

State budget borrowing requirements' financing plan and its background

June 2020

THE MOST IMPORTANT INFORMATION

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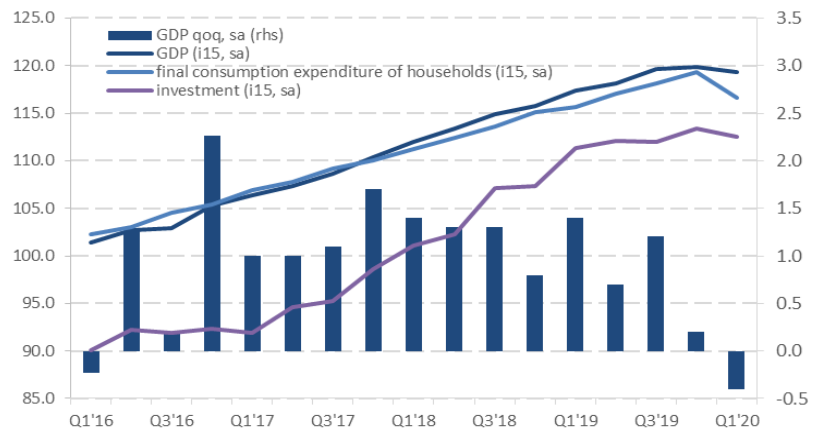


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices
source: GUS, Eurostat

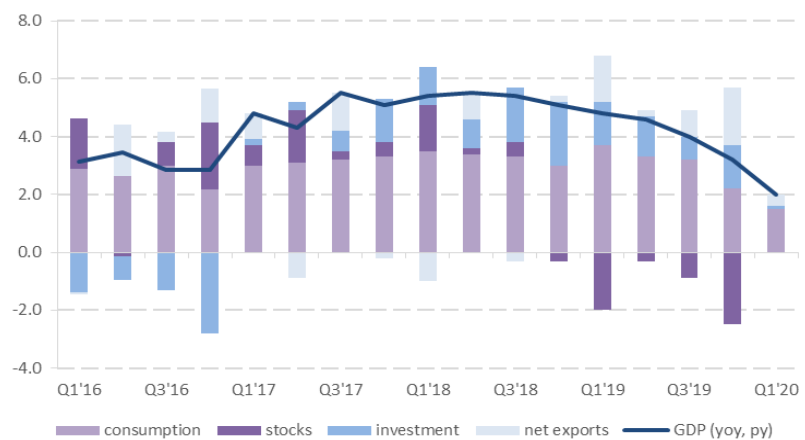
In the first quarter of 2020 GDP decreased by 0.4% (qoq, sa) after weak growth in the previous quarter. Households consumption and investments both declined by 2.2% and 0.7% (qoq, sa), respectively. On the other hand, foreign trade dynamics were close to stagnation. The performance of the Polish economy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



Contributions to Polish GDP growth

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

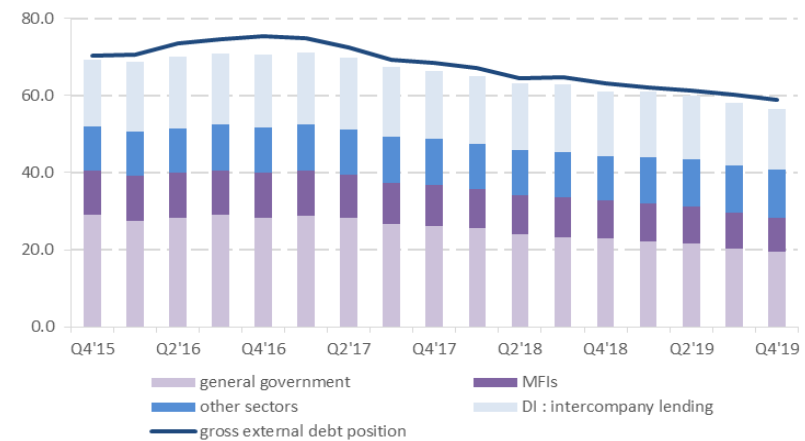
In the first quarter of 2020 GDP was 2.0% higher than a year ago as compared to 3.2% in the previous quarter. Households consumption was 1.2% higher than in the same period of 2019. Investments growth amounted to 0.9%. Net exports had a slight positive contribution to GDP growth (0.4 pp), which in case of inventories was neutral. However, the COVID-19 epidemic in Poland (as well as in our main trade partners) along with the introduction of unprecedented 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

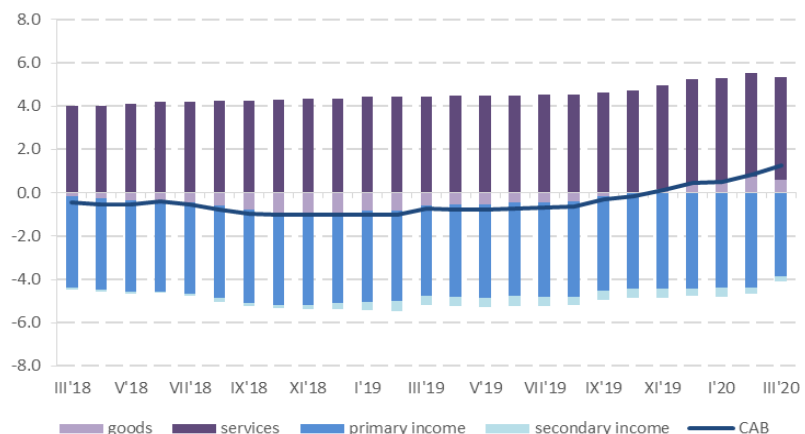
At the end of the fourth quarter of 2019 gross external debt reached EUR 312.0bn (59.0% of GDP) and was EUR 0.8bn lower than in the previous quarter. The share of general government sector debt in total debt decreased to 32.9%. At the end of March 2020 official reserve assets reached EUR 110.1bn and 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 March 2020, according to the preliminary data, current account surplus increased to 1.3% of GDP (in 12-month terms). 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). Financial results of companies also deteriorated. In consequence foreign direct investors' income on their capital involvement in Polish entities turned negative in March reducing the primary income deficit.

