

State budget borrowing requirements' financing plan and its background

3rd quarter 2019

July 2019

THE MOST IMPORTANT INFORMATION

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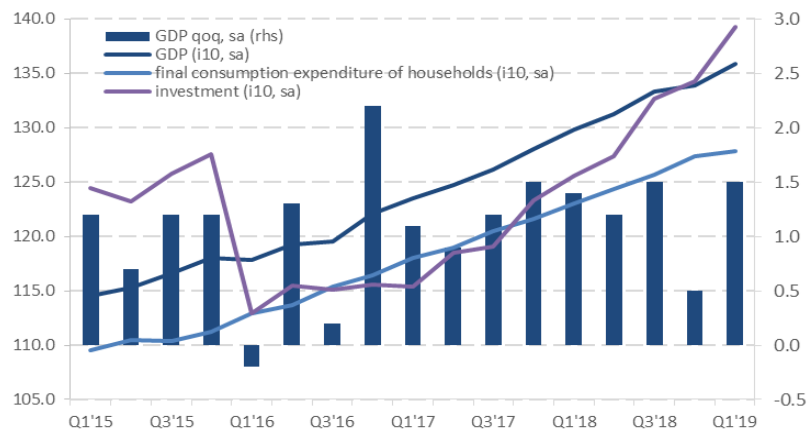
I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices

source: GUS, Eurostat

In the first quarter of 2019 GDP increased by 1.5% (qoq, sa) versus 0.5% a quarter earlier. Rate of growth of households consumption decreased (qoq, sa), while the pace of growth of investment significantly accelerated. After a relatively strong fourth quarter of 2018, especially in the case of exports, trade dynamics slowed down.

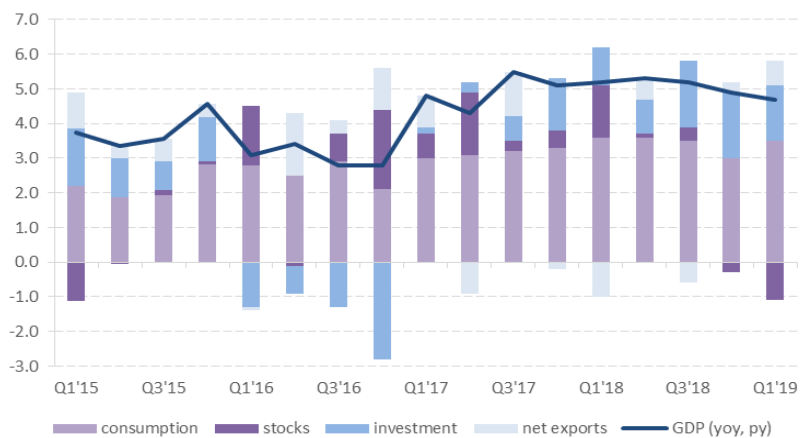


Contributions to Polish GDP growth

pp, py - average prices of previous year

source: GUS, MoF own calculation

In the first quarter of 2019 GDP was 4.7% higher than a year ago versus 4.9% in the previous quarter. Households consumption - despite lower dynamics - was still the main source of GDP growth. Investment registered a two-digit growth rate (12.6% versus 8.2% in the fourth quarter). Inventories contribution to GDP growth was negative (1.1 pp) and net exports contributed positively (0.7 pp). Strong private consumption demand was a consequence of a positive labour market situation and robust consumer sentiment. Investment was supported among others by high investment outlays dynamics in the non-financial enterprises sector.

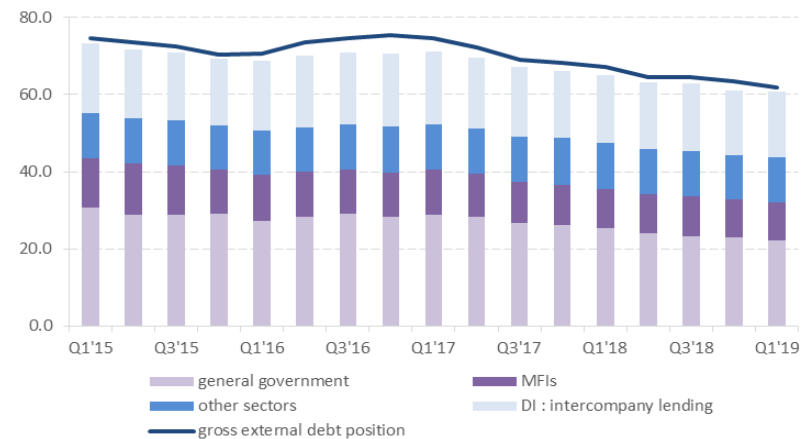


Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

At the end of the first quarter of 2019 gross external debt reached EUR 309.9bn (61.9% of GDP) and was EUR 4.7bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 35.7%. At the end of April 2019 official reserve assets reached about EUR 104.4bn and remained broadly adequate, covering nearly 5 months of imports.

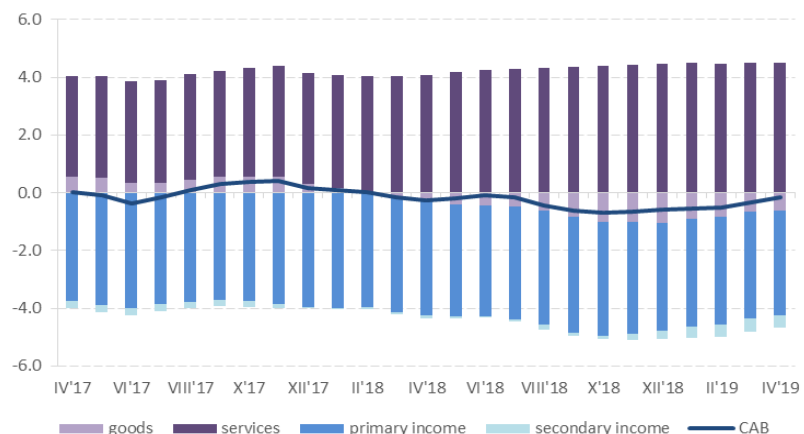


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In April 2019, according to the preliminary data, current account deficit amounted to 0.2% of GDP. 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 investment of non-residents and inflow of EU structural funds classified on the capital account.

