deviation from the inflation target. Falling inflation was influenced mainly by strong drop in fuel prices and lower pace of growth of food prices. In July inflation rate dropped to 3.0% and in August (according to the preliminary data) to 2.9%. These results were close to market expectations. Core inflation (CPI excluding food and energy prices) was still high and in July increased to 4.3% (yoy), the highest level for 18 years. Producer prices in last five months stayed below the previous year levels (in July deflation rate was 0.6% yoy).



## NBP interest rates

percent, end of period  
source: NBP, Refinitiv

In July 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 1.4 pp in total. Cuts in the key interest rates along with purchases of bonds by the NBP 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
<b>GDP</b>							
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
<b>Contribution to GDP growth</b>							
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
<b>GDP structure</b>							
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
<b>Balance of payments</b>							
	Unit	2020					
		M02	M03	M04	M05	M06	M07
Goods: exports (EUR)	YoY	8.9	-5.7	-29.1	-19.3	3.0	-
Goods: imports (EUR)	YoY	0.9	-3.5	-28.1	-27.4	-10.7	-
Current account balance <sup>1)</sup>	% of GDP	0.8	1.0	1.2	1.8	2.3	-
Balance on goods <sup>1)</sup>	% of GDP	0.7	0.7	0.6	0.9	1.4	-
Official Reserve Assets	EUR m	116 060.2	110 119.5	108 643.8	119 444.2	115 057.5	116 100.8
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	4.7	4.6	3.4	2.9	3.3	3.0
Core inflation (CPI excluding food and energy prices)	YoY	3.6	3.6	3.6	3.8	4.1	4.3
Producer Price Index (PPI)	YoY	0.2	-0.3	-1.4	-1.7	-0.8	-0.6
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	4.8	-2.5	-24.6	-16.9	0.5	1.1
	MoM SA	1.1	-7.3	-20.7	12.7	9.9	6.2
Construction and assembly production <sup>2)</sup>	YoY	5.5	3.7	-0.9	-5.1	-2.3	-10.9
	MoM SA	3.1	-4.0	-2.7	-3.2	-3.4	-3.6
Manufacturing PMI	SA	48.2	42.4	31.9	40.6	47.2	52.8
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	7.3	-8.9	-22.9	-7.7	-1.3	3.0
Average paid employment in enterprise sector	YoY	1.1	0.3	-2.1	-3.2	-3.3	-2.3
	MoM	0.1	-0.5	-2.4	-1.4	0.2	1.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	2.9	1.6	-1.4	-1.6	0.2	0.8
	MoM	0.2	2.8	-3.6	-2.9	2.6	2.0
Harmonised unemployment rate (Eurostat)	%, SA	3.0	3.0	3.1	3.3	3.3	3.2
<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>							
<b>State Treasury debt</b>							
	Unit	2020					
		M01	M02	M03	M04	M05	M06
State Treasury debt (acc. to the place of issue criterion)	nominal, PLN mio	987 605.9	997 398.5	1 036 440.1	1 077 179.8	1 087 381.6	1 088 191.6
Domestic debt	nominal, PLN mio	727 020.9	728 279.6	753 740.8	816 931.9	834 354.4	835 023.5
	%	73.6	73.0	72.7	75.8	76.7	76.7
Foreign debt	nominal, PLN mio	260 585.0	269 118.9	282 699.4	260 247.9	253 027.2	253 168.1
	%	26.4	27.0	27.3	24.2	23.3	23.3
<b>Public debt (domestic definition)</b>							
	Unit	2019				2020	
		Q04	Q01	Q02	Q03	Q04	Q01
Public debt (acc. to the place of issue criterion)	nominal, PLN mio	984 313.5	1 005 633.5	998 220.7	1 001 190.9	990 940.9	1 045 473.8
Domestic debt	nominal, PLN mio	688 248.0	706 607.9	708 264.6	713 568.9	716 176.3	744 616.7
	%	69.9	70.3	71.0	71.3	72.3	71.2
Foreign debt	nominal, PLN mio	296 065.5	299 025.7	289 956.1	287 622.0	274 764.6	300 857.2
	%	30.1	29.7	29.0	28.7	27.7	28.8
<b>General Government debt (EU definition)</b>							
General Government debt	nominal, PLN mio	1 035 703.9	1 056 556.1	1 051 755.9	1 055 362.3	1 045 129.0	1 103 023.0