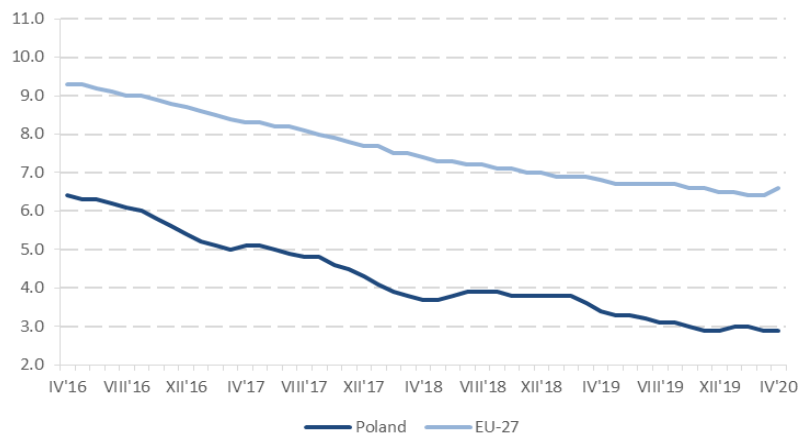




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

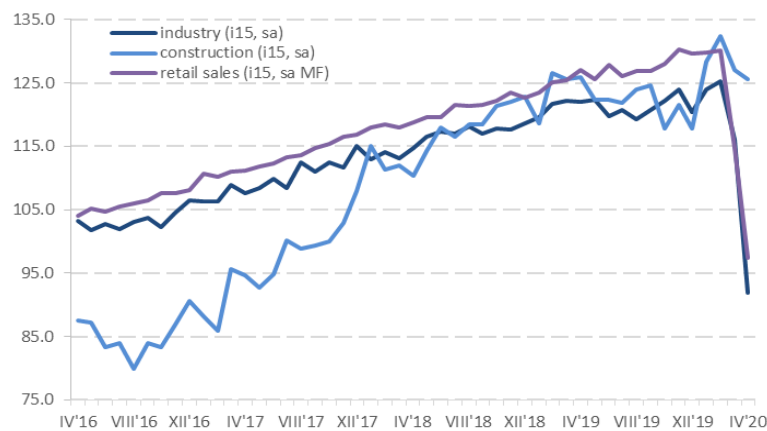
In April 2020 harmonised unemployment rate remained at the record low level observed in the previous month (2.9%) and it was lower than in the EU-27 on average (6.6%).



Monthly indicators of the real sector

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

Economic effects of COVID-19 epidemic expansion and imposed social distancing measures were fully visible in April 2020. Industrial production went down by 20.8% (mom, sa) and it was 24.6% lower than a year ago (nsa). Data were significantly below market expectations. Construction and assembly production dropped by 1.2% following relatively good result in the previous month (mom, sa). It was 0.9% (nsa) lower than a year before. Data beat MoF's expectations. Real retail sales decreased for the second time in a row (15.2%, mom, sa MoF). As a result, retail sales were 22.9% (nsa) lower than in the same month of 2019. Data were below market expectations.

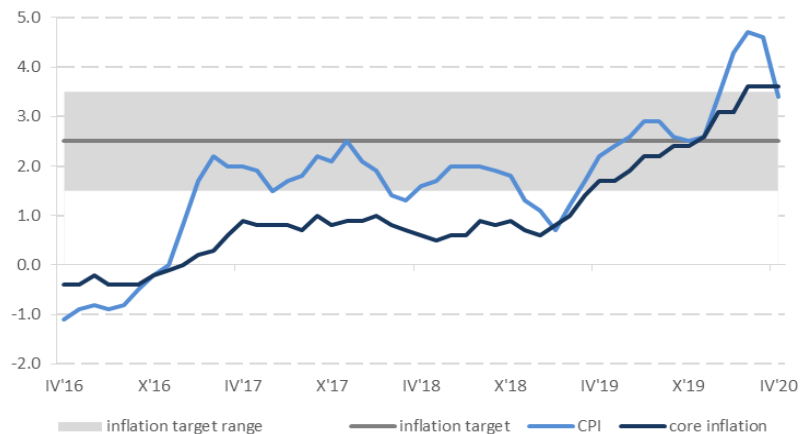


Inflation

percent, yoy
source: GUS, NBP

In the first quarter of 2020 inflation rate increased to 4.5% (yoy), exceeding the upper limit of deviation from the inflation target. Rising inflation was influenced by the electricity price hike and still high food prices growth. In April inflation decreased to 3.4%, among others due to strong drop in fuel prices and in May it fell to 2.9% (according to the preliminary data). Data were close to the expectations. Core inflation (CPI excluding food and energy prices) in the period of February-April stabilised at 3.6% (yoy) which was the highest level from 18 years.

The annual rate of producer prices (PPI) in last months remained at low level and in April there was deflation of 1.3% (yoy).

