

State budget borrowing requirements' financing plan and its background

2nd quarter 2019

April 2019

THE MOST IMPORTANT INFORMATION

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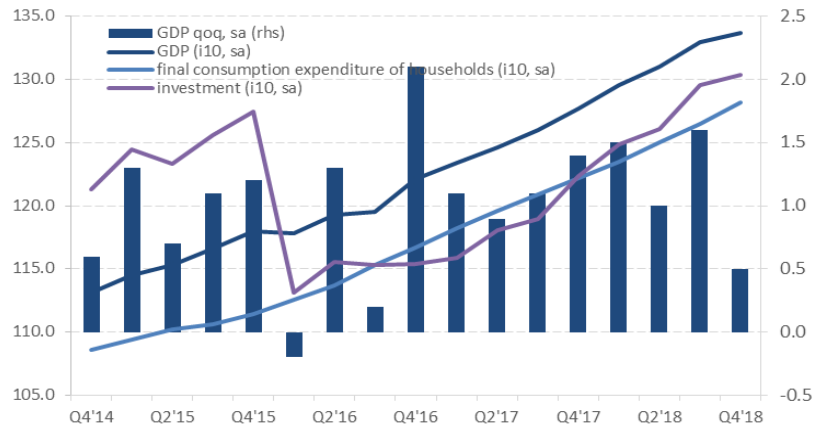


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices, seasonally adjusted data
source: Eurostat

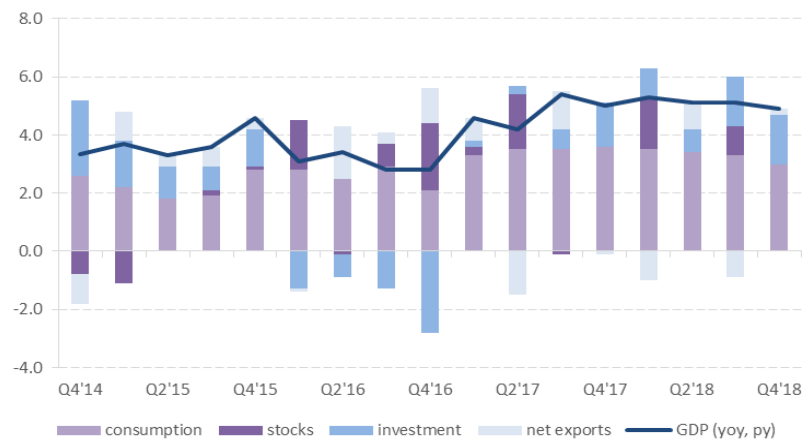
In the fourth quarter of 2018 GDP increased by 0.5% (qoq, sa) versus 1.6% a quarter earlier. Rate of growth of households consumption (qoq, sa) remained close to the average of the second and third quarter of 2018 and in the case of investment it decelerated. Trade dynamics, especially in the case of exports, were higher than in the previous quarter.



Contributions to Polish GDP growth

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

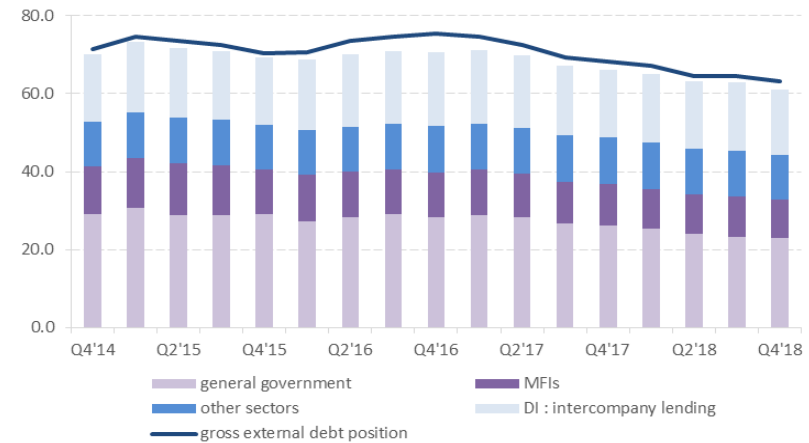
In the fourth quarter of 2018 GDP was 4.9% higher than a year ago, as compared to 5.1% in the previous quarter. The main source of GDP growth (yoy, py) was households consumption, which was 4.3% higher than a year before. Lower rate of growth was noticed in the case of investment (6.7% versus 9.9% in the third quarter). High dynamics of private consumption was a consequence of positive labour market situation. On the other hand weaker increase in investment was mainly a result of their lower dynamics in general government sector. 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

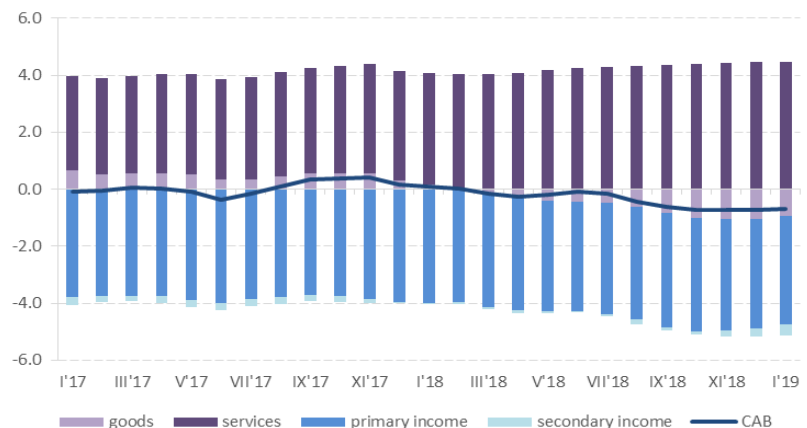
At the end of the fourth quarter of 2018 gross external debt reached EUR 313.7bn (63.2% of GDP) and was EUR 3.0bn lower than in the previous quarter. The share of general government sector debt in the total debt slightly increased to 36.2%. At the end of January 2019 official reserve assets reached ca. EUR 99.0bn 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 January 2019, according to the preliminary data, current account deficit amounted to 0.7% of GDP (in 12-month terms). Data were above 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.

