

State budget borrowing requirements' financing plan and its background

August 2020

THE MOST IMPORTANT INFORMATION

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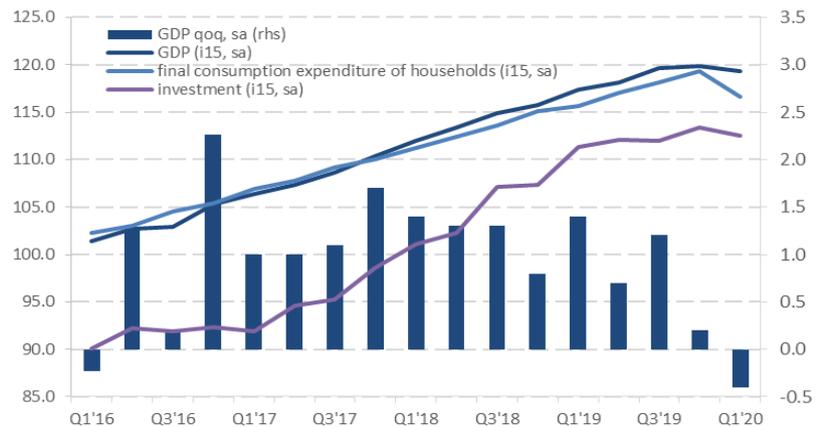
I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices

source: GUS, Eurostat

In the first quarter of 2020 GDP decreased by 0.4% (qoq, sa) after a weak growth in the previous quarter. Households consumption and investment 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 the euro area countries which experienced significant decline in GDP (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. Investment 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 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.

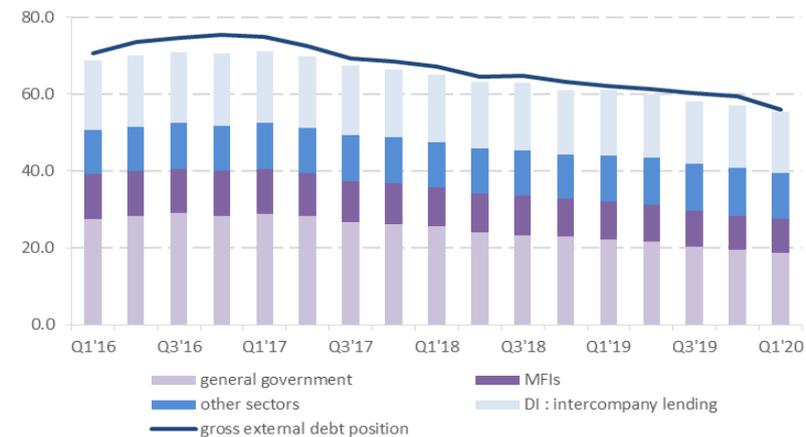


Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

At the end of the first quarter of 2020 gross external debt reached EUR 299.3bn (55.9% of GDP) and was EUR 14.8bn lower than in the previous quarter. The share of general government sector debt in total debt increased to 33.3%. At the end of May 2020 official reserve assets reached EUR 119.4bn and remained broadly adequate, covering over 5 months of imports.



Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In May 2020, according to the preliminary data, current account surplus increased to 1.8% of GDP (in 12-month terms). Following the re-opening of economies of Poland's key trade partners exports dynamics improved, however its level was still markedly lower than in the corresponding month of the previous year. On the other hand, imports dynamics improved only marginally, influenced by low oil prices. Financial results of companies remained weak decreasing foreign direct investors' income on their capital involvement in Polish entities in consequence reducing primary income deficit.



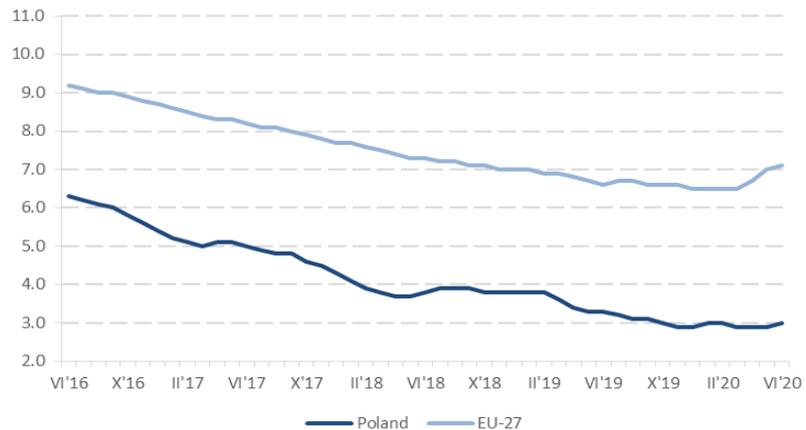
I. MACROECONOMIC SITUATION



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

In June 2020 harmonised unemployment rate (sa) slightly increased by 0.1 pp to 3.0% after stabilization at a record low level in two earlier months. In June 2020 it was lower than in the EU-27 on average (7.1%) and eurozone (7.8%).