Source: MoF

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

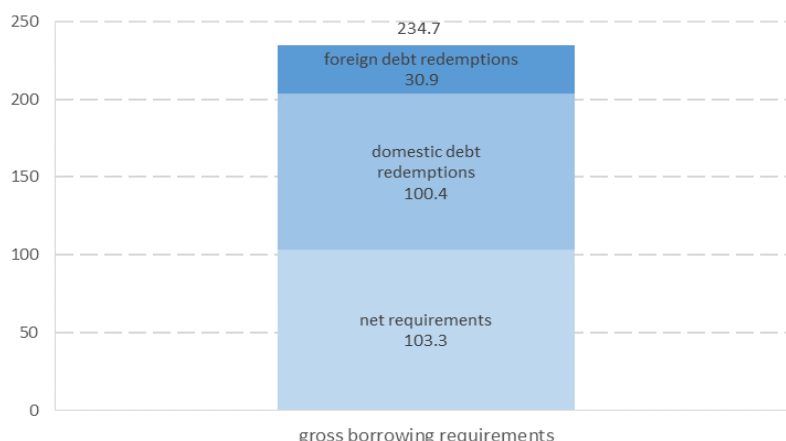


#### Gross borrowing requirements in 2020

as of August 31, 2020, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 97% (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 94.4bn,
- switch auctions in 2020: PLN 29.4bn,
- 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.

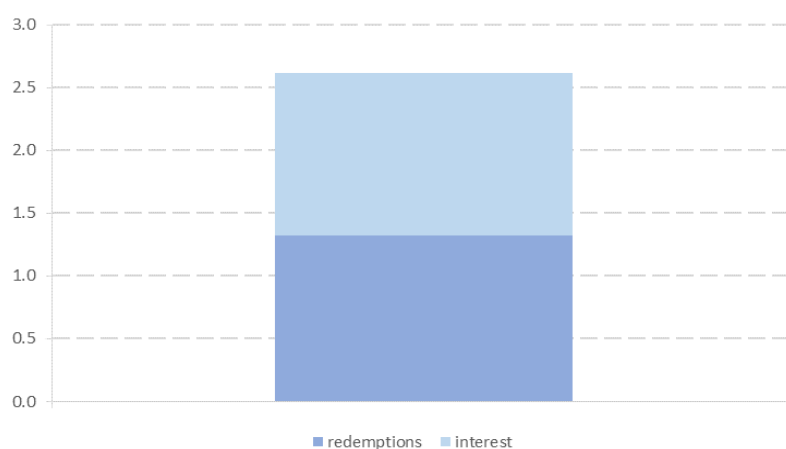


#### Outflows of funds related to domestic marketable T-securities transfers in September

plan as of August 31, 2020

Value of funds transferred from the State budget to the market in September shall amount to PLN 2.6bn, of which:

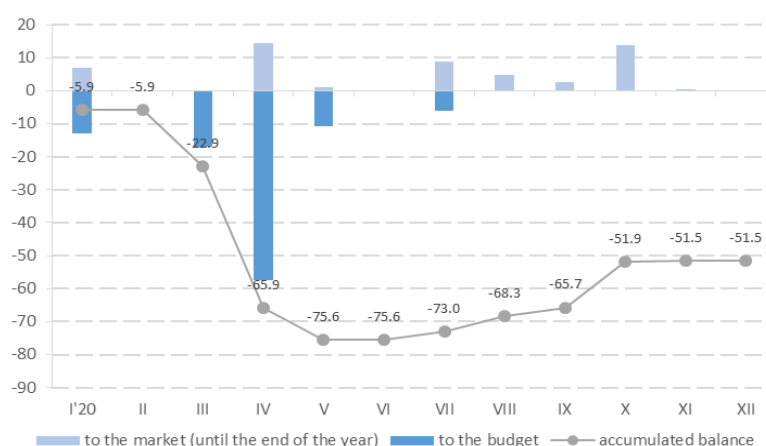
- TS redemptions: PLN 1.3bn,
- interest payments: PLN 1.3bn.



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

as at the end of month, PLN bn

From September to the end of 2020 the funds to be transferred to the domestic market shall amount to PLN 16.8bn (as of August 31, 2020).



