

State budget borrowing requirements' financing plan and its background

October 2019

4Q 2019

THE MOST IMPORTANT INFORMATION

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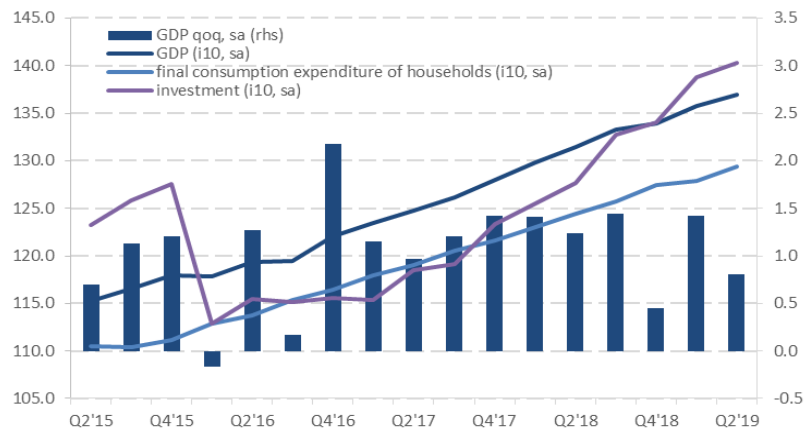
I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices

source: GUS, Eurostat

In the second quarter of 2019 GDP increased by 0.8% (qoq, sa) versus 1.4% a quarter earlier. The rate of growth of households consumption accelerated (qoq, sa), while the pace of growth of investment decelerated.



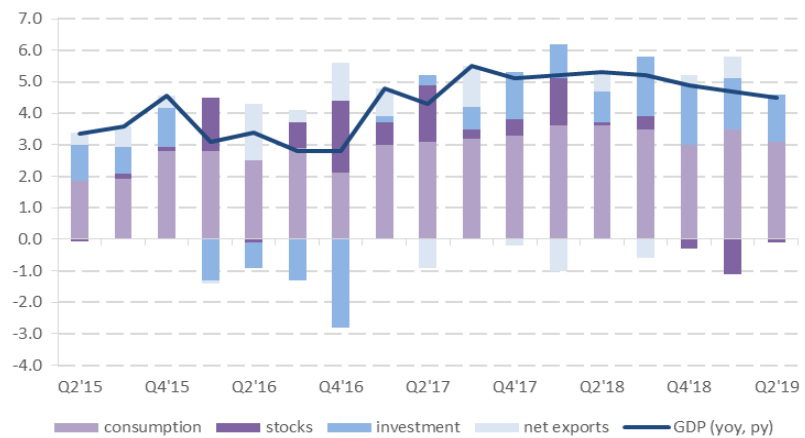
Contributions to Polish GDP growth

pp, py - average prices of previous year

source: GUS, MoF own calculation

In the second quarter of 2019 GDP was 4.5% higher than a year ago versus 4.7% in the previous quarter. Households consumption, which was 4.4% higher than in the same period of 2018, was still the main source of GDP growth. Investment registered a relatively strong growth rate (9.0% versus 12.6% a quarter earlier). Inventories contribution to GDP growth was slightly negative (0.1 pp) and net exports was neutral. Continued strong private consumption demand was a consequence of a positive labour market situation, robust consumer sentiment and additional income transfers ("Pension+").

Investment was supported among others by high investment outlays dynamics in the non-financial enterprises sector.

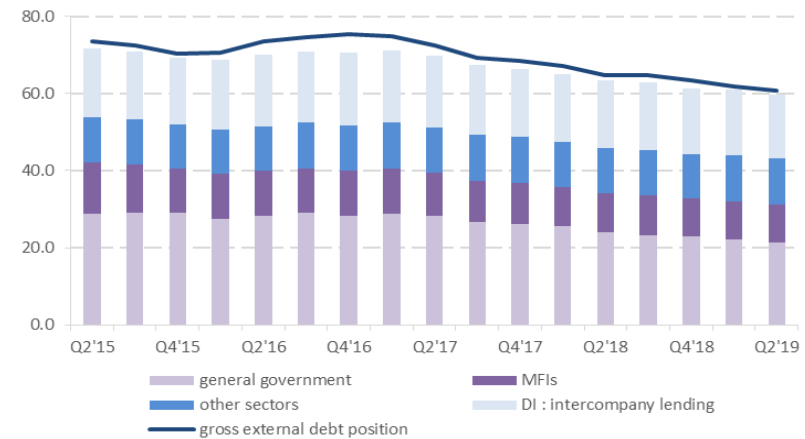


Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

At the end of the second quarter of 2019 gross external debt reached EUR 309.4bn (60.8% of GDP) and was EUR 0.8bn lower than in the previous quarter. The share of general government sector debt in total debt decreased slightly to 35.2%. At the end of July 2019 official reserve assets reached about EUR 104.6bn and remained broadly adequate, covering nearly 5 months of imports.

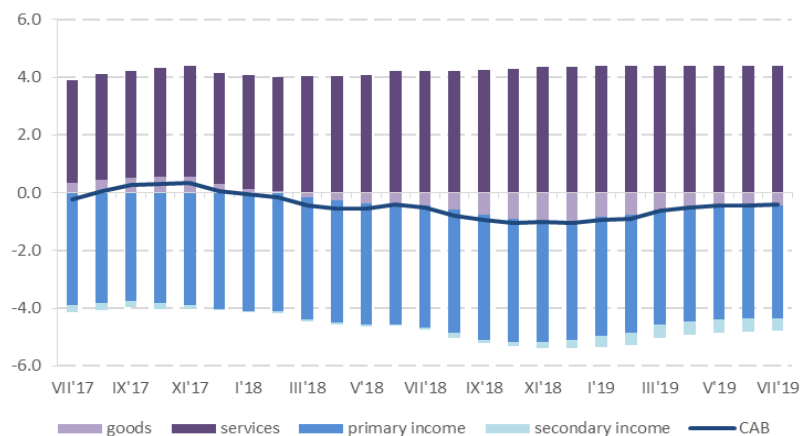


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In July 2019, according to the revised data, current account deficit amounted to 0.4% of GDP (in 12-month terms). Monthly data were below market expectations. The C/A deficit was with a wide margin covered by long-term capital, i.e. direct investment of non-residents and EU structural funds classified on the capital account.

