

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

December 2019

### THE MOST IMPORTANT INFORMATION

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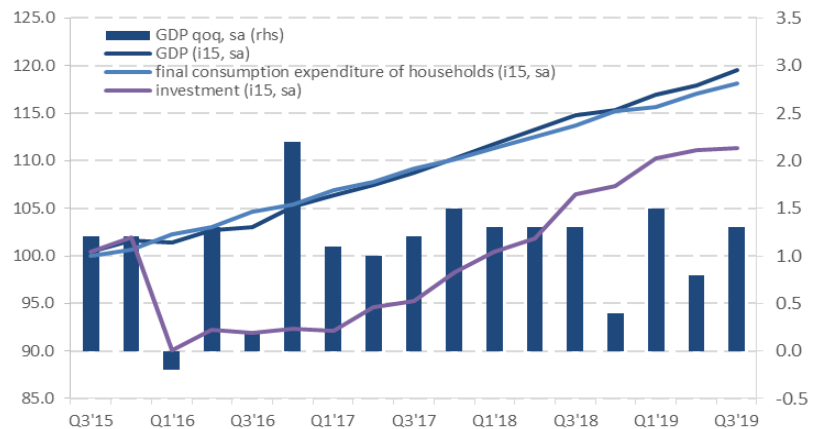
## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland

constant prices

source: GUS, Eurostat

In the third quarter of 2019 GDP increased by 1.3% (qoq, sa) versus 0.8% a quarter earlier. The rate of growth of households consumption and investment decelerated (qoq, sa), while the export dynamics rebounded despite unfavourable external conditions.

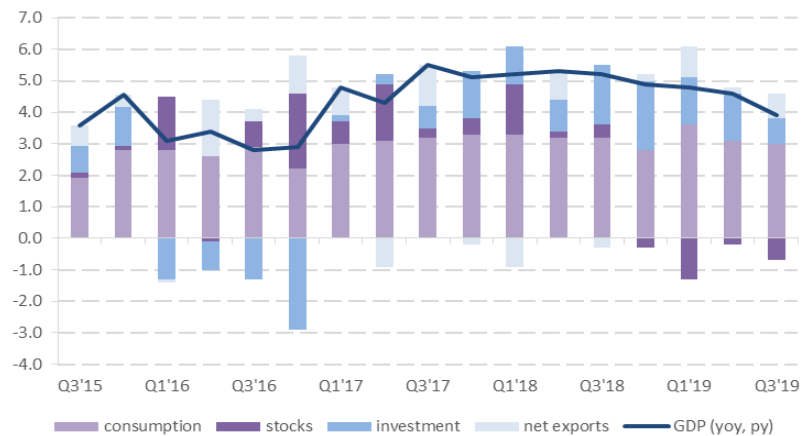


### Contributions to Polish GDP growth

pp, py - average prices of previous year

source: GUS, MoF own calculation

In the third quarter of 2019 GDP was 3.9% higher than a year ago versus 4.6% in the previous quarter. Households consumption, which was 3.9% higher than in the same period of 2018, was still the main source of GDP growth. Investment registered weaker than in the first half of 2019 growth rate (4.7%). Inventories contribution to GDP growth was negative (0.7 pp), which was fully offset by positive net exports (0.8 pp). Strong private consumption demand was a consequence of a positive labour market situation, robust consumer sentiment and additional income transfers. The slowdown in investment was probably driven to a large extent by reduced investment dynamics in the general government sector.

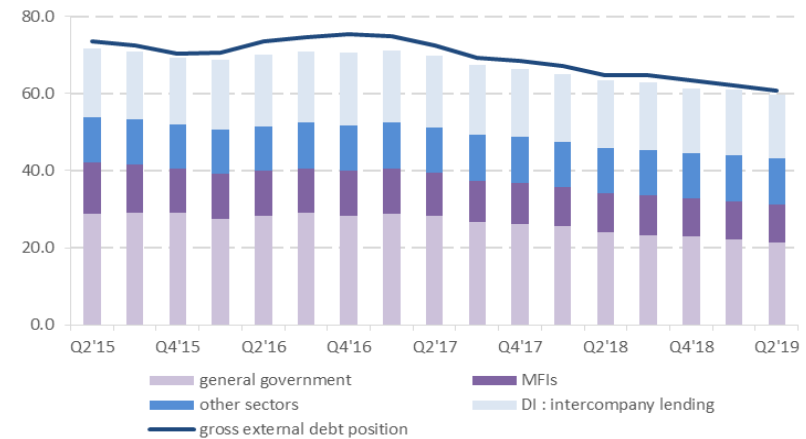


### Polish gross external debt position

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 debt in total debt slightly decreased to 35.2%. At the end of September 2019 official reserve assets reached about EUR 110.5bn and remained broadly adequate, covering about 5 months of imports.

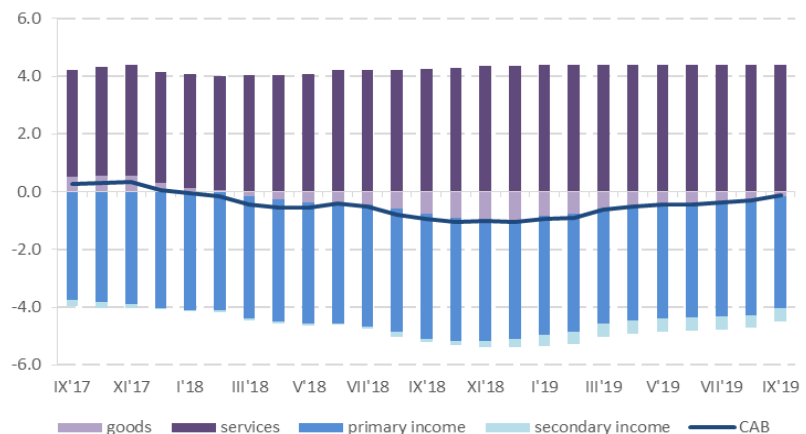


### Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In September 2019, according to the preliminary data, current account deficit amounted to 0.1% of GDP (in 12-month terms). Data were better than 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.