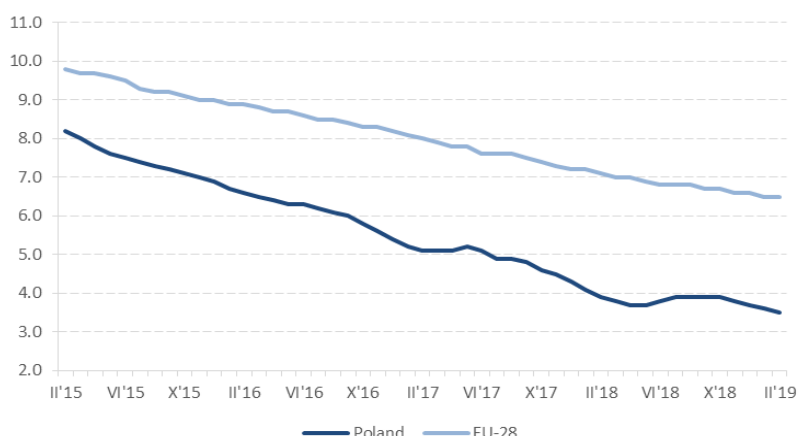




Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

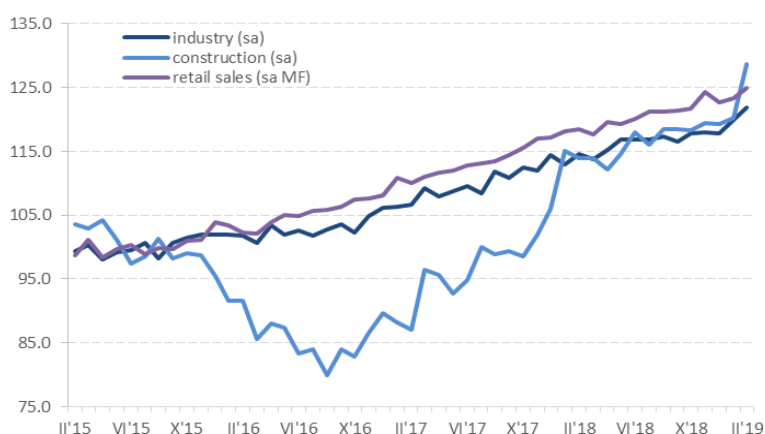
In February 2019 harmonised unemployment rate (sa) decreased to a record low level of 3.5% (compared to 6.5% on average in the EU). In February 2019 it was 0.4 pp lower than a year before.



Monthly indicators of the real sector

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

In February 2019 industrial output went up by 1.7% (mom, sa). As a result, production was 6.9% higher than a year ago (nsa). Data were above market expectations. Construction production jumped by 7.0%, in February 2019 (mom, sa). Production was 15.1% (nsa) higher than a year before. Data were well above MoF's expectations. Real retail sales rate of growth accelerated in February 2019 to 1.3% (mom, sa MoF). As a result, retail sales were 5.6% (nsa) higher than in the same month of 2018. Data were close to market expectations.

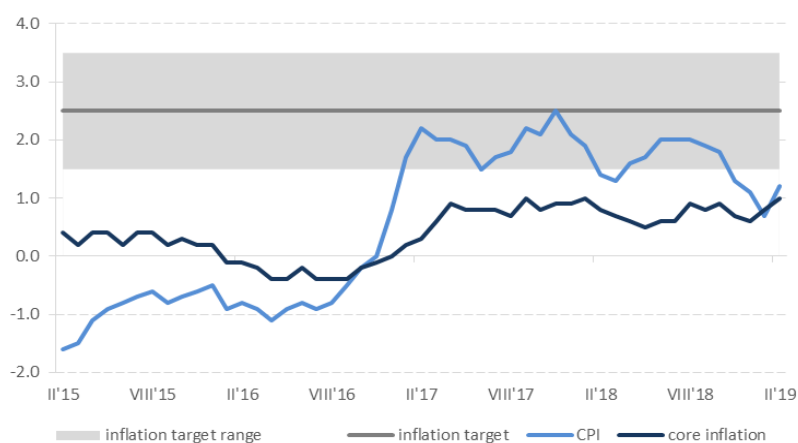


Inflation

percent, yoy
source: GUS, NBP

In February 2019 consumer prices rose by 0.4% (mom). As a result, the annual rate of inflation increased to 1.2%, but still remained below the lower band of inflation target. Data were slightly higher than market expectations. Core inflation (CPI excluding food and energy prices) reached 1.0% (yoy) in February and has been within the range of 0.5% - 1.0% for two years.