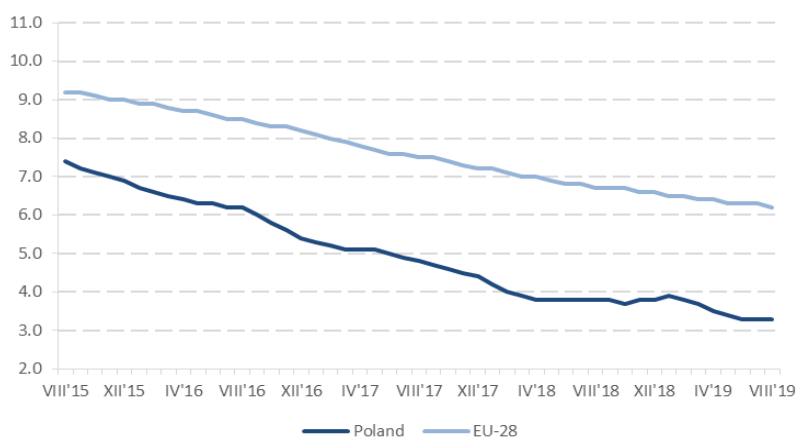




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In August 2019 harmonised unemployment rate remained at the historically low level observed in two earlier months, i.e. 3.3% (compared to 6.2% on average in the EU).



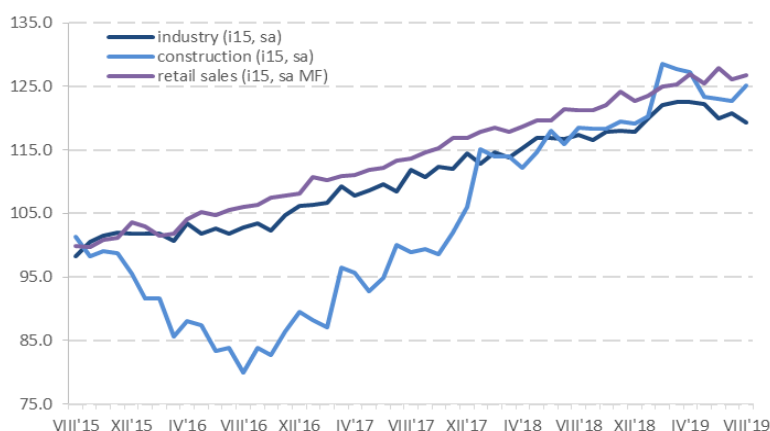
Monthly indicators of the real sector

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

In August 2019 industrial production went down by 1.2% (mom, sa) and was 1.3% lower than a year ago (nsa). Data were below market expectations.

Construction and assembly production increased by 2.0% following decreases in five earlier months (mom, sa). As a result, it was 2.7% (nsa) higher than a year before. Data were above MoF's expectations.

Real retail sales rate of growth went up by 0.6% (mom, sa MoF) following a decrease in the previous month. As a result, retail sales were 4.4% (nsa) higher than in the same month of 2018. Data were a bit below market expectations.



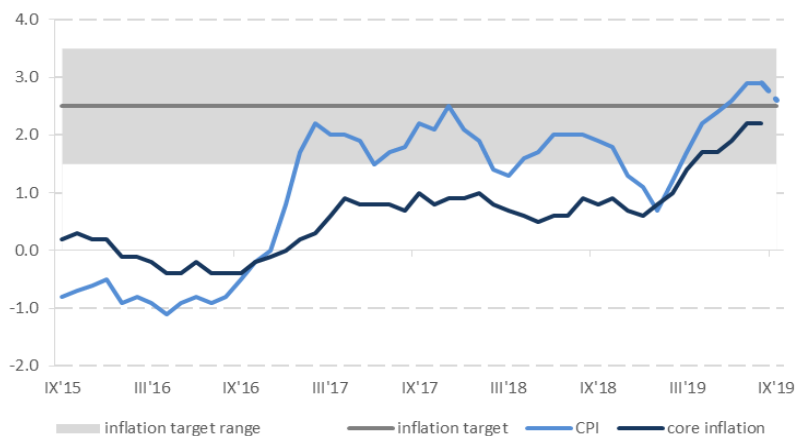
Inflation

percent, yoy
source: GUS, NBP

Since the beginning of 2019 inflation was rising. In August, similarly to July, consumer prices were higher than a year ago by 2.9%, which meant that the inflation exceeded the target. In September inflation rate decreased to 2.6% (according to the preliminary data). Data for August inflation were close to market expectations and data for September inflation were lower than expectations.

Core inflation (CPI excluding food and energy prices) in August reached 2.2% (yoy), the highest level since August 2012.

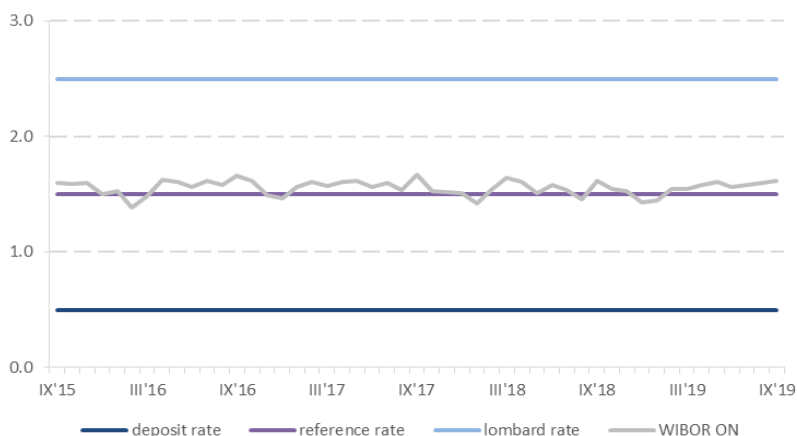
The annual rate of PPI in the last three months remained at a relatively low level and in August it amounted to 0.7%.



NBP interest rates

percent, end of period
source: NBP, Eurostat

In September 2019, the Monetary Policy Council kept NBP 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 (September 27) sees no NBP rate move at least until the end of the third quarter of 2021.