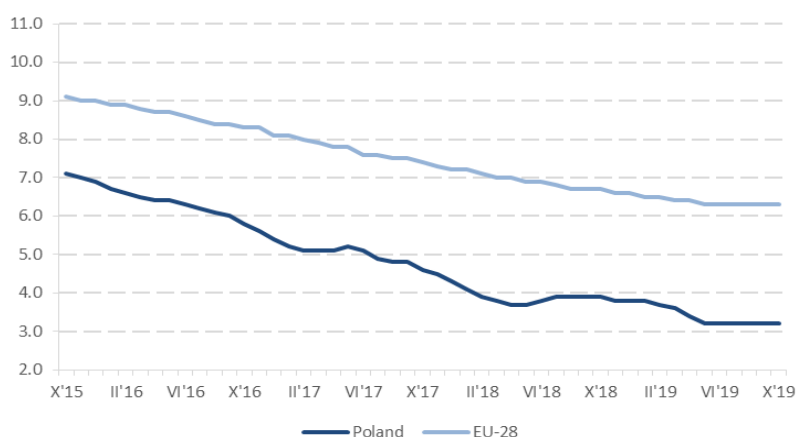




## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

In October 2019 harmonised unemployment rate remained at the historically low level observed in five earlier months, i.e. 3.2% (compared to 6.3% on average in the EU).



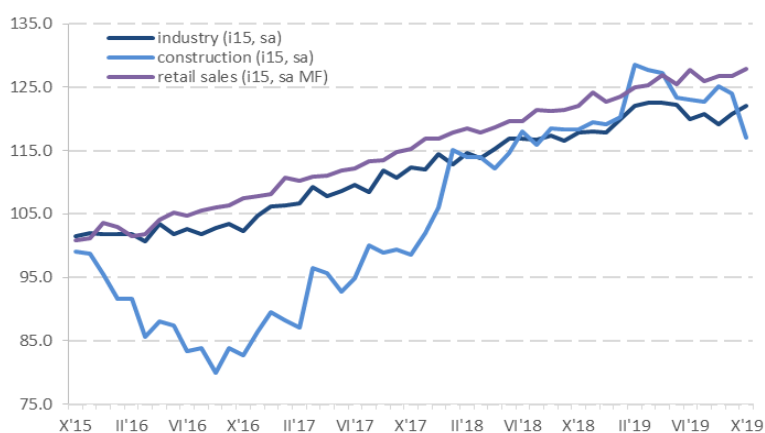
## Monthly indicators of the real sector

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

In October 2019 industrial production went up by 1.1% (mom, sa) and was 3.5% higher than a year ago (nsa). Data were slightly above market expectations.

Construction and assembly production decreased by 5.6% (mom, sa). As a result, it was 4.0% (nsa) lower than a year before. Data were below MoF's expectations.

Real retail sales grew by 1.0% (mom, sa MoF) following stabilisation in the previous month. As a result, retail sales were 4.6% (nsa) higher than in the same month of 2018. Data were above market expectations.

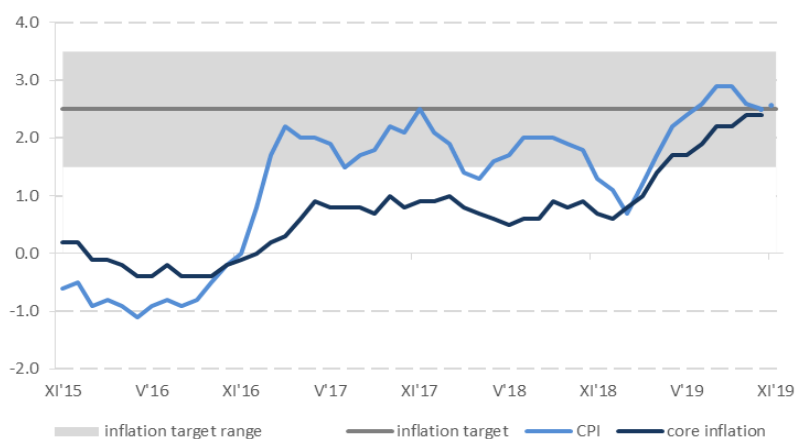


## Inflation

percent, yoy  
source: GUS, NBP

In the first half of 2019 inflation significantly increased and in the summer amounted to 2.9%, the highest level for almost 7 years. In October inflation rate returned to the inflation target (2.5%) but in November (according to the preliminary data) it reached 2.6%. Inflation in October and November was close to the expectations.

Core inflation (CPI excluding food and energy prices) in September and October reached 2.4% (yoy), the highest level since May 2012. The annual rate of PPI in last months remained at a relatively low level (below 1%) and in October there was PPI deflation of 0.1%.

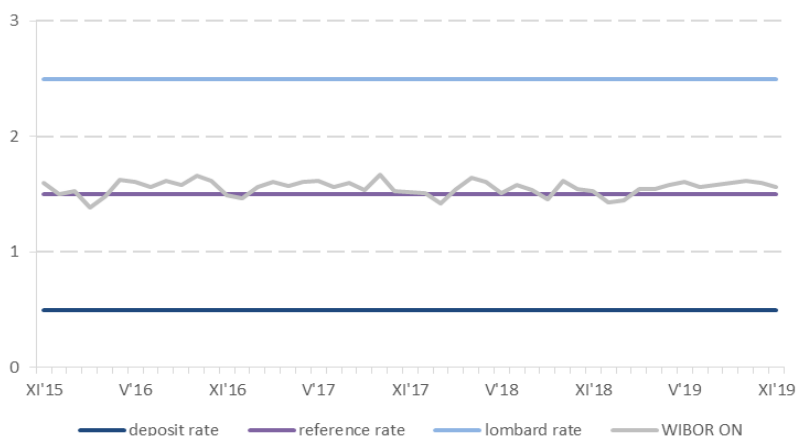


## NBP interest rates

percent, end of period  
source: NBP, Eurostat

In November 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 (November 25) sees no NBP rate move at least until the end of 2021.





