

State budget borrowing requirements' financing plan and its background

3rd quarter 2021
July 2021

THE MOST IMPORTANT INFORMATION

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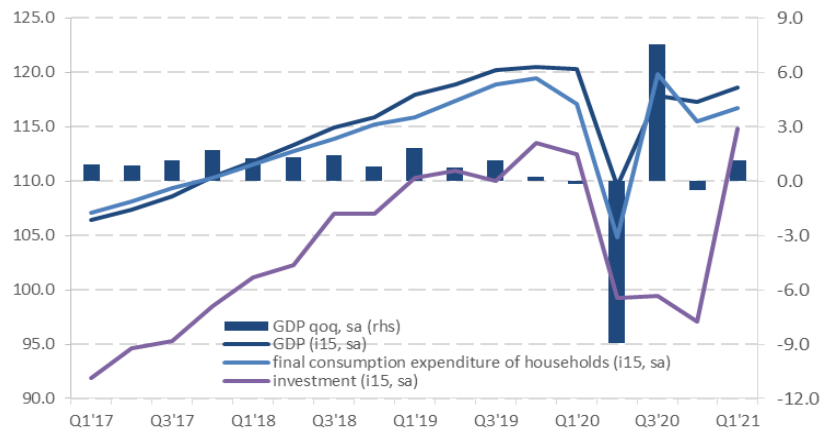


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data (sa)
source: GUS, Eurostat

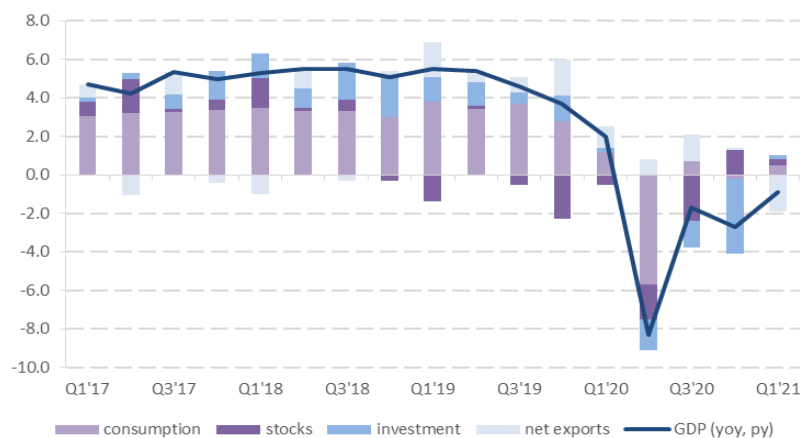
The beginning of this year showed an improvement in economic activity in Poland. In the first quarter of 2021 GDP increased by 1.1% (qoq) despite the third wave of the pandemic, increase in infections and strengthening of restrictions. Investment surprised on the upside rebounding by 18.2% (qoq) and exceeding its pre-pandemic level. Despite closure of some commercial and service facilities, households consumption also increased (by 1.0% qoq). Domestic demand recovery supported imports which went up by 2.3% (qoq).



Contributions to Polish GDP growth

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

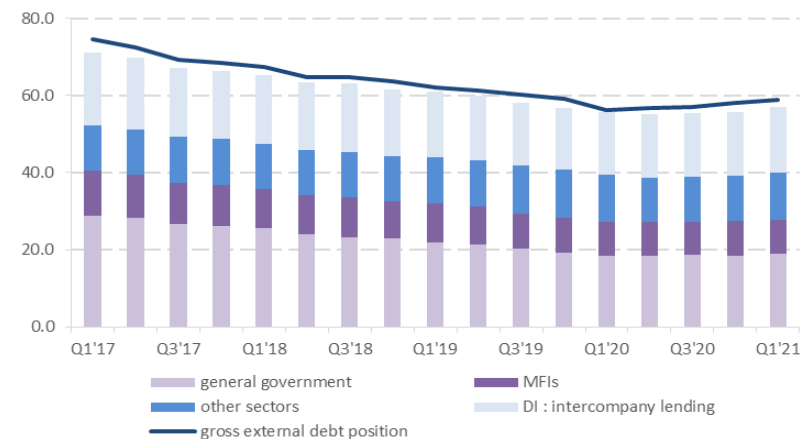
In the first quarter of 2021 GDP was 0.9% (py) lower than in the previous year. Households and public consumption increased by 0.2% and 2.5% (yoy, py), respectively. Investment was also slightly higher than in the same period of 2020. Contribution of foreign trade to GDP growth was negative due to stronger import than export dynamics.



Polish gross external debt position

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

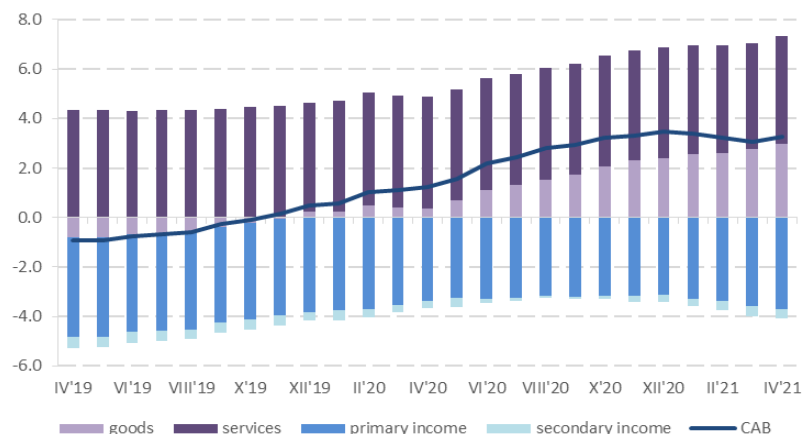
At the end of the first quarter of 2021 gross external debt reached EUR 307.7bn (58.9% of GDP) and was by EUR 4.0bn higher than in the previous quarter. The share of general government sector debt in total debt slightly decreased to 32.0%. At the end of April 2021 official reserve assets reached EUR 128.7bn and remained broadly adequate, covering about 6 months of imports.



Current account balance

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

In April 2021, taking into account new quarterly data, current account surplus increased to 3.3% of GDP (in 12-month terms). Foreign sales proved to be relatively resilient to the last two waves of the COVID-19 pandemic. In April exports and imports of goods supported by very low statistical base were respectively 69.2% and 59.8% higher than a year ago. Revised data showed a significant recovery of foreign direct investors' income at the beginning of 2021 due to sound financial results of companies. In consequence primary income deficit rebounded to 3.7% of GDP.