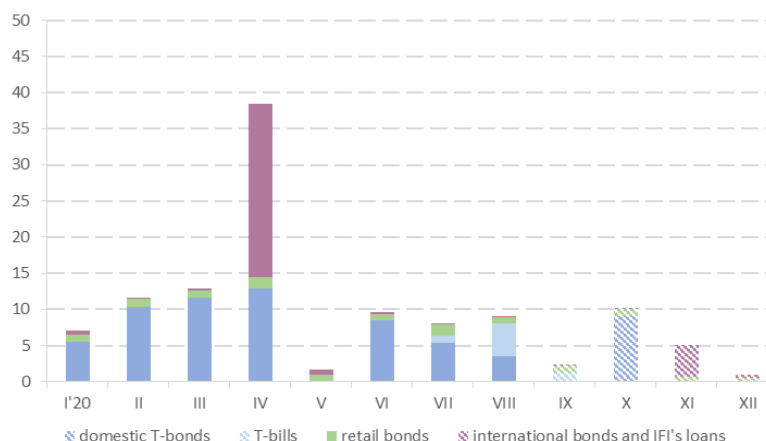
\* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of September to the end of 2020 is not presented.

#### 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 August 31, 2020) is equal to PLN 18.7bn, including:

- T-bonds: PLN 9.1bn,
- retail bonds: PLN 3.2bn,
- T-bills: PLN 1.3bn,
- bonds and loans incurred on foreign markets: PLN 5.1bn.



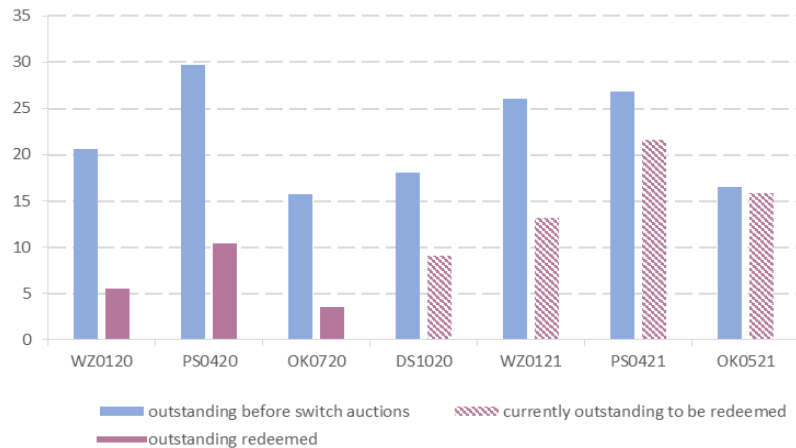


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020 and 2021 as of August 31, 2020, nominal amount, PLN bn

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

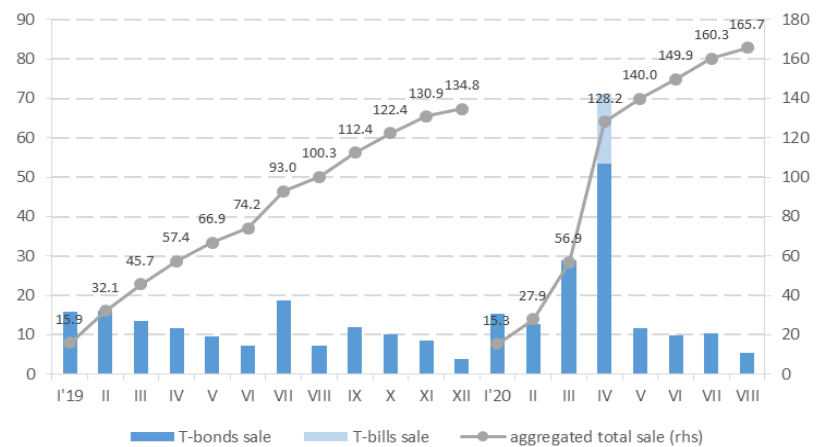
- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 19.3bn (65% of the issuance),
- OK0720: PLN 12.2bn (78% of the issuance),
- DS1020: PLN 8.9bn (49% of the issuance),
- WZ0121: PLN 12.8bn (49% of the issuance),
- PS0421: PLN 5.1bn (19% of the issuance),
- OK0521: PLN 0.6bn (4% of the issuance).