Monthly indicators of the real sector

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

In June 2020 industrial production increased by 9.7% (mom, sa) and was 0.5% higher than a year ago (nsa). Data were markedly above market expectations. Construction production dropped for the fourth time in a row (by 2.5%, mom, sa). As a result, it was 2.4% (nsa) lower than a year before. Data were slightly below expectations. Real retail sales increased significantly following a high jump in the previous month (mom, sa MoF). As a result retail sales were only 1.3% (nsa) lower than in the same month of 2019. Data were again above market expectations.



Inflation

percent, yoy
source: GUS, NBP

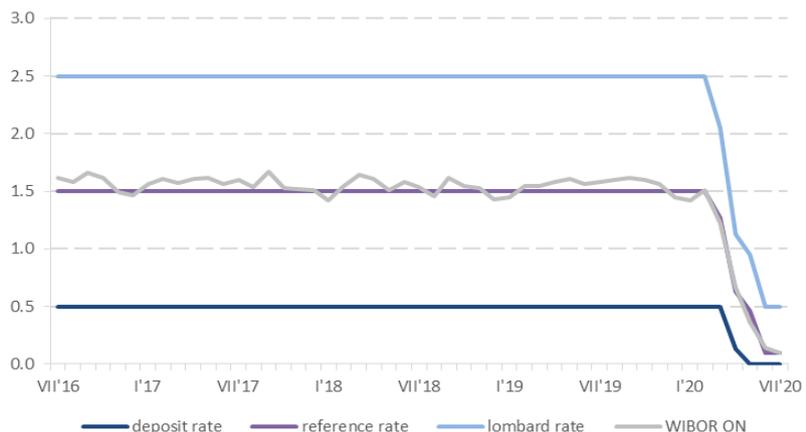
In the second quarter of 2020 inflation rate decreased to 3.2% yoy (after reaching 4.5% in the first quarter) and returned to the acceptable deviation from the inflation target. Falling inflation was influenced mainly by a strong drop in fuel prices and lower pace of growth of food prices. In July inflation rate amounted to 3.1% (according to the preliminary data) and was consistent with market expectations. Core inflation (CPI excluding food and energy prices) is still high and in June it increased to 4.1% (yoy), the highest level for 18 years. Producer prices in last four months stayed below the previous year levels (in June deflation rate was 0.8% yoy).



NBP interest rates

percent, end of period
source: NBP, Eurostat

In July 2020 the MPC kept NBP's interest rates on hold. The reference rate remained at 0.1%, the lombard rate at 0.5% and the deposit rate at 0.0%. In March-May 2020 the reference rate was lowered by 1.4 pp in total. Cuts in the key interest rates along with purchases of bonds by NBP in the secondary market are to mitigate the negative effects of the pandemic, limiting the scale of economic activity decline and supporting income of households and enterprises. Concurrently these measures reduce the risk of inflation falling below the inflation target in the medium term.





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
Balance of payments							
	Unit	2020 M01	M02	M03	M04	M05	M06
Goods: exports (EUR)	YoY	5.0	8.9	-5.7	-29.1	-19.8	-
Goods: imports (EUR)	YoY	4.4	0.9	-3.5	-28.1	-27.2	-
Current account balance ¹⁾	% of GDP	0.4	0.8	1.0	1.2	1.8	-
Balance on goods ¹⁾	% of GDP	0.5	0.7	0.7	0.6	0.9	-
Official Reserve Assets	EUR m	113 757.2	116 060.2	110 119.5	108 643.8	119 444.2	115 057.5
Inflation							
Consumer Price Index (CPI)	YoY	4.3	4.7	4.6	3.4	2.9	3.3
Core inflation (CPI excluding food and energy prices)	YoY	3.1	3.6	3.6	3.6	3.8	4.1
Producer Price Index (PPI)	YoY	0.9	0.2	-0.3	-1.4	-1.7	-0.8
Production							
Sold production of industry ²⁾	YoY	1.1	4.8	-2.5	-24.6	-16.9	0.5
	MoM SA	2.9	1.1	-7.3	-20.7	12.7	9.7
Construction and assembly production ²⁾	YoY	6.4	5.5	3.7	-0.9	-5.1	-2.4
	MoM SA	9.0	3.1	-4.0	-2.7	-3.2	-2.5
Manufacturing PMI	SA	47.4	48.2	42.4	31.9	40.6	47.2
Households and labour market							
Retail sales ²⁾	YoY	3.5	7.3	-8.9	-22.9	-7.7	-1.3
Average paid employment in enterprise sector	YoY	1.1	1.1	0.3	-2.1	-3.2	-3.3
	MoM	0.7	0.1	-0.5	-2.4	-1.4	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	2.7	2.9	1.6	-1.4	-1.6	0.2
	MoM	-6.6	0.2	2.8	-3.6	-2.9	2.6
Harmonised unemployment rate (Eurostat)	%, SA	3.0	3.0	2.9	2.9	2.9	3.0
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							
State Treasury debt							
	Unit	2019 M12	2020 M01	M02	M03	M04	M05
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	973 338.2	987 605.9	997 398.5	1 036 440.1	1 077 179.8	1 087 381.6
Domestic debt	face value, PLN m	716 453.5	727 020.9	728 279.6	753 740.8	816 931.9	834 354.4
	%	73.6	73.6	73.0	72.7	75.8	76.7
Foreign debt	face value, PLN m	256 884.7	260 585.0	269 118.9	282 699.4	260 247.9	253 027.2
	%	26.4	26.4	27.0	27.3	24.2	23.3
Public debt (domestic definition)							
	Unit	2018 Q04	2019 Q01	Q02	Q03	Q04	2020 Q01
Public debt (acc. to the place of issue criterion)	face value, PLN m	984 313.5	1 005 633.5	998 220.7	1 001 190.9	990 940.9	1 045 473.8
Domestic debt	face value, PLN m	688 248.0	706 607.9	708 264.6	713 568.9	716 176.3	744 616.7
	%	69.9	70.3	71.0	71.3	72.3	71.2
Foreign debt	face value, PLN m	296 065.5	299 025.7	289 956.1	287 622.0	274 764.6	300 857.2
	%	30.1	29.7	29.0	28.7	27.7	28.8
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 056 556.1	1 051 755.9	1 055 362.3	1 045 129.0	1 103 023.0	1 103 023.0

