

State budget borrowing requirements' financing plan and its background

March 2019

THE MOST IMPORTANT INFORMATION

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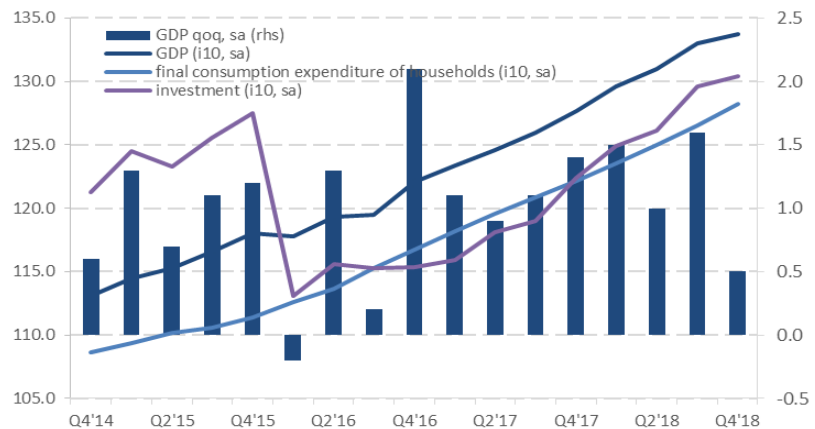


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

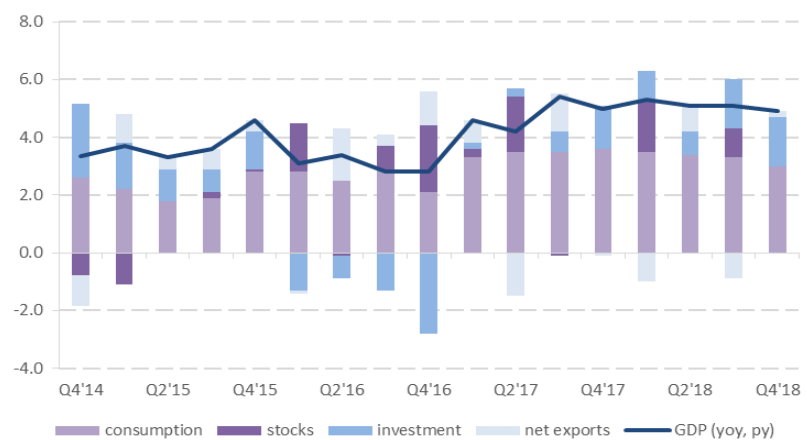
In the fourth quarter of 2018 GDP increased by 0.5% (qoq, sa) versus 1.6% a quarter earlier. Rate of growth of households consumption (qoq, sa) remained close to the average of the second and third quarter of 2018 and in the case of investment it decelerated. High dynamics of private consumption was a consequence of a positive labour market situation. On the other hand, weaker increase in investment was a result of its lower dynamics in general government sector.



Contributions to Polish GDP growth

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

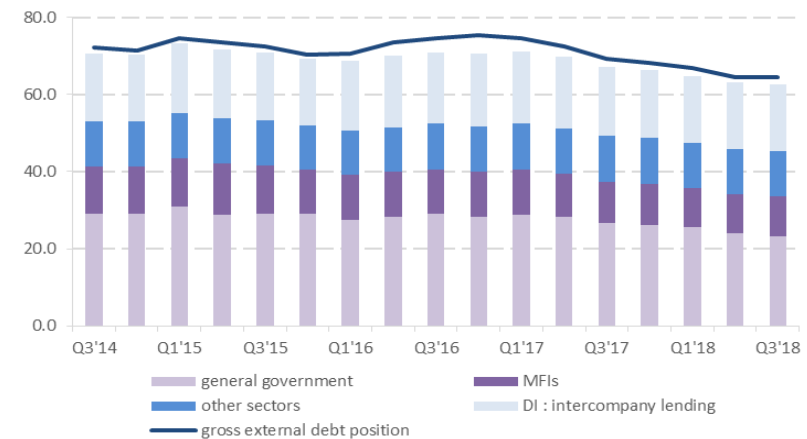
In the fourth quarter of 2018 GDP was 4.9% higher than a year ago, as compared to 5.1% in the previous quarter. The main source of GDP growth (yoy, py) was households consumption, which was 4.3% higher than a year before. Lower rate of growth was noticed in the case of investment (6.7% versus 9.9% in the third quarter). Inventories contribution to GDP growth was neutral and net exports contributed positively (0.2 pp).



Polish gross external debt position

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

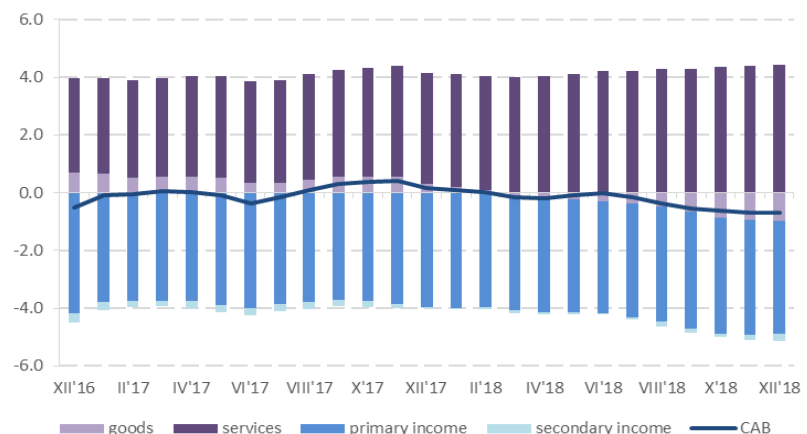
At the end of the third quarter of 2018 gross external debt reached EUR 316.0bn (64.5% of GDP) and was EUR 4.0bn higher than in the previous quarter. The share of general government sector debt in total debt decreased to 36.0%. At the end of December 2018 official reserve assets reached about EUR 102.3bn 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 December 2018, according to the preliminary data, current account deficit amounted to 0.7% of GDP (in 12-month terms). Data were slightly below market expectations. 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.

