

THE PUBLIC FINANCE SECTOR DEBT MANAGEMENT STRATEGY

in the years 2013-2016

Ministry of Finance

Warsaw, September 2012

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I. INTRODUCTION

Pursuant to Article 75 of the Public Finance Act of August 27, 2009 the Minister of Finance shall be obliged to develop each year a 4-year strategy on managing the State Treasury (ST) debt and its influence on the public debt. This document is presented by the Minister of Finance to the Council of Ministers for its approval, and then it is submitted by the Council of Ministers to the Sejm, together with the justification to the draft Budget Act.

Public debt management is conducted at two levels:

- in a broader sense, debt management is part of the fiscal policy and covers decisions on what portion of State expenditures is to be financed through debt, hence what the level of public debt should be (this aspect is discussed in documents devoted to the government economic programme which are updated on a yearly basis, especially in the justification to the draft Budget Act and the Convergence Programme Update);
- in a narrower sense, debt management means determining the way of financing the State borrowing requirements and designing the debt structure by selecting markets, instruments and dates of issuance.

The Public Finance Sector Debt Management Strategy in the Years 2013-2016 contains forecasts of public debt levels which are consistent with the fiscal policy assumptions of the draft Budget Act for 2013; however, its objectives and tasks refer to public debt management in a narrower sense. The projections of public debt included in this Strategy differ from those presented in the following documents approved by the Council of Ministers: *The Convergence Programme. 2012 Update*. (adopted in April 2012) and Multiannual State Financial Plan (adopted in May 2012) due to changes in the macroeconomic environment, affecting the market variables and the fiscal situation in Poland.

Table 1. Public debt and debt servicing costs – key forecasts of the Strategy

Item	2011	2012	2013	2014	2015	2016
	(execution)					
1. Public debt						
a) PLN bn	815.3	845.8	867.6	893.3	941.5	991.4
b) in relation to GDP	53.5%	52.4%	51.4%	50.5%	50.2%	49.6%
2. General government debt						
a) PLN bn	859.0	894.7	920.9	944.8	990.0	1 039.0
b) in relation to GDP	56.3%	55.5%	54.5%	53.4%	52.8%	52.0%
3. State Treasury debt servicing costs						
a) PLN bn	36.0	43.0	43.5	42.3 - 42.8	42.5 – 44.0	43.4 - 45.4
b) in relation to GDP	2.36%	2.67%	2.58%	2.39% - 2.42%	2.27% - 2.34%	2.17% - 2.27%

Pursuant to the Public Finance Act, exceeding the 50% threshold by the ST debt-to-GDP ratio in 2011 shall necessitate the adoption of a budget deficit-to-revenues ratio in the Budget Act for the year 2013 not higher than that assumed in the budget for the year 2012. This ratio assumed in the Budget Act for the year 2012 was 11.9%. The ratio assumed in the draft Budget Act for the year 2013 is also 11.9%. This restriction will have an impact on the budgets for subsequent years.

In 2012, a decrease in the debt-to-GDP ratio from 53.5% at the end of 2011 to 52.4% is expected. Under the adopted assumptions, in the years 2013-2016, the debt-to-GDP ratio is expected to be lower, and it will decrease below the 50% threshold in 2016. The general government debt-to-GDP ratio is expected to decrease as well. In the timeframe of the *Strategy* the ratio will reach 52.0%. No threat is expected for this ratio to exceed the 60% threshold stipulated in the Treaty of Maastricht in the *Strategy's* horizon.

It is assumed in the *Strategy* that the ST debt servicing costs-to-GDP ratio is expected to increase from 2.4% in 2011 to 2.7% in 2012, and then it is expected to decrease gradually, depending on market variables, to 2.2%-2.3% in 2016.

This *Strategy* is to a large extent a continuation of the strategy drawn up last year. The objective of minimisation of the long-term debt servicing costs subject to risk constraints remains valid, as well as three interconnected tasks: to increase the liquidity, efficiency and transparency of the Treasury securities (TS) market.

The following has been assumed for the accomplishment of the *Strategy's* objective for the years 2013-2016:

- the flexible approach towards shaping the financing structure in terms of selecting the market, currency and instruments shall be maintained, to the extent that cost minimisation is achieved, subject to the assumed risk limitations and avoiding distortions of monetary policy;
- the domestic market shall remain the main source of financing the State budget borrowing requirements; the share of foreign financing shall not be higher than 30%, with possible temporary deviations due to considerable changes in foreign exchange rates or possibility of borrowing requirements' prefinancing at significantly lower costs than in the domestic market;
- large and liquid fixed rate issue programmes, both in the domestic, as well as the euro and US dollar markets, shall be a priority of the issuance policy;
- the average term to maturity of the domestic debt shall be increased to at least 4.5 years, and the ATM of the total debt shall be minimum 5 years, while the duration of the domestic debt, which has already reached an acceptable level from the perspective of the interest rate risk, shall be maintained in the range of 2.5-3.5 years (in the case of the ATR ratio it shall be 2.8-4.2 years).

The *Strategy* layout has not been changed to a large extent. There are six Annexes with additional information to the main body of the *Strategy*, including a glossary. A list of abbreviations used in the *Strategy* has been added.

II. CHANGES IN VOLUME AND STRUCTURE OF PUBLIC DEBT

The aim of debt management is to design debt structure in the way that enables to minimise its servicing costs in the long run, while keeping risk at the same time at an acceptable level.

Subsequent subchapters present recent changes in the volume of public debt, the structure and servicing costs of the ST debt as well as the volume of contingent liabilities resulting from guarantees and sureties.

II.1. Volume of public debt and the costs of its servicing

Changes in the volume of public debt in the years 2001-2012 resulted mainly from changes in the ST debt. The growth of the nominal value of debt was the result of a relatively high level of State budget borrowing requirements, revenues from privatisation and volatility of the exchange rate of the Polish zloty, as well as the public finance sector liquidity management consolidation. After a period of stabilisation of the public debt-to-GDP ratio in the years 2003-2006 and its temporary decrease in 2007, the public debt-to-GDP ratio rose again in the years 2008-2011, mainly as a result of a considerable increase in the public finance sector borrowing requirements and economic slowdown. In 2011, the increase in public debt was affected to a large extent by FX rate movements due to rapid depreciation of the Polish zloty in the second half of the year. In 2011 and in the first half of 2012, public debt rose by PLN 67.4 billion and PLN 27.3 billion respectively (ST debt increased by PLN 69.3 billion and PLN 28.1 billion respectively).

Chart 1. Public debt volume in years 2001-2012

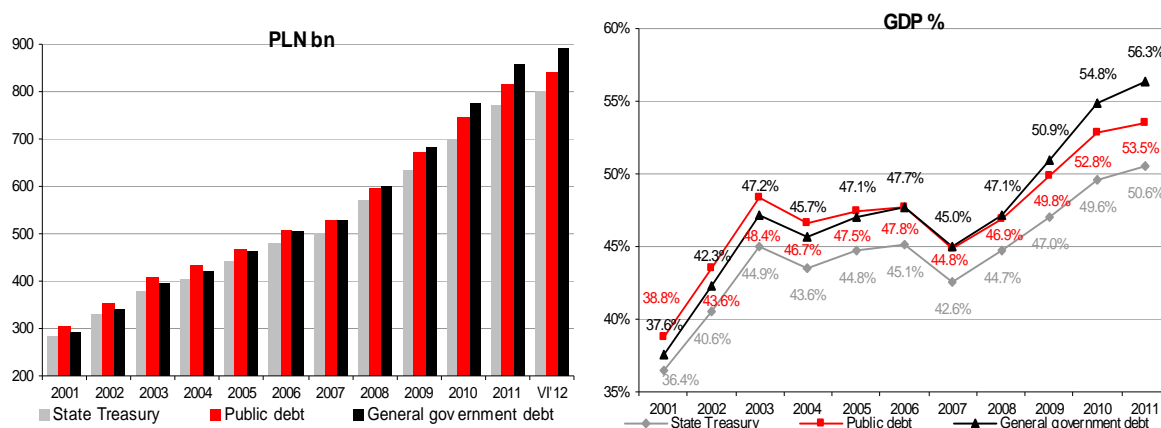
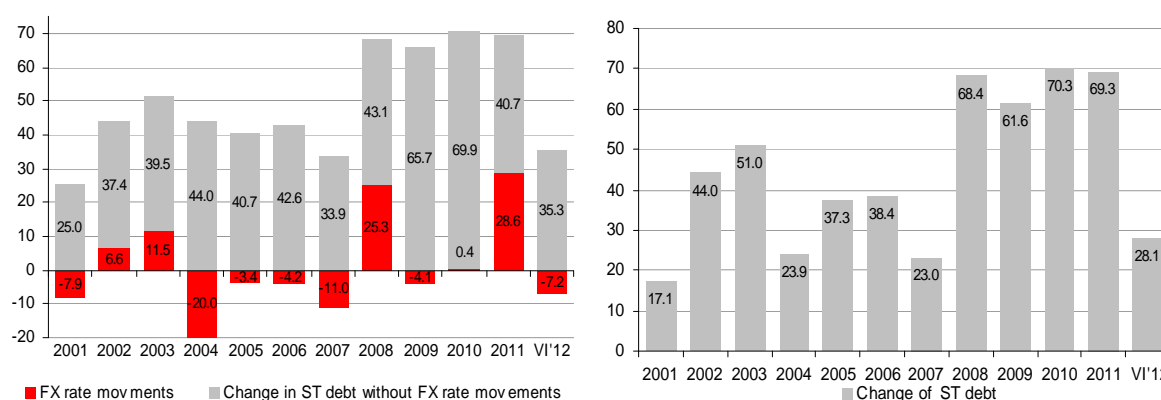


Chart 2. FX rate movements' influence on ST debt movements in years 2001-2012 (PLN bn)



The public debt-to-GDP ratio in accordance with the EU methodology, amounting at the end of 2011 to 56.3% was higher than this ratio for public debt (the difference results primarily from the debt of the National Road Fund, which is included in general government sector according to

the EU methodology), and it was at the same time lower compared to this ratio for the entire EU (82.5%) and for the eurozone (87.2%)¹.

Table 2. Differences in debt-to GDP ratio – Polish vs. EU Methodology (GDP %)

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public debt	38.8	43.6	48.4	46.7	47.5	47.8	44.8	46.9	49.9	52.8	53.5
1) Adjustments In the scope of the sektor, including:	-0.1	-0.2	-0.2	0.0	0.2	0.4	0.5	0.6	1.4	2.3	3.1
Funds managed by Bank Gospodarstwa Krajowego (including National Road Fund)	-	-	-	-	0.1	0.4	0.4	0.5	1.1	1.8	2.4
National Road Fund (acquisition of infrastructure assets) *	-	-	-	-	0.0	0.1	0.2	0.2	0.3	0.6	0.6
Agricultural Market Agency**	0.0	-0.2	-0.1	-	-	-	-	-	-	-	-
2) Differences In debt instruments, including:	-1.1	-1.2	-1.2	-1.0	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2
matured payables	-1.2	-1.3	-1.2	-1.0	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2
General government debt	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.1	50.9	54.8	56.3

*) In compliance with Eurostat guidelines on sector classification of some motorway projects, general government figures include capital expenditures of the projects in question.

**) Due to changes In sources of financing the Agriculture Market agency was incorporated In general government sector in 2004

Table 3. Factors influencing changes of the ST debt-to-GDP ratio (%)

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
State Treasury debt-to-GDP ratio	36.4	40.6	44.9	43.6	44.8	45.1	42.6	44.7	47.0	49.6	50.6
Change of ST debt-to-GDP ratio	0.6	4.1	4.4	-1.4	1.2	0.4	-2.5	2.2	2.3	2.6	1.0
1. State budget borrowing requirements, including:	3.5	5.0	4.4	4.8	4.2	4.1	2.8	3.4	4.3	4.6	1.8
1.1. State budget primary balance	1.5	1.9	1.5	2.0	0.3	-0.3	-1.0	-0.1	-0.6	0.7	-0.7
1.2. ST debt servicing costs	2.7	3.0	2.9	2.5	2.5	2.6	2.3	2.0	2.4	2.4	2.4
1.3. EU funds budget balance	-	-	-	-	-	-	-	-	-	0.7	0.8
1.4. Pension reform costs *	0.0	0.0	0.0	1.1	1.3	1.4	1.4	1.6	1.6	1.6	1.0
1.5. Net proceeds from privatisation	-0.8	-0.2	-0.4	-0.8	-0.3	0.0	-0.1	-0.1	0.0	-0.6	-0.4
1.6. Public finance sector liquidity management	-	-	-	-	-	-	-	-	-	-	-1.6
1.7. Other borrowing requirements **	0.2	0.3	0.4	0.0	0.3	0.4	0.2	0.0	1.0	-0.2	0.3
2. Changes not resulting from State budget borrowing requirements, including:	-0.8	0.7	1.9	-2.2	-0.3	-0.3	-0.7	2.0	0.3	0.4	2.1
2.1. FX rate movements	-1.0	0.8	1.4	-2.2	-0.3	-0.4	-0.9	2.0	-0.3	0.0	1.9
2.2. Other factors ***	0.2	-0.1	0.5	0.0	0.1	0.1	0.2	0.0	0.6	0.3	0.2
3. Changes in other ST debt	-0.5	-0.2	-0.2	0.0	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.7
4. Nominal GDP growth	-1.6	-1.3	-1.7	-4.0	-2.6	-3.2	-4.5	-3.3	-2.4	-2.4	-3.5

*) Funds transferred to Social Security Fund (FUS) as compensation for contributions transferred to open pension funds (OFE)

**) Mainly changes of balance of grantem loans and prefinancing

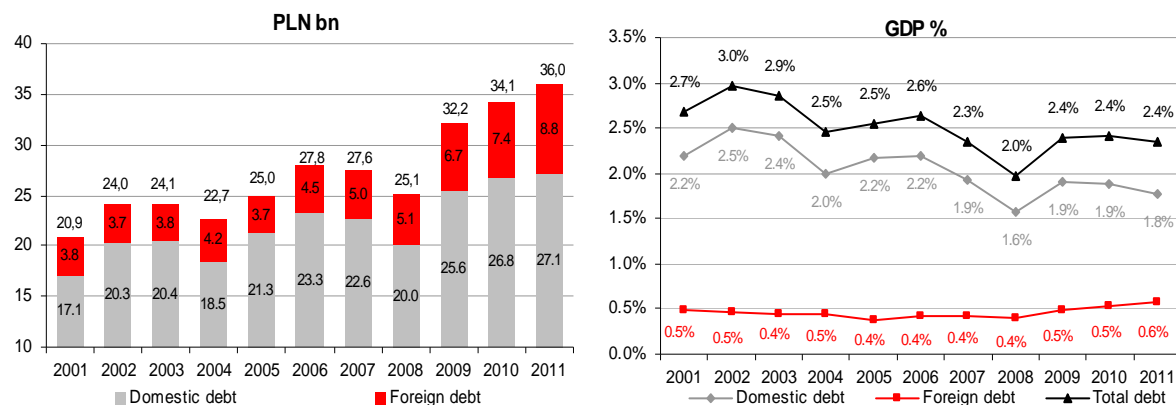
***) Changes of debt that resulted from budget account balance, TS discount, TS capitalization and indexation, off-budget drawings, written off debt, conversion of FUS debt to OFE securities.

Changes in the level of ST debt servicing costs were the result of growth in debt levels as well as changes in interest rates and exchange rates. To eliminate the destabilising effect of variable debt servicing costs on the State budget, measures aimed at smoothing the distribution of debt servicing costs over time were undertaken. These included:

¹ The main differences between the Polish and EU methodology result from matured payables included in liabilities, which constitute public debt in accordance with the Polish methodology and National Road Fund (KFD) debt included in public debt only in the EU methodology. Differences between these both methodologies are presented in Annex 2, while data concerning deficit and debt of the EU Member States are presented in Annex 4.

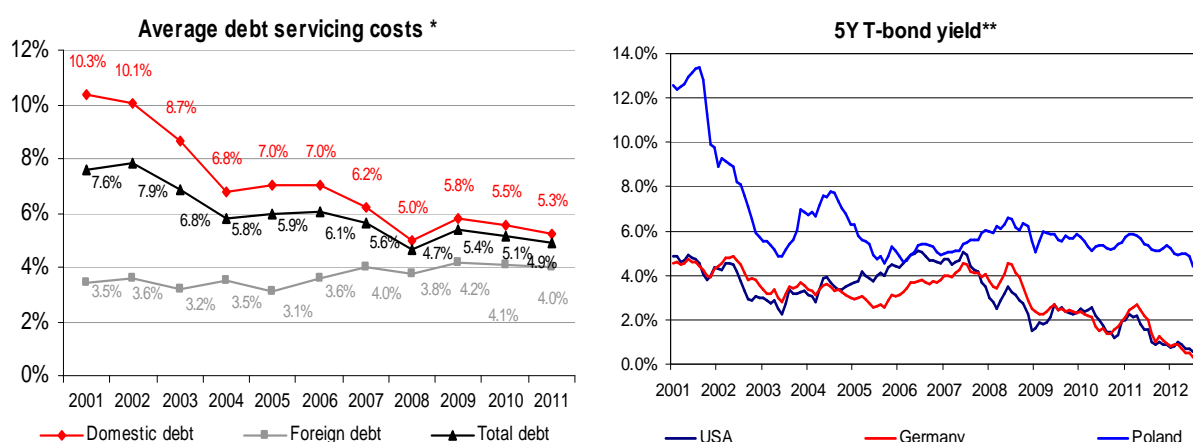
- derivatives - in use since the end of 2006,
- setting bond coupons at levels close to their yields over the sales period so as to minimise accumulation of discount costs at maturity,
- switching auctions, in use since 2001, and buy-back auctions aimed primarily at reducing refinancing risk, but allowing also for the redistribution of debt servicing costs over time.

Chart 3. ST debt servicing costs in years 2001-2012



Foreign debt servicing costs were much lower than those of domestic debt, which, to a lower extent, resulted from the spread between interest rates in the domestic market and major foreign markets and, to a greater extent, from a limited share of foreign debt in total ST debt. A significant increase in foreign debt servicing costs since 2009 resulted from an increased importance of foreign financing and depreciation of the Polish zloty.

Chart 4. Market interest rates and average servicing costs of domestic and foreign debt



*) average ST debt servicing costs were calculated as the ratio of debt servicing costs in particular year to the average debt volume in this year

***) in domestic currency

In spite of an increase in the debt-to-GDP ratio, the ST debt servicing costs-to-GDP ratio has been relatively stable since 2009 and has amounted to ca. 2.4%. Due to the dominant role of fixed-rate instruments, the decrease in interest rates in the domestic market translates into a decrease in domestic debt servicing costs.

II.2. Structure of the State Treasury debt

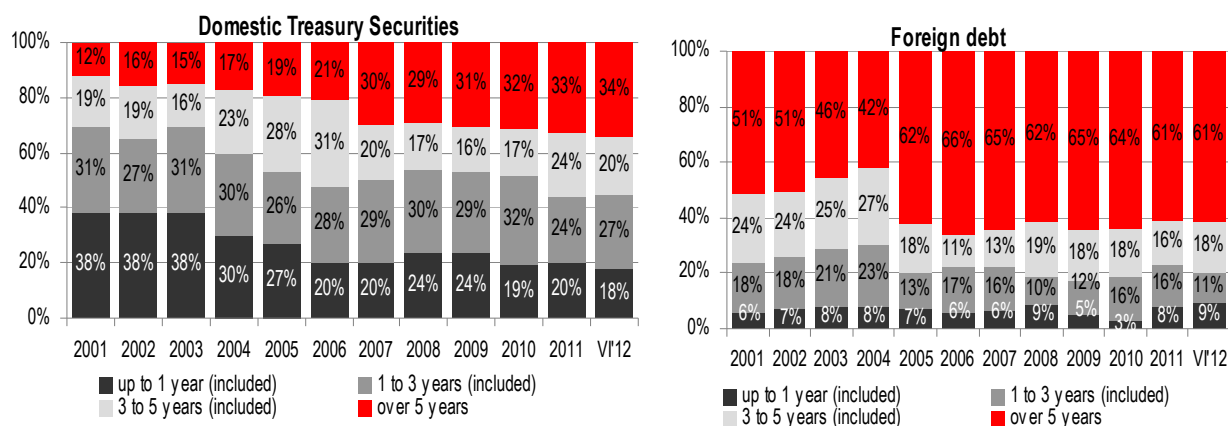
Changes in the ST debt structure were the result of implementing the *Strategy's* objective, i.e. minimisation of debt servicing costs over a longer time horizon subject to risk constraints. The flexible issuance policy and other operations on debt kept the risk connected with the ST debt structure on a safe level.

II.2.1. Refinancing risk

The domestic debt refinancing risk has been gradually reduced since 2004, and has been relatively stabilised since 2007. The risk reduction was a result of:

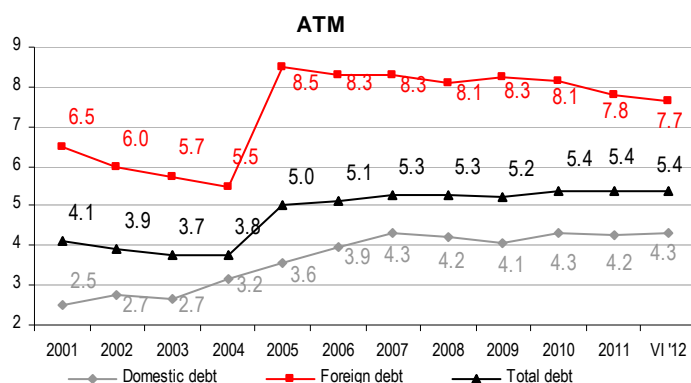
- the importance of medium and long-term bonds in financing the borrowing requirements. The share of bonds with the maturity of 5 years or more in total sales of bonds in regular auctions accounted for 24.4% in 2001 and 65.1% in 2007, respectively². Their share fell to 39.6% in 2008 and to 33.2% in 2009, mainly as a result of a decreased demand for those instruments in connection with the financial crisis, just to increase to 64.0% in the first half of 2012, which was due to a better market outlook and foreign capital inflow.
- changes in outstanding amount of Treasury bills. In the years 2001-2007, the face value of T-bills fell from PLN 35.2 billion to PLN 22.6 billion, and they share in the TS dropped from 20.0% to 5.9%. After the growth recorded in 2008-2009 (up to PLN 64.3 billion, i.e. to 14.3% in domestic TS in July 2009), the outstanding amount of T-bills decreased significantly, and at the end of June 2012 it amounted to PLN 11.7 billion, which accounted for 2.2% of outstanding TS. The fall of T-bills share in TS resulted from both reduced issuances and a number of bill buy-back auctions carried out in 2009-2011;
- significant role of switching auctions. In 2011, bonds with short residual maturities in a record amount of PLN 49.2 billion were bought back, while in the first half of 2012, the value of buy-back auctions was PLN 16.9 billion. Short and medium-term bonds accounted for majority of all the bonds issued in the switching auctions (52% in 2011 and 85% in the first half of 2011).
- pre-financing of the next years the State's borrowing requirements in the 4th quarter of the current year;
- maintaining the liquidity reserve of the State budget. In 2009-2012, the average monthly balance of cash denominated in PLN and foreign currencies managed by the MF amounted to PLN 32.9 billion (cash denominated in foreign currencies includes proceeds from the issuance of debt securities and funds received from the European Commission);

Chart 5. Residual maturity of the ST debt in years 2001-12



² Bills and bonds, including switching and supplementary auctions.

Chart 6. ATM of ST debt In years 2001-2012



In comparison with the domestic debt, the refinancing risk of foreign debt is significantly lower. It was considerably reduced in 2005, due to redemption before maturity of a part of the Paris Club debt which was refinanced by issuing bonds with a significantly longer maturity. Since then, the average term to maturity (ATM) of foreign debt has slightly decreased, from 8.5 years at the end of 2005 to 7.7 in the mid-2012.