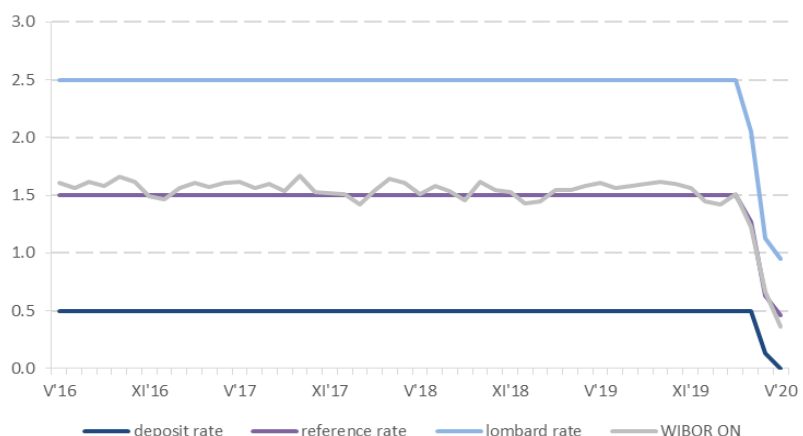


NBP interest rates

percent, end of period
source: NBP, Eurostat

In May 2020, the MPC unexpectedly cut NBP interest rates again. The reference rate was reduced by 40 bp to 0.1%, the lombard rate was lowered by 50 bps to 0.5%, while the deposit rate remained at 0.0%. The key interest rates were cut for the third time since the COVID-19 outbreak in Poland. Since March 2020 the reference rate has been lowered by 140 bp in total.

The NBP monetary policy easing is to mitigate the negative effects of the pandemic, limiting the scale of economic activity decline and supporting income of households and enterprises.





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
	Unit	2019 M11	M12	2020 M01	M02	M03	M04
Balance of payments							
Goods: exports (EUR)	YoY	0.8	9.0	3.6	7.5	-7.5	-
Goods: imports (EUR)	YoY	-3.5	-0.7	2.4	0.6	-4.5	-
Current account balance ¹⁾	% of GDP	0.1	0.5	0.5	0.8	1.3	-
Balance on goods ¹⁾	% of GDP	0.2	0.5	0.5	0.7	0.6	-
Official Reserve Assets	EUR m	108 887.5	114 510.6	113 757.2	116 060.2	110 119.5	108 643.7
Inflation							
Consumer Price Index (CPI)	YoY	2.6	3.4	4.3	4.7	4.6	3.4
Core inflation (CPI excluding food and energy prices)	YoY	2.6	3.1	3.1	3.6	3.6	3.6
Producer Price Index (PPI)	YoY	-0.1	1.0	0.9	0.2	-0.3	-1.3
Production							
Sold production of industry ²⁾	YoY	1.4	3.8	1.1	4.8	-2.5	-24.6
	MoM SA	1.4	-2.9	2.9	1.1	-7.3	-20.8
Construction and assembly production ²⁾	YoY	-4.7	-3.3	6.4	5.5	3.7	-0.9
	MoM SA	3.1	-3.0	9.0	3.1	-4.0	-1.2
Manufacturing PMI	SA	46.7	48.0	47.4	48.2	42.4	31.9
Households and labour market							
Retail sales ²⁾	YoY	5.2	5.7	3.5	7.3	-8.9	-22.9
Average paid employment in enterprise sector	YoY	2.6	2.6	1.1	1.1	0.3	-2.1
	MoM	0.2	0.0	0.7	0.1	-0.5	-2.4
Average monthly gross wages and salaries in enterprise sector (real)	YoY	2.6	2.7	2.7	2.9	1.6	-1.4
	MoM	0.2	6.3	-6.6	0.2	2.8	-3.6
Harmonised unemployment rate (Eurostat)	% SA	2.9	2.9	3.0	3.0	2.9	2.9
<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>							
	Unit	2019 M10	M11	M12	2020 M01	M02	M03
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	960 882.4	962 013.4	973 338.2	987 605.9	997 398.5	1 036 437.2
Domestic debt	face value, PLN m	701 313.8	702 674.3	716 453.5	727 020.9	728 279.6	753 737.8
	%	73.0	73.0	73.6	73.6	73.0	72.7
Foreign debt	face value, PLN m	259 568.6	259 339.1	256 884.7	260 585.0	269 118.9	282 699.4
	%	27.0	27.0	26.4	26.4	27.0	27.3
	Unit	2018 Q03	Q04	2019 Q01	Q02	Q03	Q04
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	977 304.9	984 313.5	1 005 633.5	998 220.7	1 001 190.9	990 940.9
Domestic debt	face value, PLN m	678 615.4	688 248.0	706 607.9	708 264.6	713 568.9	716 176.3
	%	69.4	69.9	70.3	71.0	71.3	72.3
Foreign debt	face value, PLN m	298 689.6	296 065.5	299 025.7	289 956.1	287 622.0	274 764.6
	%	30.6	30.1	29.7	29.0	28.7	27.7
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 029 900.1	1 035 703.9	1 056 556.1	1 051 755.9	1 055 625.3	1 045 129.0