II. STATISTICAL DATA

	Unit	2018 Q01	Q02	Q03	Q04	2019 Q01	Q02
GDP							
Gross domestic product	YoY	5.2	5.3	5.2	4.9	4.7	4.5
	QoQ SA	1.4	1.3	1.4	0.4	1.4	0.8
Final consumption expenditure of the households sector	YoY	4.6	4.8	4.4	4.2	3.9	4.4
	QoQ SA	1.2	1.1	1.1	1.3	0.4	1.2
Final consumption expenditure of the general government sector	YoY	4.5	4.5	5.2	4.7	6.4	3.4
	QoQ SA	0.9	1.6	1.4	0.9	1.2	0.4
Gross fixed capital formation	YoY	9.6	6.0	11.3	8.2	12.6	9.0
	QoQ SA	1.8	1.8	4.0	1.0	3.5	1.1
Exports of goods and services	YoY	3.8	8.1	5.3	7.9	5.9	3.9
	QoQ SA	0.3	2.9	-0.9	4.4	-0.4	1.0
Imports of goods and services	YoY	6.1	7.6	7.0	7.8	5.0	4.3
	QoQ SA	0.9	2.1	1.3	1.5	0.8	1.0
Gross value added	YoY	5.2	5.1	5.1	4.9	4.6	4.4
	QoQ SA	1.4	1.3	1.3	0.9	1.2	1.0
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.9	2.8	2.6	2.1	2.4	2.5
Final consumption expenditure of the general government sector	pp	0.7	0.8	0.9	0.9	1.1	0.6
Gross fixed capital formation	pp	1.1	1.0	1.9	1.9	1.6	1.5
Changes in inventories	pp	1.5	0.1	0.4	-0.3	-1.1	-0.1
Balance of trade turnover	pp	-1.0	0.6	-0.6	0.3	0.7	0.0
Gross value added	pp	4.6	4.5	4.5	4.2	4.1	3.9
Taxes less subsidies	pp	0.6	0.8	0.7	0.7	0.6	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	63.2	58.8	59.0	50.4	62.1	58.3
Final consumption expenditure of the general government sector	% of GDP	17.0	17.5	17.1	19.0	17.3	17.2
Gross fixed capital formation	% of GDP	12.3	16.2	17.9	24.9	13.3	16.8
Changes in inventories	% of GDP	3.3	2.3	2.1	2.3	2.2	2.2
Exports of goods and services	% of GDP	56.6	57.1	55.4	52.6	57.9	57.1
Imports of goods and services	% of GDP	53.3	52.7	52.2	49.8	53.5	52.4
	Unit	2019 M03	M04	M05	M06	M07	M08
Balance of payments							
Goods: exports (EUR)	YoY	7.8	9.4	11.6	-3.1	7.5	-
Goods: imports (EUR)	YoY	2.8	7.7	10.1	-4.7	8.3	-
Current account balance ¹⁾	% of GDP	-0.6	-0.5	-0.4	-0.4	-0.4	-
Balance on goods ¹⁾	% of GDP	-0.6	-0.5	-0.5	-0.4	-0.4	-
Official Reserve Assets	EUR m	100 738.4	104 418.1	106 407.9	103 438.9	104 561.3	105 633.0
Inflation							
Consumer Price Index (CPI)	YoY	1.7	2.2	2.4	2.6	2.9	2.9
Core inflation (CPI excluding food and energy prices)	YoY	1.4	1.7	1.7	1.9	2.2	2.2
Producer Price Index (PPI)	YoY	2.5	2.6	1.4	0.5	0.5	0.7
Production							
Sold production of industry ²⁾	YoY	5.6	9.2	7.7	-2.6	5.8	-1.3
	MoM SA	0.5	0.0	-0.2	-2.0	0.7	-1.2
Construction and assembly production ²⁾	YoY	10.8	17.4	9.5	-0.7	6.6	2.7
	MoM SA	-0.7	-0.5	-3.0	-0.2	-0.3	2.0
Manufacturing PMI	SA	48.7	49.0	48.8	48.4	47.4	48.8
Households and labour market							
Retail sales ²⁾	YoY	1.8	11.9	5.6	3.7	5.7	4.4
Average paid employment in enterprise sector	YoY	3.0	2.9	2.7	2.8	2.7	2.6
	MoM	0.2	0.0	-0.2	0.2	0.1	-0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	3.9	4.8	5.2	2.6	4.4	3.8
	MoM	4.0	-0.7	-2.7	0.6	1.5	-1.1
Harmonised unemployment rate (Eurostat)	%, SA	3.7	3.5	3.4	3.3	3.3	3.3
<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>							
	Unit	2019 M02	M03	M04	M05	M06	M07
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	963 574.3	978 996.9	978 716.7	976 141.7	975 114.1	973 307.7
Domestic debt	face value, PLN m	689 673.7	696 242.6	696 996.8	698 328.9	701 332.2	704 330.7
	%	71.6	71.1	71.2	71.5	71.9	72.4
Foreign debt	face value, PLN m	273 900.6	282 754.3	281 719.9	277 812.8	273 781.8	268 977.1
	%	28.4	28.9	28.8	28.5	28.1	27.6
	Unit	2018 Q01	Q02	Q03	Q04	2019 Q01	Q02
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	989 235.9	984 470.7	977 304.9	984 313.5	1 005 297.9	997 882.2
Domestic debt	face value, PLN m	679 831.0	675 566.2	678 615.4	688 248.0	706 272.3	707 926.1
	%	68.7	68.6	69.4	69.9	70.3	70.9
Foreign debt	face value, PLN m	309 404.9	308 904.5	298 689.6	296 065.5	299 025.7	289 956.1
	%	31.3	31.4	30.6	30.1	29.7	29.1
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 037 347.6	1 038 301.2	1 034 499.0	1 040 289.3	1 060 631.1	1 055 667.4

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2019

as of September 30, 2019, PLN bn

Financing of the State budget borrowing requirements reached the level of ca. 87% acc. to the Budget Act¹. Acc. to the budget execution estimate² the borrowing needs were fully funded. This was a result of:

- T-bond sale on domestic market: PLN 47.5bn,
- switch auctions in 2019: PLN 29.0bn,
- T-bond sale on foreign markets: PLN 8.5bn (EUR 2.0bn),
- loans incurred from IFIs: PLN 0.6bn,
- switch auctions in 2018: PLN 28.3bn,
- T-bonds buyback on foreign markets in 2018: PLN 0.8bn (USD 0.2bn),
- higher financial resources at the end of 2018: PLN 27.0bn.