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

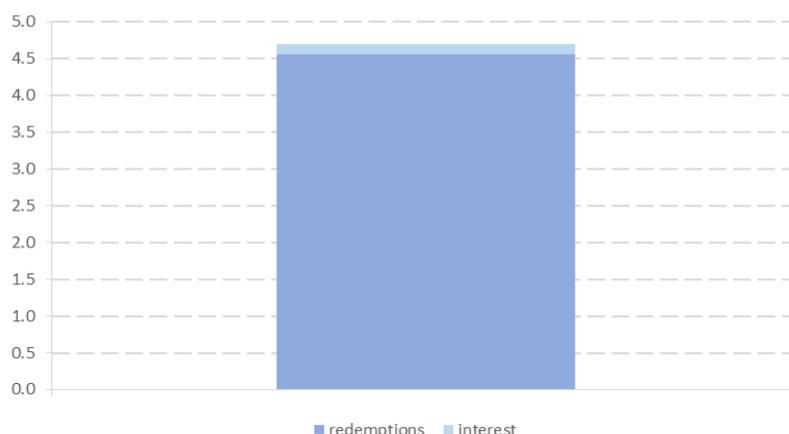
State budget borrowing requirements for 2020 according to the Budget Act have been fully funded.



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

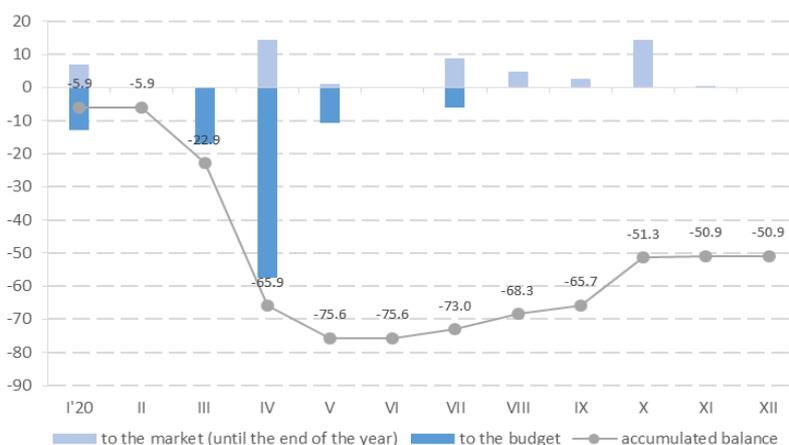
Value of funds transferred from the State budget to the market in August shall amount to PLN 4.7bn, of which:

- TS redemptions: PLN 4.6bn,
- interest payments: PLN 0.1bn.



Flows of funds between the domestic market and the budget* as at the end of month, PLN bn

From August to the end of 2020 the funds to be transferred to the domestic market shall amount to PLN 22.1bn (as of July 31, 2020).

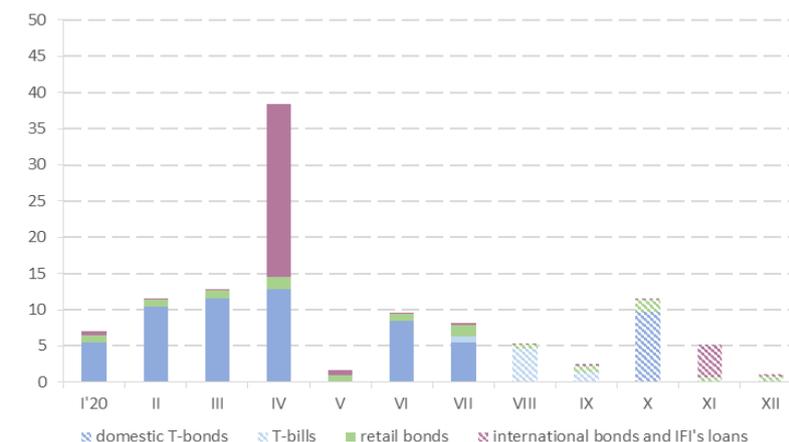


* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of August to the end of 2020 is not presented.