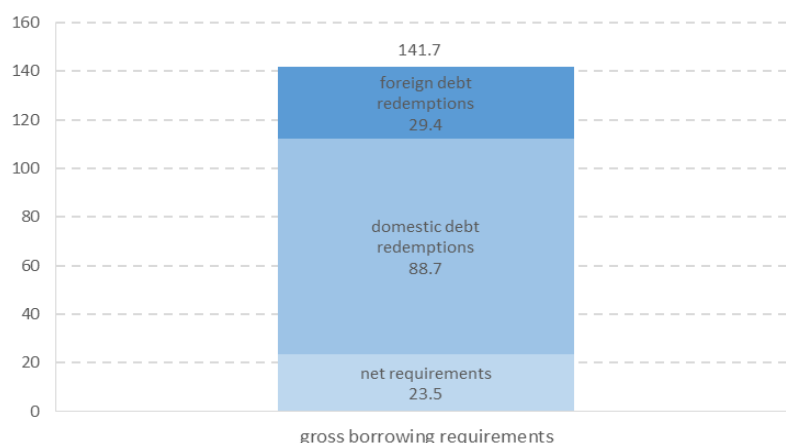
Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2020 as of May 31, 2020, PLN bn

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

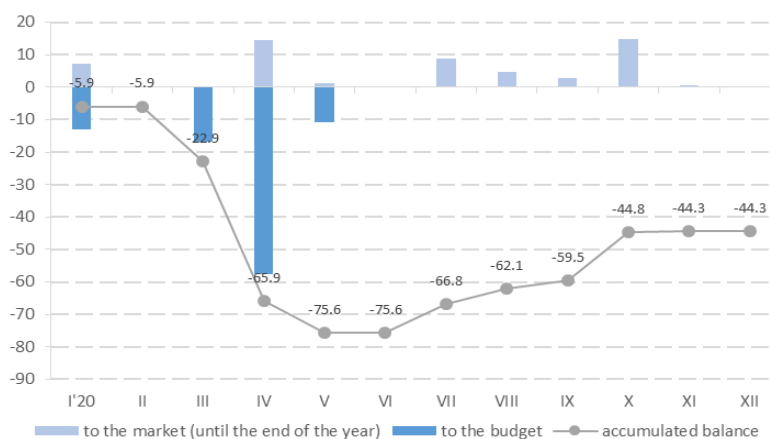


Outflows of funds related to domestic marketable T-securities transfers in June plan as of May 31, 2020

In June 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 June to the end of 2020 funds to be transferred to the domestic market shall amount to PLN 31.3bn (as of May 31, 2020).

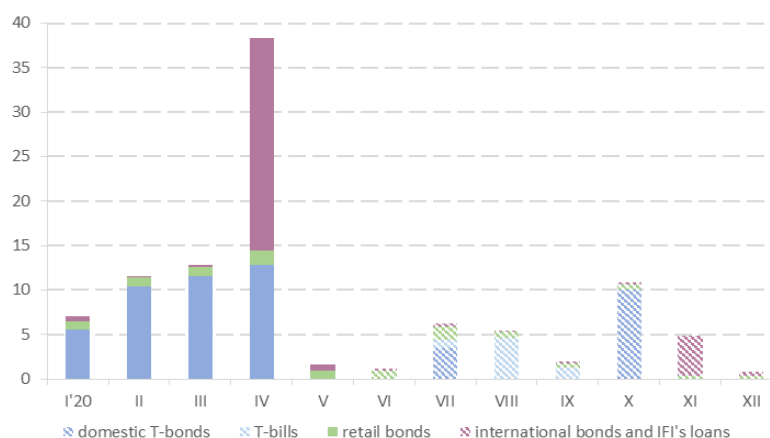


* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of June to the end of 2020 is not presented.

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 May 31, 2020) is equal to PLN 31.0bn, including:

- T-bonds: PLN 13.6bn,
- retail bonds: PLN 4.9bn,
- T-bills: PLN 6.8bn,
- bonds and loans incurred on foreign markets: PLN 5.7bn.



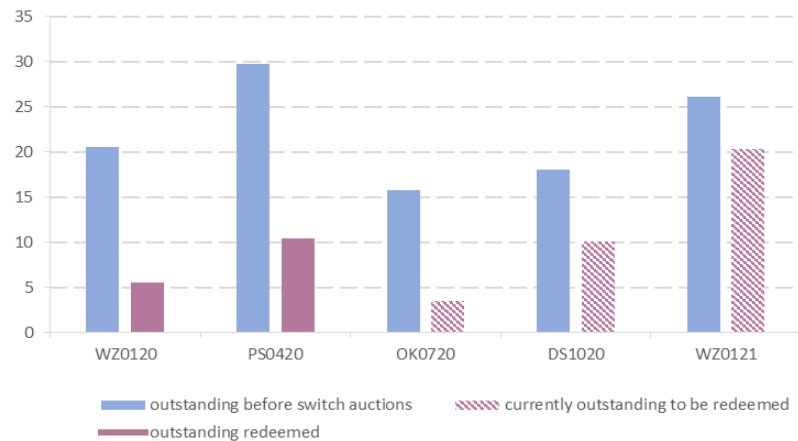


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020 and 2021 as of May 31, 2020, nominal amount, PLN bn

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

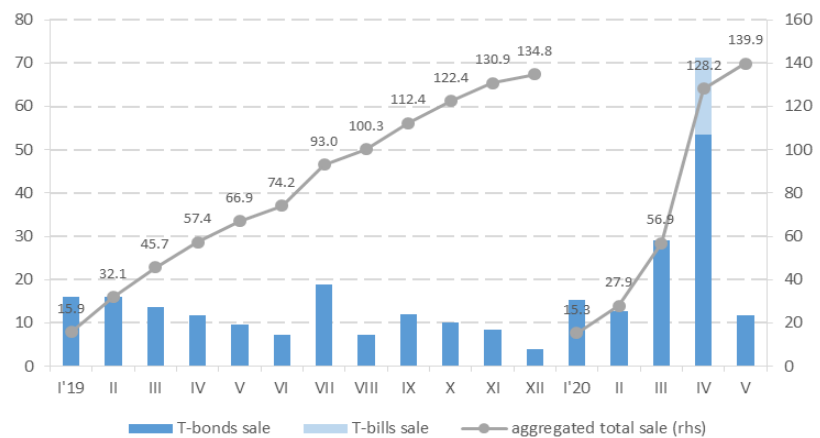
- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 19.3bn (65% of the issuance),
- OK0720: PLN 12.2bn (78% of the issuance),
- DS1020: PLN 7.9bn (44% of the issuance),
- WZ0121: PLN 5.7bn (22% of the issuance).