¹ Gross borrowing requirements acc. to the 2019 Budget Act: PLN 163.7bn.

² Gross borrowing requirements in 2019 acc. to the 2020 draft Budget Act: PLN 134.6bn.

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

plan as of September 30, 2019, PLN bn

Value of funds transferred from the State budget to the market in October shall amount to PLN 11.2bn, of which:

- TS redemptions: PLN 7.2bn,
- interest payments: PLN 4.0bn.

Flows of funds between the domestic market and the budget*

as at the end of month, PLN bn

From October to the end of 2019 the funds to be transferred to the domestic market shall amount to PLN 12.1bn (as of September 30, 2019).

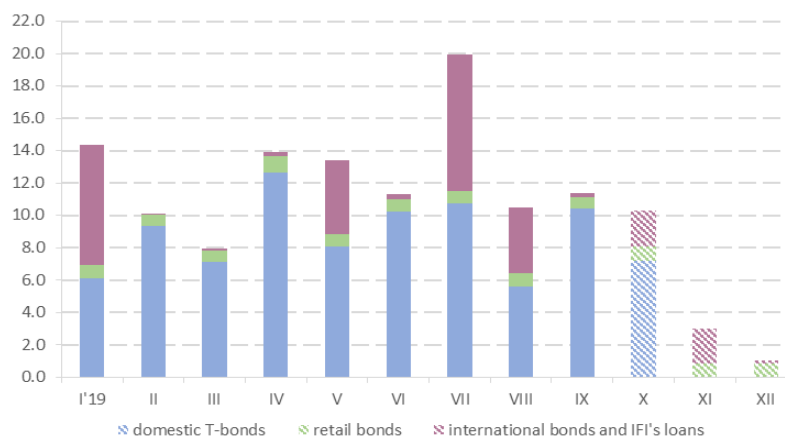
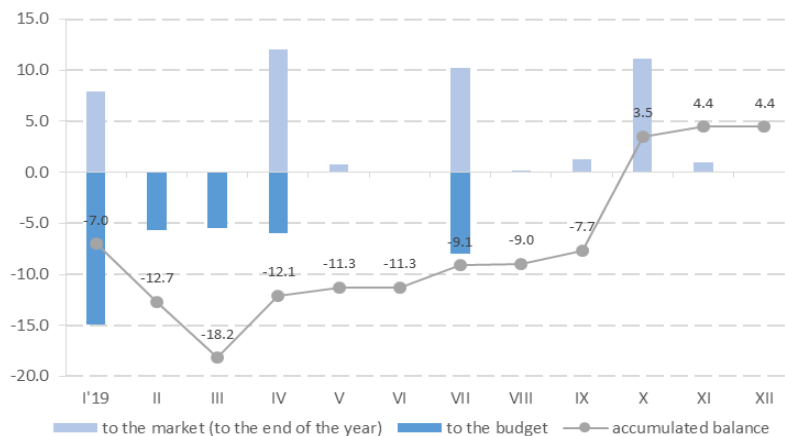
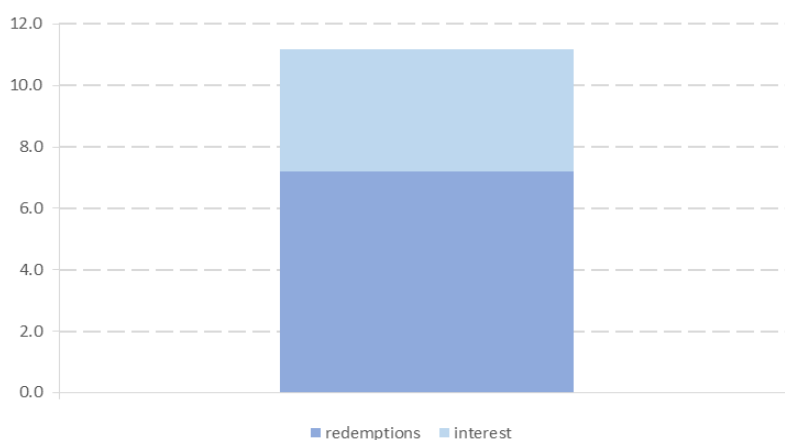
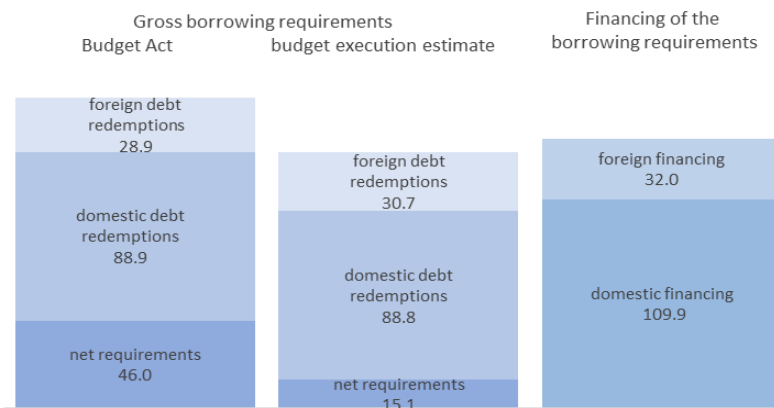
* figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the period of October to the end of 2019.

State Treasury debt redemptions in 2019

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

The nominal amount of debt to be redeemed in 2019 (as of September 30, 2019) is equal to PLN 14.3bn, including:

- T-bonds: PLN 7.2bn,
- retail bonds: PLN 2.5bn,
- bonds and loans incurred on foreign markets: PLN 4.6bn.