A gradual increase in the ATM of the total ST debt from 2004 to 2007 originated from a stable increase in the ATM of domestic debt, which has a dominant share in total debt, and a significant increase in the ATM of foreign debt in 2005. In the following years, the ATM has remained stable.

II.2.2. Foreign exchange risk

Except for a slight increase in 2005, the share of foreign currency debt in total ST debt has been gradually decreasing to 23.3% at the end of the third quarter of 2008, just to increase to 32.0% at the end of 2011. At the end of June 2012, it amounted to 31.4%.

The share of currencies other than the euro was reduced. Since mid-2006, the share of the euro-denominated debt remained in the range of ca. 70% - 75%. At the end of 2011, the share of the euro in total foreign debt decreased to 66.9%, and at the end of June 2012 it grew to 67.4%.

The increase in the share of foreign debt since 2008 that continued in the years 2011-2012 was the result of:

- flexible approach to implementing the objective of minimising the debt servicing costs in the context of foreign exchange risk constraints and allowing for a temporary increase in foreign financing justified by striving towards domestic market stabilisation, diversifying sources of capital and taking advantage of the possibility of issuing bonds with a yield lower than that prevailing in the domestic market and incurring low-interest loans at international financial institutions (IFI),
- volatility of the exchange rate of the Polish zloty; since 2008 the exchange rate of the euro has been fluctuating in the range of 3.2-4.9, while that of the US Dollar in the range of 2.0 to 3.9.

Chart 7. Currency structure of ST debt

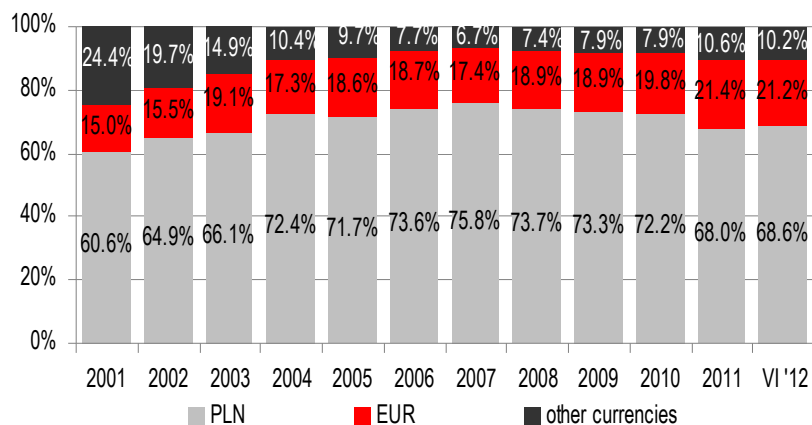


Chart 8. Polish zloty exchange rate against euro and dollar in years 2001-2012

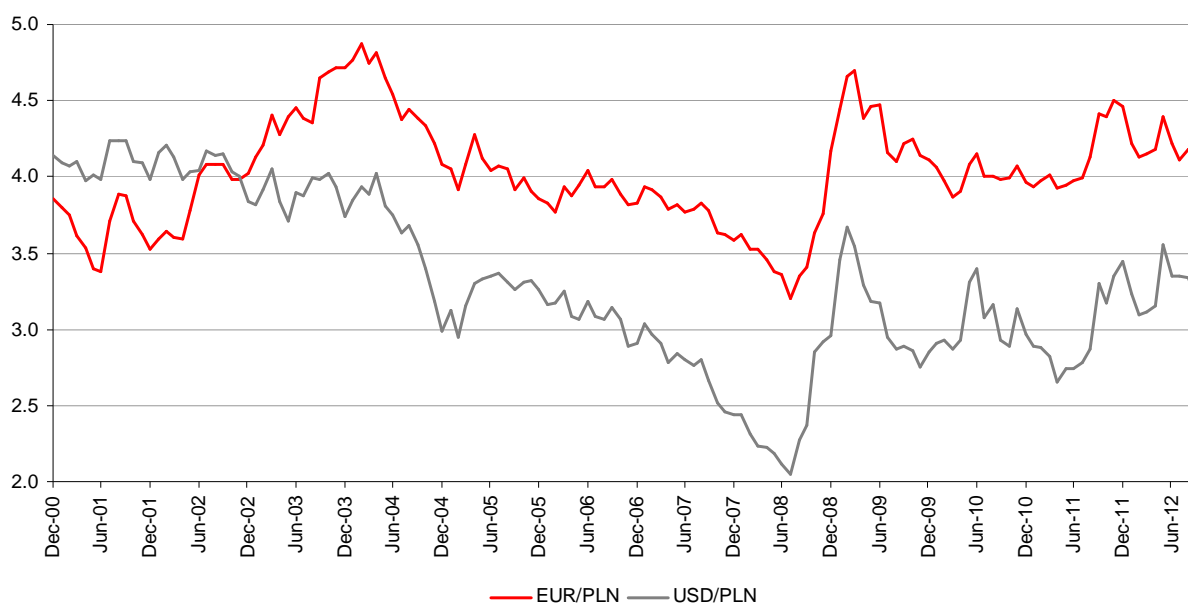
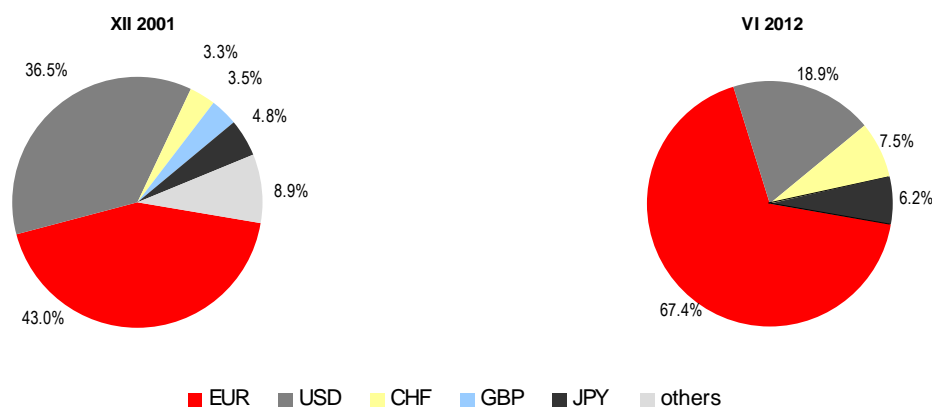


Chart 9. Currency structure of foreign debt

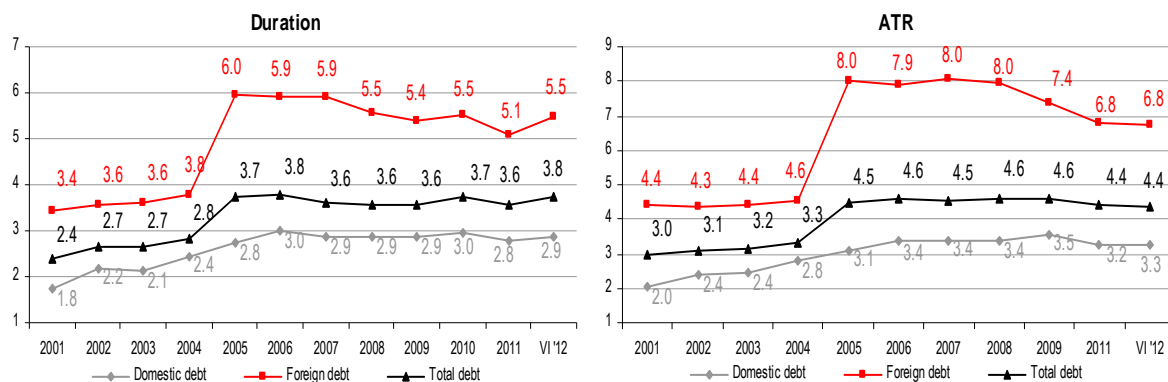


II.2.3. Interest rate risk

Due to the dominant role of fixed-rate instruments in newly issued debt securities, over the recent years changes in the interest rate risk of both domestic and foreign debt were similar to those applicable to refinancing risk.

Interest rate risk of foreign debt remains at an acceptable level.

Chart 10. Duration and ATR of ST debt in years 2001-2012



II.3. Evaluation of implementing the Strategy's objective in 2011 and the 1st half of 2012

In 2011 and the first half of 2012, debt management was conducted in accordance with *Debt Management Strategy for the Public Finance Sector in the Years 2011-2014*, approved by the Council of Ministers in September 2010 and *Debt Management Strategy for the Public Finance Sector in the Years 2012-2015* approved in December 2011.

Table 4 presents the evaluation of implementing the *Strategy's* objective along with risk constraints in 2011 and the first half of 2012.

Table 4. Evaluation of implementing the *Strategy's* objective in 2011 and over the 1st half of 2012.

II. Strategy's objective		
Minimisation of debt servicing costs	Level of implementation*	Way of implementation
	High	<p>1. Selection of instruments</p> <p>The domestic market was core source of financing borrowing requirements. In 2011, the face value of TS issuance amounted to PLN 127.6 billion in the domestic market, and PLN 29.6 billion in foreign markets (including PLN 8.9 billion from IFIs); in the first half of 2012, this was PLN 84.9 billion and PLN 21.6 billion, respectively (including PLN 2.3 billion from IFIs). Main factors taken into account when deciding about the financing structure included:</p> <ul style="list-style-type: none"> the situation in the global financial markets. In 2011 and in the first half of 2012, the most important factor was the lasting eurozone debt crisis, including the increasing risk of insolvency of some countries, in particular Greece, Portugal, Spain and Italy, as well as investor's concerns about the financial standing of the other eurozone countries. This was evidenced by several dozen downgraded ratings or their outlooks, concerning 14 EU countries (the ratings of 13 countries, including Poland, were not downgraded). The rating for Poland is A- according to S&P and Fitch, and A2 according to Moody's³. In order to temporarily mitigate those concerns and

³ The last change in the rating occurred in March 2007 and it consisted in upgrading the rating by Standard&Poor's from BBB+ to A-. In case of Moody's, rating A2, corresponding approximately to A by Standard&Poor's and Fitch. For government debt rating of EU countries see Annex 5.

		<p>negative market sentiment aid and preventive measures were undertaken by national governments (e.g. recovery and savings programmes), by the European Union (e.g. aid packages for Portugal, Greece, and programmes to improve the long-term sustainability of public finances and economic governance) and by the ECB (purchase of government bonds, long-term liquidity operations). Furthermore, the situation in the market was adversely affected by information about the banking sector crisis in Spain, as well as the uncertain political situation in Greece and the threat of its exit from the eurozone. A cause of concern were also the outlook for the global economy and numerous disappointing macroeconomic data from the eurozone, the USA (including one notch downgrade by S&P) and China. The aforementioned factors were a source of high volatility and uncertainty in the financial markets (in particular declines in the stock markets and increased capital requirements of banks), as well greater global risk aversion. This resulted in significant capital flows to economies considered a "safe havens", i.e. the USA, Japan, Switzerland and Germany, as well as the appreciation of the Japanese Yen and the Swiss Franc (to inhibit these tendencies central banks undertook measures in the form of coordinated exchange rate interventions, fixing the Swiss Franc exchange rates). Capital flows and changes in market sentiment generated high volatility in the EUR/USD exchange rate, which was fluctuating in the range of 1.24-1.48. The development of the debt crisis in the eurozone countries and the lack of apparent progress in counteracting it, as well as a bad economic outlook resulted in a depreciation of EUR against USD.</p> <ul style="list-style-type: none"> • the situation in the domestic market. The domestic TS market was affected to a large extent by the situation in the international financial markets, both the base bond markets and in the countries of the region. Changes in sentiments and the outlook for global markets resulted in significant fluctuations in the Polish Zloty exchange rates, especially in the period from August 2011 to January 2012. In 2011 and the first half of 2012, the EUR/PLN exchange rate was fluctuating in the range of 3.84-4.57, while the USD/PLN one in the range of 2.64-3.55. A strong depreciation tendency appeared in the fourth quarter of 2011. The domestic debt yields were affected by a local factor, i.e. investors' expectations as to the scale and pace of tightening of the monetary policy, associated with an increase in inflation above the upper limit of the inflation target (the NBP raised interest rates in 2011 four times, in total by 1.0 p.p. and once in the first half of 2012, by 0.25 p.p.). Yields increased particularly in the first half of 2011. In the second half of 2011, the debt market was positively affected by a reduced supply of Treasury securities which resulted from the liquidity management consolidation of part of public finance sector entities, and an inflow of foreign investors in the ST market accounting for a face value of PLN 26.0 billion. The positive downward tendency along the entire yield curve continued in the first half of 2012. Flexible development of the ST supply and an inflow of foreign capital (PLN 20.1 billion in the first half of 2012) made domestic bonds rather resistant to decreases in prices at times of increased risk aversion; the prices, however, appreciated at
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⁴ Liquidity ratio –the quotient of the monthly value of transactions involving bonds to the debt month-end.

		<p>times of better sentiments and increased willingness to take risk. Increased involvement of non-residents in domestic Treasury securities was the result of a positive assessment of the situation in Poland (including its high economic growth rate compared to other EU countries and the favourable situation as regards public finances in connection with the consolidated public finance sector deficit, and significantly lower, as compared to 2010, State budget borrowing requirements) while maintaining unchanged rating.</p> <ul style="list-style-type: none"> • distribution over time of State borrowing requirements, including those connected with the redemption of large series of bonds; • reducing borrowing requirements from the second quarter of 2011, which was affected by introduction, in May 2011, of: public finance sector liquidity consolidation - allocating liquid funds of public sector entities on accounts maintained by the Ministry of Finance (both in 2011 and in the first half of 2012, the effect of the consolidation was better than expected) and the reform of the pension system consisting in a reduction of contributions forwarded to Open Pension Funds; • flexible approach to debt management, including the approach to determination of dates of issuance and instruments, as well as efforts to diversify markets and currencies, including the following measures: partial prefinancing of borrowing requirements in 2011 and 2012 at the end of the preceding years and accumulation of increased funds at the beginning of 2011 and 2012, respectively, rapid acquisition of additional funds from the domestic and foreign markets (by the end of June 2012, the gross borrowing requirements were covered in 78%), adjusting the offer volume and structure to the current market situation. <p>As far as foreign debt is concerned, the most important operations included:</p> <ul style="list-style-type: none"> • regular issuance in the euro market (in 2011, the total value of debt incurred in the euro market was EUR 1.5 billion, while in the first half of 2012, it was EUR 2.8 billion); • maintaining the Polish presence in other major markets. In 2011 and the first half of 2012, Poland was active in the USD market, which was due to the difficult situation in the euro market and the absorption of the USD market (in 2011, the total nominal value of issued bonds in the USD market was USD 4.0 billion, while in the 1st half of 2012, it was USD 1.0 billion). Issues on other markets were complementary (in the Japanese Yen market, bonds with face value of JPY 78.0 billion were issued in 2011, while in the first half of 2012, the value of issued bonds was JPY 25.0; in the Swiss Franc market, bonds with face value of CHF 350.0 billion were issued, while in the first half of 2012, the par value of bonds issued was CHF 825.0 billion); • drawing credits at IFIs (in 2011 and the first half of 2012, a total of EUR 2.7 billion, including EUR 1.9 billion at the EIB and the World Bank (0.8 billion)). <p>2. Efficiency of the TS market</p> <p>The main measures aimed at cost minimisation included:</p> <ul style="list-style-type: none"> • continuation of the policy providing liquid benchmark bond issues in the domestic market. In mid-2012, 16 issuances of bonds (of which 3 ones concerned 2-year bonds, and 2 ones concerned bonds with a floating-rate) had a par value exceeding the equivalent of EUR 5 billion. At the end of June 2012, benchmark issuances accounted for 88% of the face value of fixed rate medium-term and long-term
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		<p>bonds outstanding. Concentration of issuances constituted an important factor facilitating liquidity increase in the secondary bond market. The average liquidity ratio⁴, having decreased to 111.2% in 2009 due to the crisis, increased to 181.3% in 2011, and in the first half of 2012 it amounted to 165.3%;</p> <ul style="list-style-type: none"> • issuance of liquid bonds series (regular issuances of a face value ensuring the liquidity of a given issuance) in the euro and US dollar markets; • adjusting the level and structure of the TS supply to the current market situation and influencing this situation through measures related to debt management and information policy. • introduction in October 2011 of new rules to assess the activity of Primary Dealers (PD), which facilitate the creation of the best conditions for entering transactions involving Treasury securities in the secondary market. The introduction of assessment of TS quotations quality in the electronic market as the sole criterion for assessing the activity of primary dealers and candidates in the secondary market resulted in a significant decrease in the spread between the bid and ask prices quoted by participants of the electronic TS trading market, with a simultaneous significant increase in quoted volumes. As a result, the value of cash transactions carried out in the electronic market almost doubled compared to the period prior to the introduction of the aforementioned changes, causing an increase in the percentage share of the electronic market in the total cash turnover on Treasury securities (to over 12% in the period of 9 months when the regulations were in force, from 6% in the analogical period prior to their introduction), owing to which it became a real point of reference for all participants of the TS markets (including those from the non-banking sector and foreign ones). • introduction in 2012 of the single price auction formula and the possibility of submitting non-competitive tenders at all TS sales auctions. As a result, it was observed that the yields obtained at an auction were often lower than those in the secondary market. The number of bids made at a particular auction with a simultaneous increase in the volume of a single bid (part of participants resigned from fragmentation of their offers) decreased as well. • introduction in July 2011 of changes to the contract with an issuing agent in charge of retail treasury bonds, including e.g. changes in the remuneration of the issuing agent and the modification of the structure of retail bonds and conditions of sale (prolonged periods during which it is possible to submit notices of early redemption of bonds, a change in the system of charging for early bond redemption, the possibility of switching each retail bond for any type of retail bond, the possibility of opening a registered account online).
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II. Constraints - quantitative						
Constraint	Level of implementation*	Way of implementation	Measure	Value		
				2010	2011	June 2012
Refinancing risk	Satisfactory	<ul style="list-style-type: none"> • Limiting T-bills issuance and redemptions of T-bills • Increase in the sale of medium and long-term bonds (64% of all TS sold at auctions) in the first half of 2012, after a decrease in 2011 (41%) due to unfavourable market conditions • High importance of switching auctions (in the period from January 2011 to June 2012, 38% of the initial debt in bonds was bought back at switching auctions) • Stable ATM of domestic debt and total debt, despite volatile market conditions 	ATM (in years)			
			- domestic	4.30	4.25	4.30
			- foreign	8.13	7.77	7.65
			- total	5.38	5.40	5.38
			Share in domestic TS:			
			- TS with maturity up to 1 year	19.0%	19.9%	18.3%
			- T-bills	5.5%	2.3%	2.2%
Foreign exchange risk	Satisfactory	<ul style="list-style-type: none"> • Increase in the share of foreign debt above the range assumed in the Strategy (in the range of 20-30%) due to a large extent resulted from external factors - the depreciation of the Polish zloty • Share of the euro was slightly lower than that assumed in the Strategy, which was the outcome of an increased share of new issues in the US dollar in 2011, and greater depreciation of Polish zloty against US dollar than against euro in the last months of 2011 • Continuation of long-term non-market financing from IFIs 	Share of foreign debt in ST debt	27.8%	32.0%	31.4%
			Share of euro-denominated debt in foreign debt	71.5%	66.9%	67.4%
Interest rate risk	High	<ul style="list-style-type: none"> • Duration of domestic debt remained in the range of 2.5-4.0 years set in the Strategy • Risk of foreign debt remained at a safe level and did not pose a threat to the costs minimisation objective 	Duration (in years)			
			- domestic	2.97	2.80	2.87
			- foreign	5.54	5.07	5.48
			- total	3.74	3.56	3.76
			ATR (in years)			
			- domestic	3.48	3.25	3.25
			- foreign	7.19	6.81	6.76
			- total	4.52	4.41	4.38

III. Constraints – non-quantitative		
Constraint	Level of implementation*	Way of implementation
Liquidity risk	High	<p>The main instruments used in liquidity risk management included:</p> <ul style="list-style-type: none"> • switching auctions (aimed at reducing the refinancing risk at redemption of large issues), • interest-bearing PLN-denominated deposits at the NBP - deposits of the total value of PLN 155.0 billion were made in 2011, while those made in the first half of 2012 amounted to PLN 55.2 billion, • PLN-denominated deposits where Bank Gospodarstwa Krajowego ("BGK") acted as an intermediary, including buy-sell-back transactions and interbank deposits. In 2011, those transactions amounted in total to PLN 907.7 billion, while in the first half of 2012, such transactions amounted to PLN 417.5 billion; • FX swap transactions enabling temporary usage of held currencies in order to raise funds denominated in PLN. Within those transactions, equivalents of EUR 0.4 billion in 2011, and USD 1.4 billion in the first half of 2012 were converted into PLN with a guarantee to carry out reverse transactions at a predetermined exchange rate. Those transactions resulted in a decrease in cash denominated in foreign currencies and an increase in cash denominated in PLN; • maintaining funds on interest-bearing accounts at the NBP and in interest-bearing currency deposits – the average value in 2011 was EUR 0.8 billion, while that in the first half of 2012 was EUR 0.3 billion; • interest-bearing currency deposits in BGK – deposits of EUR 132.0 billion were made in 2011, while those opened in the first half of 2012 amounted to EUR 93.5 billion; • T-bill buy-back auctions aimed at reducing refinancing risk; • Introduction in 2011, in consultation with the NBP, of regular sales of a part of foreign currency funds from the EU funds directly in the foreign exchange market (in 2011, foreign currencies worth in total EUR 11.0 billion were sold); • starting in May 2011, in accordance with the amended Public Finance Act, allocation of liquid funds of public finance sector entities on the accounts of the Ministry of Finance in BGK. At the end of June 2012, funds in the amount of PLN 28.3 billion were accumulated. <p>The level of State liquid assets in 2011 (an average of PLN 12.8 billion on PLN-denominated accounts, and the equivalent of PLN 2.4 billion on foreign currency accounts) and in the first half of 2012 (PLN 7.4 billion and EUR 2.0 billion) provided for smooth execution of budgetary flows.</p>
Credit risk	High	<ul style="list-style-type: none"> • Deposits in BGK, secured with TS, did not generate any credit risk. • For unsecured deposits a system of credit limits is in place. • Credit risk connected with derivatives is limited by selection of counterparties with high credit rating (to make deals it is necessary to hold a Framework Agreement or an ISDA Master Agreement signed with the Ministry of Finance). • A collateral system related to transactions on derivatives in the form of blocking TS in the NDS is in force. This system covers those national banks which have signed a Framework Agreement related to a collateral agreement. Secured transactions do not generate credit risk. • The credit risk generated by unsecured transactions is diversified through limits imposed on the total value of transactions made with individual partners. Creditworthiness of potential partners is monitored on an on-going basis.

		<ul style="list-style-type: none"> • Only short-term transactions (up to one year) were carried out.
Operational risk	Satisfactory	<ul style="list-style-type: none"> • Debt management conducted in one department in the Ministry of Finance. • Technical infrastructure adequate to the requirements of conducting market transactions. • Security of information related to debt management. • Integrated database of the ST debt.
Distribution of debt servicing costs over time	Satisfactory	<ul style="list-style-type: none"> • The level of servicing costs in 2011 was affected by swap transactions carried out in 2010 (the costs for 2010 grew by PLN 0.67 billion and costs for 2011 fall by PLN 0.68 billion in 2011) and in 2011 (an increase in the costs by PLN 1.56 billion in 2011 and a decrease by PLN 1.61 billion in 2012). The purpose of the transactions carried out in 2011 was to maintain the debt servicing costs in a given year at a level consistent with the limits specified in the Budget Act, lowering at the same time those costs in the following year; • An emphasis was put on smooth distribution of servicing costs when issuing new series of TS. Coupons of new issues were set close to their yields. • Switching auctions of bonds maturing in the subsequent year and T-bill buy-back auctions contributed to smooth distribution of costs.

*) In accordance with the following scale: high, satisfactory, moderate and low.