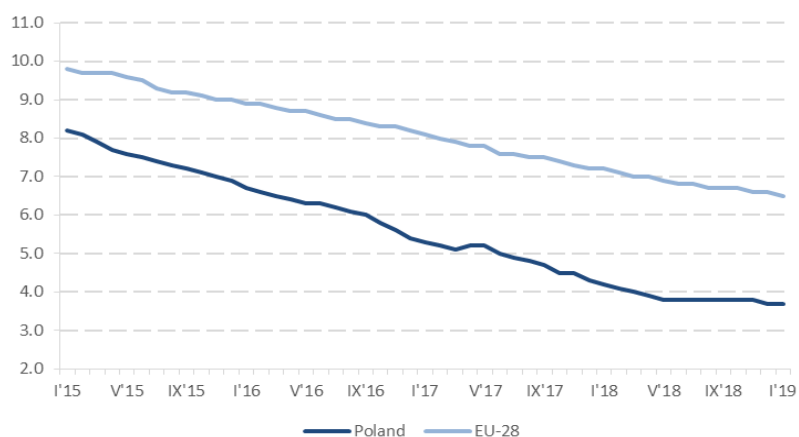




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In January 2019 harmonised unemployment rate remained at a record low level of 3.7% observed in previous month (compared to 6.5% on average in the EU). In January 2019 it was 0.5 pp lower than a year before.



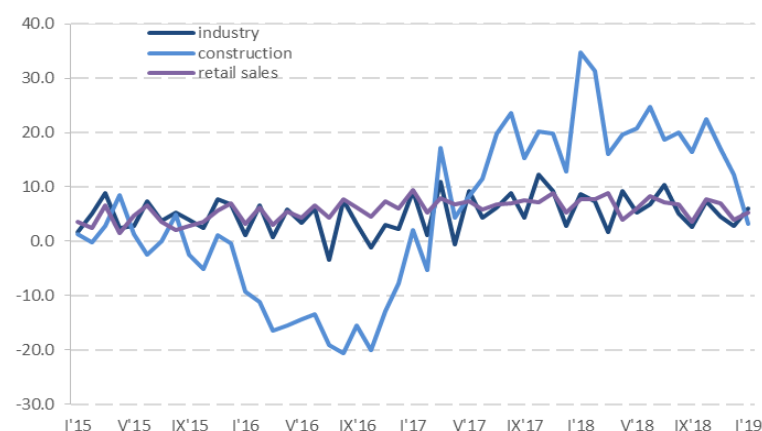
Monthly indicators of the real sector

sold production in constant prices, yoy, raw data;
source: GUS

In January 2019 industrial output went up by 1.7% (mom, sa). As a result, production was 6.1% higher than a year ago (nsa). Data were above market expectations.

Construction production went down by 0.3% following similar drop in the previous month (mom, sa). Production was 3.2% (nsa) higher than a year before. Data were a bit below MoF's expectations.

Real retail sales decreased by 0.1% (mom, sa MoF). Their level was 5.2% (nsa) higher than in the same month of 2018. Data were above market expectations.

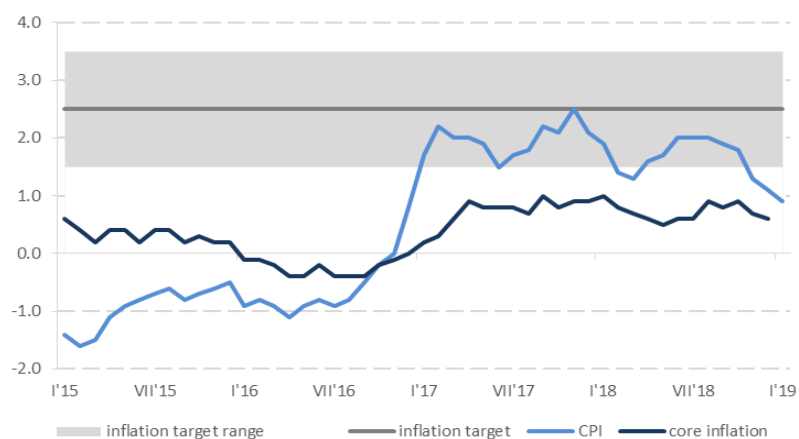


Inflation

percent, yoy
source: GUS, NBP

According to preliminary data in January 2019 consumer prices rose by 0.1% (mom). As a result, annual rate of inflation fell to 0.9%, i.e. below the lower band of inflation target. Data were consistent with market expectations.

Core inflation (CPI excluding food and energy prices) achieved 0.6% (yoy) in December (no data for January) and has been within the range of 0.5%-1.0% for more than 1.5 year. In January producer prices increased by 0.2% (mom) and their level was 2.2% higher than a year ago.

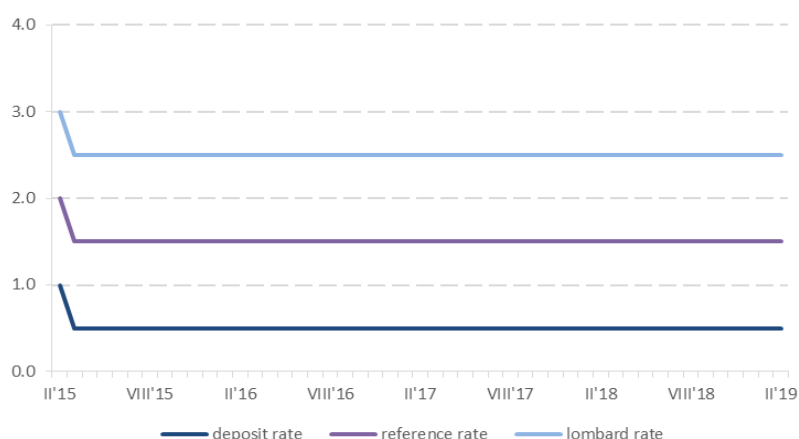


NBP interest rates

percent, end of period
source: NBP

In February 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.