#### Sale of domestic T-bills and T-bonds in 2019 and 2020 settlement date, nominal amount, PLN bn

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

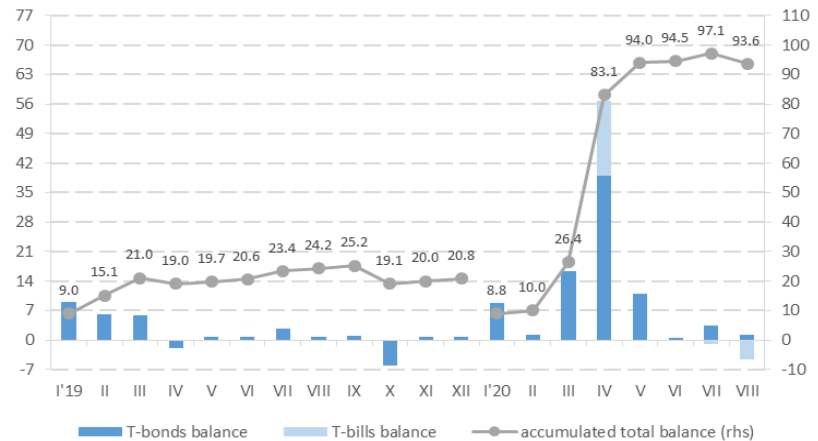
- T-bonds amounted to PLN 148.0bn versus PLN 100.3bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).



#### Balance of domestic T-bills and T-bonds in 2019 and 2020 settlement date, nominal amount, PLN bn

In the period of I-VIII 2020 indebtedness in:

- T-bonds increased to PLN 81.4bn versus an increase of PLN 24.2bn in the same period of 2019,
- T-bills increased to PLN 12.2bn (T-bills were not offered since February 2017).

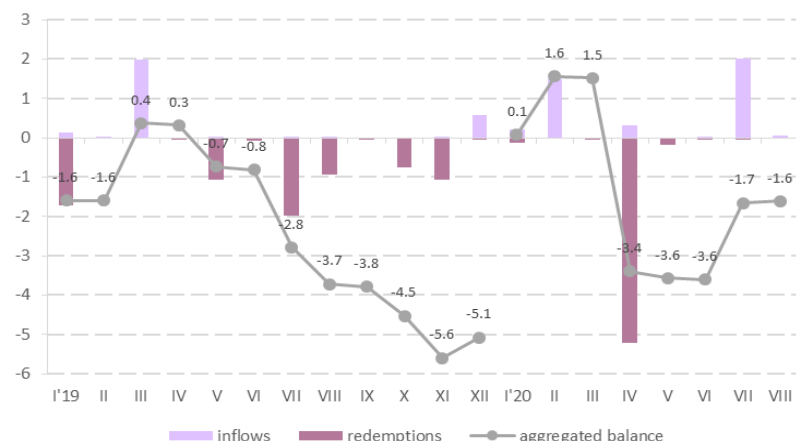


#### External financing in 2019 and 2020

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

Net financing on foreign markets in the period of I-VIII 2020 was negative and amounted to EUR 1.6bn (negative balance of EUR 3.7bn 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

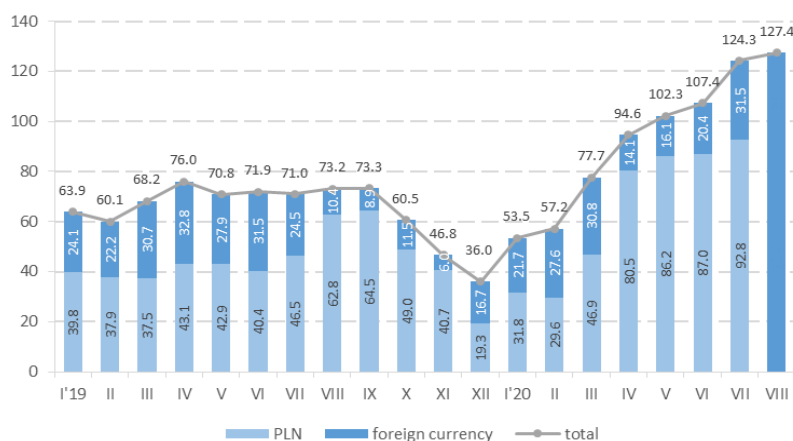


#### Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of August 2020 there was equivalent of PLN 127.4bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