II.4. Volume and structure of the public finance sector debt

At the end of 2011, the debt of public finance units other than ST before consolidation amounted to 10.5% public debt (8.3% after consolidation) compared to 9.9% (7.6%) at the end of 2010. After the first half of 2012, that ratio was 10.0% and 7.9%, respectively. The local government sector debt, in particular that of local government units, had the highest share in this part of the debt. The social security sector debt before consolidation had been steadily decreasing until 2008, just to increase to 2.0% at the end of 2009. The difference between the social security sector debt before and after consolidation that arose since 2010 is a consequence of temporary shortages of funds in the Social Security Fund (FUS) that have been financed from 2009 with loans from the State budget.

Chart 11. Debt of public finance sector units other than ST before and after consolidation by sectors (PLN bn)

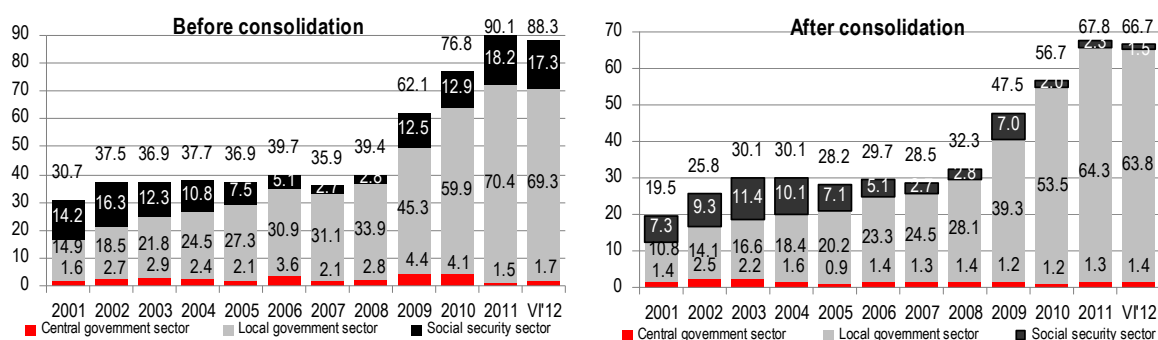
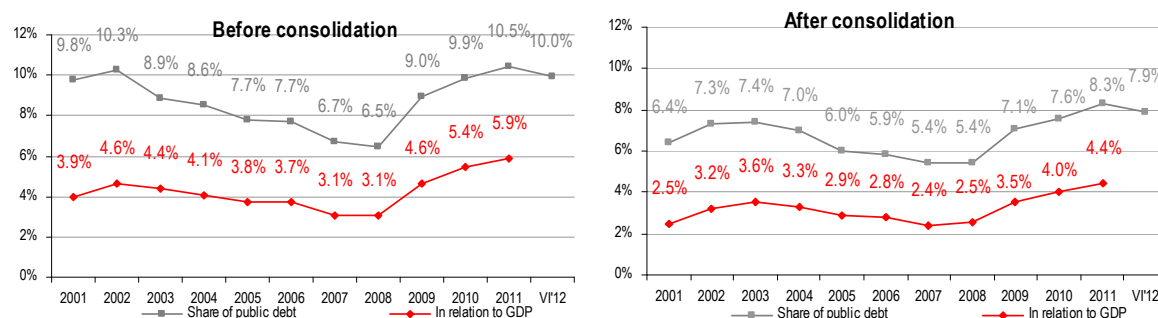


Chart 12. Share of debt of public finance sector units other than ST before and after consolidation in public finance sector debt and as a GDP ratio.



The following part of the subchapter focuses on debt of public finance sector entities other than ST before consolidation.

II.4.1. Debt of local government units

The debt of local government units and their associations has been gradually increasing, and at the end of 2011 it amounted to PLN 66.1 billion, compared to PLN 55.5 billion at the end of 2010. After the first half of 2012, the debt declined slightly to PLN 64.7 billion. In 2009 yearly debt dynamics peaked - it grew to 40.3% before consolidation and 45.7% after consolidation. In subsequent years, the growth rate remained at a high level: in 2010 it amounted to 36.2% before consolidation and 39.0% after consolidation, whereas in 2011 it was 19.2% and 21.0%, respectively. The debt of local government units and their associations from the end of 2008 to by the end of the second quarter of 2012 increased by 122.9% before consolidation and 142.5% after consolidation.

Chart 14. Debt of local government units and their associations (before and after consolidation) and its dynamics.

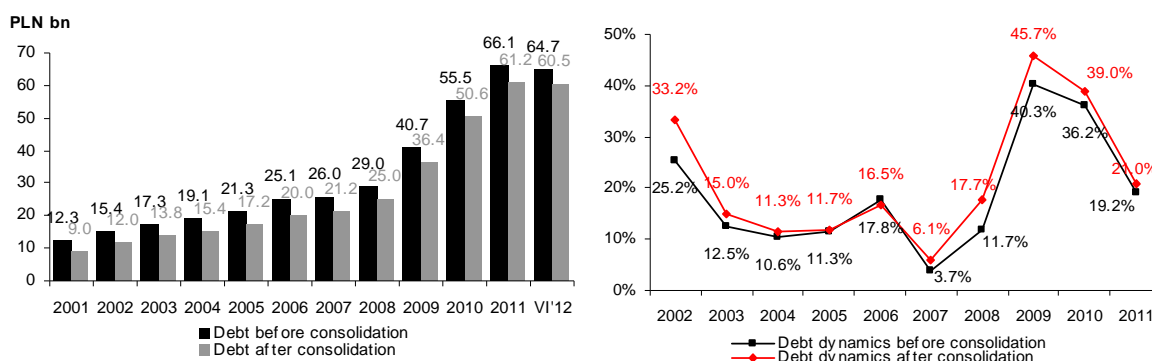
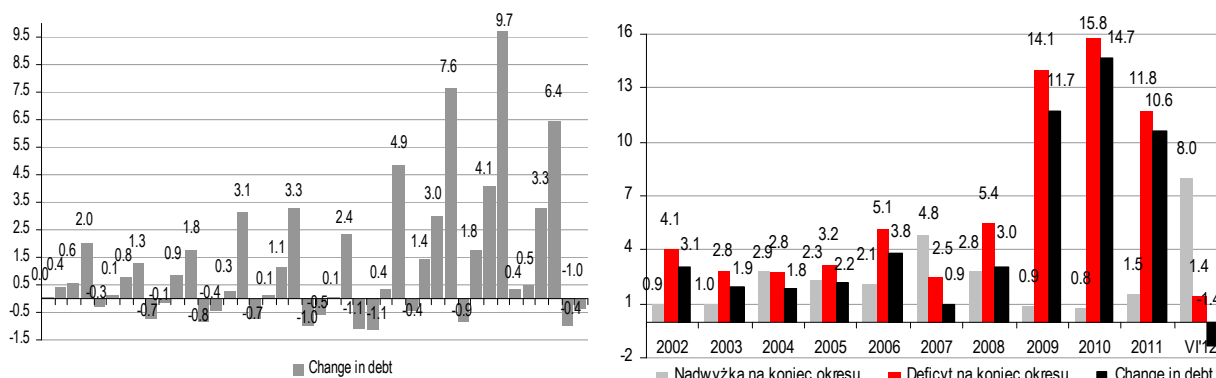


Chart 15. Balance of local government units and their associations and changes in their debt

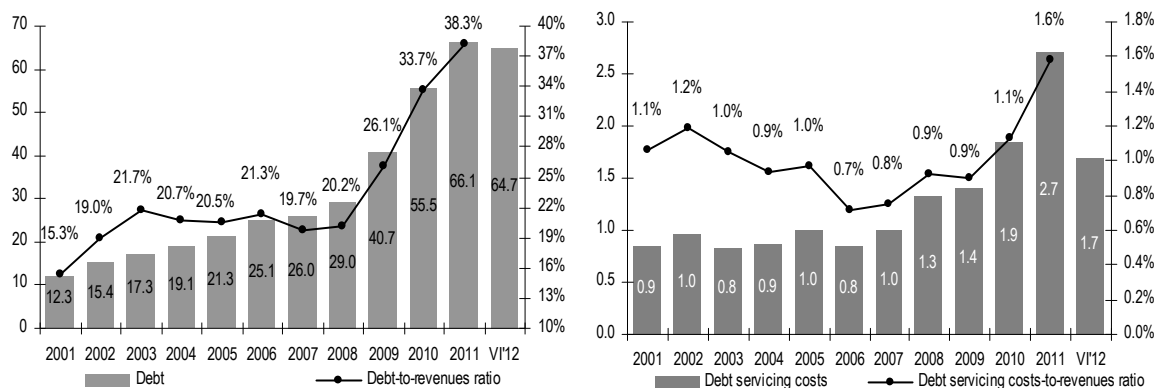


In 2011, local government units and their associations recorded a total budget deficit of PLN 10.3 billion, compared to PLN 15.0 billion in 2010. Their debt was a result of: deficits in individual units in a total amount of PLN 11.8 billion and surpluses in a total amount of PLN 1.5 billion. In 2011, the debt of local government units and their associations grew by PLN 10.6 billion. Due to an aggregation of units with different financial standing a lack of significant correlation between the balance of local government units and the increase in debt has been observed in some years.

Local government units incurred liabilities primarily in the last quarter of the year, which was associated with highly seasonal nature of their results, although in 2009-2011, a significant increase in debt took place also in the second and third quarters of the year. In the first and the second quarter of 2012, a decline in the debt of local government units by a total of PLN 1.4 billion was recorded (with a budget surplus in the amount of PLN 6.6 billion). Such a situation occurred for the last time in 2008. In the first half of 2011, the debt increased by PLN 0.9 billion, with a surplus in the amount of PLN 5.5 billion.

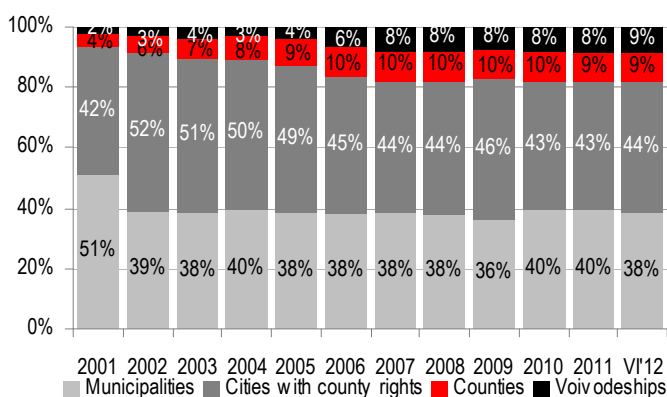
The ratio of total debt of local government units to their revenues (debt-to-revenue ratio) is well below the legal constraint of 60%, although 2011 was another year in which it increased significantly, up to 38.3%, i.e. by 4.6 p.p. as compared to 2010. In 2011, the highest average debt ratio was recorded in cities with county rights (49.4%) and the lowest one was recorded in counties (26.1%). In 2011, debt servicing costs of local government units and their associations amounted to PLN 2.7 billion, (i.e. 1.6% of total expenditures) and were higher by 46.9% compared to those incurred in 2010.

Chart 16. Debt of local government units and their associations, debt-to-revenues ratio, debt servicing costs and their relation to revenues.



The majority of total liabilities incurred by all local government units are liabilities of cities with county rights (42.7% in 2011 and 43.9% in the first half of 2012), while the share of liabilities of municipalities remained in 2002-2011 at a relatively stable level of ca. 36-40% (at the end of 2011, the share rose to 39.5%, just to decrease slightly, to 38.5%, at the end of June 2012). However the share of voivodeships and counties after several years of growth stabilized at ca. 8-10% (at the end of the second quarter of 2012, it amounted to 8.7% and 8.9%, respectively).

Chart 17. The debt structure of local government units and their associations according to the levels of local government



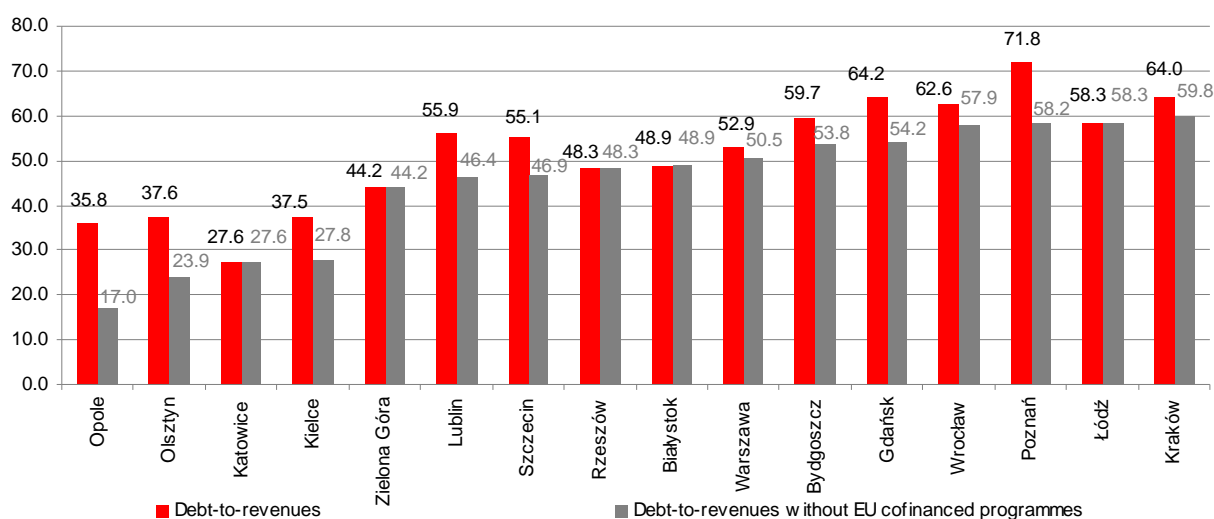
In 2011, in 32 local government units (compared to 17 in 2010), the debt-to-revenues ratio (excluding debt incurred on EU cofinanced programmes) exceeded 60%. Municipalities constituted the majority of units in which the ratio mentioned above (which is limited by the Public Finance Act) was exceeded; in 2011, only one county exceeded the allowable limit.

Table 5. Indebted local government units with respect to debt-to-revenues ratio in years 2010-2011.

	Group of units	Total no. of units	Number of indebted units Debt-to-revenues ratio*					
			Total	i<10%	10%<i<30%	30%<i<50%	50%<i<60%	i>60%
XII 2010	Municipalities	2414	2276	406	968	746	139	17
	Cities with county rights	65	65	4	23	32	6	0
	Counties	314	310	54	163	82	11	0
	Voivodeships	16	16	3	5	7	1	0
	Total	2809	2667	467	1159	867	157	17
XII 2011	Municipalities	2414	2305	322	917	825	210	31
	Cities with county rights	65	64	2	18	30	14	0
	Counties	314	311	48	159	91	12	1
	Voivodeships	16	16	3	3	8	2	0
	Total	2809	2696	375	1097	954	238	32

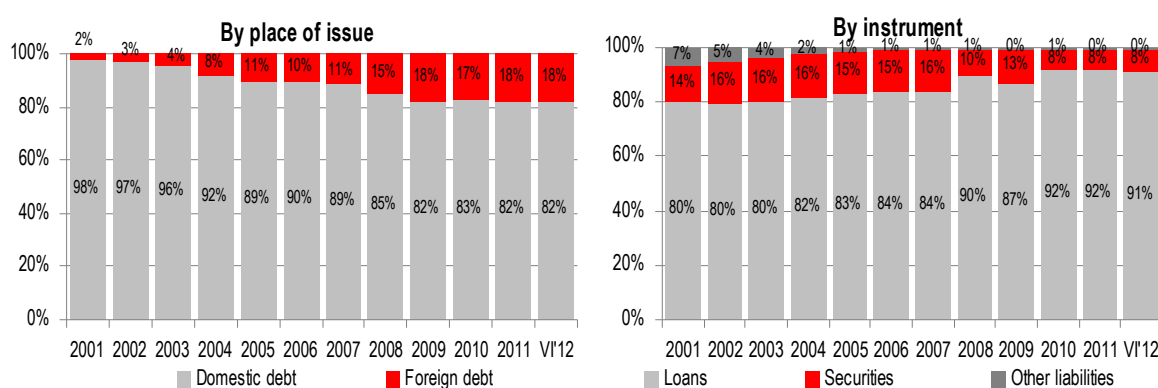
* Debt-to-revenues ratio (excluding debt incurred on EU cofinanced programmes) which constitutes the limit specified in Public Finance Act.

Chart 18. Debt-to-revenues ratio for voivodeshis' capitals in 2011



Domestic debt constituted a dominant share in the total debt, although the share of foreign debt continued to increase, and at the end of June 2012 it amounted to ca. 18.2%. Loans and credits prevailed in the structure of liabilities of local government units and their associations.

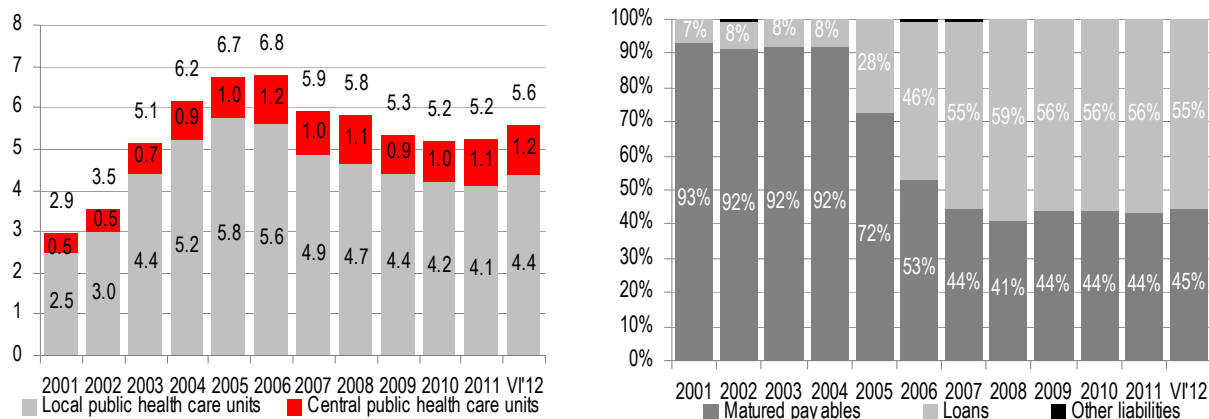
Chart 19. Structure of debt of local government units and their associations



II.4.2. Debt of independent public health care units

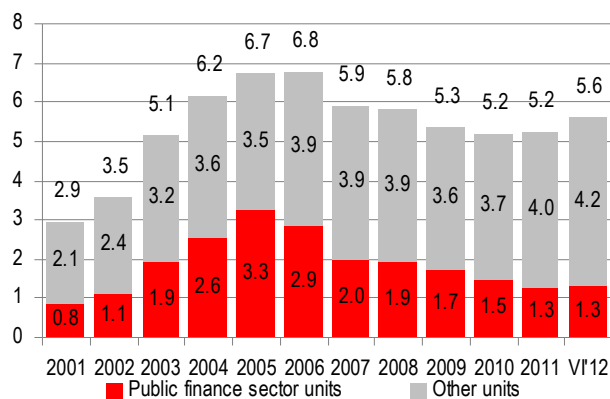
At the end of 2011, the debt of independent public health care units amounted to PLN 5.2 billion, while at the end of June 2012, it was PLN 5.6 billion compared to PLN 5.2 billion in 2010. Since 2007, loans have been the dominant component of the debt. Matured payables which have arisen as a result of untimely settlement of liabilities continue to be a significant component of debt. Changes in the debt structure in 2005-2008 resulted from a reduction of the growth rate of matured payables while pursuing remedial procedures at the same time.

Chart 20. Debt volume and structure of independent public health care units



In the years 2006-2011, the debt of independent public health care units owed to the public finance sector decreased - and at the end of 2011 it amounted to ca. PLN 1.3 billion, and remained at that level at the end of June 2012. This was mainly due to the restructuring of independent public health care units and partial redemption of loans from the State budget granted under the Act of 2005, as well as a decrease in liabilities towards the Social Insurance Institution.

Chart 21. Debt of independent public health care units owed to public finance sector and other units (PLN bn)



II.4.3. Debt of other entities

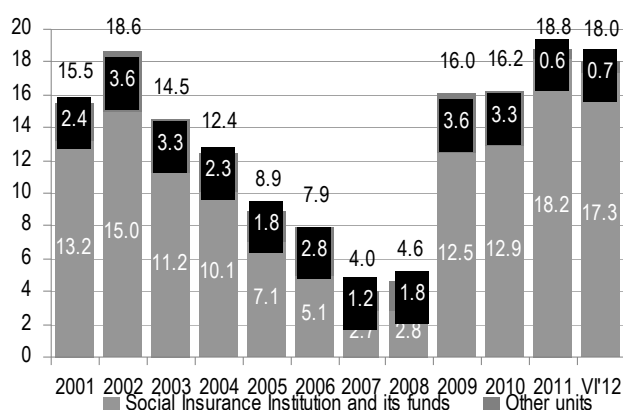
In the years 2001-2011, the most indebted entities were the Social Insurance Institution and funds managed by it, which was almost exclusively consisted of liabilities incurred by the Social Insurance Fund (FUS). In the years 2003-2008, the debt of the Social Insurance Fund was gradually decreasing as a result of repayment of loans at commercial banks and conversion of matured payables to T-bonds. In 2009, there was a significant increase of the FUS debt (up to PLN 12.5 billion). At the end of 2011, the FUS debt amounted to PLN 18.2 billion, and at the end of June 2012 it was PLN 17.3 billion. The increase in the Social Insurance Fund debt was a result of a considerable imbalance of the fund resulting from slow increase of revenues due to

the reduction of the disability pension premium in the years 2007-2008, economic slowdown and a significant increase in expenditures related to disability pension and retirement benefits.

In 2011 further growth of State budget loans in the debt structure of FUS has been observed. FUS received additional PLN 5.0 billion of loans from the State budget (the balance as of the end of the year was PLN 15.9 billion), and incurred debt in the amount of PLN 0.8 billion at a commercial bank. On the other hand, there was a decrease in matured payables by PLN 0.6 billion. In the first half of 2012, debt owed to the State budget did not change, while matured payables increased slightly by PLN 0.03 billion to PLN 1.5 billion, and the credit at the commercial bank was repaid.

The debt of other entities constituted an insignificant share of public debt (0.1% of the debt of the public finance before consolidation, both at the end of 2011 and after the second quarter 2012).

Chart 22. Debt of public finance sector entities other than ST, local government units and public health care units.



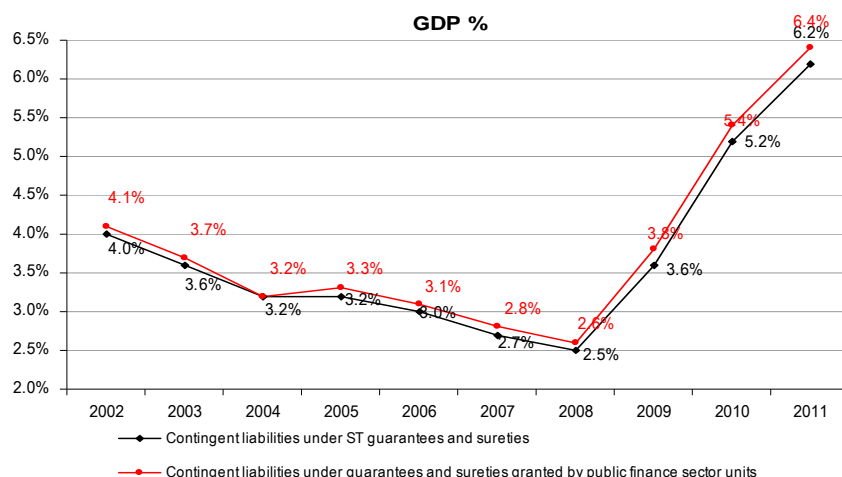
II.5. Guarantees and sureties granted by public finance sector entities

The face value of guarantees and sureties granted by public finance sector entities amounted at in the first half of 2011 to PLN 105.2 billion, as compared to PLN 97.7 billion, i.e. 6.4% of GDP in 2011, and PLN 76.0 billion, i.e. 5.4% of GDP in 2010.