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 July 31, 2020) is equal to PLN 25.5bn, including:

- T-bonds: PLN 9.7bn,
- retail bonds: PLN 4.8bn,
- T-bills: PLN 5.9bn,
- bonds and loans incurred on foreign markets: PLN 5.1bn.





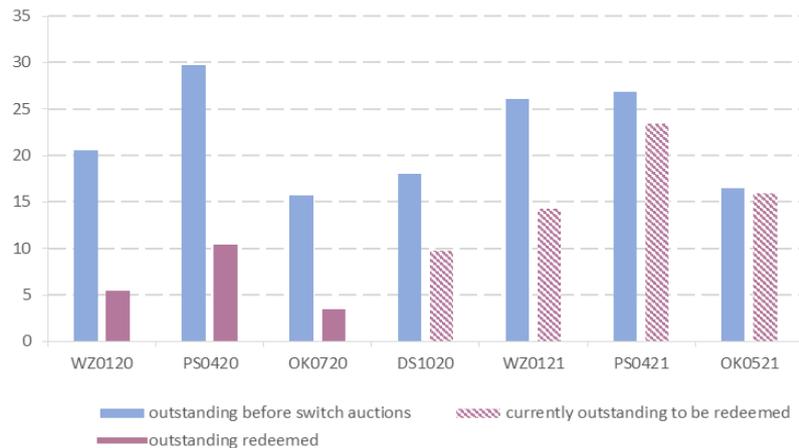
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

Reducing refinancing risk connected with redemptions of domestic T-securities maturing in 2020 and 2021

as of July 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 8.3bn (46% of the issuance),
- WZ0121: PLN 11.7bn (45% of the issuance),
- PS0421: PLN 3.4bn (13% of the issuance),
- OK0521: PLN 0.6bn (4% of the issuance).

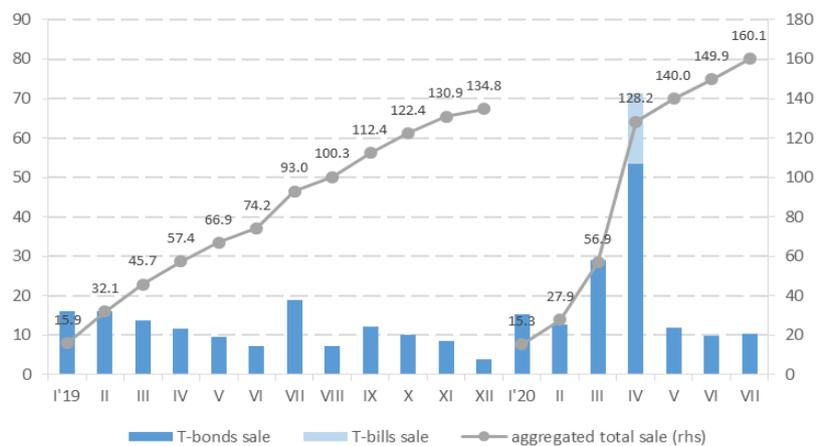


Sale of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 142.4bn versus PLN 93.0bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).

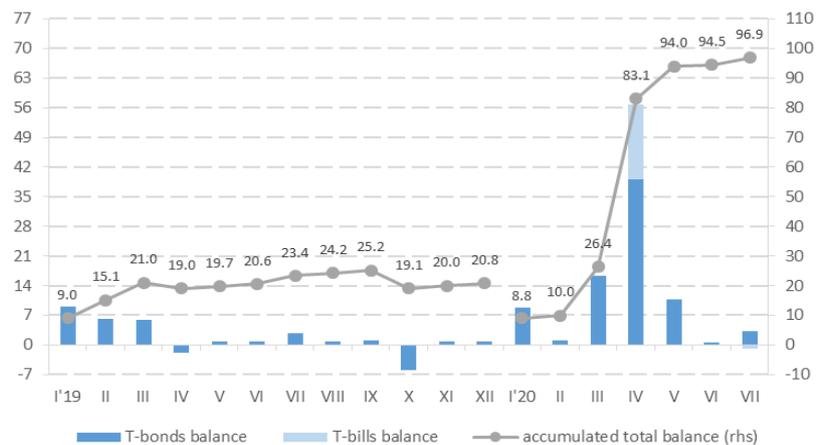


Balance of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

In the period of I-VII 2020 indebtedness in:

- T-bonds increased to PLN 80.1bn versus an increase of PLN 23.4bn in the same period of 2019,
- T-bills increased to PLN 16.8bn (T-bills were not offered since February 2017).