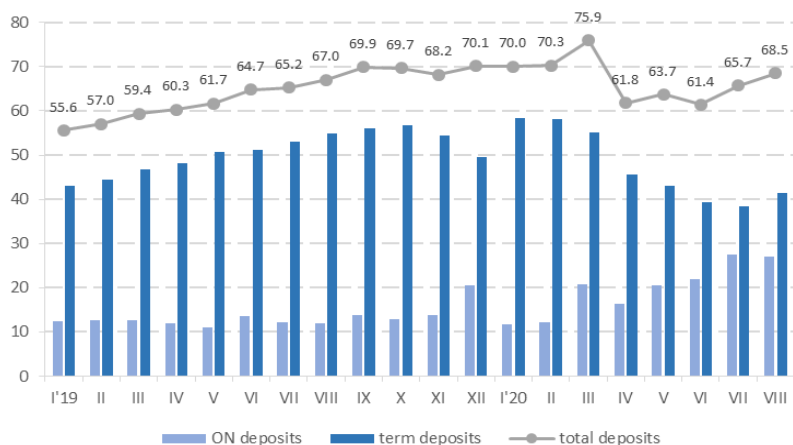
\* Estimated data.



#### Consolidation of public finance sector liquidity management

PLN bn

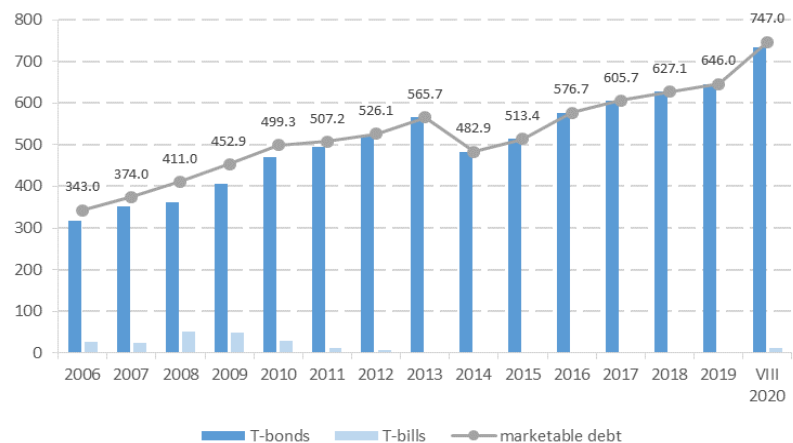
As a result of consolidation of the public finance sector liquidity management there were PLN 68.5bn funds accumulated at the end of August 2020, of which: PLN 41.4bn was on term deposits and PLN 27.1bn on ON deposits.



#### Structure of domestic marketable debt

PLN bn

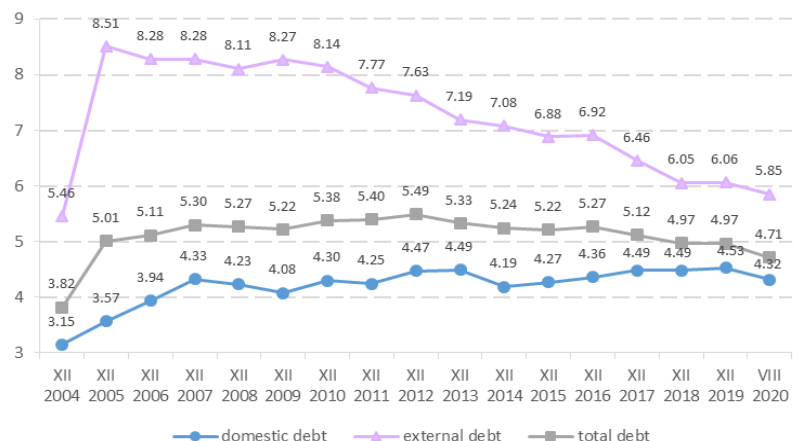
The marketable domestic debt amounted to PLN 747.0bn at the end of August 2020 comparing to PLN 646.0bn at the end of 2019.



#### Average maturity

years

The average maturity of the domestic debt amounted to 4.32 years at the end of August 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.71 years (4.97 years at the end of 2019).



