

State budget borrowing requirements' financing plan and its background

1st quarter 2019

January 2019

THE MOST IMPORTANT INFORMATION

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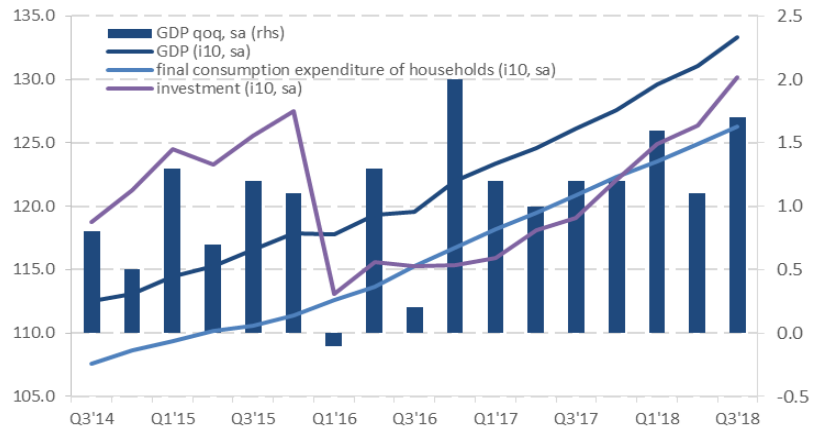


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

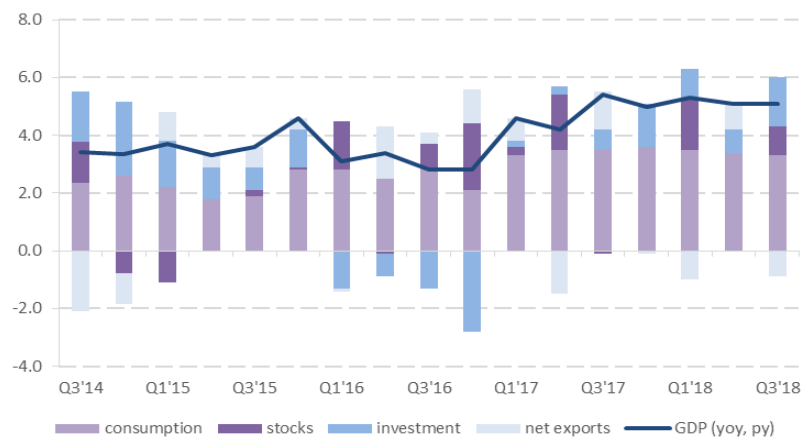
In the third quarter of 2018 GDP expanded by 1.7% (vs. 1.1% a quarter earlier). The rate of growth (qoq, sa) of households consumption remained close to the average of the first half of 2018 and years 2016-2017 and in the case of investment it accelerated. High dynamics of private consumption was a consequence of a positive labour market situation and robust sentiment of consumers.



Contributions to Polish GDP growth

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

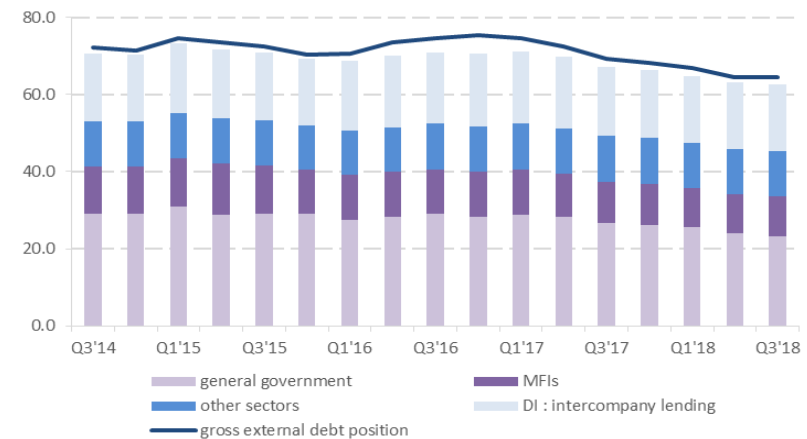
In the third quarter of 2018 GDP, similarly to the previous quarter, was 5.1% higher than a year ago. The main source of GDP growth (yoy, py) was households consumption, which was 4.5% higher than a year before. Significantly higher rate of growth was noticed in the case of investment (9.9% vs. 4.7% in the second quarter). Contribution of inventories to GDP growth was positive (1.0 pp) and net exports contributed negatively (-0.9 pp).



Polish gross external debt position

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

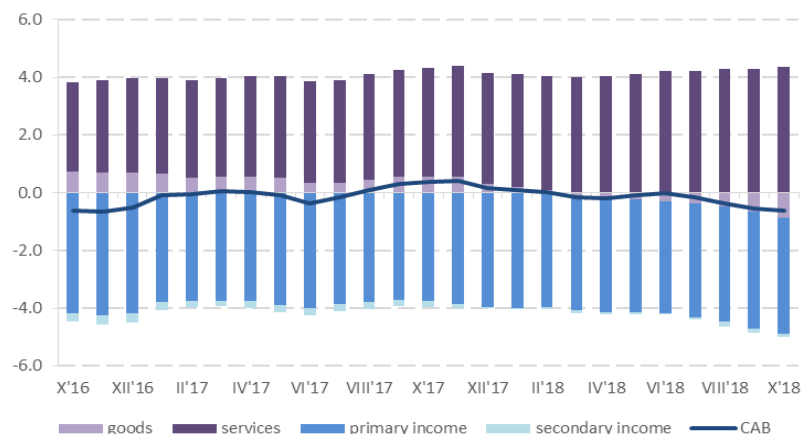
At the end of the third quarter of 2018 gross external debt reached EUR 316.0bn (64.5% of GDP) and was EUR 4.0bn higher than in the previous quarter. The share of general government sector debt in the total debt decreased to 36.0%. At the end of October 2018 official reserve assets reached ca. EUR 98.3bn 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 October 2018, according to the preliminary data, current account deficit amounted to 0.6% of GDP (in 12-month terms). Data were close to market expectations. The C/A 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.