## II. STATISTICAL DATA

	Unit	2018 Q02	Q03	Q04	2019 Q01	Q02	Q03
<b>GDP</b>							
Gross domestic product	YoY	5.3	5.2	4.9	4.8	4.6	3.9
	QoQ SA	1.3	1.3	0.4	1.5	0.8	1.3
Final consumption expenditure of the households sector	YoY	4.6	4.2	4.0	3.9	4.4	3.9
	QoQ SA	1.1	1.1	1.3	0.4	1.2	0.9
Final consumption expenditure of the general government sector	YoY	3.3	4.2	3.9	6.3	3.1	4.7
	QoQ SA	1.6	0.9	1.1	1.4	0.4	1.3
Gross fixed capital formation	YoY	6.0	11.0	8.9	12.2	9.1	4.7
	QoQ SA	1.4	4.6	0.8	2.8	0.8	0.2
Exports of goods and services	YoY	9.0	6.7	7.9	7.3	3.2	5.0
	QoQ SA	3.4	-0.4	3.2	1.0	-0.5	1.4
Imports of goods and services	YoY	8.0	7.7	7.9	6.0	3.1	3.9
	QoQ SA	2.6	1.3	1.3	0.9	0.5	0.9
Gross value added	YoY	5.2	5.2	4.8	4.6	4.5	3.9
	QoQ SA	1.3	1.3	0.9	1.2	1.0	1.0
<b>Contribution to GDP growth</b>							
Final consumption expenditure of the households sector	pp	2.6	2.5	2.0	2.5	2.5	2.2
Final consumption expenditure of the general government sector	pp	0.6	0.7	0.8	1.1	0.6	0.8
Gross fixed capital formation	pp	1.0	1.9	2.2	1.5	1.5	0.8
Changes in inventories	pp	0.2	0.4	-0.3	-1.3	-0.2	-0.7
Balance of trade turnover	pp	0.9	-0.3	0.2	1.0	0.2	0.8
Gross value added	pp	4.5	4.5	4.2	4.2	4.0	3.3
Taxes less subsidies	pp	0.8	0.7	0.7	0.6	0.6	0.6
<b>GDP structure</b>							
Final consumption expenditure of the households sector	% of GDP	58.7	58.9	50.1	62.1	58.1	58.5
Final consumption expenditure of the general government sector	% of GDP	17.6	17.3	19.1	17.3	17.2	17.4
Gross fixed capital formation	% of GDP	16.2	17.8	25.1	13.3	16.8	17.7
Changes in inventories	% of GDP	2.3	2.1	2.3	2.0	2.1	1.2
Exports of goods and services	% of GDP	57.6	56.0	52.5	58.9	57.1	56.0
Imports of goods and services	% of GDP	53.2	52.8	49.6	54.3	52.1	51.5
<b>Balance of payments</b>							
	Unit	2019 M05	M06	M07	M08	M09	M10
Goods: exports (EUR)	YoY	11.6	-3.1	7.7	-0.1	9.3	-
Goods: imports (EUR)	YoY	10.1	-4.7	8.4	-2.5	4.3	-
Current account balance <sup>1)</sup>	% of GDP	-0.4	-0.4	-0.4	-0.3	-0.1	-
Balance on goods <sup>1)</sup>	% of GDP	-0.5	-0.4	-0.4	-0.3	-0.2	-
Official Reserve Assets	EUR m	106 407.9	103 438.9	104 561.3	105 632.7	110 546.9	109 191.9
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	2.4	2.6	2.9	2.9	2.6	2.5
Core inflation (CPI excluding food and energy prices)	YoY	1.7	1.9	2.2	2.2	2.4	2.4
Producer Price Index (PPI)	YoY	1.4	0.5	0.5	0.9	0.8	-0.1
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	7.7	-2.6	5.8	-1.5	5.6	3.5
	MoM SA	-0.2	-2.0	0.7	-1.2	1.3	1.1
Construction and assembly production <sup>2)</sup>	YoY	9.5	-0.7	6.6	2.6	7.6	-4.0
	MoM SA	-3.0	-0.2	-0.3	1.9	-0.9	-5.6
Manufacturing PMI	SA	48.8	48.4	47.4	48.8	47.8	45.6
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	5.6	3.7	5.7	4.4	4.3	4.6
Average paid employment in enterprise sector	YoY	2.7	2.8	2.7	2.6	2.6	2.5
	MoM	-0.2	0.2	0.1	-0.1	-0.1	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.2	2.6	4.4	3.8	3.9	3.3
	MoM	-2.7	0.6	1.5	-1.1	-0.8	2.3
Harmonised unemployment rate (Eurostat)	% SA	3.2	3.2	3.2	3.2	3.2	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	2019 M04	M05	M06	M07	M08	M09
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	978 716.7	976 141.7	975 114.1	973 307.7	977 610.4	978 561.0
Domestic debt	face value, PLN m	696 996.8	698 328.9	701 332.2	704 330.7	706 222.8	707 713.5
	%	71.2	71.5	71.9	72.4	72.2	72.3
Foreign debt	face value, PLN m	281 719.9	277 812.8	273 781.8	268 977.1	271 387.6	270 847.4
	%	28.8	28.5	28.1	27.6	27.8	27.7
<b>Public debt (domestic definition)</b>							
	Unit	2018 Q01	Q02	Q03	Q04	2019 Q01	Q02
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
<b>General Government debt (EU definition)</b>							
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

