

State budget borrowing requirements' financing plan and its background

1st quarter 2021
January 2021

THE MOST IMPORTANT INFORMATION

I. Current macroeconomic situation	2-3
II. Statistical data	4
III. Background of borrowing requirements' financing	5-10
• MoF's comment	10
IV. Quarterly supply plan of Treasury securities	11
V. Monthly supply plan of Treasury securities	12

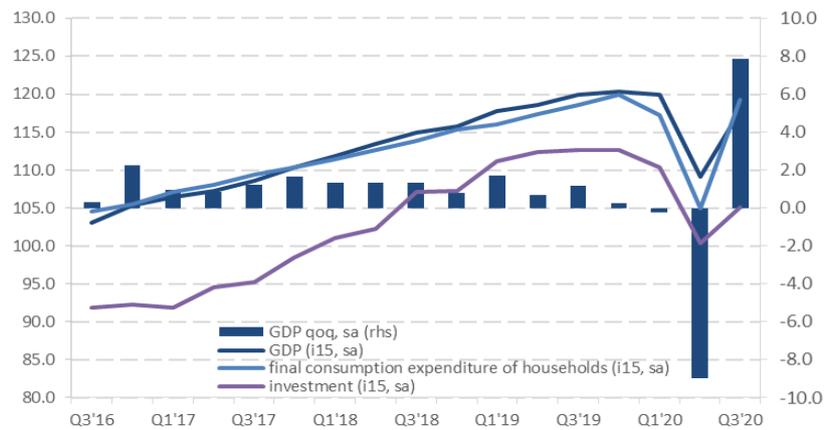


I. MACROECONOMIC SITUATION

Gross domestic product of Poland

constant prices
source: GUS, Eurostat

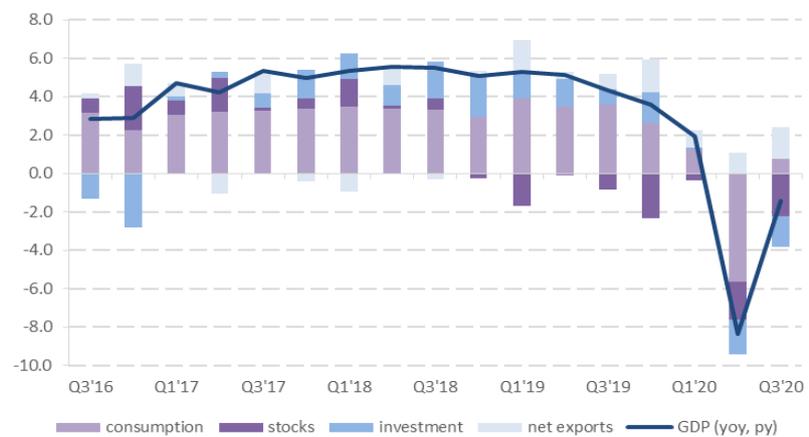
In the third quarter of 2020 GDP rebounded by 7.9% (qoq, sa) after a decrease by 9.0% a quarter earlier. In effect Polish economy bounced back from the recession, but has not returned to the pre-pandemic state yet. Consumption in the household sector increased by 13.7% (qoq, sa). Foreign trade also witnessed a major recovery with exports and imports rising by 21.1% and 22.3% (qoq, sa), respectively. On the other hand, investment remained relatively weak and went up only by 4.7% (qoq, sa).



Contributions to Polish GDP growth

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

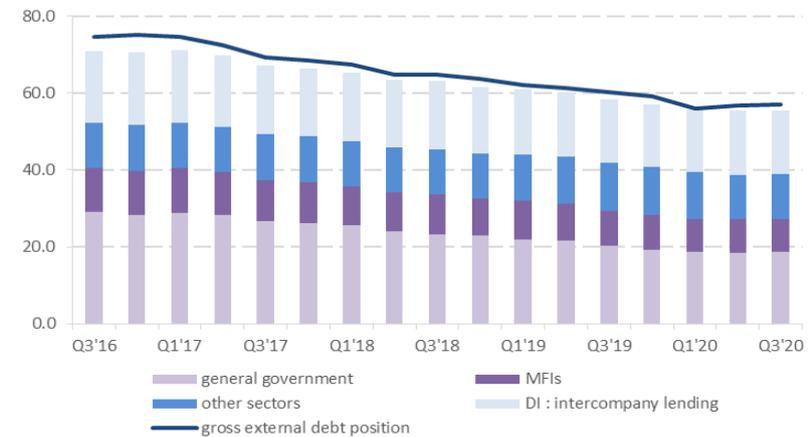
In the third quarter of 2020 GDP was 1.5% (py) lower than in the previous year. Household and public consumption increased by 0.4% and 3.4% (yoy, py), respectively. Exports were also higher than in the previous year. Imports, on the other hand, were slightly lower, which led to positive contribution of foreign trade (1.6 pp). This was fully offset by negative contribution of stocks (2.3 pp). Investment was still lower than in the same period of 2019.



Polish gross external debt position

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

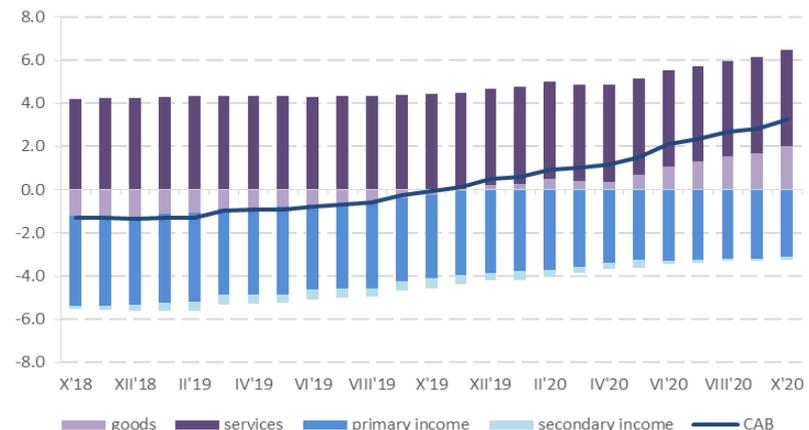
At the end of the third quarter of 2020 gross external debt reached EUR 300.7bn (57.1% of GDP) and was EUR 1.4bn higher than in the previous quarter. The share of general government sector debt in total debt increased to 32.6%. At the end of October 2020 official reserve assets reached EUR 122.6bn and remained broadly adequate, covering nearly 6 months of imports.