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

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

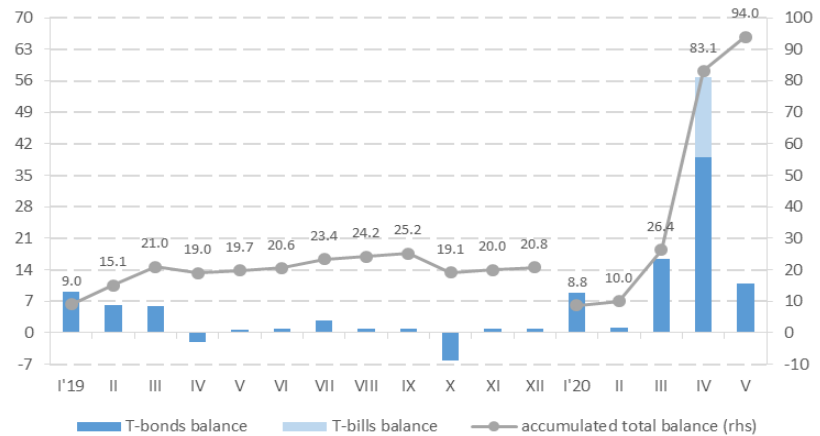
- T-bonds amounted to PLN 122.2bn versus PLN 66.9bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).



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

In the period of I-V 2020 indebtedness in:

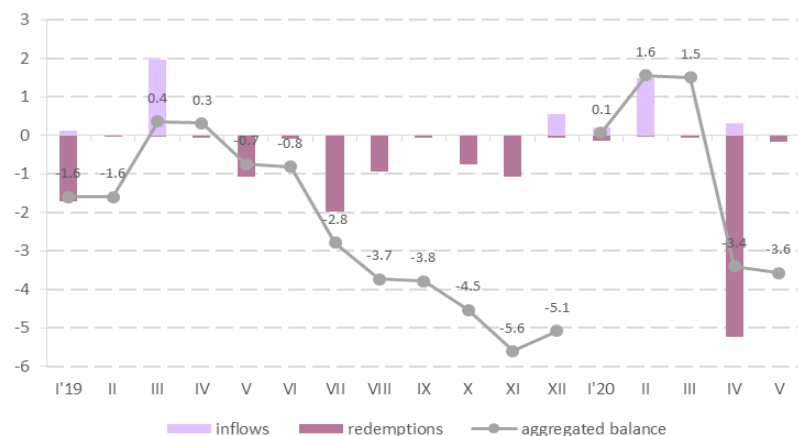
- T-bonds increased to PLN 76.2bn versus an increase of PLN 19.7bn in the same period of 2019,
- T-bills increased to PLN 17.7bn (T-bills were not offered since February 2017).



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-V 2020 was negative and amounted to EUR 3.6bn (negative balance of EUR 0.7bn 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

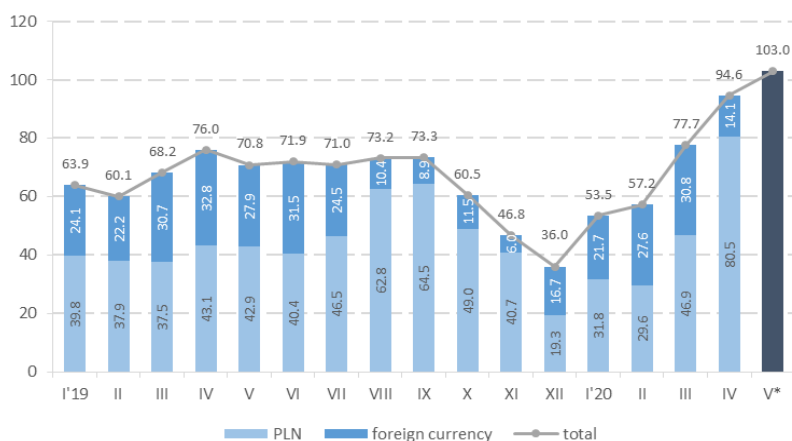


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of May 2020 there was equivalent of PLN 103.0bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

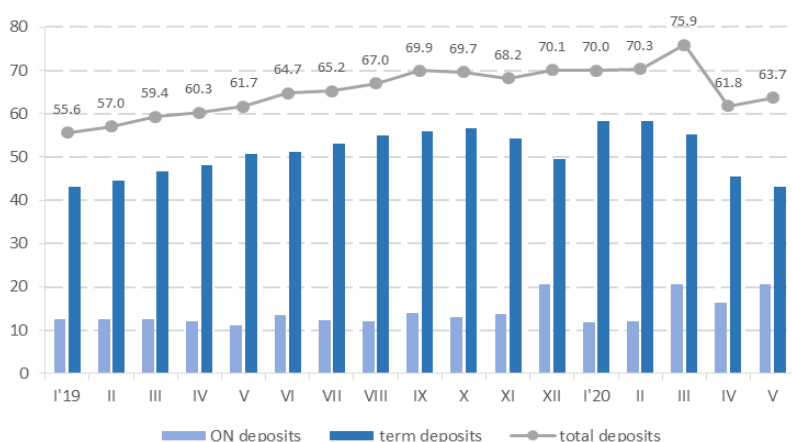
* Estimated data.