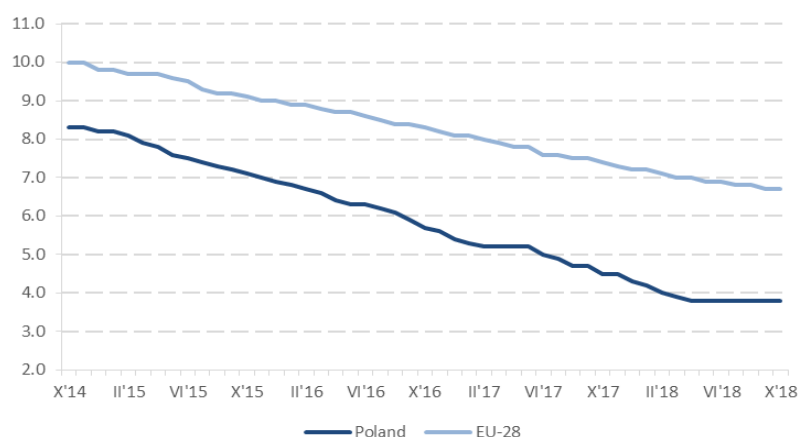




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

Harmonised unemployment rate (sa) has remained at a stable, record low level of 3.8% since April 2018 (compared to 6.7% on average in the EU in October 2018). In October 2018 it was 0.7 pp lower than last year.



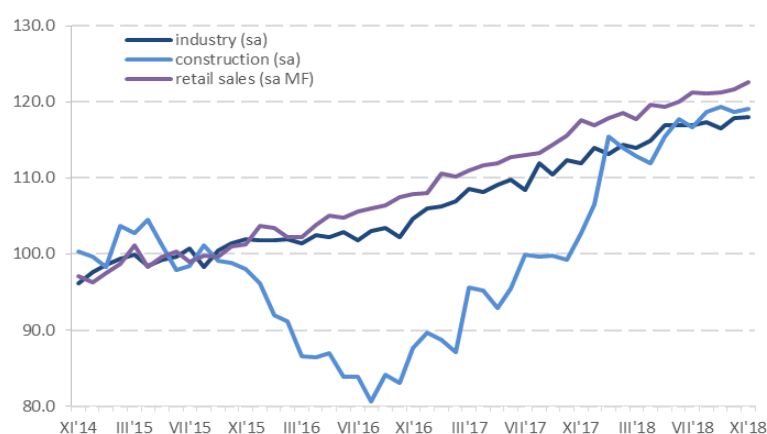
Monthly indicators of the real sector

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

In November 2018 industrial output went up by 0.1% (mom, sa). As a result, production was 4.7% higher than a year ago (nsa). Data were slightly above market expectations.

Construction production went up by 0.4%, following a decrease in the previous month (mom, sa). Production was 17.1% (nsa) higher than a year before. Data were slightly above MoF's expectations.

Real retail sales increased by 0.8% (mom, sa MoF), which means a significant acceleration in comparison to three previous months. Their level was 6.9% (nsa) higher than in the same month of 2017. Data were above market expectations.



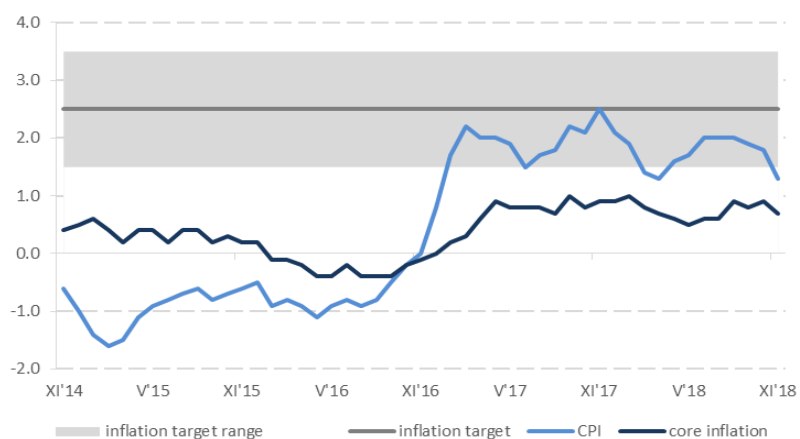
Inflation

percent, yoy
source: GUS, NBP

In November 2018 consumer prices were stable (mom). As a result, the annual rate of inflation fell significantly to 1.3%, i.e. below the inflation target and below the lower band of this target. Data were lower than market expectations.

Core inflation (CPI excluding food and energy prices) reached 0.7% (yoy) in November and has been within the range of 0.5% - 1.0% for more than 1.5 year.

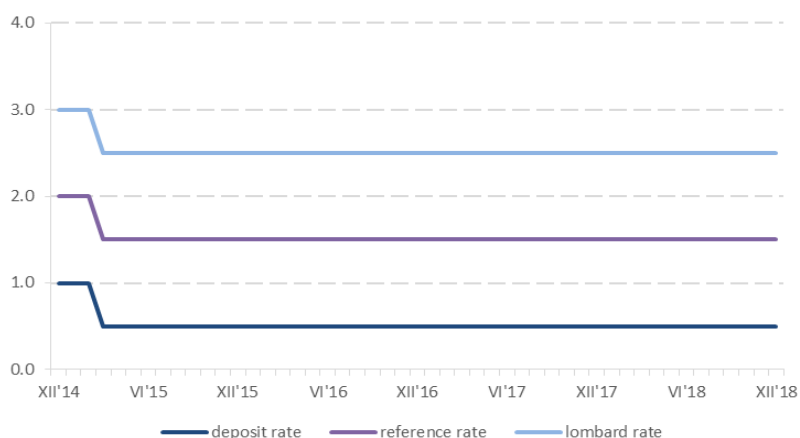
In November producer prices fell by 0.5% (mom) and their level was 2.7% higher than a year ago.



NBP interest rates

percent, end of period
source: NBP

In December 2018, the Monetary Policy Council kept NBP's 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 22) sees no NBP rate move till the end of 2019.





