

State budget borrowing requirements' financing plan and its background

February 2019

THE MOST IMPORTANT INFORMATION

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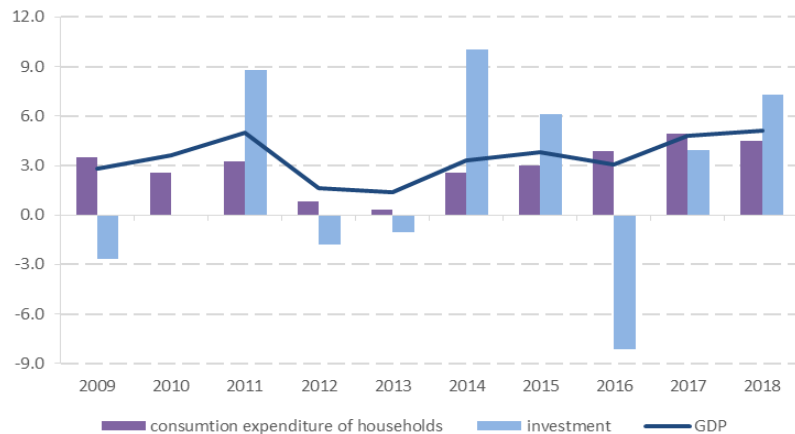


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, yoy
source: GUS

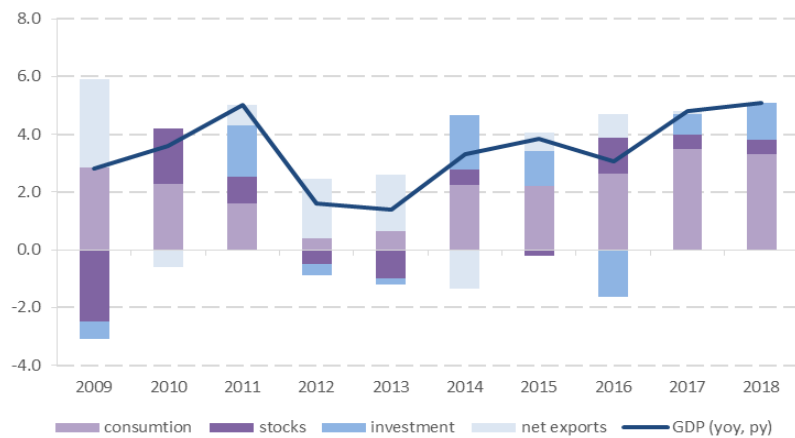
According to the preliminary data real GDP growth amounted to 5.1% in 2018, which was 0.3 pp higher than a year earlier. The final consumption expenditure of households increased by 4.5%, which was a consequence of a positive labour market situation and, on average, robust sentiment of consumers. Investment expanded by 7.3%, which was the highest pace of growth of this category since 2014. However, the investment rate still remained below its long-term average.



Contributions to Polish GDP growth

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

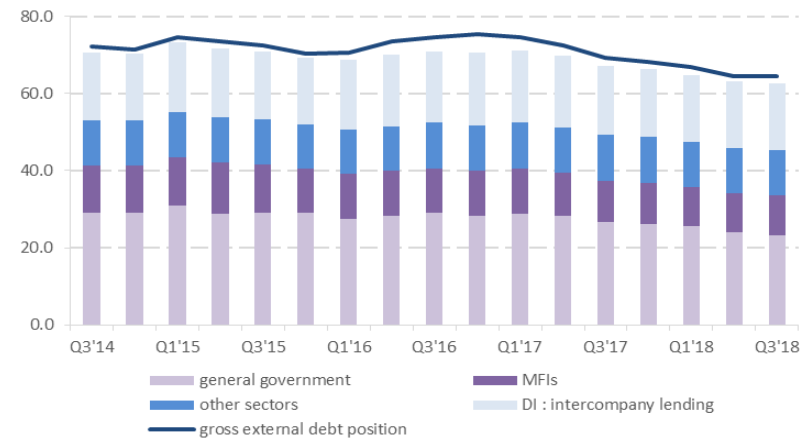
In 2018 domestic demand was the only source of GDP growth, mainly due to the final consumption expenditure of households and, to a lesser extent, gross fixed capital formation with a contribution of 2.6 pp and 1.3 pp, respectively. Inventories contribution to GDP growth has remained positive for three years in a row, whereas net exports contribution was neutral.



Polish gross external debt position

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

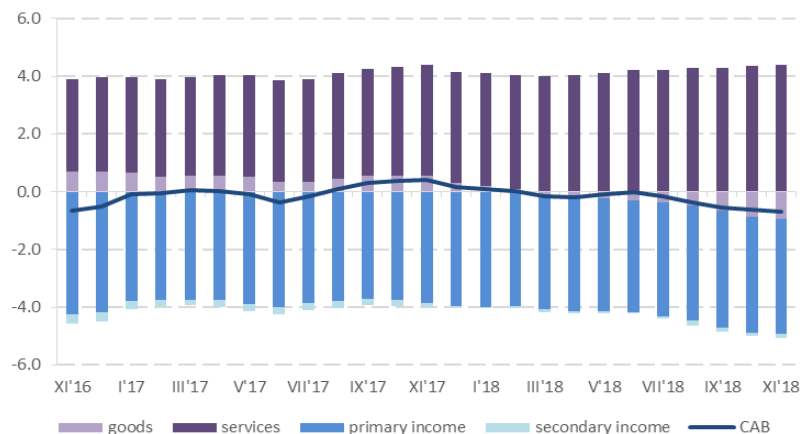
At the end of the third quarter of 2018 gross external debt reached EUR 316.0bn (64.5% of GDP) and was EUR 4.0bn higher than in the previous quarter. The share of general government sector debt in total debt decreased to 36.0%. At the end of November 2018 official reserve assets reached about EUR 100.1bn 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 November 2018, according to the preliminary data, current account deficit amounted to 0.7% of GDP (in 12-month terms). Data were above market expectations. CA deficit was with a wide margin covered by long-term capital, i.e. inflow of direct investments of non-residents and inflow of EU structural funds classified on the capital account.

