

State budget borrowing requirements' financing plan and its background

3th quarter 2020
July 2020

THE MOST IMPORTANT INFORMATION

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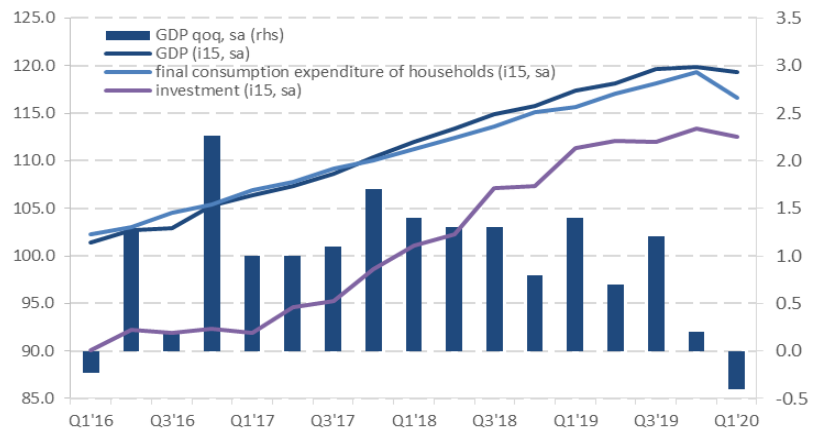


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices
source: GUS, Eurostat

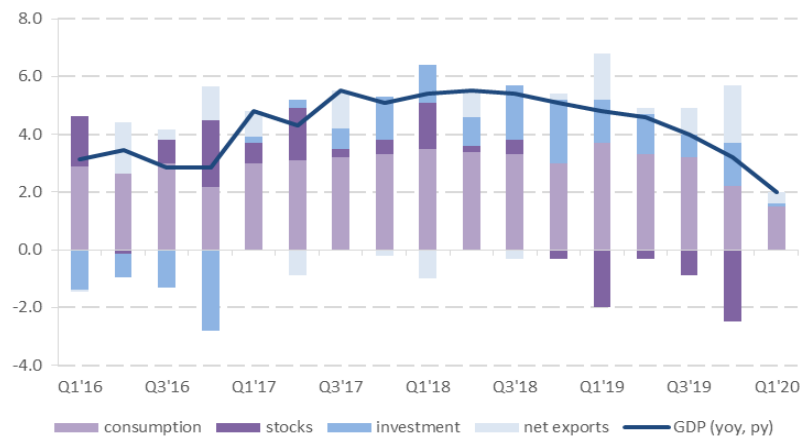
In the first quarter of 2020 GDP decreased by 0.4% (qoq, sa) after a weak growth in the previous quarter. Households consumption and investments both declined by 2.2% and 0.7% (qoq, sa), respectively. On the other hand, foreign trade dynamics were close to stagnation. The performance of the Polish economy in the first quarter was still relatively good when compared to euro area countries which experienced significant decline in GDP (3.8% qoq, sa).



Contributions to Polish GDP growth

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

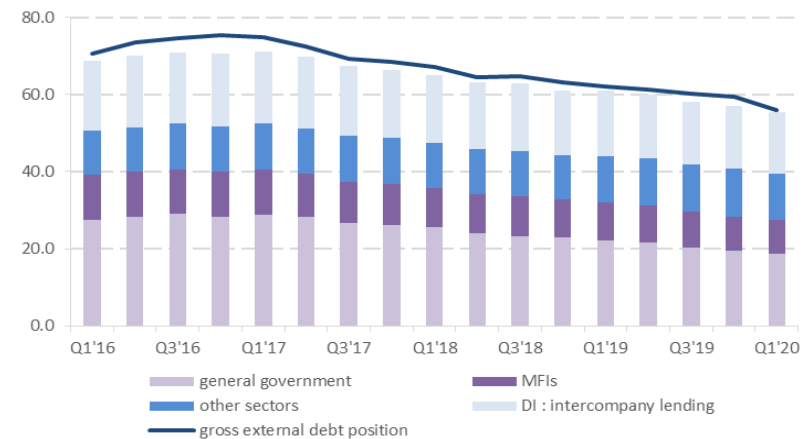
In the first quarter of 2020 GDP was 2.0% higher than a year ago, as compared to 3.2% in the previous quarter. Households consumption was 1.2% higher than in the same period of 2019. Investments growth amounted to 0.9%. Net exports had a slight positive contribution to GDP growth (0.4 pp), which in case of inventories was neutral. However, the COVID-19 epidemic in Poland (as well as in our main trade partners) along with the introduction of measures to contain the spread of the virus are a kind of sudden supply and demand shock, which will negatively and significantly affect the dynamics of economic activity in Poland, especially in the second quarter of 2020.



Polish gross external debt position

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

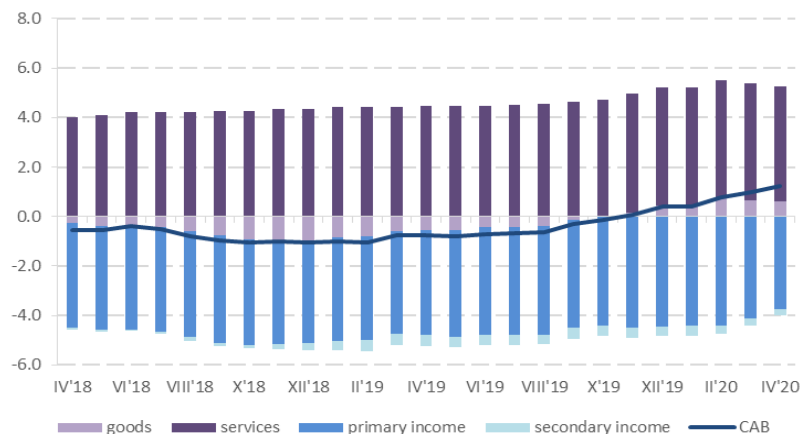
At the end of the first quarter of 2020 gross external debt reached EUR 299.3bn (55.9% of GDP) and was EUR 14.8bn lower than in the previous quarter. The share of general government debt in total debt increased to 33.3%. At the end of April 2020 official reserve assets reached EUR 108.6bn and remained broadly adequate, covering about 5 months of imports.