Consolidation of public finance sector liquidity management

PLN bn

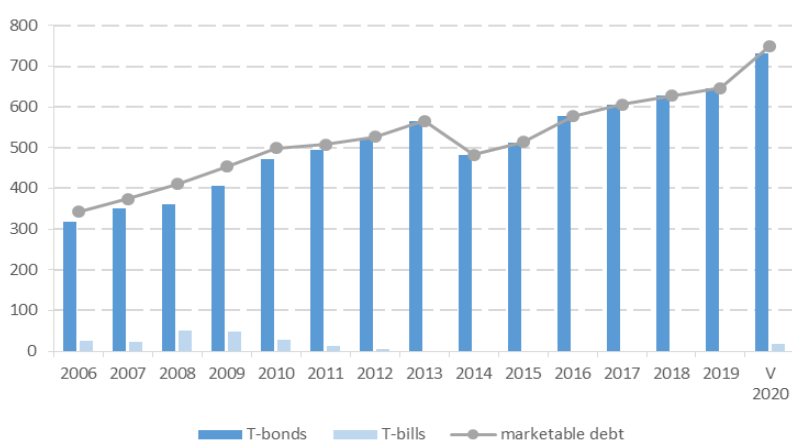
As a result of consolidation of the public finance sector liquidity management there were PLN 63.7bn funds accumulated at the end of May 2020, of which: PLN 43.1bn was on term deposits and PLN 20.6bn on ON deposits.



Structure of domestic marketable debt

PLN bn

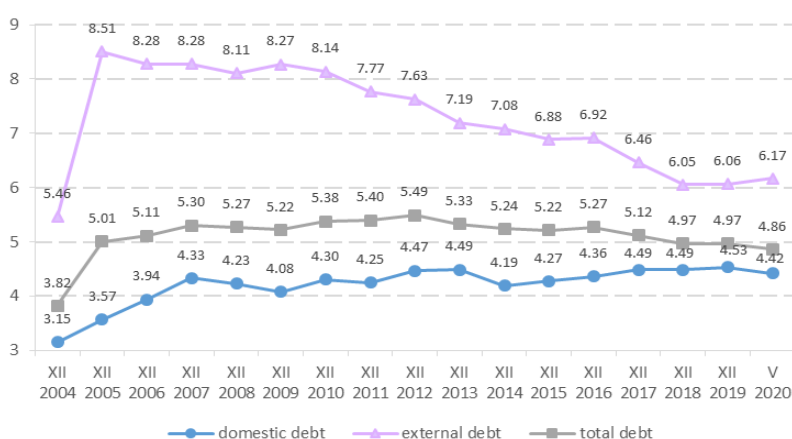
The marketable domestic debt amounted to PLN 749.4bn at the end of May 2020 comparing to PLN 646.0bn at the end of 2019.



Average maturity

years

The average maturity of the domestic debt amounted to 4.42 years at the end of May 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.86 years (4.97 years at the end of 2019).

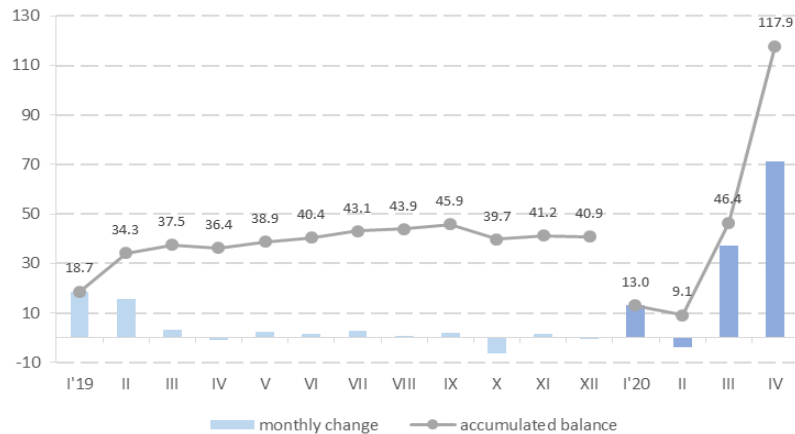




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

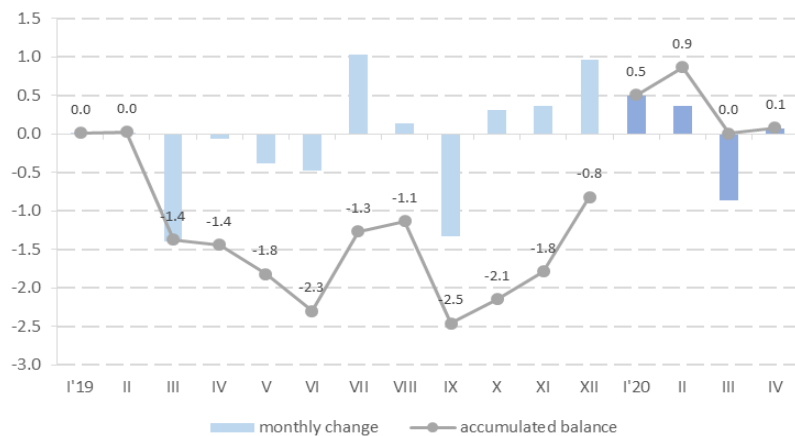
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-IV 2020 there was an increase of debt by PLN 117.9bn comparing to PLN 36.4bn increase during the same period of 2019. Banks' holdings reached the level of PLN 422.8bn.