Contingent liabilities under guarantees and sureties granted by the ST had a dominant share in contingent liabilities under guarantees and sureties granted by public finance sector entities. At in the first half of 2012, they amounted to PLN 101.8 billion compared to PLN 94.3 billion, i.e. 6.2% of GDP in 2011, and PLN 73.2 billion, i.e. 5.2% of GDP in 2010.

ST operations related to granting guarantees and sureties do not pose a significant risks to public finance. At the end of 2011, ca. 90% of contingent liabilities under ST guarantees and sureties belonged to the low-risk group. The long-term risk factor for the portfolio of ST guarantees and sureties decreased from ca. 8% to ca. 6%. The increase in ST contingent liabilities resulted mainly from a large volume of guarantees granted for the development of road infrastructure.

Chart 23. Contingent liabilities under guaranties and sureties granted by the ST and the public finance sector.



The biggest amounts of ST contingent liabilities at the end of June 2012 resulted from:

- guarantees granted for Bank Gospodarstwa Krajowego including support for the National Road Fund (KFD) PLN 71.8 billion
- guarantees of payments from the National Road Fund for Gdańsk Transport Company S.A. PLN 69.2 billion
- guarantees of payment from the National Road Fund for Autostrada Wielkopolska II S.A. PLN 8.7 billion
- guarantees granted for PKP Polskie Linie Kolejowe S.A. PLN 7.8 billion
- guarantees granted for Autostrada Wielkopolska S.A. PLN 3.7 billion
- guarantees granted for Polskie Koleje Państwowe S.A. PLN 3.4 billion
- guarantees granted for Polskie Koleje Państwowe S.A. PLN 3.2 billion

III. ASSUMPTIONS OF THE STRATEGY

The following subchapters present the main macroeconomic assumptions of the *Strategy* and the conditions that affect debt management, i.e. domestic financial market development and the role of domestic and foreign investors, as well as the international market development, including markets in which ST borrowing requirements are financed.

III.1. Macroeconomic assumptions of the *Strategy*

Assessment of the macroeconomic situation and directions of the fiscal policy has been presented in the justification to the draft Budget Act for 2013. Table 6 presents the macroeconomic assumptions of the *Strategy*.

Macroeconomic assumptions of the *Strategy* differ from the assumptions of the *Convergence Programme. 2012 Update.* and *Multiannual State Financial Plan* adopted by the Council of Ministers in April and May 2012. The negative impact of the deteriorating economic situation in the eurozone on the economic growth in Poland, and thus on the fiscal situation, in particular in 2012 and 2013, was taken into consideration. Furthermore, the assumptions concerning the EUR/USD rate and the EUR/PLN rate, accounting for the influence of the less favourable macroeconomic environment on the currency markets in 2012, were also updated.

Table 6. *Macroeconomic assumption adopted in the Strategy*

Item	2011	2012	2013	2014	2015	2016
Real GDP growth (%)	4.3	2.5	2.2	2.5	3.5	4.0
GDP in current prices (PLN bn)	1 524.7	1 612.7	1 688.3	1 769.5	1 875.7	1 998.9
Average CPI (%)	4.3	4.0	2.7	2.3	2.5	2.5
USD/PLN - end of the year	3.42	3.28	3.13	2.93	2.89	2.89
EUR/PLN - end of the year	4.42	4.10	4.00	3.75	3.70	3.70

III.2. The domestic Treasury securities market

The level of the domestic financial market development, including the domestic investor base, as well as the role of foreign investors in the domestic market are important determinants of debt management. When free capital flow is ensured a well developed and deep domestic market allows for cushioning external shocks and outflow of foreign capital.

III.2.1. Development of the domestic investor base

The last decade was a period of dynamic growth of assets managed by domestic institutional investors. Due to a relatively low level of interest rates on deposits, bank deposits were abandoned in favour of investment funds and other financial products offering potentially higher rates of return.

This tendency was transitionally reversed in 2008 as a result of the crisis on financial markets. The decrease in assets affected mainly the investment funds, and resulted from both the units redemption connected with the investors outflow, and the decline in prices of financial assets, mainly shares. After a period of stabilisation in 2009, assets of pension funds and insurance companies returned to a slight upwards tendency.

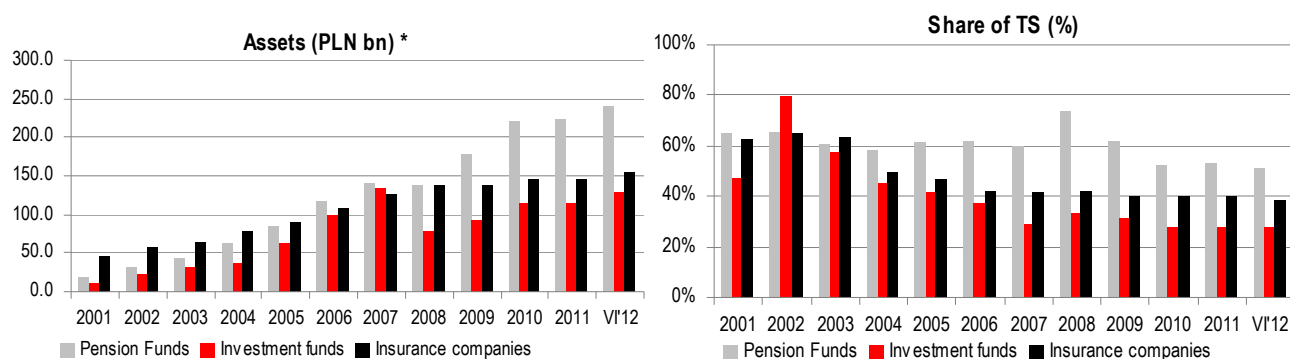
The main factors that will continue to influence the value of the assets managed by non-banking financial institutions include:

- pension reform of 1999 and the open pension funds (OFE) set up, whose assets are growing due to inflow of future pensioners' contributions. It is expected that the role of OFE as buyers of TS will gradually decline in the subsequent years due to decrease from 1 May 2011 of contributions to OFE, from 7.3% to 2.3% initially, and ultimately – from 2017 – to 3.5% of the of the base of pension contributions, as well as a gradual increase in the limit for investments in shares and purchase of non-Treasury debt securities (e.g. those issued by BGK). The impact of the reduction of contributions to OFE on the debt market should be rather neutral, as the decline in demand of OFE will be accompanied by a decrease in the

supply for new debt associated with a reduction of contribution reimbursement transferred to OFE from the ST;

- further development of the insurance and investment funds market;
- stock market condition, which is one of the factors determining decisions on the allocation of savings by households;
- changes in the level of domestic savings.

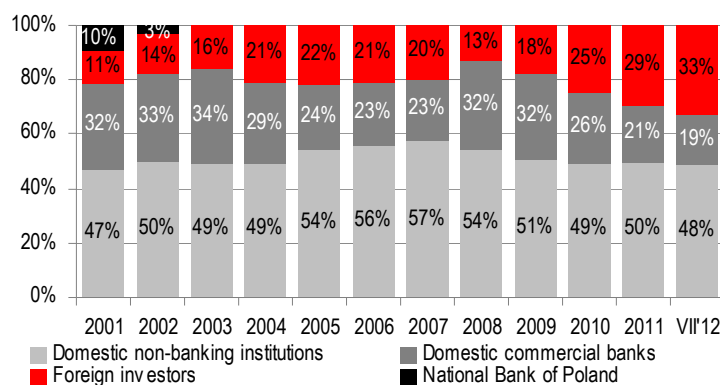
Chart 24. Non-banking financial institutions assets and share of TS in their assets



*) The data on investment and pension funds presents the Net Asset Value which is calculated by subtracting the value of liabilities from total assets.

In recent years, more than half of TS issued in the domestic market were held by the domestic non-banking sector. The reduction of non-banking sector in the domestic debt compared to the record year 2007, when this share accounted for 57% of domestic debt, was associated with an unprecedented foreign investors inflow in the domestic TS market in the years 2009-2012.

Chart 25. Domestic ST debt by holder



Development of the domestic non-banking sector contributes to growing stability of TS demand and, due to the long-term nature of investments of a substantial part of non-banking institutions increases the demand for long-term instruments. Banking sector demand for TS may be treated as a residual factor; the importance of banks usually decreases in periods of rapid economy development, on the other hand banks - just as in 2008 - absorb the supply for TS in crisis conditions, which is due to the structural over-liquidity of the banking sector⁵.

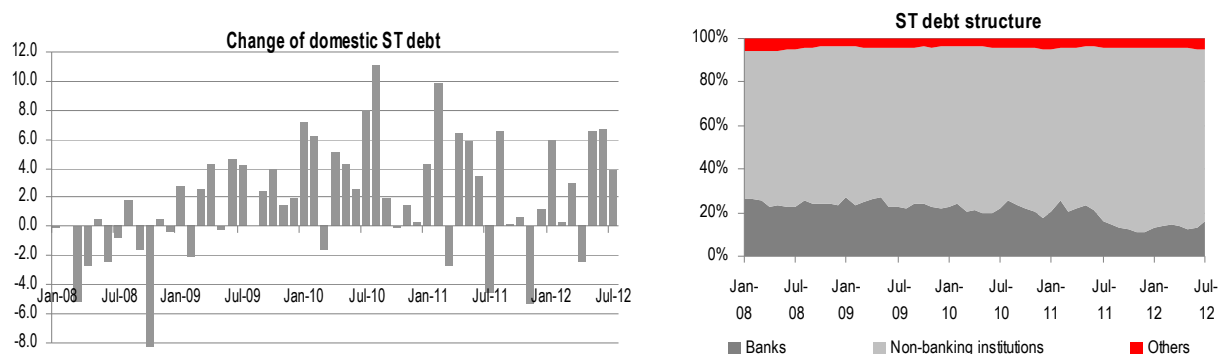
⁵ According to the Monetary Policy Council, as presented in "Assumptions of the Monetary Policy for the Year 2012" (Warsaw, September 2011) the year 2012 will be another year of over-liquidity in the banking sector. Inflow of funds from the EU will be the main factor increasing the liquidity in the sector.

III.2.2. The role of foreign investors

Foreign investors play an important role in financing State budget borrowing requirements in the domestic market. Non-residents demand is highly volatile and depends to a large extent on the international situation.

After a significant outflow of foreign investors from the TS market in 2008, their share in domestic debt declined from ca. 20% to ca. 13%. This was the result of the financial crisis (which started with the fall of Lehman Brothers) and concerns about global economic growth, which caused a strong increase in risk aversion and the sale of assets of the "emerging" markets, including those in the countries of the region. In 2009 the interest of foreign investors in investment in TS increased, largely as a result of improved sentiments in financial markets and the relatively good economic situation in Poland (an increase by 1.6% in 2009, when Poland was the only EU country with a positive growth rate). As a result, foreign investors involvement in TS increased throughout the year by PLN 25.9 billion, to ca. 18% of domestic ST debt. This tendency has continued in 2010-2012 (inflow of PLN 46.4 billion and PLN 25.9 billion, respectively, and PLN 20.1 billion in the first half of 2012), which was the result of a positive perception of Poland by foreign investors as compared to other European countries. Thus, the involvement of non-residents in the domestic ST debt reached record levels, both in absolute terms (PLN 178.2 billion at the end of July 2012), as well as in relation to domestic debt (ca. 33%). In terms of the scale, the inflow of foreign capital in the period 2010-2011 was higher than the net borrowing requirements of the State.

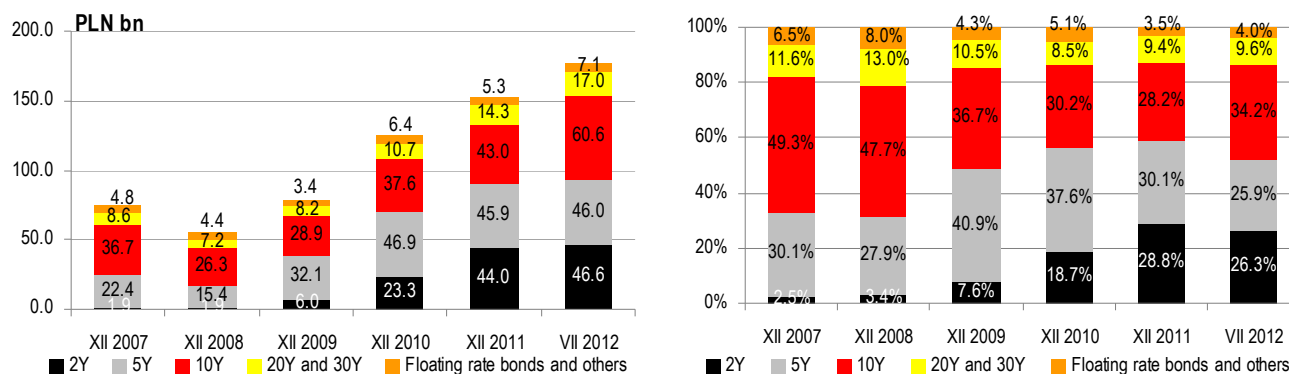
Chart 26. Change in domestic ST debt held by foreign investors and the holders composition of this debt in period I 2008 – VII 2012.



In the period from January 2008 to July 2012, the involvement of foreign investors in TS nearly doubled. The most stable group of buyers among non-residents, and at the same time holders of the largest portfolio of TS was the non-banking financial sector, which gradually increased in the analysed period its involvement in TS (growth of the TS portfolio from the beginning of 2008 to July 2012 by PLN 90.1 billion).

The increase in TS owned by foreign investors was accompanied by modification of the portfolio structure of the TS held by non-residents. A stable growth of long-term bond portfolio has been accompanied by dynamic growth of 2-year bonds, especially since 2010 (growth by 288%). In 2011, the debt to non-residents increased by 89% in relation to 2-year bonds and by 14% in relation to 10-year bonds. By the end of July 2012, it grew by 6% and 41%, respectively.

Chart 27. Structure of non-residents T-bonds portfolio



The perception of Poland by foreign investors will have a significant influence on the terms and conditions of financing State budget borrowing requirements in the timeframe of the *Strategy*. The influx of foreign investors in the period of 2009-2012 had an impact on the TS yields decline throughout the whole yield curve, close to all-time low, both in the domestic and foreign markets.

The inflow of foreign capital into Poland should continue, and the risk of its sudden outflow should remain limited, provided the main factors fostering decisions to invest in Polish TS by foreign investors prevail:

- there is a disparity in interest rates,
- the investment risk assessment for Poland is maintained or improved,
- there is a relatively good fiscal and macroeconomic situation,
- there is a big and liquid financial market, particularly TS market and its adequate infrastructure.

Stronger short-term foreign capital flows unrelated to the above factors may occur as a result of turmoils on international financial markets. The effects of such flows should be cushioned by the market itself (over-liquidity in the interbank market and a limited supply of short-term TS make the market capable of absorbing significant pools of such securities), or by introduced market instruments.

Due to free flow of foreign capital, non-residents investment in domestic TS, as well as raising funds in international markets, pose exchange rate risk for ST debt. Therefore, this factor determines a flexible approach to shaping a financing structure in terms of selection of the market and currency, including transitional increase in foreign currencies issuance.

III.3. International situation

Current forecasts for global economic growth prospects have deteriorated significantly. They indicate that 2012 will be a period of global economic slowdown, which will be relatively harsh in the Eurozone. In accordance with the European Commission forecast published in the spring this year, in 2012, the GDP growth in the eurozone will decline to 0.3% (in 2011 1.5% GDP growth rate was recorded), and the growth rate of the biggest economy - Germany, will decrease to 0.7% compared to 3.0% in 2011. In accordance with the latest forecasts of the European Commission, the GDP growth in the USA in 2012 will be 2.0%, compared to 1.7% in 2011. A key factor in determining the path of external demand for the Polish economy will be the situation on export markets.

The most important international conditions from the perspective of ST debt management include:

- the situation on the interest rate markets for the currencies in which liabilities will be incurred, predominantly in the EUR and USD markets;
- perception of the credit risk of the Polish government and liquidity preferences of T-bonds

buyers active in the global market, influencing the margin level in comparison to core markets,

- considerable increase in borrowing requirements of numerous countries resulting from a loss of budget revenues due to global economic downturn and from measures undertaken by individual governments to stimulate the economy,
- concerns about the eurozone future related to the threat of losing access to market funding by some eurozone countries and the final shape of the institutional framework designed to counteract it, and their influence on financial markets.
- actions undertaken by central banks, including the ECB.

III.3.1. Euro market (EUR)

After a rise of interest rates by European Central Bank (ECB) in April and July 2011 they were reduced three times by 25 bp according to increased risk of slowdown in European economy. Since July 2012 the base rate has been 0.75%, whereas the overnight deposit interest rate has been 0% (which is supposed to encourage banks to invest and grant loans). In September 2012, the President of the ECB announced a buy-back scheme for unlimited quantities of short-term bonds in the secondary market, in order to reduce the debt yields of peripheral eurozone countries. In the near future, no increase in interest rates is expected in the market.

III.3.2. American market (USD)

In accordance with the data from the European Commission, the U.S. budget deficit in 2011 was 9.6% of GDP, whereas public debt was 103.5% of GDP. In August 2011, Standard & Poor's downgraded the U.S. rating from AAA to AA+ (with a negative outlook). Since December 2008, FED has maintained the federal funds rate in the range from 0.00 to 0.25%, and it plans to keep it at a level close to zero until mid-2015. Furthermore in September this year, it announced the launch of the next bond buy-back scheme and purchase under the scheme assets worth USD 40 billion a month until the situation on the labour market will improve. In the near future, no increase in interest rates is expected on the market.

III.3.3. Japanese market (JPY)

Japan has one of the highest public debt-to-GDP ratio levels among industrialized countries. In 2011, it reached 211.4% of GDP. This debt is the result of massive spending to stimulate the economy in the 90s in the 20th century, as well as stimulus packages aimed at fighting the recession of 2008. Since December 2008, the Central Bank has maintained interest rates at the level of 0-0.1%, aiming at stimulation of the economy. In September 2012, the Bank of Japan extended its scheme for asset buy-back and providing low-cost loans by additional JPY 10 trillion to JPY 80 trillion. In May 2011, Fitch downgraded its rating for Japan by two notches to A+, pointing to the large imbalance in public finances and the political instability in the country. In the near future, no increase in interest rates is expected in the market.

III.3.4. Swiss market (CHF)

Swiss public debt exceeds currently 40% of GDP, and economic growth is 1.9%, while in accordance with the European Union's forecasts, in 2012-2013 it will be 0.9% and 1.7%, respectively. As a result of financial turmoil, CHF has become one of the few currencies perceived as "safe haven" which has resulted in a surge of its value. Dramatic appreciation of Swiss frank (from ca. CHF 1.5 in exchange for EUR 1 at the beginning of 2010 to slightly over EUR 1 at the beginning of August 2011) induced the Swiss National Bank (SNB) to carry out an intervention at the beginning of September 2011. The Bank set the minimum exchange rate of CHF to EUR at 1.2, and undertook to struggle in order to maintain this rate. As a result, Switzerland moved up to the sixth position among the countries with the largest foreign reserves. In the near future, no increase in interest rates is expected in the market.

III.3.5. Credit spreads

One of the global financial markets crisis effect was significant change in the sentiment of investors acting on debt markets. Uncertainty arising from potential losses and their impact on the financial standing of counterparties results in a significant decrease in liquidity and rising

risk aversion among investors. At the turn of 2008 and 2009, capital outflows from smaller markets which are not capable of ensuring adequate liquidity to markets of big issuers were observed. It caused a considerable rise of credit spreads between yields of T-bonds of big issuers with high creditworthiness and yields of T-bonds of smaller issuers, especially those perceived as emerging markets or those which have only recently ceased to be qualified as such, including Poland.

Since the second half of 2009 the confidence on global financial markets has been gradually rebuilt and thus credit spreads had returned to reflect differences in fundamentals between individual countries. The spread between the yields of Polish and German 10-year T-bonds denominated in the euro narrowed from over 300 basis points at the beginning of 2009 to ca. 120 basis points in November 2010, and after widening in the first half of 2012, it narrowed in mid-September 2012 to ca. 120 basis points. Considering decline in interest rates on core markets, the cost of marketable financing in euro decreased comparing the level before the crisis, and reached the lowest level ever recorded. As a result of the crisis in Greece, Ireland and Portugal, and recently also due to concerns about the fiscal condition of other countries, including Italy and Spain, there was an increase in the market valuation of EU states credit risk many, reflected in some countries ratings downgrade⁶. In September 2012 Polish creditworthiness measured by CDS rates was close to level of Slovakia, Czech Republic, Belgium and France, despite the credit rating of those countries have been higher than for Poland.

⁶ Credit risk assessment of the EU Member States, including credit ratings and CDS pricing is presented in Annex 6.

IV. STRATEGY'S OBJECTIVE

The objective of the *Strategy*, superior to all debt management activities, will remain **the minimisation of the long-term debt servicing costs subject to constraints on the level of:**

1. refinancing risk,
2. exchange rate risk,
3. interest rate risk,
4. State budget liquidity risk,
5. other risks, in particular credit risk and operational risk,
6. distribution of debt servicing costs over time.

There are two aspects in which this objective is applied:

- **selection of instruments, i.e.** cost minimisation within the timeframe of the longest maturities of debt instruments with a significant share in debt volume, through the optimal selection of markets, debt management instruments, structure of financing borrowing requirements and issuance dates;
- **increasing the efficiency of the TS market**, contributing to the lowering of TS yields. It means aiming at spreads between TS issued by Poland and those EU countries with the highest credit ratings to reflect only differences in creditworthiness of a given country and not barriers and restrictions in the organisation and infrastructure of the TS market.

The approach to accomplishment of the objective consisting in minimisation of debt servicing costs has not changed in relation to the previous year *Strategy*. This means the possibility of a flexible financing structure in terms of selection of the market, currency and type of instruments. The choice of a financing structure should result from an assessment of market conditions (level of demand, interest rates and the shape of the yield curve in individual markets, as well as the expected levels of exchange rates), and it should result from comparison of the costs of obtaining funds in the long term, taking into consideration constraints resulting from the acceptable risk levels.

Experience in debt management indicates the importance of flexibility and diversification of sources of financing borrowing requirements. At times of financial turmoil it is advisable to use instruments adequate to the market situation. Choice of the currency and the market allows for appropriate distribution of incurred liabilities over time and the accumulation of reserves in case of periodic market turmoil and, consequently, to lower the overall cost of raising capital.

The domestic market will remain the main source of financing the State budget borrowing requirements. The financing structure in the domestic market will be designed in such a way as to prevent excessive yield growth because of oversupply in particular segments of the yield curve. Funds raised in the international markets will be an important supplementary source of domestic financing. Meeting the budget borrowing requirements in foreign currencies should:

- ensure diversification of funding sources through Poland's access to the investor base on major financial markets,
- take into account foreign currency borrowing requirements including repayment of principal instalments and interest on foreign debt,
- maintain the Polish position in the Euro market and build the position in USD market as a complementary source of funding,
- utilize the access to attractive financing in international financial institutions,
- stabilise the domestic market through:
 - ensuring security of financing the State budget borrowing requirements in case of temporary disturbances in the domestic market,

- absorbing a significant part of foreign investors' demand for Polish TS, which is an alternative to increasing the debt to foreign investors in the domestic market,
- allow for selling currencies on the financial market or in the NBP as an instrument of managing foreign currency borrowing requirements and utilising funds raised in international markets to finance borrowing requirements in the domestic currency, taking into account the monetary policy and the economic rationale.