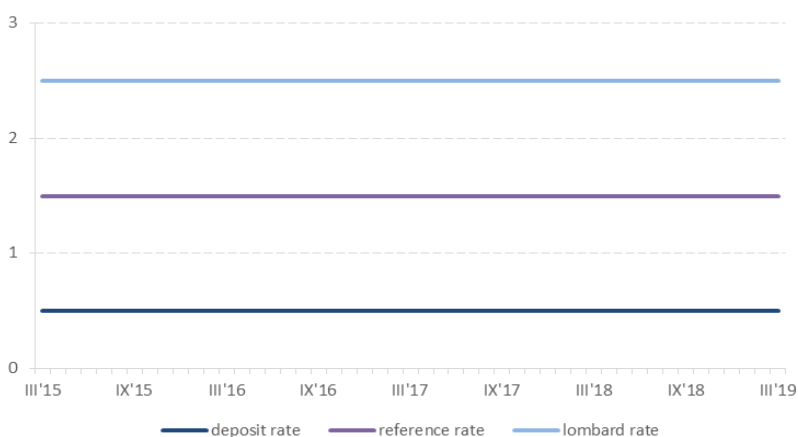
In February producer prices increased by 0.5% (mom) and their level was 2.9% higher than a year ago.



NBP interest rates

percent, end of period
source: NBP

In March 2019, 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 (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 M09	M10	M11	M12	2019 M01	M02
Balance of payments							
Goods: exports (EUR)	YoY	-1.5	13.2	7.6	2.3	5.3	-
Goods: imports (EUR)	YoY	4.2	18.0	9.1	2.3	1.9	-
Current account balance ¹⁾	% of GDP	-0.6	-0.7	-0.7	-0.7	-0.7	-
Balance on goods ¹⁾	% of GDP	-0.8	-1.0	-1.0	-1.0	-0.9	-
Official Reserve Assets	EUR m	97 129.7	98 271.7	100 109.7	102 267.8	98 986.7	98 745.9
Inflation							
Consumer Price Index (CPI)	YoY	1.9	1.8	1.3	1.1	0.7	1.2
Core inflation (CPI excluding food and energy prices)	YoY	0.8	0.9	0.7	0.6	0.8	1.0
Producer Price Index (PPI)	YoY	3.0	3.2	2.8	2.1	2.2	2.9
Production							
Sold production of industry ²⁾	YoY	2.7	7.4	4.6	2.9	6.0	6.9
	MoM SA	-0.7	1.1	0.1	-0.2	1.9	1.7
Construction and assembly production ²⁾	YoY	16.5	22.5	17.0	12.3	3.2	15.1
	MoM SA	-0.1	-0.1	1.0	-0.2	1.0	7.0
Manufacturing PMI	SA	50.5	50.4	49.5	47.6	48.2	47.6
Households and labour market							
Retail sales ²⁾	YoY	3.6	7.8	6.9	3.9	6.1	5.6
Average paid employment in enterprise sector	YoY	3.2	3.2	3.0	2.8	2.9	2.9
	MoM	-0.1	0.0	0.1	0.0	2.2	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	4.7	5.7	6.3	4.9	6.7	6.3
	MoM	-0.7	2.7	0.9	6.2	-6.3	0.0
Harmonised unemployment rate (Eurostat)	%, SA	3.9	3.9	3.8	3.7	3.6	3.5
<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 M08	M09	M10	M11	M12	2019 M01
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	948 266.5	948 985.8	959 861.8	954 136.9	954 247.3	954 636.6
Domestic debt	face value, PLN m	660 847.1	665 737.7	671 567.1	672 191.9	674 400.0	683 070.0
	%	69.7	70.2	70.0	70.5	70.7	71.6
Foreign debt	face value, PLN m	287 419.4	283 248.1	288 294.6	281 944.9	279 847.2	271 566.6
	%	30.3	29.8	30.0	29.5	29.3	28.4
	Unit	2017 Q03	Q04	2018 Q01	Q02	Q03	Q04
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	972 220.4	961 841.5	969 195.9	984 470.4	977 280.0	984 284.7
Domestic debt	face value, PLN m	659 494.8	662 517.5	679 791.0	675 585.8	678 590.4	688 219.2
	%	67.8	68.9	68.7	68.6	69.4	69.9
Foreign debt	face value, PLN m	312 725.6	299 324.1	309 404.9	308 904.5	298 689.5	296 065.5
	%	32.2	31.1	31.3	31.4	30.6	30.1
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 013 703.6	1 005 721.6	1 031 489.9	1 032 158.7	1 028 176.2	1 033 641.5

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2019

as of March 31, 2019, PLN bn

Financing of the State budget borrowing requirements at the level of ca. 64% was a result of:

- T-bond sale on domestic market: PLN 27.8bn,
- switch auctions in 2019: PLN 12.7bn,
- 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: 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).

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

as of March 31, 2019, PLN bn

Value of funds transferred from the State budget to the market in April shall amount to PLN 13.2bn, of which:

- TS redemptions: PLN 9.3bn,
- interest payments: PLN 3.9bn.

Flows of funds between the market and the budget*

as of March 31, 2019, PLN bn

To the end of 2019 the funds to be transferred to the market shall amount to PLN 52.3bn.

* 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.

