

State budget borrowing requirements' financing plan and its background

1st quarter 2020

January 2020

THE MOST IMPORTANT INFORMATION

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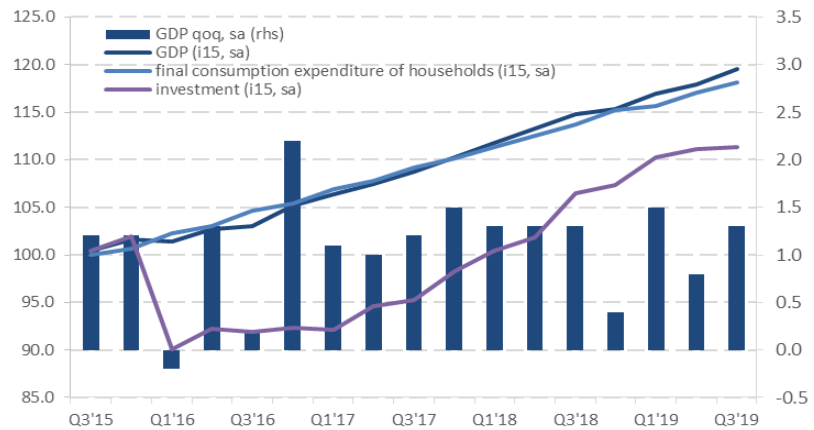
I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices

source: GUS, Eurostat

In the third quarter of 2019 GDP increased by 1.3% (qoq, sa) versus 0.8% a quarter earlier. The rate of growth of households consumption and investment decelerated (qoq, sa), while the export dynamics rebounded despite unfavourable external conditions.

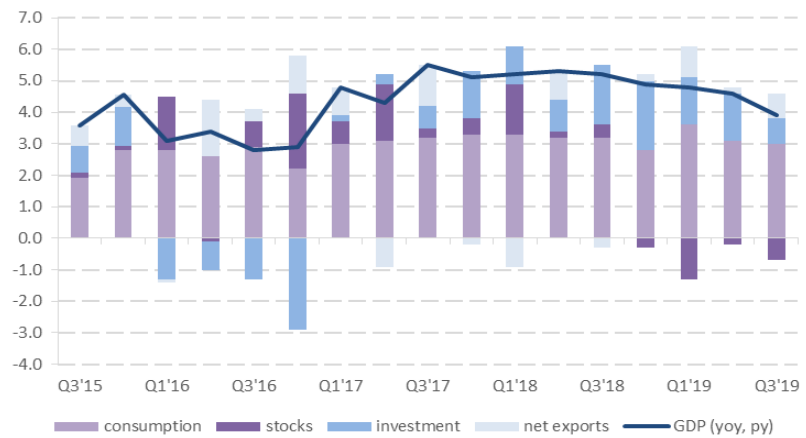


Contributions to Polish GDP growth

pp, py - average prices of previous year

source: GUS, MoF own calculation

In the third quarter of 2019 GDP was 3.9% higher than a year ago versus 4.6% in the previous quarter. Households consumption, which was 3.9% higher than in the same period of 2018, was still the main source of GDP growth. Investment registered weaker than in the first half of 2019 growth rate (4.7%). Inventories contribution to GDP growth was negative (0.7 pp), which was fully offset by positive net exports (0.8 pp). Strong private consumption demand was a consequence of a positive labour market situation, robust consumer sentiment and additional income transfers. The slowdown in investment was probably driven to a large extent by reduced investment dynamics in the general government sector.

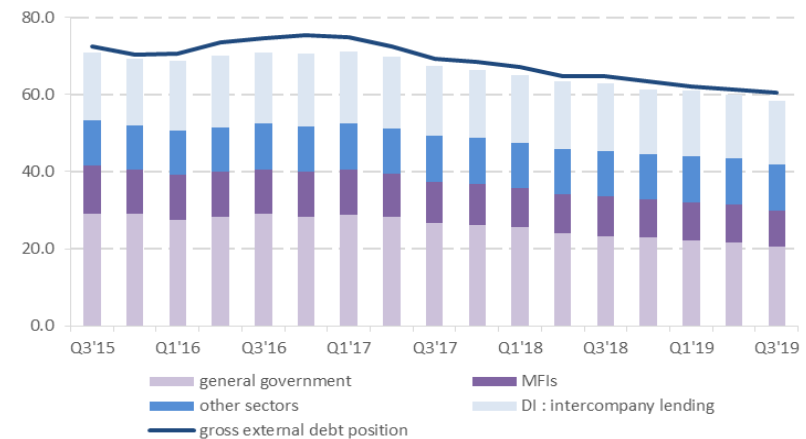


Polish gross external debt position

percent of GDP

source: NBP, GUS, MoF own calculation

At the end of the third quarter of 2019 gross external debt reached EUR 312.2bn (60.4% of GDP) and was EUR 0.5bn higher than in the previous quarter. The share of general government debt in total debt decreased to 33.9%. At the end of October 2019 official reserve assets reached about EUR 109.2bn and remained broadly adequate, covering about 5 months of imports.

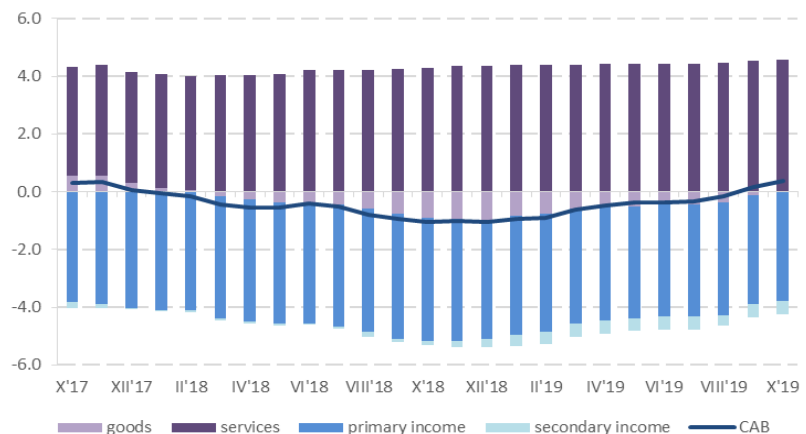


Current account balance

percent of GDP, in 12-month terms

source: NBP, GUS, MoF own calculation

In October 2019, according to the revised data, current account balance was positive and amounted to 0.4% of GDP (in 12-month terms). The inflow of long-term capital continued as well, i.e. direct investment of non-residents and EU structural funds classified on the capital account.