Current account balance

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

Current account surplus increased to 1.2% of GDP in 12-month terms in April 2020 (after revision of historical data). Measures introduced in response to COVID-19 outbreak by Poland and our main trading partners had a significant negative impact on foreign trade dynamics, especially some service (transportation and travel) and financial results of companies. In consequence foreign direct investors' income on their capital involvement in Polish entities deteriorated reducing the primary income deficit.

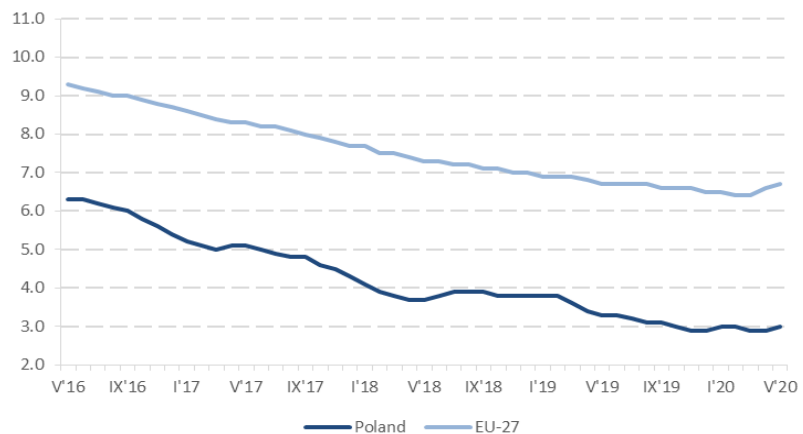




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In May 2020 harmonised unemployment rate slightly increased by 0.1 pp to 3.0% after stabilization at the record low level a month earlier and it was lower than in the EU-27 on average (6.7%) and Eurozone (7.4%).



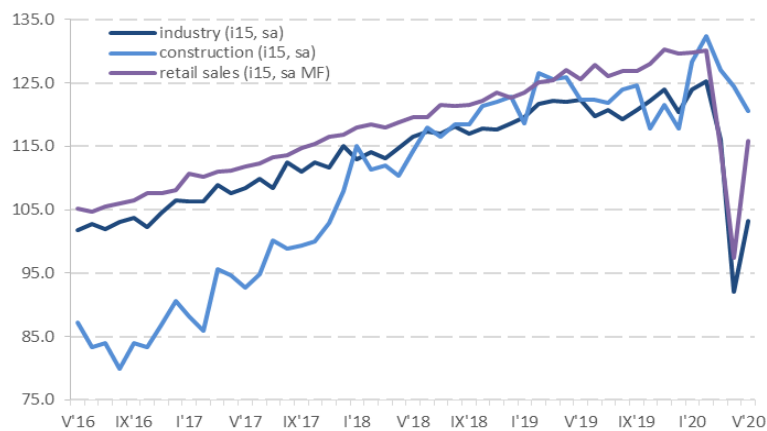
Monthly indicators of the real sector

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

In May 2020 industrial production rebounded by 12.2% (mom, sa) and was 17.0% lower than a year ago (nsa). Data were close to market expectations.

Construction and assembly production dropped by 3.1% for the third time in a row (mom, sa). As a result, it was 5.1% (nsa) lower than a year before. Data were below the MoF's expectations.

Real retail sales jumped by nearly 1/5 following deep drops in two previous months (mom, sa MoF). As a result, retail sales were only 7.7% (nsa) lower than in the same month of 2019. Data were clearly above market expectations.



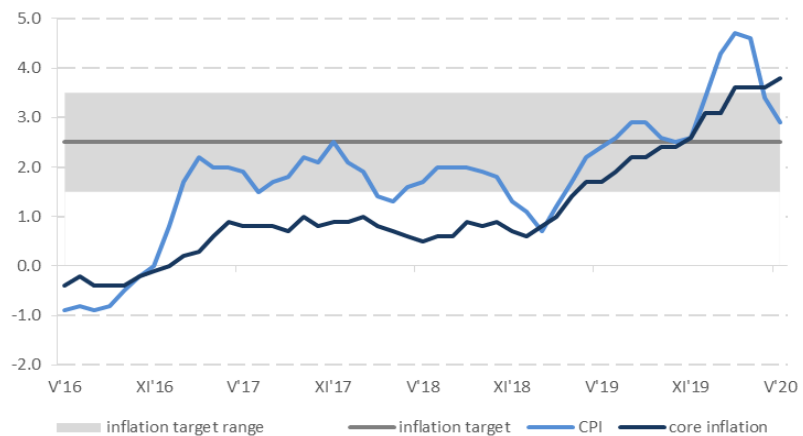
Inflation

percent, yoy
source: GUS, NBP

After reaching 4.5% in the first quarter of 2020, in next two months inflation rate decreased and in May it amounted to 2.9% (yoy). As a result, it returned to the acceptable deviation from the inflation target. The decreasing inflation was influenced mainly by a strong drop in fuel prices. In June inflation rate rose to 3.3% (according to the preliminary data) and was considerably above the expectations.

Core inflation (CPI excluding food and energy prices) is still high and in May it increased to 3.8% (yoy), which was the highest level for past 18 years.

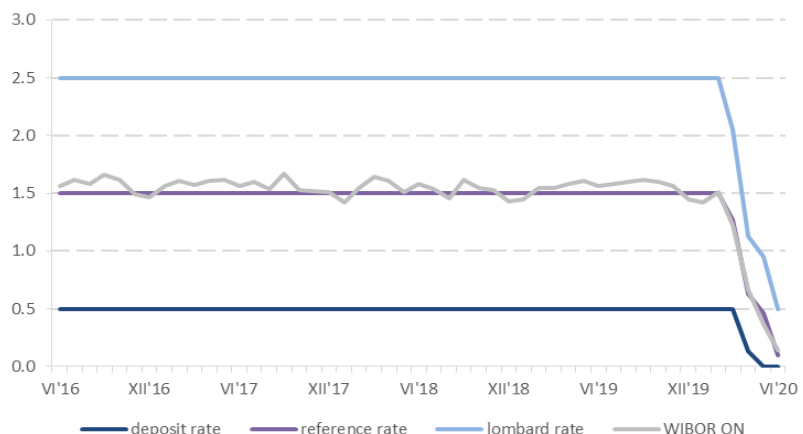
The annual rate of producer prices (PPI) in last months remained at a very low level and in May there was deflation of 1.5% (yoy).