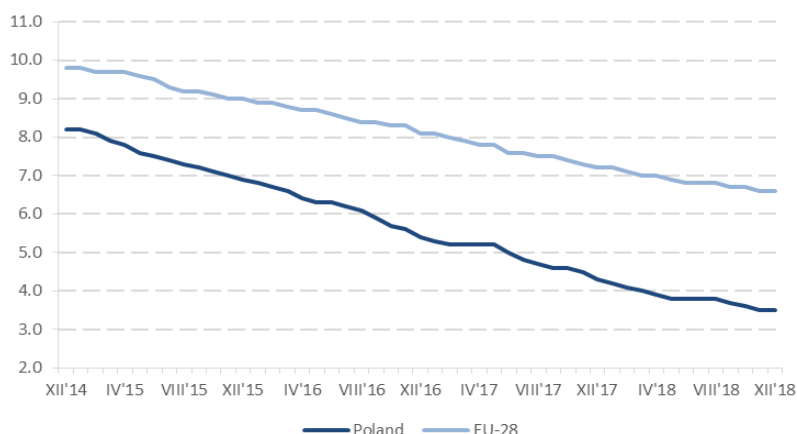




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In December 2018 harmonised unemployment rate (sa) has remained at a stable, record low level of 3.5% observed in the previous month (compared to 6.6% on average in the EU) and it was 0.8 pp lower than last year.



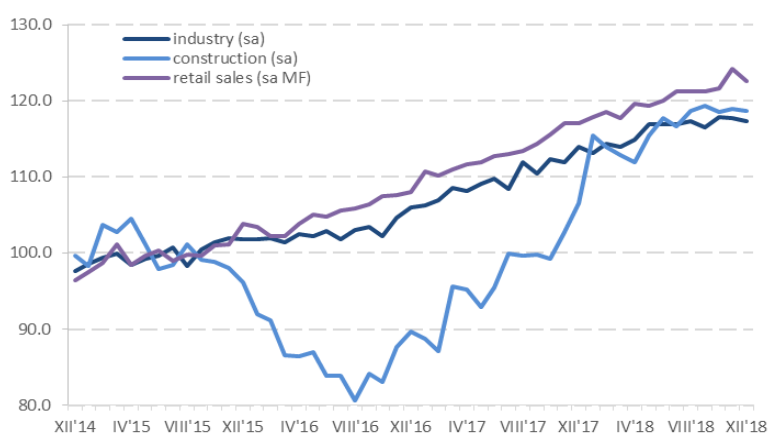
Monthly indicators of the real sector

sold production in constant prices, i15, seasonally adjusted data; source: Eurostat, GUS, MoF own calculation

In December 2018 industrial output went down by 0.4% (mom, sa). As a result, production was 2.8% higher than a year ago (nsa). Data were below market expectations.

Construction production went down by 0.2% following a slight increase in the previous month (mom, sa). Production was 12.2% (nsa) higher than a year before. Data were a bit below MoF's expectations.

Real retail sales decreased by 1.3% (mom, sa MoF), following relatively high growth in the previous month. Their level was 3.9% (nsa) higher than in the same month of 2017. Data were considerably below market expectations.



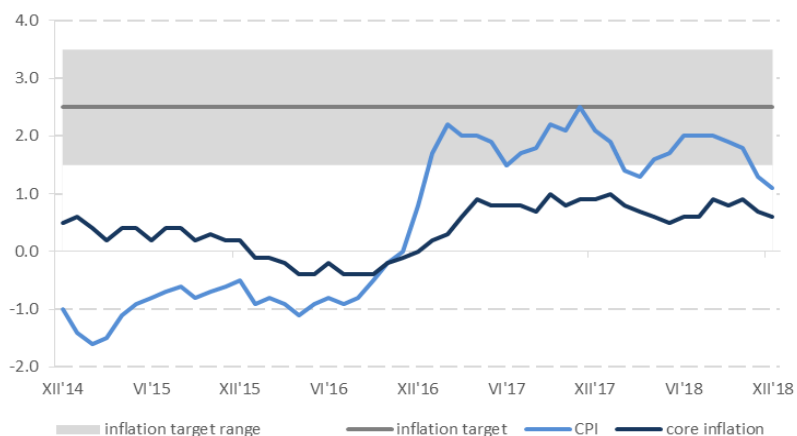
Inflation

percent, yoy
source: GUS, NBP

In December 2018 consumer prices were stable (mom). As a result, annual rate of inflation fell to 1.1%, i.e. below the inflation target and below the lower band of this target. Data were consistent with market expectations. The average inflation rate in 2018 was 1.6%.

Core inflation (CPI excluding food and energy prices) achieved 0.6% (yoy) in December and has been within the range of 0.5%-1.0% for more than 1.5 year.

In December producer prices fell by 0.9% (mom) and their level was 2.2% higher than a year ago.