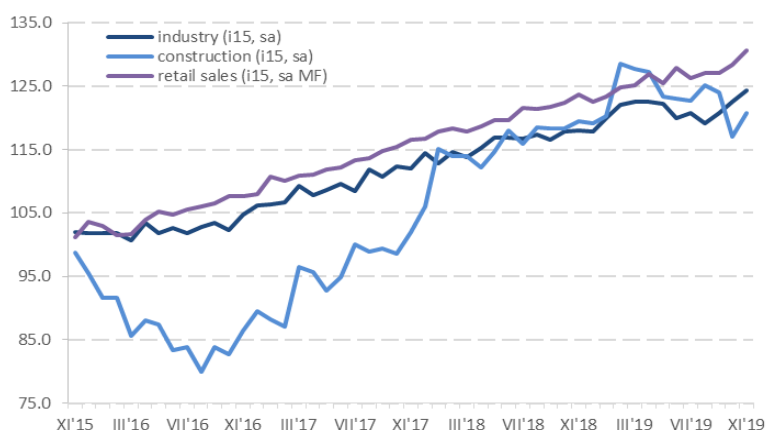
I. MACROECONOMIC SITUATION



Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

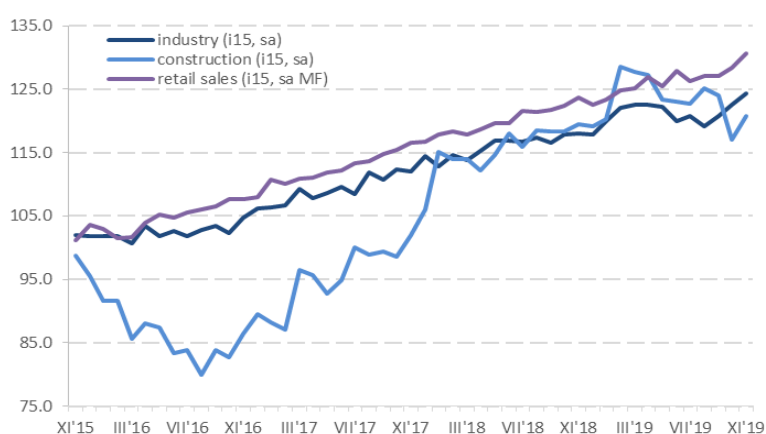
In November 2019 harmonised unemployment rate remained at the historically low level which was observed in six previous months, i.e. 3.2% (compared to 6.3% on average in the EU).



Monthly indicators of the real sector

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

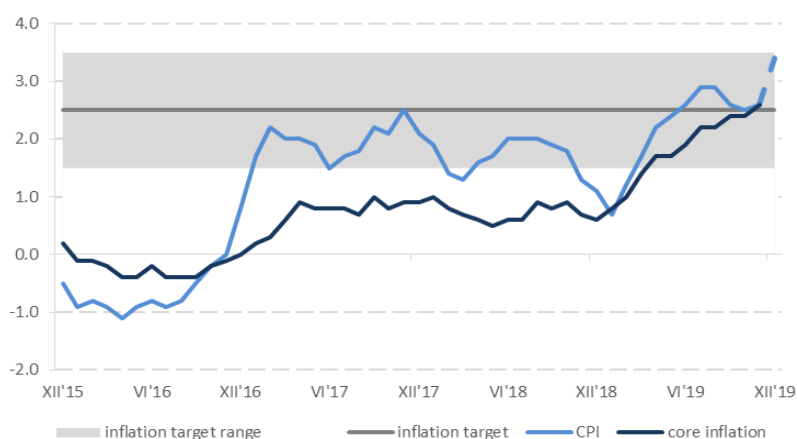
In November 2019 industrial production went up by 1.5% (mom, sa) and was 1.4% higher than a year ago (nsa). Data were above market expectations. Construction and assembly production grew by 3.0% (mom, sa). As a result, it was 4.7% (nsa) lower than a year before. Data were a bit above MoF's expectations. Real retail sales grew by 1.8% (mom, sa MoF). As a result, retail sales were 5.2% (nsa) higher than in the same month of 2018. Data were above market expectations.



Inflation

percent, yoy
source: GUS, NBP

In the first half of 2019 inflation significantly increased and in the summer amounted to 2.9%, the highest level for almost 7 years. In the period of September-November 2019 inflation rate was in the range of 2.5%-2.6%, slightly above the inflation target. Inflation in November was close to the expectations. According to the preliminary data CPI in December increased to 3.4%. Core inflation (CPI excluding food and energy prices) rose significantly from the beginning of 2019 and in November it reached 2.6% (yoy), the highest level since May 2012. The annual rate of PPI in last months remained at a relatively low level (below 1%) and in October and November there was PPI deflation.

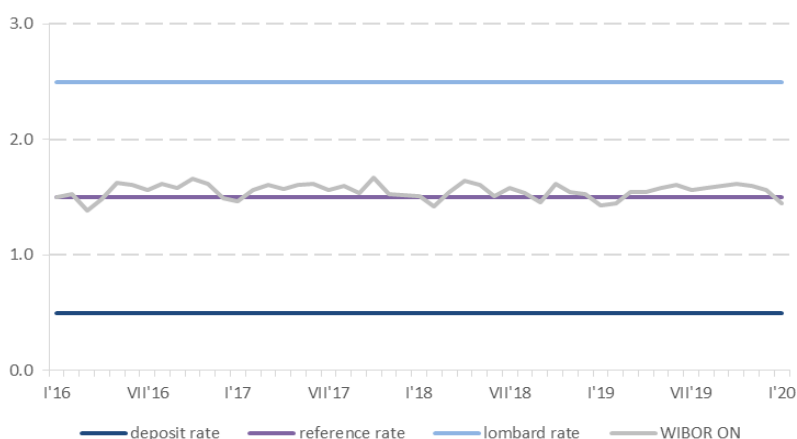


NBP interest rates

percent, end of period
source: NBP, Eurostat

In January 2020, 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 (December 23) sees no NBP rate move at least until the end of 2021.