NBP interest rates

percent, end of period
source: NBP, Eurostat

In June 2020 the MPC kept NBP interest rates on hold. The reference rate remained at 0.1%, the lombard rate at 0.5% and the deposit rate at 0.0%. Within the last 3 months (to June) the reference rate was lowered by 140 bp in total. Cuts in the key interest rates along with the purchases by the NBP of bonds in the secondary market are to mitigate the negative effects of the pandemic, limiting the scale of economic activity decline and supporting income of households and enterprises. Concurrently these measures reduce the risk of inflation falling below the inflation target in the medium term.





II. STATISTICAL DATA

	Unit	2018 Q04	2019 Q01	Q02	Q03	Q04	2020 Q01
GDP							
Gross domestic product	YoY	5.1	4.8	4.6	4.0	3.2	2.0
	QoQ SA	0.8	1.4	0.7	1.2	0.2	-0.4
Final consumption expenditure of the households sector	YoY	4.0	3.9	4.4	3.9	3.3	1.2
	QoQ SA	1.3	0.5	1.2	0.9	1.0	-2.2
Final consumption expenditure of the general government sector	YoY	4.0	7.4	4.3	5.4	3.2	4.3
	QoQ SA	1.4	1.5	0.8	1.1	0.6	0.9
Gross fixed capital formation	YoY	9.0	11.6	8.8	4.6	6.1	0.9
	QoQ SA	0.2	3.8	0.6	-0.1	1.2	-0.7
Exports of goods and services	YoY	7.8	8.5	3.6	4.9	2.0	0.6
	QoQ SA	3.0	1.8	-1.1	1.3	0.0	0.5
Imports of goods and services	YoY	7.9	5.9	3.6	3.5	-2.0	-0.2
	QoQ SA	2.1	0.1	0.2	0.1	-0.9	0.2
Gross value added	YoY	5.0	4.7	4.6	4.0	3.2	2.0
	QoQ SA	1.2	0.9	0.9	0.9	0.6	-0.8
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.0	2.4	2.5	2.3	1.6	0.7
Final consumption expenditure of the general government sector	pp	0.8	1.3	0.8	0.9	0.6	0.8
Gross fixed capital formation	pp	2.2	1.5	1.4	0.8	1.5	0.1
Changes in inventories	pp	-0.3	-2.0	-0.3	-0.9	-2.5	0.0
Balance of trade turnover	pp	0.2	1.6	0.2	0.9	2.0	0.4
Gross value added	pp	4.4	4.2	4.0	3.4	2.7	1.8
Taxes less subsidies	pp	0.7	0.6	0.6	0.6	0.5	0.2
GDP structure							
Final consumption expenditure of the households sector	% of GDP	50.1	61.8	57.8	58.0	49.5	61.3
Final consumption expenditure of the general government sector	% of GDP	19.1	17.4	17.4	17.4	19.1	17.8
Gross fixed capital formation	% of GDP	24.9	13.3	16.8	17.6	25.3	13.0
Changes in inventories	% of GDP	2.3	1.3	2.0	1.1	-0.2	1.2
Exports of goods and services	% of GDP	52.4	59.4	57.2	55.8	51.5	57.1
Imports of goods and services	% of GDP	49.6	54.1	52.1	50.8	45.9	51.3
Balance of payments							
	Unit	2019 M12	2020 M01	M02	M03	M04	M05
Goods: exports (EUR)	YoY	9.1	5.0	8.9	-5.7	-29.2	-
Goods: imports (EUR)	YoY	-0.6	4.4	0.9	-3.5	-28.2	-
Current account balance ¹⁾	% of GDP	0.4	0.4	0.8	1.0	1.2	-
Balance on goods ¹⁾	% of GDP	0.5	0.5	0.7	0.7	0.6	-
Official Reserve Assets	EUR m	114 510.6	113 757.2	116 060.2	110 119.5	108 643.8	119 444.2
Inflation							
Consumer Price Index (CPI)	YoY	3.4	4.3	4.7	4.6	3.4	2.9
Core inflation (CPI excluding food and energy prices)	YoY	3.1	3.1	3.6	3.6	3.6	3.8
Producer Price Index (PPI)	YoY	1.0	0.9	0.2	-0.3	-1.4	-1.5
Production							
Sold production of industry ²⁾	YoY	3.8	1.1	4.8	-2.5	-24.6	-17.0
	MoM SA	-2.9	2.9	1.1	-7.3	-20.7	12.2
Construction and assembly production ²⁾	YoY	-3.3	6.4	5.5	3.7	-0.9	-5.1
	MoM SA	-3.0	9.0	3.1	-4.0	-2.0	-3.1
Manufacturing PMI	SA	48.0	47.4	48.2	42.4	31.9	40.6
Households and labour market							
Retail sales ²⁾	YoY	5.7	3.5	7.3	-8.9	-22.9	-7.7
Average paid employment in enterprise sector	YoY	2.6	1.1	1.1	0.3	-2.1	-3.2
	MoM	0.0	0.7	0.1	-0.5	-2.4	-1.4
Average monthly gross wages and salaries in enterprise sector (real)	YoY	2.7	2.7	2.9	1.6	-1.4	-1.6
	MoM	6.3	-6.6	0.2	2.8	-3.6	-2.9
Harmonised unemployment rate (Eurostat)	% SA	2.9	3.0	3.0	2.9	2.9	3.0
<small>1) Data in 12-month terms 2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons Source: GUS, NBP, Eurostat, IHS Markit, MoF calculation based on NBP, GUS data</small>							
State Treasury debt							
	Unit	2019 M11	M12	2020 M01	M02	M03	M04
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	962 013.4	973 338.2	987 605.9	997 398.5	1 036 440.1	1 077 179.8
Domestic debt	face value, PLN m	702 674.3	716 453.5	727 020.9	728 279.6	753 740.8	816 931.9
	%	73.0	73.6	73.6	73.0	72.7	75.8
Foreign debt	face value, PLN m	259 339.1	256 884.7	260 585.0	269 118.9	282 699.4	260 247.9
	%	27.0	26.4	26.4	27.0	27.3	24.2
Public debt (domestic definition)							
	Unit	2018 Q04	2019 Q01	Q02	Q03	Q04	2020 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	984 313.5	1 005 633.5	998 220.7	1 001 190.9	990 940.9	1 045 473.8
Domestic debt	face value, PLN m	688 248.0	706 607.9	708 264.6	713 568.9	716 176.3	744 616.7
	%	69.9	70.3	71.0	71.3	72.3	71.2
Foreign debt	face value, PLN m	296 065.5	299 025.7	289 956.1	287 622.0	274 764.6	300 857.2
	%	30.1	29.7	29.0	28.7	27.7	28.8
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 035 703.9	1 056 556.1	1 051 755.9	1 055 362.3	1 045 129.0	1 103 023.0

