

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

February 2020

### THE MOST IMPORTANT INFORMATION

I. Current macroeconomic situation .....	2-3
II. Statistical data .....	4
III. Background of borrowing requirements' financing .....	5-11
• MoF's comment .....	10
• EUR bond issue .....	11
IV. Monthly supply plan of Treasury securities .....	12

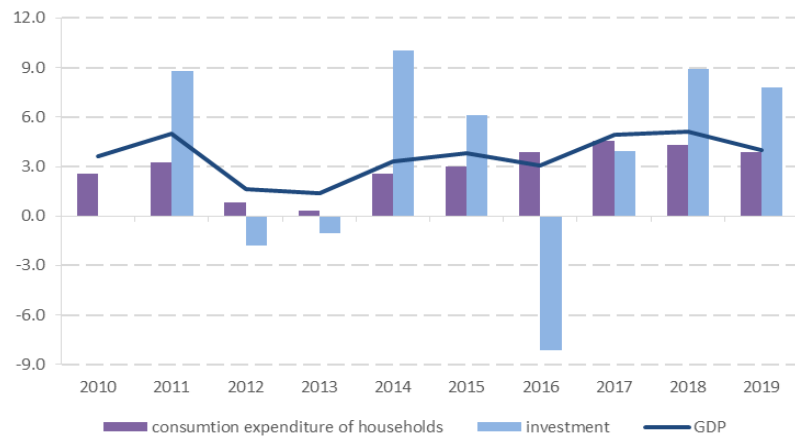


## I. MACROECONOMIC SITUATION

### Gross domestic product of Poland

constant prices, yoy  
source: GUS

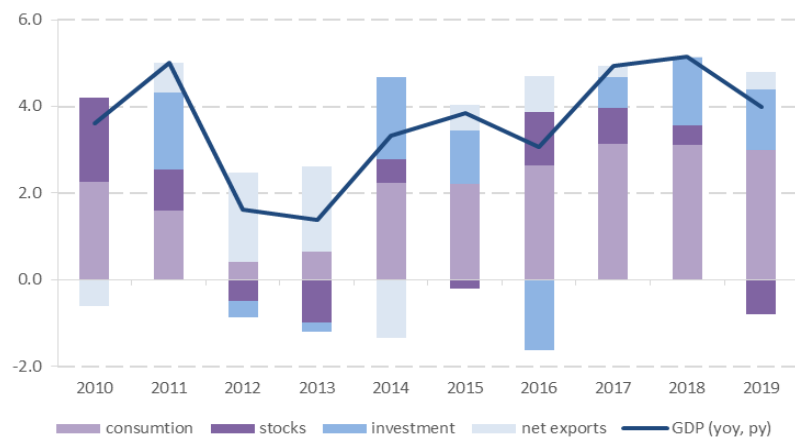
According to preliminary data real GDP growth amounted to 4.0% in 2019, i.e. 1.1 pp lower than a year earlier. The final consumption expenditure of households increased by 3.9% supported by positive labour market situation, additional income transfers and robust sentiment of consumers. Despite higher vs. a year earlier estimated dynamics of real disposable incomes private consumption pace of growth slightly decelerated. This was most probably caused by an increase in households saving rate. Investment expanded by 7.8% and investment dynamics in non-GG sector was probably the highest since 2007. 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

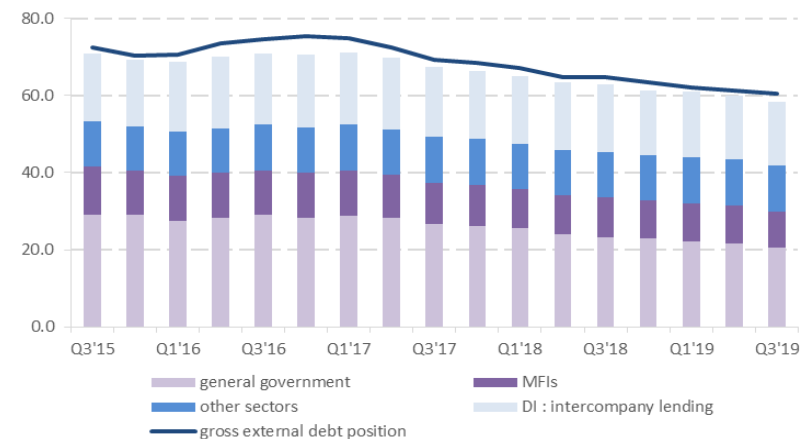
In 2019 domestic demand was the main source of GDP growth, mainly due to the final consumption expenditure of households and, to a lesser extent, gross fixed capital formation with a contribution of 2.2 pp and 1.4 pp, respectively. Net exports contribution to GDP growth was positive, whereas inventories contribution was negative for the first time since 2015.



### Polish gross external debt position

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

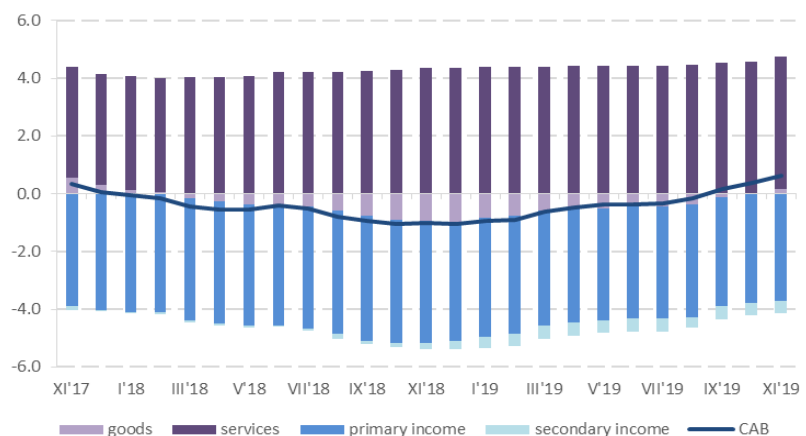
At the end of the third quarter of 2019 gross external debt reached EUR 312.2bn (60.4% of GDP) and was EUR 0.5bn higher than in the previous quarter. The share of general government sector debt in total debt decreased to 33.9%. At the end of November 2019 official reserve assets reached about EUR 108.9bn 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 November 2019, according to preliminary data, current account balance was positive and amounted to 0.6% of GDP (in 12-month terms). The inflow of long-term capital continued as well, i.e. direct investment of non-residents and EU structural funds classified on the capital account.