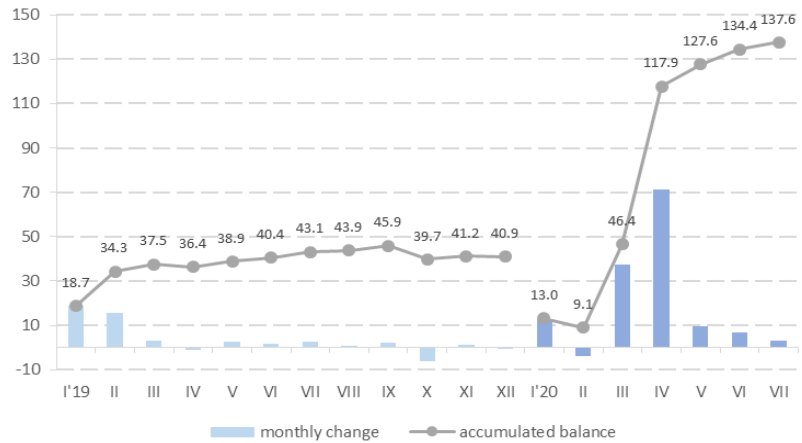




### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

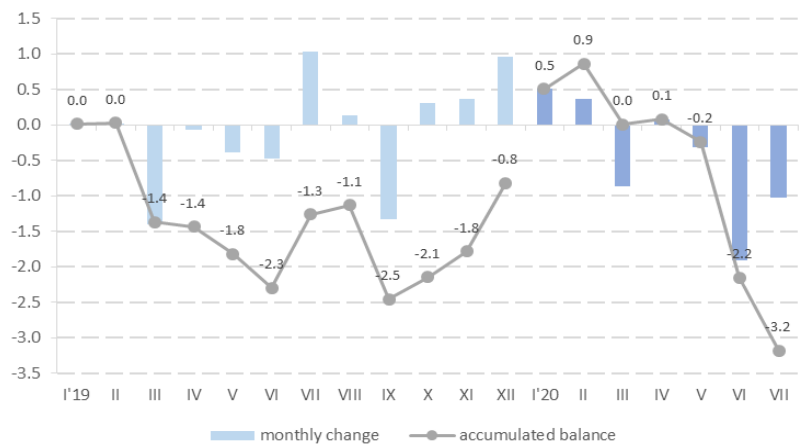
#### Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-VII 2020 there was an increase of debt by PLN 137.6bn comparing to PLN 43.1bn increase during the same period of 2019. Banks' holdings reached the level of PLN 442.6bn.



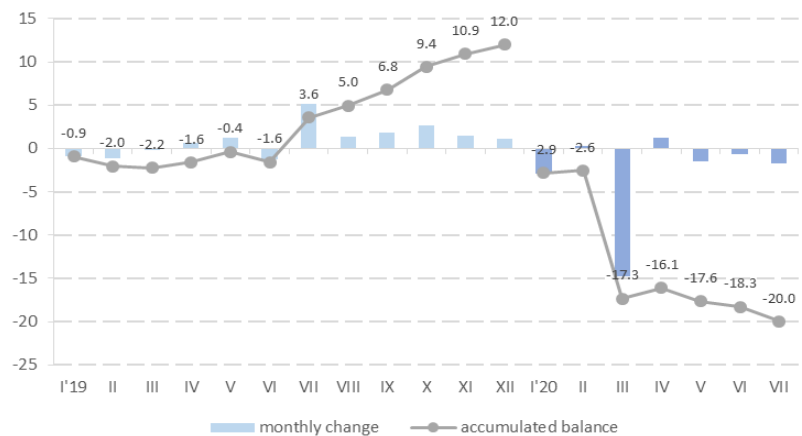
#### Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-VII 2020 there was a decrease of debt by PLN 3.2bn comparing to PLN 1.3bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 61.1bn.



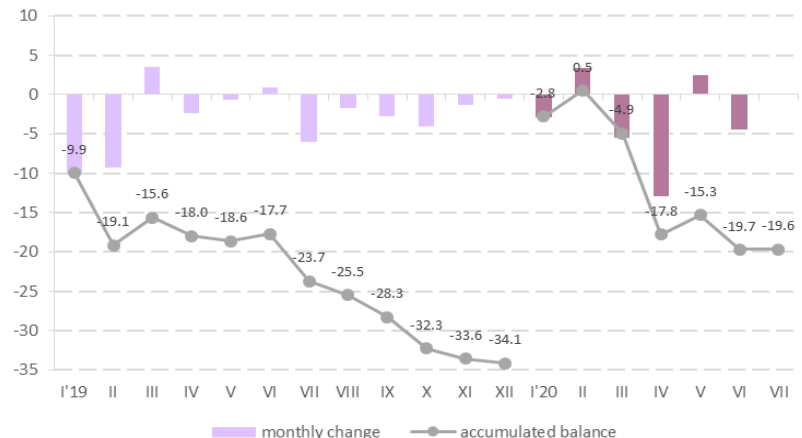
#### Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-VII 2020 there was a decrease of debt by PLN 20.0bn comparing to PLN 3.6bn increase in the same period of 2019. Investment funds' holdings reached the level of PLN 47.4bn.