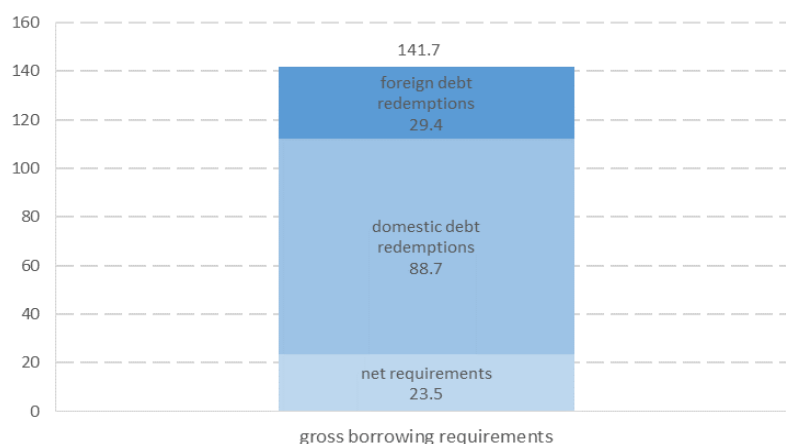
Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2020 as of June 30, 2020, PLN bn

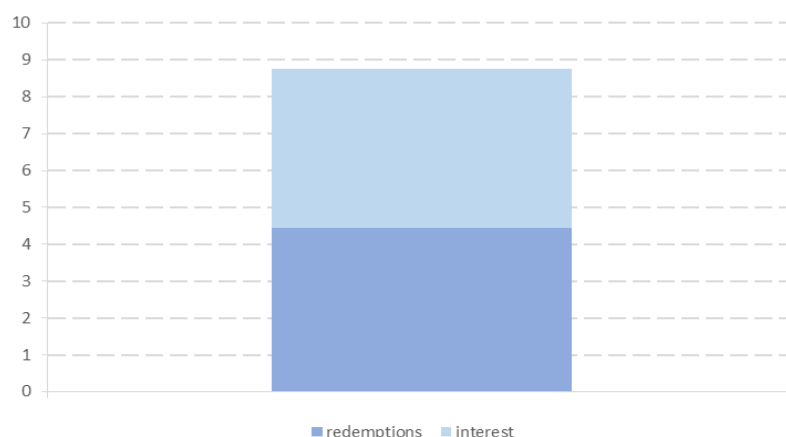
State budget borrowing requirements for 2020 according to the Budget Act have been fully funded.



Outflows of funds related to domestic marketable T-securities transfers in July plan as of June 30, 2020

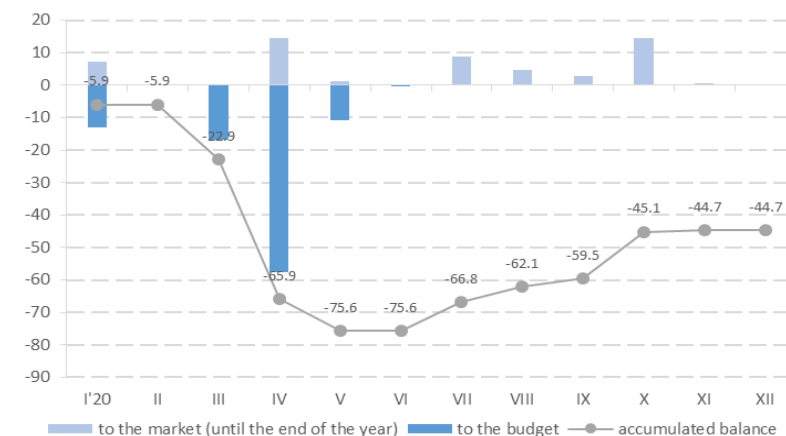
Value of funds transferred from the State budget to the market in July shall amount to PLN 8.8bn, of which:

- TS redemptions: PLN 4.4bn,
- interest payments: PLN 4.3bn.



Flows of funds between the domestic market and the budget* as at the end of month, PLN bn

From July to the end of 2020 the funds to be transferred to the domestic market shall amount to PLN 30.9bn (as of June 30, 2020).

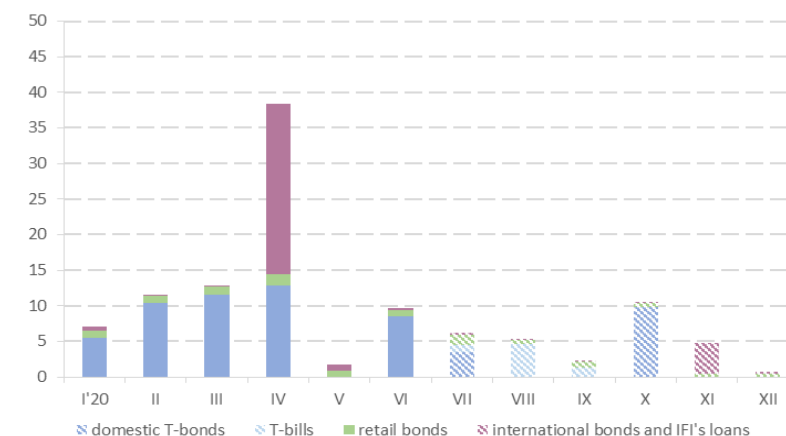


* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of July to the end of 2020 is not presented.

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 June 30, 2020) is equal to PLN 29.9bn, including:

- T-bonds: PLN 13.3bn,
- retail bonds: PLN 4.4bn,
- T-bills: PLN 6.8bn,
- bonds and loans incurred on foreign markets: PLN 5.4bn.