Minimisation of long-term debt servicing costs will be subject to constraints related to the debt structure. Therefore, the following has been assumed:

1. refinancing risk:

- striving for increasing the role of medium and long-term instruments in the State budget borrowing requirements financing in the domestic market at a pace dependent on investors' demand,
- striving for even distribution of interest payments and redemptions of domestic and foreign debt in subsequent years,
- reaching the ATM of domestic debt at the level of at least 4.5 years within the *Strategy's* timeframe, provided that is possible from the perspective of the demand and yield level in particular segments of the yield curve,
- maintaining the ATM of ST debt at the level of at least 5 years;

2. exchange rate risk:

- maintaining the acceptable share of foreign currency debt in total debt at the maximum level of 30%, with possible transitional deviations due to high volatility of exchange rates or severe turmoil in the domestic market, or possibility of foreign pre-financing at significantly lower costs than those in the domestic market,
- possibility of using derivatives in managing exchange rate risk in order to create an adequate currency structure of debt and financing borrowing requirements of the State budget,
- maintaining within the *Strategy's* timeframe an effective (i.e. taking derivative transactions into account) share of the euro in foreign currency debt at the level of at least 70%, with possibility of transitional deviations due to limited access to the euro market, its ineffectiveness or unfavourable situation in the derivatives market;

3. interest rate risk:

- keeping duration of domestic debt in the range of 2.5-3.5 years, and the ATR of the domestic debt in the range of 2.8-4.2 years,
- possibility of separating the management of the interest rate risk from the management of the refinancing risk by using floating-rate bonds, inflation-linked bonds and derivatives,
- the current level of foreign debt interest rate risk does not restrain cost minimisation;

4. State budget liquidity risk:

- keeping a safe level of State budget liquid assets while managing them in an effective way,
- utilisation of free funds of selected public finance sector entities, including the State special purpose funds, in managing the State budget liquidity,
- the level of liquid assets will be determined by the State budget's demand for funds and the smoothening of TS supply within a year, taking into account seasonal considerations as well as current and expected market situation,
- possibility of using liquid assets in managing liquidity in the Polish Zloty;

5. other risks, in particular credit risk and operational risk

- concluding transactions involving derivatives with domestic and foreign entities with high creditworthiness,

- using instruments limiting credit risk and solutions allowing for its diversification when concluding transactions involving derivatives,
 - diversification of credit risk generated by uncollateralised transactions;
6. distribution of debt servicing costs over time
- striving for smooth distribution of debt servicing costs over time with the use of available instruments, especially switching auctions and derivatives,
 - setting bond coupons at the levels close to their yields over the sales period.

V. STRATEGY TASKS IN A FOUR-YEAR HORIZON

The major tasks for implementing the *Strategy's* objectives include:

1. Increasing the liquidity of the TS market,
2. Increasing the efficiency of the TS market,
3. Increasing the transparency of the TS market.

Due to the continuous development of the financial market, the tasks assumed in the *Strategy* are long-term ones and cover measures implemented on a continuous basis. The tasks of the *Strategy* are to a large extent interdependent, i.e. individual measures may contribute to the implementation of more than one task at a time.

V.1. Increasing the liquidity of the TS market

Increasing the liquidity of the TS market in general and of the TS issues in particular will contribute to elimination of the spread that investors expect in case of insufficient liquidity of TS, i.e. those with high costs for pulling out of an investment, as well as to increase demand from investors interested in liquid investments only. Both these factors contribute to decreasing TS yields and hence to the minimisation of ST debt servicing costs. The following measures are planned to be carried out in the timeframe of the *Strategy*:

- Continuation of issuing large series of benchmark bonds on the domestic market ensuring their sufficient liquidity on the secondary market. The policy of issuing medium and long-term fixed-rate bond series until their value reaches at least EUR 5 billion equivalent, adopted in 2003, remains in force.

EUR 5 billion has been adopted as a reference value at the current stage of the domestic TS market development, and it is considered adequate to ensure sufficient liquidity for large institutional investors, not posing at the same time excessive refinancing risk at maturity. In the period covered by the *Strategy* it will be possible to increase the unit value of benchmark bonds above PLN 30 billion.

- Large liquid bond issues in the euro market and the USD market. In mid-2012, there were four bond issues of EUR 3 billion or more, of which one exceeded EUR 5 billion, while two issues in USD were worth USD 3 billion or more.
- Monitoring the effectiveness of new rules assessing the activity of primary dealer (PD) introduced in October 2011, which promote the activity of banks on both the primary market and on the electronic TS trading platform on the secondary market.
- Extending the uniform price auction formula to switch auctions.
- Adapting the issuance policy, including sale, switching and buy-back auctions to market circumstances, in particular to the demand in different segments of the TS market.

V.2. Increasing the efficiency of the TS market

Increasing the efficiency of the TS market covers measures aimed at minimising debt servicing costs under the second out of two aspects discussed in Chapter IV. It applies to both the primary and secondary market. The following measures are planned:

- Adjusting the timing of issuance on the domestic and foreign market to marketable and budgetary conditions, taking into account measures aimed at increasing transparency of the TS market;
- Increasing the role of participants of the PD system in the development of the TS market and in debt management operations. In the areas where participants of the PD system are at least as competitive as other participants of the financial market, conclusion of transactions and selection of partners will be carried out taking into account preferences resulting from their participation in the system;
- Removing technical and legal obstacles in the domestic and foreign TS market;

- Direct meetings with investors in the domestic and foreign market along with consultations with TS market participants in order to exchange information effectively, taking into account investors' requirements in the process of implementing the *Strategy*, including:
 - regular meetings with banks participating in the PD system,
 - meetings with non-banking sector investors,
 - meetings with foreign investors and foreign banks,
 - ad hoc meetings and phone consultations with investors;
- Broadening the investor base, also by regular meetings with foreign investors in the form of non-deal roadshows in key foreign markets aimed at:
 - building and maintaining relations with key foreign investors,
 - separating specific issues of foreign T-bonds from promotional activities (roadshows) enabling issuance at best possible timing, regardless of marketing readiness,
 - promotion of Polish TS issued both on the domestic and foreign markets;
- Active participation in conferences and seminars for investors;
- Broadening the channels of electronic communication with domestic and foreign investors.

V.3. Increasing the transparency of the TS market

Measures undertaken to increase the transparency of the TS market allow for limiting uncertainty connected with its functioning and receiving reliable information on current market prices. They also help to formulate expectations as to future market prices. Both predictability of the issuance policy and transparent functioning of secondary market contribute to transparency of the market as a whole. The following measures are planned to be carried out in the timeframe of the *Strategy*:

- Transparent issuance policy, including announcing TS issuance calendars, yearly, quarterly, and monthly plans of TS supply in the domestic and foreign markets, as well as supply offers for particular TS auctions;
- Promoting the electronic market through appropriate PD system regulations in accordance with competitiveness and transparency rules, mainly the obligations imposed on dealers and candidates concerning quoting benchmark bonds, maintaining specific spreads and participation in the fixings of TS.

VI. IMPACT ON THE PUBLIC FINANCE SECTOR DEBT

Pursuant to Article 74 of the Public Finance Act of August 27, 2009, the Minister of Finance is in charge of the public finance sector as regards the rule which states that the public debt must not exceed 60% of the annual GDP.

In the case of public finance sector units other than the State Treasury, which are autonomous in incurring liabilities, the influence on their level of debt is indirect and is derived from the regulations of the Public Finance Act. First of all, they include constraints imposed on the manner of incurring liabilities by local government units, as well as prudential and remedial procedures, which are applied to the public finance sector entities when the public debt-to-GDP ratio exceeds the thresholds of 50%, 55% and 60%.

VI.1. Changes in legal regulations

The most important legislative change which had a direct impact on public debt management was strengthening the State budget liquidity management system, introduced in May 2011 by means of an amendment to the Public Finance Act. The amendment introduced the following regulations:

- the obligation to deposit liquid funds of special purpose State funds, executing agencies and other selected public finance sector entities on the account of the Minister of Finance,
- the possibility of depositing liquid funds by local government units and other public finance sector entities as deposit account with the Minister of Finance.

The so-called consolidation of the public finance sector's liquidity management has been a systemic change, aimed at more efficient management of the sector's assets. It resulted in reduction of the borrowing requirements by utilising liquid funds of public finance sector entities, as well as decrease in the public debt and ST debt servicing costs. At the same time, public sector entities maintain independence of managing funds required for the implementation of their tasks. At the end of 2011, the balance of free cash deposited by those units with the account of the Ministry of Finance amounted to PLN 24.5 billion, which resulted in a reduction of the public debt in 2011 by ca. PLN 23.1 billion.

Pursuant to the Public Finance Act of 27 August, 2009, rules regarding balanced current budgets of local government units have been in force since 1 January 2011, while a system of individual constraints on incurring debt will come into force in 2014, under which the individual amount of debt to be incurred by individual units will depend on their capacity to repay it⁷.

A draft act on public finances has been developed. The act assumes changes in the following areas:

- Fiscal rule for local government units that will introduce a deficit limit for local government sector and constant monitoring by the Ministry of Finance of the planned budget balance of local government units within the next four years. Furthermore, it is planned to implement an excessive deficit procedure, to introduce mechanisms which prevent exceeding the deficit limit and to establish an information flow system related to local government sector's finances, enabling control and monitoring of the local government sector's deficit.
- The target expenditure rule aimed at stabilisation of the nominal balance of the central and local government sector in relation to GDP at a level equal to the medium term objective - MTO, currently 1% of GDP) in the medium term and maintaining the public debt to GDP ratio below the established level. The rule will be an expenditure one, and thus it will impose constraints on the rate of growth of public spending. The total spending limit for the central and local government sector after deducting non-refundable EU aid funds, whose ultimate beneficiary are entities of this sector will be determined based on the real

⁷ The rules and limits of incurring liabilities by local government units are discussed in Annex 2.

GDP growth rate in the medium term and an inflation projection. The rule provides for adjustment of the expenditure growth rate below the medium-term GDP growth rate in the following three cases: (1) as a result of an excessive negative deviation of the nominal balance from the target in the medium term, (2) when public debt exceeds the reference level, (3) if an excessive deficit procedure is imposed on Poland. Spending cuts will take place, however, only when the economy is strong enough so as to avoid the risk of pro-cyclical impact of the correction mechanism;

- Prudential and remedial procedures - it is planned to introduce amendments to the Public Finance Act as regards prudential and remedial procedures in case of exceeding by the public debt-to-GDP ratio the 50% or 55% threshold, and to introduce amendments to the Act on Value Added Tax as regards the mechanisms of conditional VAT rate increases in case of exceeding the 55% threshold by the ratio. The constraints resulting from exceeding the 50% or 55% threshold, including those related to non-compliance with the requirement of conditional VAT rate increases would not apply if the amount of public debt-to-GDP ratio converted into PLN using the average exchange rates in a given year and reduced by free funds of the Ministry of Finance as of the end of the financial year that be used to finance the State budget borrowing requirements in the subsequent financial year, does not exceed 50% or 55%, respectively. The proposed solution will reduce the negative impact of exchange rate fluctuations (as a highly volatile external factor, vulnerable to speculation) and prefinancing (incurring in a given year liabilities on pre-financing next year's borrowing requirements) on imposing sanctions stipulated in prudential procedures aimed at reducing the debt-to-GDP ratio. At the same time the proposed amendment does result in a change to the debt statistics methodology.

VI.2. Assumptions of the strategy of granting sureties and guarantees

Granting sureties and guarantees by the public finance sector entities, especially by the ST, entails the risk of generating debt servicing costs when sureties or guarantees are executed. Sureties and guarantees constitute potential debt which can convert into public debt if they are executed.

In order to reduce risk associated with granting ST guarantees and sureties while preserving advantages of using them as an instrument of the State's economic policy, the following principles shall be maintained:

- granting sureties and guarantees shall concentrate on supporting development-oriented projects concerning infrastructure investments, environment protection, creating new jobs and regional development, in particular EU founded ones (loans and bonds secured or guaranteed by the ST should help to acquire the EU structural funds), but also on subsidising other investments that may arise from possible new support programmes for granting sureties and guarantees in compliance with the EU rules;
- sureties and guarantees can be also be granted to support possible measures undertaken in the event of potential disruptions in Polish financial system that could be a result of the global financial and economic crisis;
- limiting the role of sureties and guarantees particularly risky for the ST, which are granted on the basis of special-purpose, so called "sectoral" acts.

The amount of new sureties and guarantees granted in the given year is determined by the Budget Act. Pursuant to the Article 31 of the Act of May 8, 1997 on sureties and guarantees granted by the State Treasury and certain other legal persons, each year the Budget Act stipulates the total amount to which guarantees and securities can be granted by the State Treasury. The limit for 2013 in the draft budget act was set at PLN 300 billion.

The extent of use of ST sureties and guarantees will result primarily from the continuation of infrastructural investments, as well as possible measures which can be undertaken in the event of potential disruptions in the Polish financial system resulting from a global financial and

economic crisis. An increase in contingent liabilities resulting from sureties and guarantees granted by the ST will be affected to a large extent by sureties and guarantees granted to the following entities:

- Bank Gospodarstwa Krajowego for bonds issuance and repayment of credits incurred for the National Road Fund (KFD) in order to co-finance the construction of a road infrastructure;
- PKP Polskie Linie Kolejowe S.A. for the repayment of credits incurred in order to co-finance the investment in railway infrastructure.

VI.3. Debt of public finance entities other than the State Treasury

Under the adopted assumptions, the nominal debt of public finance sector entities other than the State Treasury will increase, within the timeframe of the *Strategy*, from PLN 97.8 billion to PLN 107.4 billion before consolidation, and from PLN 74.8 billion to PLN 78.9 billion after consolidation. The increase will be the result of:

- decreasing deficits in the following years, and then surpluses in the budgets of LGUs,
- slight increase in the debt of independent public health care facilities,
- stabilisation of debt of central government and the local government sector.

Chart 29. Debt of public finance sector entities other than State Treasury by sectors, before and after consolidation (in PLN billion)

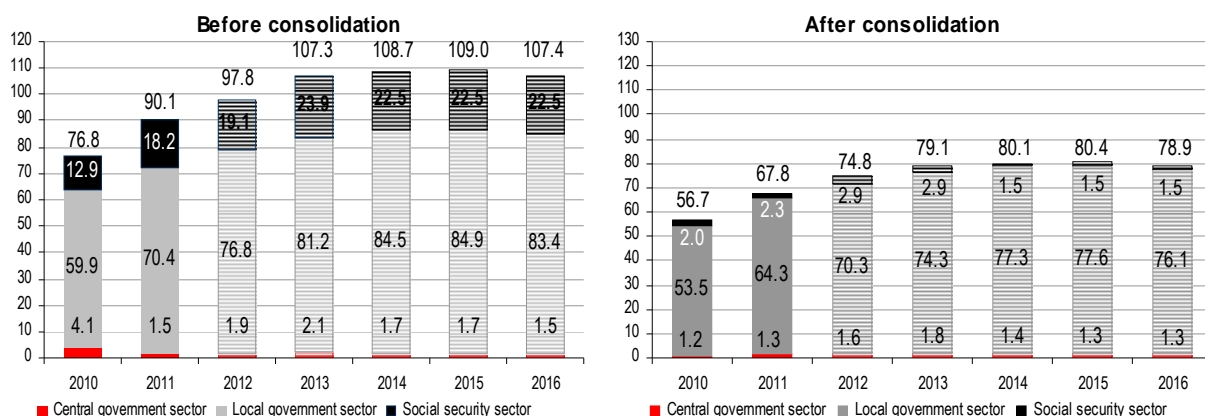
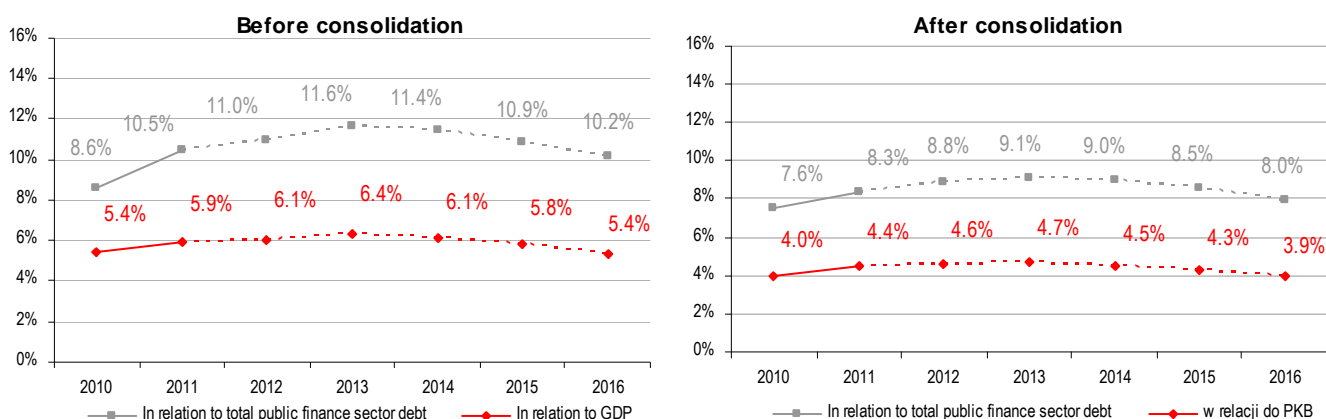


Chart 30. Debt of public finance sector units other than ST in relation to GDP and total public finance sector debt



The debt of public finance sector entities other than State Treasury to GDP before consolidation in the timeframe of the *Strategy* is expected to amount to ca. 5.9%, whereas the debt after consolidation will amount to ca. 4.4%. The share of this group of entities in the total debt of the public finance sector before consolidation is expected to amount to ca. 11.0%, and to ca. 8.7% after consolidation.

VI.3.1. Debt of local government units

In accordance with the assumptions of the Strategy the debt of local government units and their associations will be decreasing, and it will be an outcome of decreasing total deficit for this group of entities. In 2016, a decrease in the debt of local government units as a result of the total surplus for this group of entities is expected.

Borrowing requirements of local government units and their associations will be determined by investment expenditures, in particular by expenditures on infrastructural projects, including those co-financed with the EU funds. Similar to the previous years, most of the debt will be generated by cities with county rights and municipalities.

Commercial banks loans incurred in the domestic market will remain the main source of financing of the borrowing requirements of local government units. It is assumed that the significant role of foreign debt, both under bonds issued on international markets and loans incurred at international financial institutions as a supplementary source of financing the borrowing requirements of those units, will be maintained.

The balanced current budget rule for local government units, in force since 2011, will have an impact on the amounts of newly incurred liabilities. Until 2013, local government units will be incurring liabilities under the rules defined in the Public Finance Act of June 30, 2005. Rules regarding incurring liabilities that are defined in the Public Finance Act of August 27, 2009 aimed at preventing local government units from excessive indebtedness will come into force in 2014. The growth of debt of local government units can be also limited by additional constraints regarding the deficit that are currently being worked on.

VI.3.2. Debt of independent public health care units

It was assumed that within the timeframe of the Strategy the debt of independent public health care units before consolidation will slightly increase. The debt of local government units will continue to have a dominant share in the total liabilities of independent public health care units.

Changes in the debt will be the result of:

- restructuring of the existing debt of public health care facilities - in accordance with principles facilitating the improvement of financial management in individual facilities, while taking into account the needs of founding bodies of independent public health care units, the ST and creditors.
- changes in the legal form of those units, including transformation of some of them into commercial partnerships,
- current financial balance of individual entities.

Loans will remain the dominant debt component.

VI.3.3. Debt of other entities

Credits and loans, including those granted by the State budget to the Social Insurance Fund will predominate in the debt of other public finance sector entities. It is expected that the debt of the Social Insurance Fund after consolidation will be significantly lower than before consolidation due to utilisation of loans from the State budget as a source of financing.

VII. EXPECTED EFFECTS OF IMPLEMENTING THE STRATEGY

The expected effects of the Strategy implementation include forecasts of:

- the volume of public debt and its servicing costs ,
- contingent debt resulting from granted guarantees and sureties,
- changes in risk related to public debt.

These are the expected results of the implementation of the *Strategy's* objectives under the adopted macroeconomic and budgetary assumptions. The most important threats to the implementation of the *Strategy's* objectives were also presented in this chapter.

VII.1. Debt volume and its servicing costs

In 2012, a decrease in the debt-to-GDP ratio from 53.5% at the end of 2011 to 52.4% is expected. Under the adopted assumptions, in the years 2013-2016, the debt-to-GDP ratio is expected to be lower, and it will decrease below the 50% threshold in 2016. The general government debt-to-GDP ratio is also expected to decrease to 52.0% in the timeframe of the Strategy. No threat is expected for this ratio to exceed the 60% threshold stipulated in the Maastricht Treaty in the timeframe of the Strategy.

Pursuant to the Public Finance Act, if the public debt-to-GDP ratio remains above the threshold of 50% by the end of 2015, it will be necessary to adopt in the budget acts for the subsequent years, a deficit-to-revenue ratio not higher than that adopted in the previous years.

An increase in ST debt servicing costs will be mainly a consequence of debt growth. The ST debt servicing costs-to-GDP ratio will increase from 2.4% in 2011 to 2.7% in 2012, and then it will gradually decrease to 2.2%-2.3% in 2016, depending on market variables.

A significant increase in debt servicing costs in 2012 results mainly from higher redemptions of 2-year zero-coupon bonds issued during the financial crisis in 2009-2010 and higher yield on floating-rate debt due to an increase in short-term interest rates caused by tightening monetary policy in 2011-2012.

Table. 7 Forecasts of public debt volume and the ST debt servicing costs

Item	2011	2012	2013	2014	2015	2016
1. State Treasury debt						
a) PLN bn	771.1	795.2	813.9	841.5	891.6	945.5
- domestic	524.7	541.4	565.0	606.1	643.8	675.4
- foreign	246.4	253.8	248.9	250.2	268.5	279.6
b) in relation to GDP	50.6%	49.3%	48.2%	47.6%	47.5%	47.3%
2. Public debt						
a) PLN bn	815.3	845.8	867.6	893.3	941.5	991.4
b) in relation to GDP	53.5%	52.4%	51.4%	50.5%	50.2%	49.6%
3. General government debt						
a) PLN bn	859.0	894.7	920.9	944.8	990.0	1 039.0
b) in relation to GDP	56.3%	55.5%	54.5%	53.4%	52.8%	52.0%
4. State Treasury debt servicing costs (cash basis)						
a) PLN bn, including:	36.0	43.0	43.5	42.3 - 42.8	42.5 - 44	43.4 - 45.4
- domestic debt	27.1	32.2	32.1	31.4 - 32.2	33 - 33.3	33.3 - 33.8
- foreign debt	8.8	10.8	11.4	10.3 - 11.3	9.5 - 10.7	10.1 - 11.6
b) in relation to GDP	2.36%	2.67%	2.58%	2.39% - 2.42%	2.27% - 2.34%	2.17% - 2.27%

* ST debt servicing cost forecasts for the years 2014-2016 are presented in ranges including reserves for exchange rate risk and smooth distribution of debt servicing costs over time.