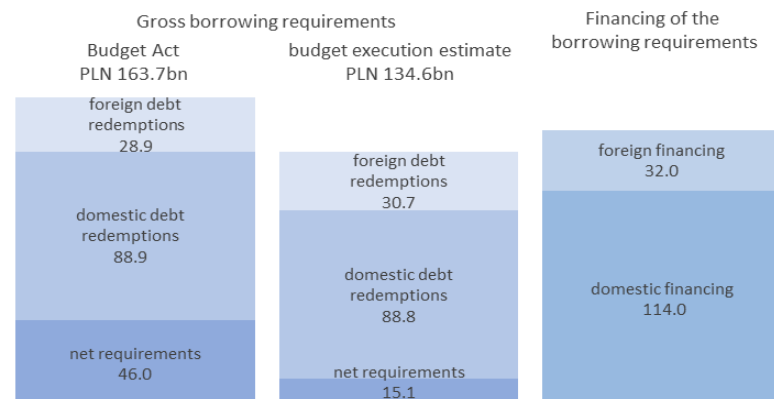
as of November 30, 2019, PLN bn

Financing of the State budget borrowing requirements reached the level of ca. 89% acc. to the Budget Act<sup>1</sup>. Acc. to the budget execution estimate<sup>2</sup> the borrowing needs were fully funded. This was a result of:

- T-bond sale on domestic market: PLN 51.4bn,
- switch auctions in 2019: PLN 29.3bn,
- 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.

<sup>1</sup> Gross borrowing requirements acc. to the 2019 Budget Act: PLN 163.7bn.

<sup>2</sup> 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 December

plan as of November 30, 2019

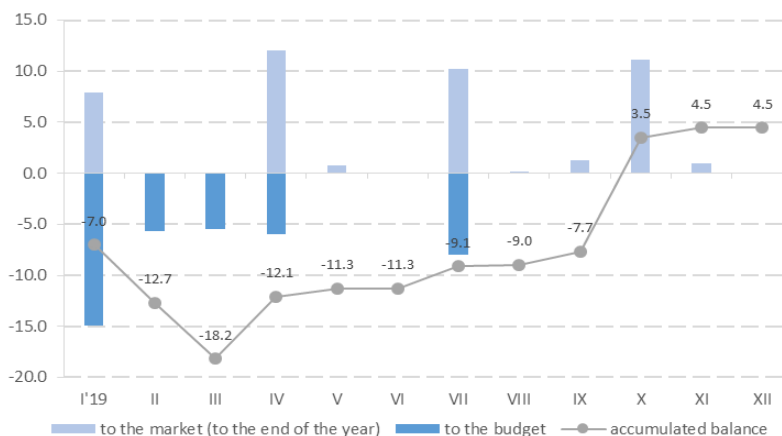
There will be no funds transferred from the State budget to the market in December (neither TS redemptions nor interest payments).

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

as at the end of month, PLN bn

There will be no funds linked to wholesale TS redemptions nor interest payments transferred to the market until the end of the year.

\* 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 December to the end of 2019.

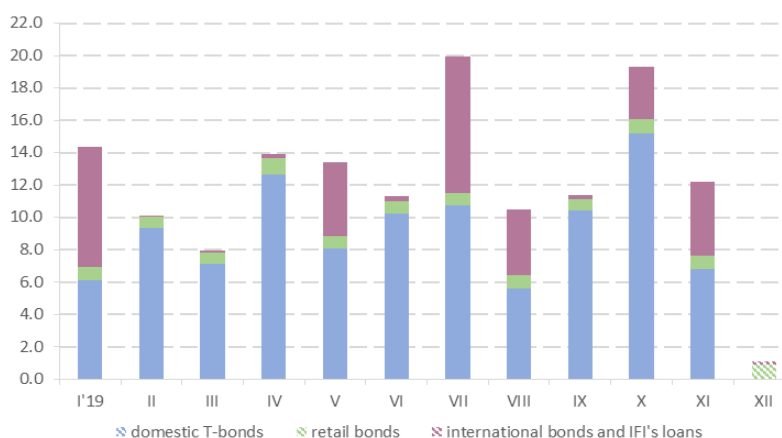


#### State Treasury debt redemptions in 2019

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

The nominal amount of debt to be redeemed in 2019 (as of November 30, 2019) is equal to PLN 1.1bn, including:

- retail bonds: PLN 0.9bn,
- bonds and loans incurred on foreign markets: PLN 0.2bn.