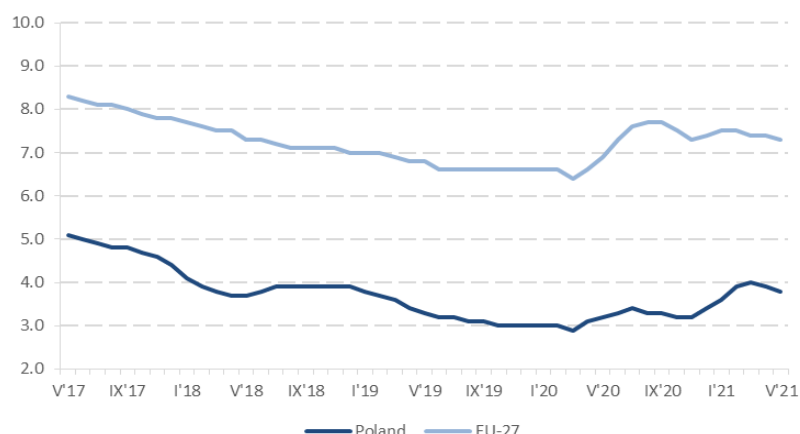




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

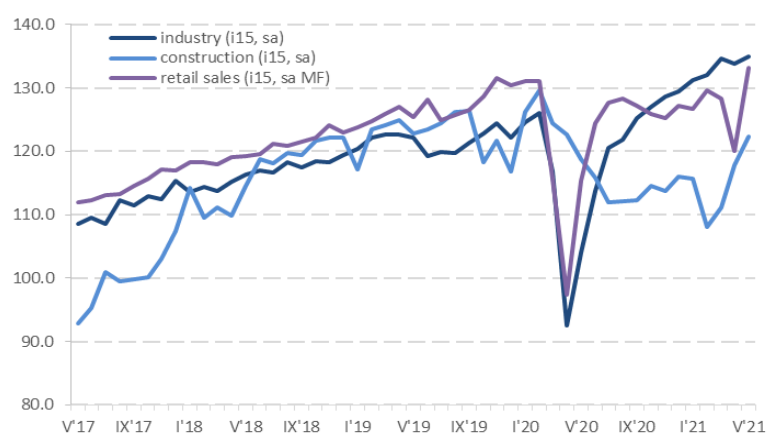
In May 2021 harmonised unemployment rate slightly decreased for a second month in a row and amounted to 3.8%. It was by 0.6 pp higher than a year earlier and much lower than in the EU-27 and the eurozone on average (in May 2021 7.3% and 7.9%, respectively). Data for last few months have been revised upwards. After the update Poland was no longer the country with the lowest unemployment rate, but still remained among the EU countries with the lowest unemployment rate.



Monthly indicators of the real sector

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

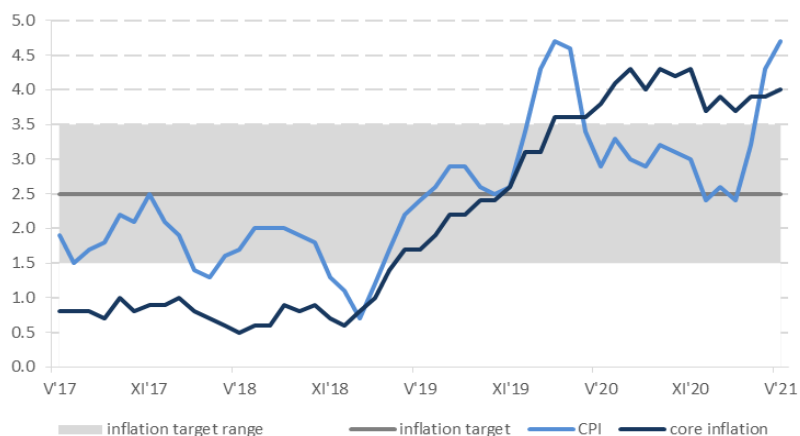
In May 2021 industrial production increased by 0.8% (mom, sa) and was 29.8% (non-seasonally adjusted data, nsa) higher than a year ago boosted by very low statistical base. Data were slightly better than market expectations. Construction production increased for the third time in a row (mom, sa). As a result, its level was 4.7% (nsa) higher than a year ago. Data were better than expectations. The loosening of COVID-19 pandemic trade restrictions positively affected the sales results in May 2021. Retail sales increased as much as 10.9% (mom, sa MF) following the declines in two previous months. Retail sales level was 13.9% higher than a year before. Data were better than expected.



Inflation

percent, yoy
source: GUS, NBP

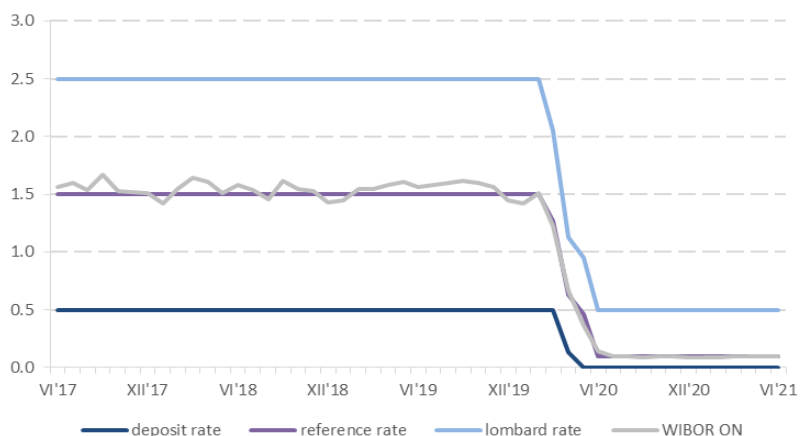
Since March 2021 inflation rate has accelerated and in May it achieved 4.7% (yoy). Due to rise of crude oil prices on international markets energy prices increased considerably. Core inflation (CPI excluding food and energy prices) was still high and amounted to 4.0% (yoy). Higher inflation rate was also affected by low base from the previous year connected with the pandemic outbreak. In June, according to the preliminary data, inflation decreased to 4.4% and was below market expectations. Because of high commodity prices and supply lack, producer prices also rose considerably. In May they were higher than a year before by 6.5%.