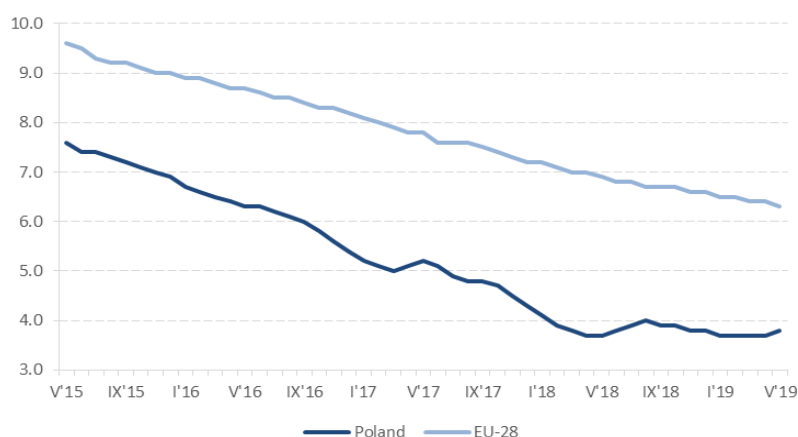




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In May 2019 harmonised unemployment rate increased to 3.8% (compared to 6.3% on average in the EU) after stabilization in three earlier months. For the first time since July 2013, it was higher than a year ago (by 0.1 pp).



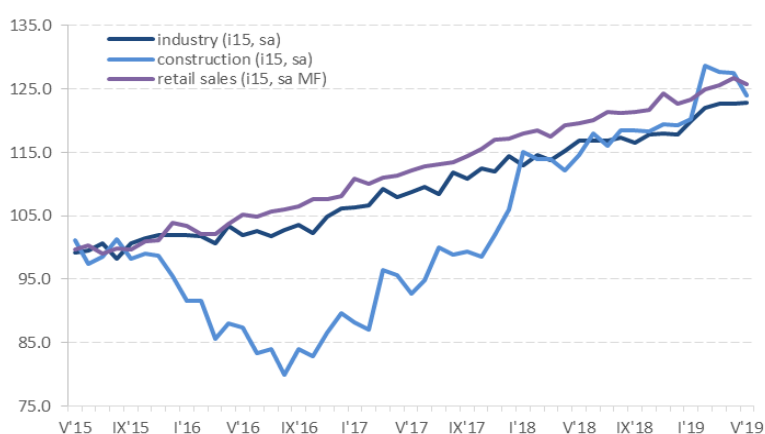
Monthly indicators of the real sector

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

In May 2019 industrial production went up by 0.2% (mom, sa) and was 7.7% higher than a year ago (nsa). Data were slightly above market expectations.

Construction and assembly production decreased by 2.7% following a drop in two previous months (mom, sa) and was 9.6% (nsa) higher than a year before. Data were below MoF's expectations.

Real retail sales rate of growth decreased by 0.8% (mom, sa MoF) after four earlier months of growth. As a result, retail sales were 5.6% (nsa) higher than in the same month of 2018. Data were below market expectations.



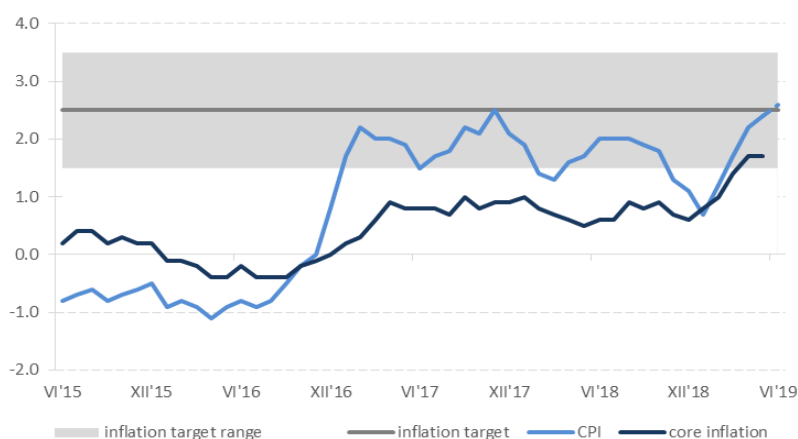
Inflation

percent, yoy
source: GUS, NBP

In the first half of 2019 inflation was rising. In May consumer prices were higher than a year ago by 2.4% and in June by 2.6% (according to preliminary data). It means that inflation in June exceeded the inflation target. Data on inflation for May was close to the market expectations and for June - higher.

Core inflation (CPI excluding food and energy prices) in April and May reached 1.7% (yoy), the highest level since December 2012.

Due to statistical effects, the annual rate of PPI in May decreased to 1.4%.

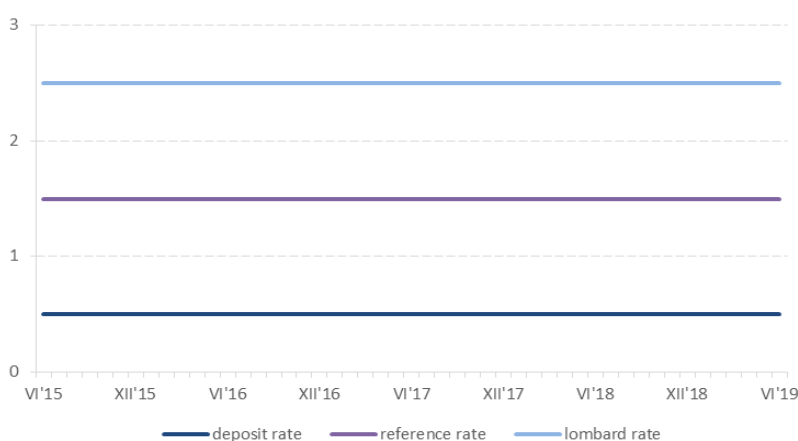


NBP interest rates

percent, end of period
source: NBP

In June 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.