The latest Reuters' poll median forecast (February, 22) sees no NBP rate move till the end of 2020 at least.





II. STATISTICAL DATA

	Unit	2017 Q03	Q04	2018 Q01	Q02	Q03	Q04
GDP							
Gross domestic product	YoY	5.4	5.0	5.3	5.1	5.1	4.9
	QoQ SA	1.1	1.4	1.5	1.0	1.6	0.5
Final consumption expenditure of the households sector	YoY	4.8	5.3	4.7	4.9	4.5	4.3
	QoQ SA	1.1	1.0	1.0	1.3	1.2	1.3
Final consumption expenditure of the general government sector	YoY	3.6	4.8	3.0	3.5	3.6	4.0
	QoQ SA	0.8	1.0	0.7	0.9	1.0	0.8
Gross fixed capital formation	YoY	4.1	6.0	8.2	4.7	9.9	6.7
	QoQ SA	0.8	2.8	2.0	1.0	2.7	0.6
Exports of goods and services	YoY	10.4	10.4	3.4	7.6	4.9	8.9
	QoQ SA	3.4	1.7	-0.5	3.6	0.7	3.9
Imports of goods and services	YoY	8.3	11.5	5.5	6.5	6.9	9.0
	QoQ SA	1.7	2.4	0.6	2.2	1.7	2.1
Gross value added	YoY	5.4	4.8	5.3	5.0	5.0	4.8
	QoQ SA	0.8	1.1	1.5	1.4	1.3	1.0
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.9	2.7	3.0	2.8	2.7	2.2
Final consumption expenditure of the general government sector	pp	0.6	0.9	0.5	0.6	0.6	0.8
Gross fixed capital formation	pp	0.7	1.5	1.0	0.8	1.7	1.7
Changes in inventories	pp	-0.1	0.0	1.8	0.0	1.0	0.0
Balance of trade turnover	pp	1.3	-0.1	-1.0	0.9	-0.9	0.2
Gross value added	pp	4.7	4.2	4.7	4.3	4.4	4.2
Taxes less subsidies	pp	0.7	0.8	0.6	0.8	0.7	0.7
GDP structure							
Final consumption expenditure of the households sector	% of GDP	59.4	50.4	63.6	59.2	59.2	50.4
Final consumption expenditure of the general government sector	% of GDP	17.0	18.9	16.8	17.3	16.8	18.8
Gross fixed capital formation	% of GDP	17.0	24.4	12.2	16.3	17.8	24.9
Changes in inventories	% of GDP	1.3	2.5	3.2	1.8	2.1	2.5
Exports of goods and services	% of GDP	54.6	50.3	56.4	56.7	54.8	52.4
Imports of goods and services	% of GDP	50.1	47.2	52.9	52.1	51.6	49.6
	Unit	2018 M08	M09	M10	M11	M12	2019 M01
Balance of payments							
Goods: exports (EUR)	YoY	7.3	0.0	12.1	7.2	2.3	-
Goods: imports (EUR)	YoY	11.2	5.4	17.5	10.0	3.0	-
Current account balance ¹⁾	% of GDP	-0.3	-0.5	-0.6	-0.7	-0.7	-
Balance on goods ¹⁾	% of GDP	-0.5	-0.7	-0.9	-0.9	-1.0	-
Official Reserve Assets	EUR m	97 059.2	97 129.7	98 271.7	100 109.7	102 267.8	98 986.7
Inflation							
Consumer Price Index (CPI)	YoY	2.0	1.9	1.8	1.3	1.1	0.9
Core inflation (CPI excluding food and energy prices)	YoY	0.9	0.8	0.9	0.7	0.6	-
Producer Price Index (PPI)	YoY	3.0	3.0	3.2	2.8	2.1	2.2
Production							
Sold production of industry ²⁾	YoY	5.0	2.7	7.4	4.6	2.9	6.1
	MoM SA	0.5	-0.7	1.1	0.1	-0.2	1.7
Construction and assembly production ²⁾	YoY	20.1	16.5	22.5	17.0	12.3	3.2
	MoM SA	2.2	-0.1	-0.1	1.0	-0.2	-0.3
Manufacturing PMI	SA	51.4	50.5	50.4	49.5	47.6	48.2
Households and labour market							
Retail sales ²⁾	YoY	6.7	3.6	7.8	6.9	3.9	5.2
Average paid employment in enterprise sector	YoY	3.4	3.2	3.2	3.0	2.8	2.9
	MoM	0.0	-0.1	0.0	0.1	0.0	2.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.7	4.7	5.7	6.3	4.9	6.5
	MoM	-0.6	-0.7	2.7	0.9	6.2	-6.6
Harmonised unemployment rate (Eurostat)	% SA	3.8	3.8	3.8	3.8	3.7	3.7
<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	2018 M07	M08	M09	M10	M11	M12
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	945 895.1	948 266.5	948 985.8	959 861.8	954 136.9	954 246.5
Domestic debt	face value, PLN m	660 105.0	660 847.1	665 737.7	671 567.1	672 191.9	674 399.3
	%	69.8	69.7	70.2	70.0	70.5	70.7
Foreign debt	face value, PLN m	285 790.2	287 419.4	283 248.1	288 294.6	281 944.9	279 847.2
	%	30.2	30.3	29.8	30.0	29.5	29.3
	Unit	2017 Q02	Q03	Q04	2018 Q01	Q02	Q03
Public debt (domestic definition)							
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 February 28, 2019, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 57% was a result of:

- T-bond sale on domestic market: PLN 21.7bn,
- switch auctions in 2019: PLN 7.3bn,
- T-bond sale on foreign markets (settlement on March 7): PLN 8.6bn (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 26.9bn (initial data, the final level will be known following the closure of the budget year).