NBP interest rates

percent, end of period
source: NBP, Refinitiv

The NBP's interest rates have remained on hold since end-May 2020. The reference rate is 0.1%, the lombard rate amounts to 0.5% and the deposit rate is 0.0%. Since March 2020 the NBP has purchased government securities and government-guaranteed debt securities on the secondary market. Till the end of June 2021 central bank purchased PLN 135.8bn (face value) in debt securities. According to the Monetary Policy Council, the NBP's monetary policy supports the consolidation of economic recovery following the pandemic-induced recession and stabilises inflation at the level consistent with the NBP's inflation target in the medium-term.





II. STATISTICAL DATA

	Unit	2019 Q04	2020 Q01	Q02	Q03	Q04	2021 Q01
GDP							
Gross domestic product	YoY	3.7	2.0	-8.3	-1.7	-2.7	-0.9
	QoQ SA	0.2	-0.2	-8.9	7.5	-0.5	1.1
Final consumption expenditure of the households sector	YoY	3.7	1.2	-10.8	0.4	-3.2	0.2
	QoQ SA	0.5	-2.0	-10.5	14.3	-3.6	1.0
Final consumption expenditure of the general government sector	YoY	4.8	2.5	3.4	3.0	7.7	2.5
	QoQ SA	-0.1	1.6	0.9	0.8	1.6	-0.1
Gross fixed capital formation	YoY	5.2	1.7	-9.8	-8.2	-15.4	1.3
	QoQ SA	3.1	-0.9	-11.8	0.3	-2.4	18.2
Exports of goods and services	YoY	3.1	2.7	-13.7	2.3	7.6	5.7
	QoQ SA	-0.3	1.9	-16.6	20.7	4.9	-0.1
Imports of goods and services	YoY	-0.5	0.8	-16.6	-0.3	8.2	10.0
	QoQ SA	-1.6	0.7	-16.9	23.5	3.9	2.3
Gross value added	YoY	3.6	2.0	-8.0	-2.0	-3.0	-1.3
	QoQ SA	0.3	0.0	-9.3	7.3	0.3	1.3
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	1.9	0.7	-6.2	0.2	-1.7	0.1
Final consumption expenditure of the general government sector	pp	0.9	0.5	0.5	0.5	1.5	0.4
Gross fixed capital formation	pp	1.3	0.2	-1.6	-1.4	-3.9	0.2
Changes in inventories	pp	-2.3	-0.5	-1.8	-2.4	1.3	0.3
Balance of trade turnover	pp	1.9	1.1	0.8	1.4	0.1	-1.9
Gross value added	pp	3.1	1.8	-7.0	-1.8	-2.7	-1.2
GDP structure							
Final consumption expenditure of the households sector	% of GDP	50.2	61.4	55.4	59.0	49.1	60.3
Final consumption expenditure of the general government sector	% of GDP	19.3	17.7	19.4	18.4	21.2	17.9
Gross fixed capital formation	% of GDP	25.1	12.8	15.8	16.0	21.3	12.7
Changes in inventories	% of GDP	-0.2	1.2	0.8	-0.9	0.8	2.1
Exports of goods and services	% of GDP	51.6	57.6	52.3	56.4	56.6	61.0
Imports of goods and services	% of GDP	46.7	51.6	44.7	49.8	49.6	54.9
Balance of payments							
	Unit	2020 M12	2021 M01	M02	M03	M04	M05
Goods: exports (EUR)	YoY	14.7	0.8	6.3	28.9	69.2	-
Goods: imports (EUR)	YoY	12.4	-4.5	5.8	24.3	59.8	-
Current account balance ¹⁾	% of GDP	3.5	3.4	3.2	3.1	3.3	-
Balance on goods ¹⁾	% of GDP	2.4	2.6	2.6	2.8	3.0	-
Official Reserve Assets	EUR m	125 621.6	129 831.5	134 764.3	134 814.3	128 703.2	133 383.4
Inflation							
Consumer Price Index (CPI)	YoY	2.4	2.6	2.4	3.2	4.3	4.7
Core inflation (CPI excluding food and energy prices)	YoY	3.7	3.9	3.7	3.9	3.9	4.0
Producer Price Index (PPI)	YoY	0.1	1.0	2.2	4.2	5.5	6.5
Production							
Sold production of industry ²⁾	YoY	11.1	0.7	2.5	18.6	44.2	29.8
	MoM SA	0.6	1.4	0.5	2.0	-0.6	0.8
Construction and assembly production ²⁾	YoY	3.4	-10.1	-16.9	-10.8	-4.2	4.7
	MoM SA	1.9	-0.2	-6.6	2.8	6.0	3.9
Manufacturing PMI	SA	51.7	51.9	53.4	54.3	53.7	57.2
Households and labour market							
Retail sales ²⁾	YoY	-0.8	-6.0	-3.1	15.2	21.1	13.9
Average paid employment in enterprise sector	YoY	-1.0	-2.0	-1.7	-1.3	0.9	2.7
	MoM	0.2	-0.2	0.3	-0.1	-0.2	0.3
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.1	2.2	2.0	4.7	5.3	5.2
	MoM	8.8	-8.5	0.1	5.4	-2.9	-3.2
Harmonised unemployment rate (Eurostat)	%, SA	3.4	3.6	3.9	4.0	3.9	3.8
<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 M11	M12	2021 M01	M02	M03	M04
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	1 090 187.9	1 097 479.8	1 089 613.1	1 122 205.3	1 131 763.0	1 122 147.1
Domestic debt	face value, PLN m	830 741.8	831 454.8	828 645.5	845 111.5	847 671.6	851 752.5
	%	76.2	75.8	76.0	75.3	74.9	75.9
Foreign debt	face value, PLN m	259 446.1	266 025.1	260 967.6	277 093.8	284 091.3	270 394.6
	%	23.8	24.2	24.0	24.7	25.1	24.1
Public debt (domestic definition)							
	Unit	2019 Q04	2020 Q01	Q02	Q03	Q04	2021 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	990 948.4	1 045 474.8	1 097 298.7	1 106 292.0	1 111 806.1	1 152 655.2
Domestic debt	face value, PLN m	716 183.7	744 617.7	825 499.1	824 082.3	823 541.9	846 216.1
	%	72.3	71.2	75.2	74.5	74.1	73.4
Foreign debt	face value, PLN m	274 764.7	300 857.2	271 799.6	282 209.7	288 264.2	306 439.2
	%	27.7	28.8	24.8	25.5	25.9	26.6
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 055 939.7	1 045 646.3	1 103 695.0	1 256 088.7	1 306 605.0	1 335 568.9

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2021

as of June 30, 2021, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 75% was a result of:

- T-bond sale on domestic market: PLN 56.8bn,
- switch auctions in 2021: PLN 18.6bn,
- switch auctions in 2020: PLN 41.1bn,
- loans from the European Union under the SURE instrument in the amount of PLN 32.9bn,
- loans incurred from IFIs: PLN 0.3bn,
- higher financial resources at the end of 2020: PLN 62.0bn.