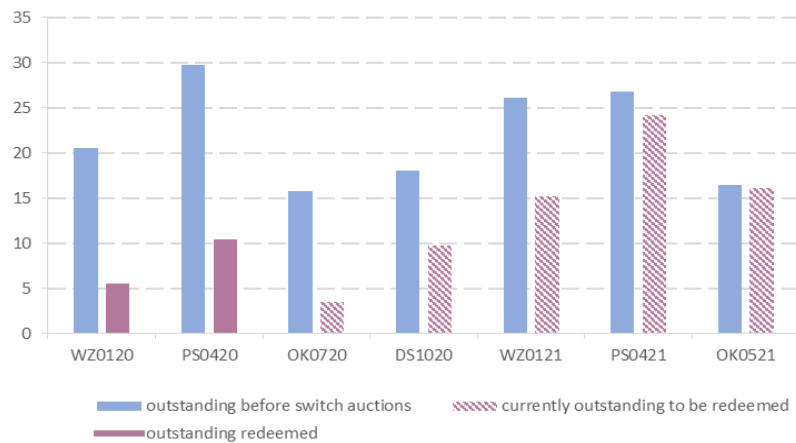


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020 and 2021 as of June 30, 2020, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2020 and 2021:

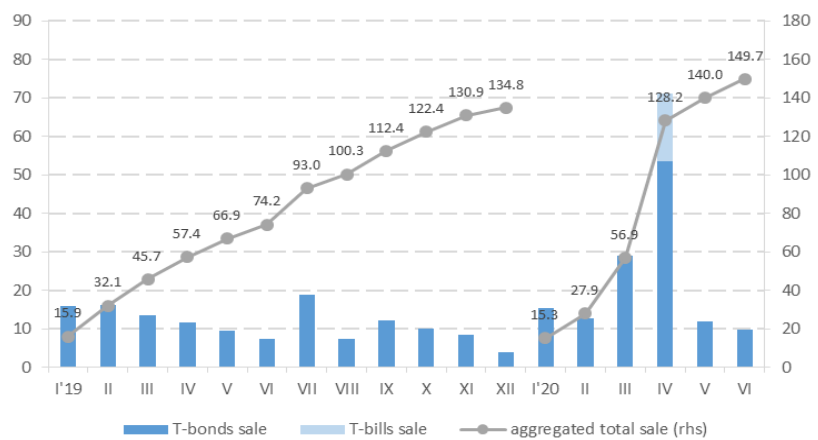
- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 19.3bn (65% of the issuance),
- OK0720: PLN 12.2bn (78% of the issuance),
- DS1020: PLN 8.3bn (46% of the issuance),
- WZ0121: PLN 10.8bn (42% of the issuance),
- PS0421: PLN 2.7bn (10% of the issuance),
- OK0521: PLN 0.4bn (2% of the issuance).



Sale of domestic T-bills and T-bonds in 2019 and 2020 settlement date, nominal amount, PLN bn

In the period of I-VI 2020 aggregated total sale of:

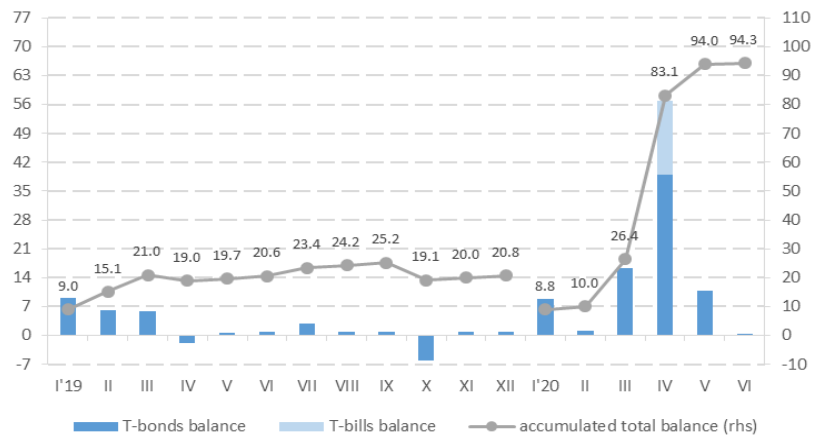
- T-bonds amounted to PLN 132.0bn versus PLN 74.2bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).



Balance of domestic T-bills and T-bonds in 2019 and 2020 settlement date, nominal amount, PLN bn

In the period of I-VI 2020 indebtedness in:

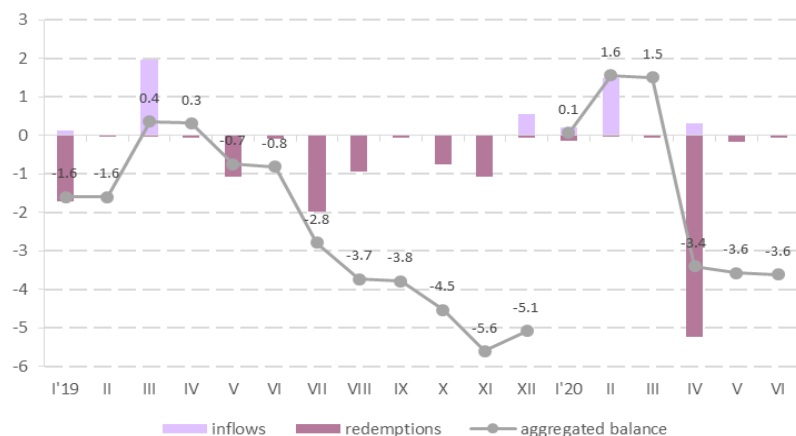
- T-bonds increased to PLN 76.6bn versus an increase of PLN 20.6bn in the same period of 2019,
- T-bills increased to PLN 17.7bn (T-bills were not offered since February 2017).



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 the period of I-VI 2020 was negative and amounted to EUR 3.6bn (negative balance of EUR 0.8bn in the same period of 2019) which resulted from:

- negative balance of T-bonds of EUR 3.5bn (negative balance of EUR 0.6bn in the same period of 2019),
- negative balance of loans incurred from IFIs of EUR 0.1bn (negative balance of EUR 0.2bn in the same period of 2019).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

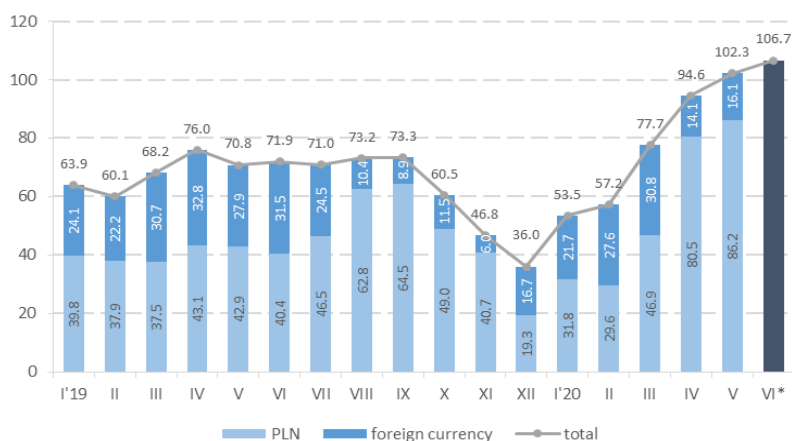


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of June 2020 there was equivalent of PLN 106.7bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