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



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

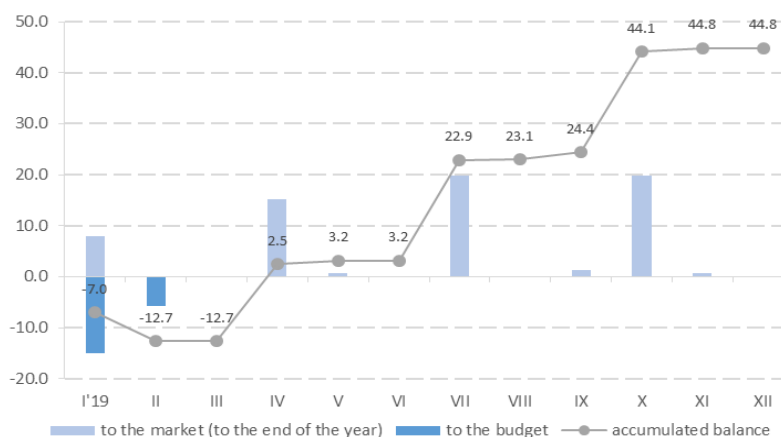
as of February 28, 2019

In March 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 market and the budget*

as of February 28, 2019, PLN bn

To the end of 2019 the funds to be transferred to the market shall amount to PLN 57.5bn.



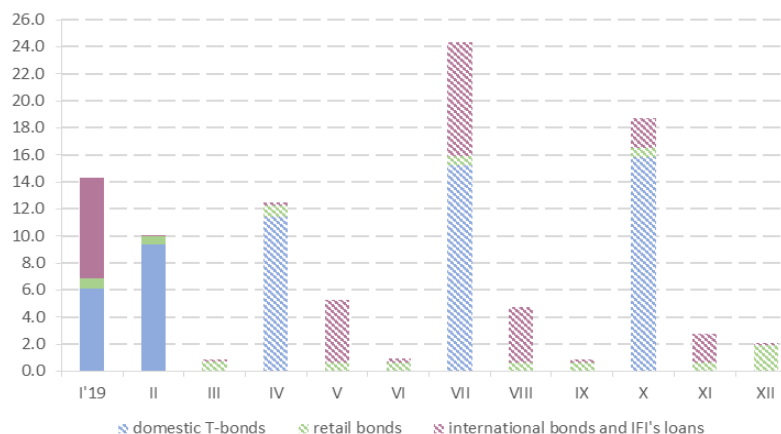
* figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the following months is not presented.

State Treasury debt redemptions in 2019

as of February 28, 2019, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2019 is equal to PLN 73.0bn, including:

- T-bonds: PLN 42.5bn,
- retail bonds: PLN 8.0bn,
- bonds and loans incurred on foreign markets: PLN 22.5bn.





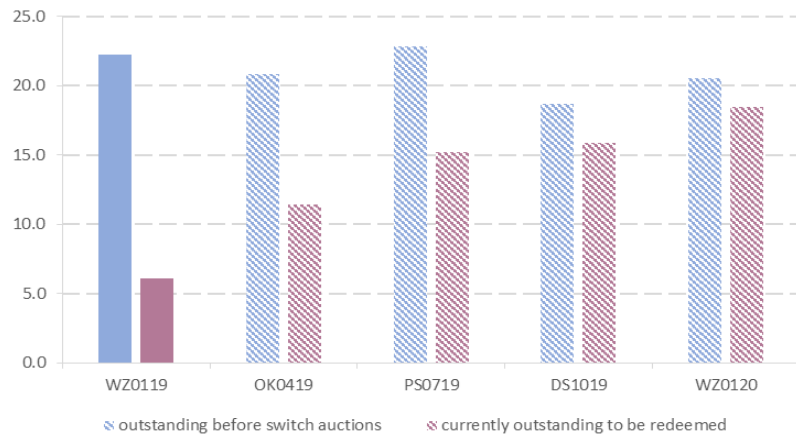
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of February 28, 2019, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2019 and 2020 (by switch):

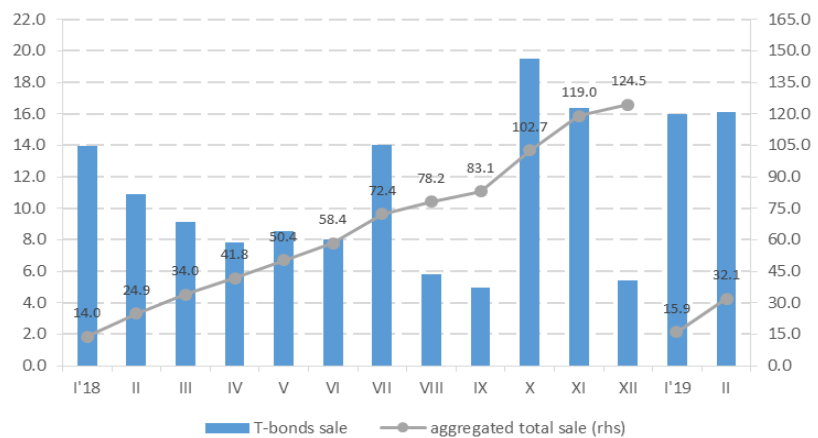
- WZ0119: PLN 16.1bn (72%),
- OK0419: PLN 9.4bn (45%),
- PS0719: PLN 7.6bn (33%),
- DS1019: PLN 2.8bn (15%),
- WZ0120: PLN 2.1bn (10%).