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

plan as of June 30, 2021

Value of funds transferred from the State budget to the market in July shall amount to PLN 18.9bn, of which:

- TS redemptions: PLN 15.4bn,
- interest payments: PLN 3.5bn.

Flows of funds between the domestic market and the budget*

as at the end of month, PLN bn

From July to the end of 2021 the funds to be transferred to the domestic market shall amount to PLN 38.2bn (as of June 30, 2021).

* 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 July to the end of 2021 is not presented.

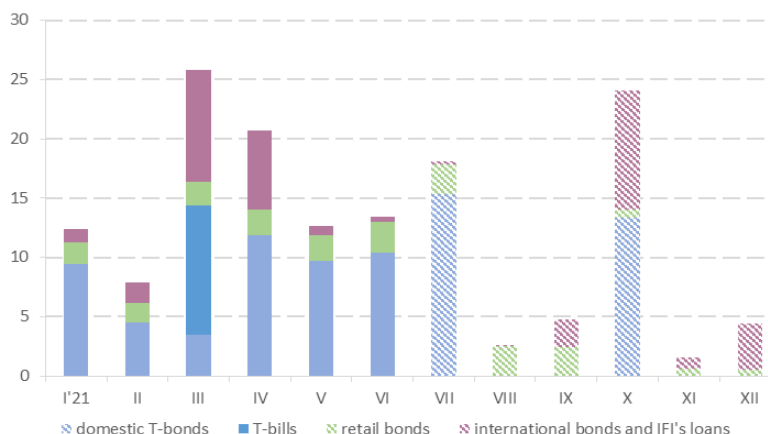
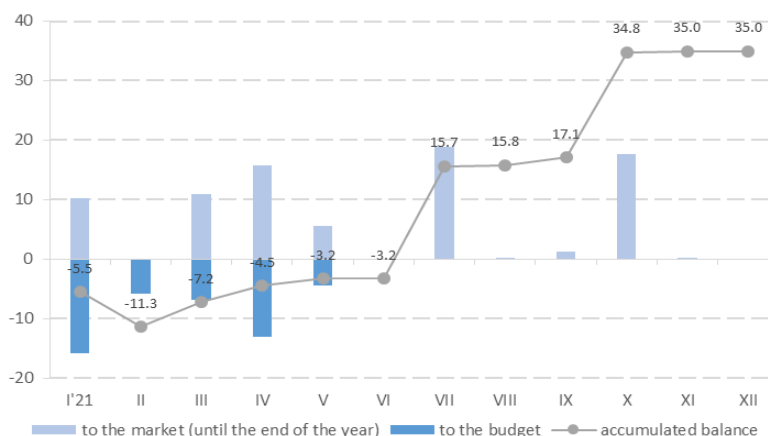
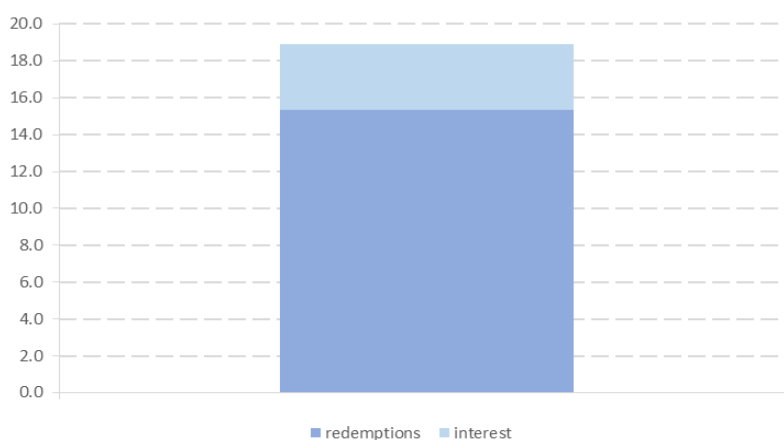
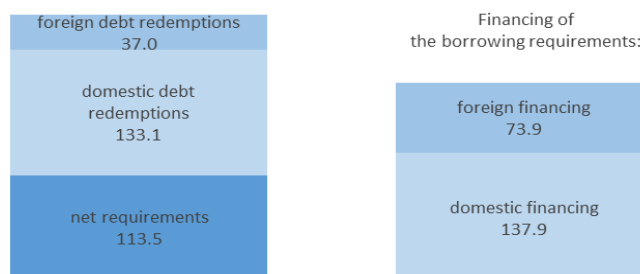
State Treasury debt redemptions in 2021

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

The nominal amount of debt to be redeemed in 2021 (as of June 30, 2021) is equal to PLN 55.4bn, including:

- T-bonds: PLN 28.7bn,
- retail bonds: PLN 9.3bn,
- bonds and loans incurred on foreign markets: PLN 17.4bn.