Current account balance

percent of GDP, in 12-month terms
source: NBP, GUS, MoF own calculation

In October 2020, taking into account revised quarterly data, current account surplus increased to 3.2% of GDP (in 12-month terms). Following the rebound of economic activity after the lockdown in Poland's key trade partners exports dynamics improved. In consequence its level was again slightly higher than in the corresponding month of the previous year. Imports dynamics were still lower than exports, influenced by low oil prices. Financial results of companies remained weaker than a year ago due to decreasing foreign direct investors' income on their capital involvement in Polish entities in consequence reducing primary income deficit.





Harmonised unemployment rate

percent, seasonally adjusted data
source: Eurostat

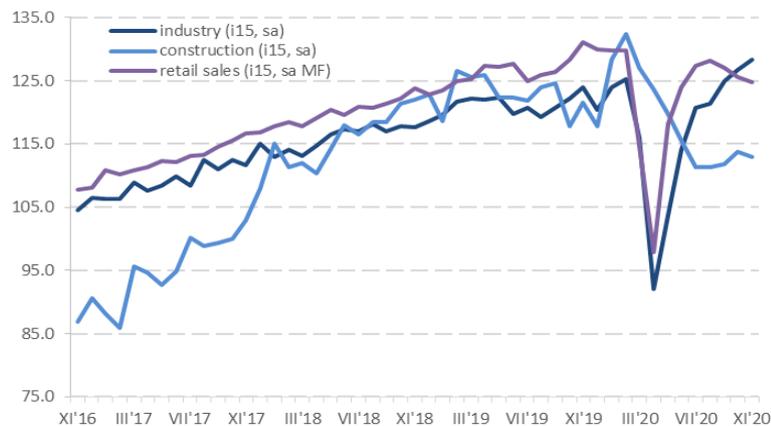
After stabilization in four earlier months, in October 2020 harmonised unemployment rate slightly increased to 3.5% and was 0.5 pp higher than a year ago. The level was the highest in over one and a half years. It was lower than in the EU-27 on average (7.6%) and eurozone (8.4%).



Monthly indicators of the real sector

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

In November 2020 industrial production increased by 1.2% (mom, sa) and was 5.4% higher than a year ago (nsa). Data were above market expectations. Construction production decreased by only 0.7% (mom, sa), after a relatively large increase a month ago. As a result, production level was 4.9% lower than in the previous year (nsa). Data were close to market expectations. Retail sales decreased for the third time in a row (mom, sa MF). The rate of decline was milder than a month ago, despite the fact that in November trade was more restricted (eg. closed shopping malls) than in October. As a result, sales were 5.3% lower than a year ago (nsa). Data were above market expectations.



Inflation

percent, yoy
source: GUS, NBP

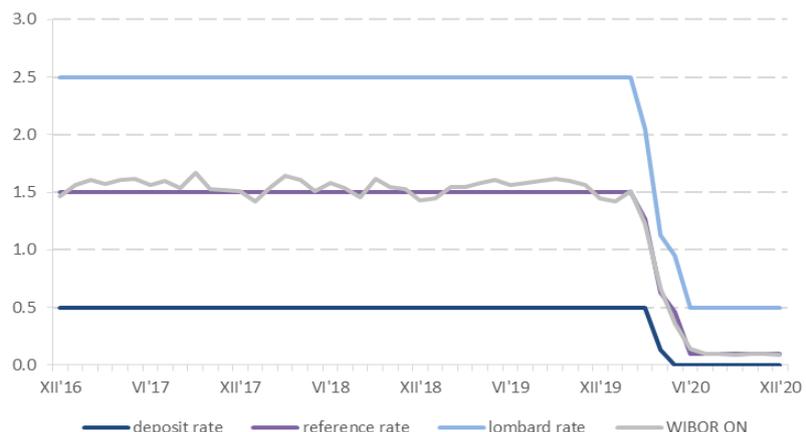
In last months CPI inflation stabilized at the level close to 3% (in November 3.0% yoy) and stayed within the upper range of acceptable deviation from the inflation target. There was considerably lower pace of growth of food prices but core inflation (CPI excluding food and energy prices) is still high and in November it amounted to 4.3% (yoy). Data were close to the market expectations. Producer prices in last nine months stayed below the previous year level, but in last two months the scale of a drop was considerably lower (0.2% yoy in November).



NBP interest rates

percent, end of period
source: NBP, Refinitiv

In December 2020 the MPC kept NBP 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 the period of March-May 2020 the reference rate was lowered by 140 bps in total. The Council believes that cuts in key interest rates along with purchases of bonds by NBP in the secondary market mitigate the negative economic impact of the pandemic, support economic activity and stabilise inflation at the level consistent with the NBP medium-term inflation target.