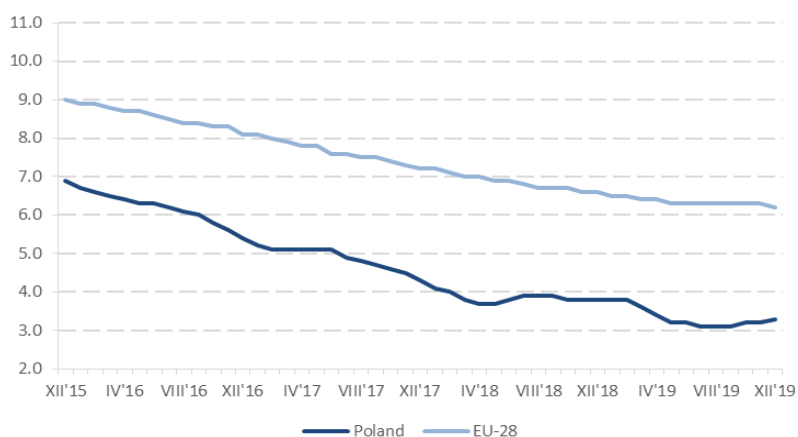




## Harmonised unemployment rate

percent, seasonally adjusted data  
source: Eurostat

In December 2019 harmonised unemployment rate slightly increased in comparison with the previous month and amounted to 3.3%, which was higher by 0.2 pp versus the historically low level observed in the period of July-September 2019 (compared to 6.2% on average in the EU).



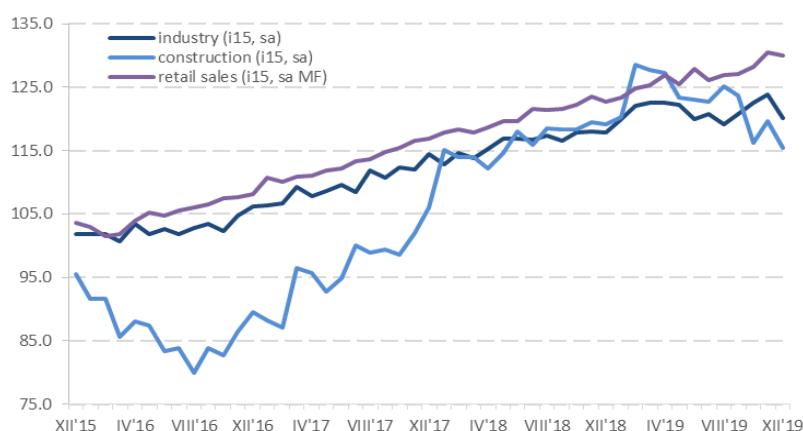
## Monthly indicators of the real sector

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

In December 2019 industrial production went down by 2.9% (mom, sa) and was 3.8% higher than a year ago (nsa). Data were below market expectations.

Construction and assembly production dropped by 3.5% following an increase in the previous month (mom, sa). As a result, it was 3.3% (nsa) lower than a year before. Data were worse than MoF's expectations.

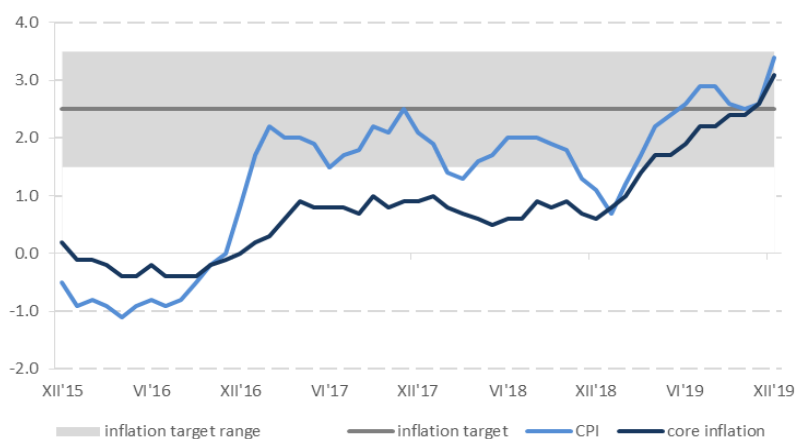
Real retail sales decreased by 0.4% following a relatively big growth in two previous months (mom, sa MoF). As a result, retail sales were 5.7% (nsa) higher than in the same month of 2018. Data were close to market expectations.



## Inflation

percent, yoy  
source: GUS, NBP

In the course of 2019 inflation gradually increased: from 0.7% in January to 3.4% in December. Inflation in December was higher than market expectations. In the second half of 2019 inflation rate exceeded the inflation target and at the end of the year it was close to the upper limit of deviation from the target. On average CPI inflation in 2019 was 2.3% (1.6% in 2018). Core inflation (CPI excluding food and energy prices) rose from the beginning of 2019 and in December it reached 3.1% (yoy), the highest level for 8 years. The annual rate of PPI in last months remained at a relatively low level and in October and November there was PPI deflation. In December producer prices were higher by 1.0% (yoy).

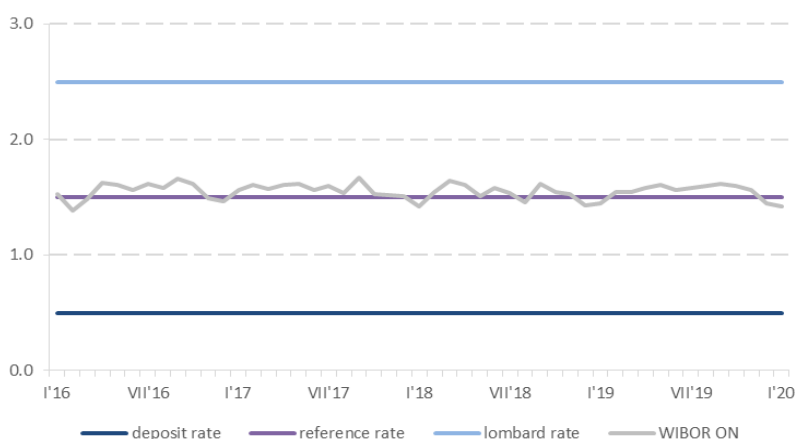


## NBP interest rates

percent, end of period  
source: NBP, Eurostat

In January 2020, 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 27) sees no NBP rate move at least until the end of the first quarter of 2022.