II. STATISTICAL DATA

	Unit	2017 Q02	Q03	Q04	2018 Q01	Q02	Q03
GDP							
Gross domestic product	YoY	4.2	5.4	5.0	5.3	5.1	5.1
	QoQ SA	1.0	1.2	1.2	1.6	1.1	1.7
Final consumption expenditure of the households sector	YoY	5.1	4.8	5.3	4.7	4.9	4.5
	QoQ SA	1.1	1.1	1.1	1.0	1.2	1.1
Final consumption expenditure of the general government sector	YoY	3.0	3.6	4.8	3.0	3.5	3.6
	QoQ SA	1.0	0.8	1.1	0.6	0.9	0.9
Gross fixed capital formation	YoY	1.7	4.1	6.0	8.2	4.7	9.9
	QoQ SA	1.9	0.8	2.5	2.3	1.3	3.0
Exports of goods and services	YoY	5.4	10.4	10.4	3.4	7.6	4.9
	QoQ SA	-0.6	3.2	2.4	-0.9	3.1	0.2
Imports of goods and services	YoY	9.0	8.3	11.5	5.5	6.5	6.9
	QoQ SA	2.3	1.6	2.6	0.4	2.1	1.6
Gross value added	YoY	4.1	5.4	4.8	5.3	5.0	5.0
	QoQ SA	0.9	0.8	1.1	1.5	1.5	1.4
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	3.0	2.9	2.7	3.0	2.8	2.7
Final consumption expenditure of the general government sector	pp	0.5	0.6	0.9	0.5	0.6	0.6
Gross fixed capital formation	pp	0.3	0.7	1.5	1.0	0.8	1.7
Changes in inventories	pp	1.9	-0.1	0.0	1.8	0.0	1.0
Balance of trade turnover	pp	-1.5	1.3	-0.1	-1.0	0.9	-0.9
Gross value added	pp	3.6	4.7	4.2	4.7	4.3	4.4
Taxes less subsidies	pp	0.6	0.7	0.8	0.6	0.8	0.7
GDP structure							
Final consumption expenditure of the households sector	% of GDP	59.0	59.4	50.4	63.6	59.2	59.2
Final consumption expenditure of the general government sector	% of GDP	17.5	17.0	18.9	16.8	17.3	16.8
Gross fixed capital formation	% of GDP	16.2	17.0	24.4	12.2	16.3	17.8
Changes in inventories	% of GDP	2.4	1.3	2.6	3.2	1.8	2.2
Exports of goods and services	% of GDP	56.2	54.6	50.3	56.4	56.7	54.8
Imports of goods and services	% of GDP	51.2	50.1	47.2	52.9	52.1	51.6
Balance of payments							
	Unit	2018 M06	M07	M08	M09	M10	M11
Goods: exports (EUR)	YoY	7.0	8.4	7.3	0.0	10.2	-
Goods: imports (EUR)	YoY	8.7	10.0	11.2	5.4	15.7	-
Current account balance ¹⁾	% of GDP	0.0	-0.2	-0.3	-0.5	-0.6	-
Balance on goods ¹⁾	% of GDP	-0.3	-0.4	-0.5	-0.7	-0.9	-
Official Reserve Assets	EUR m	93 539.5	95 635.7	97 059.2	97 129.7	98 271.7	100 109.7
Inflation							
Consumer Price Index (CPI)	YoY	2.0	2.0	2.0	1.9	1.8	1.3
Core inflation (CPI excluding food and energy prices)	YoY	0.6	0.6	0.9	0.8	0.9	0.7
Producer Price Index (PPI)	YoY	3.7	3.4	3.0	3.0	3.2	2.7
Production							
Sold production of industry ²⁾	YoY	6.7	10.3	5.0	2.7	7.4	4.7
	MoM SA	0.0	0.0	0.3	-0.7	1.2	0.1
Construction and assembly production ²⁾	YoY	24.7	18.7	20.1	16.4	22.4	17.1
	MoM SA	2.0	-0.8	1.6	0.7	-0.6	0.4
Manufacturing PMI	SA	54.2	52.9	51.4	50.5	50.4	49.5
Households and labour market							
Retail sales ²⁾	YoY	8.2	7.1	6.7	3.6	7.8	6.9
Average paid employment in enterprise sector	YoY	3.7	3.5	3.4	3.2	3.2	3.0
	MoM	0.2	0.1	0.0	-0.1	0.0	0.1
Average monthly gross wages and salaries in enterprise sector (real)	YoY	5.4	5.1	4.7	4.7	5.7	6.3
	MoM	3.1	-0.3	-0.6	-0.7	2.7	0.9
Harmonised unemployment rate (Eurostat)	%, SA	3.8	3.8	3.8	3.8	3.8	-
<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	2018 M05	M06	M07	M08	M09	M10
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	962 023.0	955 475.9	945 895.1	948 266.5	948 985.8	959 861.8
Domestic debt	face value, PLN m	661 313.6	661 862.5	660 105.0	660 847.1	665 737.7	671 567.1
	%	68.7	69.3	69.8	69.7	70.2	70.0
Foreign debt	face value, PLN m	300 709.4	293 613.4	285 790.2	287 419.4	283 248.1	288 294.6
	%	31.3	30.7	30.2	30.3	29.8	30.0
Public debt (domestic definition)							
	Unit	2017 Q02	Q03	Q04	2018 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

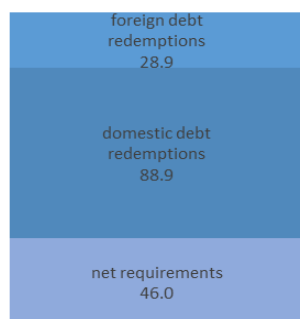


Gross borrowing requirements in 2019

as of December 31, 2018, PLN bn

Financing of the 2019 State budget borrowing requirements reached the level of ca. 34% (the final level will be known following the closure of the budget year 2018).