II. STATISTICAL DATA

	Unit	2019			2020		
		Q02	Q03	Q04	Q01	Q02	Q03
GDP							
Gross domestic product	YoY	5.1	4.4	3.6	1.9	-8.4	-1.5
	QoQ SA	0.7	1.2	0.2	-0.3	-9.0	7.9
Final consumption expenditure of the households sector	YoY	4.4	4.1	3.6	1.2	-10.8	0.4
	QoQ SA	1.2	1.1	1.0	-2.2	-10.5	13.7
Final consumption expenditure of the general government sector	YoY	5.5	6.8	4.5	2.6	3.4	3.4
	QoQ SA	0.9	1.2	0.7	0.6	0.9	0.9
Gross fixed capital formation	YoY	8.7	4.3	6.2	0.9	-10.7	-9.0
	QoQ SA	1.2	0.2	0.0	-2.1	-9.0	4.7
Exports of goods and services	YoY	3.7	5.5	3.0	2.0	-14.5	2.0
	QoQ SA	-0.8	1.9	0.1	0.8	-16.7	21.1
Imports of goods and services	YoY	3.4	4.3	-0.3	0.4	-18.0	-1.0
	QoQ SA	0.2	0.5	-0.5	0.0	-18.4	22.3
Gross value added	YoY	5.1	4.2	3.5	1.9	-8.1	-1.7
	QoQ SA	1.0	0.9	0.7	-0.9	-9.2	7.9
Contribution to GDP growth							
Final consumption expenditure of the households sector	pp	2.6	2.4	1.8	0.8	-6.2	0.2
Final consumption expenditure of the general government sector	pp	0.9	1.2	0.9	0.4	0.5	0.6
Gross fixed capital formation	pp	1.4	0.8	1.6	0.1	-1.8	-1.7
Changes in inventories	pp	-0.1	-0.8	-2.4	-0.3	-2.0	-2.3
Balance of trade turnover	pp	0.3	0.8	1.7	0.9	1.1	1.7
Gross value added	pp	4.4	3.7	3.1	1.7	-7.1	-1.6
Taxes less subsidies	pp	0.7	0.7	0.5	0.2	-1.3	0.1
GDP structure							
Final consumption expenditure of the households sector	% of GDP	57.8	58.3	50.0	61.6	55.6	59.1
Final consumption expenditure of the general government sector	% of GDP	17.5	17.6	19.3	17.7	19.4	18.4
Gross fixed capital formation	% of GDP	16.7	17.5	25.3	12.9	15.9	16.0
Changes in inventories	% of GDP	2.4	1.2	-0.1	1.2	0.3	-1.0
Exports of goods and services	% of GDP	56.7	55.7	51.7	57.3	52.0	56.1
Imports of goods and services	% of GDP	52.0	51.2	46.8	51.6	44.2	49.5
	Unit	2020					
		M06	M07	M08	M09	M10	M11
Balance of payments							
Goods: exports (EUR)	YoY	3.9	1.7	1.9	6.1	3.7	-
Goods: imports (EUR)	YoY	-7.4	-4.3	-4.7	1.8	-3.5	-
Current account balance ¹⁾	% of GDP	2.1	2.4	2.7	2.8	3.2	-
Balance on goods ¹⁾	% of GDP	1.1	1.3	1.5	1.7	2.0	-
Official Reserve Assets	EUR m	115 057.5	116 100.8	116 822.1	119 127.0	122 588.6	120 499.1
Inflation							
Consumer Price Index (CPI)	YoY	3.3	3.0	2.9	3.2	3.1	3.0
Core inflation (CPI excluding food and energy prices)	YoY	4.1	4.3	4.0	4.3	4.2	4.3
Producer Price Index (PPI)	YoY	-0.8	-0.6	-1.3	-1.4	-0.4	-0.2
Production							
Sold production of industry ²⁾	YoY	0.5	1.1	1.5	5.7	1.0	5.4
	MoM SA	9.9	5.8	0.6	2.9	1.5	1.2
Construction and assembly production ²⁾	YoY	-2.3	-11.0	-12.0	-9.8	-5.8	-4.9
	MoM SA	-3.4	-3.6	-0.1	0.5	1.6	-0.7
Manufacturing PMI	SA	47.2	52.8	50.6	50.8	50.8	50.8
Households and labour market							
Retail sales ²⁾	YoY	-1.3	3.0	0.5	2.5	-2.3	-5.3
Average paid employment in enterprise sector	YoY	-3.3	-2.3	-1.5	-1.2	-1.0	-1.2
	MoM	0.2	1.1	0.7	0.3	0.1	0.0
Average monthly gross wages and salaries in enterprise sector (real)	YoY	0.2	0.8	1.2	2.4	1.6	1.8
	MoM	2.6	2.0	-0.7	0.4	1.5	0.4
Harmonised unemployment rate (Eurostat)	%, SA	3.4	3.4	3.4	3.4	3.5	-
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							
	Unit	2020					
		M05	M06	M07	M08	M09	M10
State Treasury debt							
State Treasury debt (acc. to the place of issue criterion)	face value, PLN m	1 087 385.8	1 088 191.6	1 094 346.6	1 091 384.9	1 100 124.9	1 103 567.3
Domestic debt	face value, PLN m	834 358.6	835 023.5	838 440.1	836 212.5	836 792.2	830 032.9
	%	76.7	76.7	76.6	76.6	76.1	75.2
Foreign debt	face value, PLN m	253 027.2	253 168.1	255 906.5	255 172.4	263 332.7	273 534.5
	%	23.3	23.3	23.4	23.4	23.9	24.8
	Unit	2019			2020		
		Q02	Q03	Q04	Q01	Q02	Q03
Public debt (domestic definition)							
Public debt (acc. to the place of issue criterion)	face value, PLN m	998 220.7	1 001 190.9	990 948.4	1 045 474.8	1 097 297.7	1 106 285.8
Domestic debt	face value, PLN m	708 264.6	713 568.9	716 183.7	744 617.7	825 498.1	824 076.1
	%	71.0	71.3	72.3	71.2	75.2	74.5
Foreign debt	face value, PLN m	289 956.1	287 622.0	274 764.7	300 857.2	271 799.6	282 209.7
	%	29.0	28.7	27.7	28.8	24.8	25.5
General Government debt (EU definition)							
General Government debt	face value, PLN m	1 051 770.3	1 055 639.7	1 045 391.3	1 103 420.0	1 255 968.7	1 307 258.3

Source: MoF

III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



Gross borrowing requirements in 2021

as of December 31, 2020, PLN bn

Financing of the 2021 State budget borrowing requirements reached the level of ca. 36% (the final level will be known following the closure of the budget year 2020)

Gross borrowing requirements
Total: PLN 283.6 bn, of which:



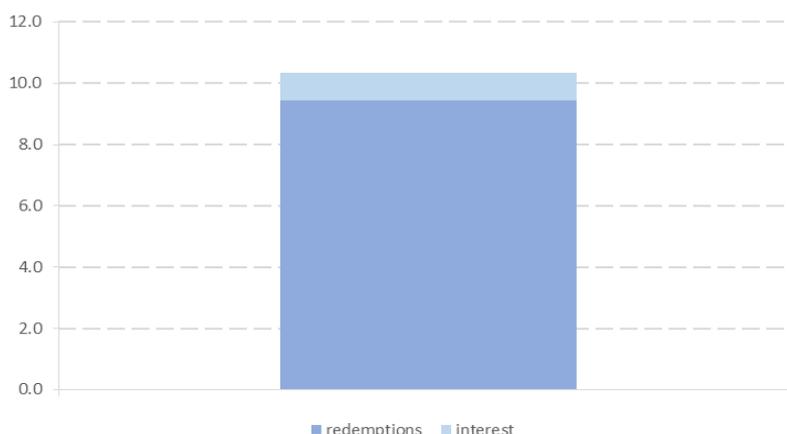
Financing of the borrowing requirements at the level of ca. 36%

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

plan as of December 31, 2020

Value of funds transferred from the State budget to the market in January shall amount to PLN 10.3bn, of which:

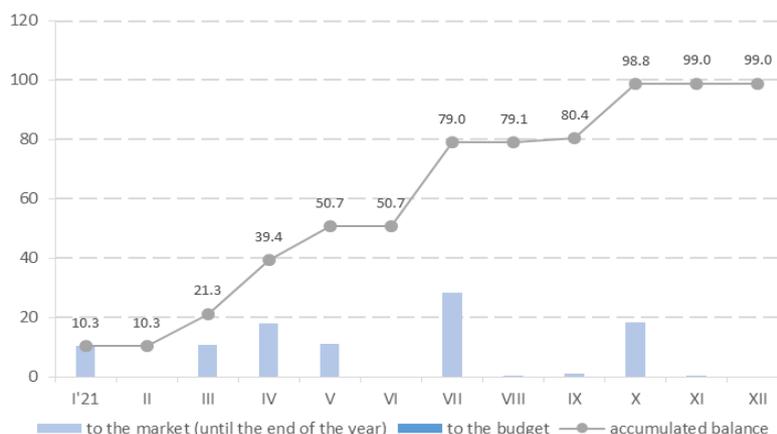
- TS redemptions: PLN 9.4bn,
- interest payments: PLN 0.9bn.



Flows of funds between the domestic market and the budget*

as at the end of month, PLN bn

From January to the end of 2021 the funds to be transferred to the domestic market shall amount to PLN 99.0bn (as of December 31, 2020).



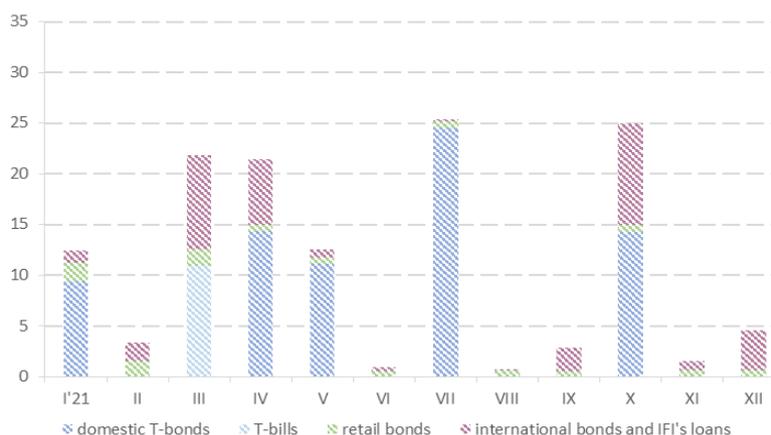
* Figures include sale, redemptions and interest payments on wholesale T-securities; monthly financing plans will depend on market situation and feedback from investors, thus the detailed schedule of monthly flows to the budget in the period of January to the end of 2021 is not presented.

State Treasury debt redemptions in 2021

as at the end of month, nominal amount, PLN bn

The nominal amount of debt to be redeemed in 2021 (as of December 31, 2020) is equal to PLN 132.4bn, including:

- T-bonds: PLN 73.7bn,
- retail bonds: PLN 10.4bn,
- T-bills: PLN 10.9bn
- bonds and loans incurred on foreign markets: PLN 37.3bn.





III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

as of December 31, 2020, nominal amount, PLN bn

Buy-back of T-bonds maturing in 2021:

- WZ0121: PLN 16.6bn (64% of the issuance),
- PS0421: PLN 12.5bn (47% of the issuance),
- OK0521: PLN 5.4bn (32% of the issuance),
- PS0721: PLN 5.6bn (19% of the issuance),
- DS1021: PLN 1.9bn (12% of the issuance).

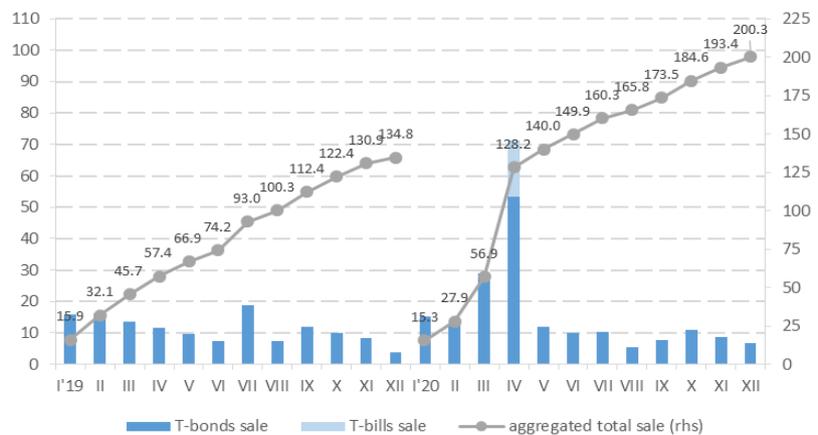


Sale of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

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

- T-bonds amounted to PLN 182.5bn versus PLN 134.8bn in the same period of 2019,
- T-bills amounted to PLN 17.7bn (T-bills were not offered since February 2017).