## II. STATISTICAL DATA

	Unit	2014	2015	2016	2017	2018	2019
<b>GDP</b>							
Gross domestic product	YoY	3.3	3.8	3.1	4.9	5.1	4.0
	QoQ SA						
Final consumption expenditure of the households sector	YoY	2.6	3.0	3.9	4.5	4.3	3.9
	QoQ SA						
Final consumption expenditure of the general government sector	YoY	4.3	2.3	1.9	2.9	3.6	-
	QoQ SA						
Gross fixed capital formation	YoY	10.0	6.1	-8.2	4.0	8.9	7.8
	QoQ SA						
Exports of goods and services	YoY	6.7	7.7	8.8	9.5	7.0	-
	QoQ SA						
Imports of goods and services	YoY	10.0	6.6	7.6	9.8	7.6	-
	QoQ SA						
Gross value added	YoY	3.3	3.7	3.0	4.8	5.1	4.0
	QoQ SA						
<b>Contribution to GDP growth</b>							
Final consumption expenditure of the households sector	pp	1.5	1.8	2.2	2.6	2.5	2.2
Final consumption expenditure of the general government sector	pp	0.8	0.4	0.3	0.5	0.6	-
Gross fixed capital formation	pp	1.9	1.2	-1.6	0.7	1.6	1.4
Changes in inventories	pp	0.5	-0.2	1.2	0.8	0.4	-
Balance of trade turnover	pp	-1.3	0.6	0.8	0.3	0.0	0.4
Gross value added	pp	2.9	3.2	2.7	4.2	4.5	3.4
Taxes less subsidies	pp	0.4	0.6	0.4	0.7	0.7	-
<b>GDP structure</b>							
Final consumption expenditure of the households sector	% of GDP	59.3	57.7	57.7	57.6	57.3	-
Final consumption expenditure of the general government sector	% of GDP	18.2	18.0	17.9	17.7	17.8	-
Gross fixed capital formation	% of GDP	19.7	20.1	18.0	17.5	18.2	-
Changes in inventories	% of GDP	0.6	0.4	1.6	2.3	2.5	-
Exports of goods and services	% of GDP	47.6	49.5	52.2	54.3	55.6	-
Imports of goods and services	% of GDP	46.1	46.4	48.2	50.2	52.2	-
<b>Balance of payments</b>							
	Unit	2019 M07	M08	M09	M10	M11	M12
Goods: exports (EUR)	YoY	5.9	-1.8	13.5	3.8	-1.0	-
Goods: imports (EUR)	YoY	6.9	-3.4	6.4	-0.2	-4.6	-
Current account balance <sup>1)</sup>	% of GDP	-0.3	-0.2	0.2	0.4	0.6	-
Balance on goods <sup>1)</sup>	% of GDP	-0.4	-0.4	-0.1	0.0	0.2	-
Official Reserve Assets	EUR m	104 561.3	105 632.7	110 546.9	109 192.0	108 887.5	114 510.6
<b>Inflation</b>							
Consumer Price Index (CPI)	YoY	2.9	2.9	2.6	2.5	2.6	3.4
Core inflation (CPI excluding food and energy prices)	YoY	2.2	2.2	2.4	2.4	2.6	3.1
Producer Price Index (PPI)	YoY	0.5	0.9	0.8	-0.3	-0.1	1.0
<b>Production</b>							
Sold production of industry <sup>2)</sup>	YoY	5.8	-1.5	5.6	3.7	1.4	3.8
	MoM SA	0.7	-1.2	1.3	1.4	1.1	-2.9
Construction and assembly production <sup>2)</sup>	YoY	6.6	2.6	7.6	-4.1	-4.7	-3.3
	MoM SA	-0.3	1.9	-1.1	-6.0	2.9	-3.5
Manufacturing PMI	SA	47.4	48.8	47.8	45.6	46.7	48.0
<b>Households and labour market</b>							
Retail sales <sup>2)</sup>	YoY	5.7	4.4	4.3	4.6	5.2	5.7
Average paid employment in enterprise sector	YoY	2.7	2.6	2.6	2.5	2.6	2.6
	MoM	0.1	-0.1	-0.1	0.0	0.2	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.4	3.8	3.9	3.3	2.6	2.7
	MoM	1.5	-1.1	-0.8	2.3	0.2	6.3
Harmonised unemployment rate (Eurostat)	%, SA	3.1	3.1	3.1	3.2	3.2	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>							
<b>State Treasury debt</b>							
	Unit	2019 M06	M07	M08	M09	M10	M11
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	975 114.1	973 307.7	977 610.4	978 558.5	960 879.8	962 010.8
Domestic debt	face value, PLN m	701 332.2	704 330.7	706 222.8	707 711.0	701 311.3	702 671.8
	%	71.9	72.4	72.2	72.3	73.0	73.0
Foreign debt	face value, PLN m	273 781.8	268 977.1	271 387.6	270 847.4	259 568.6	259 339.1
	%	28.1	27.6	27.8	27.7	27.0	27.0
<b>Public debt (domestic definition)</b>							
	Unit	2018 Q02	Q03	Q04	2019 Q01	Q02	Q03
Public debt (acc. to the place of issue criterion)	face value, PLN m	984 470.7	977 304.9	984 313.5	1 005 633.5	998 219.5	1 001 181.0
Domestic debt	face value, PLN m	675 566.2	678 615.4	688 248.0	706 607.9	708 263.5	713 558.3
	%	68.6	69.4	69.9	70.3	71.0	71.3
Foreign debt	face value, PLN m	308 904.5	298 689.6	296 065.5	299 025.7	289 956.1	287 622.7
	%	31.4	30.6	30.1	29.7	29.0	28.7
<b>General Government debt (EU definition)</b>							
General Government debt	face value, PLN m	1 033 386.2	1 029 424.1	1 035 254.9	1 056 172.7	1 051 207.1	1 054 768.8
Source: MoF							

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### Gross borrowing requirements in 2020

as of January 31, 2020, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 63% (acc. to the Budget Act) was a result of:

- T-bond sale on domestic market: PLN 14.6bn,
- T-bond sale on foreign markets: PLN 0.8bn,
- switch auctions in 2019: PLN 47.4bn,
- and higher financial resources at the end of 2019: PLN 26.5bn.