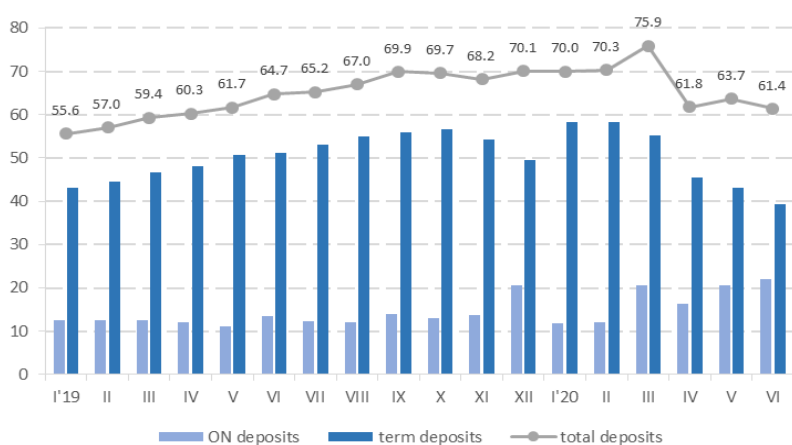
* Estimated data.



Consolidation of public finance sector liquidity management

PLN bn

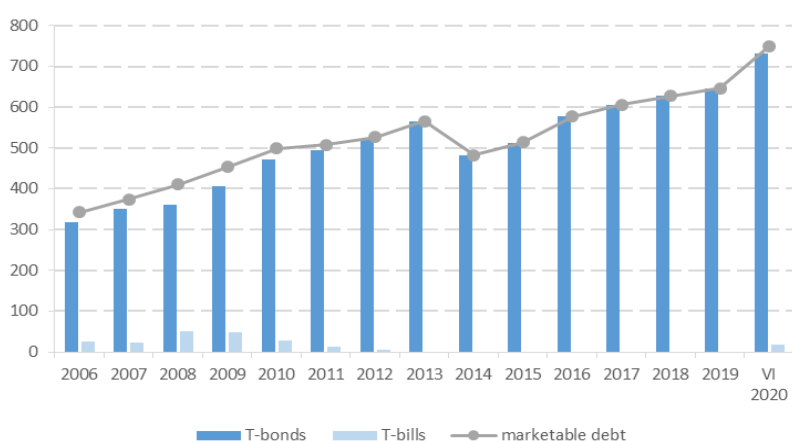
As a result of consolidation of the public finance sector liquidity management there were PLN 61.4bn funds accumulated at the end of June 2020, of which: PLN 39.3bn was on term deposits and PLN 22.0bn on ON deposits.



Structure of domestic marketable debt

PLN bn

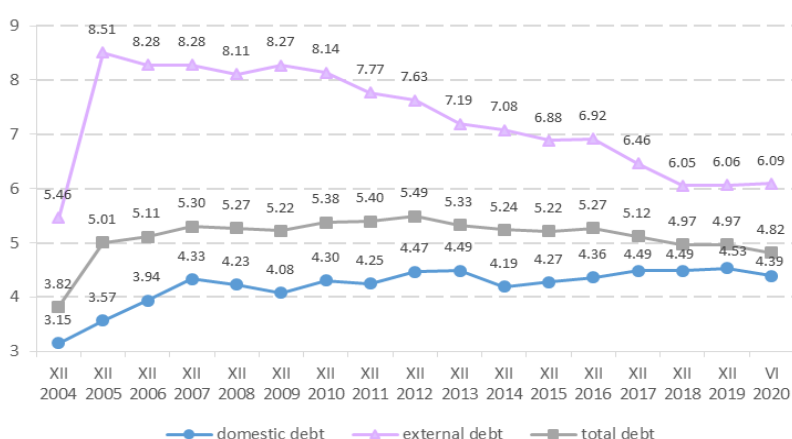
The marketable domestic debt amounted to PLN 749.5bn at the end of June 2020 comparing to PLN 646.0bn at the end of 2019.



Average maturity

years

The average maturity of the domestic debt amounted to 4.39 years at the end of June 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.82 years (4.97 years at the end of 2019).

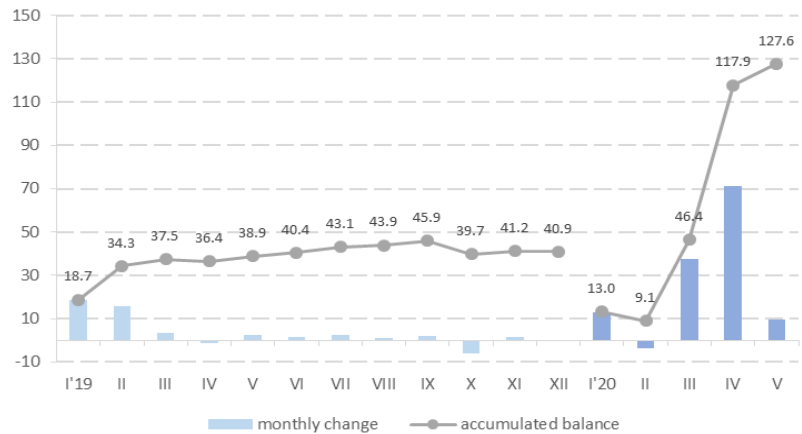




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

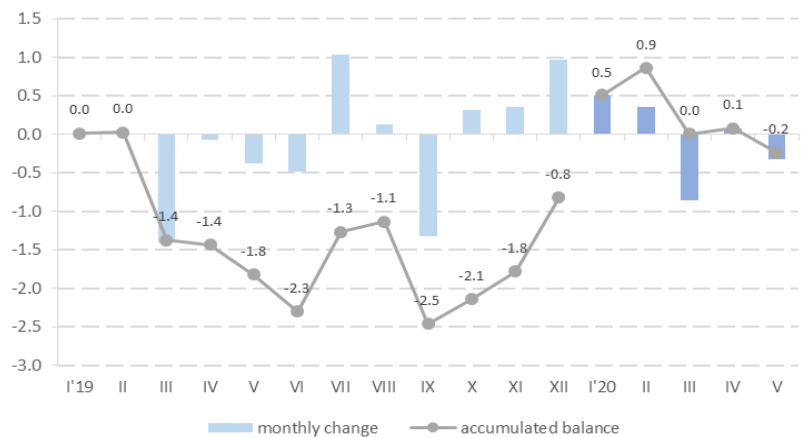
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-V 2020 there was an increase of debt by PLN 127.6bn comparing to PLN 38.9bn increase during the same period of 2019. Banks' holdings reached the level of PLN 432.6bn.