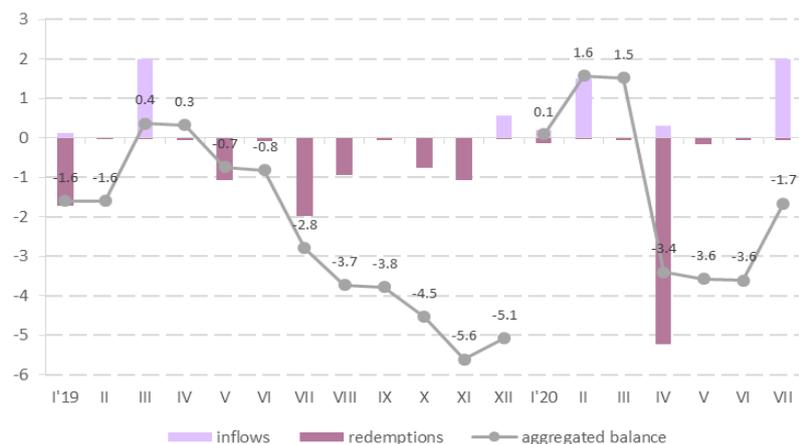


External financing in 2019 and 2020

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

Net financing on foreign markets in the period of I-VII 2020 was negative and amounted to EUR 1.7bn (negative balance of EUR 2.8bn in the same period of 2019) which resulted from:

- negative balance of T-bonds of EUR 1.5bn (negative balance of EUR 2.5bn in the same period of 2019),
- negative balance of loans incurred from IFIs of EUR 0.1bn (negative balance of EUR 0.3bn in the same period of 2019).



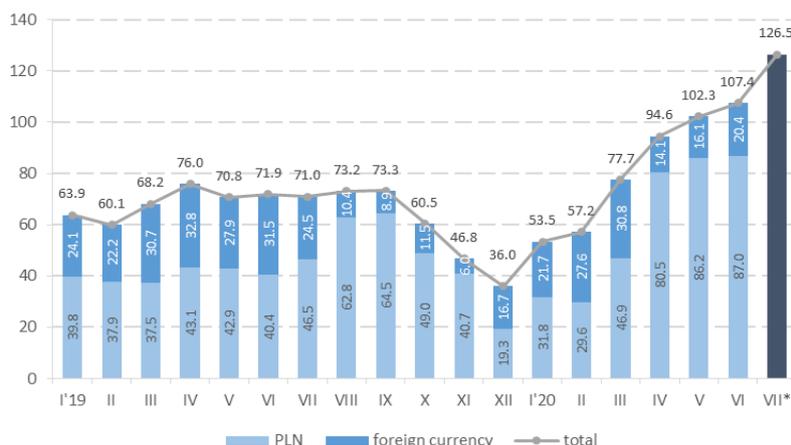
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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 July 2020 there was equivalent of PLN 126.5bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

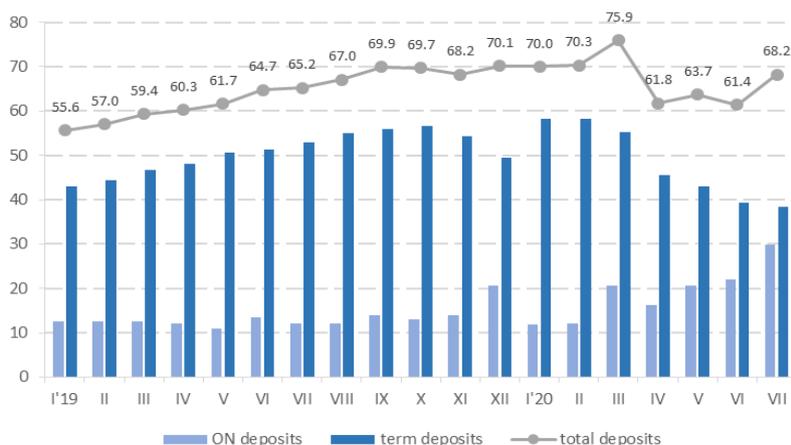


* Estimated data.

Consolidation of public finance sector liquidity management

PLN bn

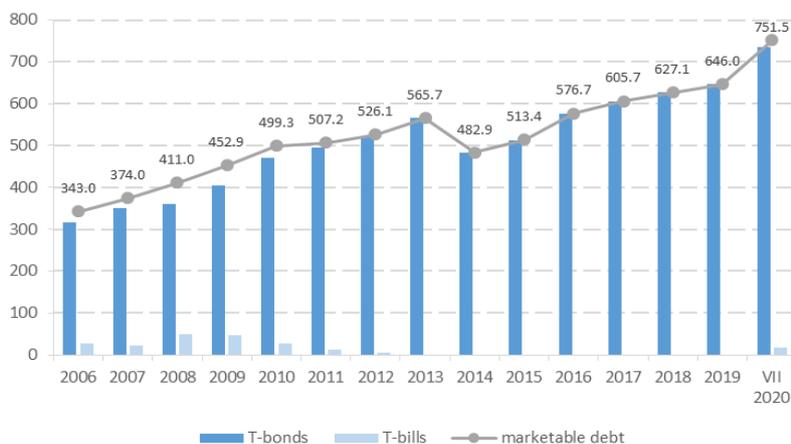
As a result of consolidation of the public finance sector liquidity management there were PLN 68.2bn funds accumulated at the end of July 2020, of which: PLN 38.3bn was on term deposits and PLN 29.9bn on ON deposits.