Gross borrowing requirements  
Total: PLN 141.7bn, of which:



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

plan as of January 31, 2020

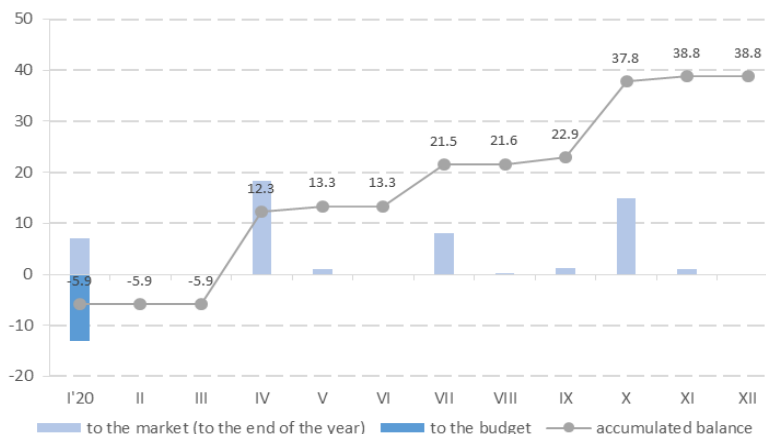
In February there will be no funds transferred from the State budget to the market related to T-securities (neither TS redemptions nor interest payments).

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

as at the end of month, PLN bn

From February to the end of 2020 funds to be transferred to the domestic market shall amount to PLN 44.8bn.

\* 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 February to the end of 2020.

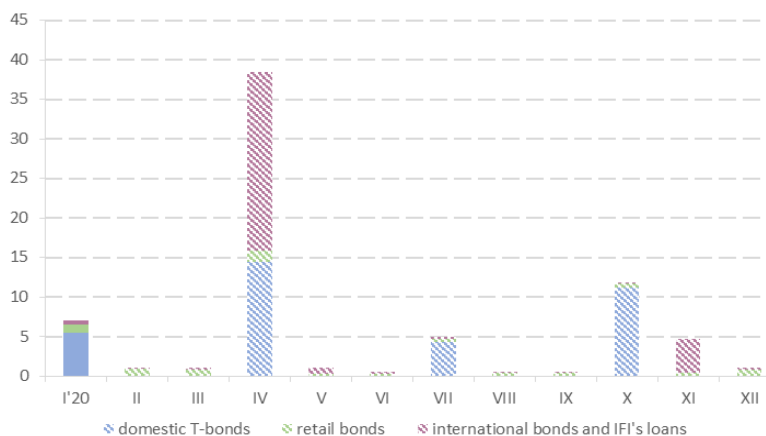


#### State Treasury debt redemptions in 2020

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

The nominal amount of debt to be redeemed in 2020 (as of January 31, 2020) is equal to PLN 65.4bn, including:

- T-bonds: PLN 29.9bn,
- retail bonds: PLN 6.5bn,
- bonds and loans incurred on foreign markets: PLN 29.1bn.





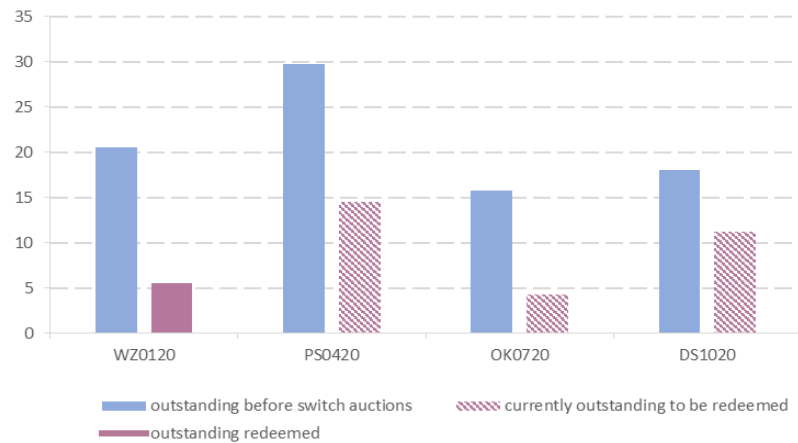
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

#### Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020

as of January 31, 2020, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2020:

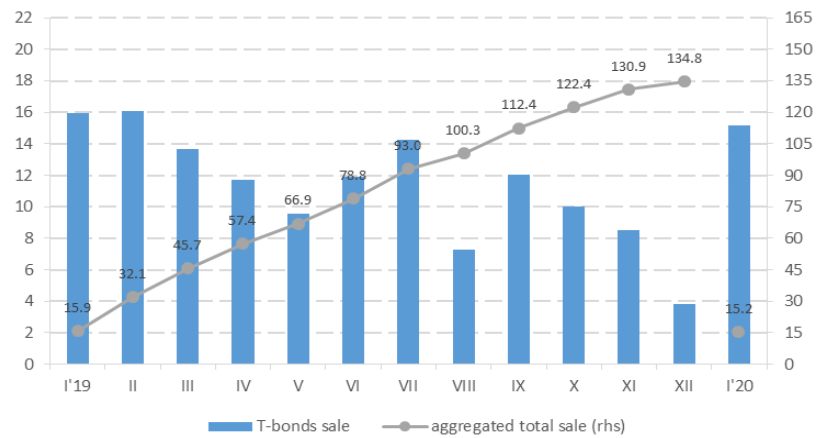
- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 15.2bn (51% of the issuance),
- OK0720: PLN 11.4bn (73% of the issuance),
- DS1020: PLN 6.9bn (38% of the issuance).