Gross borrowing requirements
PLN 283.6bn, of which:





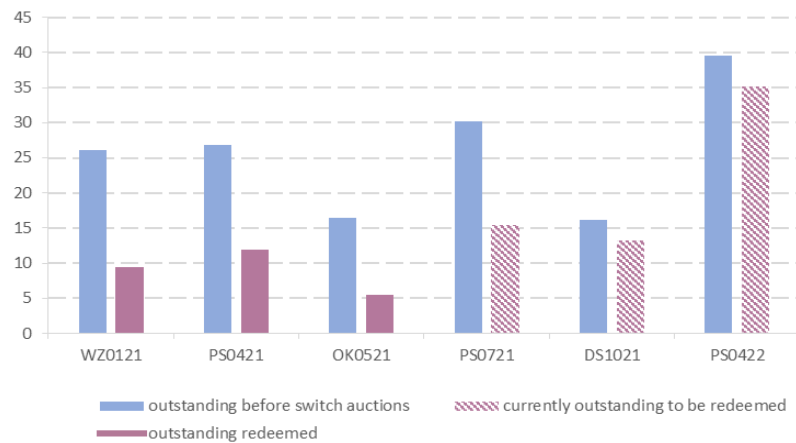
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic TS maturing in 2021

as of June 30, 2021, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2021:

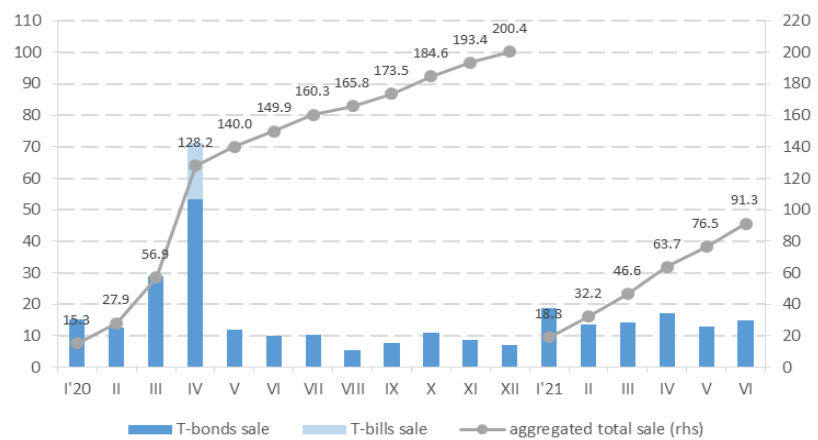
- WZ0121: PLN 16.6bn (64% of the issuance),
- PS0421: PLN 14.9bn (56% of the issuance),
- OK0521: PLN 11.0bn (67% of the issuance),
- PS0721: PLN 14.8bn (49% of the issuance),
- DS1021: PLN 2.9bn (18% of the issuance),
- PS0422: PLN 4.4bn (11% of the issuance).



Sale of domestic TS in 2020 and 2021

settlement date, nominal amount, PLN bn

In the period of I-VI 2021 aggregated total sale of T-bonds amounted to PLN 91.3bn versus PLN 132.1bn in the same period of 2020. T-bills were not sold versus PLN 17.7bn sold in 2020.



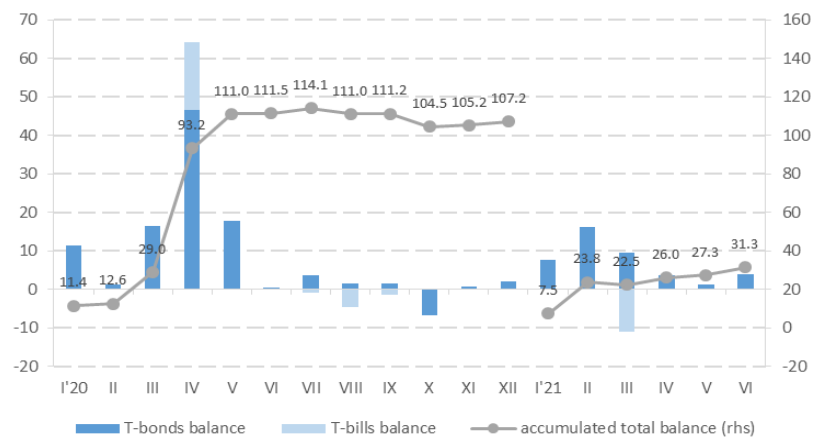
Balance of domestic TS in 2020 and 2021

settlement date, nominal amount, PLN bn

In the period of I-VI 2021 indebtedness in:

- T-bonds increased by PLN 42.3bn versus an increase of PLN 93.8bn in the same period of 2020,
- T-bills decreased by PLN 10.9bn versus an increase of PLN 17.7bn in the same period of 2020.

The figures also include the amount of T-bonds issued and transferred by the Minister of Finance, Funds and Regional Policy on the basis of other acts than the Public Finance Act.

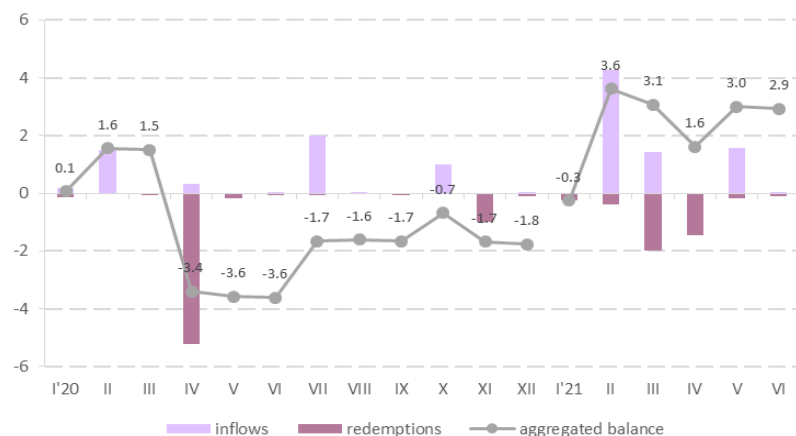


External financing in 2020 and 2021

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

Net financing on foreign markets in the period of I-VI 2021 was positive and amounted to EUR 2.9bn which resulted from:

- negative balance of T-bonds of EUR 4.0bn,
- negative balance of loans incurred from IFIs of EUR 0.3bn,
- loans from the European Union under SURE instrument of EUR 7.2bn.