Gross borrowing requirements
Total: PLN 163.7bn, of which:



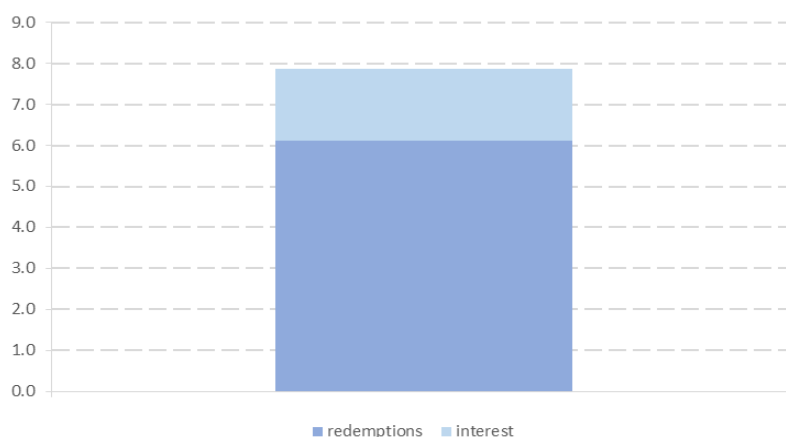
Financing of
the borrowing requirements
at the level of ca. 34%

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

as of December 31, 2018, PLN bn

Value of funds transferred from the State budget to the market in January shall amount to PLN 7.9bn, of which:

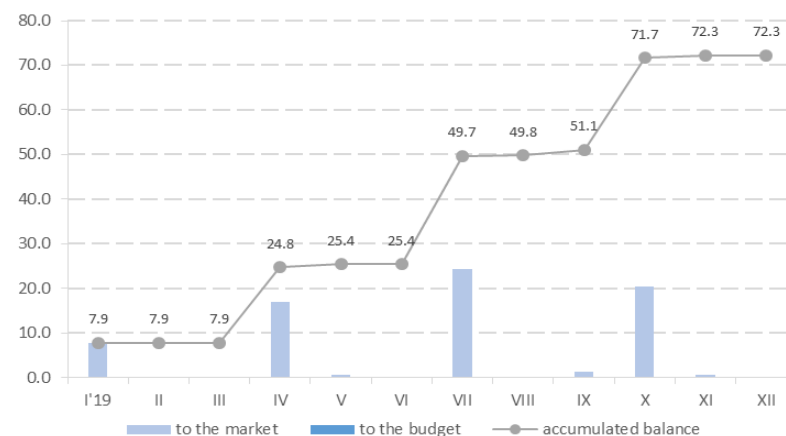
- TS redemptions: PLN 6.1bn,
- interest payments: PLN 1.8bn.



Flows of funds between the market and the budget*

as of December 31, 2018, PLN bn

To the end of the 2019 the funds to be transferred to the market shall amount to PLN 72.3bn.



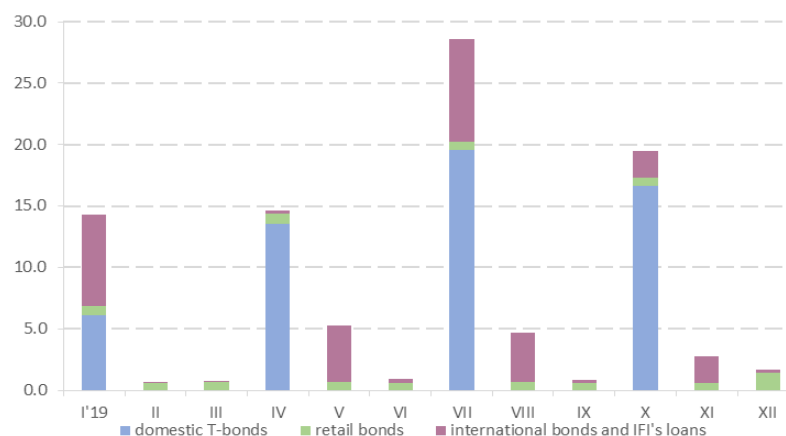
* figures include sale, redemptions and interest payments on wholesale T- securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the following months is not presented.

State Treasury debt redemptions in 2019

as of December 31, 2018, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2019 is equal to PLN 94.5bn, including:

- T-bonds: PLN 55.9bn,
- retail bonds: PLN 8.8bn,
- bonds and loans incurred on foreign markets: PLN 29.8bn.



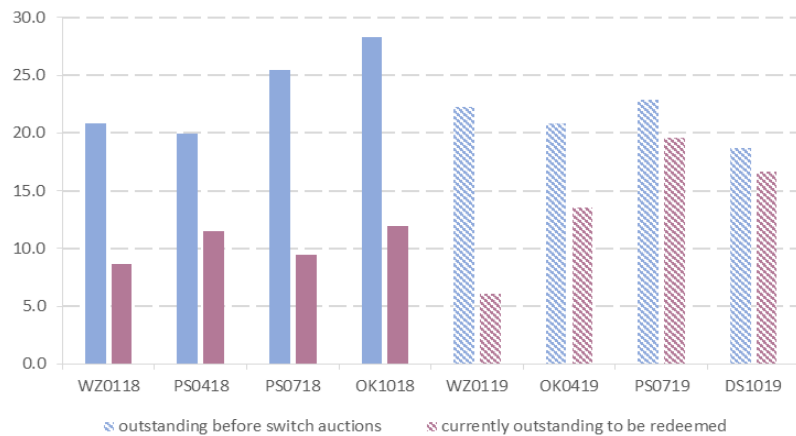


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2018 and 2019 as of December 31, 2018, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2018 and 2019:

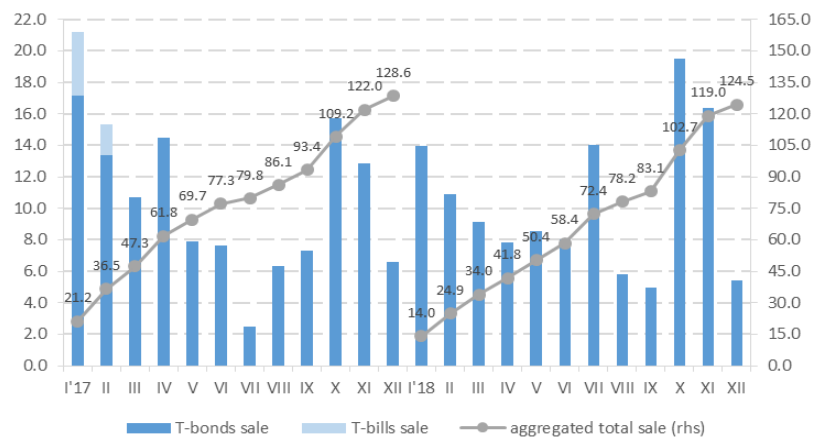
- WZ0118: PLN 12.2bn (59%),
- PS0418: PLN 8.4bn (42%),
- PS0718: PLN 16.0bn (63%),
- OK1018: PLN 16.3bn (58%),
- WZ0119: PLN 16.1bn (72%),
- OK0419: PLN 7.3bn (35%),
- PS0719: PLN 3.3bn (14%),
- DS1019: PLN 2.0bn (11%).



Sale of T-bonds and T-bills in 2017 and 2018 auction date, nominal amount, PLN bn

In the period of I-XII 2018:

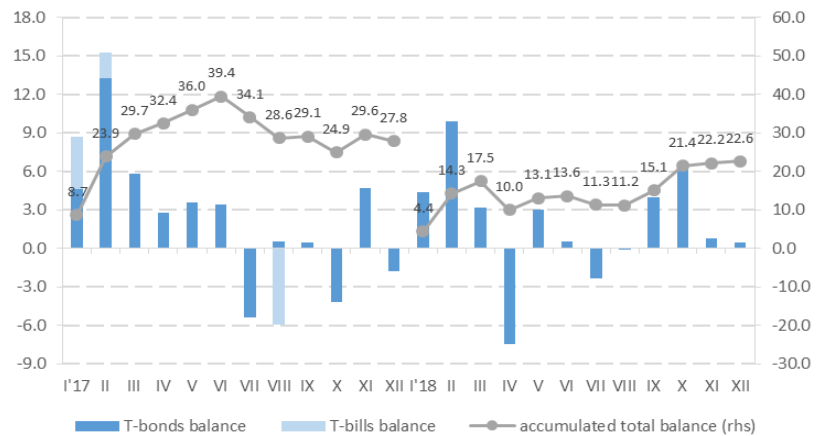
- aggregated total sale of T-bonds amounted to PLN 124.5bn versus PLN 122.7bn in the same period of 2017,
- T-bills were not offered versus PLN 6.0bn sold in the same period of 2017.



Balance of T-bonds and T-bills in 2017 and 2018 auction date, nominal amount, PLN bn

In the period of I-XII 2018 indebtedness in:

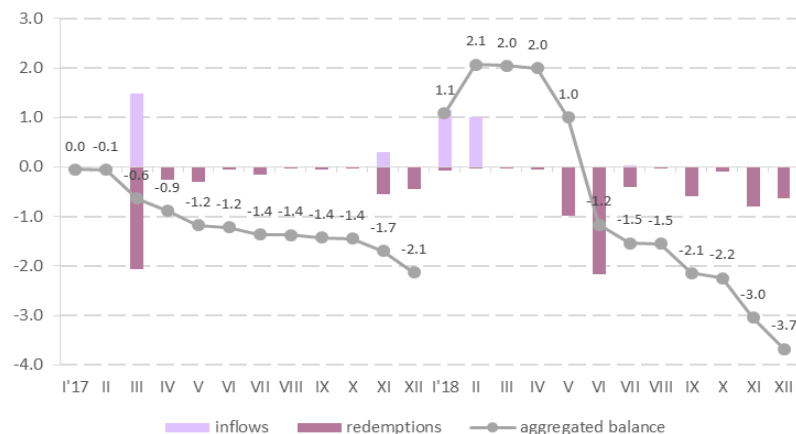
- T-bonds increased by PLN 22.6bn versus an increase of PLN 27.8bn in the same period of 2017,
- T-bills remained the same, likewise in the same period of 2017.



External financing in 2017 and 2018 bonds issued on foreign markets and loans received from IFIs, settlement date, EUR bn

Net financing on foreign markets in the period of I-XII 2018 was negative and amounted to EUR 3.7bn (negative balance of EUR 2.1bn in the same period of 2017) which resulted from:

- negative balance of T-bonds of EUR 2.7bn (negative balance of EUR 1.5bn in 2017),
- negative balance of loans incurred from IFIs of EUR 1.0bn (negative balance of EUR 0.6bn in 2017).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