Chart 31. Debt to GDP ratio

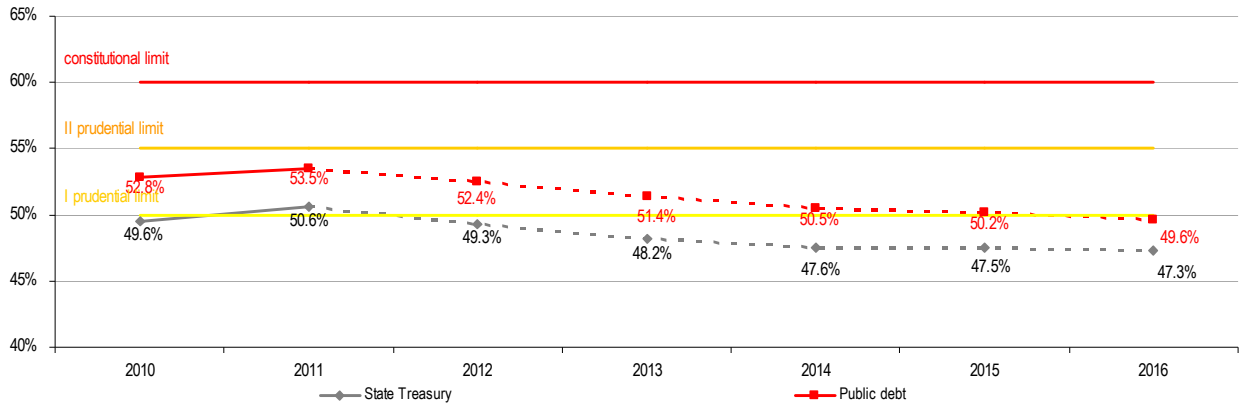


Chart 32. ST debt servicing costs to GDP ratio

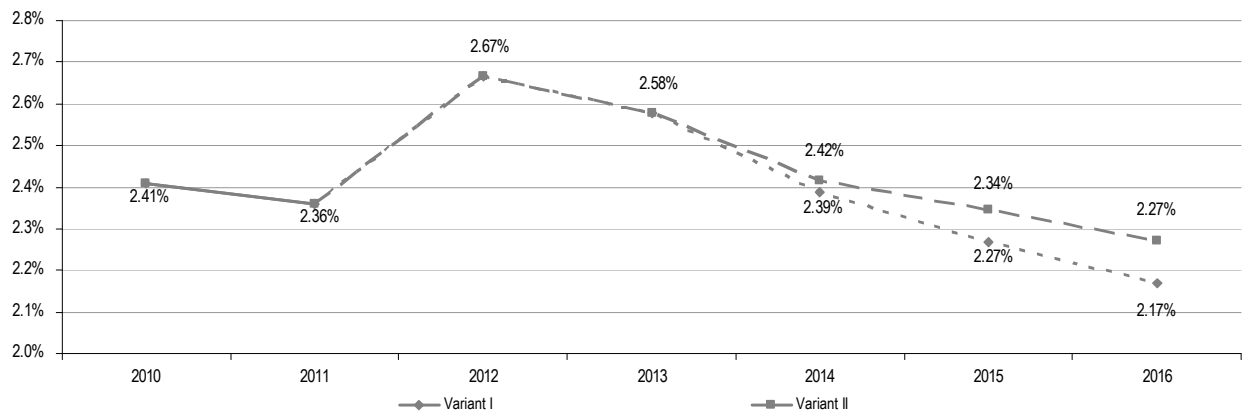
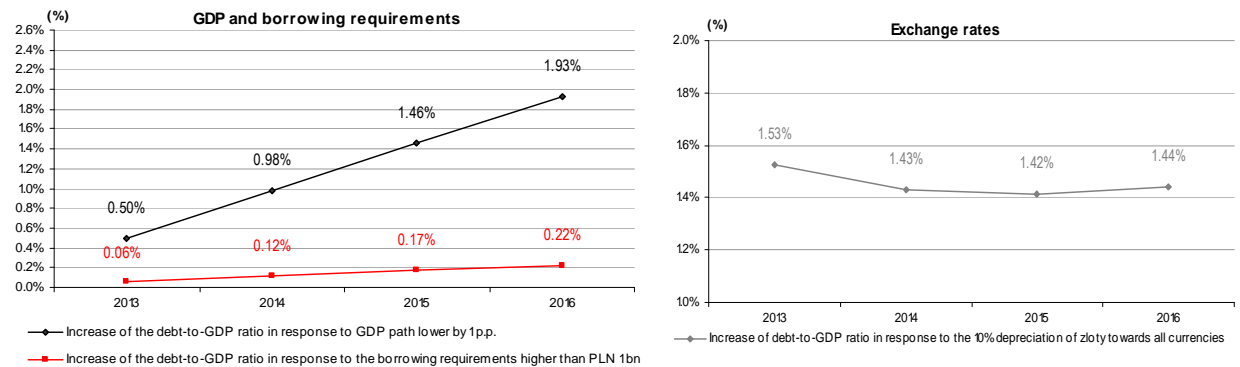
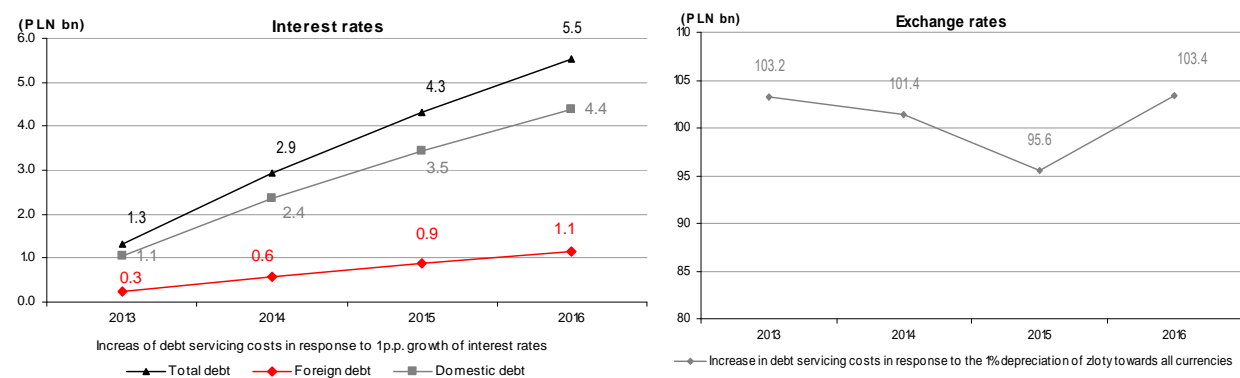


Chart 33. Sensitivity of public debt to GDP ratio to changes in assumptions*



* On the assumption of paths change since 2013.

Chart 34. Sensitivity of ST debt servicing costs to changes in assumptions



VII.1.1. Contingent liabilities (guaranties and sureties)

It is expected that the ratio of contingent liabilities resulting from sureties and guarantees granted by public finance sector entities to GDP will amount in 2012 to ca. 7.2 %, including those granted by the ST amounting to ca. 6.9%, while in 2013 it may increase to 8.1% and 7.8%, respectively. In the subsequent years, a decrease in this ratio is expected.

Table 8. Forecast of contingent liabilities under guaranties and sureties granted by the ST and the public finance sector units

Public finance sector	2012	2013	2014	2015	2016
PLN bn	116.4	137.1	127.6	131.3	136.7
GDP %	7.2%	8.1%	7.2%	7.0%	6.8%
State Treasury	2012	2013	2014	2015	2016
PLN bn	112.1	131.4	120.2	121.7	124.3
GDP %	6.9%	7.8%	6.8%	6.5%	6.2%

VII.2. State Treasury debt structure

It is expected that in the timeframe of the *Strategy*:

- depending on the adopted financing strategy, the refinancing risk will remain at the level similar to that prevailing at the end of 2011. The ATM of the ST domestic marketable debt will remain within the range of ca. 4.3-5.0 years compared to ca. 4.4 at the end of 2012, while that of the total ST debt will be in the range of 5.3–5.8 years;
- the interest rate risk will remain within the range set in the *Strategy*. Depending on the adopted financing structure, duration of the domestic marketable debt will remain within the range of ca. 2.7-3.4 years compared to ca. 3.0 at the end of 2012, while that of the total debt will be in the range of ca. 3.6-4.0 years. The ATR of the domestic debt will be in the range of ca. 3.1-3.9 years compared to 3.4 at the end of 2012, while that of the total debt will be in the range of ca. 4.2-4.8 years;
- the average share of foreign debt will reach ca. 30%, though deviations from the basis scenario are possible in connection with a flexible approach to foreign financing and the volatility in the exchange rate of the Polish Zloty.

Chart 35. ATM of the ST debt

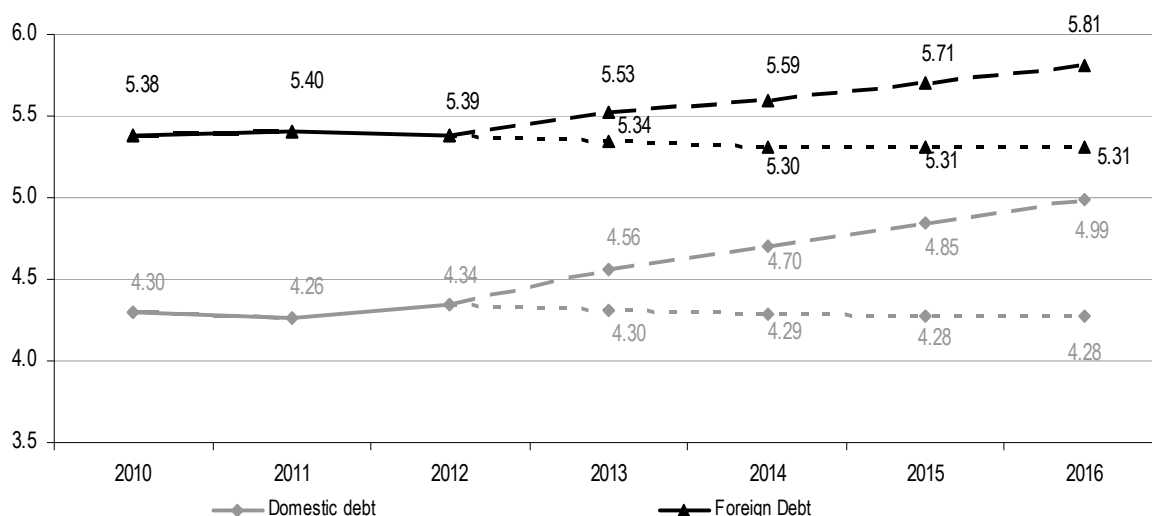


Chart 36. Duration of ST debt

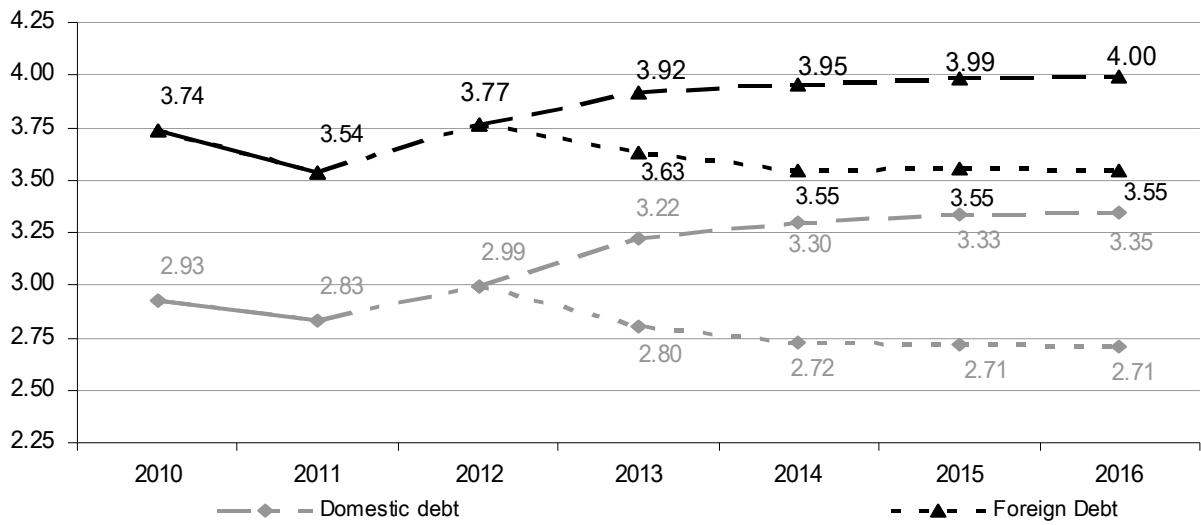


Chart 37. ATR of the ST debt

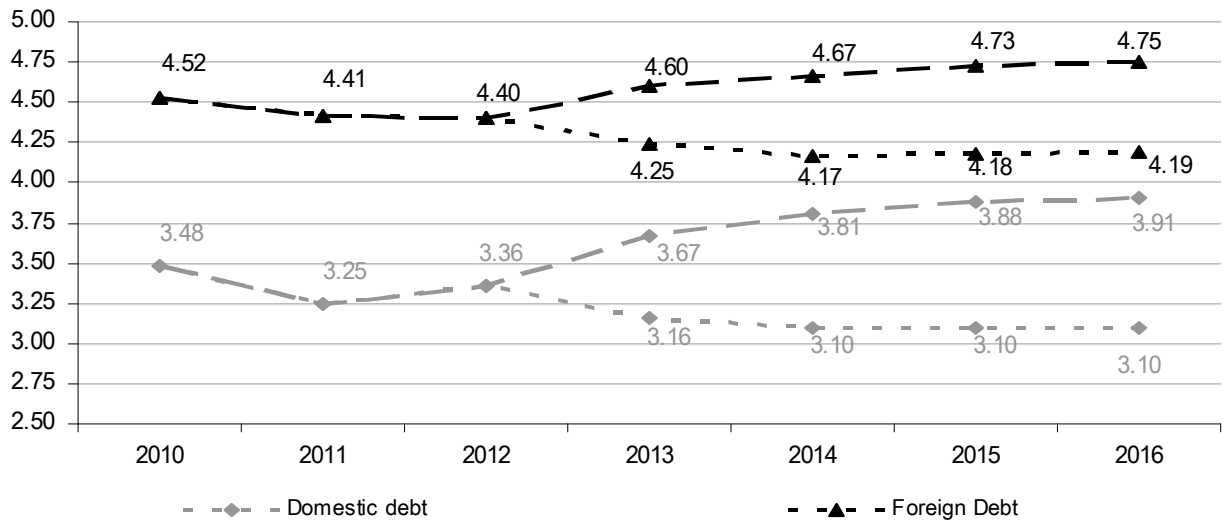
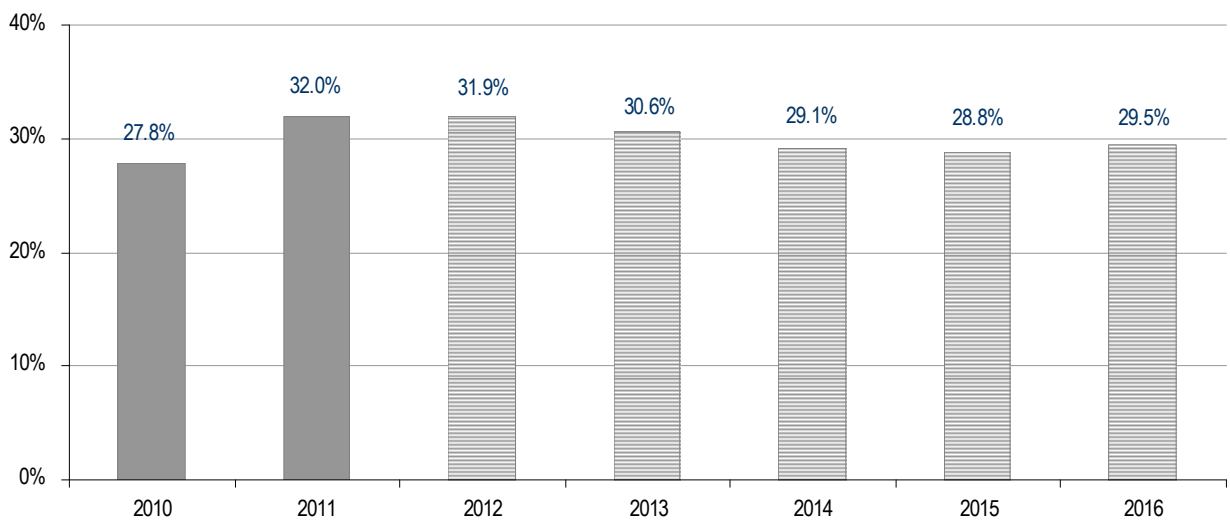


Chart 38. Share of foreign debt in the ST debt



VII.3. Threats to the Strategy implementation

The main threats to the implementation of the presented Strategy are connected primarily with:

1. a macroeconomic situation in Poland varying from the assumed one, in particular a slower GDP growth, higher interest rates, as well as volatility in foreign exchange rates;
2. conditions in the international market, including:
 - the impact of the debt crisis on the economic growth in Europe and the USA,
 - the impact of the debt crisis of certain Eurozone countries on the EU institutional solutions, in particular on the eurozone future,
 - lending capital withdrawal towards investments on core markets resulting from concerns about the fiscal standing of issuers from the eurozone and global investors' risk aversion;
3. the risk that the public debt-to-GDP ratio will exceed, in the timeframe of the *Strategy*, the threshold of 55%, and that the general government debt-to-GDP ratio will exceed the threshold of 60%, as a result of:
 - higher borrowing requirements of the State budget depending, among others, on the Polish economic conditions,
 - a lower exchange rate of the Polish Zloty compared to that assumed in the *Strategy*,
 - a considerable increase in debt of public finance sector entities other than the ST, in particular local government units,
 - executing sureties or guarantees granted by public finance sector entities, when necessary.

Annex 1. Abbreviations and glossary

A. Abbreviations used in the Strategy

ATM – average time to maturity
ATR – average time to refixing
BGK – Bank Gospodarstwa Krajowego
CDS – Credit Default Swap
CPI – consumer price index
ECB – European Central Bank
EDP – Excessive Deficit Procedure
EFSF – the European Financial Stability Facility
EU – European Union
FED – the Federal Reserve System
FUS – Social Insurance Fund
GDP – Gross Domestic Product
GG – general government sector
IFI – International Financial Institutions
KFD – National Road Fund
NBP – National Bank of Poland
OFE – Open Pension Funds
ST – State Treasury
TS – treasury securities
PD – Primary Dealers
VAT – value added tax

B. Glossary

ATR (*average time to refixing*) – the measure of interest rate risk related to the public debt. **ATR** is interpreted as the average period, expressed in years, for which the debt servicing costs are set. The larger the share of short-term and floating rate instruments, the higher the interest rate risk and the lower **ATR**. **ATR** was introduced in 2005 as a complementary to duration measure of the interest rate risk that covers debt both with indexed and non-indexed principal. The **ATR** of domestic marketable **TS** is calculated according to the following formula:

$$ATR = \frac{\sum_{r \in R} rNZ_r + \sum_{t \in T} tNS_t + \sum_{j \in J} \frac{1}{12} NI_j I_0}{\sum_{r \in R} NZ_r + \sum_{t \in T} NS_t + \sum_{j \in J} NI_j I_0}$$

where:

r – payment date of the nearest fixed coupon for floating-rate instruments,

t – maturity date for fixed-rate instruments,

j – maturity date for inflation-linked instruments,

R – set of all payment dates of the nearest fixed coupons for floating-rate instruments,

T – set of all maturity dates for fixed-rate instruments,

J – set of all maturity dates for inflation-linked instruments,

NZ_r – face value of floating-rate instruments,

NS_t – face value of fixed-rate instruments,

NI_j – (non-indexed) face value of inflation-linked instruments,

I_0 – current indexation coefficient of inflation-linked instruments' face value.

Average maturity (also *ATM* – *average time to maturity*) – the measure of public debt refinancing risk. Average maturity is the average period, expressed in years, after which the issued debt will be redeemed. The further the maturity dates, the lower the refinancing risk and the higher the average maturity. Average maturity of domestic marketable TS is calculated according to the following formula:

$$ATM = \frac{\sum_{t \in T} t N_t I_0}{\sum_{t \in T} N_t I_0}$$

where:

t – maturity date,

T – set of all maturity dates,

N_t – face value paid at time t ,

I_0 – current indexation coefficient of inflation-linked instruments' face value (for non-indexed Treasury Securities $I_0 = 1$).

Benchmark

1. (*issue*) the large amount of TS issue with a liquid secondary market. Yields of benchmark bonds are a reference point for yields in a given maturity segment.
2. (*portfolio*) target characteristics of the public debt portfolio, which constitutes a *reference portfolio* for the existing portfolio and specifies the direction of public debt management. The characteristics of the reference portfolio may include the share of particular currencies, interest rates and types of instruments, as well as the values of synthetic indicators which most often constitute the risk measures, e.g. the average maturity or duration.

Buy/sell back – transaction which consists of two agreements: spot purchase and forward sale of securities at a price set upfront at the day of the transaction.

Credit risk – associated with the risk that the other party of the transaction will fail to meet its obligations in whole or in part. The risk occurs as a result of transactions in assets. For the entity managing the debt such a situation occurs when financial derivatives are used, swaps in particular. Credit risk also occurs in liquid assets management, e.g. through making deposits with banks and purchase of securities.

Credit risk is managed mainly by choosing partners with high creditworthiness (measured by their ratings) and by setting limits for total transaction size for partners, dependent on their credit credibility and type of transaction.

Duration – the measure of vulnerability of debt servicing costs to changes of interest rates and thus the measure of interest rate risk related to public debt. *Duration* is interpreted as the average period (expressed in years) of debt servicing costs adjustment to the change of interest rate levels. The higher the level of interest rates and the larger the share of short-term and floating-rate instruments, the higher the interest rate risk and the lower *duration*.

$$Duration = \frac{\sum_{r \in R} \left[r \sum_{s \in S_r} \frac{CFZ_s}{(1+i_s)^s} \right] + \sum_{s \in S} \frac{sCFS_s}{(1+i_s)^s}}{\sum_{s \in S} \frac{CFZ_s}{(1+i_s)^s} + \sum_{s \in S} \frac{CFS_s}{(1+i_s)^s}}$$

where:

s – payment date (of interest or face value),

S – set of all payment dates (of interest or face value),

r – payment date of the nearest fixed coupon for floating-rate instruments,

R – set of all payment dates of the nearest fixed coupons for floating-rate instruments,

S_r - set of all payment dates for these floating-rate securities. which the nearest fixed maturity is r ,

CFZ_s - payment (of interest or face value) for floating-rate instruments,

CFS_s – payment (of interest or face value) for fixed-rate instruments,

i_s – zero-coupon interest rate for term s .

Duration of total debt of State Treasury is weighted average of appropriate duration coefficients for every currency, where weights are marketable value of debt in particular currency.

Exchange rate risk – stems from the existence in the State Treasury debt instruments denominated and settled in foreign currencies. The exchange rate risk manifests itself in the vulnerability of the debt level and debt servicing costs to exchange rate fluctuations, which is a consequence of the floating exchange rate regime applied in Poland. The Zloty appreciation or depreciation against a given foreign currency results in a proportional increase or decrease (in the zloty terms) of debt volume and debt servicing costs denominated in this currency.

Financial derivatives – financial instruments, which depend on the value of other assets called basic instruments. They are used to change the risk profile of the parties concluding a transaction in financial derivatives, i.e. hedging against risk, change of one type of risk to another or an conversion of the cost into the risk (a trade-off – a decrease in costs and an increase in risk). The examples of financial derivatives most often used in public debt management include swaps and options.

Interest rate risk – risk that payments related to the debt servicing costs will change as a consequence of a change in interest rates. It stems from the necessity to finance the debt maturing in the future at unknown rates and from volatility of coupon payments of the floating-rate debt.

Operational risk – risk associated with the threat that the costs related to the debt management or the level of other types of risk will increase due to an inadequate to the scope of tasks infrastructure, organization and control of the debt management. Operational risk is the type of risk most difficult to measure.

Limiting the operational risk is achieved by integration of public debt management procedures in one organizational entity, having its structure, infrastructure and procedures adjusted to efficient operations in the environments of state administration and financial markets

Option – the right (but not the obligation) to buy or sell a specified asset at an agreed price, which the issuer of the option is obliged to observe with respect to the holder of the option. The options may be separate financial instruments or they may be built into other instruments, e.g. an option to present savings bonds to the State Treasury for early redemption.

Place of issue criterion – the criterion of the division of public debt into domestic and foreign debt, according to which the domestic debt is the debt issued on the domestic market.

Potential debt – liabilities that are not public debt, but which can become public debt once a specific event takes place. Guaranties and sureties granted by the public finance sector units are a classical example of potential debt. In the case of execution of a guaranty or surety, the liabilities

became payable and increase expenditures of an entity that granted them, thus increasing its borrowing requirements and public debt.