#### Sale of domestic T-bonds in 2019 and 2020

auction date, nominal amount, PLN bn

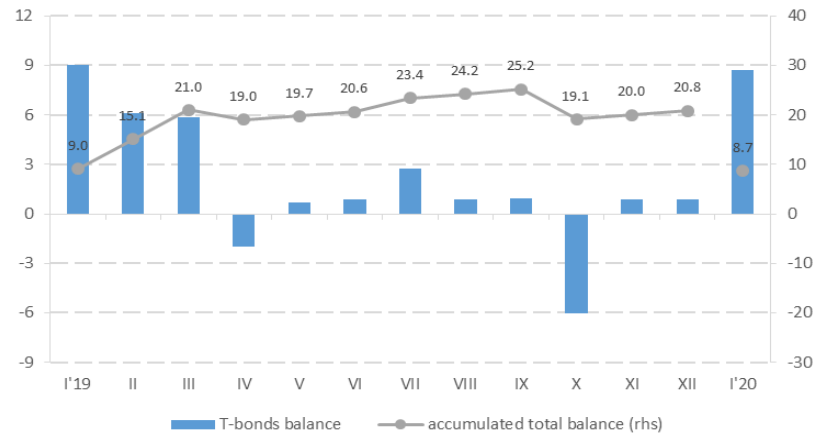
In January 2020 aggregated total sale of T-bonds amounted to PLN 15.2bn versus PLN 15.9bn in the same period of 2019.



#### Balance of domestic T-bonds in 2019 and 2020

auction date, nominal amount, PLN bn

In January 2020 indebtedness in T-bonds increased by PLN 8.7bn versus an increase of PLN 9.0bn in the same period of 2019.

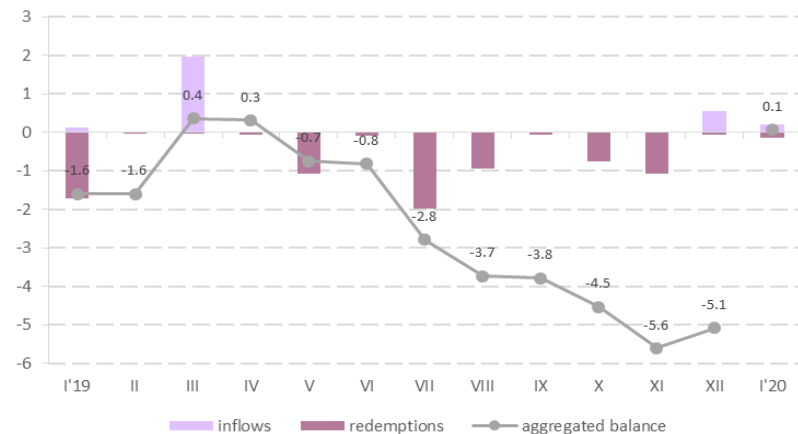


#### External financing in 2019 and 2020

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

Net financing on foreign markets in January 2020 was positive and amounted to EUR 0.1bn (negative balance of EUR 1.6bn in the same period of 2019) which resulted from:

- positive balance of T-bonds of EUR 0.2bn (negative balance of EUR 1.7bn in the same period of 2019),
- negative balance of loans incurred from IFIs of EUR 0.1bn (positive balance of EUR 0.1bn in the same period of 2019).



### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

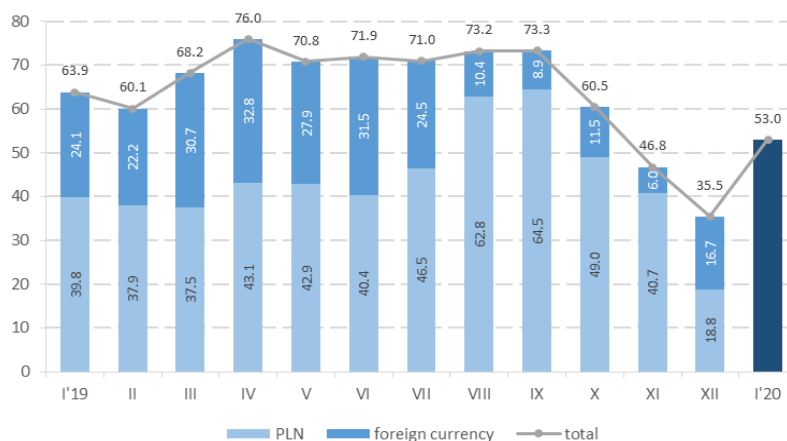


#### Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of January 2020 there was an equivalent of PLN 53.0bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