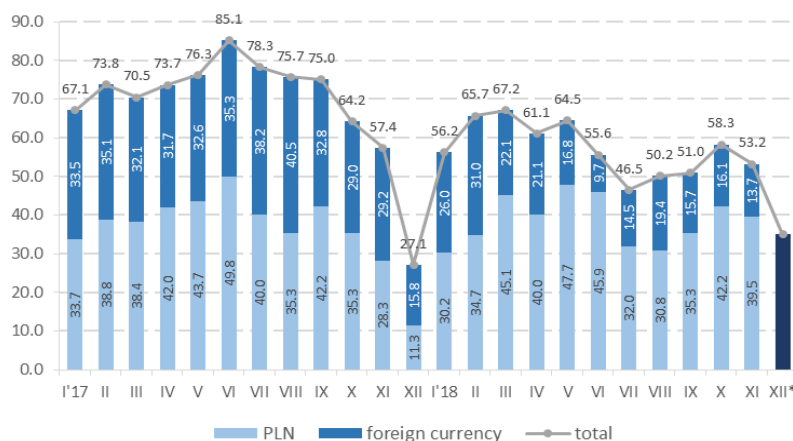


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

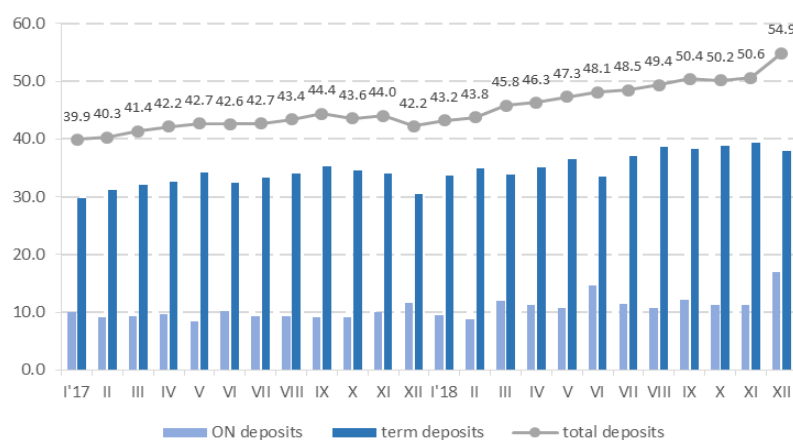
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

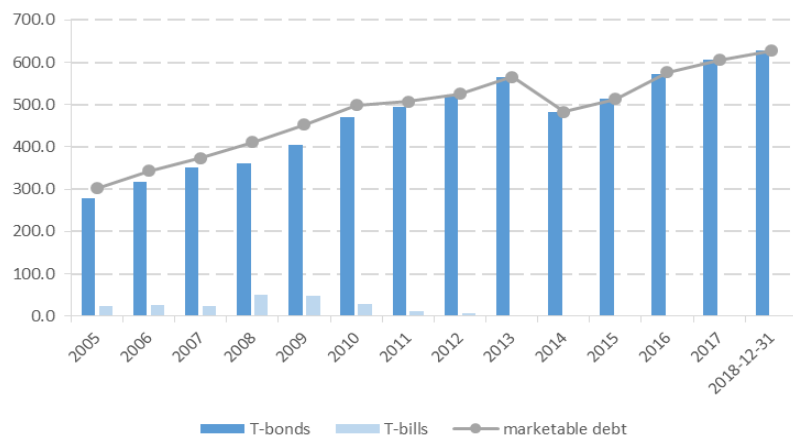
As a result of consolidation of the public finance sector liquidity management there were PLN 54.9bn funds accumulated at the end of December 2018, of which: PLN 37.9bn was on term deposits and PLN 17.0bn on ON deposits.



Structure of marketable debt

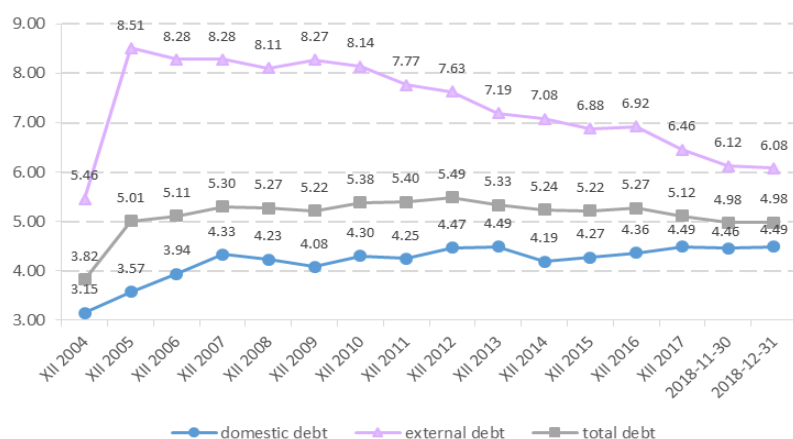
PLN bn

The marketable domestic debt amounted to PLN 627.1bn at the end of December 2018 comparing to PLN 605.7bn at the end of 2017.



Average maturity

The average maturity of domestic debt amounted to 4.49 at the end of December 2018 (4.49 at the end of 2017). The average of total debt amounted to 4.98 (5.12 at the end of 2017).

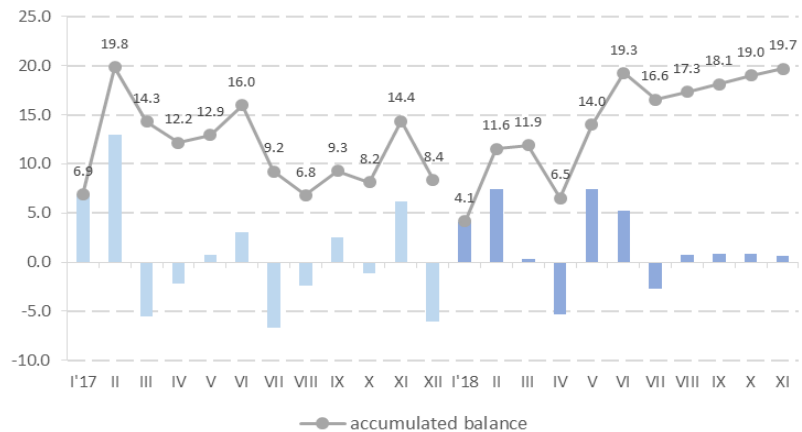




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

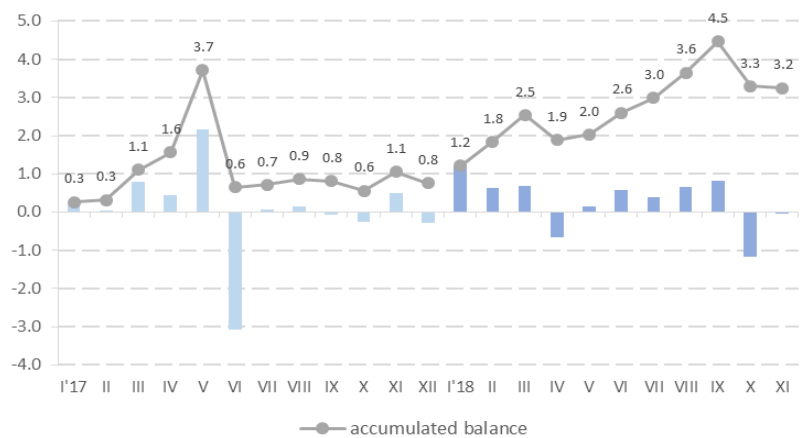
Change of debt in the domestic Treasury securities held by banks without buy-sell-back transactions with MoF, PLN bn

In the period of I-XI 2018 there was an increase of debt by PLN 19.7bn comparing to PLN 14.4bn increase during the same period of 2017. Banks' holdings reached the level of PLN 263.6bn.