II. STATISTICAL DATA

	Unit	2018 Q02	Q03	Q04	2019 Q01	Q02	Q03
GDP							
Gross domestic product	YoY	5.3	5.2	4.9	4.8	4.6	3.9
	QoQ SA	1.3	1.3	0.4	1.5	0.8	1.3
Final consumption expenditure of the households sector	YoY	4.6	4.2	4.0	3.9	4.4	3.9
	QoQ SA	1.1	1.1	1.3	0.4	1.2	0.9
Final consumption expenditure of the general government sector	YoY	3.3	4.2	3.9	6.3	3.1	4.7
	QoQ SA	1.6	0.9	1.1	1.4	0.4	1.3
Gross fixed capital formation	YoY	6.0	11.0	8.9	12.2	9.1	4.7
	QoQ SA	1.4	4.6	0.8	2.8	0.8	0.2
Exports of goods and services	YoY	9.0	6.7	7.9	7.3	3.2	5.0
	QoQ SA	3.4	-0.4	3.2	1.0	-0.5	1.4
Imports of goods and services	YoY	8.0	7.7	7.9	6.0	3.1	3.9
	QoQ SA	2.6	1.3	1.3	0.9	0.5	0.9
Gross value added	YoY	5.2	5.2	4.8	4.6	4.5	3.9
	QoQ SA	1.3	1.3	0.9	1.2	1.0	1.0
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.6	2.5	2.0	2.5	2.5	2.2
Final consumption expenditure of the general government sector	pp	0.6	0.7	0.8	1.1	0.6	0.8
Gross fixed capital formation	pp	1.0	1.9	2.2	1.5	1.5	0.8
Changes in inventories	pp	0.2	0.4	-0.3	-1.3	-0.2	-0.7
Balance of trade turnover	pp	0.9	-0.3	0.2	1.0	0.2	0.8
Gross value added	pp	4.5	4.5	4.2	4.2	4.0	3.3
Taxes less subsidies	pp	0.8	0.7	0.7	0.6	0.6	0.6
GDP structure							
Final consumption expenditure of the households sector	% of GDP	58.7	58.9	50.1	62.1	58.1	58.5
Final consumption expenditure of the general government sector	% of GDP	17.6	17.3	19.1	17.3	17.2	17.4
Gross fixed capital formation	% of GDP	16.2	17.8	25.1	13.3	16.8	17.7
Changes in inventories	% of GDP	2.3	2.1	2.3	2.0	2.1	1.2
Exports of goods and services	% of GDP	57.6	56.0	52.5	58.9	57.1	56.0
Imports of goods and services	% of GDP	53.2	52.8	49.6	54.3	52.1	51.5
Balance of payments							
	Unit	2019 M06	M07	M08	M09	M10	M11
Goods: exports (EUR)	YoY	-2.6	5.9	-1.8	13.5	4.0	-
Goods: imports (EUR)	YoY	-5.4	6.9	-3.4	6.4	-0.1	-
Current account balance ¹⁾	% of GDP	-0.4	-0.3	-0.2	0.2	0.4	-
Balance on goods ¹⁾	% of GDP	-0.4	-0.4	-0.4	-0.1	0.0	-
Official Reserve Assets	EUR m	103 438.9	104 561.3	105 632.7	110 546.9	109 191.9	108 887.5
Inflation							
Consumer Price Index (CPI)	YoY	2.6	2.9	2.9	2.6	2.5	2.6
Core inflation (CPI excluding food and energy prices)	YoY	1.9	2.2	2.2	2.4	2.4	2.6
Producer Price Index (PPI)	YoY	0.5	0.5	0.9	0.8	-0.3	-0.1
Production							
Sold production of industry ²⁾	YoY	-2.6	5.8	-1.5	5.6	3.7	1.4
	MoM SA	-2.0	0.7	-1.2	1.3	1.4	1.5
Construction and assembly production ²⁾	YoY	-0.7	6.6	2.6	7.6	-4.1	-4.7
	MoM SA	-0.2	-0.3	1.9	-0.9	-5.5	3.0
Manufacturing PMI	SA	48.4	47.4	48.8	47.8	45.6	46.7
Households and labour market							
Retail sales ²⁾	YoY	3.7	5.7	4.4	4.3	4.6	5.2
Average paid employment in enterprise sector	YoY	2.8	2.7	2.6	2.6	2.5	2.6
	MoM	0.2	0.1	-0.1	-0.1	0.0	0.2
Average monthly gross wages and salaries in enterprise sector (real)	YoY	2.6	4.4	3.8	3.9	3.3	2.6
	MoM	0.6	1.5	-1.1	-0.8	2.3	0.2
Harmonised unemployment rate (Eurostat)	%, SA	3.2	3.2	3.2	3.2	3.2	3.2
<small>1) Data in 12-month terms 2) Constant prices. Data for units in which the number of employed persons exceeds 9 persons Source: GUS, NBP, Eurostat, IHS Markit, MoF calculation based on NBP, GUS data</small>							
State Treasury debt							
	Unit	2019 M05	M06	M07	M08	M09	M10
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	976 141.7	975 114.1	973 307.7	977 610.4	978 561.0	960 882.4
Domestic debt	face value, PLN m	698 328.9	701 332.2	704 330.7	706 222.8	707 713.5	701 313.8
	%	71.5	71.9	72.4	72.2	72.3	73.0
Foreign debt	face value, PLN m	277 812.8	273 781.8	268 977.1	271 387.6	270 847.4	259 568.6
	%	28.5	28.1	27.6	27.8	27.7	27.0
Public debt (domestic definition)							
	Unit	2018 Q02	Q03	Q04	2019 Q01	Q02	Q03
Public debt (acc. to the place of issue criterion)	face value, PLN m	984 470.7	977 304.9	984 313.5	1 005 633.5	998 219.5	1 001 181.0
Domestic debt	face value, PLN m	675 566.2	678 615.4	688 248.0	706 607.9	708 263.5	713 558.3
	%	68.6	69.4	69.9	70.3	71.0	71.3
Foreign debt	face value, PLN m	308 904.5	298 689.6	296 065.5	299 025.7	289 956.1	287 622.7
	%	31.4	30.6	30.1	29.7	29.0	28.7
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 033 386.2	1 029 424.1	1 035 254.9	1 056 172.7	1 051 207.1	1 054 768.8

Source: MoF

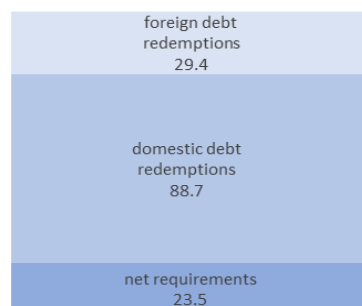
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2020 as of December 31, 2019, PLN bn

The level of financing of the 2020 State budget borrowing requirements reached ca. 52% (the final level will be known following the closure of the budget year).