Financial markets price in flat NBP rates till the end of the first quarter of 2021.





II. STATISTICAL DATA

	Unit	2017 Q04	2018 Q01	Q02	Q03	Q04	2019 Q01
GDP							
Gross domestic product	YoY	5.1	5.2	5.3	5.2	4.9	4.7
	QoQ SA	1.5	1.4	1.2	1.5	0.5	1.5
Final consumption expenditure of the households sector	YoY	5.0	4.6	4.8	4.4	4.2	3.9
	QoQ SA	0.9	1.2	1.1	1.1	1.3	0.4
Final consumption expenditure of the general government sector	YoY	4.2	4.5	4.5	5.2	4.7	6.4
	QoQ SA	1.4	0.9	1.6	1.5	0.9	1.3
Gross fixed capital formation	YoY	6.2	9.6	6.0	11.3	8.2	12.6
	QoQ SA	3.6	1.8	1.5	4.2	1.2	3.7
Exports of goods and services	YoY	10.4	3.8	8.1	5.3	7.9	5.9
	QoQ SA	3.5	0.4	2.7	-0.8	4.4	-0.4
Imports of goods and services	YoY	11.8	6.1	7.6	7.0	7.8	5.0
	QoQ SA	2.7	1.0	2.1	1.3	1.5	0.8
Gross value added	YoY	4.9	5.2	5.1	5.1	4.9	4.6
	QoQ SA	1.1	1.4	1.3	1.3	1.0	1.2
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.5	2.9	2.8	2.6	2.1	2.4
Final consumption expenditure of the general government sector	pp	0.8	0.7	0.8	0.9	0.9	1.1
Gross fixed capital formation	pp	1.5	1.1	1.0	1.9	1.9	1.6
Changes in inventories	pp	0.5	1.5	0.1	0.4	-0.3	-1.1
Balance of trade turnover	pp	-0.2	-1.0	0.6	-0.6	0.3	0.7
Gross value added	pp	4.3	4.6	4.5	4.5	4.2	4.1
Taxes less subsidies	pp	0.8	0.6	0.8	0.7	0.7	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	50.3	63.2	58.8	59.0	50.4	62.1
Final consumption expenditure of the general government sector	% of GDP	18.9	17.0	17.5	17.1	19.0	17.3
Gross fixed capital formation	% of GDP	24.1	12.3	16.2	17.9	24.9	13.3
Changes in inventories	% of GDP	2.8	3.3	2.3	2.1	2.3	2.2
Exports of goods and services	% of GDP	50.4	56.6	57.1	55.4	52.6	57.9
Imports of goods and services	% of GDP	47.2	53.3	52.7	52.2	49.8	53.5
Balance of payments							
	Unit	2018 M12	2019 M01	M02	M03	M04	M05
Goods: exports (EUR)	YoY	1.7	5.4	9.9	7.8	10.3	-
Goods: imports (EUR)	YoY	2.2	1.6	7.8	2.6	8.7	-
Current account balance ¹⁾	% of GDP	-0.6	-0.5	-0.5	-0.3	-0.2	-
Balance on goods ¹⁾	% of GDP	-1.0	-0.9	-0.8	-0.7	-0.6	-
Official Reserve Assets	EUR m	102 267.8	98 986.7	98 745.8	100 738.4	104 418.1	106 407.9
Inflation							
Consumer Price Index (CPI)	YoY	1.1	0.7	1.2	1.7	2.2	2.4
Core inflation (CPI excluding food and energy prices)	YoY	0.6	0.8	1.0	1.4	1.7	1.7
Producer Price Index (PPI)	YoY	2.1	2.2	2.9	2.5	2.6	1.4
Production							
Sold production of industry ²⁾	YoY	2.9	6.0	6.9	5.6	9.2	7.7
	MoM SA	-0.2	1.9	1.8	0.5	0.0	0.2
Construction and assembly production ²⁾	YoY	12.3	3.2	15.1	10.8	17.4	9.6
	MoM SA	-0.2	1.0	6.9	-0.7	-0.3	-2.7
Manufacturing PMI	SA	47.6	48.2	47.6	48.7	49.0	48.8
Households and labour market							
Retail sales ²⁾	YoY	3.9	6.1	5.6	1.8	11.9	5.6
Average paid employment in enterprise sector	YoY	2.8	2.9	2.9	3.0	2.9	2.7
	MoM	0.0	2.2	0.2	0.2	0.0	-0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.9	6.7	6.3	3.9	4.8	5.2
	MoM	6.2	-6.3	0.0	4.0	-0.7	-2.7
Harmonised unemployment rate (Eurostat)	%, SA	3.8	3.7	3.7	3.7	3.7	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 M11	M12	2019 M01	M02	M03	M04
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	954 136.9	954 269.3	954 658.6	963 574.3	978 996.9	978 716.7
Domestic debt	face value, PLN m	672 191.9	674 422.0	683 092.0	689 673.7	696 242.6	696 996.8
	%	70.5	70.7	71.6	71.6	71.1	71.2
Foreign debt	face value, PLN m	281 944.9	279 847.2	271 566.6	273 900.6	282 754.3	281 719.9
	%	29.5	29.3	28.4	28.4	28.9	28.8
Public debt (domestic definition)							
	Unit	2017 Q04	2018 Q01	Q02	Q03	Q04	2019 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	961 841.5	989 235.9	984 470.7	977 304.9	984 319.6	1 005 260.4
Domestic debt	face value, PLN m	662 517.5	679 831.0	675 566.2	678 615.4	688 254.1	706 234.8
	%	68.9	68.7	68.6	69.4	69.9	70.3
Foreign debt	face value, PLN m	299 324.1	309 404.9	308 904.5	298 689.6	296 065.5	299 025.7
	%	31.1	31.3	31.4	30.6	30.1	29.7
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 005 721.6	1 031 501.5	1 032 458.2	1 028 496.1	1 034 377.0	1 054 864.3

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



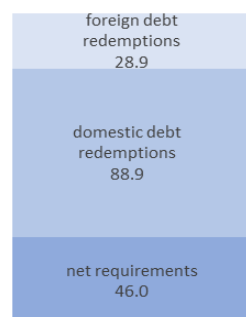
Gross borrowing requirements in 2019

as of June 30, 2019, PLN bn

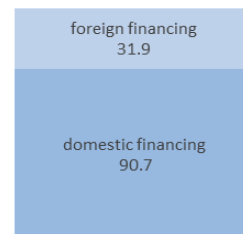
Financing of the State budget borrowing requirements at the level of ca. 75% was a result of:

- T-bond sale on domestic market: PLN 36.3bn,
- switch auctions in 2019: PLN 21.1bn,
- 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: USD 0.2bn,
- higher financial resources at the end of 2018: PLN 27.0bn.