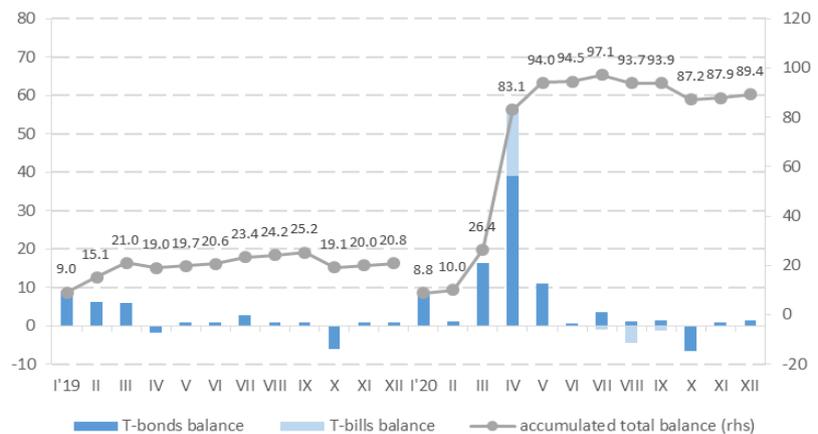


Balance of domestic T-bills and T-bonds in 2019 and 2020

settlement date, nominal amount, PLN bn

In the period of I-XII 2020 indebtedness in:

- T-bonds increased by PLN 78.4bn versus an increase of PLN 20.8bn in the same period of 2019,
- T-bills increased by PLN 10.9bn (T-bills were not offered since February 2017).

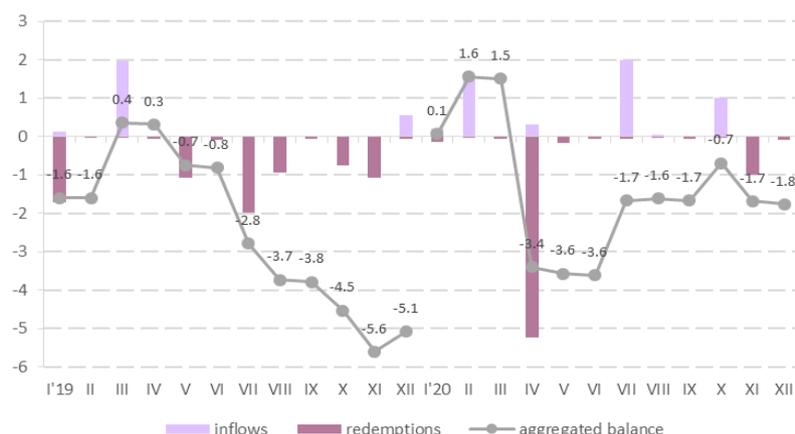


External financing in 2019 and 2020

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

Net financing on foreign markets in the period of I-XII 2020 was negative and amounted to EUR 1.8bn (negative balance of EUR 5.1bn in the same period of 2019) which resulted from:

- negative balance of T-bonds of EUR 1.6bn (negative balance of EUR 3.9bn in the same period of 2019),
- negative balance of loans incurred from IFIs of EUR 1.2bn (negative balance of EUR 1.2bn in the same period of 2019),
- positive balance of loans incurred from European Union under SURE instrument of EUR 1.0bn.



III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

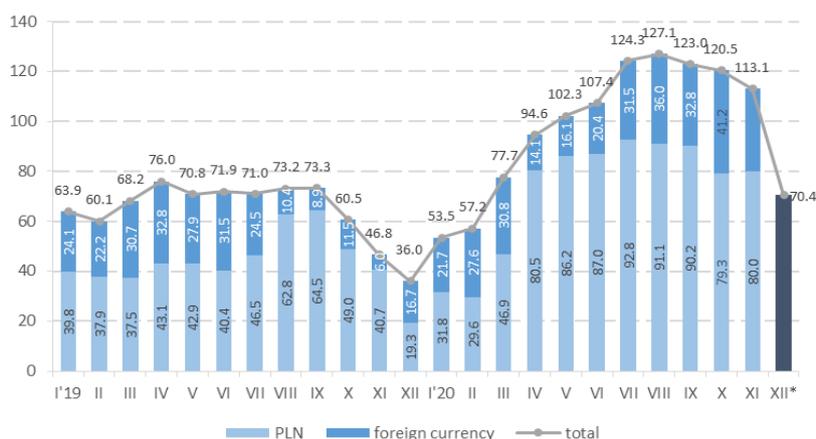


Funds in PLN and foreign currency on the budgetary accounts at the end of month

funds financing the borrowing needs, PLN bn

At the end of December 2020 there was equivalent of PLN 70.4bn on the budgetary accounts. The funds ensure liquidity in the borrowing needs financing.

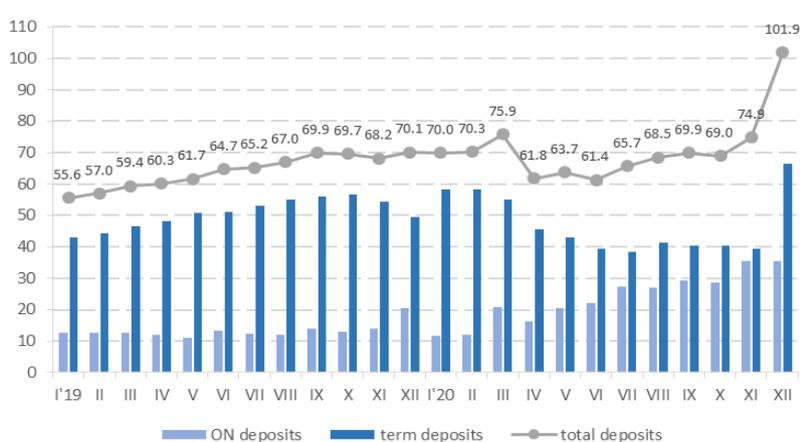
* Estimated data.