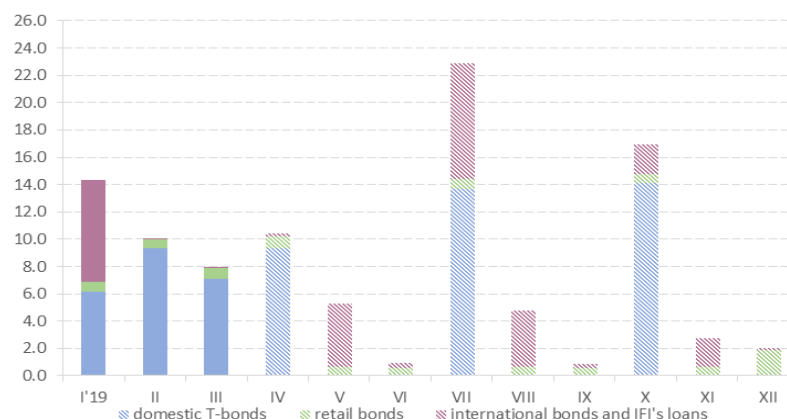
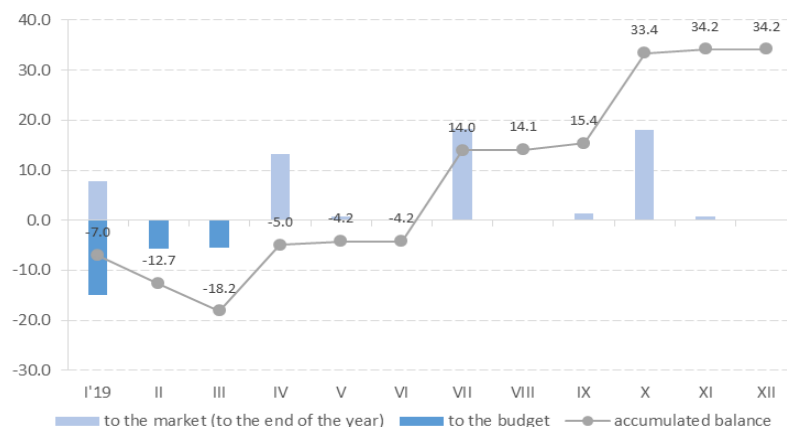
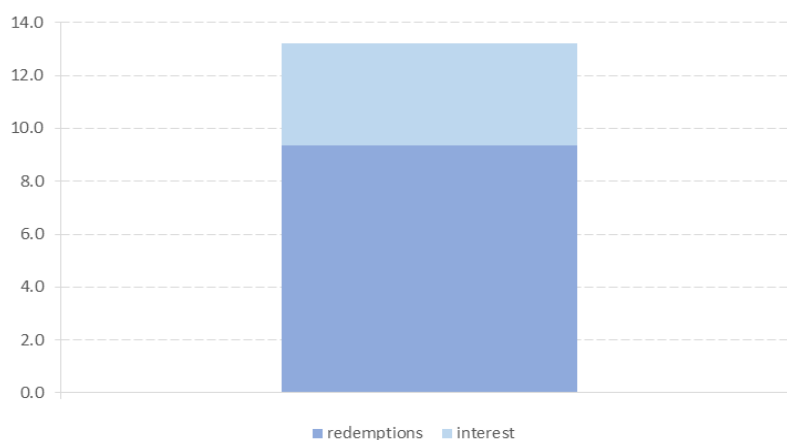
State Treasury debt redemptions in 2019

as of March 31, 2019, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2019 is equal to PLN 66.9bn, including:

- T-bonds: PLN 37.2bn,
- retail bonds: PLN 7.2bn,
- bonds and loans incurred on foreign markets: PLN 22.5bn.

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





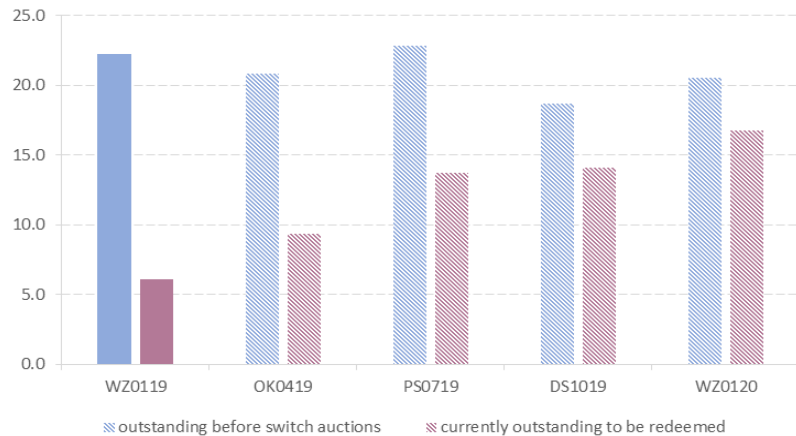
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of March 31, 2019, nominal amount, PLN bn

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

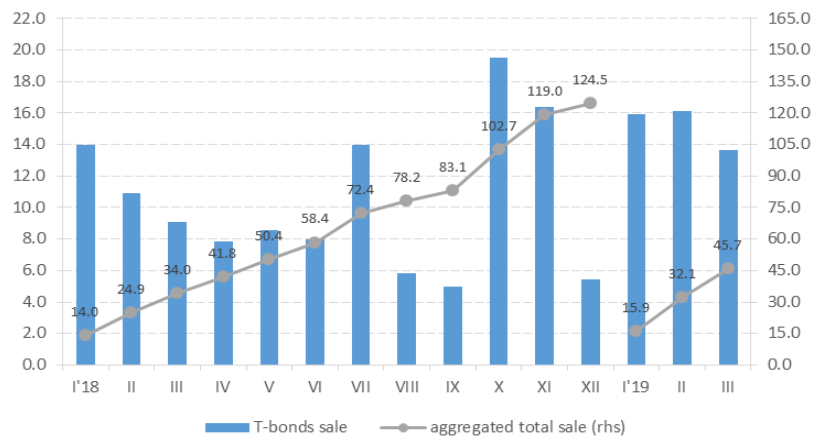
- WZ0119: PLN 16.1bn (72%),
- OK0419: PLN 11.5bn (55%),
- PS0719: PLN 9.2bn (40%),
- DS1019: PLN 4.6bn (25%),
- WZ0120: PLN 3.8bn (19%).