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



Financing of the borrowing requirements at the level of ca. 75%

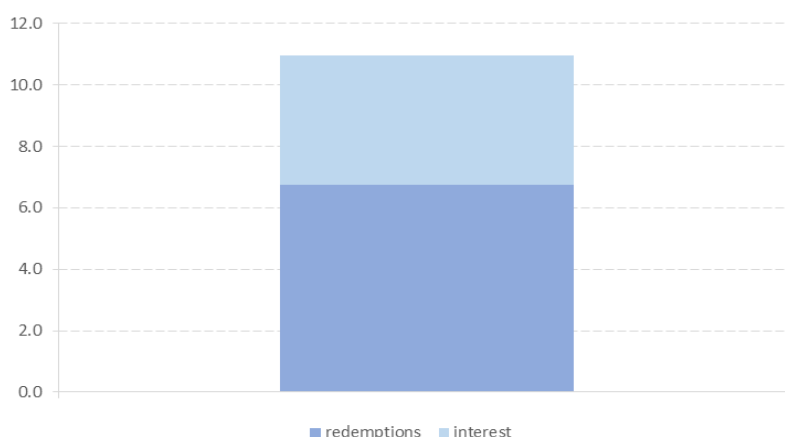


Outflows of funds related to domestic marketable T-securities transfers in July

plan as of June 30, 2019, PLN bn

Value of funds transferred from the State budget to the market in July shall amount to PLN 11.0bn, of which:

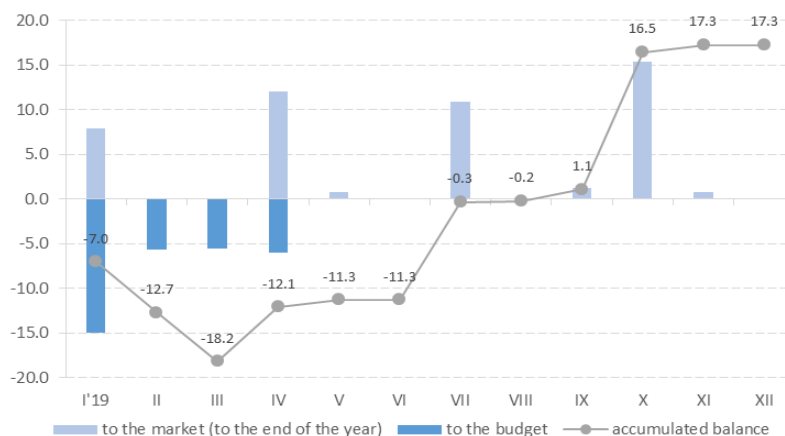
- TS redemptions: PLN 6.8bn,
- interest payments: PLN 4.2bn.



Flows of funds between the market and the budget*

as at the end of month, PLN bn

From July to the end of 2019 the funds to be transferred to the market shall amount to PLN 28.6bn.



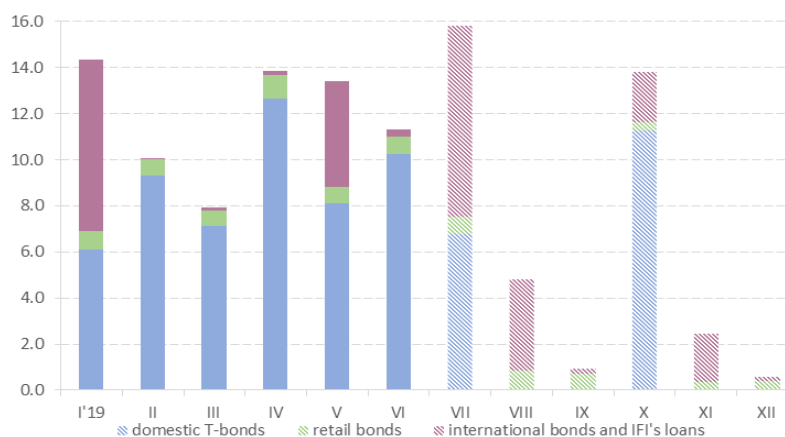
* figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the period of July to the end of 2019.

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 June 30, 2019), is equal to PLN 38.4bn, including:

- T-bonds: PLN 18.0bn,
- retail bonds: PLN 3.4bn,
- bonds and loans incurred on foreign markets: PLN 17.0bn.





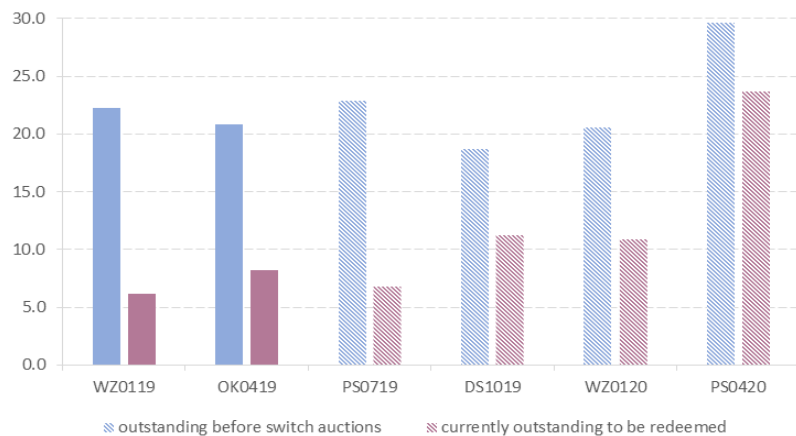
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2019 and 2020