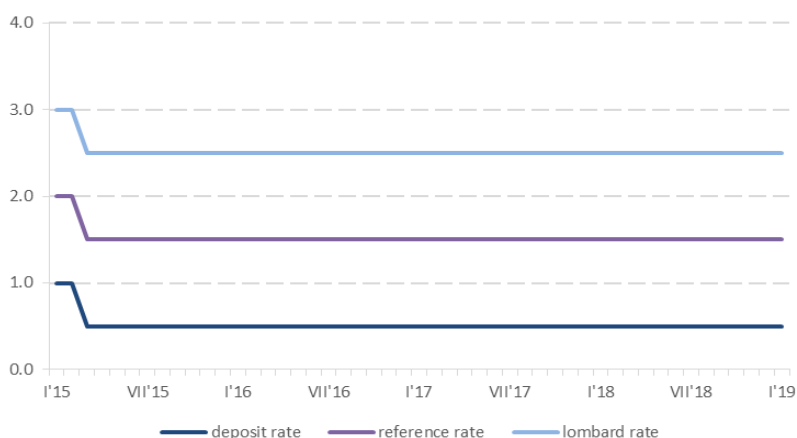


NBP interest rates

percent, end of period
source: NBP

In January 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 (January, 23) sees no NBP rate move till the third quarter of 2021.



II. STATISTICAL DATA

	Unit	2013	2014	2015	2016	2017	2018
GDP							
Gross domestic product	YoY	1.4	3.3	3.8	3.1	4.8	5.1
	QoQ SA						
Final consumption expenditure of the households sector	YoY	0.3	2.6	3.0	3.9	4.9	4.5
	QoQ SA						
Final consumption expenditure of the general government sector	YoY	2.5	4.3	2.3	1.9	3.5	-
	QoQ SA						
Gross fixed capital formation	YoY	-1.1	10.0	6.1	-8.2	3.9	7.3
	QoQ SA						
Exports of goods and services	YoY	6.1	6.7	7.7	8.8	9.5	-
	QoQ SA						
Imports of goods and services	YoY	1.7	10.0	6.6	7.6	10.0	-
	QoQ SA						
Gross value added	YoY	1.5	3.3	3.7	3.0	4.7	5.0
	QoQ SA						
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	0.2	1.5	1.8	2.2	2.9	2.6
Final consumption expenditure of the general government sector	pp	0.5	0.8	0.4	0.3	0.6	-
Gross fixed capital formation	pp	-0.2	1.9	1.2	-1.6	0.7	1.3
Changes in inventories	pp	-1.0	0.5	-0.2	1.2	0.5	-
Balance of trade turnover	pp	1.9	-1.3	0.6	0.8	0.1	0.0
Gross value added	pp	1.3	2.9	3.2	2.7	4.1	4.4
Taxes less subsidies	pp	0.1	0.4	0.6	0.4	0.7	-
GDP structure							
Final consumption expenditure of the households sector	% of GDP	60.1	59.3	57.7	57.7	57.9	-
Final consumption expenditure of the general government sector	% of GDP	18.1	18.2	18.0	17.9	17.7	-
Gross fixed capital formation	% of GDP	18.8	19.7	20.1	18.0	17.7	-
Changes in inventories	% of GDP	0.2	0.6	0.4	1.6	2.0	-
Exports of goods and services	% of GDP	46.3	47.6	49.5	52.2	54.3	-
Imports of goods and services	% of GDP	44.4	46.1	46.4	48.2	50.3	-
Balance of payments							
	Unit	2018					
		M07	M08	M09	M10	M11	M12
Goods: exports (EUR)	YoY	8.4	7.3	0.0	12.1	7.1	-
Goods: imports (EUR)	YoY	10.0	11.2	5.4	17.5	9.9	-
Current account balance ¹⁾	% of GDP	-0.2	-0.3	-0.5	-0.6	-0.7	-
Balance on goods ¹⁾	% of GDP	-0.4	-0.5	-0.7	-0.9	-0.9	-
Official Reserve Assets	EUR m	95 635.7	97 059.2	97 129.7	98 271.7	100 109.7	102 267.8
Inflation							
Consumer Price Index (CPI)	YoY	2.0	2.0	1.9	1.8	1.3	1.1
Core inflation (CPI excluding food and energy prices)	YoY	0.6	0.9	0.8	0.9	0.7	0.6
Producer Price Index (PPI)	YoY	3.4	3.0	3.0	3.2	2.8	2.2
Production							
Sold production of industry ²⁾	YoY	10.3	5.0	2.7	7.4	4.6	2.8
	MoM SA	0.0	0.3	-0.7	1.2	-0.1	-0.4
Construction and assembly production ²⁾	YoY	18.7	20.1	16.5	22.5	17.0	12.2
	MoM SA	-0.8	1.6	0.6	-0.7	0.4	-0.2
Manufacturing PMI	SA	52.9	51.4	50.5	50.4	49.5	47.6
Households and labour market							
Retail sales ²⁾	YoY	7.1	6.7	3.6	7.8	6.9	3.9
Average paid employment in enterprise sector	YoY	3.5	3.4	3.2	3.2	3.0	2.8
	MoM	0.1	0.0	-0.1	0.0	0.1	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.1	4.7	4.7	5.7	6.3	4.9
	MoM	-0.3	-0.6	-0.7	2.7	0.9	6.2
Harmonised unemployment rate (Eurostat)	%, SA	3.8	3.8	3.7	3.6	3.5	3.5

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

	Unit	2018					
		M06	M07	M08	M09	M10	M11
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	955 475.9	945 895.1	948 266.5	948 985.8	959 861.8	954 136.9
Domestic debt	face value, PLN m	661 862.5	660 105.0	660 847.1	665 737.7	671 567.1	672 191.9
	%	69.3	69.8	69.7	70.2	70.0	70.5
Foreign debt	face value, PLN m	293 613.4	285 790.2	287 419.4	283 248.1	288 294.6	281 944.9
	%	30.7	30.2	30.3	29.8	30.0	29.5
Public debt (domestic definition)							
	Unit	2017			2018		
		Q02	Q03	Q04	Q01	Q02	Q03
Public debt (acc. to the place of issue criterion)	face value, PLN m	977 224.4	972 220.4	961 841.5	989 195.8	985 139.3	977 948.5
Domestic debt	face value, PLN m	666 497.6	659 494.8	662 517.4	679 791.0	676 219.7	679 243.9
	%	68.2	67.8	68.9	68.7	68.6	69.5
Foreign debt	face value, PLN m	310 726.7	312 725.6	299 324.1	309 404.9	308 919.6	298 704.6
	%	31.8	32.2	31.1	31.3	31.4	30.5
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 018 978.9	1 013 663.0	1 005 688.2	1 031 392.7	1 031 985.1	1 028 007.8