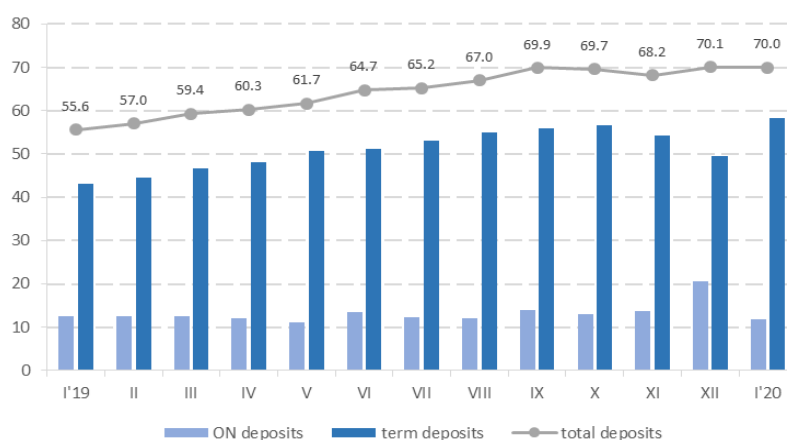
\* estimated data



#### Consolidation of public finance sector liquidity management

PLN bn

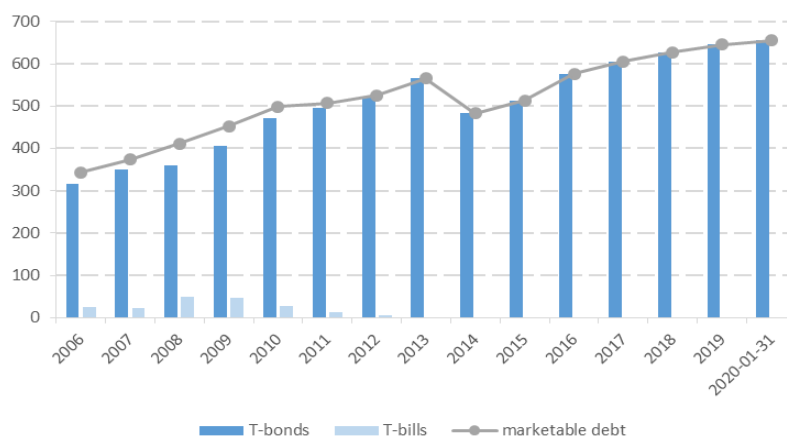
As a result of consolidation of the public finance sector liquidity management there were PLN 70.0bn funds accumulated at the end of January 2020, of which: PLN 58.3bn was on term deposits and PLN 11.8bn on ON deposits.



#### Structure of marketable debt

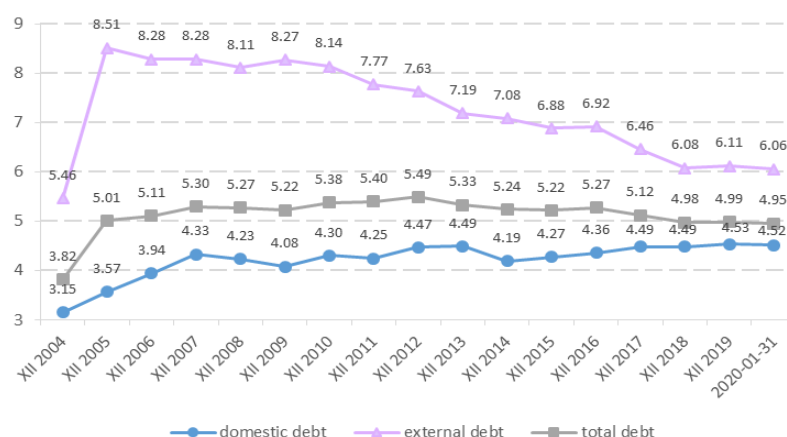
PLN bn

The marketable domestic debt amounted to PLN 655.9bn at the end of January 2020 comparing to PLN 646.0bn at the end of 2019.



#### Average maturity

The average maturity of domestic debt amounted to 4.52 years at the end of January 2020 (4.53 years at the end of 2019). The average of total debt amounted to 4.95 years (4.99 years at the end of 2019).

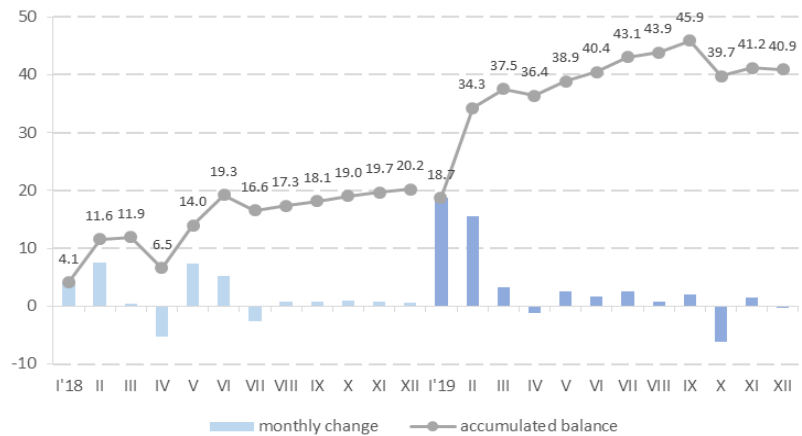




### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

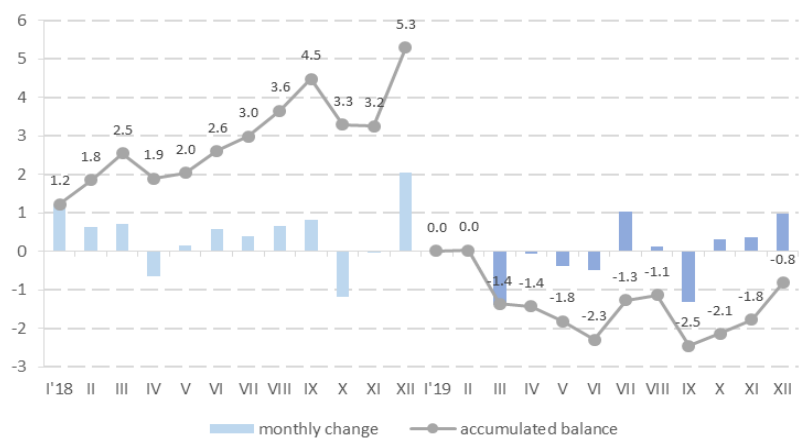
#### Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-XII 2019 there was an increase of debt by PLN 40.9bn comparing to PLN 20.2bn increase during the same period of 2018. Banks' holdings reached the level of PLN 305.0bn.



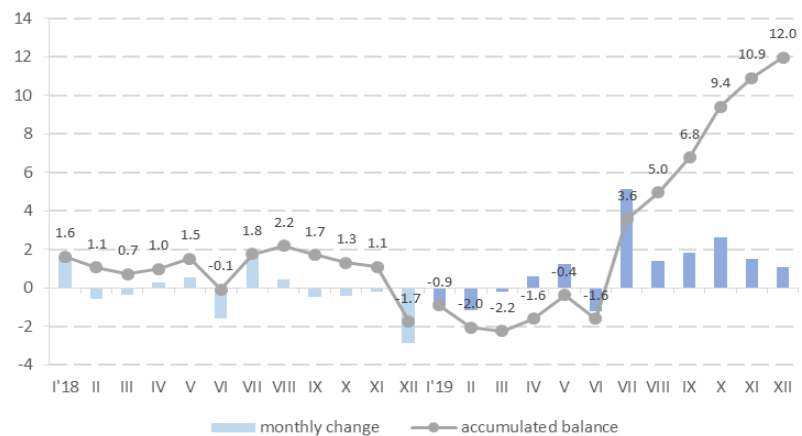
#### Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-XII 2019 there was a decrease of debt by PLN 0.8bn comparing to PLN 5.3bn increase during the same period of 2018. Insurance companies' holdings reached the level of PLN 64.3bn.