Structure of domestic marketable debt

PLN bn

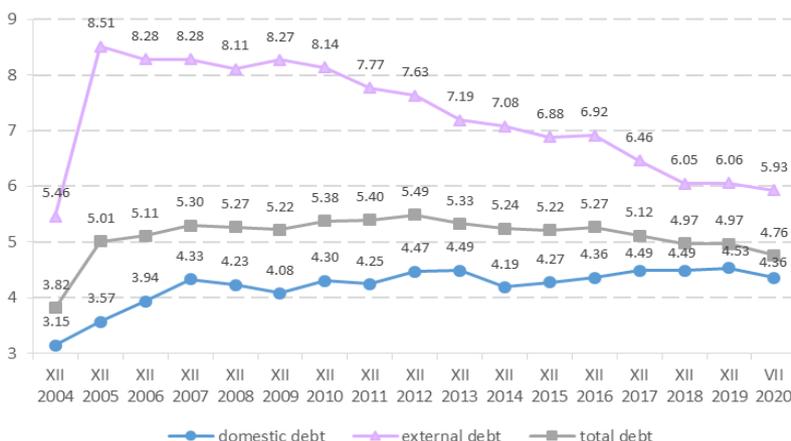
The marketable domestic debt amounted to PLN 751.5bn at the end of July 2020 comparing to PLN 646.0bn at the end of 2019.



Average maturity

years

The average maturity of the domestic debt amounted to 4.36 years at the end of July 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.76 years (4.97 years at the end of 2019).

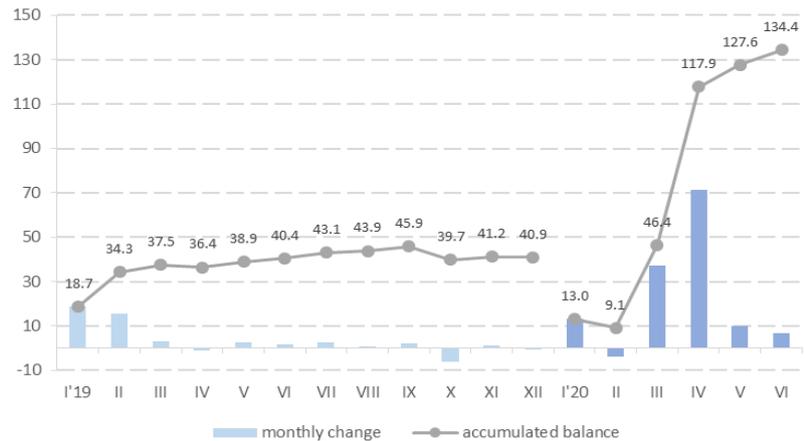




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

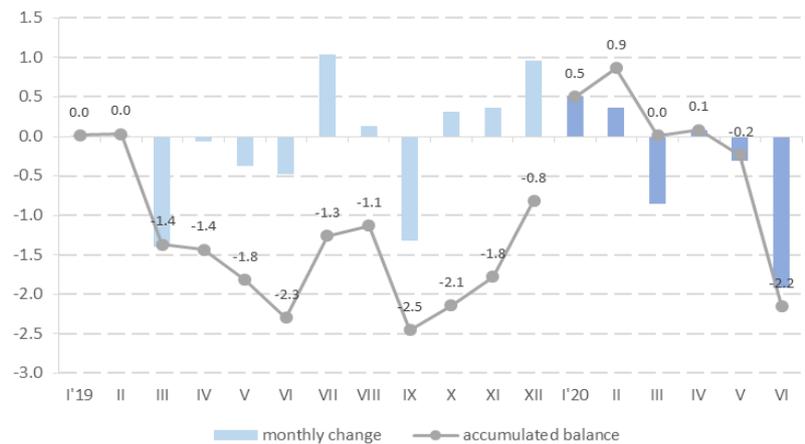
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-VI 2020 there was an increase of debt by PLN 134.4bn comparing to PLN 40.4bn increase during the same period of 2019. Banks' holdings reached the level of PLN 439.4bn.



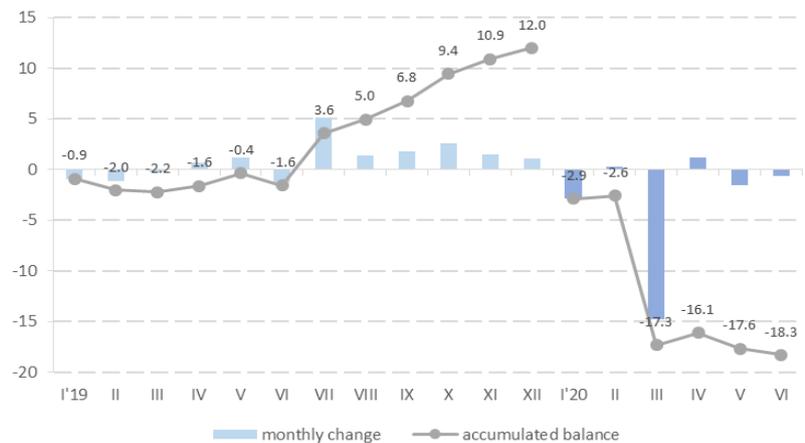
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-VI 2020 there was a decrease of debt by PLN 2.2bn comparing to PLN 2.3bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 62.1bn.