Source: MoF

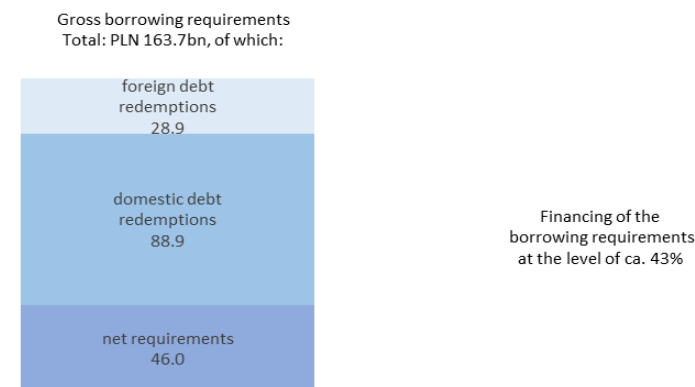
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2019

as of January 31, 2019, PLN bn

Financing of the State budget borrowing requirements reached the level of ca. 43% (the final level will be known following the closure of the budget year 2018).



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

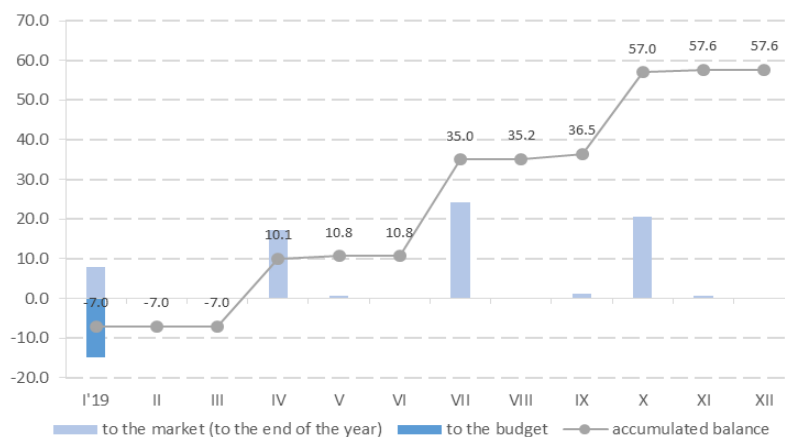
as of January 31, 2019

In February there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

Flows of funds between the market and the budget*

as of January 31, 2019, PLN bn

To the end of the 2019 the funds to be transferred to the market shall amount to PLN 64.7bn.



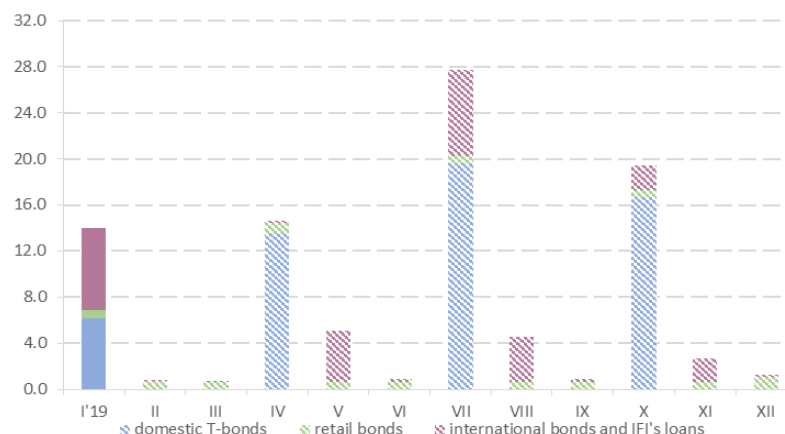
* figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the following months is not presented.

State Treasury debt redemptions in 2019

as of January 31, 2019, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2019 is equal to PLN 78.5bn, including:

- T-bonds: PLN 49.8bn,
- retail bonds: PLN 7.7bn,
- bonds and loans incurred on foreign markets: PLN 21.0bn.





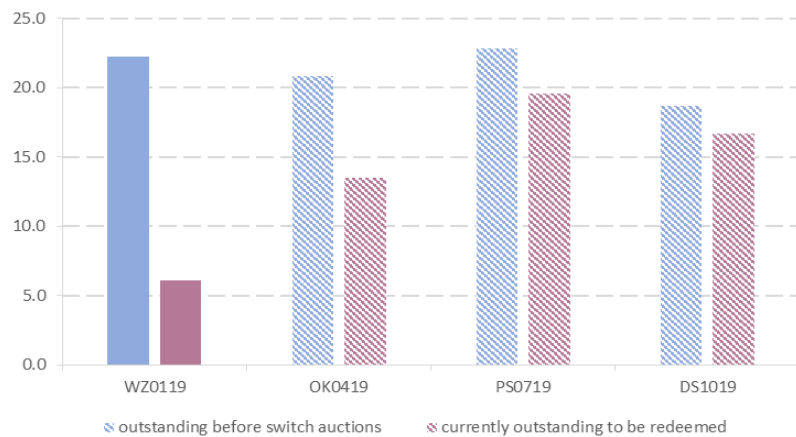
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of January 31, 2019, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2019:

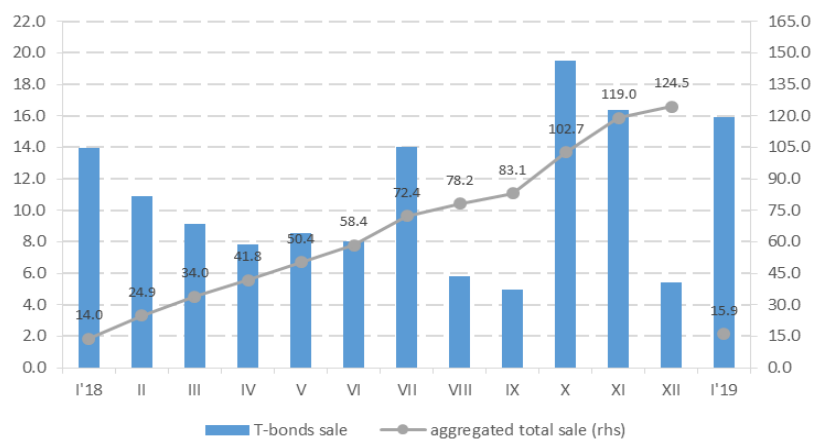
- WZ0119: PLN 16.1bn (72%),
- OK0419: PLN 7.3bn (35%),
- PS0719: PLN 3.3bn (14%),
- DS1019: PLN 2.0bn (11%).



Sale of T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

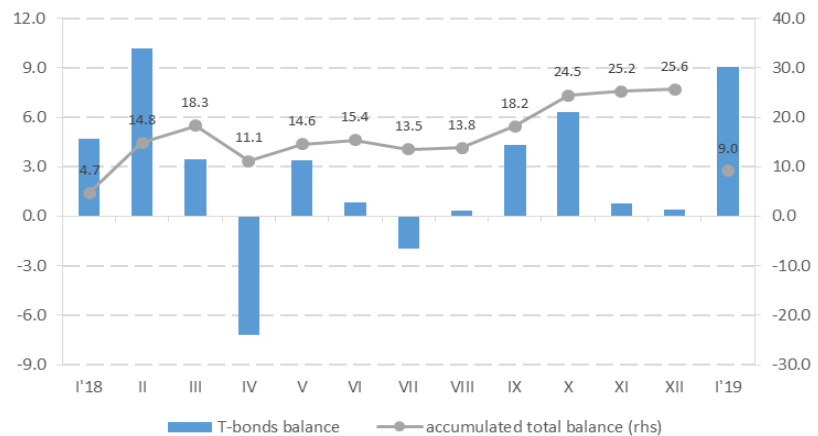
In January 2019 aggregated total sale of T-bonds amounted to PLN 15.9bn versus PLN 14.0bn in the same period of 2018.



Balance of T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

In January 2019 indebtedness in T-bonds increased by PLN 9.0bn versus an increase of PLN 4.7bn in the same period of 2018.

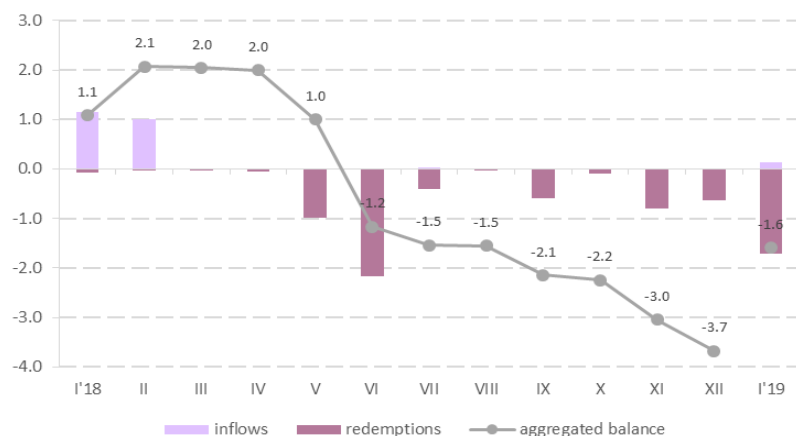


External financing in 2018 and 2019

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

Net financing on foreign markets in January 2019 was negative and amounted to EUR 1.6bn (positive balance of EUR 1.1bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 1.7bn (zero balance in 2018),
- positive balance of loans incurred from IFIs of EUR 0.1bn (positive balance of EUR 1.1bn in 2018).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

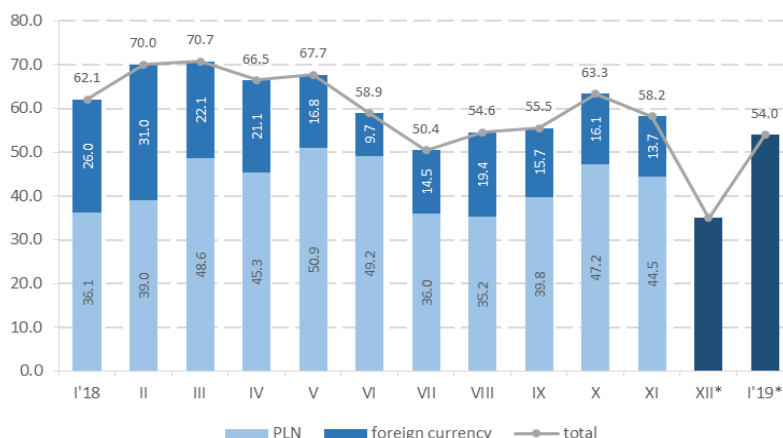


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

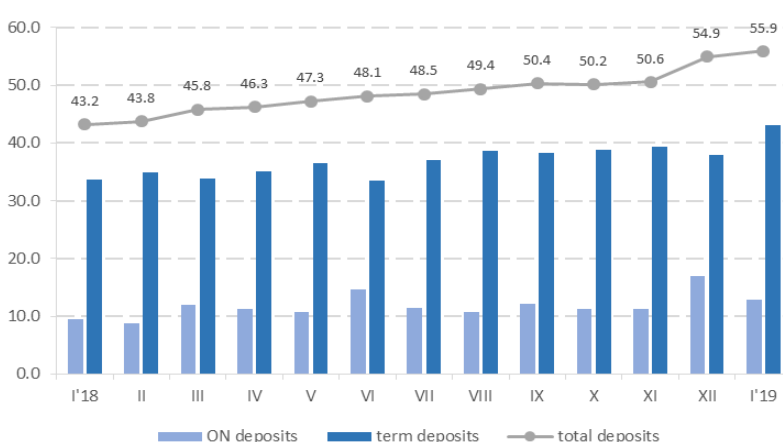
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