as of June 30, 2019, nominal amount, PLN bn

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

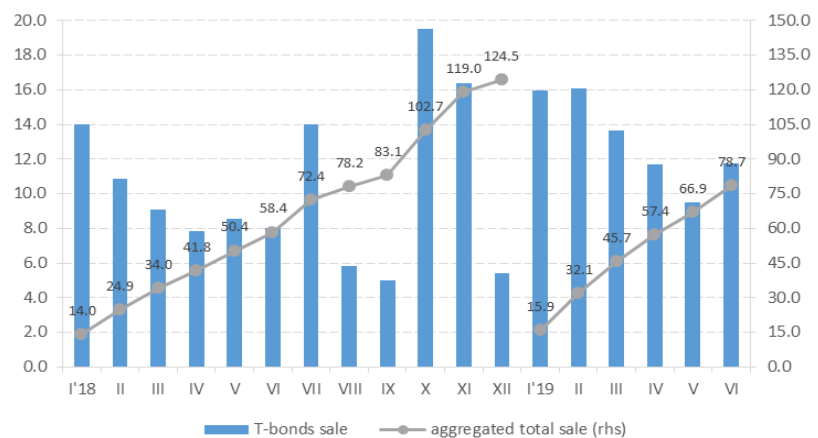
- WZ0119: PLN 16.1bn (72% of the issuance),
- OK0419: PLN 12.7bn (61% of the issuance),
- PS0719: PLN 16.1bn (70% of the issuance),
- DS1019: PLN 7.4bn (40% of the issuance),
- WZ0120: PLN 9.7bn (47% of the issuance),
- PS0420: PLN 6.0bn (20% of the issuance).



Sale of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

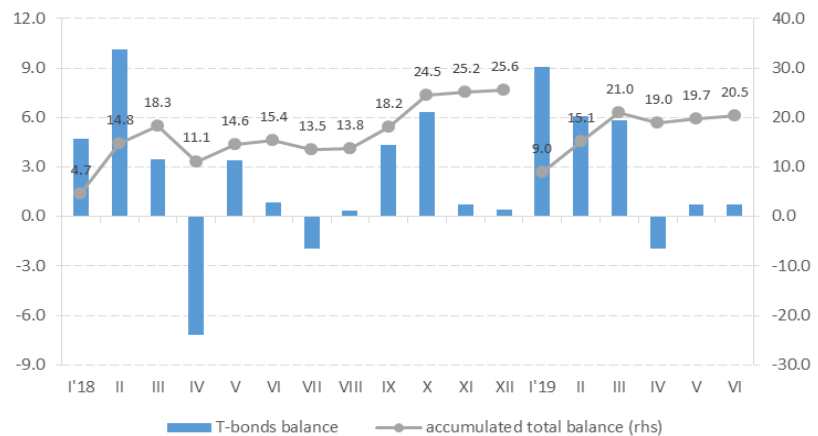
In the period of I-VI 2019 aggregated total sale of T-bonds amounted to PLN 78.7bn versus PLN 58.4bn in the same period of 2018.



Balance of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

In the period of I-VI 2019 indebtedness in T-bonds increased by PLN 20.5bn versus an increase of PLN 15.4bn in the same period of 2018.

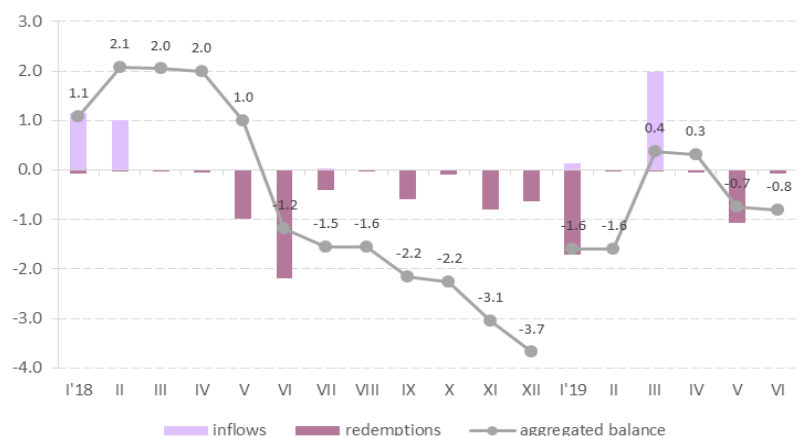


External financing in 2018 and 2019

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

Net financing on foreign markets in the period of I-VI 2019 was negative and amounted to EUR 0.8bn (negative balance of EUR 1.2bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 0.6bn (negative balance of EUR 1.9bn in the same period of 2018),
- negative balance of loans incurred from IFIs of EUR 0.2bn (positive balance of EUR 0.7bn in the same period of 2018).



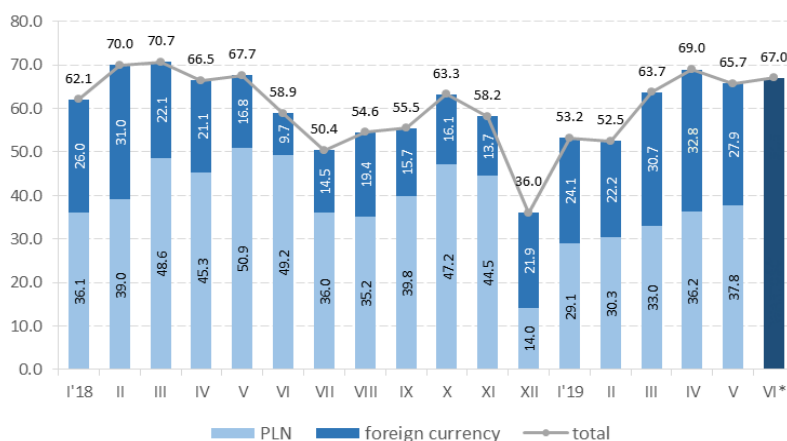
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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 June 2019 there was the equivalent of PLN 67.0bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