Consolidation of public finance sector liquidity management

PLN bn

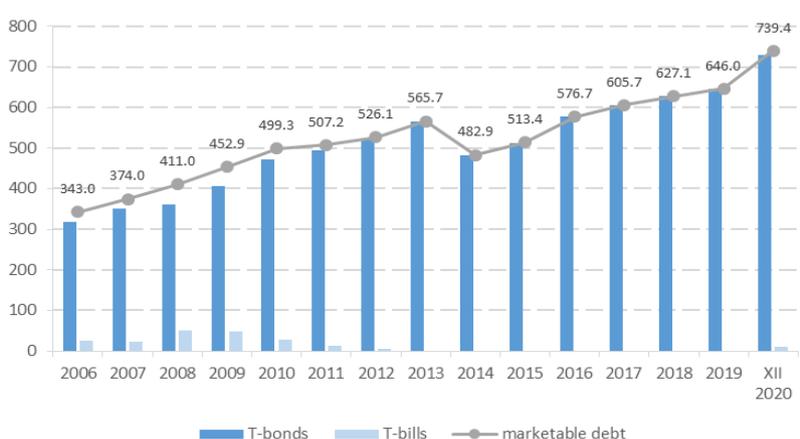
As a result of consolidation of the public finance sector liquidity management there were PLN 101.9bn funds accumulated at the end of December 2020, of which: PLN 66.3bn was on term deposits and PLN 35.6bn on ON deposits.



Structure of domestic marketable debt

PLN bn

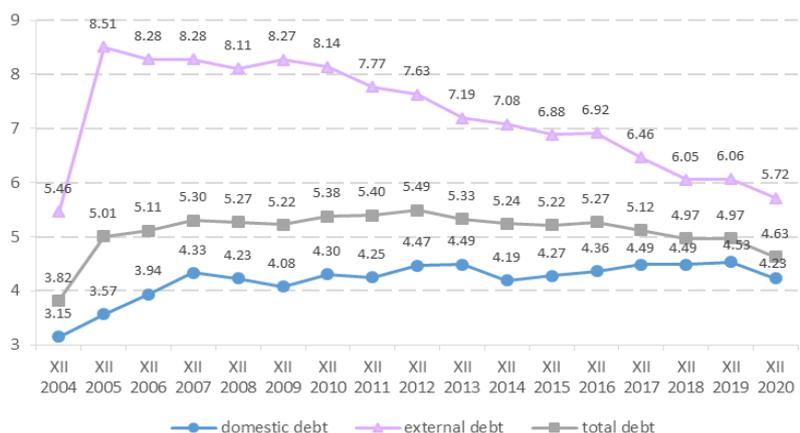
The marketable domestic debt amounted to PLN 739.4bn at the end of December 2020 comparing to PLN 646.0bn at the end of 2019.



Average maturity

years

The average maturity of the domestic debt amounted to 4.23 years at the end of December 2020 (4.53 years at the end of 2019). The average of the total debt amounted to 4.63 years (4.97 years at the end of 2019).

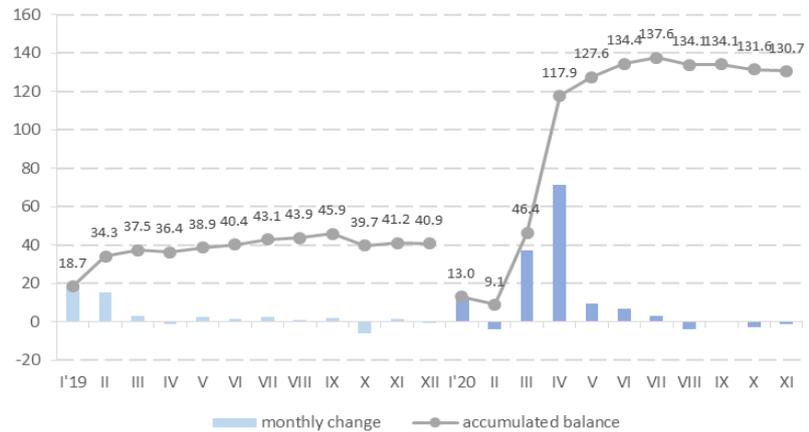




III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

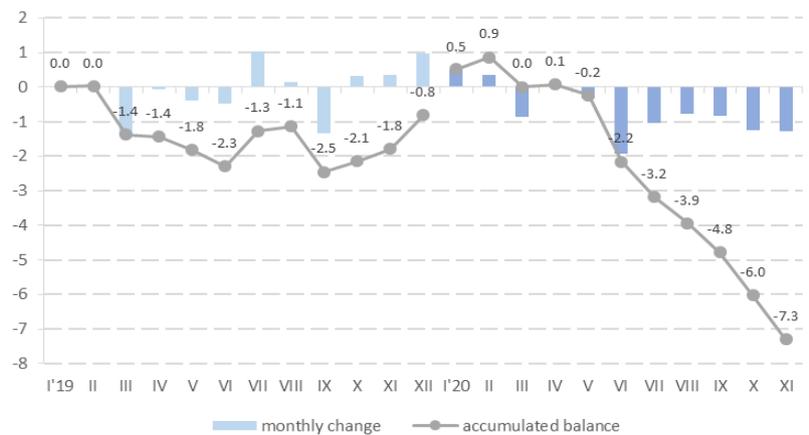
Change of debt in the domestic Treasury securities held by banks PLN bn

In the period of I-XI 2020 there was an increase of debt by PLN 130.7bn comparing to PLN 41.2bn increase during the same period of 2019. Banks' holdings reached the level of PLN 435.6bn.