Gross borrowing requirements
Total: PLN 141,7bn, of which:

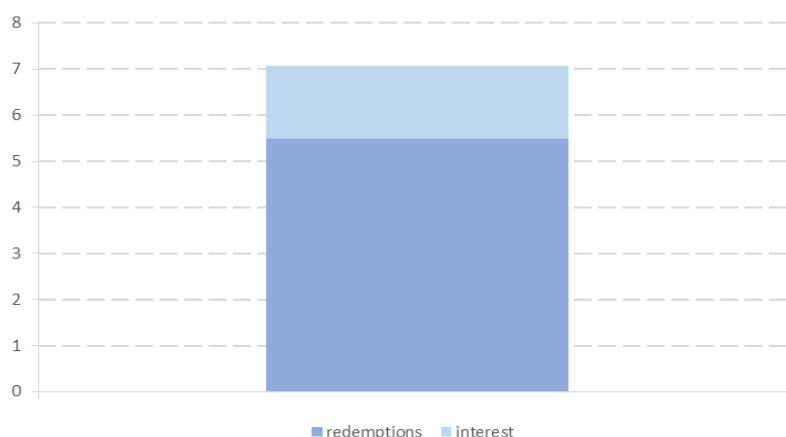


Financing of the borrowing requirements at the level of ca. 52%

Outflows of funds related to domestic marketable T-securities transfers in January plan as of December 31, 2019

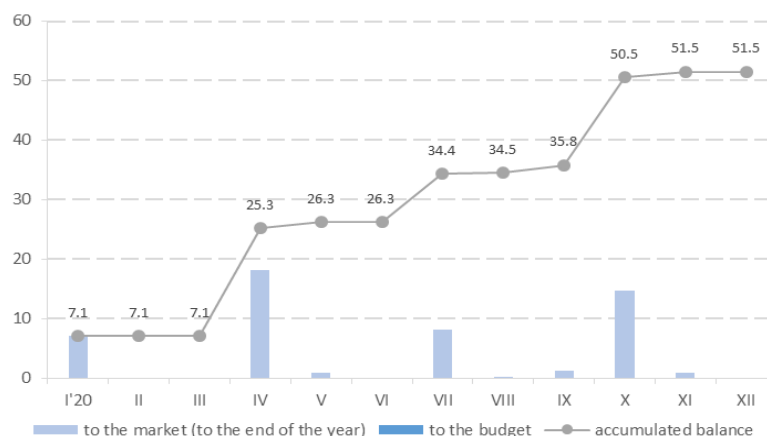
Value of funds transferred from the State budget to the market in January shall amount to PLN 7.1bn, of which:

- TS redemptions: PLN 5.5bn,
- interest payments: PLN 1.6bn.



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

From January to the end of 2020 funds to be transferred to the domestic market shall amount to PLN 51.5bn.

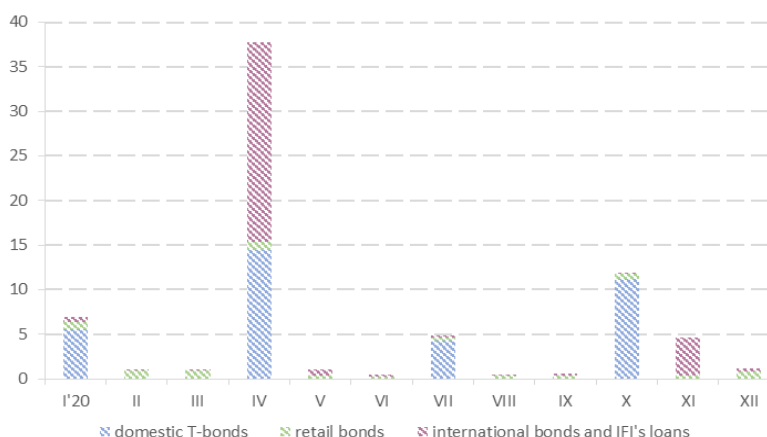


* figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to budget in the period of January to the end of 2020.

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 December 31, 2019) is equal to PLN 71.9bn, including:

- T-bonds: PLN 35.4bn,
- retail bonds: PLN 7.1bn,
- bonds and loans incurred on foreign markets: PLN 29.4bn.





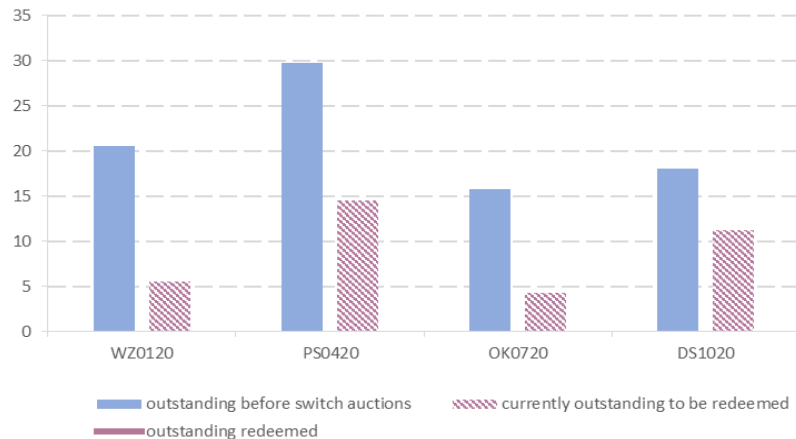
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

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

Buy-back of T-bonds maturing in 2020:

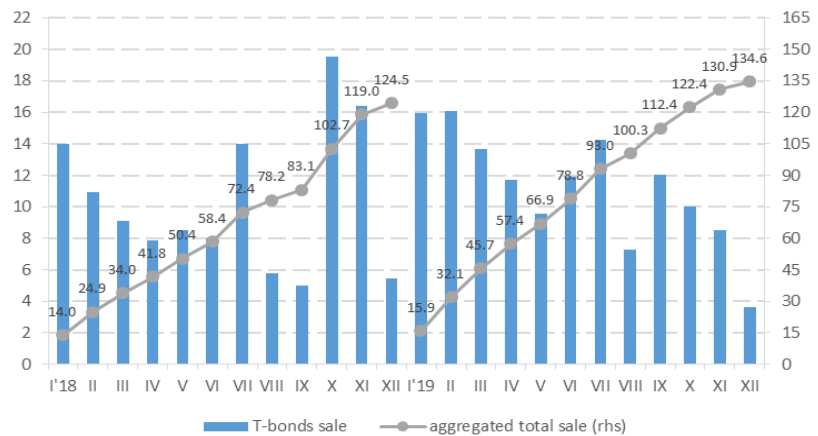
- WZ0120: PLN 15.1bn (73% of the issuance),
- PS0420: PLN 15.2bn (51% of the issuance),
- OK0720: PLN 11.4bn (73% of the issuance),
- DS1020: PLN 6.9bn (38% of the issuance).



Sale of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

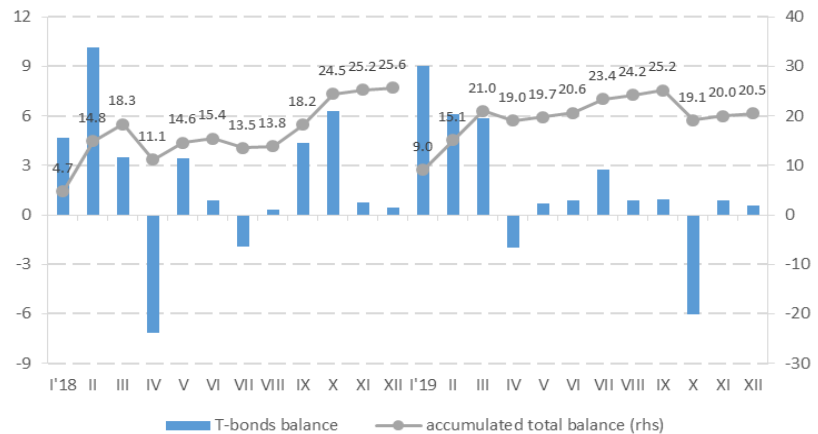
In the period of I-XII 2019 aggregated total sale of T-bonds amounted to PLN 134.6bn versus PLN 124.5bn in the same period of 2018.



Balance of domestic T-bonds in 2018 and 2019

auction date, nominal amount, PLN bn

In the period of I-XII 2019 indebtedness in T-bonds increased by PLN 20.5bn versus an increase of PLN 25.6bn in the same period of 2018.

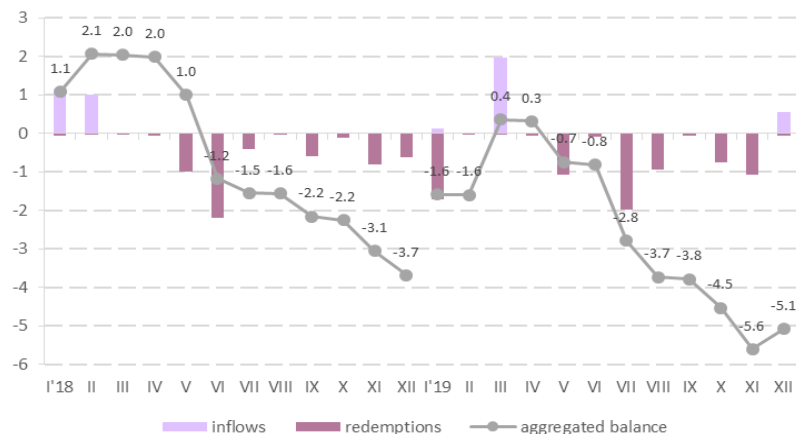


External financing in 2018 and 2019

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

Net financing on foreign markets in the period of I-XII 2019 was negative and amounted to EUR 5.1bn (negative balance of EUR 3.7bn in the same period of 2018) which resulted from:

- negative balance of T-bonds of EUR 3.9bn (negative balance of EUR 2.7bn in the same period of 2018),
- negative balance of loans incurred from IFIs of EUR 1.2bn (negative balance of EUR 1.0bn in the same period of 2018).



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

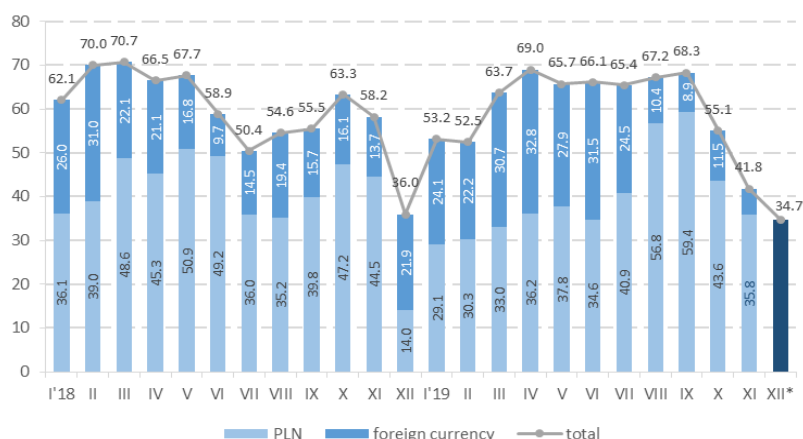


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of December 2019 there was an equivalent of PLN 34.7bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