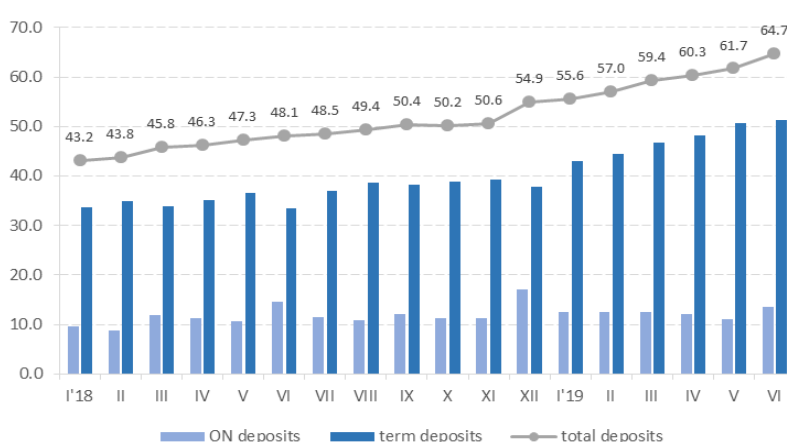


* estimated data

Consolidation of public finance sector liquidity management

PLN bn

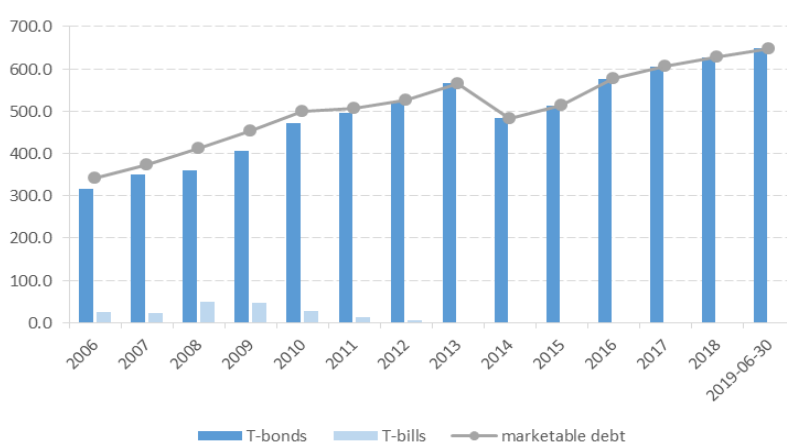
As a result of consolidation of the public finance sector liquidity management there were PLN 64.7bn funds accumulated at the end of June 2019, of which: PLN 51.3bn was on term deposits and PLN 13.5bn on ON deposits.



Structure of marketable debt

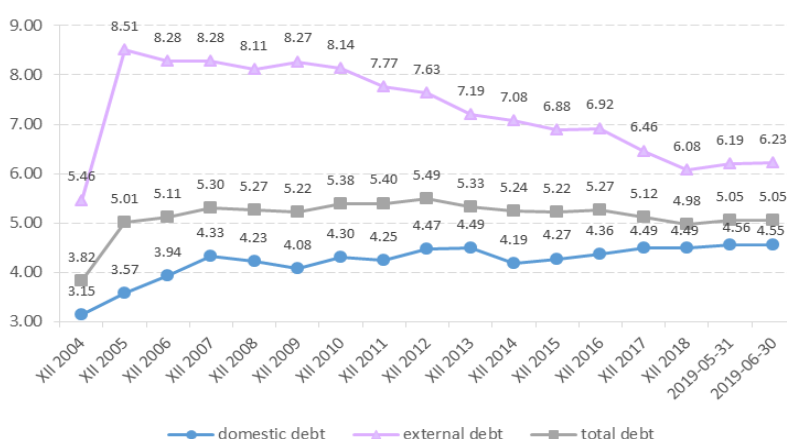
PLN bn

The marketable domestic debt amounted to PLN 648.4bn at the end of June 2019 comparing to PLN 627.1bn at the end of 2018.



Average maturity

The average maturity of domestic debt amounted to 4.55 years at the end of June 2019 (4.49 years at the end of 2018). The average of total debt amounted to 5.05 years (4.98 years at the end of 2018).



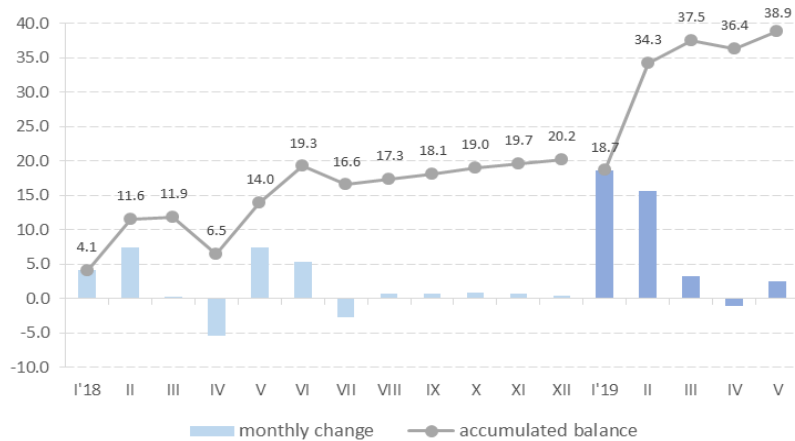


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic Treasury securities held by banks

PLN bn

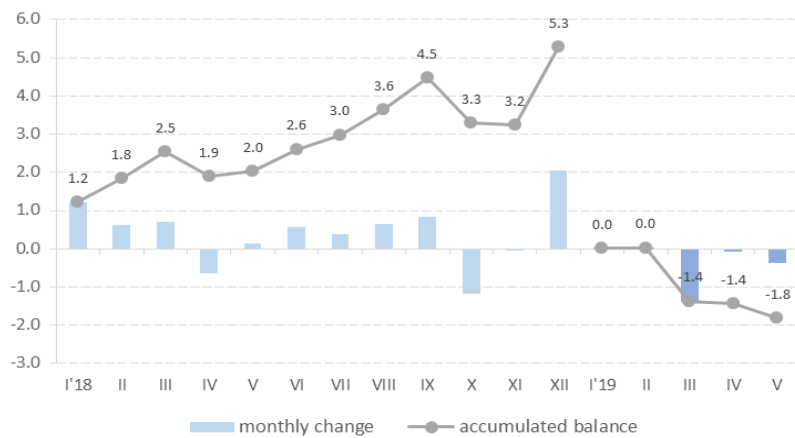
In the period of I-V 2019 there was an increase of debt by PLN 38.9bn comparing to PLN 14.0bn increase during the same period of 2018. Banks' holdings reached the level of PLN 302.9bn.