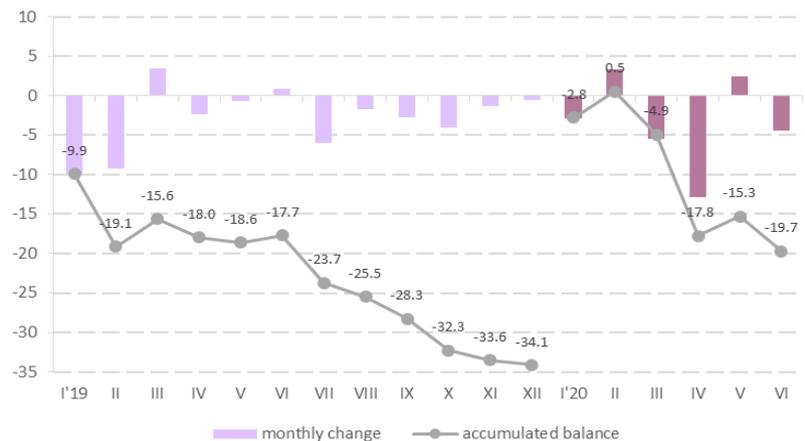
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-VI 2020 there was a decrease of debt by PLN 18.3bn comparing to PLN 1.6bn decrease in the same period of 2019. Investment funds' holdings reached the level of PLN 49.1bn.



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

In the period of I-VI 2020 there was a decrease of debt by PLN 19.7bn comparing to PLN 17.7bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 137.6bn.



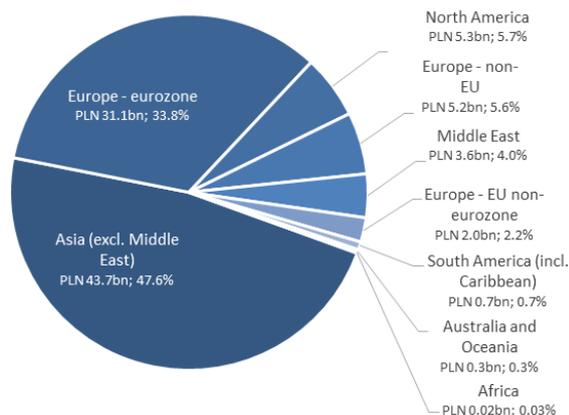
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

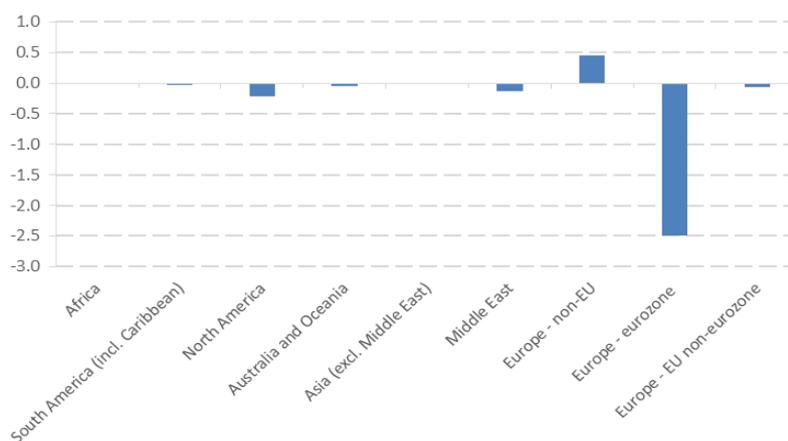
The non-residents' share in the domestic Treasury securities market decreased by PLN 4.4bn in June 2020. The foreign investors' portfolio amounted to PLN 137.6bn, which constituted 17.5% share in total debt in Treasury securities (18.1% in the previous month).



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

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

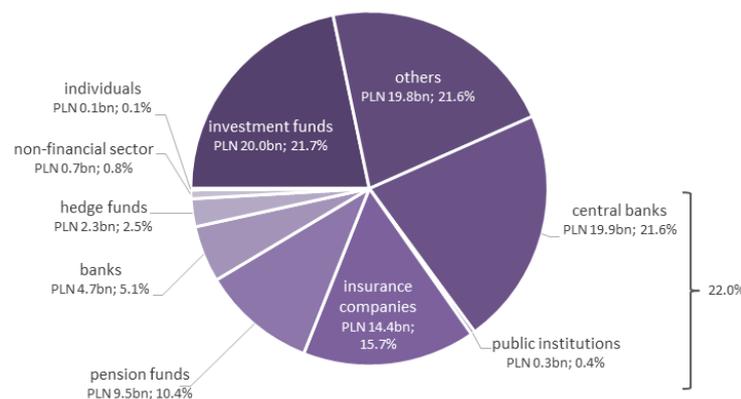
In June 2020 the highest increase was recorded by European non-EU investors (PLN 0.5bn), while the highest decrease was noted by eurozone investors (PLN 2.5bn).