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

In the period of I-VII 2020 there was a decrease of debt by PLN 19.6bn comparing to PLN 23.7bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 137.7bn.





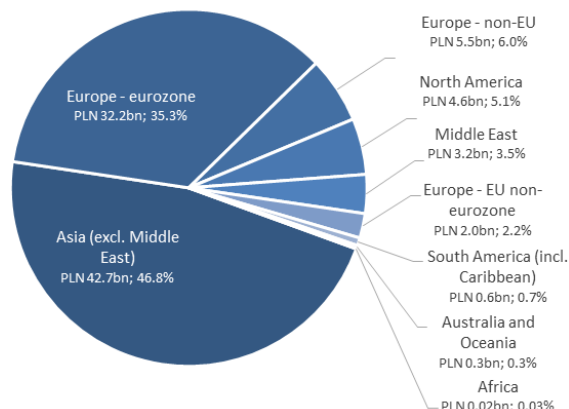
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

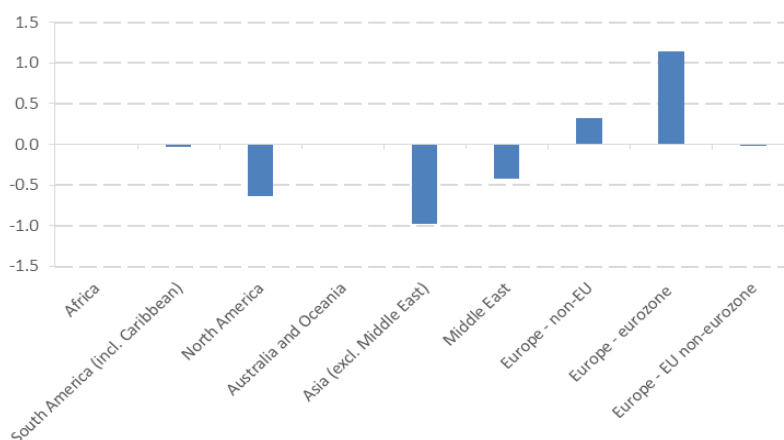
The non-residents' share in the domestic Treasury securities market increased by PLN 49m in July 2020. The foreign investors' portfolio amounted to PLN 137.7bn, which constituted 17.5% share in total debt in Treasury securities (17.5% in the previous month).



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

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

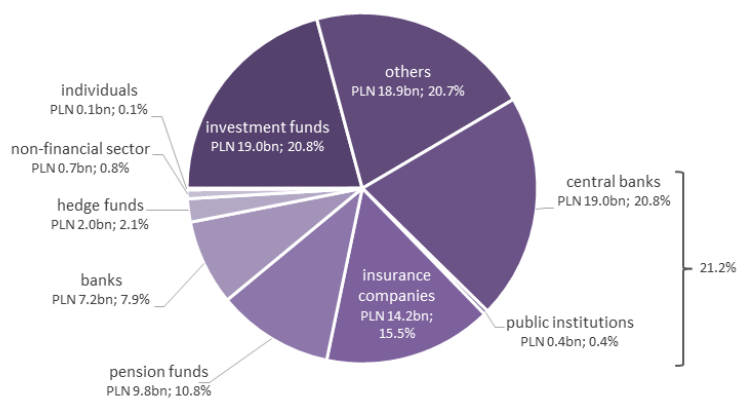
In July 2020 the highest increase was recorded by eurozone investors (PLN 1.1bn), while the highest decrease was noted by Asian (excl. Middle East) investors (PLN 1.0bn).