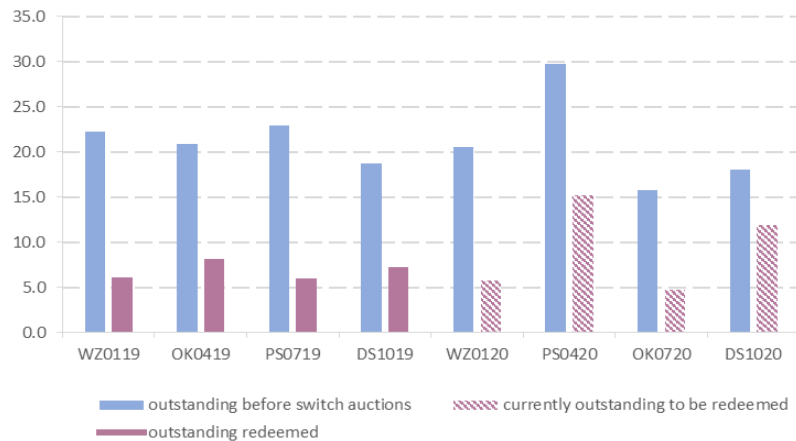


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

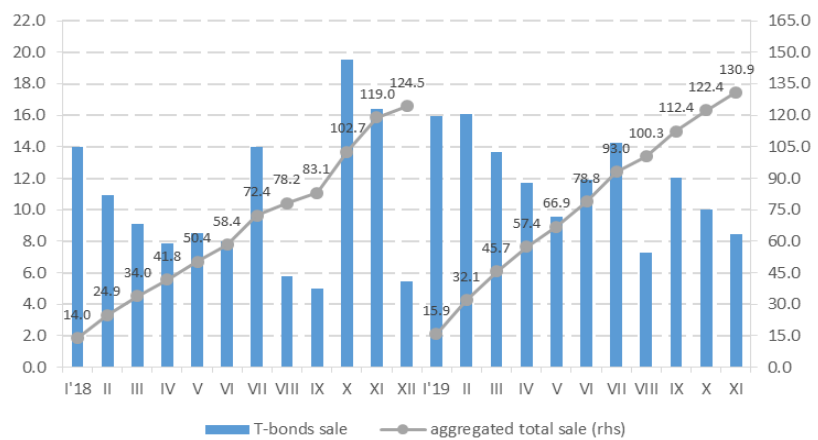
Buy-back of T-bonds maturing in 2019 and 2020:

- 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 14.8bn (72% of the issuance),
- PS0420: PLN 14.5bn (49% of the issuance),
- OK0720: PLN 11.0bn (70% of the issuance),
- DS1020: PLN 6.1bn (34% of the issuance).



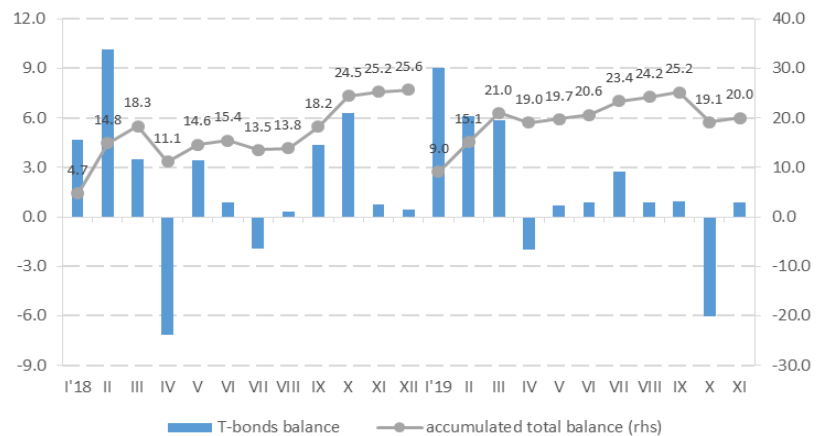
#### Sale of domestic T-bonds in 2018 and 2019 auction date, nominal amount, PLN bn

In the period of I-XI 2019 aggregated total sale of T-bonds amounted to PLN 130.9bn versus PLN 119.0bn 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-XI 2019 indebtedness in T-bonds increased by PLN 20.0bn versus an increase of PLN 25.2bn in the same period of 2018.

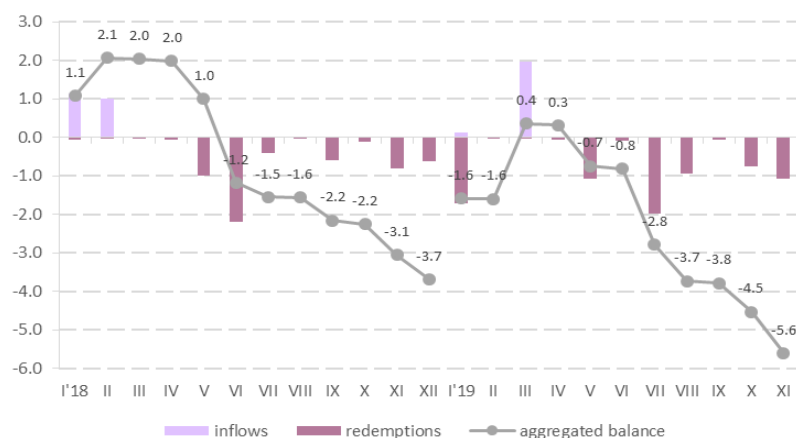


#### External financing in 2018 and 2019

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

Net financing on foreign markets in the period of I-XI 2019 was negative and amounted to EUR 5.6bn (negative balance of EUR 3.1bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 3.9bn (negative balance of EUR 2.5bn in the same period of 2018),
- negative balance of loans incurred from IFIs of EUR 1.7bn (negative balance of EUR 0.6bn in the same period of 2018).



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

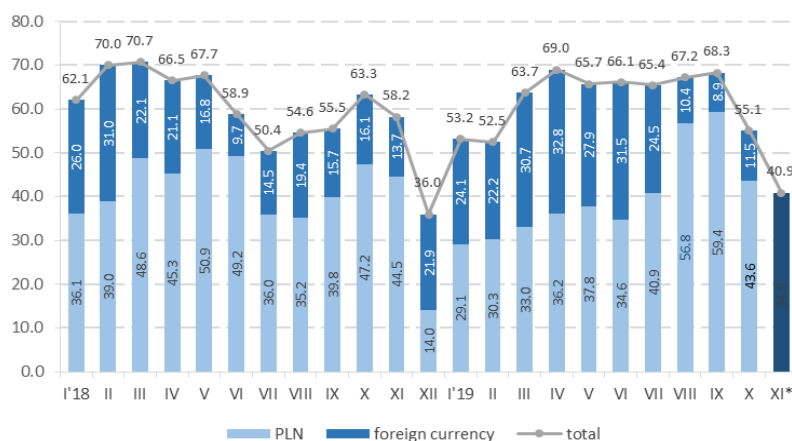


#### Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of November 2019 there was an equivalent of PLN 40.9bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