Sale of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

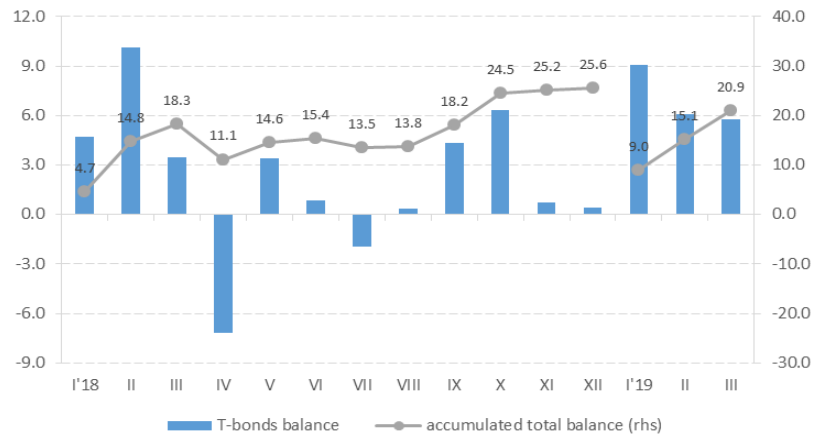
In the period of I-III 2019 aggregated total sale of T-bonds amounted to PLN 45.7bn versus PLN 34.0bn in the same period of 2018.



Balance of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

In the period of I-III 2019 indebtedness in T-bonds increased by PLN 20.9bn versus an increase of PLN 18.3bn in the same period of 2018.

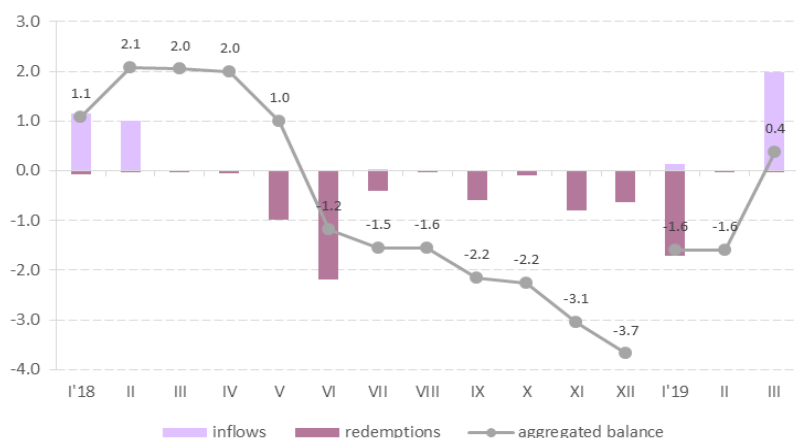


External financing in 2018 and 2019

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

Net financing on foreign markets in the period of I-III 2019 was positive and amounted to EUR 0.4bn (positive balance of EUR 2.0bn in the same period of 2018) which resulted from:

- positive balance of T-bonds of EUR 0.3bn (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 1.0bn in the same period of 2018).



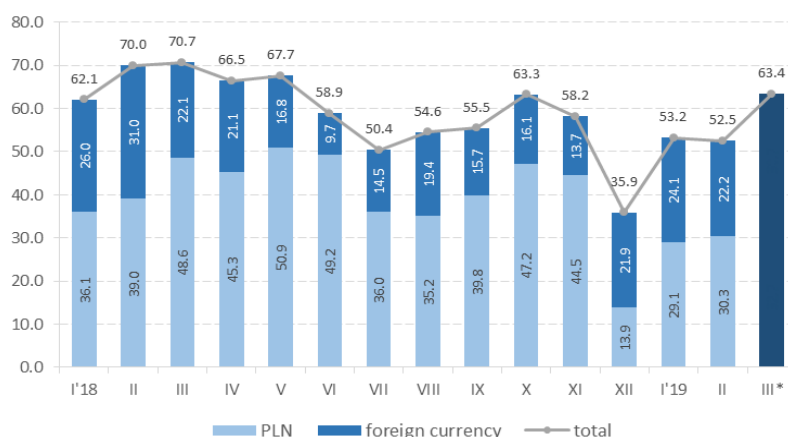
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

funds financing the borrowing needs, PLN bn

The funds ensure liquidity in the borrowing needs financing.