Sale of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

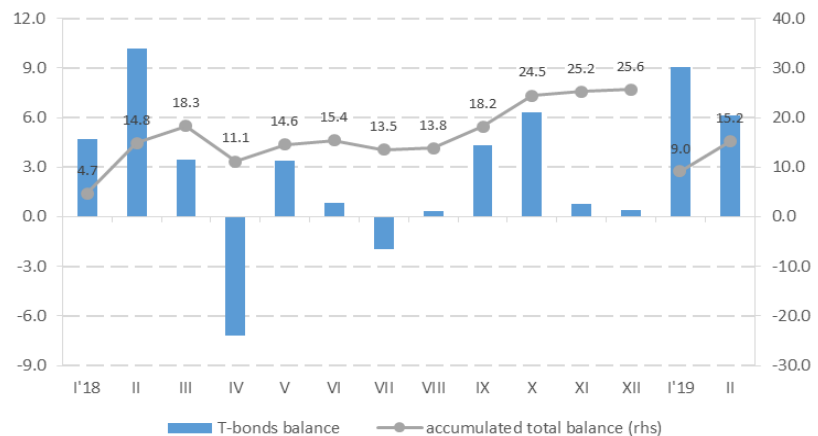
In the period of I-II 2019 aggregated total sale of T-bonds amounted to PLN 32.1bn versus PLN 24.9bn in the same period of 2018.



Balance of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

In the period of I-II 2019 indebtedness in T-bonds increased to PLN 15.2bn versus an increase of PLN 14.8bn in the same period of 2018.

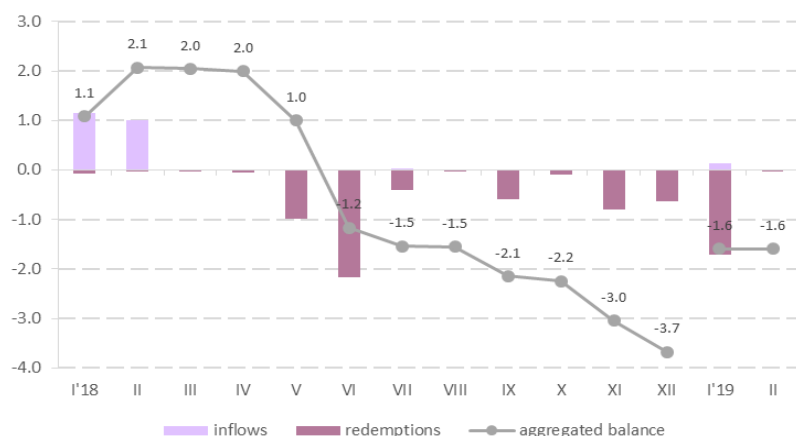


External financing in 2018 and 2019

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

Net financing on foreign markets in the period of I-II 2019 was negative and amounted to EUR 1.6bn (positive balance of EUR 2.1bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 1.7bn* (positive balance of EUR 1.0bn in the same period of 2018),
- positive balance of loans incurred from IFIs of EUR 0.1bn (positive balance of EUR 1.1bn in the same period of 2018).



* figure does not include sale of T-bonds in EUR issued on February 28, 2019 and to be settled on March 7, 2019.

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

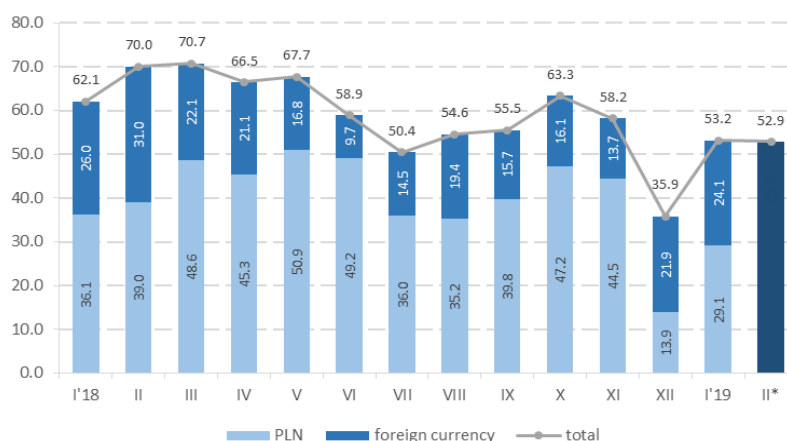


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

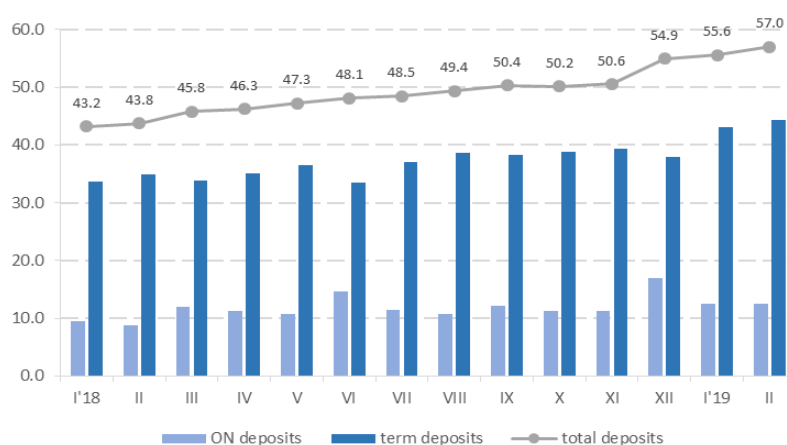
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

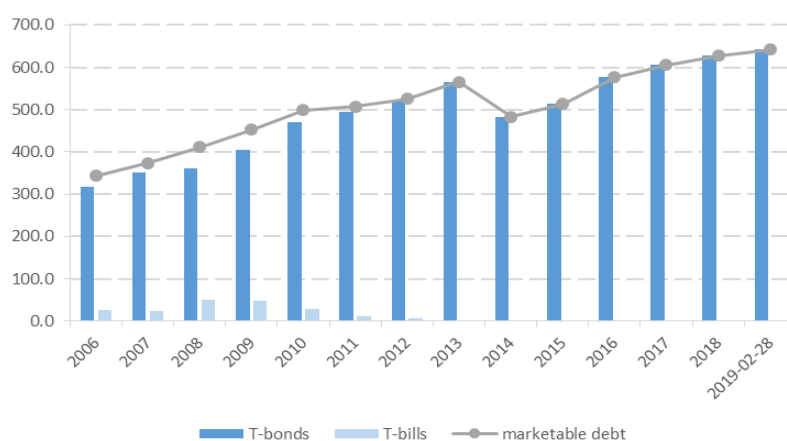
As a result of consolidation of the public finance sector liquidity management there were PLN 57.0bn funds accumulated at the end of February 2019, of which: PLN 44.4bn was on term deposits and PLN 12.6bn on ON deposits.