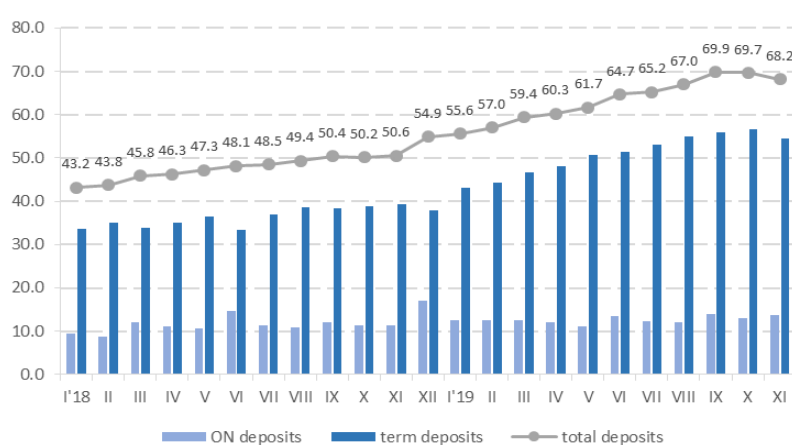
\* estimated data



#### Consolidation of public finance sector liquidity management

PLN bn

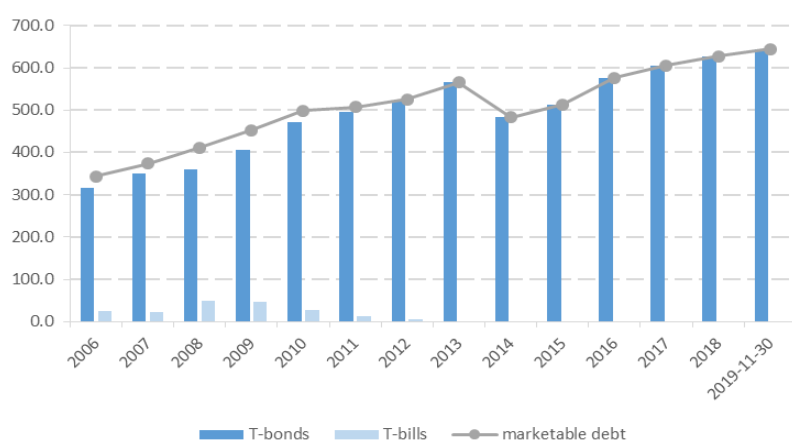
As a result of consolidation of the public finance sector liquidity management there were PLN 68.2bn funds accumulated at the end of November 2019, of which: PLN 54.4bn was on term deposits and PLN 13.8bn on ON deposits.



#### Structure of marketable debt

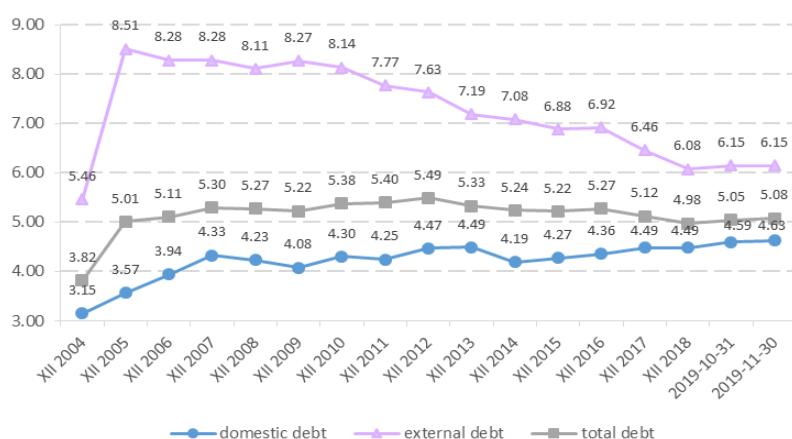
PLN bn

The marketable domestic debt amounted to PLN 644.4bn at the end of November 2019 comparing to PLN 627.1bn at the end of 2018.



#### Average maturity

The average maturity of domestic debt amounted to 4.63 years at the end of November 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).





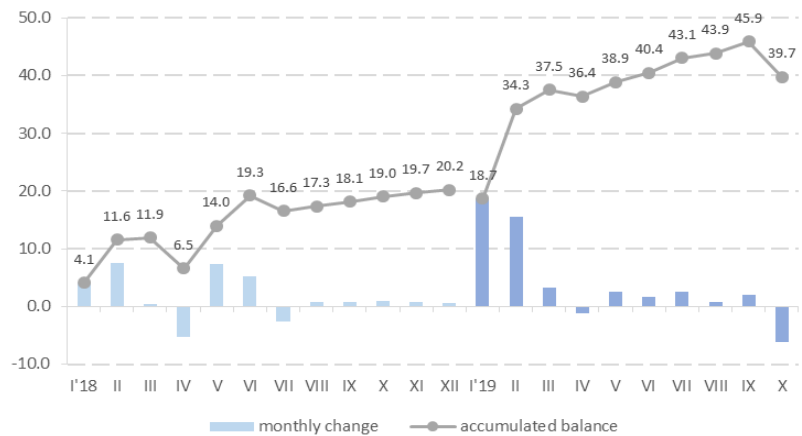


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

PLN bn

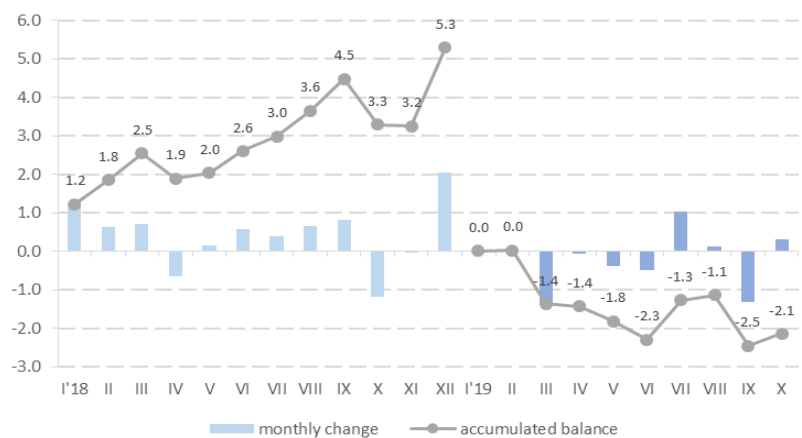
In the period of I-X 2019 there was an increase of debt by PLN 39.7bn comparing to PLN 19.0bn increase during the same period of 2018. Banks' holdings reached the level of PLN 303.8bn.