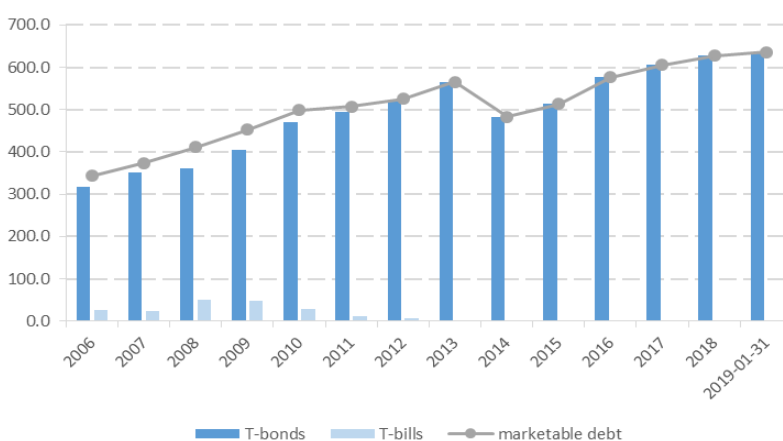
As a result of consolidation of the public finance sector liquidity management there were PLN 55.9bn funds accumulated at the end of January 2019, of which: PLN 43.1bn was on term deposits and PLN 12.8bn on ON deposits.



Structure of marketable debt

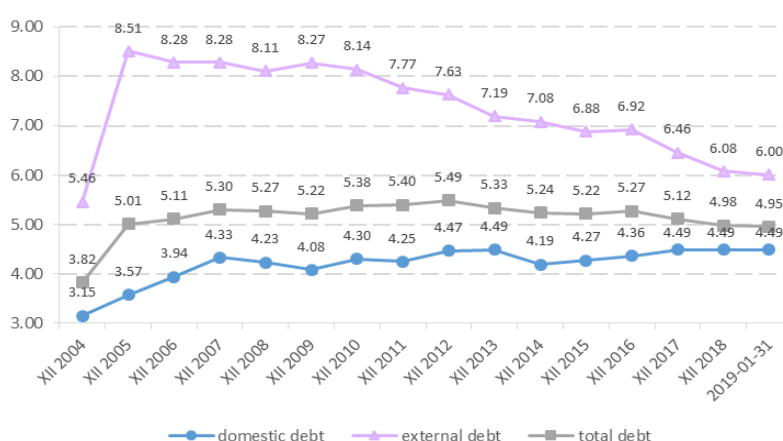
PLN bn

The marketable domestic debt amounted to PLN 635.8bn at the end of January 2019 (4.49 at the end of 2018). The average of total debt amounted to 4.95 (4.98 at the end of 2018).



Average maturity

The average maturity of domestic debt amounted to 4.49 at the end of January 2019 (4.49 at the end of 2018). The average of total debt amounted to 4.95 (4.98 at the end of 2018).



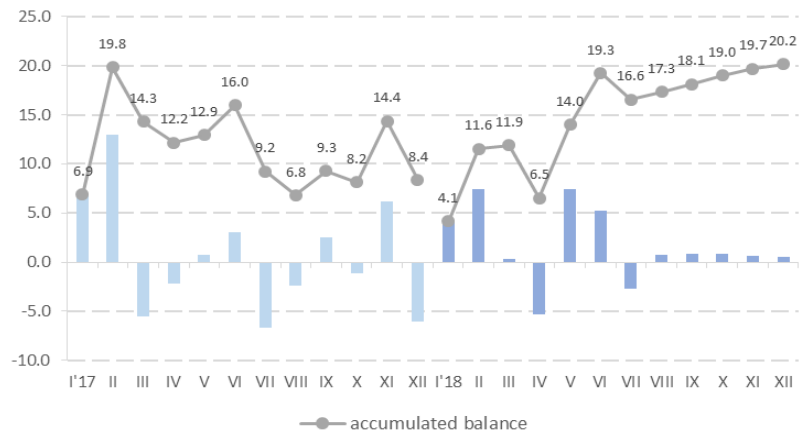


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic Treasury securities held by banks

without buy-sell-back transactions with MoF, PLN bn

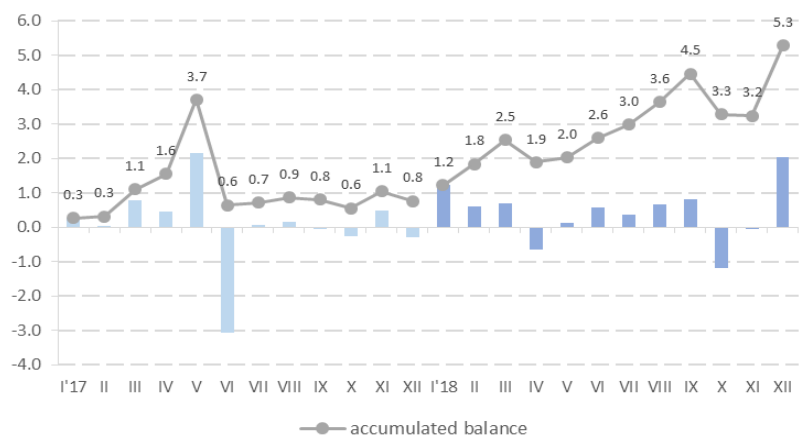
In the period of I-XII 2018 there was an increase of debt by PLN 20.2bn comparing to PLN 8.4bn increase during the same period of 2017. Banks' holdings reached the level of PLN 264.1bn.