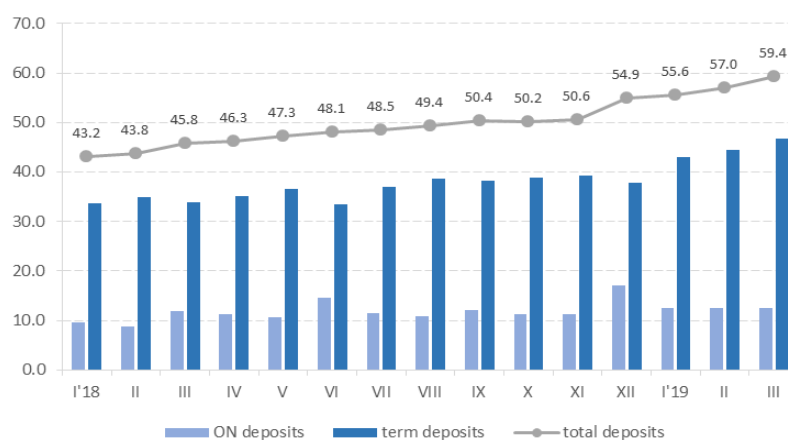


* estimated data

Consolidation of public finance sector liquidity management

PLN bn

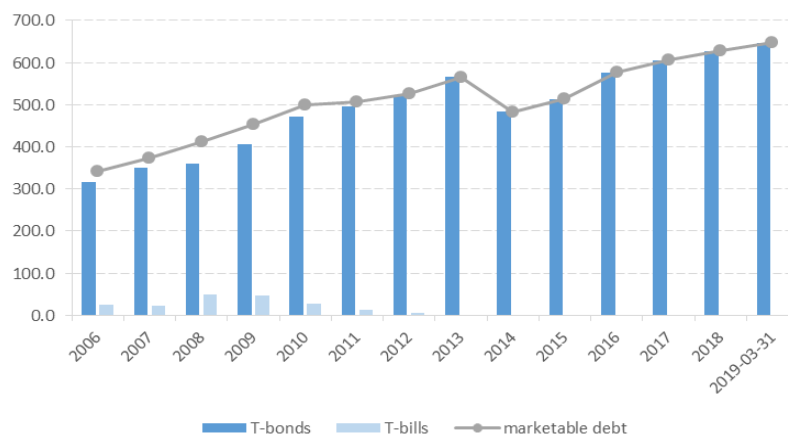
As a result of consolidation of the public finance sector liquidity management there were PLN 59.4bn funds accumulated at the end of March 2019, of which: PLN 46.7bn was on term deposits and PLN 12.6bn on ON deposits.



Structure of marketable debt

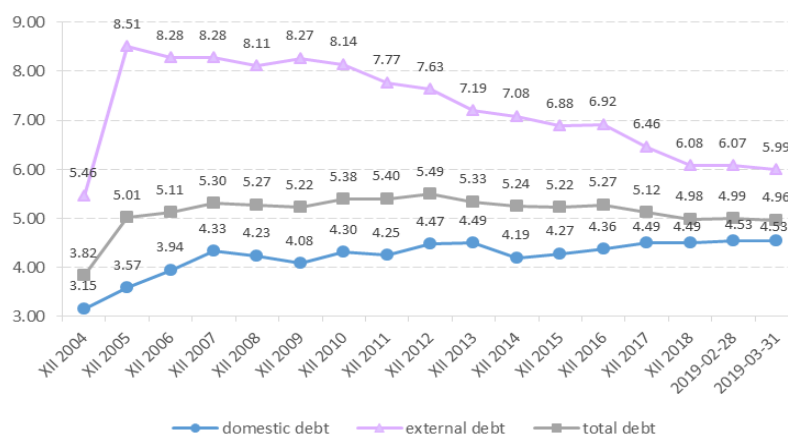
PLN bn

The marketable domestic debt amounted to PLN 646.8bn at the end of March 2019 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 March 2019 (4.49 at the end of 2018). The average of total debt amounted to 4.96 (4.98 at the end of 2018).



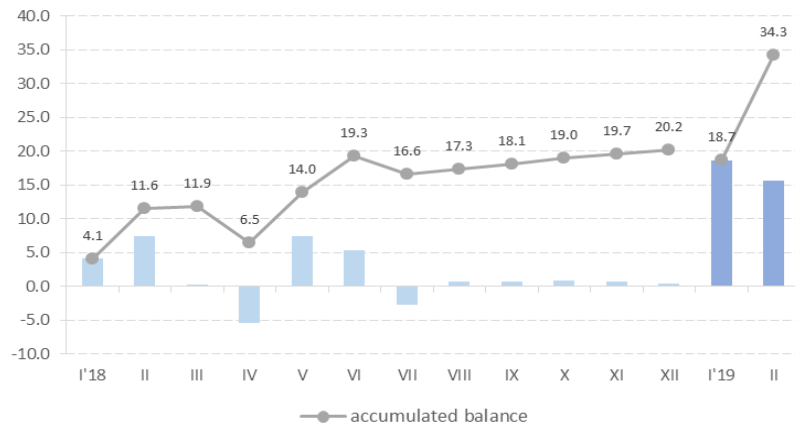


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Change of debt in the domestic Treasury securities held by banks

PLN bn

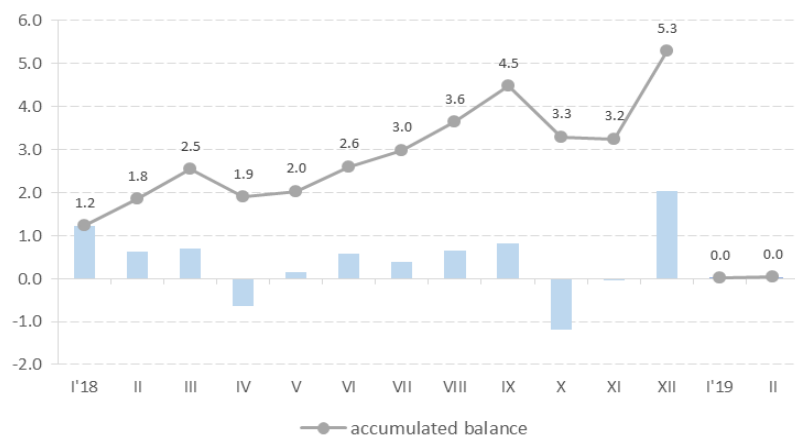
In the period of I-II 2019 there was an increase of debt by PLN 34.3bn comparing to PLN 11.6bn increase during the same period of 2018. Banks' holdings reached the level of PLN 298.3bn.