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

PLN bn

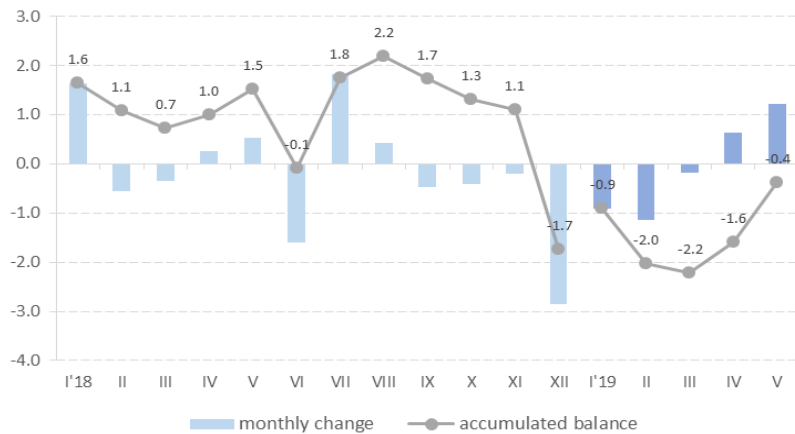
In the period of I-V 2019 there was a decrease of debt by PLN 1.8bn comparing to PLN 2.0bn increase during the same period of 2018. Insurance companies' holdings reached the level of PLN 63.3bn.



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

PLN bn

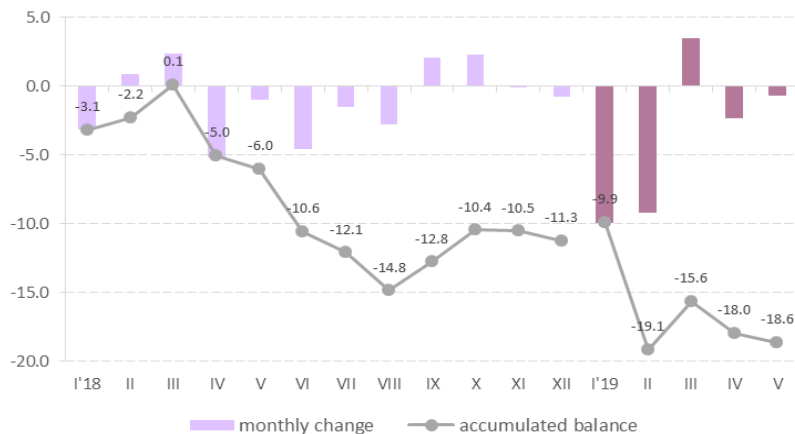
In the period of I-V 2019 there was a decrease of debt by PLN 0.4bn comparing to PLN 1.5bn increase in the same period of 2018. Investment funds' holdings reached the level of PLN 55.0bn.



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

PLN bn

In the period of I-V 2019 there was a decrease of debt by PLN 18.6bn comparing to PLN 6.0bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 172.9bn.



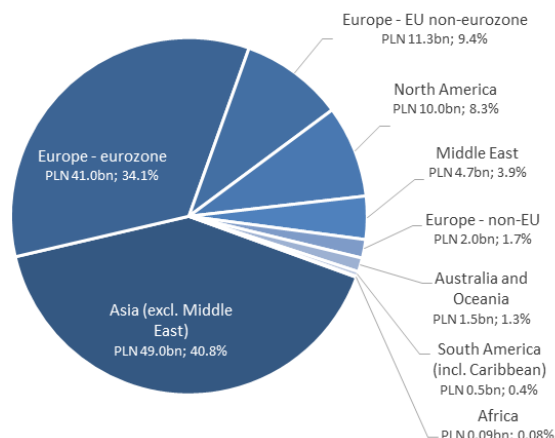
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

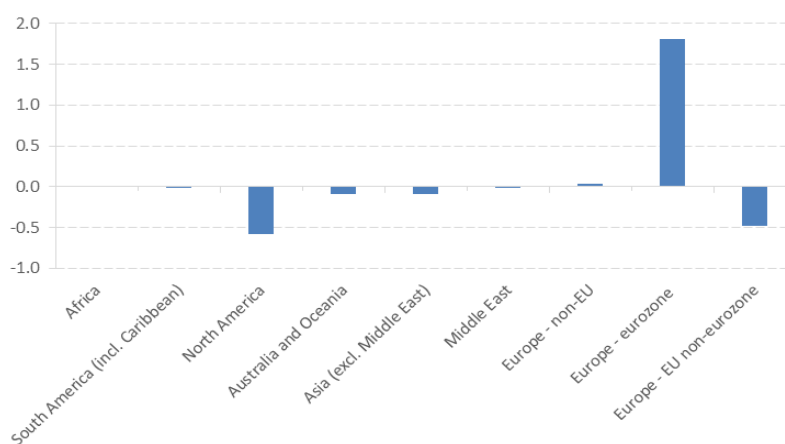
The non-residents' share in the domestic Treasury securities market decreased by PLN 0.6bn in May 2019. The foreign investors' portfolio amounted to PLN 172.9bn, which constituted 25.8% share in total debt in Treasury securities (25.9% in the previous month).