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

PLN bn

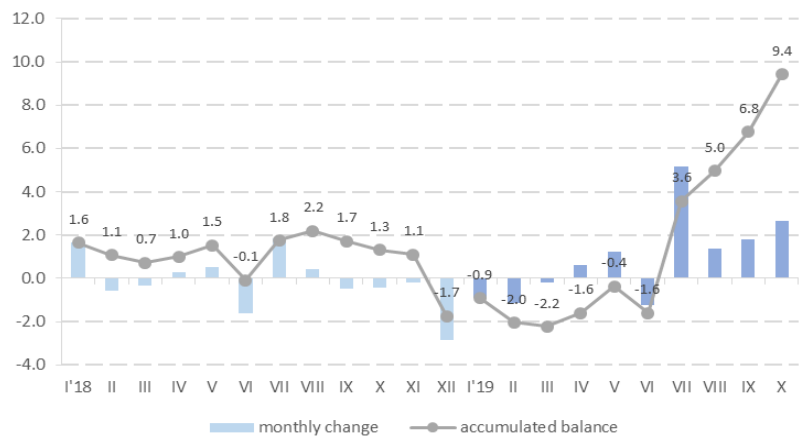
In the period of I-X 2019 there was a decrease of debt by PLN 2.1bn comparing to PLN 3.3bn increase during the same period of 2018. Insurance companies' holdings reached the level of PLN 62.9bn.



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

PLN bn

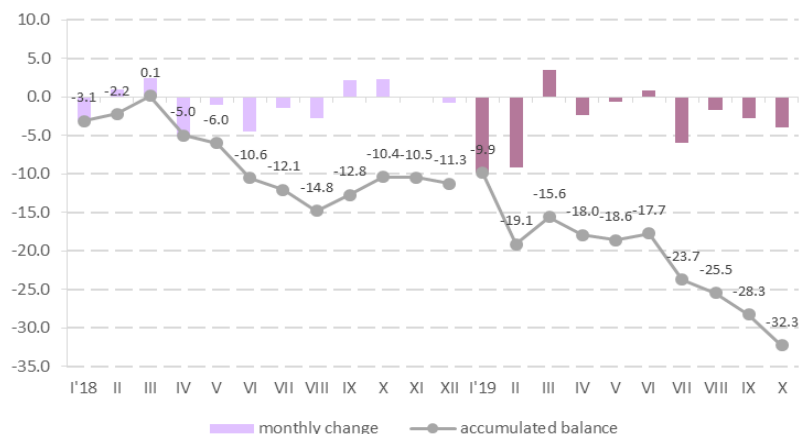
In the period of I-X 2019 there was an increase of debt by PLN 9.4bn comparing to PLN 1.3bn increase in the same period of 2018. Investment funds' holdings reached the level of PLN 64.8bn.



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

PLN bn

In the period of I-X 2019 there was a decrease of debt by PLN 32.3bn comparing to PLN 10.4bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 159.2bn.





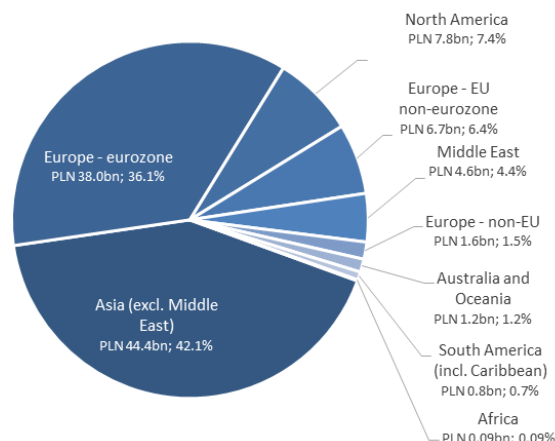
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

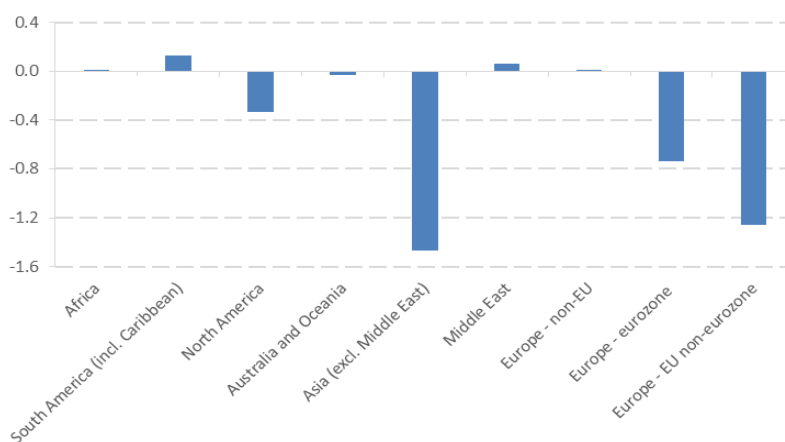
The non-residents' share in the domestic Treasury securities market decreased by PLN 4.0bn in October 2019. The foreign investors' portfolio amounted to PLN 159.2bn, which constituted 23.7% share in total debt in Treasury securities (24.1% in the previous month).