Structure of marketable debt

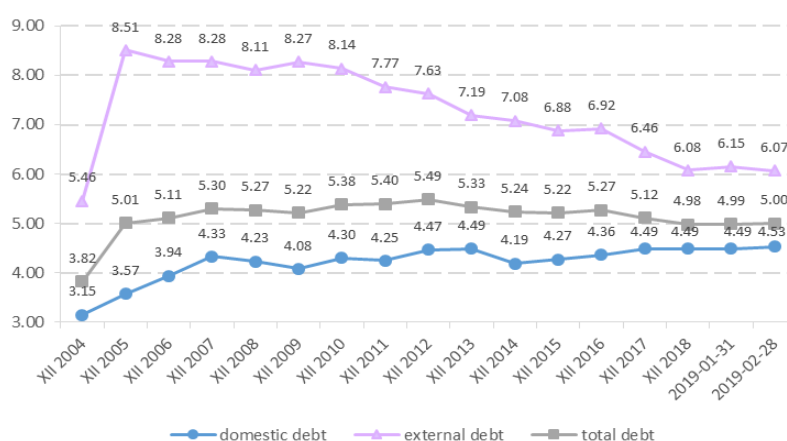
PLN bn

The marketable domestic debt amounted to PLN 641.6bn at the end of February 2019 (4.49 at the end of 2018). Comparing to PLN 627.1bn at the end of 2018.



Average maturity

The average maturity of domestic debt amounted to 4.53 at the end of February 2019 (4.49 at the end of 2018). The average of total debt amounted to 5.00 (4.98 at the end of 2018).

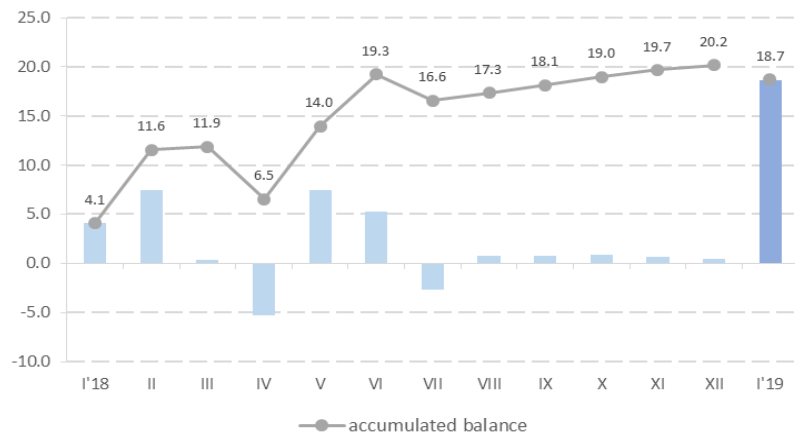




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

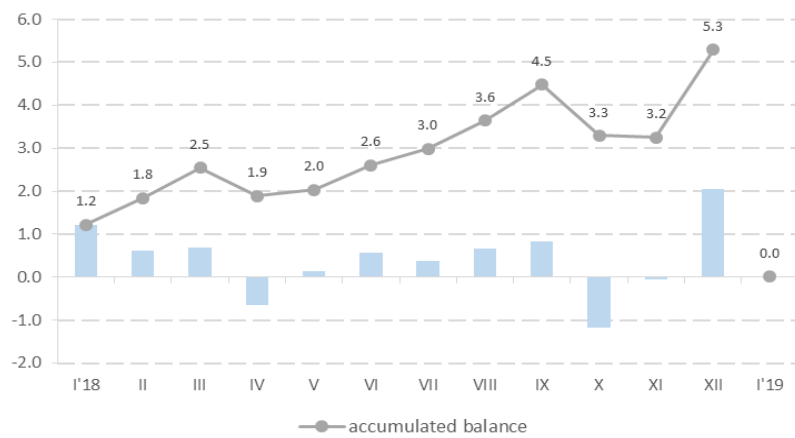
Change of debt in the domestic Treasury securities held by banks PLN bn

In January 2019 there was an increase of debt by PLN 18.7bn comparing to PLN 4.1bn increase during the same month of 2018. Banks' holdings reached the level of PLN 282.7bn.



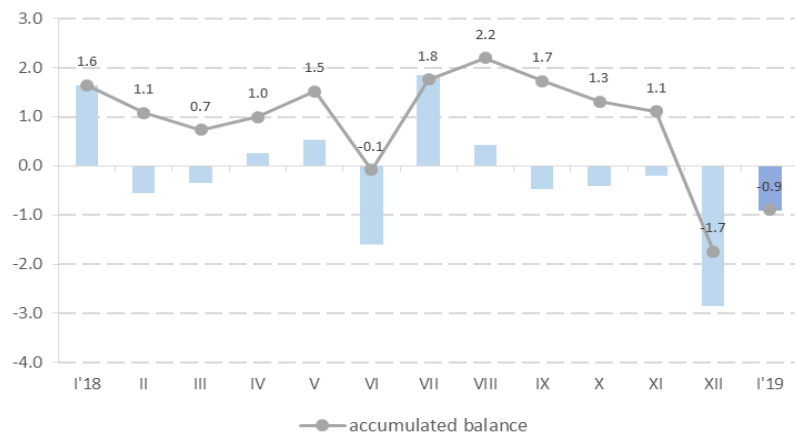
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In January 2019 there was no change in debt comparing to PLN 1.2bn increase during the same month of 2018. Insurance companies' holdings reached the level of PLN 65.1bn.