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

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

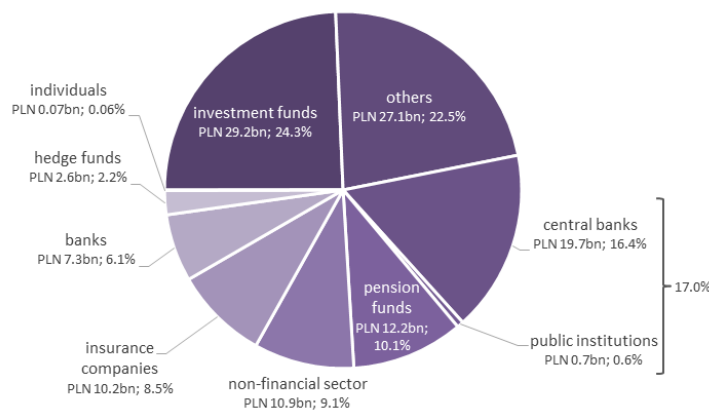
In May 2019 the highest increase was recorded by eurozone investors (PLN 1.8bn), while the highest decrease was noted by investors from North America (PLN 0.6bn).



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

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

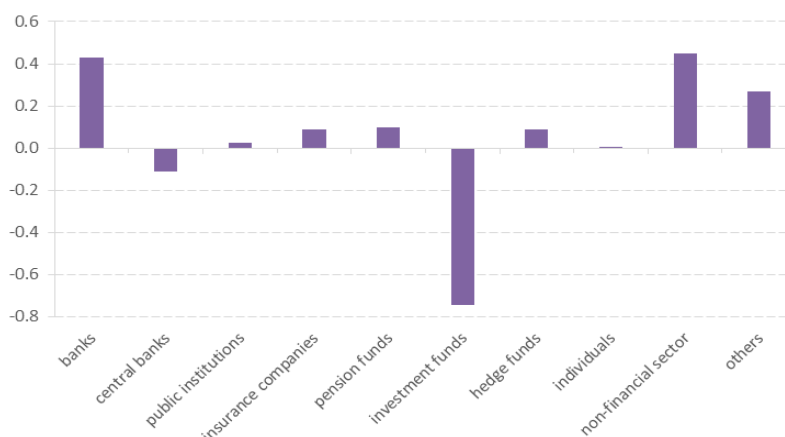
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 17.0% at the end of May 2019.



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

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

In May 2019 the highest increase was recorded by banks and non-financial sector (each PLN 0.4bn) and the highest decrease was noted by investment funds (PLN 0.7bn).



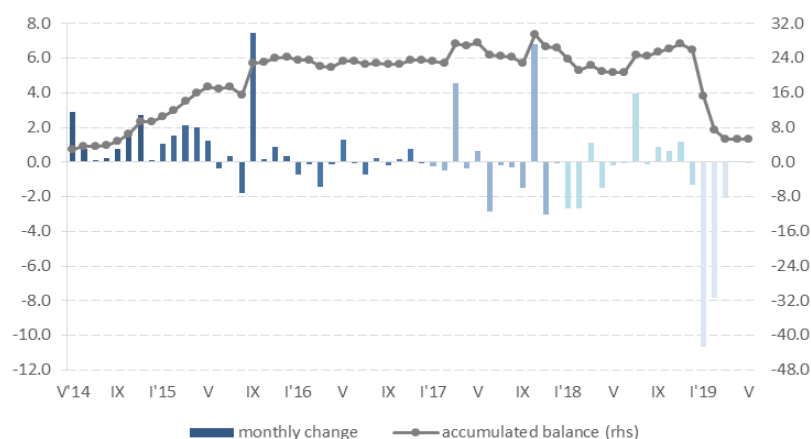


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in May 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.1bn in May 2019. In the period from the end of April 2014 to the end of May 2019, for which the detailed information is available, portfolios of those entities increased by PLN 5.3bn.



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

as of May 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	24 514.2	24.4%
Luxembourg	15 210.8	15.2%
United States	8 947.6	8.9%
United Kingdom	8 407.1	8.4%
Netherlands	7 554.1	7.5%
Ireland	6 915.6	6.9%
Germany	6 061.6	6.0%
Hong Kong	3 148.0	3.1%
France	2 832.1	2.8%
United Arab Emirates	2 629.5	2.6%
Switzerland	1 490.6	1.5%
Australia	1 348.5	1.3%
Italy	1 099.8	1.1%
Denmark	1 068.6	1.1%
Others	9 068.1	9.0%
Total	100 296.1	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

28-06-2019

At the end of June the level of financing gross borrowing requirements amounted to 76%. Liquid funds on the budgetary accounts reached ca. PLN 64bn. Similarly to previous months, due to high level of financing of the borrowing needs and favourable budget liquidity situation, bond supply in the third quarter will be limited. In July, there will be one switch auction and one sale auction correlated with bond redemption.

In May indebtedness in domestic T-bond market increased by PLN 0.7bn. It was a result of higher involvement of domestic banks (by PLN 2.5bn) and decrease in involvement of domestic non-banking sector (by PLN 1.1bn) and non-residents (by PLN 0.6bn).

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q3 2019



General assumptions

- in the third quarter of 2019 T-bond auctions are planned according to the announced yearly issuance calendar, except for August when one auction is planned,
- the 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 may 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 the budget conditions,
- 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 with total supply of PLN 7.0-13.0bn, 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 2019 and 2020 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,
- loans from international financial institutions of up to EUR 0.1bn,
- possible private placement issuances.



IV. SUPPLY PLAN OF TREASURY SECURITIES IN JULY 2019

T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
26 JUL 2019	30 JUL 2019	OK0521 / PS1024 / WZ0525 / WZ1129 / DS1029 / possible T-bond either of WS or IZ type	4,000-7,000
<p><i>The final offer and the supply will be announced 2 days before the auction, taking into account the market situation and consultations with investors.</i></p> <p><i>After the auction bonds will be offered within additional sale at a minimum accepted clean price.</i></p>			

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
11 JUL 2019 / 15 JUL 2019	OK0521 / PS1024 / WZ0525 / WZ1129 / DS1029 / possible T-bond either of WS or IZ type	PS0719	6,762
		DS1019	11,260
		WZ0120	10,867
		PS0420	23,697

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1019 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0721 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0722 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0723 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0729 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0725 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0731 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period