Primary Dealers – a group of institutions (banks) selected through a competition that have specific rights and obligations related to the participation in the primary and secondary TS market. The dealers act as intermediaries between the issuer and other entities in TS trading and have the exclusive access to the primary market.

Private placement – an issuance addressed to a selected investor or group of investors.

Refinancing risk – associated with debt issuance in order to finance the State borrowing needs resulting from the redemption of the existing debt. The risk applies to both the ability to redeem maturing debt and conditions on which it is refinanced (including in particular servicing costs generated by newly issued debt). The larger the payment related to the redemption of maturing debt and the closer the date of redemption, the larger the risk related to refinancing of this debt. The refinancing risk is influenced by the level of outstanding debt and its maturity profile. The extension of the debt maturity and the even distribution of debt redemption over time contribute to the reduction of refinancing risk.

Resident criterion - the criterion of the division of public debt into domestic or foreign debt, according to which the domestic debt is the debt owned by domestic investors (i.e. investors with the place of residence or registered seat in Poland).

Spread – the difference between yields of two securities. In narrower meaning credit *spread* (also credit margin) – the difference between yields of two securities with all the characteristics (especially maturity date) identical (or almost identical) except for issuer. Spread is often understood as a difference between yields of credit risk-burdened and credit risk free (or characterized by the lowest risk in the class) security.

State budget liquidity risk – risk associated with the loss of the state budget's ability to meet the current obligations and to timely execute budget expenditures. In order to reduce this risk the State budget should have an access to the adequate amount of liquid financial assets, enabling the independence from temporary events of crises which prevent or make difficult the acquisition of funds on the financial market at rational cost.

State budget liquidity risk is managed by keeping safe reserve of funds at the lowest possible level on one hand (by improving the process of state budget liquidity planning and monitoring) and on the other by the management of liquid assets in a way that they generate budget revenues which in the highest possible extent compensate for costs of keeping a given level of liquidity.

Swap – exchange of streams of payments with rules of calculating their value specified in advance, which takes place between the parties of the agreement. *Swap* is a financial instrument from the group of the so-called *financial derivatives*. *Swap* may be a separate financial instrument or it may accompany other instruments.

Annex 2. Legal regulations applied to public debt in Poland and the EU

Table 1. Public debt – basic legal regulations

Polish regulations	EU regulations
1. Constitution of the Republic of Poland ban on contracting loans and granting guaranties and sureties resulting in the public debt exceeding 3/5 of GDP (Article 216(5));	1. Treaty on the functioning of the European Union ➤ level of general government debt and restrictions applied to general government deficit constitute the criterion on the basis of which the Commission examines the compliance with budgetary discipline in Member States (Article 126) – specifies the so called Excessive Deficit Procedure (EDP);
2. Public Finance Act ➤ regulations on public debt: definitions, basic principles of issuing public debt and debt management, prudential and remedial procedures applied to public debt levels; ➤ definition of the scope of the public finance sector.	2. Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community and the Treaty on the functioning of the European Union ➤ definition of general government debt and reference value of debt to GDP ratio at 60%;
	3. Council Regulation on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty establishing the European Community ➤ definition of general government debt with specification of categories of liabilities which constitute it;
	4. The European System of Accounts (ESA'95) ➤ definition of categories of financial liabilities; ➤ definition of general government sector.

Table 2. Limits on the public debt to GDP ratio in the current and the new Public Finance Act

Current Public Finance Act
I. Legal procedures regarding limits on public debt to GDP ratio
1) the ratio in year x is greater than 50%, and not greater than 55%:
a) the state budget deficit to state budget revenue ratio in the draft budget act adopted by the Council of Ministers for the year x+2 cannot be higher than in the year x+1;
2) the ratio in year x is greater than 55%. and lower than 60%:
a) it is assumed the lack of deficit or the difference between state budget revenues and expenditures in draft budget act adopted by the Council of Ministers for the year x+2 must ensure the decrease in State Treasury debt to GDP ratio as compared to the ratio announced for the year x;
b) budget deficit of local government unit diminished by cumulated budgetary surplus from previous years and liquid funds in budget resolution for the year x+2 can only derive from expenditures for current tasks co-financed from EU funds or non-returnable financial aid provided by EFTA member countries;
c) in draft budget act adopted by the Council of Ministers for the year x+2: ➤ no increase in salaries of public sector employees is assumed, ➤ revaluation of pensions must not exceed the CPI level in the budgetary year x+1, ➤ ban on granting new loans and credits from the State budget is introduced, ➤ the increase in expenditures of the Sejm (lower house of Polish Parliament), the Senate (upper house of Polish Parliament), Presidential Chamber of the Republic of Poland, Constitutional Tribunal, Supreme Chamber of Control (NIK), Supreme Court, Primary Administration Court, common courts of law and provincial administration courts, Spokesman of Citizen Rights, Spokesman of Child Rights, National Board of Radio and Television, General Inspector for the Security of Personal Data, The Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation, National Electoral Office, National Labour Inspection must not be higher than expenditures in the government administration;
d) the Council of Ministers make a review of: ➤ State budget expenditures financed by foreign credits, ➤ long- term programs;
e) the Council of Ministers presents a remedial program ensuring the fall in public debt to GDP ratio;
f) The Council of the Ministers make a review of regulations in force to propose possible legal solutions which influence state budget revenues, including VAT rates,

Current Public Finance Act	
g) increase of VAT rates for subsequent 3 years is introduced;	
h) State Fund for the Rehabilitation of Disabled Persons receives earmarked subsidies from the state budget for co-financing of disabled workers salaries at the level of 30% of planned funds for that year;	
i) New liabilities can be incurred by government administration if the investments are co-financed from EU funds or non-returnable financial aid provided by EFTA member countries at the maximum level, set in the rules or procedures for particular type of investment, not lower than 50% of the total costs, however these restrictions do not apply to state road rebuilding or repairs required for road traffic hazard removal, anti-flood infrastructure investments, electronic toll service and compensations for properties taken over for public roads investments;	
3) the ratio in year x is equal to or greater than 60%:	
a) procedures provided in point 2, letters a, c, d, f, g and h in case of the ratio greater than 55%, and lower than 60% are in force;	
b) budgets of local government units for the year x+2 must at least be balanced;	
c) a ban on granting new sureties and guarantees by public finance sector entities is introduced;	
d) the Council of Ministers presents to the Parliament a remedial programme with the main objective to prepare and implement actions aimed at reducing the public debt-to-GDP ratio below 60%;	
II. Principles and limits on incurring liabilities by local government units	
a) planned and executed current expenditures must not exceed planned and executed current revenues including liquid funds and budgetary surpluses from previous years;	
b) executed current expenditures can be higher than executed current revenues including liquid funds and budgetary surpluses from previous years only by amounts linked with the current tasks co-financed from EU funds or non-returnable financial aid provided by EFTA member;	
c) Local government units can incur loans and issue securities for: <ul style="list-style-type: none"> ➤ repayment of earlier incurred liabilities resulting from securities and loans, ➤ covering temporary budget deficit of local government within the fiscal year, ➤ financing of planned budget deficits; ➤ preceding financing tasks co-financed from UE funds; 	
d) Loans incurred and securities issued for covering temporary budget deficit of local government have to be paid off or redeemed in the same year as they were incurred or issued;	
e) Local government can only incur liabilities of which servicing costs are borne at least once a year, while: <ul style="list-style-type: none"> ➤ discount of securities issued by local government cannot exceed 5% of their face value, ➤ capitalization of interest is inadmissible; 	
f) For a local government unit, the ratio of: <ul style="list-style-type: none"> ➤ instalments of loans and interest payable in this fiscal year, ➤ redemption of securities and interest payable on them, ➤ potential payments resulting from sureties and guarantees granted, to planned revenues cannot exceed: 	
<i>(In force till December 31, 2013.)</i>	<i>(in force Since January 1, 2014.)</i>
in given budgetary year 15%, in case of public debt to GDP ratio exceed 55%, it cannot exceed 12%;	in the budgetary year and any other year following the budgetary year the arithmetical average for last three years calculated as current revenues including proceeds from privatisation minus current expenditures to total revenues ratio;
g) The ratios of total debt at the end of a fiscal year to total revenues and total debt at the end of quarter to planned revenues cannot exceed 60%;	
h) Limitations on debt of local government do not apply to issuing securities and incurring loans in connection with financial means specified in an agreement with an entity that disposes the EU structural funds or the Cohesion Fund.	

Table 3. Main differences in general government debt – Polish (current act and new project on act) and EU definition

Polish regulations	EU regulations
public debt	general government debt
<i>1) scope of the public finance sector</i>	
➤ Public Finance Act defines limited catalogue of units included in the public finance sector;	➤ scope of general government sector is defined in ESA'95 ²⁾ ; no limited catalogue of units is defined;
<i>differences in the scope of sector depending on regulations</i>	
a) funds formed within Bank Gospodarstwa Krajowego (BGK), f. ex. : the National Road Fund (KFD), the Railway Fund (FK)	
➤ are excluded from the public finance sector;	➤ are included in the general government sector ³⁾ ;
<i>2) liabilities which constitute public debt</i>	
➤ securities (excluding shares);	➤ securities other than shares excluding financial derivatives;
➤ loans and credits (including securities whose disposal is limited);	➤ loans ⁴⁾ ;
➤ deposits;	➤ cash and deposits;
➤ matured payables (i.e. liabilities due but not settled);	
<i>differences in liabilities depending on regulations</i>	
➤ matured payables;	- ⁴⁾
<i>3) contingent liabilities</i>	
<i>differences in treatment of contingent liabilities in debt-to-GDP ratio</i>	
➤ is not included; since 1 st January 2006 in line with the Public Finance Act of 30 June 2005 the basic category of public debt to which all the limits apply is public debt without risk-weighted sureties and guarantees. New Public Finance Act does not incorporate changes to contingent liabilities;	➤ EU limitations do not take directly into account contingent liabilities generated by issued sureties and guarantees;
	➤ when specific criteria are met (in line with ESA'95 rules) contingent liabilities should be treated as debt assumed by the entity which issued surety or guarantee;

- 1) Polish Central Statistical Office (GUS) is responsible for the scope of general government sector (in line with EU regulations).
- 2) Council Regulation No 2223/1995 on the European System of National and Regional Accounts in the Community. ESA'95 criteria apply first of all to functional activities of any entity and manner of their financing. Basic activity of a unit (i.e. redistribution of national income and wealth or being a non-market producer) is taken into account. In other cases 'the 50% rule' should apply (i.e. less than 50% of production costs is covered by sales).
- 3) According to Eurostat's guidelines in relation to classification of infrastructure enterprises, apart from liabilities of special purpose funds other investment expenditures incurred by units outside the sector which implement such investments could be included, when certain criteria regarding general government debt are met. (imputed loan)
- 4) Matured payables are expenditure on accrual basis and thus are included in net borrowing/net lending calculated (balance of general government) in accordance with EU methodology.

Annex 3. Institutional framework for public debt management In the EU Member States

There exists no unified institutional model of State Treasury debt management in the EU Member States. Three basic types of organizational arrangements can be identified:

- the bank model - debt management in the central bank,
- the government model - debt management in a ministry (usually the Ministry of Finance or State Treasury),
- the agency model - debt management in a specialized institution (agency) whose fundamental (but sometimes not sole) task is debt management.

The bank model is the most strongly criticized one, as a potential conflict of interest may occur between monetary policy and public debt management. The central bank in such a situation may:

- treat debt management in an instrumental manner and concentrate on goals of monetary policy,
- be less inclined to increase interest rates in situations of inflationary risk (as this would increase costs related to debt) or it may even influence the interest rates or increase the market liquidity just prior to a TS auction in order to achieve better prices and lower financing costs.

In both cases the execution of tasks imposed on the central bank is not optimal. In addition, even if monetary policy and debt management are entrusted to different divisions and the so-called “Chinese Wall” is used, suspicions can arise that some information on interest rate levels unknown to the market may be used in debt management, thus reducing trust in the issuer and resulting in investors requesting an additional risk premium for TS.

An argument used by supporters of the solution of placing debt management within the central bank is their conviction that the central bank is better prepared for performing activities on the financial market than units remaining within the structure of a ministry.

The government model is used successfully in conditions typical for developing economies or economies undergoing transformations where development of the domestic financial market is low, though used also in some developed economies. This is due to the significant ability of the government to influence the creation of appropriate legal and institutional infrastructure, necessary for the efficient functioning of the financial market. However, the disadvantages of this solution become increasingly visible in developed and stable economies:

- the threat of favouring short-term budgetary goals over long-term objectives of debt management, which may lead to an increase in both the risk associated with debt structure as well as the debt servicing costs in the long term,
- lack of sufficient flexibility as well as ability to react quickly enough to changes of market conditions (which is especially important if financial derivatives are used for debt management) arising from the significant bureaucracy of administrative entities,
- difficulties in recruiting and retaining appropriately trained specialists due to uncompetitive employment conditions for state administration employees as compared to those offered by financial sector companies (banks, investment funds, etc.).

The agency model dominates in the EU Member States. The term “agency” is a certain type of generalization (it does not mean a government agency as defined by Polish law) as specialized institutions involved in debt management in different countries vary significantly, both in respect to the scope of tasks entrusted to them as well as the level of their institutional independence. As an agency can be also consider organisationally and budgetary separated part of the ministry. Their common feature though is their high level of autonomy in selecting methods used to fulfil

the entrusted tasks. The advantages associated with entrusting debt management to specialized institutions include:

- the ability to select optimal solutions as well as to carry out long-term debt management objectives by limiting the risk of impact of short-term fiscal policy goals on management decisions,
- ensuring greater transparency of management operations through the use of better control and reporting mechanisms, thus increasing investor confidence and lowering costs of financing of borrowing needs,
- the need to prepare clear and unambiguous procedures enabling prompt decision making on market transactions (a necessary condition for efficient, active debt management),
- the ability to face competition from commercial financial institutions (recruitment and retention of highly qualified specialists).

The mandate of the agency is usually to carry out guidelines specified by the Minister of Finance and its activities are audited in order to ensure the compliance with these guidelines. Therefore, in the case of the agency model, preparation of the appropriate legislative and organizational solutions is very important in order to ensure good cooperation between the Minister of Finance who specifies the objectives and the agency that carries them out.

At present in 14 out of 27 Member States of the enlarged EU the agency model is applied (in 10 out of 16 Member States Eurozone).

Table 4. Institutions responsible for debt management in the EU Member States

	Country	Model	Institution name
Eurozone	Austria	agency	Österreichische Bundesfinanzierungsagentur
	Belgium		Agence de la Dette (Agentschap van de Schuld)
	Finland		Valtiokonttori
	France		Agence France Trésor
	Netherlands		Agentschap van het ministerie van Financiën
	Ireland		National Treasury Management Agency
	Malta		Debt Management Office
	Germany		Finanzagentur GmbH
	Portugal		Instituto de Gestão do Crédito Público
	Slovakia		Štátna pokladnica
	Cyprus	government	Υπουργείο Οικονομικών
	Greece		Γενικό Λογιστήριο του Κράτους
	Spain		Ministerio de Economía
	Luxemburg		Ministère des Finances
Slovenia	Ministrstvo za finance		
Italy	Ministero dell'Economia e delle Finanze		
Other EU countries	Latvia	agency	Valsts Kase
	Sweden		Riksgäldskontoret
	Hungary		Államadósság Kezelő Központ Zrt.
	United Kingdom		Debt Management Office
	Denmark	bank	Dansk Nationalbanken
	Bulgaria	government	Министерство на финансите
	Czech Republic		Ministerstvo financí
	Estonia		Rahandusministeerium
	Lithuania		Finansų Ministeria
	Poland		Ministerstwo Finansów
Romania	Ministerul Economiei și Finanțelor		

Annex 4. General government deficit and debt, yields on 10-year bonds in the EU Member States and TS issuance structure in selected countries

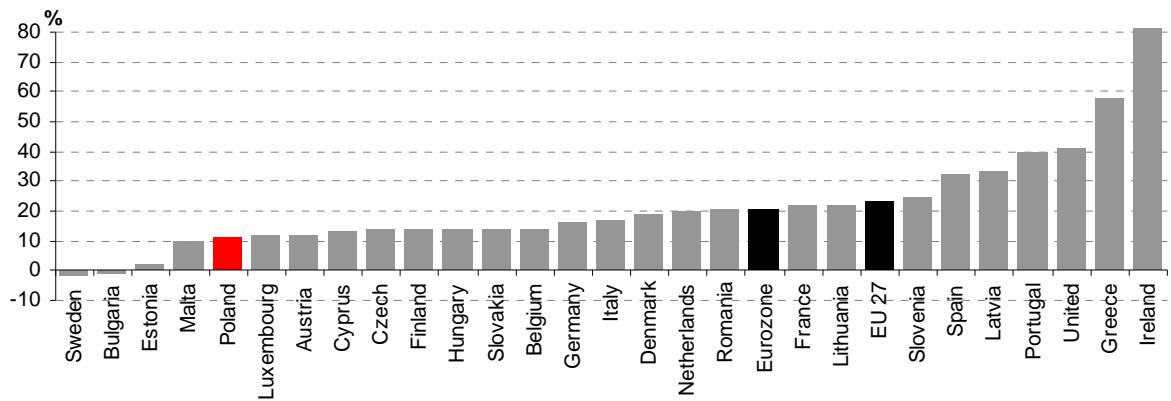
Table 5. General government deficit, debt and yields on 10-year bonds in the EU countries in 2010-2011

	2010			2011		
	GG balance	GG debt	10Y interest rate	GG balance	GG debt	10Y interest rate
	% GDP	% GDP	%	% GDP	% GDP	%
Greece	-10.3	145.0	9.09	-9.1	165.3	15.75
Italy	-4.6	118.6	4.04	-3.9	120.1	5.42
Ireland	-31.2	92.5	5.74	-13.1	108.2	9.60
Portugal	-9.8	93.3	5.40	-4.2	107.8	10.24
Belgium	-3.8	96.0	3.46	-3.7	98.0	4.23
Euro zone	-6.2	85.3	3.62	-4.1	87.2	4.41
France	-7.1	82.3	3.12	-5.2	85.8	3.32
United Kingdom	-10.2	79.6	3.36	-8.3	85.7	2.87
EU 27	-6.5	80.0	3.82	-4.5	82.5	4.30
Germany	-4.3	83.0	2.74	-1.0	81.2	2.61
Hungary	-4.2	81.4	7.28	4.3	80.6	7.64
Austria	-4.5	71.9	3.23	-2.6	72.2	3.32
Malta	-3.7	69.4	4.19	-2.7	72.0	4.49
Cyprus	-5.3	61.5	4.60	-6.3	71.6	5.79
Spain	-9.3	61.2	4.25	-8.5	68.5	5.44
Netherlands	-5.1	62.9	2.99	-4.7	65.2	2.99
Poland	-7.8	54.8	5.78	-5.1	56.3	5.96
Finland	-2.5	48.4	3.01	-0.5	48.6	3.01
Slovenia	-6.0	38.8	3.83	-6.4	47.6	4.97
Denmark	-2.5	42.9	2.93	-1.8	46.5	2.73
Slovakia	-7.7	41.1	3.87	-4.8	43.3	4.45
Latvia	-8.2	44.7	10.34	-3.5	42.6	5.91
Czech Republic	-4.8	38.1	3.88	-3.1	41.2	3.71
Lithuania	-7.2	38.0	5.57	-5.5	38.5	5.16
Sweden	0.3	39.4	2.89	0.3	38.4	2.61
Romania	-6.8	30.5	7.34	-5.2	33.3	7.29
Luxembourg	-0.9	19.1	3.17	-0.6	18.2	2.92
Bulgaria	-3.1	16.3	6.01	-2.1	16.3	5.36
Estonia	0.2	6.7	:	1.0	6.0	:

¹⁾ 10-year interest rate – average of average monthly 10-year T-bond yields from last twelve months, average in December, Eurostat.

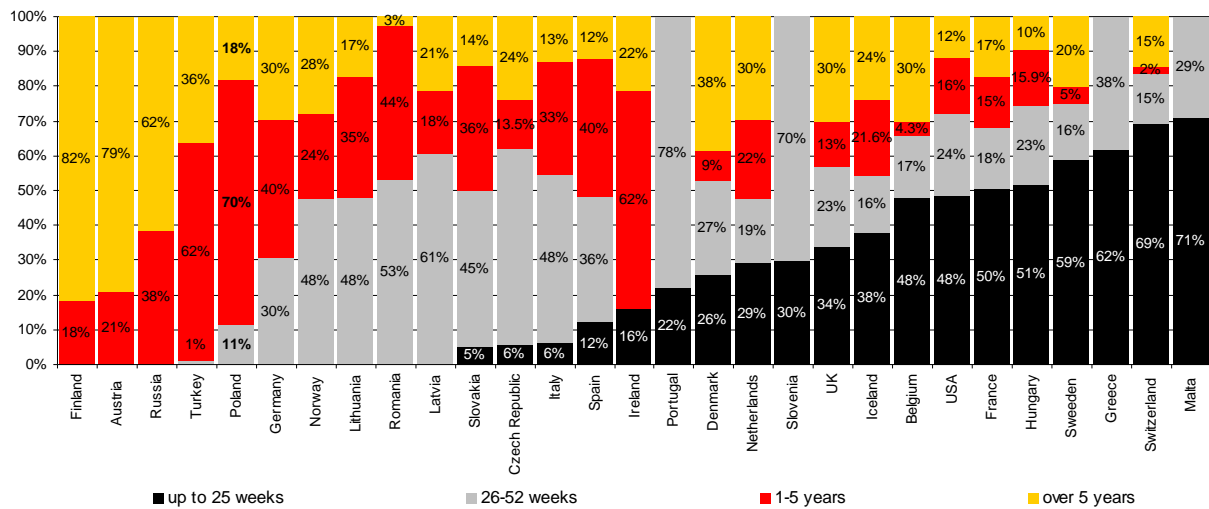
²⁾ Data on general government balance and debt are consistent with Eurostat Euro-indicators news release 62/2012, 23 April 2012 r.

Chart 1. Cumulative growth of general government debt to GDP ratio in years 2008-2011*



*) Difference between general government debt to GDP ratio at the end of the years 2011 and 2007.

Chart 2. T-bonds issuance in Poland and selected countries in terms of maturity in 2012 r. *



*) auctions and syndicates from January 1, to September 18, 2012.