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

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

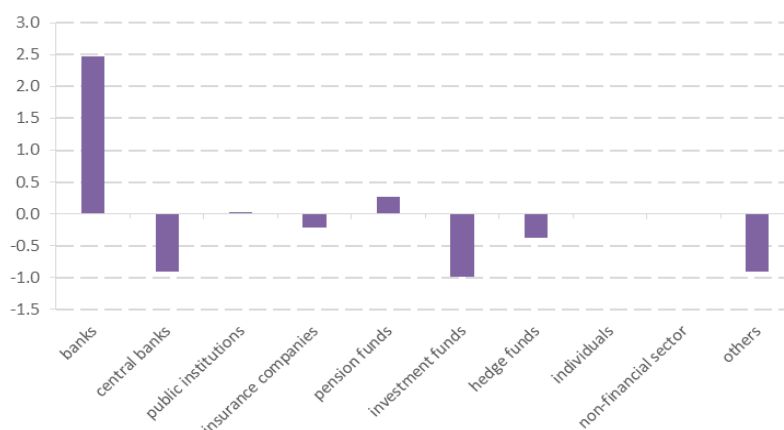
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 21.2% at the end of July 2020.



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

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

In July 2020 the highest increase was recorded by banks (PLN 2.5bn), while the highest decrease was noted by investment funds (PLN 1.0bn).



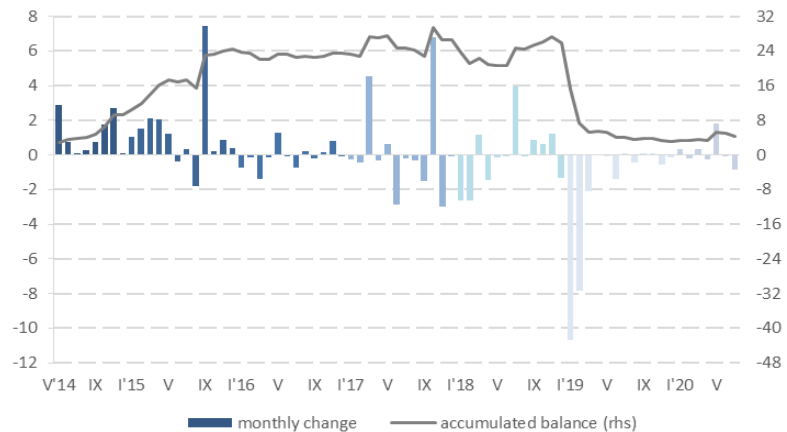


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in July 2020, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.9bn in July 2020. In the period from the end of April 2014 to the end of July 2020, for which the detailed information is available, portfolios of those entities increased by PLN 4.2bn.



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

as of July 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	22 267.3	30.8%
Luxembourg	8 806.7	12.2%
Netherlands	6 963.0	9.6%
Germany	5 255.1	7.3%
Ireland	5 026.4	7.0%
United States	4 129.4	5.7%
United Kingdom	4 015.7	5.6%
France	3 894.8	5.4%
United Arab Emirates	1 476.8	2.0%
Switzerland	1 420.7	2.0%
Hong Kong	1 112.7	1.5%
Denmark	913.6	1.3%
Italy	793.7	1.1%
Austria	754.3	1.0%
Others	5 408.6	7.5%
<b>Total</b>	<b>72 274.9</b>	<b>100.0%</b>

#### Comment

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

31-08-2020

(...) The level of financing of the borrowing requirements resulting from the amendment to this year's budget adopted by the Council of Ministers is ca. 97%.

Two switching auctions are planned in September. The second auction is scheduled for September 17, a week earlier than in the annual auction calendar. The change is due to possible rating action of Fitch on September 25.

In July indebtedness in domestic Treasury securities increased by PLN 2.6bn. The involvement of domestic banks (including the NBP) increased by PLN 3.2bn, while domestic non-banking sector decreased by PLN 0.7bn with almost unchanged involvement of foreign investors.

## IV. SUPPLY PLAN OF TREASURY SECURITIES IN SEPTEMBER 2020



### T-bond switching auctions

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)*
3 SEP 2020 / 7 SEP 2020	OK0423 / PS0425 / WZ0525 / WZ1129 / DS1030	DS1020	8.983
		WZ0121	13.072
		PS0421	20.202
		OK0521	15.801
		PS0721	29.059
17 SEP 2020 / 21 SEP 2020	OK0423 / PS0425 / WZ0525 / WZ1129 / DS1030 possible T-bond either of WS or IZ type	DS1020	8.983
		WZ0121	13.072
		PS0421	20.202
		OK0521	15.801
		PS0721	29.059

\* After settlement of auction held on September 3, 2020.

### T-bill auctions

Sale auctions of Treasury bills are not planned.

### Offer on the retail market

T-bond	Issue price	Coupon
OTS1220 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0922 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0923 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0924 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0930 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0926 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0932 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period