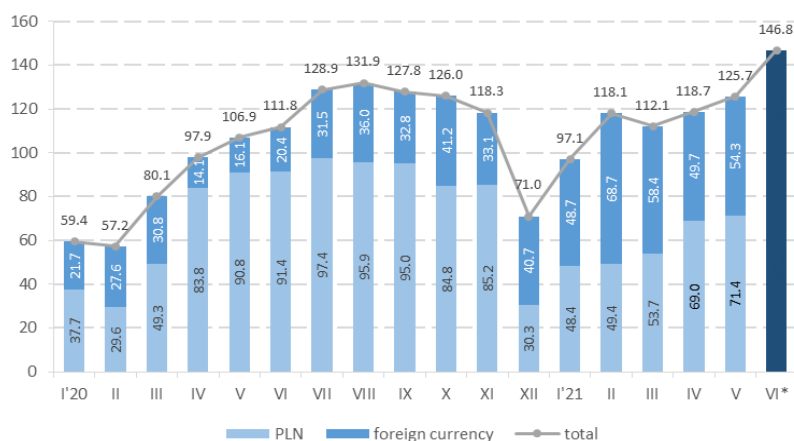
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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 June 2021 there was equivalent of PLN 146.8bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

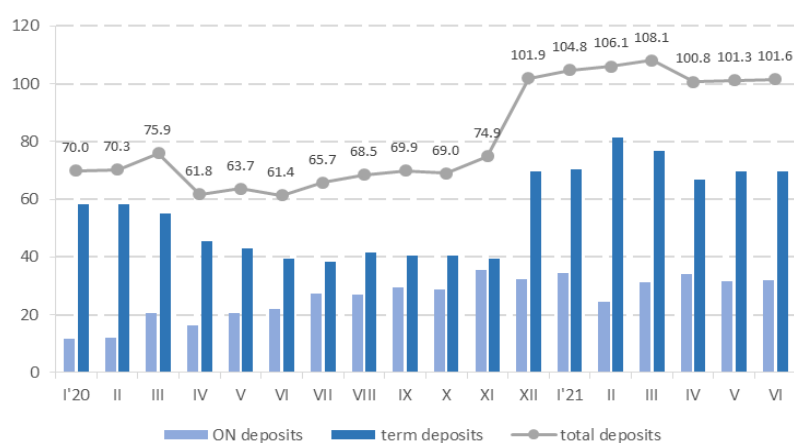


* Estimated data.

Consolidation of public finance sector liquidity management

PLN bn

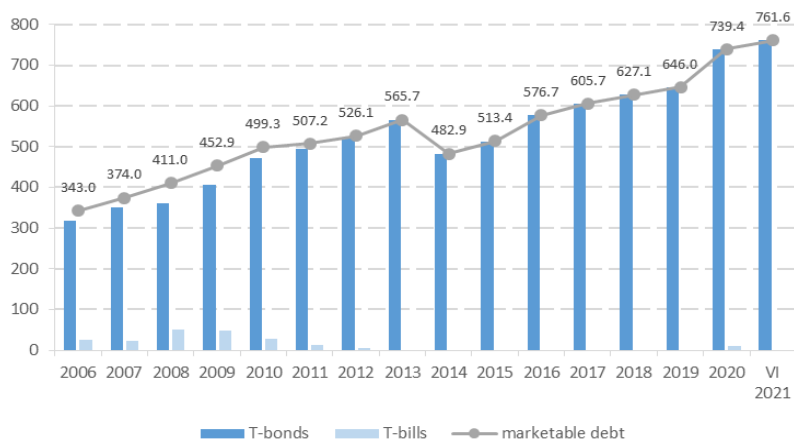
As a result of consolidation of the public finance sector liquidity management there were PLN 101.6bn funds accumulated at the end of June 2021, of which: PLN 69.8bn on term deposits and PLN 31.8bn on ON deposits.



Structure of domestic marketable debt

PLN bn

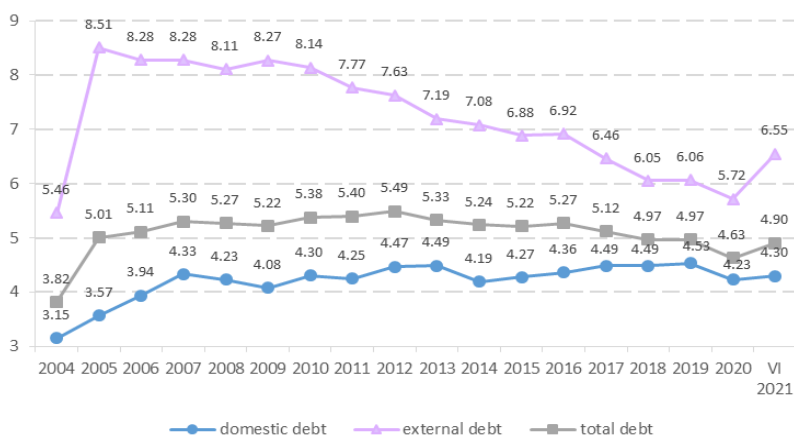
The marketable domestic debt amounted to PLN 761.6bn at the end of June 2021 comparing to PLN 739.4bn at the end of 2020.



Average maturity

years

The average maturity of the domestic debt amounted to 4.30 years at the end of June 2021 (4.23 years at the end of 2020). The average of the total debt amounted to 4.90 years (4.63 years at the end of 2020).