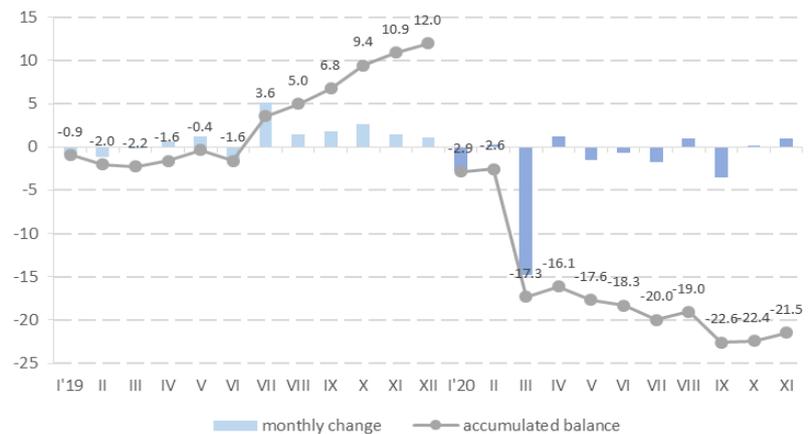
Change of debt in the domestic Treasury securities held by insurance companies PLN bn

In the period of I-XI 2020 there was a decrease of debt by PLN 7.3bn comparing to PLN 1.8bn decrease in debt during the same period of 2019. Insurance companies' holdings reached the level of PLN 57.0bn.



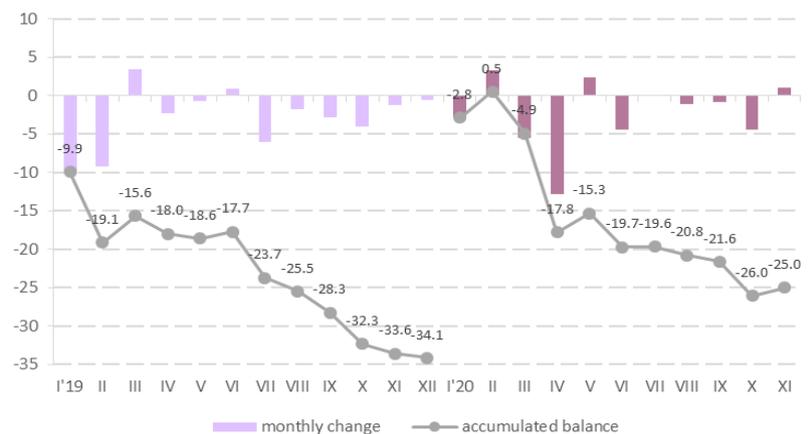
Change of debt in the domestic Treasury securities held by investment funds PLN bn

In the period of I-XI 2020 there was a decrease of debt by PLN 21.5bn comparing to PLN 10.9bn increase in the same period of 2019. Investment funds' holdings reached the level of PLN 45.9bn.



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

In the period of I-XI 2020 there was a decrease of debt by PLN 25.0bn comparing to PLN 33.6bn decrease in the same period of 2019. Foreign investors' holdings reached the level of PLN 132.3bn.



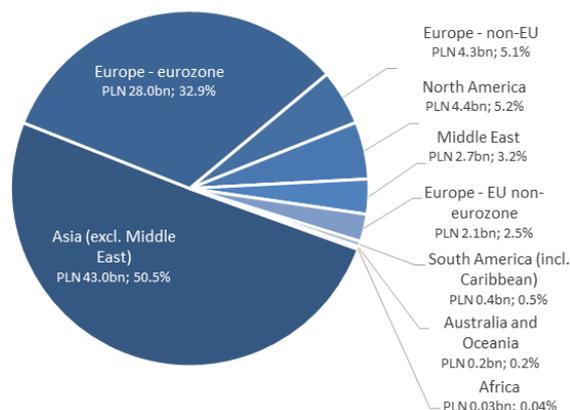
III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING



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

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

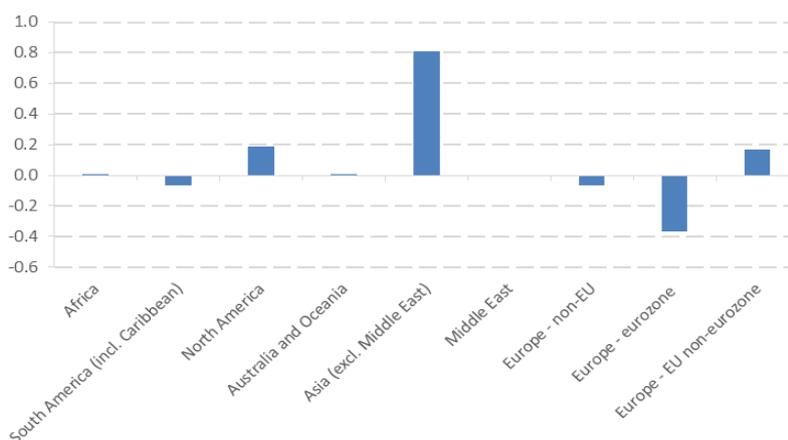
The non-residents' share in the domestic Treasury securities market increased by PLN 1.1bn in November 2020. The foreign investors' portfolio amounted to PLN 132.3bn, which constituted 16.9% share in total debt in Treasury securities (16.9% in the previous month).



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

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

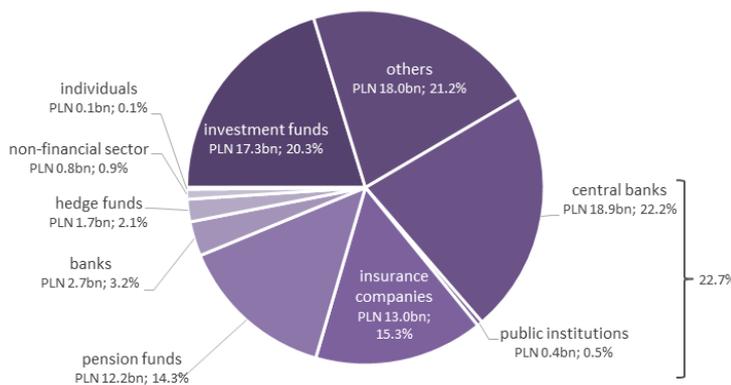
In November 2020 the highest increase was recorded by Asian investors (excl. Middle East) (PLN 0.8bn), while the highest decrease was noted by eurozone investors (PLN 0.4bn).