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

PLN bn

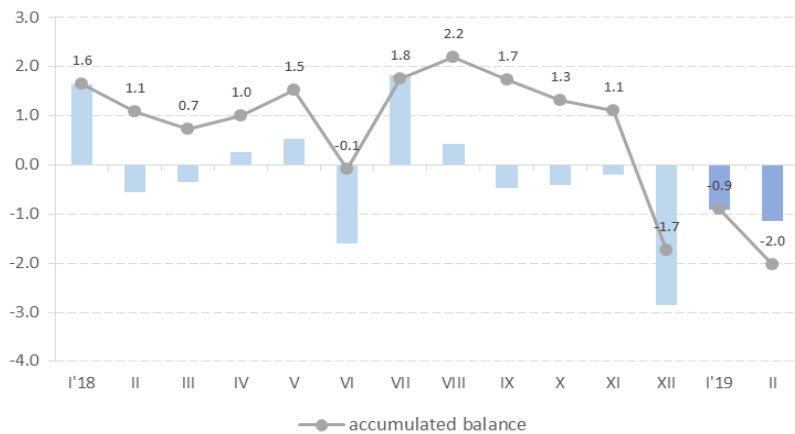
In the period of I-II 2019 there was no change in debt comparing to PLN 1.8bn increase during the same period of 2018. Insurance companies' holdings remained at the level of PLN 65.1bn.



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

PLN bn

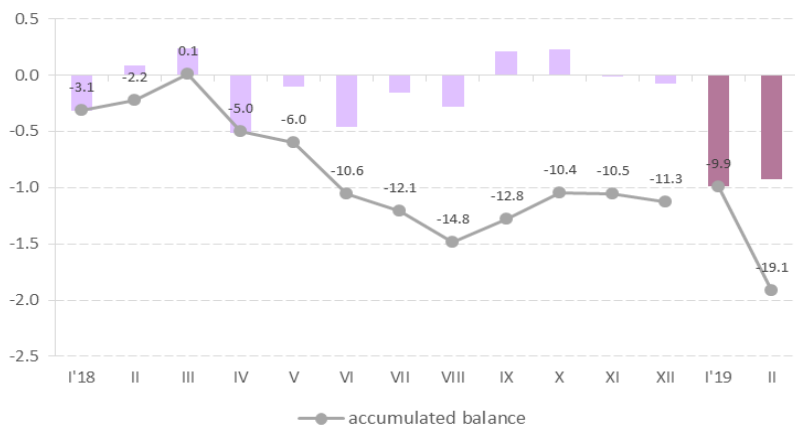
In the period of I-II 2019 there was a decrease of debt by PLN 2.0bn comparing to PLN 1.1bn increase in the same period of 2018. Investment funds' holdings reached the level of PLN 53.3bn.



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

PLN bn

In the period of I-II 2019 there was a decrease of debt by PLN 19.1bn comparing to PLN 2.2bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 172.3bn.



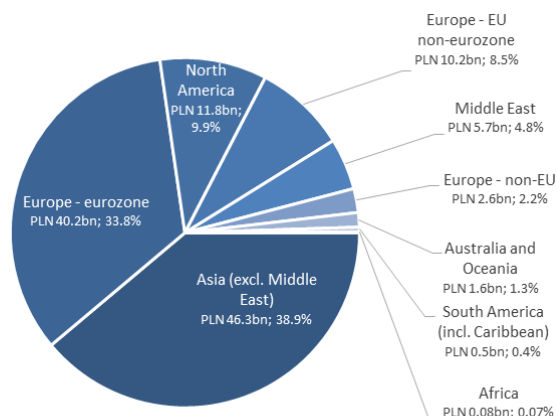
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of February 28, 2019, the chart presents data excluding omnibus accounts

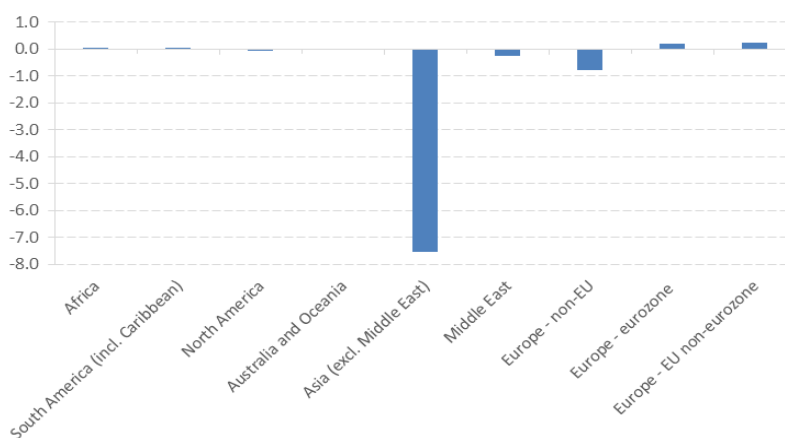
The non-residents' share in the domestic Treasury securities market decreased by PLN 9.2bn in February 2019. The foreign investors' portfolio amounted to PLN 172.3bn, which constituted 26.0% share in total debt in Treasury securities (27.7% in the previous month).



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

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

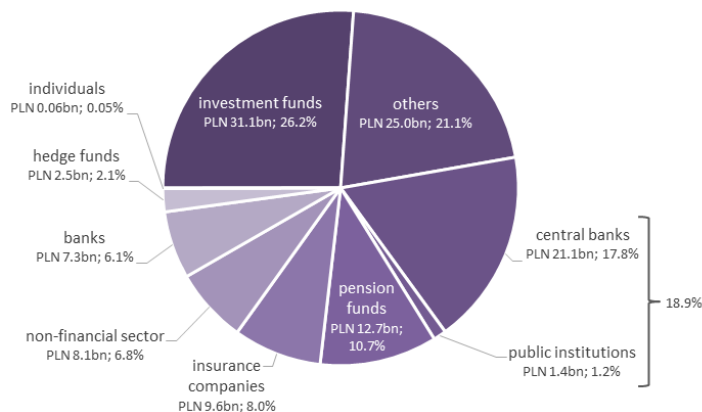
In February 2019 the highest increase was recorded by investors from EU non-eurozone countries (PLN 0.2bn), while the highest decrease was noted by Asian investors (PLN 7.5bn).