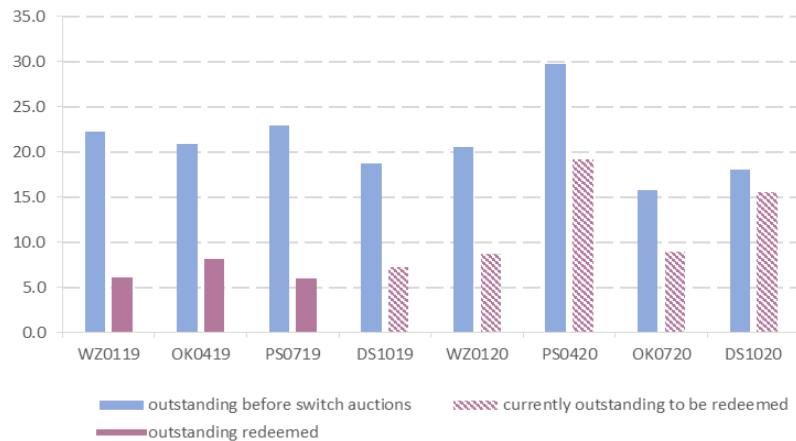


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2019 and 2020 as of September 30, 2019, nominal amount, PLN bn

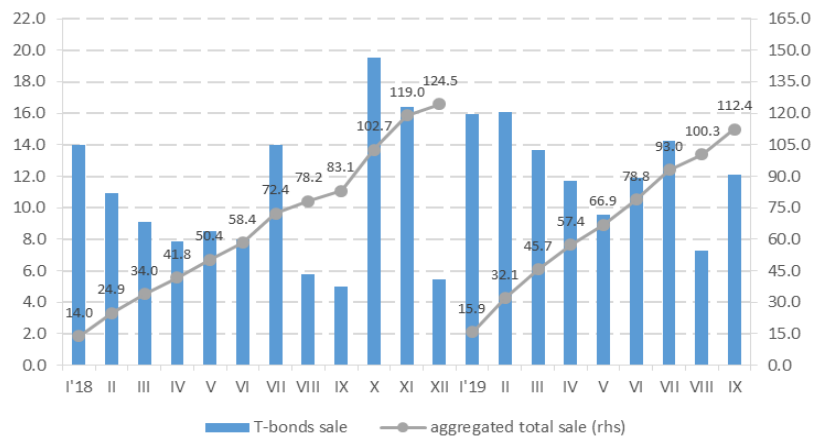
Buy-back of T-bonds maturing in 2019 and 2020:

- WZ0119: PLN 16.1bn (72% of the issuance),
- OK0419: PLN 12.7bn (61% of the issuance),
- PS0719: PLN 16.8bn (74% of the issuance),
- DS1019: PLN 11.5bn (62% of the issuance),
- WZ0120: PLN 11.9bn (58% of the issuance),
- PS0420: PLN 10.5bn (35% of the issuance),
- OK0720: PLN 6.7bn (43% of the issuance),
- DS1020: PLN 2.5bn (14% of the issuance).



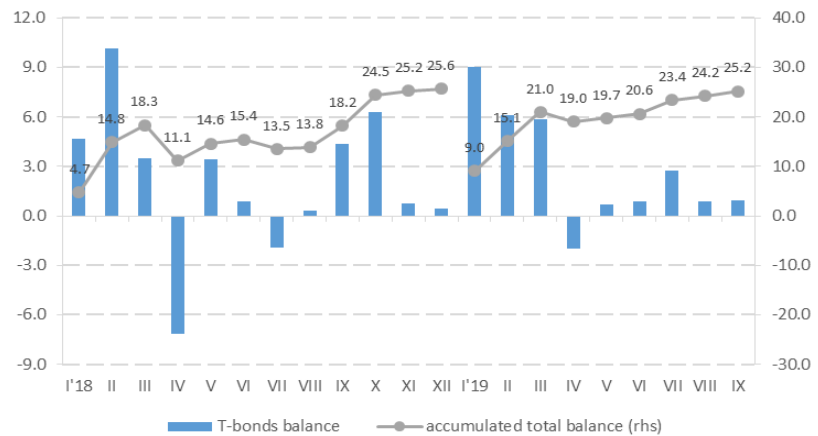
Sale of domestic T-bonds in 2018 and 2019 auction date, nominal amount, PLN bn

In the period of I-IX 2019 aggregated total sale of T-bonds amounted to PLN 112.4bn versus PLN 83.1bn in the same period of 2018.



Balance of domestic T-bonds in 2018 and 2019 auction date, nominal amount, PLN bn

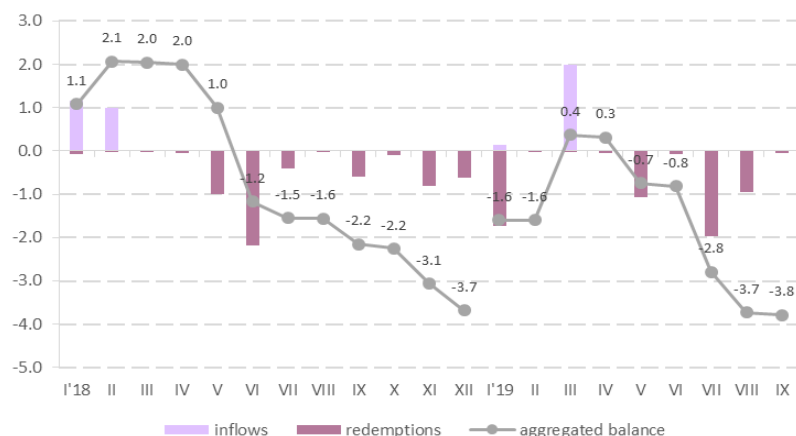
In the period of I-IX 2019 indebtedness in T-bonds increased by PLN 25.2bn versus an increase of PLN 18.2bn in the same period of 2018.



External financing in 2018 and 2019 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 2019 was negative and amounted to EUR 3.8bn (negative balance of EUR 2.2bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 2.9bn (negative balance of EUR 1.9bn in the same period of 2018),
- negative balance of loans incurred from IFIs of EUR 0.9bn (negative balance of EUR 0.3bn in the same period of 2018).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

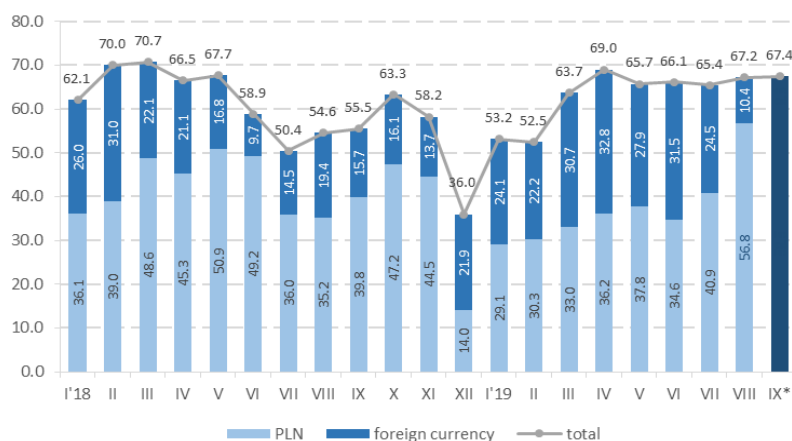


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of September 2019 there was an equivalent of PLN 67.4bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