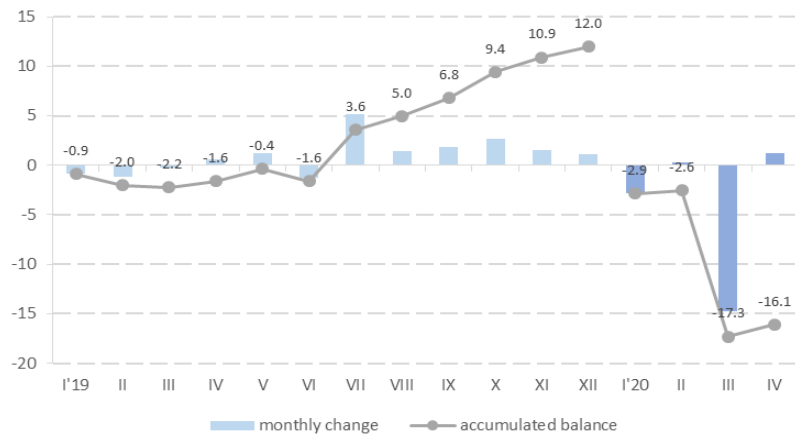
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-IV 2020 there was an increase of debt by PLN 0.1bn comparing to PLN 1.4bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 64.4bn.



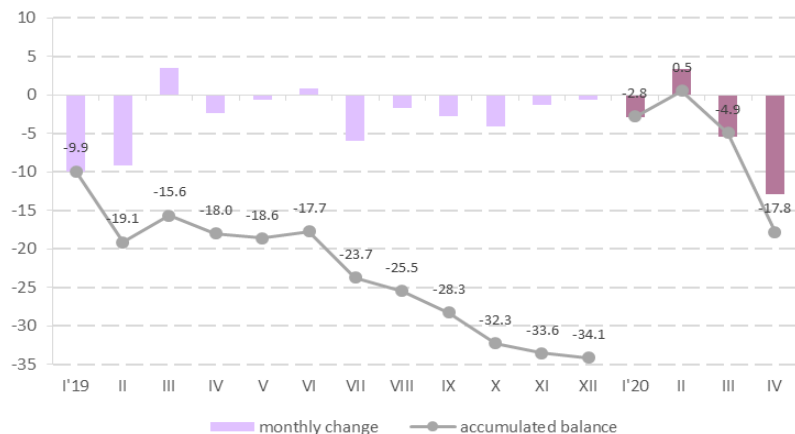
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-IV 2020 there was a decrease of debt by PLN 16.1bn comparing to PLN 1.6bn decrease in the same period of 2019. Investment funds' holdings reached the level of PLN 51.3bn.



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

In the period of I-IV 2020 there was a decrease of debt by PLN 17.8bn comparing to PLN 18.0bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 139.6bn.



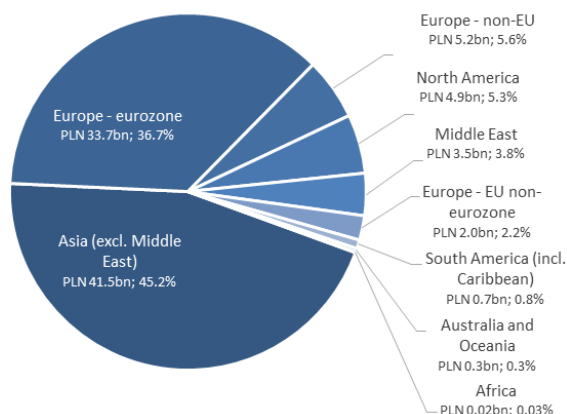
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of April 30, 2020, the chart presents data excluding omnibus accounts

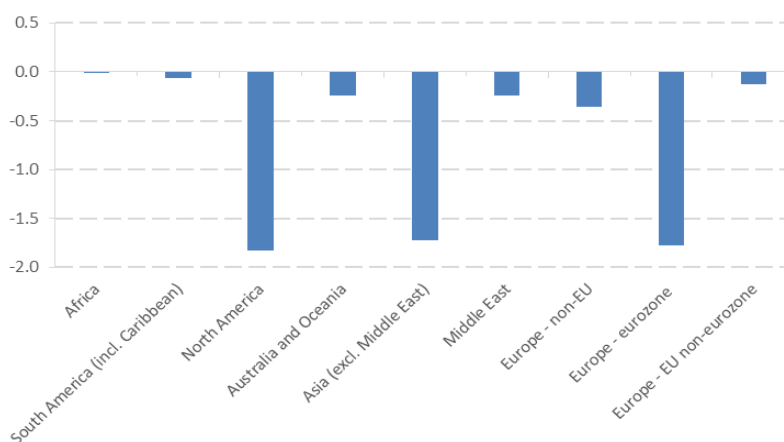
The non-residents' share in the domestic Treasury securities market decreased by PLN 12.9bn in April 2020. The foreign investors' portfolio amounted to PLN 139.6bn, which constituted 18.2% share in total debt in Treasury securities (21.7% in the previous month).