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

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

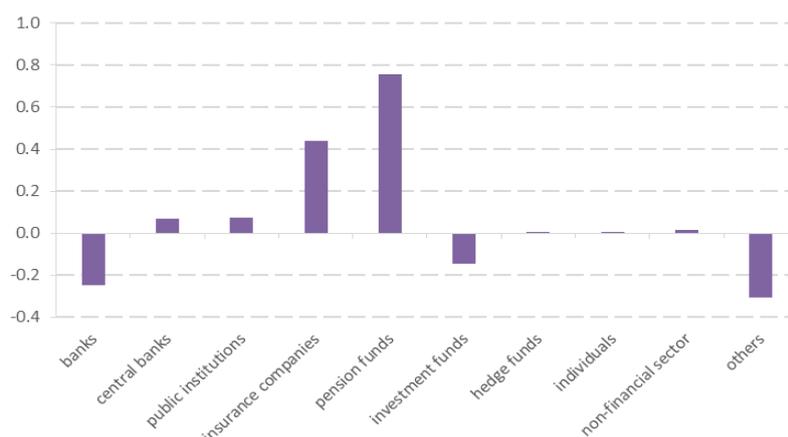
Institutional structure of domestic Treasury securities held by non-residents, as well as geographical distribution, is well-diversified. The central banks and public institutions' share in foreign holdings amounted to 22.7% at the end of November 2020.



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

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

In November 2020 the highest increase was recorded by pension funds (PLN 0.7bn), while the highest decrease was noted by investors categorized as "others" (PLN 0.3bn).



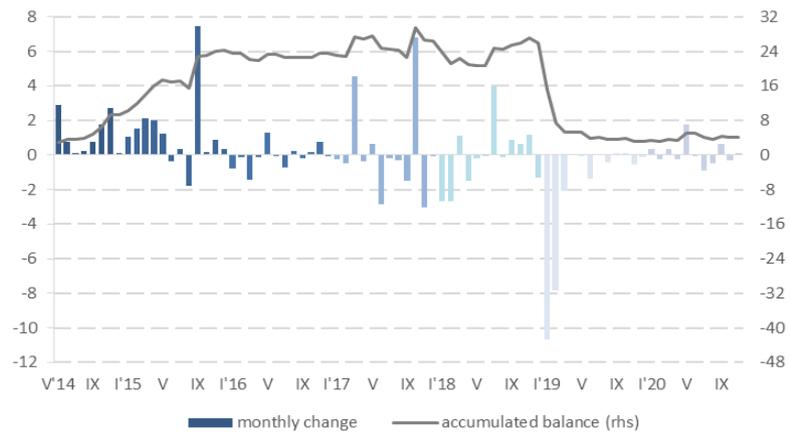


III. BACKGROUND OF BORROWING REQUIREMENTS' FINANCING

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

change in November 2020, PLN bn

Central banks and public institutions' involvement increased by PLN 0.1bn in November 2020. In the period from the end of April 2014 to the end of November 2020, for which the detailed information is available, portfolios of those entities increased by PLN 4.2bn.



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

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

Countries	Outstanding in nominal value (PLN m)	Share in non-residents holdings
Japan	23 128.4	34.9%
Luxembourg	8 244.9	12.4%
Netherlands	7 261.3	10.9%
Germany	4 901.1	7.4%
Ireland	4 791.3	7.2%
United States	3 694.0	5.6%
United Kingdom	2 741.2	4.1%
Switzerland	1 315.2	2.0%
United Arab Emirates	1 303.0	2.0%
France	1 004.6	1.5%
Denmark	826.3	1.2%
Italy	813.8	1.2%
Hong Kong	781.7	1.2%
Bulgaria	672.7	1.0%
Others	4 836.8	7.3%
Total	66 316.8	100.0%

Comment

Sebastian Skuza, Secretary of State, MoF

31-12-2020

The level of prefinancing of the 2021 gross borrowing requirements done in 2020 is initially estimated at above 30%. Liquid funds on the budgetary accounts shall exceed PLN 60bn at the end of the year. The final figures will be known following the closure of the budget year.

In January we plan to hold two T-bond sale auctions. No T-bill auctions are planned. 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 0.8bn. The involvement of foreign investors increased by PLN 1.1bn and in the case of domestic non-banking sector – by PLN 0.6bn, while the involvement of domestic banks decreased by PLN 0.9bn.

IV. SUPPLY PLAN OF TREASURY SECURITIES FOR Q1 2021



General assumptions

- in the first quarter of 2021 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 four and five auctions, total supply PLN 25.0-35.0bn, the structure of the sold T-bonds 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) – securities offered to repurchase would be T-bonds maturing in 2021.

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 up to EUR 0.2bn,
- possible loans from the EU under the instrument for temporary support to mitigate unemployment risks in an emergency (SURE).



V. SUPPLY PLAN OF TREASURY SECURITIES IN JANUARY 2021

T-bond sale auctions

Auction date	Settlement date	Series	Planned offer (PLN m)
7 JAN 2021	11 JAN 2021	OK0423 / PS0425 / DS1030 / WZ1126 / WZ1131	4.000-6.000
22 JAN 2021	26 JAN 2021	OK0423 / PS0425 / DS1030 / WZ1126 / WZ1131 / possible T-bond either of WS or IZ type	5.000-9.000

*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.*

T-bond switching auctions

Switching auctions of Treasury bonds are not planned.

T-bill auctions

Sale auctions of Treasury bills are not planned.

Offer on the retail market

T-bond	Issue price	Coupon
OTS0421 3-month	100.00 PLN (100.00 PLN for rolling-over)	Fixed: 0.50% per year
DOS0123 2-year	100.00 PLN (99.90 PLN for rolling-over)	Fixed: 1.00%
TOZ0124 3-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (1.00 * WIBOR 6M); 1.10% in the first coupon period
COI0125 4-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 0.75%); 1.30% in the first coupon period
EDO0131 10-year	100.00 PLN (99.90 PLN for rolling-over)	Floating (inflation rate + 1.00%); 1.70% in the first coupon period
ROS0127 family bonds 6-year	100.00 PLN	Floating (inflation rate + 1.25%); 1.50% in the first coupon period
ROD0133 family bonds 12-year	100.00 PLN	Floating (inflation rate + 1.50%); 2.00% in the first coupon period