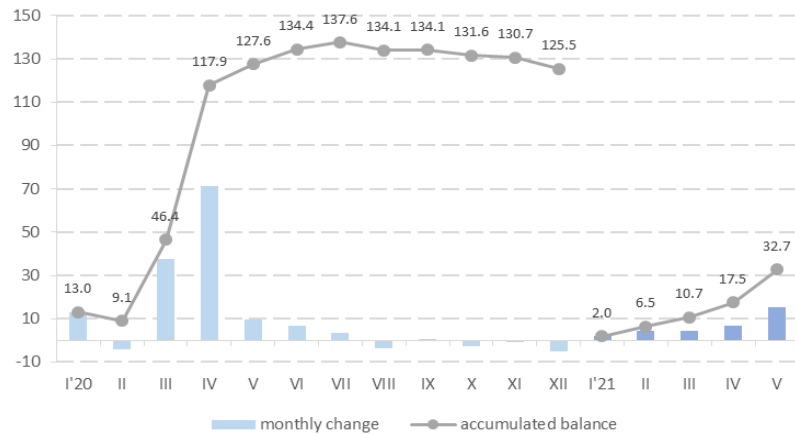


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic TS held by banks

PLN bn

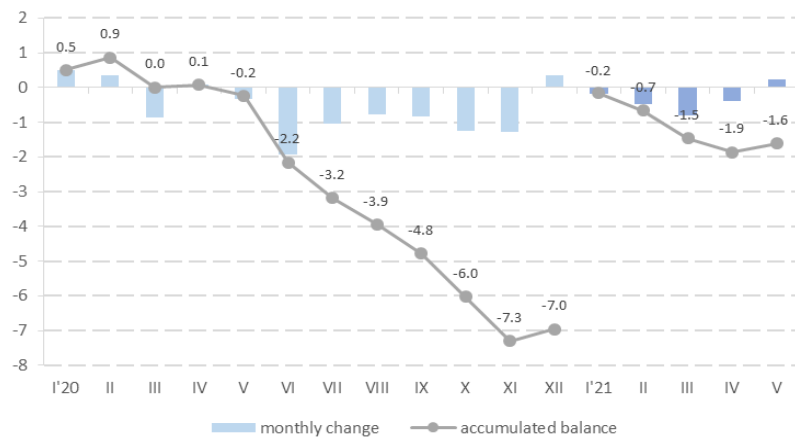
In the period of I-V 2021 there was an increase of debt by PLN 32.7bn comparing to PLN 127.6bn increase during the same period of 2020. Banks' holdings reached the level of PLN 463.1bn.



Change of debt in the domestic TS held by insurance companies

PLN bn

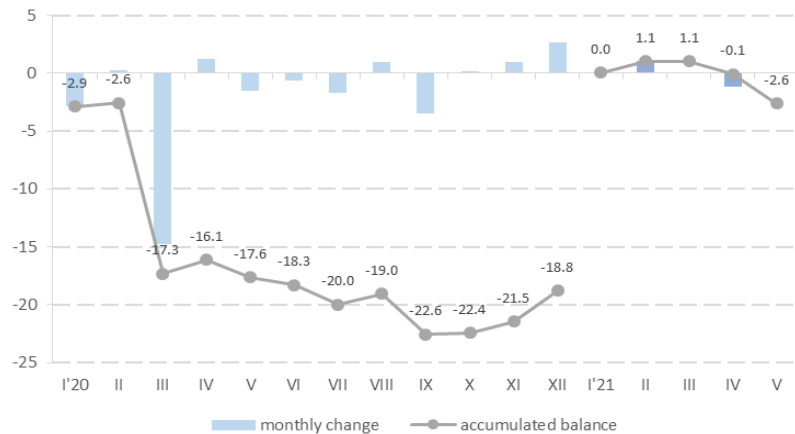
In the period of I-V 2021 there was a decrease of debt by PLN 1.6bn comparing to PLN 0.2bn decrease during the same period of 2020. Insurance companies' holdings reached the level of PLN 55.7bn.



Change of debt in the domestic TS held by investment funds

PLN bn

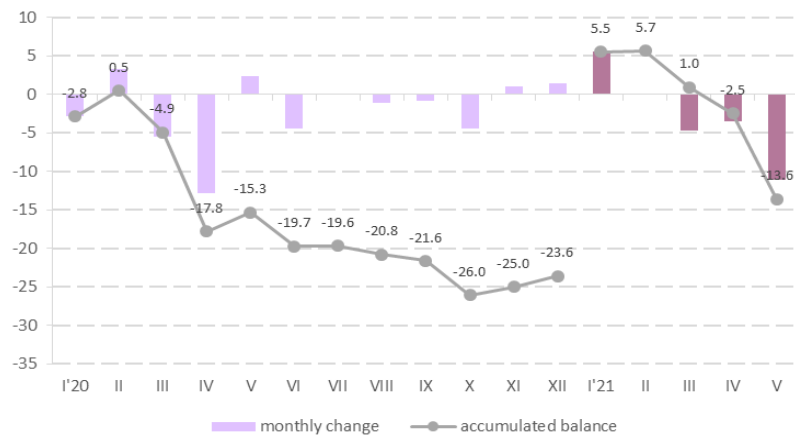
In the period of I-V 2021 there was a decrease of debt by PLN 2.6bn comparing to PLN 17.6bn decrease in the same period of 2020. Investment funds' holdings reached the level of PLN 44.8bn.



Change of debt in the domestic TS held by foreign investors

PLN bn

In the period of I-V 2021 there was a decrease of debt by PLN 13.6bn comparing to PLN 15.3bn decrease in the same period of 2020. Foreign investors' holdings reached the level of PLN 120.2bn.



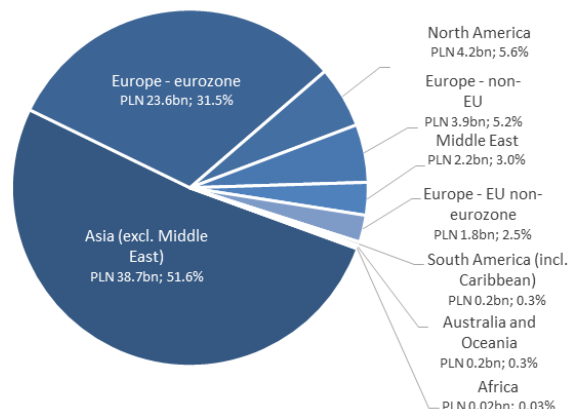
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Geographical distribution of the domestic TS held by non-residents

as of May 31, 2021, the chart presents data excluding omnibus accounts

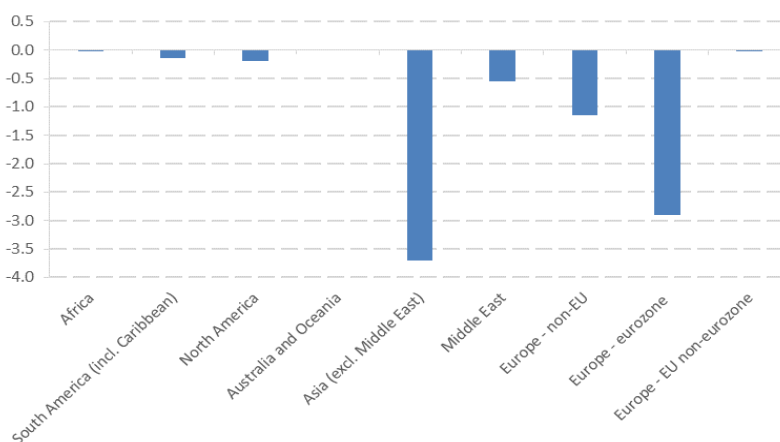
The non-residents' share in the domestic Treasury securities market decreased by PLN 11.1bn in May 2021. The foreign investors' portfolio amounted to PLN 120.2bn, which constituted 14.9% share in total debt in Treasury securities (16.3% in the previous month).