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

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

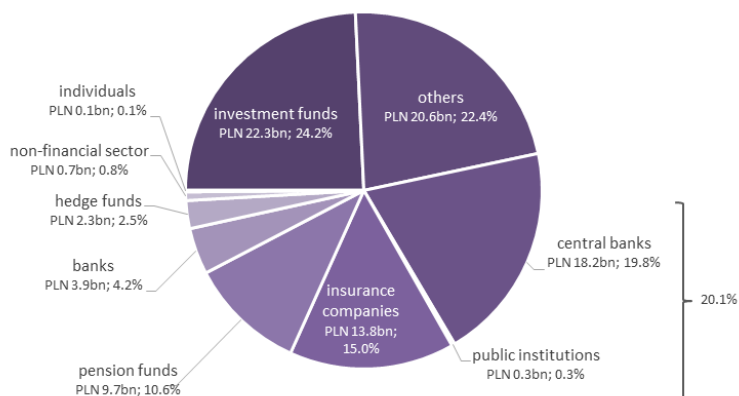
In April 2020 the highest decrease was noted by investors from North America (PLN 1.8bn).



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

as of April 30, 2020, the chart presents data excluding omnibus accounts

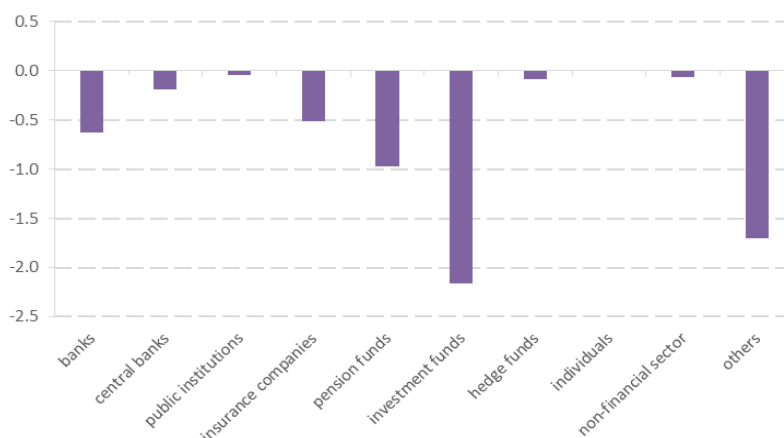
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 20.1% at the end of April 2020.



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

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

In April 2020 the highest decrease in holdings of the domestic Treasury securities was recorded by investment funds (PLN 2.2bn).



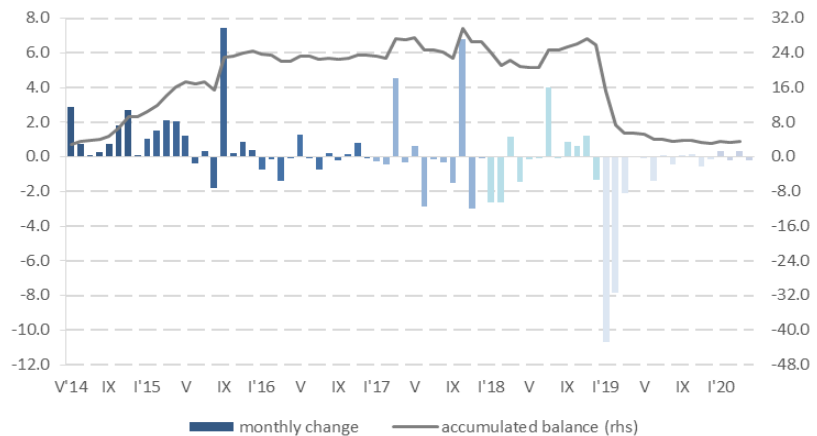


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in April 2020, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.2bn in April 2020. In the period from the end of April 2014 to the end of April 2020, for which the detailed information is available, portfolios of those entities increased by PLN 3.4bn.



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

as of April 30, 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	21 163.4	28.7%
Luxembourg	11 520.0	15.6%
Netherlands	7 614.2	10.3%
Ireland	5 653.4	7.7%
Germany	5 435.8	7.4%
United States	4 225.6	5.7%
United Kingdom	3 607.2	4.9%
Hong Kong	1 897.1	2.6%
France	1 715.2	2.3%
Switzerland	1 482.2	2.0%
United Arab Emirates	1 395.9	1.9%
Italy	942.5	1.3%
Denmark	870.6	1.2%
Others	6 198.7	8.4%
Total	73 721.9	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

29-05-2020

At the end of May liquid funds on the budgetary accounts reached the level of ca. PLN 100bn which, together with the fully funded borrowing requirements under the Budget Act, means that the budget has appropriate liquidity in case of expected increase in the borrowing needs compared to the assumptions set in the Budget Act.

In June we plan to hold two T-bond switching auctions. No T-bill auctions are planned.

In April indebtedness in domestic Treasury securities increased by PLN 46.5bn. The involvement of domestic banks (including the NBP) increased by PLN 57.5bn and domestic non-banking sector increased by PLN 2.3bn, while indebtedness held by foreign investors decreased by PLN 13.3bn. Also we issued T-bills in the value of PLN 17.7bn, of which PLN 13.9bn were held by banks, PLN 3.4bn by non-banking sector and PLN 0.4bn by foreign investors.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN JUNE 2020



T-bond sale auctions

Sale auctions of T-bonds are not planned.

T-bond switching auctions

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)*
5 JUN 2020 / 9 JUN 2020	OK0722 / PS0425 / WZ0525/ WZ1129 / DS1030 / WS0447	DS1020	9.900
		WZ0121	17.005
25 JUN 2020 / 29 JUN 2020	OK0722 / PS0425 / WZ0525/ WZ1129 / DS1030 possible T-bond either of WS or IZ type	PS0421	25.676
		OK0521	16.142

* After settlement of auction held on June 5, 2020.

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0920 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0622 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0623 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0624 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0630 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0626 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0632 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period