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

PLN bn

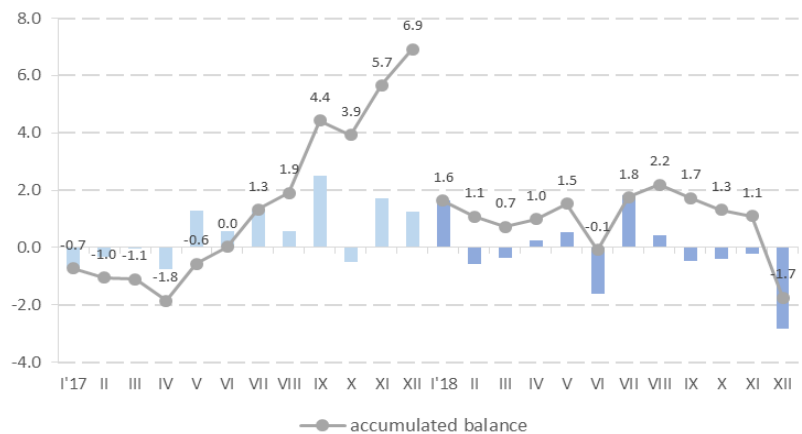
In the period of I-XII 2018 there was an increase of debt by PLN 5.3bn comparing to PLN 0.8bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 65.1bn.



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

PLN bn

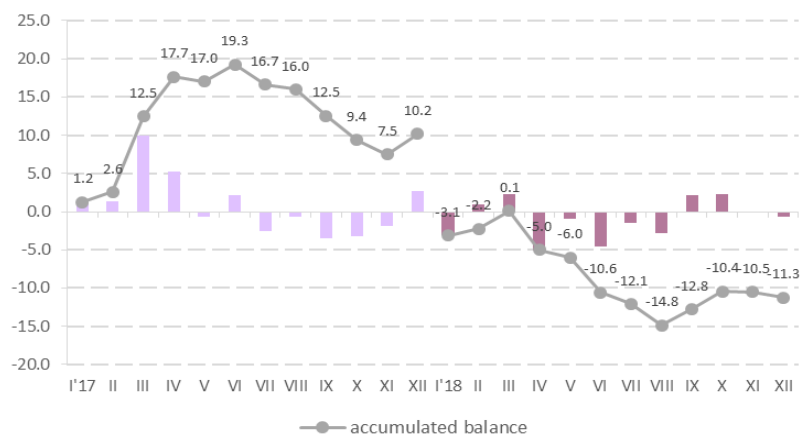
In the period of I-XII 2018 there was a decrease of debt by PLN 1.7bn comparing to PLN 6.9bn increase in the same period of 2017. Investment funds' holdings reached the level of PLN 55.4bn.



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

PLN bn

In the period of I-XII 2018 there was a decrease of debt by PLN 11.3bn comparing to PLN 10.2bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 191.5bn.



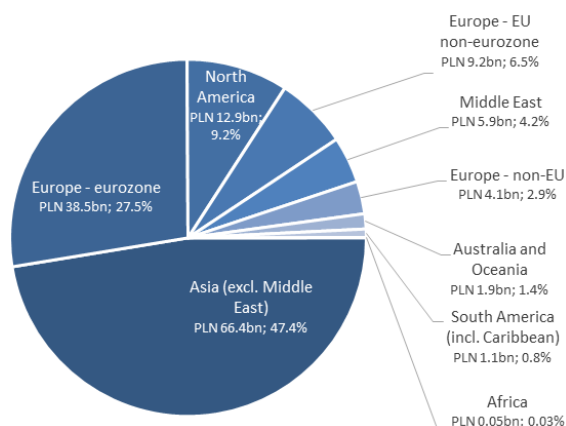
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

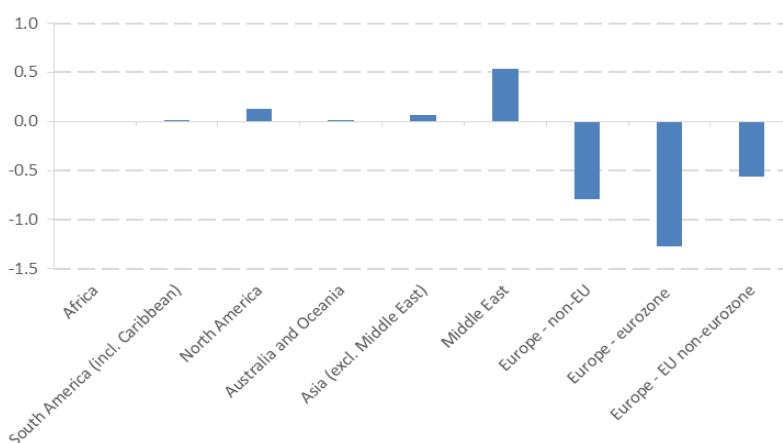
The non-residents' share in the domestic Treasury securities market decreased by PLN 0.7bn in December 2018. The foreign investors' portfolio amounted to PLN 191.5bn, which constituted 29.6% share in total debt in Treasury securities (29.7% in the previous month).