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

change in May 2021, mom, PLN bn, the chart presents data excluding omnibus accounts

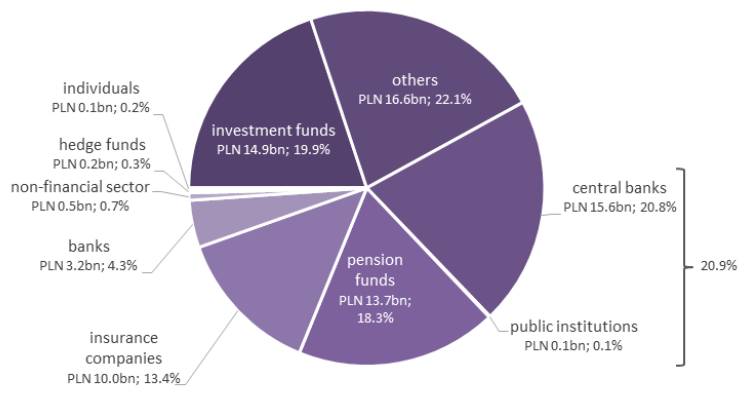
In May 2021 the highest decrease was recorded by Asian investors (PLN 3.7bn).



Institutional distribution of the domestic TS held by non-residents

as of May 31, 2021, the chart presents data excluding omnibus accounts

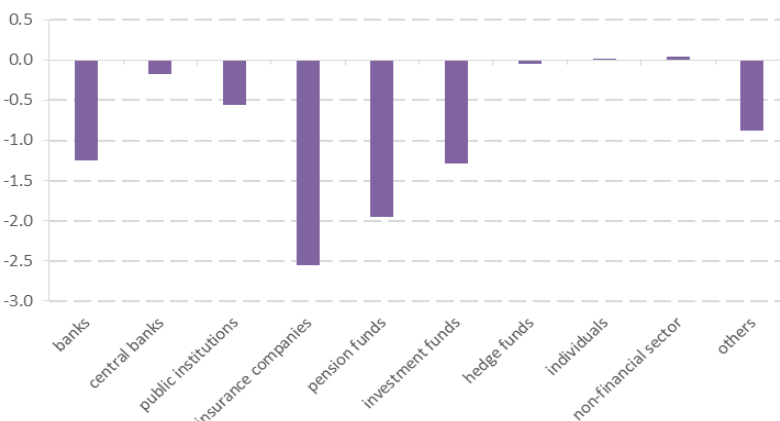
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 20.9% at the end of May 2021.



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

change in May 2021, mom, PLN bn, the chart presents data excluding omnibus accounts

In May 2021 the highest decrease was recorded by insurance companies (PLN 2.6bn).



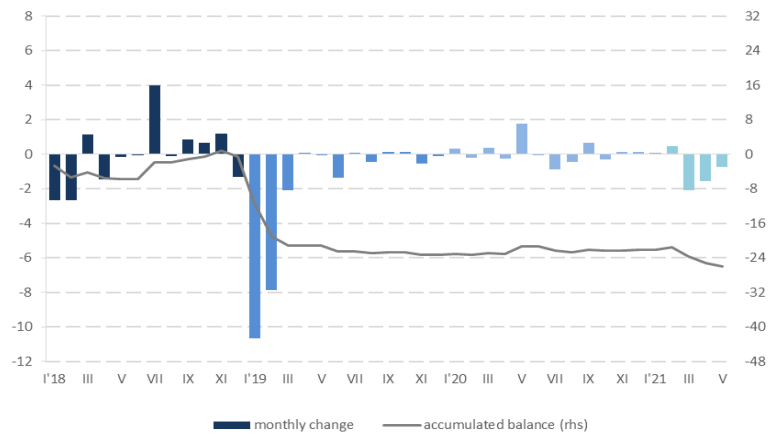


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in May 2021, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.7bn in May 2021. In the period from the end of January 2018 to the end of May 2021, for which the detailed information is available, portfolios of those entities decreased by PLN 26.0bn.



Structure of non-residents' holdings in TS by countries

as of May 31, 2021, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	22 706.8	38.3%
Luxembourg	6 726.1	11.3%
Netherlands	6 085.5	10.3%
Germany	4 681.0	7.9%
United States	3 486.5	5.9%
Ireland	3 362.7	5.7%
United Kingdom	2 591.1	4.4%
Switzerland	1 298.2	2.2%
France	1 180.9	2.0%
Denmark	992.0	1.7%
United Arab Emirates	934.4	1.6%
Italy	658.7	1.1%
Others	4 609.1	7.8%
Total	59 313.0	100.0%

Comment

Sebastian Skuza, Secretary of State, MoF

30-06-2021

(...) The level of financing of this year's borrowing requirements is ca. 75%.

Two Treasury bond auctions are planned for July: a switching auction and then a T-bond sale auction. No T-bill auctions are planned.

In May, 2021 indebtedness in domestic Treasury securities increased by PLN 1.3bn. The involvement of domestic banks increased by PLN 15.2bn, while the involvement of domestic non-banking sector dropped by PLN 2.8bn. The debt held by foreign investors decreased by PLN 11.1bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2021



General assumptions

- in the third quarter of 2021 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 T-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 on 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 domestic market

- **sale auctions:**
one or two auctions, total supply of PLN 4.0-13.0bn, the structure of T-bonds to be offered will be subject to the market situation.
- **switch auctions:**
three or four auctions subject to the budget and market situation – T-bonds maturing in 2021 and 2022 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,
- possible loans from international financial institutions.



V. SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2021

T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
23 JUL 2021	27 JUL 2021	OK0423 / P1026 / WZ1126 / WZ1131 / DS0432 / possible T-bond either of WS or IZ type	4.000-8.000

The final offer and the supply will be announced 2 days before the auction, taking into account the market situation and consultations with investors.

After the auction bonds will be offered within additional sale at a minimum accepted clean price.

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
9 JUL 2021 / 13 JUL 2021	OK0423 / PS1026 / WZ1126 / WZ1131 / DS0432	PS0721	15.370
		DS1021	13.304
		PS0422	35.213

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1021 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0723 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0724 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0725 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0731 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0727 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0733 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period