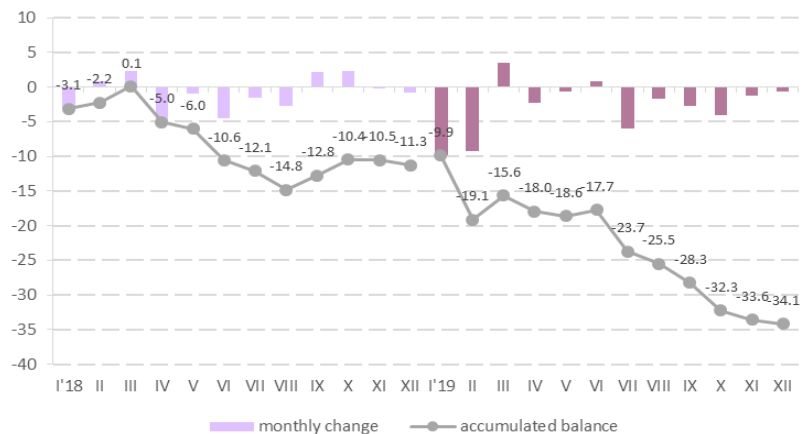
#### Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-XII 2019 there was an increase of debt by PLN 12.0bn comparing to PLN 1.7bn decrease in the same period of 2018. Investment funds' holdings reached the level of PLN 67.4bn.



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

In the period of I-XII 2019 there was a decrease of debt by PLN 34.1bn comparing to PLN 11.3bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 157.3bn.





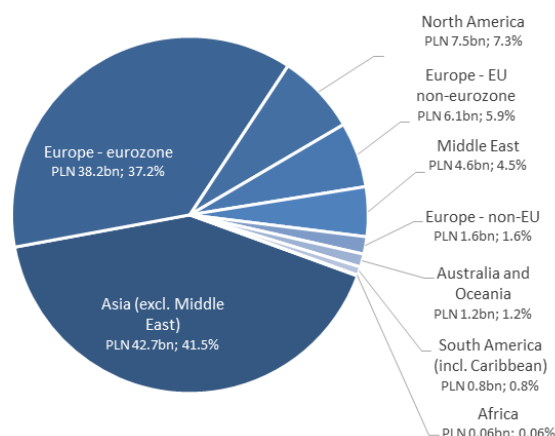
### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

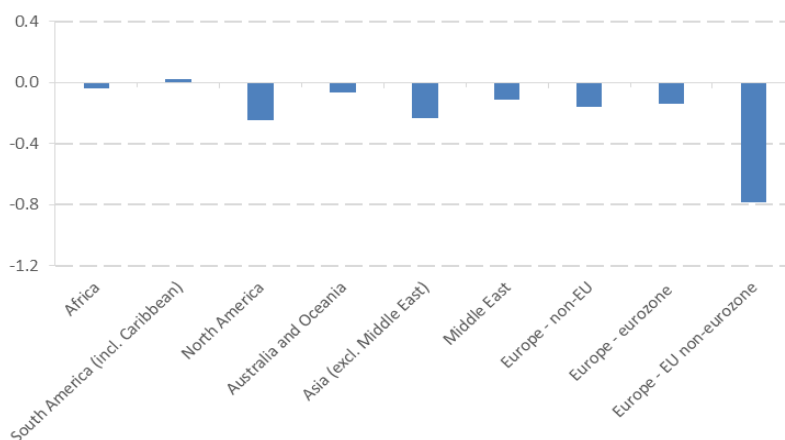
The non-residents' share in the domestic Treasury securities market decreased by PLN 0.6bn in December 2019. The foreign investors' portfolio amounted to PLN 157.3bn, which constituted 23.4% share in total debt in Treasury securities (23.5% in the previous month).



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

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

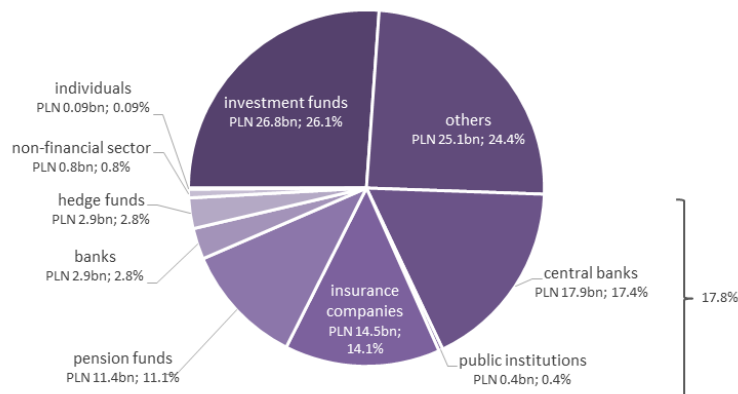
In December 2019 the only increase was recorded by investors from South America (PLN 0.02bn), while the highest decrease was noted by EU non-eurozone investors (PLN 0.8bn).



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

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

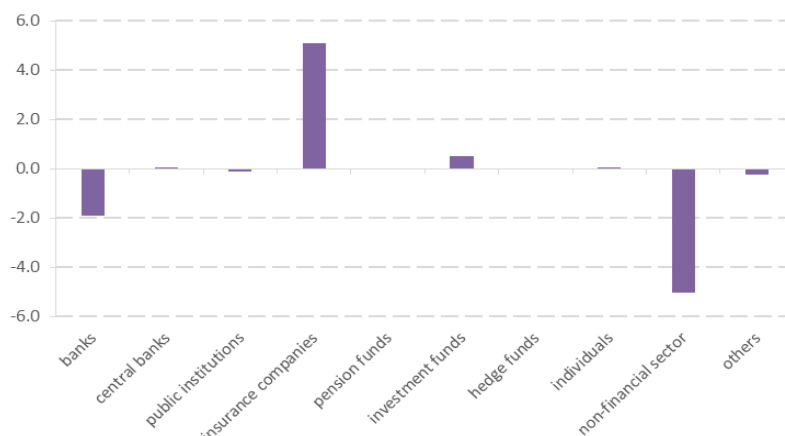
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 17.8% at the end of December 2019.