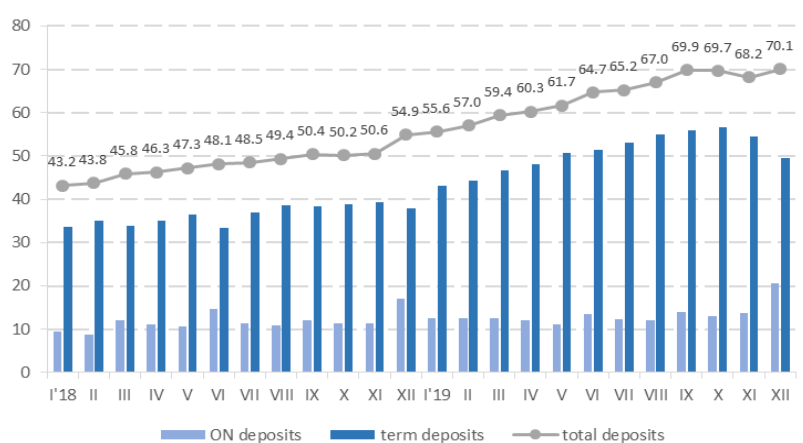
* estimated data



Consolidation of public finance sector liquidity management

PLN bn

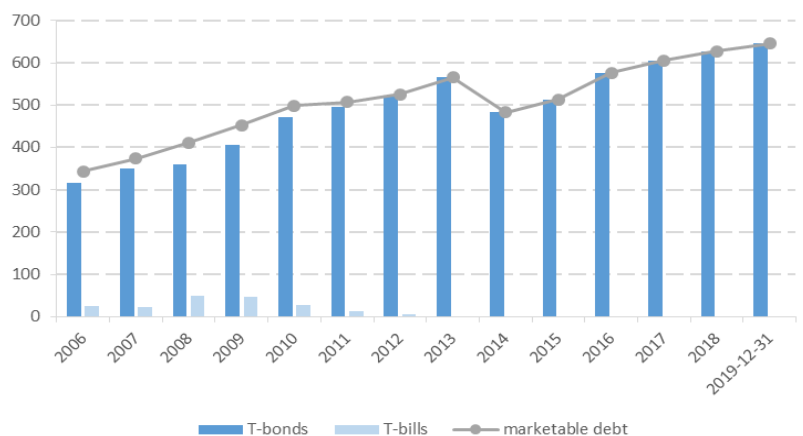
As a result of consolidation of the public finance sector liquidity management there were PLN 70.1bn funds accumulated at the end of December 2019, of which: PLN 49.5bn was on term deposits and PLN 20.6bn on ON deposits.



Structure of marketable debt

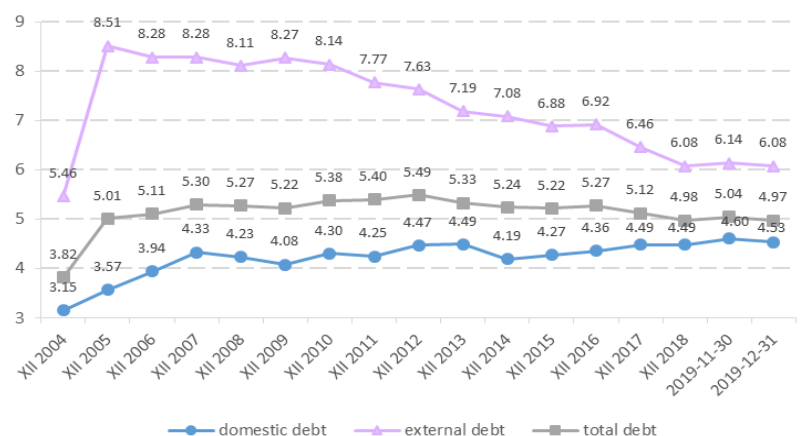
PLN bn

The marketable domestic debt amounted to PLN 646.0bn at the end of December 2019 comparing to PLN 627.1bn at the end of 2018.



Average maturity

The average maturity of domestic debt amounted to 4.53 years at the end of December 2019 (4.49 years at the end of 2018). The average of total debt amounted to 4.97 years (4.98 years at the end of 2018).

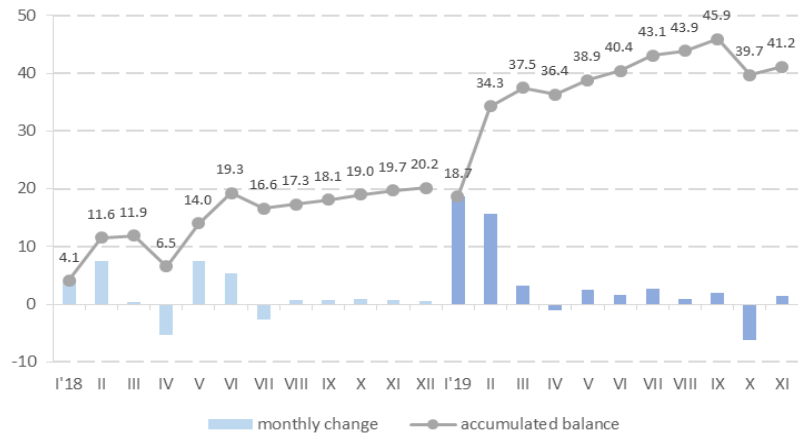




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

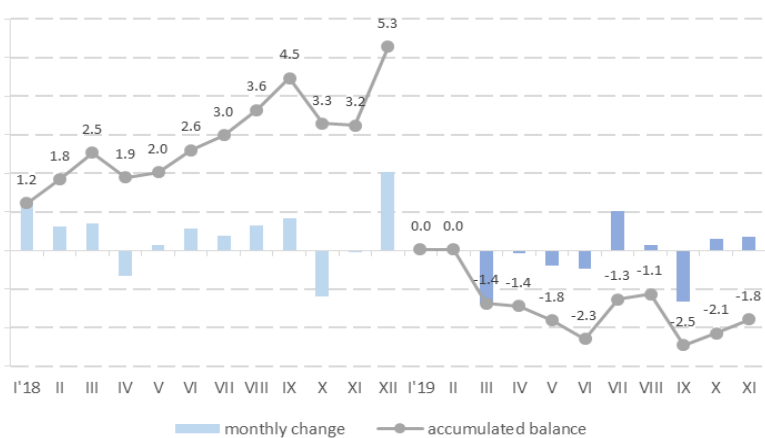
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-XI 2019 there was an increase of debt by PLN 41.2bn comparing to PLN 19.7bn increase during the same period of 2018. Banks' holdings reached the level of PLN 305.2bn.