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

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

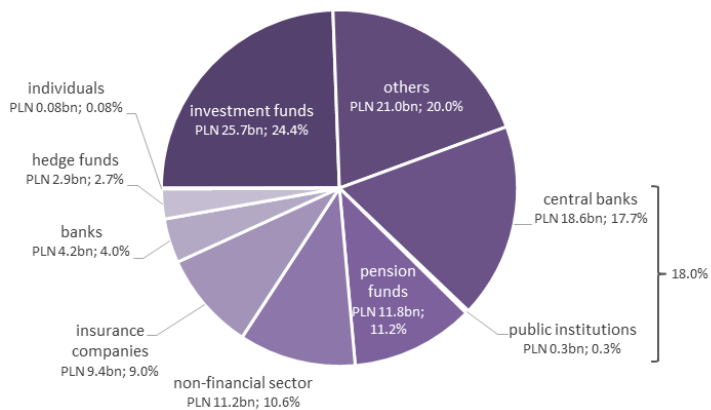
In October 2019 the highest increase was recorded by investors from South America (PLN 0.1bn), while the highest decrease was noted by Asian investors (PLN 1.5bn).



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

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

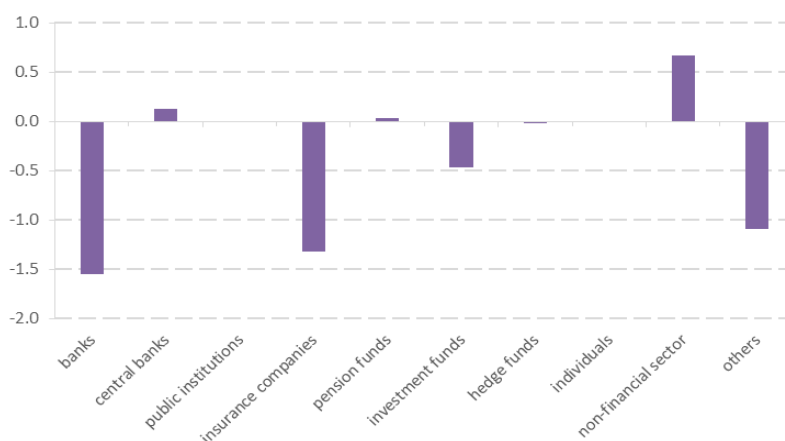
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 18.0% at the end of October 2019.



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

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

In October 2019 the highest increase was recorded by investors from the non-financial sector (PLN 0.7bn) and the highest decrease was noted by banks (PLN 1.5bn).



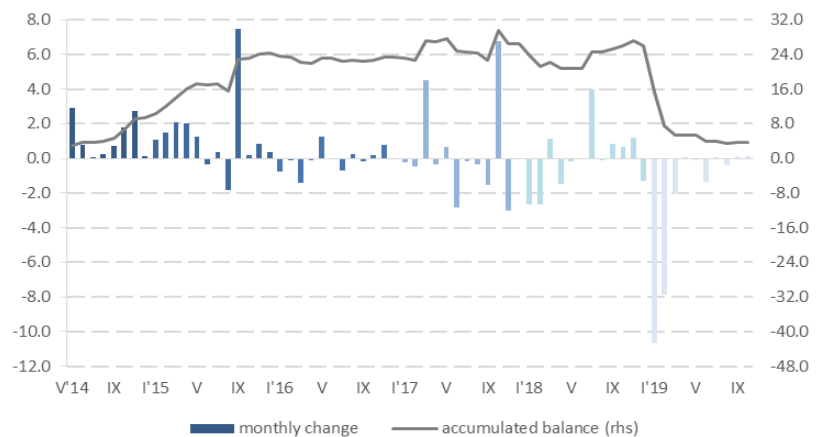


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in October 2019, PLN bn

Central banks and public institutions' involvement increased by PLN 0.1bn in October 2019. In the period from the end of April 2014 to the end of October 2019, for which the detailed information is available, portfolios of those entities increased by PLN 3.8bn.



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

as of October 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	23 394.3	27.0%
Luxembourg	13 237.5	15.3%
Netherlands	8 626.1	10.0%
United States	6 744.3	7.8%
Ireland	6 477.9	7.5%
Germany	6 087.1	7.0%
United Kingdom	4 164.1	4.8%
Hong Kong	2 208.2	2.5%
United Arab Emirates	2 079.6	2.4%
France	1 668.7	1.9%
Switzerland	1 499.2	1.7%
Australia	1 101.6	1.3%
Italy	1 023.9	1.2%
Denmark	953.5	1.1%
Others	7 427.2	8.6%
<b>Total</b>	<b>86 693.2</b>	<b>100.0%</b>

#### Comment

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

29-11-2019

The level of prefinancing next year's gross borrowing requirements according to the draft budget act amounted to ca. 33%, which was a result of switch auctions. At the end of November liquid funds on the budgetary accounts reached ca. PLN 40bn.

One switch auction is planned for December.

In October, due to the redemption of T-bonds and lack of sale auctions, indebtedness in domestic Treasury securities fell down by PLN 5.6bn. The involvement of domestic banks decreased by PLN 6.2bn and non-residents – by PLN 4.0bn. On the other hand, the involvement of domestic non-banking sector increased by PLN 4.6bn, including PLN 2.6bn in the case of investment funds and PLN 0.9bn of individuals.

## IV. SUPPLY PLAN OF TREASURY SECURITIES IN DECEMBER 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)
13 DEC 2019 / 17 DEC 2019	OK0722 / PS1024 / WZ0525/ DS1029 / WZ1129 / possible T-bond either of WS or IZ type	WZ0120	5,795
		PS0420	15,221
		OK0720	4,691
		DS1020	11,891

### T-bill auctions

Sale auctions of Treasury bills are not planned.

### Offer on the retail market

T-bond	Issue price	Coupon
OTS0320 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS1221 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ1222 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI1223 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO1229 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS1225 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD1231 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period