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

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

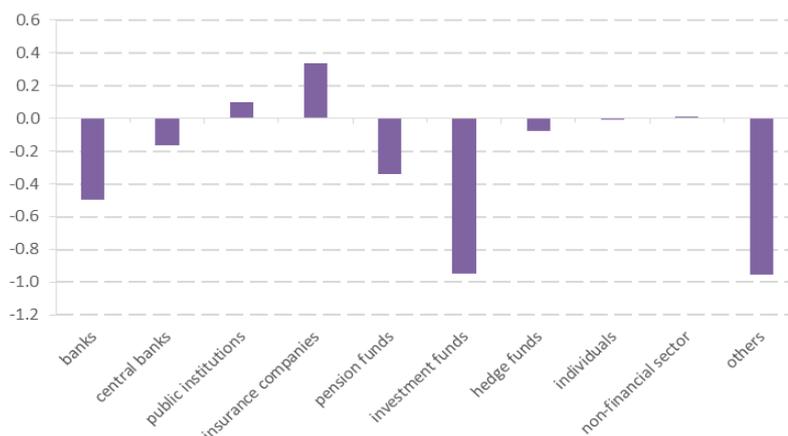
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 22% at the end of June 2020.



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

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

In June 2020 the highest increase was recorded by insurance companies (PLN 0.3bn), while the highest decreases were noted by investors categorized as "others" (PLN 1.0bn) and investment funds (PLN 0.9bn).



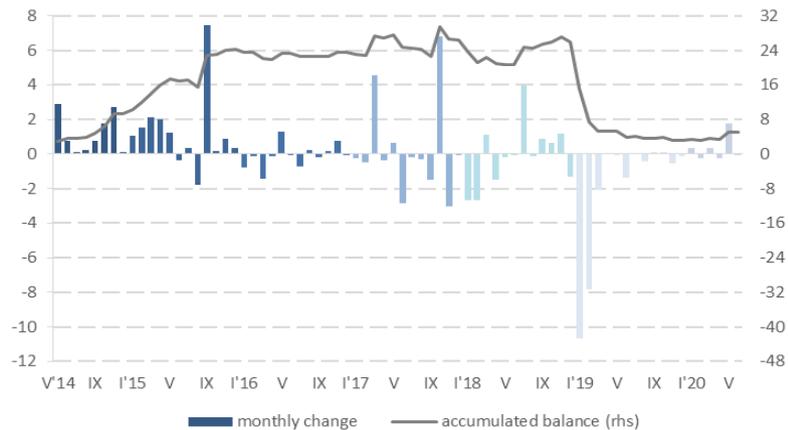


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in June 2020, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.1bn in June 2020. In the period from the end of April 2014 to the end of June 2020, for which the detailed information is available, portfolios of those entities increased by PLN 5.1bn.



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

as of June 30, 2020, excluding omnibus accounts and central banks, countries with more than 1% share

	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	22 190.8	30.8%
Luxembourg	9 394.3	13.1%
Netherlands	6 903.9	9.6%
Germany	5 267.7	7.3%
Ireland	5 217.7	7.2%
United States	4 598.0	6.4%
United Kingdom	3 531.0	4.9%
France	2 329.8	3.2%
United Arab Emirates	1 662.1	2.3%
Switzerland	1 455.8	2.0%
Hong Kong	1 414.4	2.0%
Denmark	900.9	1.3%
Italy	872.0	1.2%
Others	6 233.0	8.7%
Total	71 971.3	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-07-2020

At the end of July the reserve of liquid funds in PLN and foreign currency on the budgetary accounts amounted to ca. PLN 125bn. The budget liquidity situation is positive. With fully funded borrowing requirements under the Budget Act we are prepared in case of their expected increase. (...)

In June indebtedness in domestic Treasury securities increased by PLN 0.5bn. The involvement of domestic banks (including the NBP) increased by PLN 6.6bn to the level of PLN 425.1bn, while domestic non-banking sector decreased by PLN 1.6bn to PLN 205.2bn and foreign investors by PLN 4.5bn to the level of 137.3bn. In case of T-bills there were minor trade flows among investors, which resulted in indebtedness in the total value of PLN 17.7bn, of which PLN 14.3bn were held by banks, PLN 3.1bn by non-banking sector and PLN 0.3bn by foreign investors.

IV. SUPPLY PLAN OF TREASURY SECURITIES IN AUGUST 2020



T-bond switching auction

Auction date / settlement date	Settlement T-bonds	Source T-bonds	Outstanding (PLN m)*
6 AUG 2020 / 10 AUG 2020	OK0423 / PS0425 / WZ0525 / WZ1129 / DS1030 / WS0447	DS1020	9.125
		WZ0121	13.204
		PS0421	21.650
		OK0521	15.840

* After settlement of auction held on June 6, 2020.

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS1120 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0822 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0823 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0824 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0830 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0826 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0732 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period