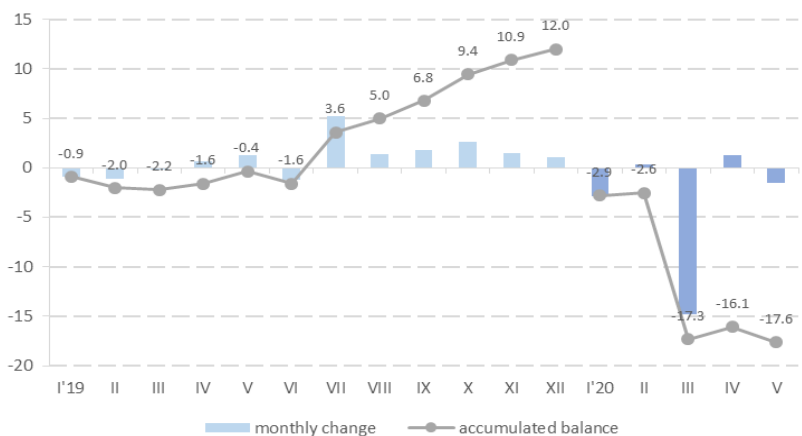
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-V 2020 there was a decrease of debt by PLN 0.2bn comparing to PLN 1.8bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 64.0bn.



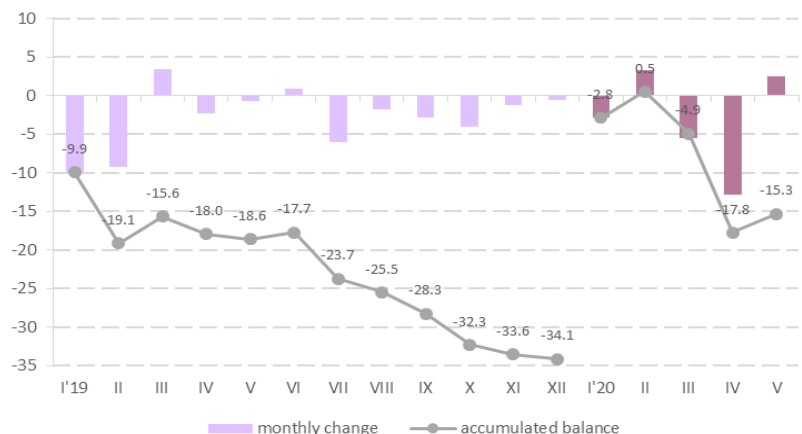
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-V 2020 there was a decrease of debt by PLN 17.6bn comparing to PLN 0.4bn decrease in the same period of 2019. Investment funds' holdings reached the level of PLN 49.7bn.



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

In the period of I-V 2020 there was a decrease of debt by PLN 15.3bn comparing to PLN 18.6bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 142.0bn.



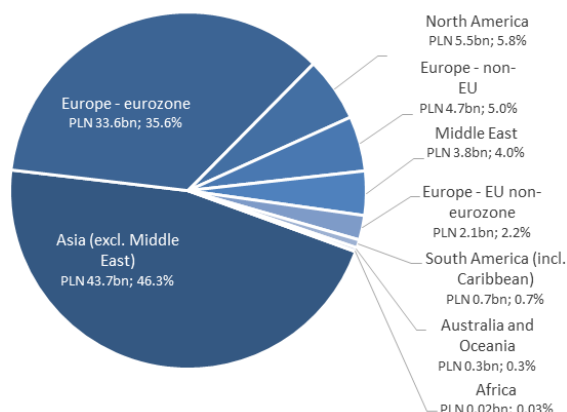
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of May 31, 2020, the chart presents data excluding omnibus accounts

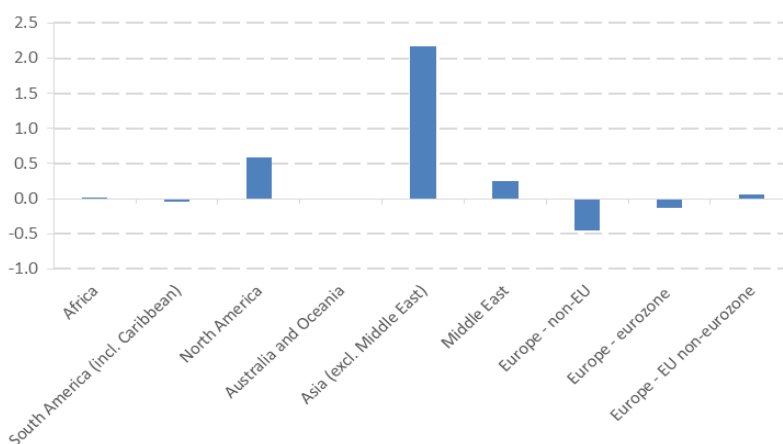
The non-residents' share in the domestic Treasury securities market increased by PLN 2.5bn in May 2020. The foreign investors' portfolio amounted to PLN 142.0bn, which constituted 18.1% share in total debt in Treasury securities (18.2% in the previous month).



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

change in May 2020, mom, PLN bn, the chart presents data excluding omnibus accounts

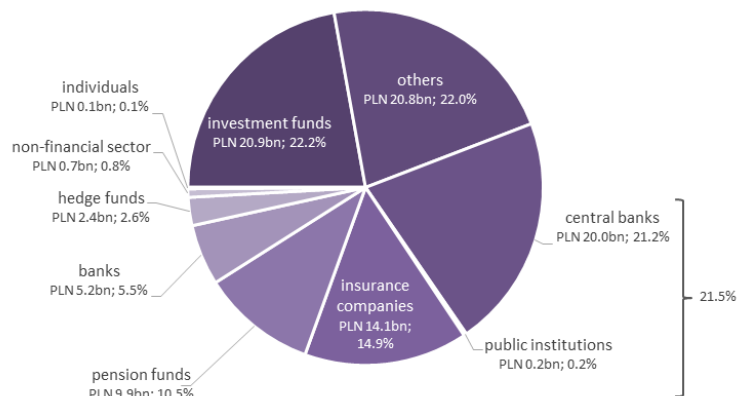
In May 2020 the highest increase was recorded by Asian investors (PLN 2.2bn), while the highest decrease was noted by European non-EU investors (PLN 0.4bn).