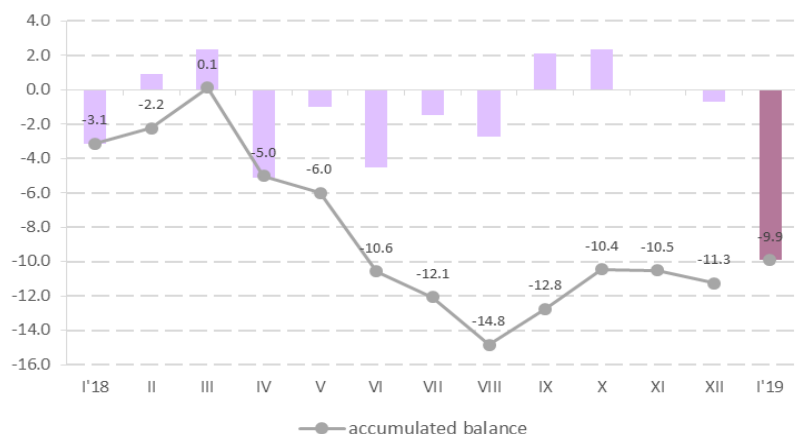
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In January 2019 there was a decrease of debt by PLN 0.9bn comparing to PLN 1.6bn increase in the same month of 2018. Investment funds' holdings reached the level of PLN 54.5bn.



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

In January 2019 there was a decrease of debt by PLN 9.9bn comparing to PLN 3.1bn decrease in the same month of 2018. Foreign investors' holdings reached the level of PLN 181.6bn.



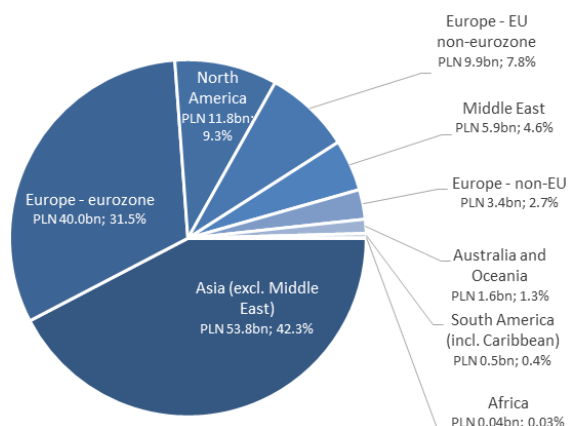
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

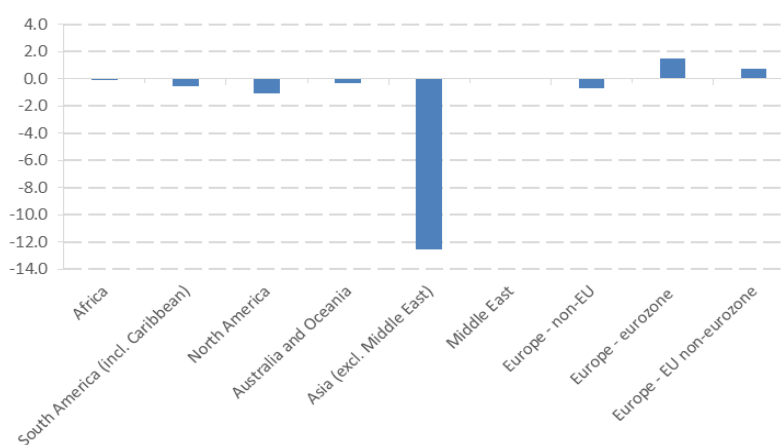
The non-residents' share in the domestic Treasury securities market decreased by PLN 9.9bn in January 2019. The foreign investors' portfolio amounted to PLN 181.6bn, which constituted 27.7% share in total debt in Treasury securities (29.6% in the previous month).



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

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

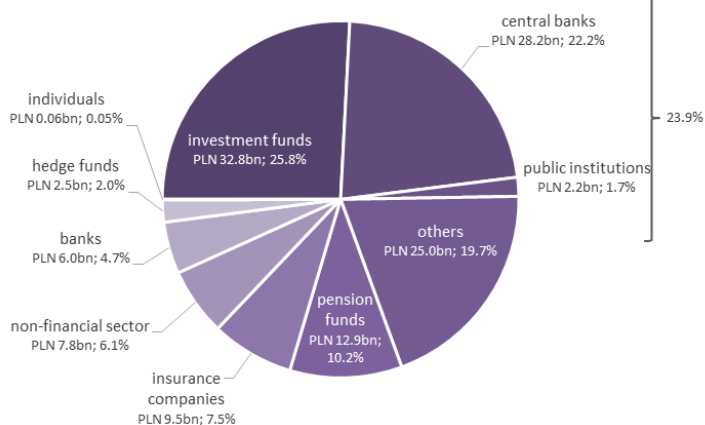
In January 2019 the highest increase was recorded by investors from the eurozone (PLN 1.5bn), while the highest decrease was noted by Asian investors (PLN 12.6bn).



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

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

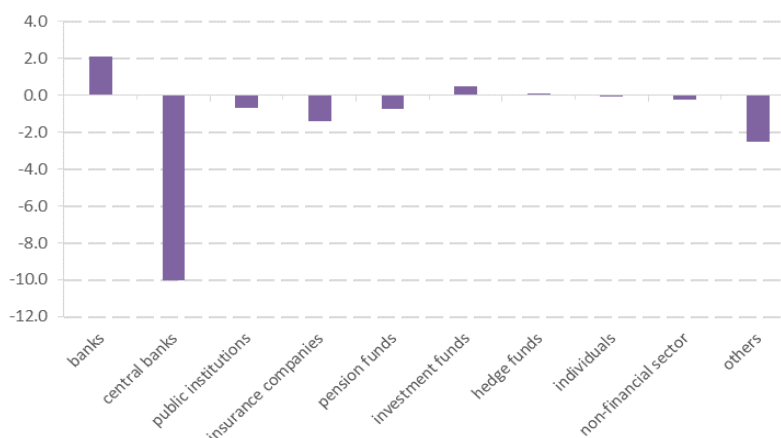
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 23.9% at the end of January 2019 (29.3% in the previous month).