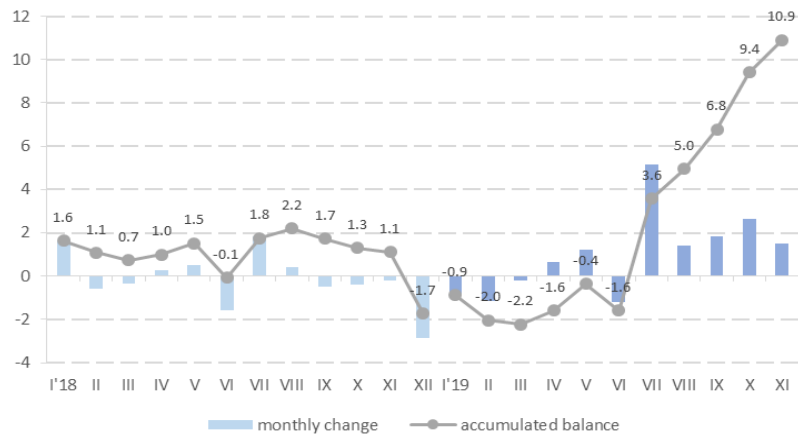
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-XI 2019 there was a decrease of debt by PLN 1.8bn comparing to PLN 3.2bn increase during the same period of 2018. Insurance companies' holdings reached the level of PLN 63.3bn.



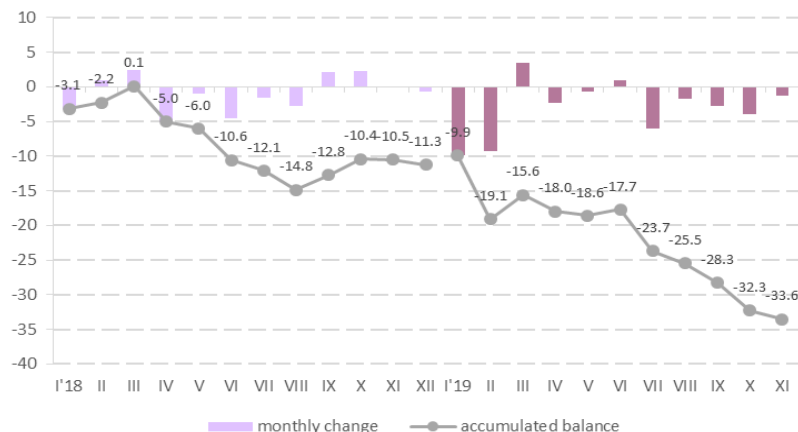
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-XI 2019 there was an increase of debt by PLN 10.9bn comparing to PLN 1.1bn increase in the same period of 2018. Investment funds' holdings reached the level of PLN 66.3bn.



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

In the period of I-XI 2019 there was a decrease of debt by PLN 33.6bn comparing to PLN 10.5bn decrease in the same period of 2018. Foreign investors' holdings reached the level of PLN 157.9bn.



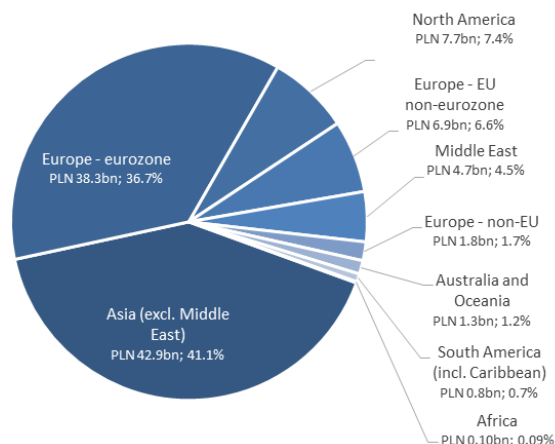
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

as of November 30, 2019, the chart presents data excluding omnibus accounts

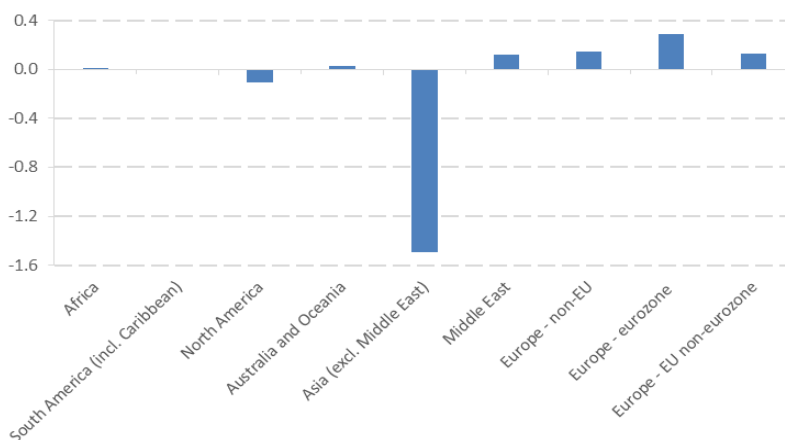
The non-residents' share in the domestic Treasury securities market decreased by PLN 1.3bn in November 2019. The foreign investors' portfolio amounted to PLN 157.9bn, which constituted 23.5% share in total debt in Treasury securities (23.7% in the previous month).



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

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

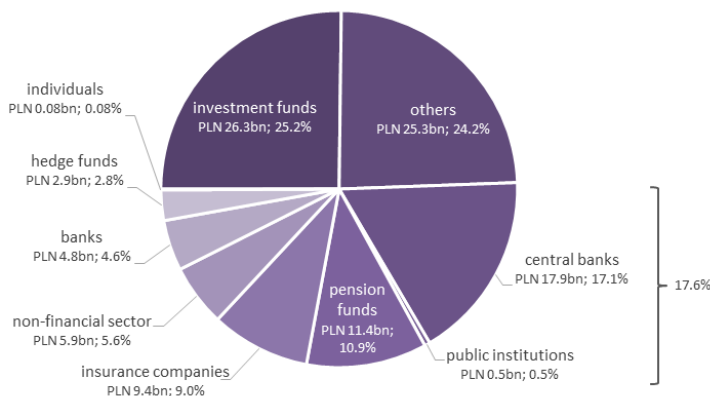
In November 2019 the highest increase was recorded by eurozone investors (PLN 0.3bn), while the highest decrease was noted by Asian investors (PLN 1.5bn).