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

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

In December 2019 the highest increase was recorded by insurance companies (PLN 5.1bn) and the highest decrease was noted by investors from the non-financial sector (PLN 5.1bn).



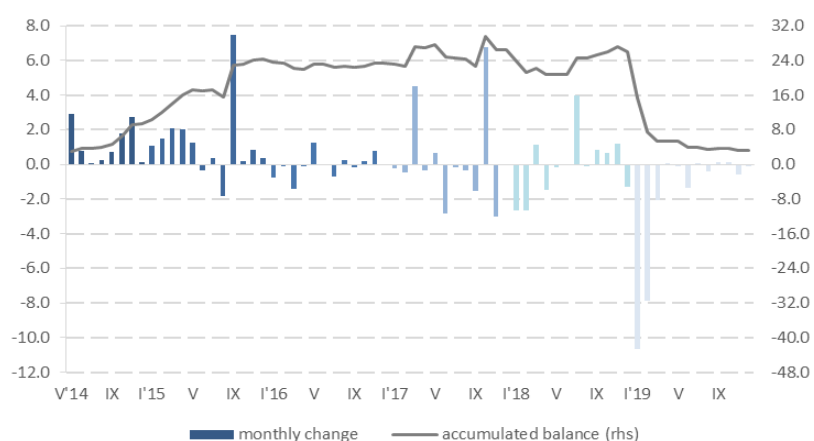


### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in December 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.1bn in December 2019. In the period from the end of April 2014 to the end of December 2019, for which the detailed information is available, portfolios of those entities increased by PLN 3.1bn.



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

as of December 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	22 454.8	26.5%
Luxembourg	13 889.3	16.4%
Netherlands	7 948.1	9.4%
Ireland	7 085.5	8.4%
United States	6 388.5	7.5%
Germany	5 994.9	7.1%
United Kingdom	3 411.5	4.0%
Hong Kong	2 213.7	2.6%
United Arab Emirates	1 941.8	2.3%
Switzerland	1 456.0	1.7%
France	1 131.7	1.3%
Australia	1 062.5	1.3%
Italy	1 060.1	1.2%
Denmark	1 003.0	1.2%
Canada	851.8	1.0%
Others	6 923.4	8.2%
<b>Total</b>	<b>84 816.6</b>	<b>100.0%</b>

#### Comment

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

31-01-2020

At the end of January the level of financing of the 2020 gross borrowing requirements amounted to 62%, of which ca. 52% of the needs were prefinanced in 2019. Liquid funds on the budgetary accounts reached ca. PLN 53bn.

In February we plan to hold two T-bond switching auctions, at which T-bond series maturing in 2020 and January 2021 will be offered to repurchase. No T-bill auctions are planned.

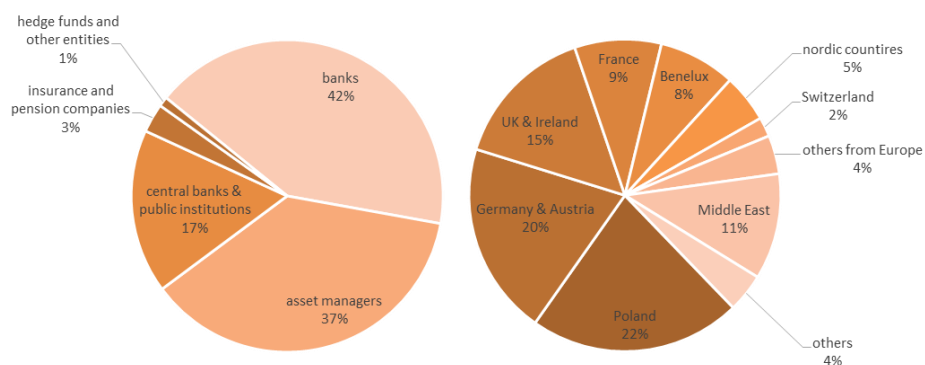
In December 2019 indebtedness in domestic Treasury securities increased by PLN 2.4bn. The involvement of domestic non-banking sector increased by PLN 3.3bn, of which indebtedness held by investment funds increased by PLN 1.1bn and insurance companies by PLN 1.0bn, while involvement of foreign banks and domestic banks decreased (by PLN 0.6bn and PLN 0.3bn, respectively).

### III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



#### EUR bond issue

<b>Amount</b>	EUR 1.5bn
<b>Maturity date</b>	February 10, 2025
<b>Coupon</b>	0%
<b>Spread</b>	19 bp over mid-swap rate
<b>Yield</b>	-0.102%
<b>Launch (pricing) date</b>	February 3, 2020
<b>Bookrunners</b>	BNP Paribas, Commerzbank, ING, JP Morgan, PKO BP and Santander.





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

### T-bond sale auctions

Sale auctions of Treasury bonds are not planned.

### T-bond switching auctions

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)*
<b>6 FEB 2020 / 10 FEB 2020</b>	OK0722 / PS1024 / WZ0525 / DS1029 / WZ1129 / WS0447	PS0420	11,862
		OK0720	3,858
		DS1020	10,251
		WZ0121	23,696
<b>20 FEB 2020 / 24 FEB 2020</b>	OK0722 / PS1024 / WZ0525 / DS1029 / WZ1129 / possible T-bond either of WS or IZ type	PS0420	11,862
		OK0720	3,858
		DS1020	10,251
		WZ0121	23,696

\* after settlement of the auction held on February 6, 2020.

### T-bill auctions

Sale auctions of Treasury bills are not planned.

### Offer on the retail market

T-bond	Issue price	Coupon
OTS0520 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0222 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0223 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0224 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0230 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0226 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0232 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period