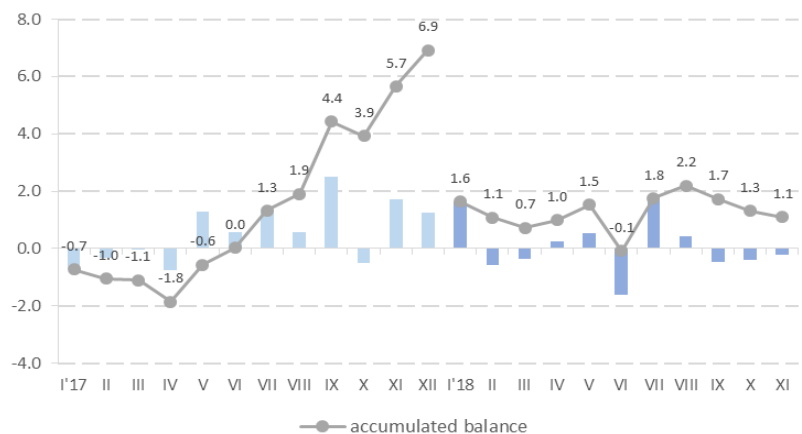
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-XI 2018 there was an increase of debt by PLN 3.2bn comparing to PLN 1.1bn increase during the same period of 2017. Insurance companies' holdings reached the level of PLN 63.0bn.



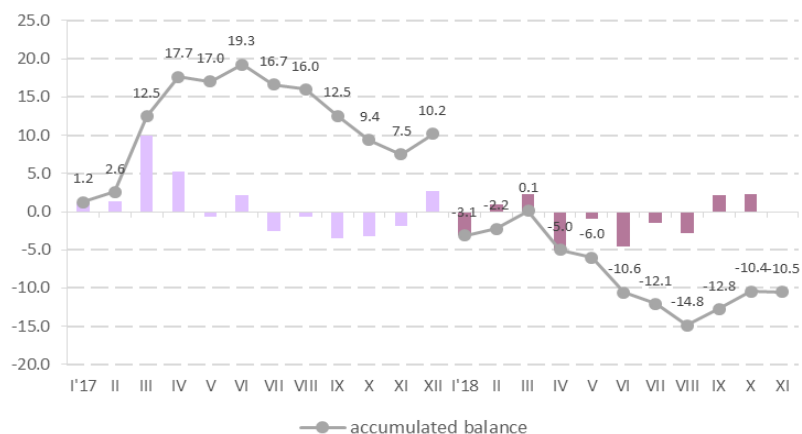
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-XI 2018 there was an increase of debt by PLN 1.1bn comparing to PLN 5.7bn increase in the same period of 2017. Investment funds' holdings reached the level of PLN 58.2bn.



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

In the period of I-XI 2018 there was a decrease of debt by PLN 10.5bn comparing to PLN 7.5bn increase during the same period of 2017. Foreign investors' holdings reached the level of PLN 192.2bn.



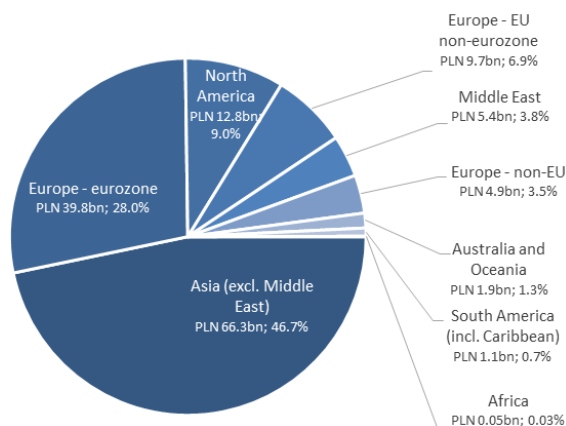
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of November 30, 2018, the chart presents data excluding omnibus accounts

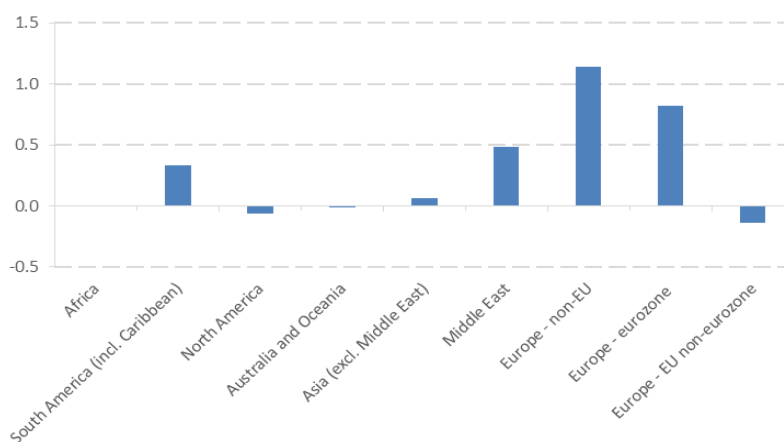
The non-residents' share in the domestic Treasury securities market decreased by PLN 0.1bn in November 2018. The foreign investors' portfolio amounted to PLN 192.2bn, which constituted 29.7% share in total debt in Treasury securities (29.8% in the previous month).