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

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

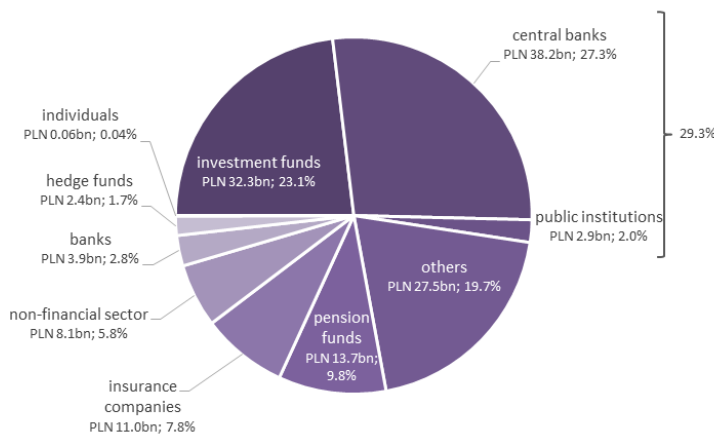
In December 2018 the highest increase was recorded by investors from the Middle East (PLN 0.5bn), while the highest decrease was noted by investors from the eurozone (PLN 1.3bn).



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

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

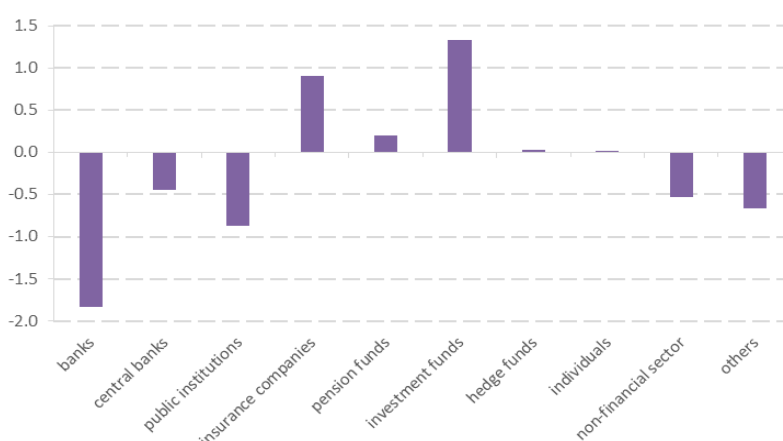
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 29.3% at the end of December 2018 (29.9% in the previous month).



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

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

In December 2018 the highest increase was recorded by investment funds (PLN 1.3bn) and the highest decrease was noted by banks (PLN 1.8bn).



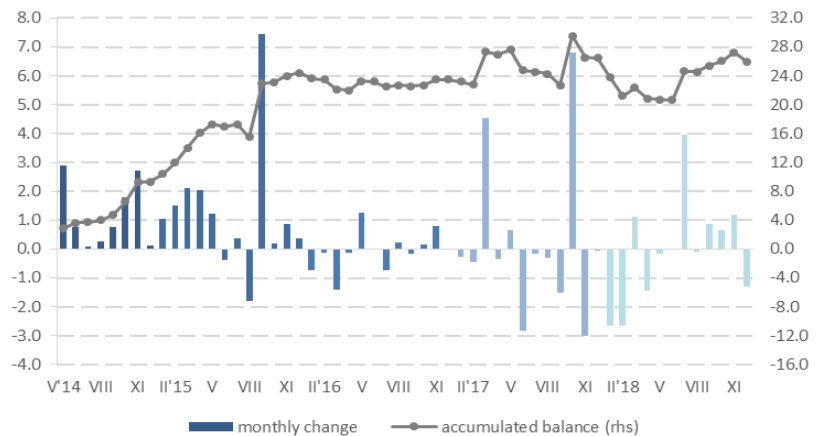


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in December 2018, PLN bn

Central banks and public institutions' involvement decreased by PLN 1.3bn in December 2018. In the period from the end of April 2014 to the end of December 2018, for which the detailed information is available, portfolios of those entities increased by PLN 25.9bn.



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

as of December 31, 2018, excluding omnibus accounts and central banks, countries with more than 1% share

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	23 779.4	23.4%
Luxembourg	14 505.1	14.2%
United States	11 910.3	11.7%
Ireland	9 283.5	9.1%
Netherlands	7 209.1	7.1%
United Kingdom	6 153.3	6.0%
Germany	5 876.1	5.8%
Hong Kong	3 608.8	3.5%
United Arab Emirates	3 046.3	3.0%
Norway	2 530.0	2.5%
Australia	1 699.7	1.7%
Denmark	1 380.5	1.4%
Switzerland	1 380.0	1.4%
Singapore	1 112.6	1.1%
Taiwan (Province of China)	1 063.0	1.0%
Others	7 256.4	7.1%
Total	101 794.0	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-01-2019

At the end of January the level of financing the State budget gross borrowing requirements amounted to 43%.

(...) In February there will be one T-bond sale auction (February 7) and one switching auction (February 21) organized, at which T-bond series maturing in 2019, as well as floating rate T-bonds maturing in January 2020 will be offered to repurchase.

In December an increase in indebtedness in domestic T-bonds (by PLN 0.7bn) resulted from an increase in involvement of domestic non-banking sector (by PLN 0.9bn) and banks (by PLN 0.5bn), as well as a decrease in non-residents' holdings (by PLN 0.7bn).

In the whole 2018 domestic investors increased their portfolios of PLN denominated T-bonds by PLN 37.0bn, while foreign investors reduced their involvement by PLN 11.3bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN FEBRUARY 2019



T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
7 FEB 2019	11 FEB 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029	3,000-5,000
<i>After the auction bonds will be offered within additional sale at a minimum accepted clean price.</i>			

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
21 FEB 2019 / 25 FEB 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029	OK0419	13,533
		PS0719	19,574
		DS1019	16,666
		WZ0120	20,582

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0519 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0221 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0222 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0223 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0229 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0225 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0231 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period