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

as of February 28, 2019, the chart presents data excluding omnibus accounts

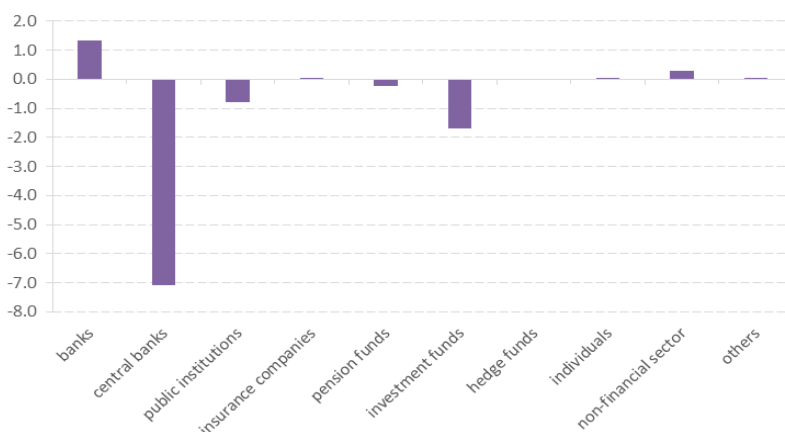
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 18.9% at the end of February 2019.



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

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

In February 2019 the highest increase was recorded by banks (PLN 1.3bn) and the highest decrease was noted by central banks (PLN 7.1bn).



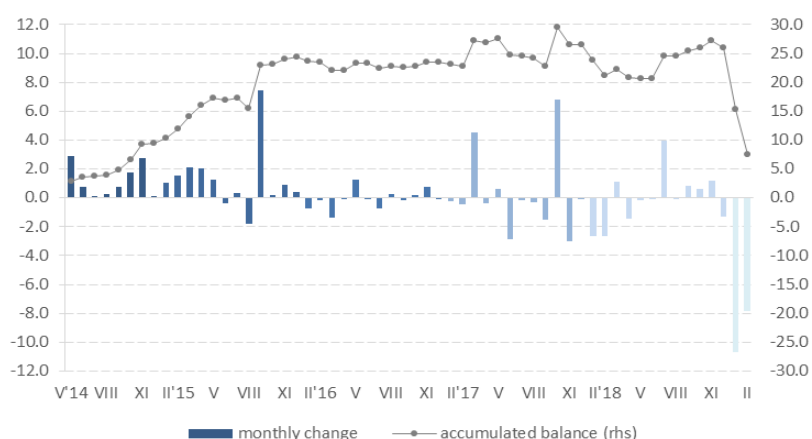


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in February 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 7.8bn in February 2019. In the period from the end of April 2014 to the end of February 2019, for which the detailed information is available, portfolios of those entities increased by PLN 7.4bn.



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

as of February 28, 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	21 609.6	22.1%
Luxembourg	14 327.8	14.6%
United States	10 830.3	11.1%
Ireland	7 800.5	8.0%
United Kingdom	7 307.9	7.5%
Netherlands	7 086.0	7.2%
Germany	6 099.9	6.2%
United Arab Emirates	3 351.6	3.4%
France	3 069.5	3.1%
Hong Kong	2 929.4	3.0%
Switzerland	1 441.2	1.5%
Australia	1 415.9	1.4%
Denmark	1 226.6	1.3%
Norway	1 001.5	1.0%
Others	8 311.2	8.5%
Total	97 809.0	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

29-03-2019

(...) In April we plan to hold one switch auction (April 4th) and one sale auction (April 25th). The supply at the sale auction takes into account redemption of the bond maturing on April 25th. There will be three or four sale auctions out of six planned in the second quarter. The others will be switch auctions.

In February indebtedness in domestic T-bond market increased by PLN 6.1bn. It was a result of higher involvement of domestic banks (by PLN 15.6bn) and decrease in involvement of non-residents (by PLN 9.2bn) with non-banking sector investors remained almost unchanged (decrease of PLN 0.3bn). In March we observed an inflow of non-residents.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q2 2019



General assumptions

- in the second 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 market and the domestic market, as well as by 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 three and four auctions, total supply PLN 15.0-25.0bn, the structure of T-bonds to be offered will be subject to the market situation,
- **switch auctions:**
between two and three 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.



V. SUPPLY PLAN OF TREASURY SECURITIES IN APRIL 2019

T-bond sale auction

Auction date	Settlement date	Series	Planned offer (PLN m)
25 APR 2019	29 APR 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029 / possible T-bond either of WS or IZ type	4,000-8,000
<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)
4 APR 2019 / 8 APR 2019	OK0521 / PS0424 / WZ0524 / WZ0528 / DS1029	OK0419	8,179
		PS0719	13,090
		DS1019	13,306
		WZ0120	14,854

* after auction settlement

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0719 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0421 2-year	100.00 PLN (99.80 PLN for rolling-over)	Fixed: 2.10%
TOZ0422 3-year	100.00 PLN (99.70 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0423 4-year	100.00 PLN (99.60 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0429 10-year	100.00 PLN (99.50 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0425 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0431 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period