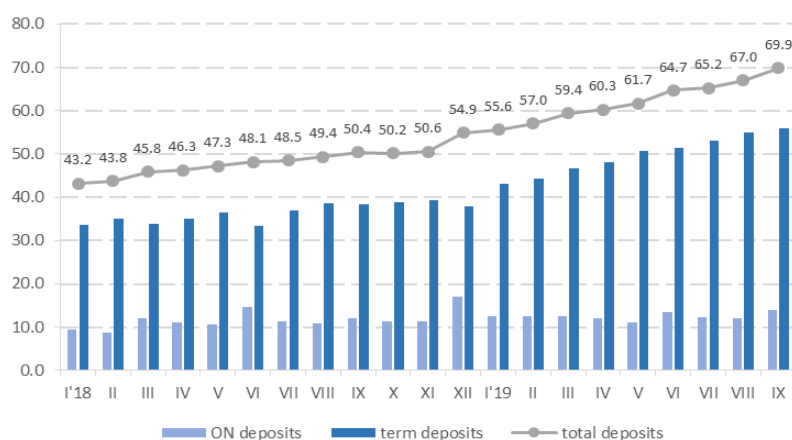
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

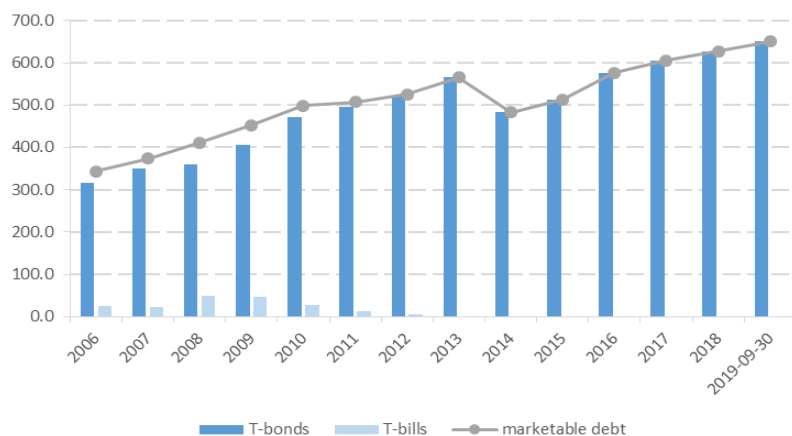
As a result of consolidation of the public finance sector liquidity management there were PLN 69.9bn funds accumulated at the end of September 2019, of which: PLN 56.0bn was on term deposits and PLN 13.9bn on ON deposits.



Structure of marketable debt

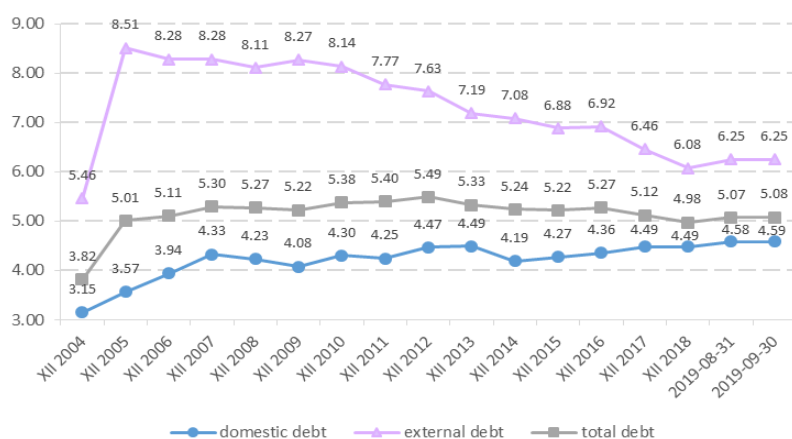
PLN bn

The marketable domestic debt amounted to PLN 651.1bn at the end of September 2019 comparing to PLN 627.1bn at the end of 2018.



Average maturity

The average maturity of domestic debt amounted to 4.59 years at the end of September 2019 (4.49 years at the end of 2018). The average of total debt amounted to 5.08 years (4.98 years at the end of 2018).



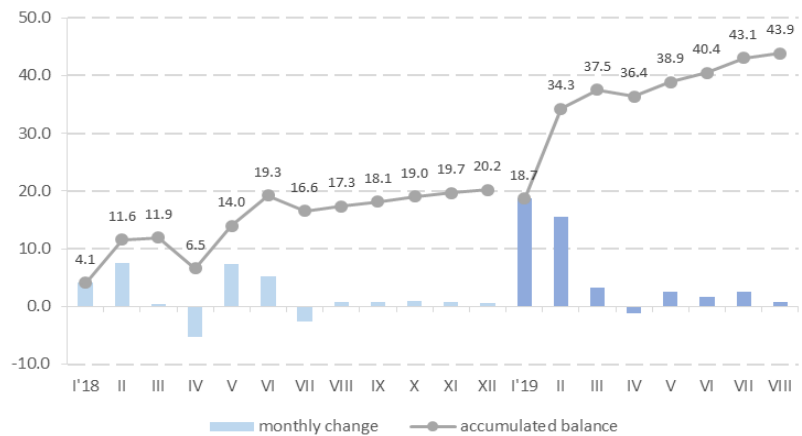


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic Treasury securities held by banks

PLN bn

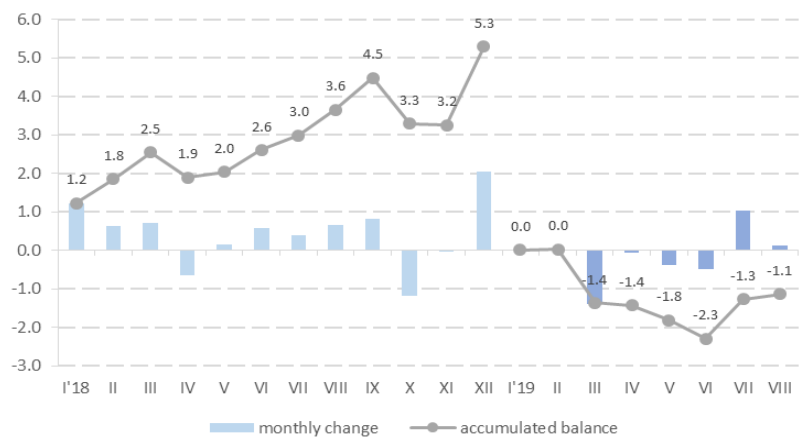
In the period of I-VIII 2019 there was an increase of debt by PLN 43.9bn comparing to PLN 17.3bn increase during the same period of 2018. Banks' holdings reached the level of PLN 307.9bn.