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

as of November 30, 2019, the chart presents data excluding omnibus accounts

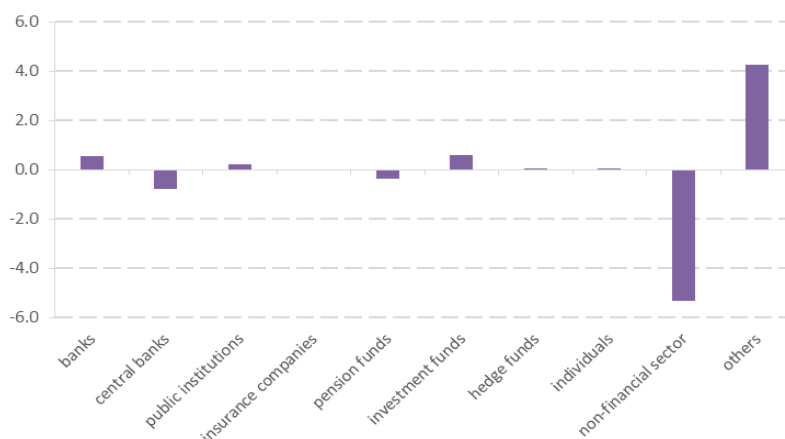
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 17.6% at the end of November 2019.



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

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

In November 2019 the highest increase was recorded by investors from the category "others" (PLN 4.3bn) and the highest decrease was noted by investors from the non-financial sector (PLN 5.3bn).



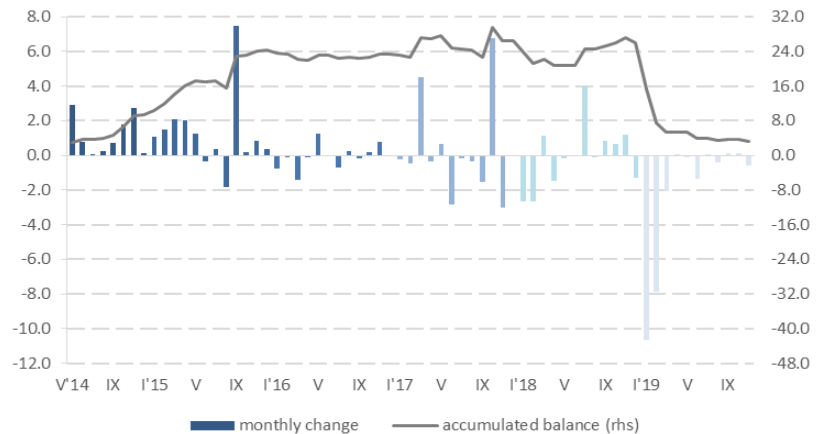


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in November 2019, PLN bn

Central banks and public institutions' involvement decreased by PLN 0.6bn in November 2019. In the period from the end of April 2014 to the end of November 2019, for which the detailed information is available, portfolios of those entities increased by PLN 3.3bn.



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

as of November 30, 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	22 637.6	26.1%
Luxembourg	13 269.5	15.3%
Netherlands	8 234.9	9.5%
Ireland	6 901.6	8.0%
United States	6 649.6	7.7%
Germany	6 182.8	7.1%
United Kingdom	4 235.0	4.9%
Hong Kong	2 212.1	2.6%
United Arab Emirates	2 105.8	2.4%
France	1 838.7	2.1%
Switzerland	1 456.2	1.7%
Australia	1 126.7	1.3%
Italy	1 057.7	1.2%
Denmark	952.5	1.1%
Others	7 711.4	8.9%
Total	86 572.2	100.0%

Comment

Piotr Nowak, Undersecretary of State, MoF

31-12-2019

(...) In January we are going to hold two T-bond sale auctions and no T-bill auctions. In the first quarter we plan to organize from 4 to 5 sale auctions and up to 2 switching auctions.

In November indebtedness in domestic Treasury securities increased by PLN 0.9bn. Involvement of domestic banks increased by PLN 1.4bn and in the case of domestic non-banking sector – by PLN 0.7bn. The involvement of non-residents decreased by PLN 1.3bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q1 2020



General assumptions

- in the first quarter of 2020 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 situation,
- the announced plan may be modified subject to the market situation.

Offer of T-bonds on the domestic market

- **sale auctions:**
between four and five auctions, total supply of PLN 17.0-27.0bn, the structure of T-bonds to be offered will be subject to the market situation,
- **switch auctions:**
in January auction is not planned, up to two auctions possible in February and/or March (subject to the budget and market situation) – T-bonds maturing in 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 EUR 0.1bn,
- possible private placement issuances.



V. SUPPLY PLAN OF TREASURY SECURITIES IN JANUARY 2020

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
9 JAN 2020	13 JAN 2020	OK0722 / PS1024 / WZ0525 / DS1029 / WZ1129 / WS0447	3,000-5,000*
24 JAN 2020	28 JAN 2020	OK0722 / PS1024 / WZ0525 / DS1029 / WZ1129 / possible T-bond either of WS or IZ type	3,000-8,000

The final offer and the supply will be announced 2 days before the auction, taking into account the market situation and consultations with investors.

After the auction bonds will be offered within additional sale at a minimum accepted clean price.

** At the sale auction and within the additional sale on January 9, 2020 the Ministry of Finance sold T-bonds in the total amount of 5.8bn, of which: OK0722 - PLN 0.4bn, PS1024 - PLN 2.0bn, WZ0525 - PLN 1.6bn, DS1029 - PLN 1.5bn, WZ1129 - PLN 0.1bn, WS0447 - PLN 0.2bn.*

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0420 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 1.50% per year
DOS0122 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 2.10%
TOZ0123 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 2.20% in the first coupon period
COI0124 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.25%); 2.40% in the first coupon period
EDO0130 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.50%); 2.70% in the first coupon period
ROS0126 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.75%); 2.80% in the first coupon period
ROD0132 family bonds 12-year	100.00 PLN	Floating (inflation rate + 2.00%); 3.20% in the first coupon period