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

as of May 31, 2020, the chart presents data excluding omnibus accounts

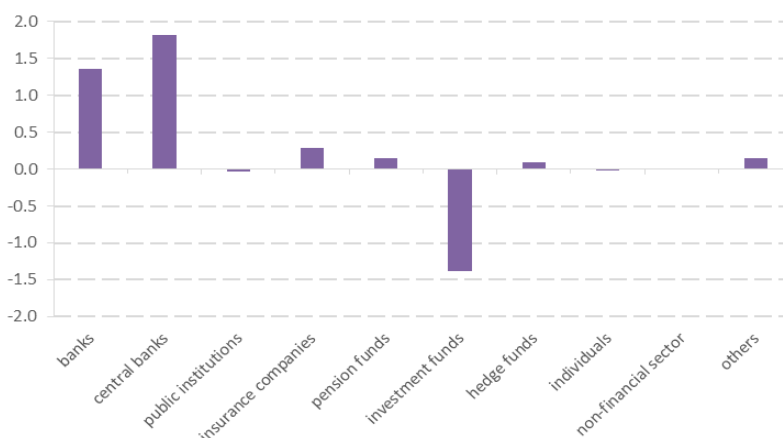
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 21.5% at the end of May 2020.



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

change in May 2020, mom, PLN bn, the chart presents data excluding omnibus accounts

In May 2020 the highest increase was recorded by central banks (PLN 1.8bn), while the highest decrease was noted by investment funds (PLN 1.4bn).



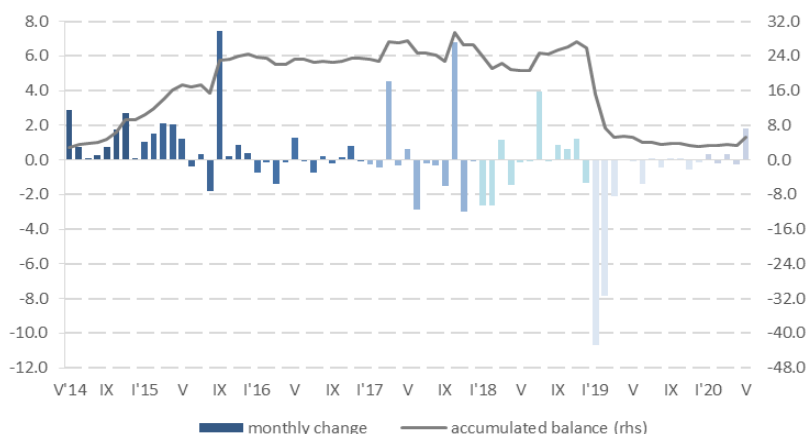


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in May 2020, PLN bn

Central banks and public institutions' involvement increased by PLN 1.8bn in May 2020. In the period from the end of April 2014 to the end of May 2020, for which the detailed information is available, portfolios of those entities increased by PLN 5.2bn.



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

as of May 31, 2020, 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	21 804.3	29.3%
Luxembourg	10 449.6	14.1%
Netherlands	7 496.7	10.1%
Germany	5 561.4	7.5%
Ireland	5 147.4	6.9%
United States	4 809.9	6.5%
France	3 234.2	4.3%
United Kingdom	3 148.7	4.2%
Hong Kong	1 712.1	2.3%
United Arab Emirates	1 658.5	2.2%
Switzerland	1 471.6	2.0%
Denmark	923.8	1.2%
Italy	912.2	1.2%
Others	6 019.1	8.1%
Total	74 349.4	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

02-07-2020

At the end of June the reserve of liquid funds in PLN and foreign currency on the budgetary accounts amounted to ca. PLN 107bn. The budget liquidity situation is positive. With fully funded borrowing requirements under the Budget Act we are prepared in case of their expected increase.

In July we plan to hold two T-bond auctions – on July 9 a switching auction and on July 23 a sale auction. T-bill auctions are not planned.

In May indebtedness in domestic Treasury securities increased by PLN 17.9bn. The involvement of domestic banks (including the NBP) increased by PLN 9.6bn to the level of PLN 418.5bn, domestic non-banking sector increased by PLN 5.6bn to PLN 206.7bn and foreign investors increased by PLN 2.7bn to the level of 141.8bn. In case of T-bills there were minor trade flows among investors, which resulted in indebtedness in the value of PLN 17.7bn, of which PLN 14.1bn were held by banks, PLN 3.4bn by non-banking sector and PLN 0.2bn by foreign investors.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2020



General assumptions

- in the third quarter of 2020 T-bond auctions are planned according to the announced yearly issuance calendar,
- offer of T-bonds on the domestic market will depend on the budget and market situation, as well as consultations with investors,
- possible auctions of Treasury bills will be held within the confines of the State budget liquidity management,
- foreign financing will be determined by the situation on the international financial market and the domestic market, as well as by the budget situation,
- the announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

- **sale auctions:**
between one and two auctions, total supply of PLN 5.0-12.0bn, the structure of T-bonds to be offered will be subject to the market situation,
- **switch auctions:**
between three and four auctions, subject to the budget and market situation, T-bonds maturing in 2020 and 2021 would be offered to repurchase.

Offer of T-bills

Detailed information on the offer of T-bills will be presented in the monthly issuance plans.

Foreign financing

- possible issuances of bonds on the international market,
- possible loans from international financial institutions,
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2020

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
23 JUL 2020	27 JUL 2020	OK0423 / PS0425 / WZ0525 / WZ1129 / DS1030 possible T-bond either of WS or IZ type	3,000-6,000

*The final offer and the supply will be announced 2 days before the auction, taking into account the market situation and consultations with investors.
After the auction bonds will be offered within additional sale at a minimum accepted clean price.*

T-bond switching auctions

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
9 JUL 2020 / 13 JUL 2020	OK0722 / PS0425 / WZ0525 / WZ1129 / DS1030 possible T-bond either of WS or IZ type	DS1020	9.753
		WZ0121	15.203
		PS0421	24.148
		OK0521	16.104

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1020 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0722 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0723 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0724 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0730 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0726 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0732 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period