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

PLN bn

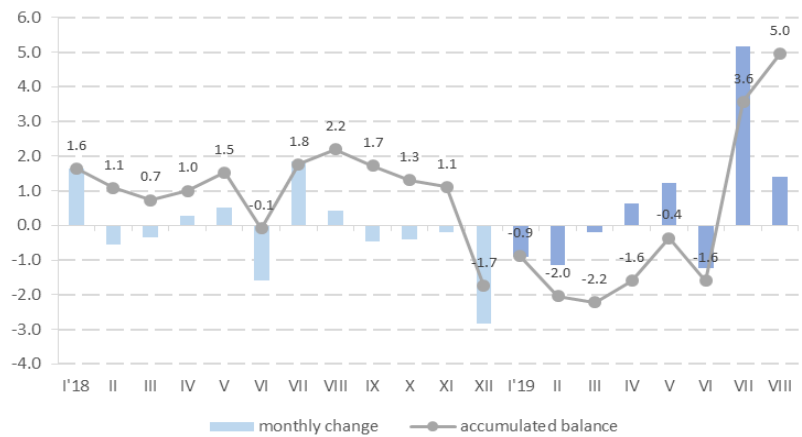
In the period of I-VIII 2019 there was a decrease of debt by PLN 1.1bn comparing to PLN 3.6bn increase during the same period of 2018. Insurance companies' holdings reached the level of PLN 64.0bn.



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

PLN bn

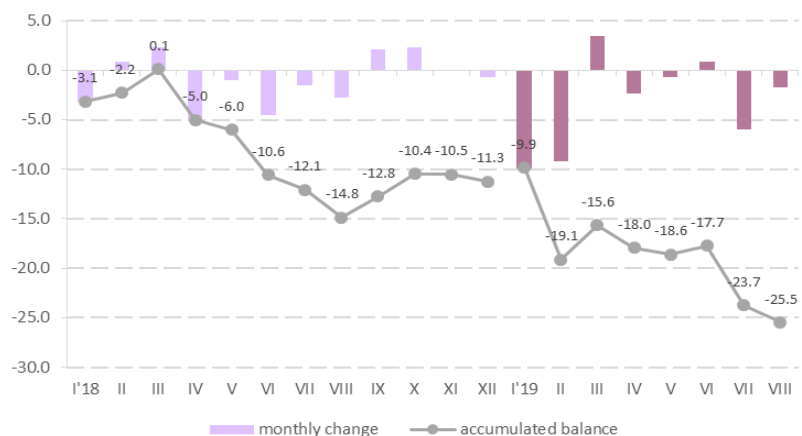
In the period of I-VIII 2019 there was an increase of debt by PLN 5.0bn comparing to PLN 2.2bn increase in the same period of 2018. Investment funds' holdings reached the level of PLN 60.3bn.



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

PLN bn

In the period of I-VIII 2019 there was a decrease of debt by PLN 25.5bn comparing to PLN 14.8bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 166.0bn.



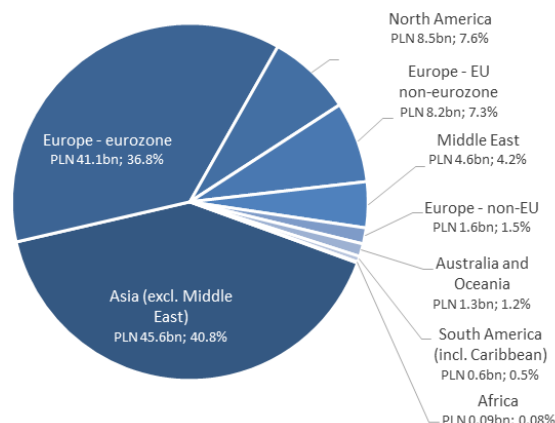
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of August 31, 2019, the chart presents data excluding omnibus accounts

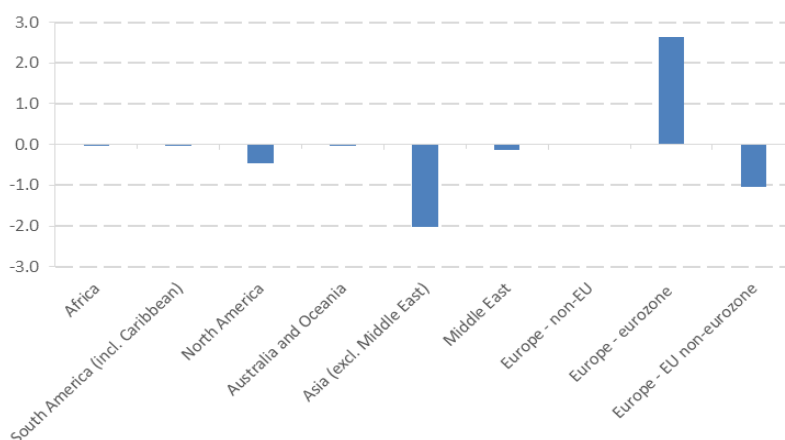
The non-residents' share in the domestic Treasury securities market decreased by PLN 1.7bn in August 2019. The foreign investors' portfolio amounted to PLN 166.0bn, which constituted 24.6% share in total debt in Treasury securities (24.9% in the previous month).