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

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

In January 2019 the highest increase was recorded by banks (PLN 2.1bn) and the highest decrease was noted by central banks (PLN 10.0bn).



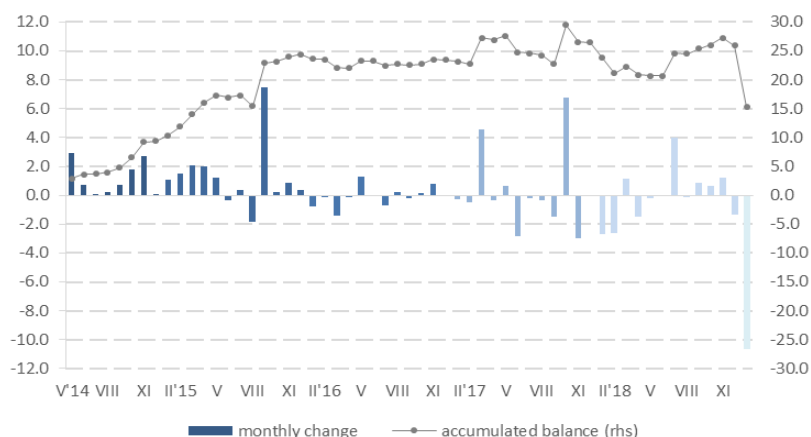


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in January 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 10.7bn in January 2019. In the period from the end of April 2014 to the end of January 2019, for which the detailed information is available, portfolios of those entities increased by PLN 15.3bn.



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

as of January 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	21 610.0	21.9%
Luxembourg	14 516.3	14.7%
United States	10 875.6	11.0%
Ireland	8 890.4	9.0%
Netherlands	7 082.1	7.2%
United Kingdom	7 072.3	7.2%
Germany	5 882.8	6.0%
United Arab Emirates	3 449.8	3.5%
Hong Kong	3 407.9	3.4%
France	2 117.1	2.1%
Norway	1 782.1	1.8%
Australia	1 443.1	1.5%
Switzerland	1 427.5	1.4%
Denmark	1 225.5	1.2%
Taiwan (Province of China)	1 088.3	1.1%
Others	6 987.5	7.1%
Total	98 858.2	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

28-02-2019

(...) In March there will be one T-bond sale auction (March 8) and one switching auction (March 21) organized.

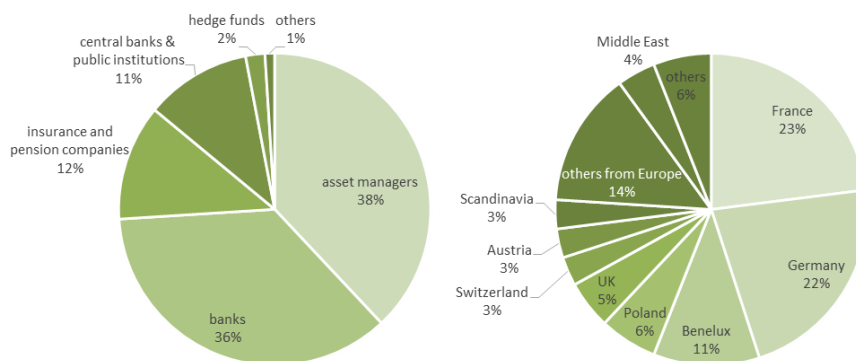
In January indebtedness in domestic T-bonds increased by PLN 9.0bn. It was a result of an increase in involvement of domestic banks (by PLN 18.7bn) and decrease in debt held by non-residents (by PLN 9.9bn), while involvement of domestic non-banking investors remained almost unchanged (increase of PLN 0.2bn). Those flows were accompanied by a decrease in medium and long-term yields. Hence, in the case of foreign investors, it could rather be interpreted as profit taking.

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

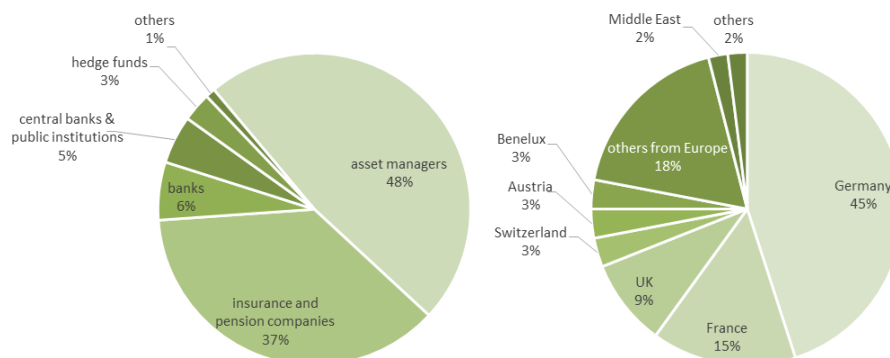


EUR Green Bonds

Amount	EUR 1.5bn
Maturity date	March 7, 2029
Coupon	1%
Spread	35 bp over mid-swap rate
Yield	1.057%
Launch (pricing) date	February 28, 2019
Bookrunners	Citi, ING, J.P. Morgan, PKO BP, Santander and Societe Generale



Amount	EUR 0.5bn
Maturity date	March 8, 2049
Coupon	2%
Spread	77 bp over mid-swap rate
Yield	2.071%
Launch (pricing) date	February 28, 2019
Bookrunners	Citi, ING, J.P. Morgan, PKO BP, Santander and Societe Generale





IV. SUPPLY PLAN OF TREASURY SECURITIES IN MARCH 2019

T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
8 MAR 2019	12 MAR 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029	3,000-5,000
<i>After the auction bonds will be offered within additional sale at a minimum accepted clean price.</i>			

T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)
21 MAR 2019 / 25 MAR 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029	OK0419	11,427
		PS0719	15,228
		DS1019	15,853
		WZ0120	18,510

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0619 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0321 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0322 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0323 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0329 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0325 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0331 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period