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

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

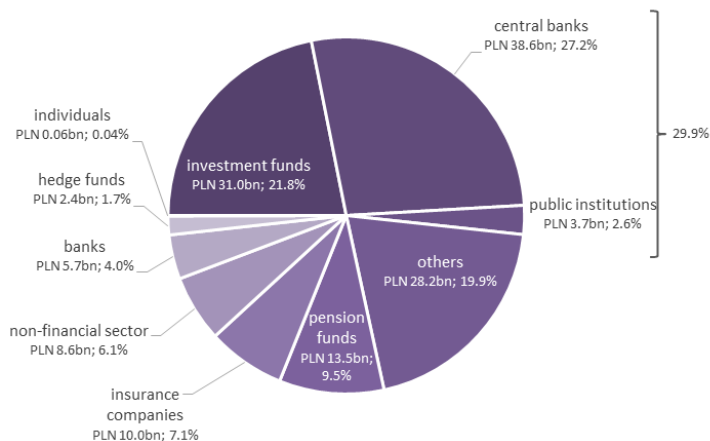
In November 2018 the highest increase was recorded by investors from Europe - non-EU countries (PLN 1.1bn), while the highest decrease was noted by EU non-eurozone investors (PLN 0.1bn).



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

as of November 30, 2018, the chart presents data excluding omnibus accounts

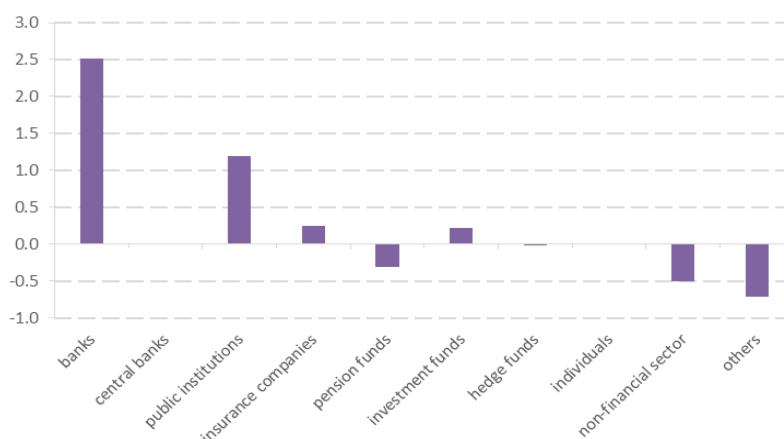
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 29.9% at the end of November 2018.



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

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

In November 2018 the highest increase was recorded by banks (PLN 2.5bn) and the highest decrease was noted by investors from the category "others" (PLN 0.7bn).



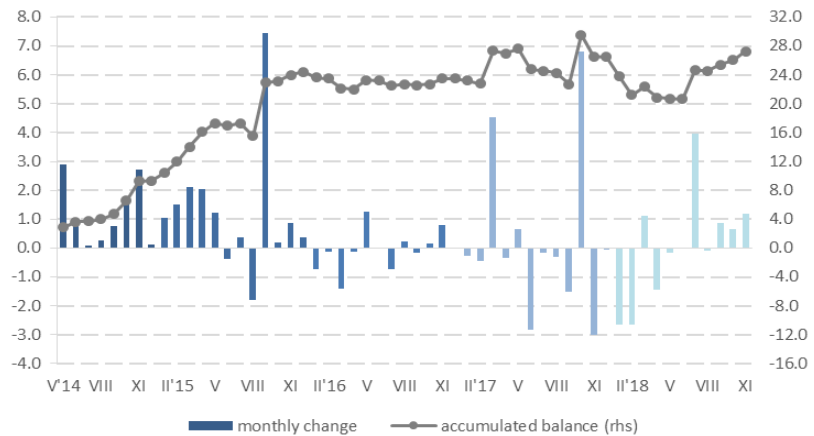


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in November 2018, PLN bn

Central banks and public institutions' involvement increased by PLN 1.2bn in November 2018. In the period from the end of April 2014 to the end of November 2018, for which the detailed information is available, portfolios of those entities increased by PLN 27.3bn.



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

as of November 30, 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	23 339.5	22.6%
Luxembourg	14 443.3	14.0%
United States	11 776.9	11.4%
Ireland	8 639.0	8.4%
Netherlands	7 314.5	7.1%
United Kingdom	6 800.4	6.6%
Germany	5 883.9	5.7%
Hong Kong	3 523.4	3.4%
Norway	3 343.4	3.2%
United Arab Emirates	2 556.9	2.5%
France	2 000.2	1.9%
Australia	1 686.6	1.6%
Switzerland	1 381.2	1.3%
Denmark	1 295.3	1.3%
Taiwan (Province of China)	1 064.0	1.0%
Singapore	1 035.6	1.0%
Others	7 136.5	6.9%
Total	103 220.8	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-12-2018

According to our preliminary estimates, over one fourth of the next year's borrowing requirements has been prefinanced this year. At the end of this year the amount of liquid funds will be visibly higher than PLN 20bn. Final figures will be available after the closure of the budget year.

We estimate that we have achieved the objective set by the debt management strategy of reduction of foreign currency debt below 30%.

In January we plan to hold two sale auctions. The supply at the second one takes into account redemption of the bond WZ0119 and interest payments in the total amount of PLN 8.0bn. No T-bill auctions are planned.

In the first quarter we plan to organize 6 T-bond auctions: from 4 to 6 sale auctions and up to 2 switching auctions, respectively.

In November an increase in involvement in domestic T-bond market amounted to PLN 0.7bn for domestic banks, while the involvement of domestic non-banking sector investors and non-residents remained almost stable.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q1 2019



General assumptions

- in the first quarter of 2019 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 markets 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 four and six auctions, total supply PLN 20.0-30.0bn, the structure of T-bonds to be offered will be subject to the market situation,
- **switch auctions:**
in January auction is not planned, up to two auctions possible in February - March (subject to the budget and market situation) – T-bonds maturing in 2019 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 markets,
- loans from international financial institutions of EUR 0.2bn,
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN JANUARY 2019

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
10 JAN 2019	14 JAN 2019	OK0521 / PS0424 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	3,000-6,000
25 JAN 2019	29 JAN 2019	OK0521 / PS0424 / WZ0524 / WS0428 / WZ0528 / possible T-bond either of WS or IZ type	5,000-8,000

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-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0419 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0121 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0122 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0123 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0129 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0125 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0131 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period