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

change in August 2019, mom, PLN bn, the chart presents data excluding omnibus accounts

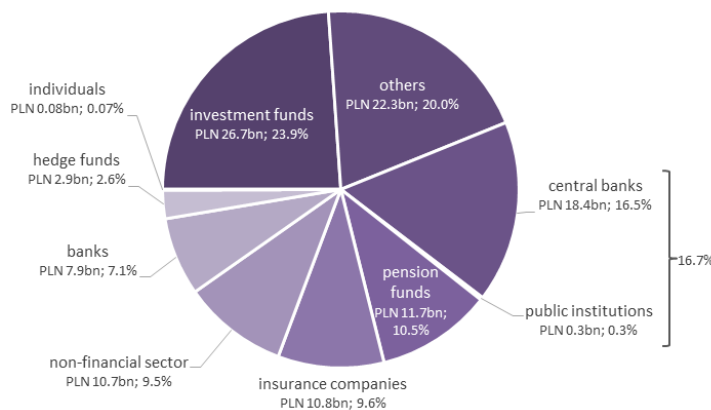
In August 2019 the highest increase was recorded by investors from the eurozone (PLN 2.6bn), while the highest decrease was noted by Asian investors (PLN 2.0bn).



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

as of August 31, 2019, the chart presents data excluding omnibus accounts

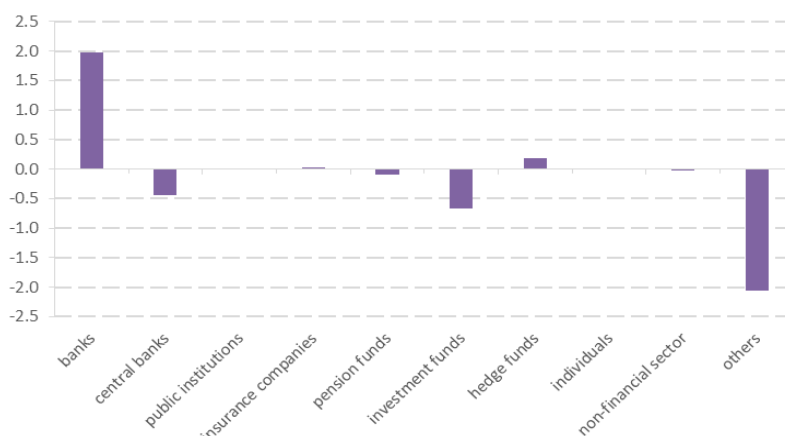
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 16.7% at the end of August 2019.



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

change in August 2019, mom, PLN bn, the chart presents data excluding omnibus accounts

In August 2019 the highest increase was recorded by banks (PLN 2.0bn) and the highest decrease was noted by investors from the category "others" (PLN 2.1bn).



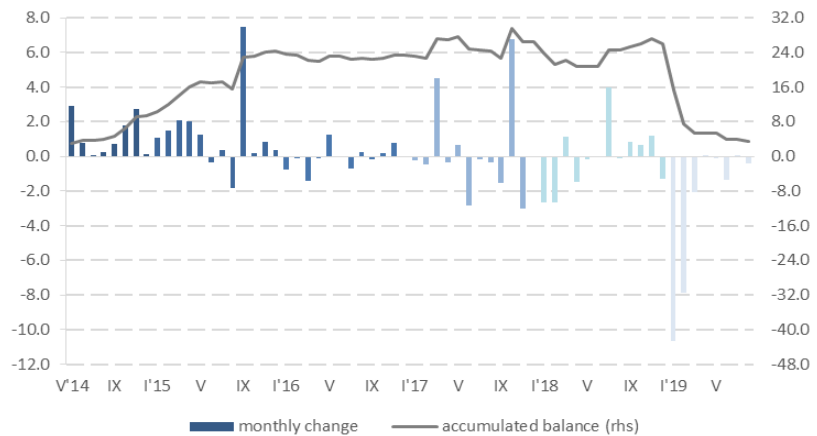


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in August 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.4bn in August 2019. In the period from the end of April 2014 to the end of August 2019, for which the detailed information is available, portfolios of those entities increased by PLN 3.6bn.



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

as of August 31, 2019, 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	24 551.5	26.3%
Luxembourg	14 893.2	16.0%
Netherlands	7 938.3	8.5%
United States	7 473.2	8.0%
Ireland	6 588.7	7.1%
Germany	5 852.4	6.3%
United Kingdom	5 319.2	5.7%
France	3 230.8	3.5%
Hong Kong	2 327.4	2.5%
United Arab Emirates	2 032.9	2.2%
Switzerland	1 480.3	1.6%
Austria	1 338.8	1.4%
Australia	1 141.1	1.2%
Denmark	960.8	1.0%
Others	8 200.4	8.8%
Total	93 328.9	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

30-09-2019

Taking into account the expected execution of the budget act for the current year in the draft budget act for 2020, this year's borrowing needs have been fully funded. The level of prefinancing of next year's gross borrowing requirements amounted to ca. 22%, which was a result of switch auctions (...).

In October only one switch auction (October 25) and a buy-back of USD-denominated bonds are planned. Depending on the budget and market situation, by the end of the year there will be held one sale auction and two or three switching auctions (apart from the October auction).

In August indebtedness in domestic T-bond market increased by PLN 1.2bn. The involvement of domestic non-banking sector increased by PLN 2.1bn and domestic banks – by PLN 0.8bn. Involvement of non-residents decreased by PLN 1.7bn.

The Public Sector Debt Management Strategy

On September 24, 2019 *The Public Debt Management Strategy in the years 2020-2023* was approved by the Council of Ministers. The summary of the strategy is available on the MoF's website: www.gov.pl/finance.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q4 2019



General assumptions

- In the fourth quarter of 2019 T-bond auctions are planned according to the announced yearly issuance calendar, except for October when one auction is planned,
- the 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 may 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 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 supply up to PLN 5.0bn, the structure of T-bonds to be offered will be subject to market situation,
- switch auctions:
between three and four auctions - subject to the budget and market situation – T-bonds maturing in 2020 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 of up to EUR 0.7bn,
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN OCTOBER 2019

T-bond sale auctions

Sale auctions of Treasury bonds are not planned.

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
25 OCT 2019 / 29 OCT 2019	OK0722 / PS1024 / WZ0525 / DS1029 / WZ1129 / possible T-bond either of WS or IZ type	WZ0120	8,691
		PS0420	19,200
		OK0720	8,985
		DS1020	15,519

Buy-back auction of USD denominated T-bonds

Auction date / settlement date	Buy-back T-bonds		Nominal value of buy-back (USD m)
	Series	Maturity date	
22 OCT 2019 / 24 OCT 2019	USD20210421	21 APR 2021	up to 400

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0120 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS1021 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ1022 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI1023 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO1029 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS1025 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD1031 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period