Annex 5. Government debt rating of EU Member States

Table 7. Long- Long-term government debt rating in foreign currency of EU Member States

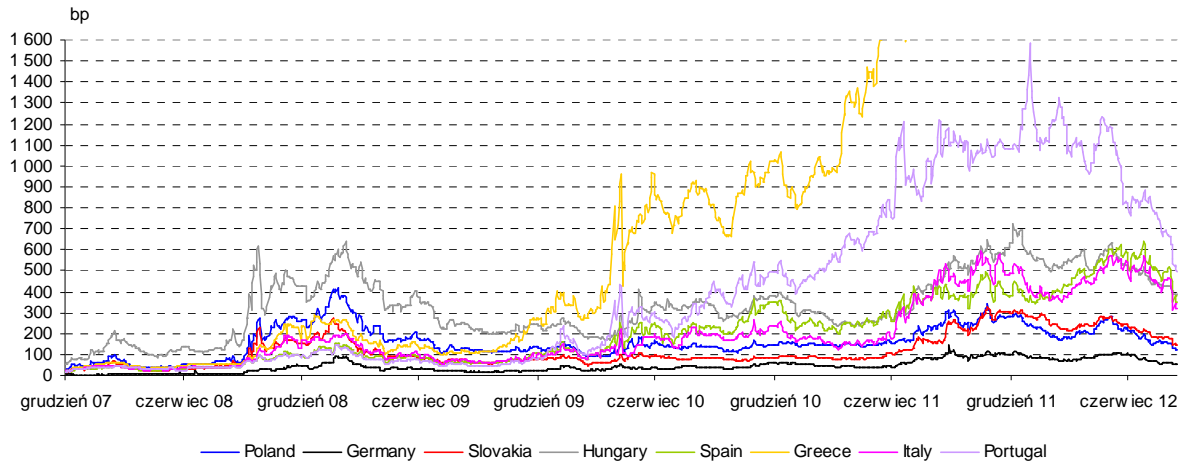
as of September 13, 2012

	Standard&Poor's	Fitch	Moody's
Austria	AA+↓	AAA	Aaa
Belgium	AA	AA↓	Aa3↓↓
Bulgaria	BBB	BBB-	Baa2
Cyprus	BB ↓↓↓↓	BB+↓↓	Ba3↓↓↓
Czech Republic	AA-	A+	A1
Denmark	AAA	AAA	Aaa
Estonia	AA-	A+	A1
Finland	AAA	AAA	Aaa
France	AA+↓	AAA	Aaa
Germany	AAA	AAA	Aaa
Greece	CCC↑↑	CCC	C ↓
Hungary	BB+↓	BB+↓	Ba1
Ireland	BBB+	BBB+	Ba1
Italy	BBB+↓↓↓	A-↓↓↓	Baa2↓↓↓
Latvia	BBB-↑	BBB-	Baa3
Lithuania	BBB	BBB	Baa1
Luxembourg	AAA	AAA	Aaa
Malta	A-↓	A+	A3↓
Netherlands	AAA	AAA	Aaa
Poland	A-	A-	A2
Portugal	BB↓↓	BB+	Ba3↓
Romania	BB+	BBB-	Baa3
Slovakia	A↓	A+	A2↓
Slovenia	A↓↓↓	A-↓↓↓	Baa2↓↓↓
Sweden	AAA	AAA	Aaa
Spain	BBB+↓↓↓↓↓	BBB↓↓↓↓↓	Baa3↓↓↓↓↓
UK	AAA	AAA	Aaa

Source: Reuters

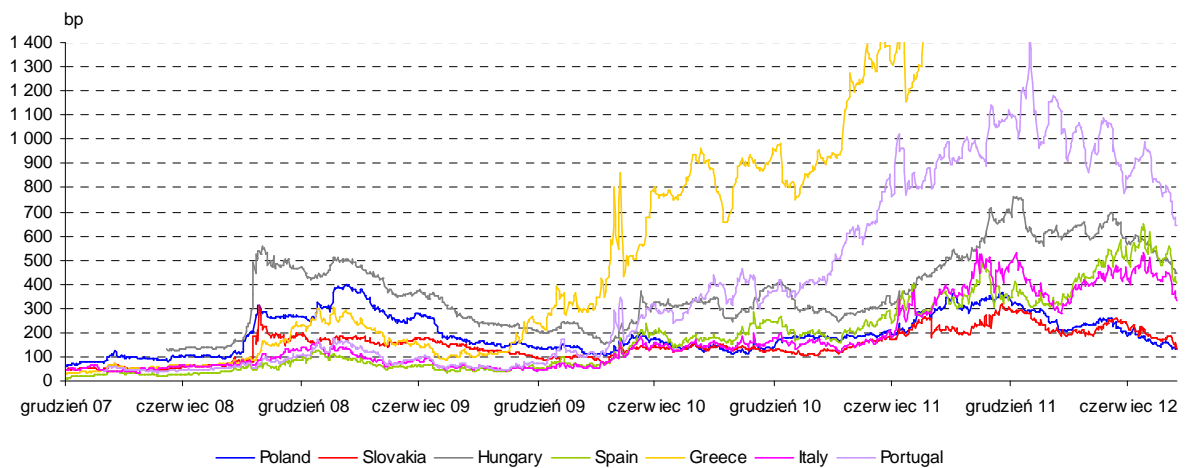
↓ ↑ - downgrade or upgrade of rating in comparison to previous Strategy.

Chart 3. 5-years CDS for Poland and other EU Member States



* Since mid-June 2011 Greek CDS are quoted above 1 200 bp.

Chart 4. Selected 10Y euro-denominated bond spread towards German bunds.



* Since September 2011 10Y Greek bonds spread towards German bunds is quoted well above 1100 bp.

Annex 6. Public debt In Poland – statistical annex

Table 8. Public debt in Poland in period 2001 – VI 2012

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	VI 2012
1. State Treasury debt												
a) PLN bn	283.9	327.9	378.9	402.9	440.2	478.5	501.5	569.9	631.5	701.9	771.1	799.2
domestic *	185.0	219.3	251.2	291.7	315.5	352.3	380.4	420.2	462.7	507.0	524.7	548.4
foreign *	98.9	108.6	127.8	111.2	124.7	126.2	121.1	149.7	168.8	194.8	246.4	250.8
b) GDP %	36.4%	40.6%	44.9%	43.6%	44.8%	45.1%	42.6%	44.7%	47.0%	49.6%	50.6%	-
2. Public debt												
a) PLN bn	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8	669.9	747.9	815.3	842.7
b) GDP %	38.8%	43.6%	48.4%	46.7%	47.5%	47.8%	44.8%	46.9%	49.8%	52.8%	53.5%	-
3. General government debt (EU methodology)												
a) PLN bn	292,8	340.9	396.7	422.4	463.0	506.0	529.3	600.8	684.2	776.8	859.0	891.5
b) GDP %	37,6%	42.2%	47.1%	45.7%	47.1%	47.7%	45.0%	47.1%	50.9%	54.8%	56.3%	-

*) place of issue criterion

Table 9. GDP and exchange rates in period 2001 – VI 2012

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	VI 2012
1. Gross Domestic Product												
PLN bn	779.6	808.6	843.2	924.5	983.3	1 060.2	1 176.7	1 275.4	1 344.4	1 416.4	1 524.7	-
2. Exchange rate (end of period)												
a) EUR	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	4.4168	4.2613
b) USD	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	3.4174	3.3885

Table 10. Public finance sector debt before consolidation *

Public finance sector debt		2010		2011				2012			
		XII	Structure	Change XII 2010 - XII 2011		XII	Structure	Change XII 2011 - VI 2012		VI	Structure
				PLN bn	%			PLN bn	%		
BEFORE CONSOLIDATION		778,682.3	100.0%	82,558.6	10.6%	861,240.9	100.0%	26,279.9	3.1%	887,523.2	100.0%
1.	Central government sector debt	705,902.0	90.7%	66,733.3	9.5%	772,635.3	89.7%	28,243.4	3.7%	800,882.2	90.2%
1.1.	State Treasury	701,850.6	90.1%	69,277.0	9.9%	771,127.5	89.5%	28,056.3	3.6%	799,183.8	90.0%
1.2.	Earmarked State Funds	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State institutions of higher education	290.8	0.0%	59.8	20.6%	350.6	0.0%	82.5	23.5%	433.7	0.0%
1.4.	Independent public health care units	977.3	0.1%	141.9	14.5%	1,119.3	0.1%	104.8	9.3%	1,227.0	0.1%
1.5.	State institutions of culture	45.3	0.0%	-21.9	-48.3%	23.4	0.0%	-3.0	-12.6%	20.5	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	10.3	0.0%	-0.9	-9.1%	9.4	0.0%	-3.3	-35.7%	6.0	0.0%
1.7.	Other central government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	2,727.8	0.4%	-2,722.6	-99.8%	5.1	0.0%	6.0	117.1%	11.2	0.0%
2.	Local government sector debt	59,883.3	7.7%	10,565.6	17.6%	70,448.9	8.2%	-1,149.1	-1.6%	69,298.7	7.8%
2.1.	Local government units and their associations	55,479.4	7.1%	10,626.2	19.2%	66,105.6	7.7%	-1,388.4	-2.1%	64,717.3	7.3%
2.2.	Local earmarked funds	0.0	0.0%	0.0	-	0.0	0.0%	-	-	-	-
2.3.	Independent public health care units	4,202.2	0.5%	-82.0	-2.0%	4,120.2	0.5%	248.5	6.0%	4,367.6	0.5%
2.4.	Local institutions of culture	91.2	0.0%	18.5	20.2%	109.7	0.0%	-8.6	-7.8%	101.1	0.0%
2.5.	Other local government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	110.4	0.0%	3.0	2.7%	113.4	0.0%	-0.7	-0.6%	112.7	0.0%
3.	Social security sector debt	12,896.9	1.7%	5,259.7	40.8%	18,156.6	2.1%	-814.3	-4.5%	17,342.3	2.0%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	-94.4%	0.0	0.0%	0.0	-81.5%	0.0	0.0%
3.2.	Funds manager by Social Insurance Institution	12,896.9	1.7%	5,259.7	40.8%	18,156.6	2.1%	-814.3	-4.5%	17,342.3	2.0%
3.3.	Agricultural Social Insurance Fund (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Health Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

*) data as of September 10, 2012 r.

Table 11. Public finance sector debt after consolidation *

Public finance sector debt		2010		2011				2012			
		XII	Structure	Change XII 2010 - XII 2011		XII	Structure	Change XII 2011 - VI 2012		VI	Structure
		PLN bn	%	PLN bn	%	PLN bn	%	PLN bn	%	PLN bn	%
AFTER CONSOLIDATION		747,898.8	100.0%	67,437.3	9.0%	815,336.1	100.0%	27,310.5	3.3%	842,653.1	100.0%
1.	Central government sector debt	692,360.5	92.6%	56,441.5	8.2%	748,802.0	91.8%	28,553.9	3.8%	777,359.7	92.3%
1.1.	State Treasury	691,210.1	92.4%	56,294.2	8.1%	747,504.3	91.7%	28,407.1	3.8%	775,911.4	92.1%
1.2.	Earmarked State Funds	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State institutions of higher education	274.0	0.0%	57.8	21.1%	331.9	0.0%	75.5	22.7%	407.9	0.0%
1.4.	Independent public health care units	831.9	0.1%	115.9	13.9%	947.7	0.1%	75.1	7.9%	1,026.2	0.1%
1.5.	State institutions of culture	32.8	0.0%	-25.0	-76.2%	7.8	0.0%	-4.4	-56.4%	3.4	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	6.9	0.0%	-0.9	-13.7%	6.0	0.0%	-2.5	-42.3%	3.4	0.0%
1.7.	Other central government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	4.7	0.0%	-0.4	-8.8%	4.3	0.0%	3.1	70.8%	7.4	0.0%
2.	Local government sector debt	53,519.0	7.2%	10,736.0	20.1%	64,255.1	7.9%	-429.1	-0.7%	63,828.6	7.6%
2.1.	Local government units and their associations	50,568.4	6.8%	10,615.0	21.0%	61,183.5	7.5%	-645.2	-1.1%	60,541.4	7.2%
2.2.	Local earmarked funds	0.0	0.0%	-	-	-	0.0%	-	-	-	-
2.3.	Independent public health care units	2,869.5	0.4%	130.8	4.6%	3,000.3	0.4%	221.2	7.4%	3,221.0	0.4%
2.4.	Local institutions of culture	61.6	0.0%	1.6	2.5%	63.2	0.0%	-4.1	-6.4%	59.1	0.0%
2.5.	Other local government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	19.5	0.0%	-11.4	-58.1%	8.2	0.0%	-1.1	-12.9%	7.1	0.0%
3.	Social security sector debt	2,019.3	0.3%	259.8	12.9%	2,279.1	0.3%	-814.3	-35.7%	1,464.8	0.2%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-81.5%	0.0	0.0%
3.2.	Funds manager by Social Insurance Institution	2,019.3	0.3%	259.7	12.9%	2,279.1	0.3%	-814.3	-35.7%	1,464.8	0.2%
3.3.	Agricultural Social Insurance Fund (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Health Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

*) data as of September 10, 2012 r.

Table 12. State Treasury debt by instrument according to the place of issue criterion (PLN million)

	Dec 2010	Dec 2011	Jun 2012	structure Jun 2012 %	change		change	
					Dec 2011 – Dec 2010		Jun 2012 - Dec 2011	
					PLN m	%	PLN m	%
State Treasury Debt	701,850.6	771,127.5	799,183.8	100.0	69,276.9	9.9	28,056.3	3.6
I. Domestic debt	507,010.6	524,689.6	548,350.4	68.6	17,679.0	3.5	23,660.9	4.5
1. Treasury Securities issued in domestic market	506,984.5	514,285.2	538,563.0	67.4	7,300.8	1.4	24,277.7	4.7
1.1. Marketable securities	499,258.4	507,225.2	531,189.2	66.5	7,966.8	1.6	23,964.0	4.7
fixed rate	418,963.8	422,927.1	428,223.0	53.6	3,963.2	0.9	5,295.9	1.3
Treasury bills	27,966.1	12,013.8	11,662.2	1.5	-15,952.3	-57.0	-351.6	-2.9
OK bonds	105,527.4	108,785.5	99,805.1	12.5	3,258.1	3.1	-8,980.3	-8.3
PS bonds	131,891.4	135,561.9	137,227.1	17.2	3,670.5	2.8	1,665.2	1.2
DS bonds	120,585.1	133,150.7	144,836.9	18.1	12,565.6	10.4	11,686.2	8.8
WS bonds	32,993.8	33,415.2	34,691.6	4.3	421.4	1.3	1,276.4	3.8
fixed rate - inflation-linked	14,911.9	20,673.9	22,387.4	2.8	5,762.0	38.6	1,713.5	8.3
IZ bonds	14,911.9	20,673.9	22,387.4	2.8	5,762.0	38.6	1,713.5	8.3
floating rate	65,382.7	63,624.3	80,578.8	10.1	-1,758.4	-2.7	16,954.5	26.6
TZ bonds	1,048.4	590.2	563.5	0.1	-458.2	-43.7	-26.7	-4.5
WZ bonds	56,350.1	62,284.1	79,265.3	9.9	5,934.0	10.5	16,981.3	27.3
DZ bonds	7,234.2	-	-	-	-7,234.2	-100.0	-	-
PP bonds	750.0	750.0	750.0	0.1	0.0	0.0	0.0	0.0
1.2. Savings bonds	7,618.0	7,060.0	7,373.7	0.9	-557.9	-7.3	313.7	4.4
fixed rate	3,419.4	2,312.9	2,112.7	0.3	-1,106.6	-32.4	-200.2	-8.7
DOS bonds	3,419.4	2,312.9	2,112.7	0.3	-1,106.6	-32.4	-200.2	-8.7
floating rate	4,198.5	4,747.1	5,261.0	0.7	548.6	13.1	513.9	10.8
TOZ bonds	-	-	18.7	0.0	0.0	-	18.7	-
COI bonds	1,562.8	1,798.4	1,804.7	0.2	235.6	15.1	6.3	0.3
EDO bonds	2,635.7	2,948.8	3,437.7	0.4	313.0	11.9	488.9	16.6
1.3. Non-marketable securities	108.1	-	-	-	-108.1	-100.0	-	-
floating rate	108.1	-	-	-	-108.1	-100.0	-	-
bonds issued for BGZ	108.1	-	-	-	-108.1	-100.0	-	-
2. Other domestic debt	26.1	10,404.3	9,787.5	1.2	10,378.2	39,727.3	-616.8	-5.9
deposits of public finance sector entities	-	10,391.5	9,745.0	1.2	10,391.5	-	-646.5	-6.2
matured payables	22.1	9.3	39.0	0.0	-12.8	-57.9	29.7	318.5
other	4.0	3.5	3.5	0.0	-0.5	-13.0	0.0	0.5
II. Foreign debt	194,840.0	246,438.0	250,833.3	31.4	51,598.0	26.5	4,395.4	1.8
1. Treasury securities issued in international	155,468.1	195,271.1	200,109.0	25.0	39,803.0	25.6	4,837.9	2.5
1.1. Marketable securities	155,468.1	195,271.1	200,109.0	25.0	39,803.0	25.6	4,837.9	2.5
fixed rate	155,225.7	194,991.6	198,501.4	24.8	39,765.9	25.6	3,509.8	1.8
EUR	100,631.2	114,236.1	118,877.5	14.9	13,604.9	13.5	4,641.4	4.1
USD	26,371.6	43,947.4	46,964.2	5.9	17,575.7	66.6	3,016.8	6.9
CHF	15,344.9	18,893.2	17,472.4	2.2	3,548.2	23.1	-1,420.7	-7.5
JPY	12,877.9	17,914.9	15,187.3	1.9	5,037.0	39.1	-2,727.7	-15.2
floating rate	242.5	279.6	1,607.6	0.2	37.1	15.3	1,328.0	475.0
USD	242.5	279.6	277.2	0.0	37.1	15.3	-2.4	-0.8
CHF	-	-	1,330.4	0.2	0.0	-	1,330.4	-
2. Loans	39,370.9	51,166.8	50,724.3	6.3	11,795.9	30.0	-442.5	-0.9
fixed rate	18,478.6	23,799.5	23,118.0	2.9	5,320.9	28.8	-681.5	-2.9
EUR	17,971.1	23,340.8	22,750.4	2.8	5,369.8	29.9	-590.4	-2.5
USD	11.2	8.6	6.4	0.0	-2.6	-23.1	-2.2	-25.6
JPY	496.3	450.1	361.2	0.0	-46.3	-9.3	-88.9	-19.8
floating rate	20,892.3	27,367.3	27,606.3	3.5	6,475.0	31.0	239.0	0.9
EUR	20,665.0	27,233.9	27,537.8	3.4	6,568.9	31.8	303.9	1.1
USD	227.3	133.4	68.5	0.0	-93.8	-41.3	-64.9	-48.6
3. Other foreign debt	0.9	0.0	0.1	0.0	-0.9	-99.6	0.1	1960.8

Table 13. State Treasury debt by holder (PLN million)

	Dec 2010	Dec 2011	Jun 2012	structure	change		change	
				Jun 2012	Dec 2011 – Dec 2010	Jun 2012 - Dec 2011		
				%	PLN m	%	PLN m	%
State Treasury debt	701,850.6	771,127.5	799,183.8	100.0	69,276.9	9.9	28,056.3	3.6
I. State Treasury debt towards residents	389,008.4	381,960.2	383,906.2	48.0	-7,048.2	-1.8	1,946.0	0.5
Domestic banking sector	137,862.5	120,229.8	121,662.1	15.2	-17,632.6	-12.8	1,432.3	1.2
1. TS issued in domestic market	130,526.4	110,347.7	112,848.8	14.1	-20,178.8	-15.5	2,501.1	2.3
1.1. Marketable TS	130,418.3	110,347.7	112,848.8	14.1	-20,070.7	-15.4	2,501.1	2.3
Treasury bills	15,871.0	7,044.4	6,920.1	0.9	-8,826.6	-55.6	-124.3	-1.8
OK bonds	34,622.7	22,700.5	20,678.3	2.6	-11,922.3	-34.4	-2,022.2	-8.9
PS bonds	28,694.2	25,900.2	25,697.5	3.2	-2,794.0	-9.7	-202.7	-0.8
DS bonds	19,584.6	24,108.3	22,601.9	2.8	4,523.7	23.1	-1,506.4	-6.2
WS bonds	1,447.5	1,054.0	2,455.2	0.3	-393.4	-27.2	1,401.2	132.9
IZ bonds	539.9	637.0	694.1	0.1	97.1	18.0	57.1	9.0
TZ bonds	8.5	0.6	0.5	0.0	-7.9	-93.1	-0.1	-12.6
WZ bonds	27,105.3	28,887.7	33,786.2	4.2	1,782.4	6.6	4,898.5	17.0
DZ bonds	2,529.8	-	-	-	-2,529.8	-100.0	-	-
PP bonds	15.0	15.0	15.0	0.0	0.0	0.0	0.0	0.0
1.2. Savings bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
DOS bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
TOZ bonds	-	-	0.0	0.0	0.0	-	0.0	-
COI bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
EDO bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
1.3. Non-marketable securities	108.1	-	-	-	-108.1	-100.0	-	-
bonds issued for BGZ	108.1	-	-	-	-108.1	-100.0	-	-
2. Other ST debt	0.0	0.0	0.0	0.0	0.0	-	0.0	-
deposits of public finance sector entities	-	0.0	0.0	0.0	0.0	-	0.0	-
matured payables	0.0	0.0	0.0	0.0	0.0	-	0.0	-
other	0.0	0.0	0.0	0.0	0.0	-	0.0	-
3. TS issued in foreign markets	7,336.0	9,882.2	8,813.3	1.1	2,546.1	34.7	-1,068.9	-10.8
Domestic non-banking sector	251,145.9	261,730.4	262,244.1	32.8	10,584.4	4.2	513.7	0.2
1. TS issued in domestic market	248,201.5	249,710.7	251,384.6	31.5	1,509.1	0.6	1,674.0	0.7
1.1. Marketable TS	240,602.4	242,669.6	244,029.2	30.5	2,067.2	0.9	1,359.6	0.6
Treasury bills	8,594.7	3,235.2	4,384.6	0.5	-5,359.5	-62.4	1,149.4	35.5
OK bonds	47,636.1	42,100.7	28,727.9	3.6	-5,535.4	-11.6	-13,372.8	-31.8
PS bonds	56,338.7	63,747.9	68,649.8	8.6	7,409.3	13.2	4,901.9	7.7
DS bonds	63,382.4	66,035.5	64,480.6	8.1	2,653.1	4.2	-1,554.9	-2.4
WS bonds	20,889.6	18,087.1	16,041.5	2.0	-2,802.5	-13.4	-2,045.6	-11.3
IZ bonds	9,921.7	14,995.4	16,057.5	2.0	5,073.7	51.1	1,062.1	7.1
TZ bonds	1,037.3	587.5	560.9	0.1	-449.8	-43.4	-26.6	-4.5
WZ bonds	27,512.9	33,145.4	44,391.6	5.6	5,632.4	20.5	11,246.2	33.9
DZ bonds	4,554.0	-	-	-	-4,554.0	-100.0	-	-
PP bonds	735.0	735.0	735.0	0.1	0.0	0.0	0.0	0.0
1.2. Savings bonds	7,599.2	7,041.1	7,355.4	0.9	-558.1	-7.3	314.4	4.5
DOS bonds	3,414.2	2,308.9	2,109.1	0.3	-1,105.3	-32.4	-199.8	-8.7
TOZ bonds	-	-	18.7	0.0	0.0	-	18.7	-
COI bonds	1,553.0	1,787.3	1,794.2	0.2	234.3	15.1	6.9	0.4
EDO bonds	2,631.9	2,944.8	3,433.3	0.4	312.9	11.9	488.5	16.6
2. Other ST debt	26.1	10,404.3	9,787.5	1.2	10,378.2	39,727.3	-616.8	-5.9
deposits of public finance sector entities	-	10,391.5	9,745.0	1.2	10,391.5	-	-646.5	-6.2
matured payables	22.1	9.3	39.0	0.0	-12.8	-57.9	29.7	318.5
other	4.0	3.5	3.5	0.0	-0.5	-13.0	0.0	0.5
3. TS issued in foreign markets	2,918.3	1,615.4	1,072.0	0.1	-1,302.9	-44.6	-543.4	-33.6
II. State Treasury debt towards non-residents	312,842.2	389,167.3	415,277.6	52.0	76,325.2	24.4	26,110.3	6.7
1. TS issued in domestic market	128,256.5	154,226.9	174,329.5	21.8	25,970.4	20.2	20,102.6	13.0
1.1. Marketable TS	128,237.7	154,207.9	174,311.2	21.8	25,970.3	20.3	20,103.3	13.0
Treasury bills	3,500.5	1,734.3	357.6	0.0	-1,766.3	-50.5	-1,376.7	-79.4
OK bonds	23,268.6	43,984.3	50,399.0	6.3	20,715.7	89.0	6,414.7	14.6
PS bonds	46,858.5	45,913.7	42,879.8	5.4	-944.8	-2.0	-3,034.0	-6.6
DS bonds	37,618.2	43,006.9	57,754.5	7.2	5,388.8	14.3	14,747.5	34.3
WS bonds	10,656.7	14,274.1	16,194.9	2.0	3,617.3	33.9	1,920.8	13.5
IZ bonds	4,450.3	5,041.5	5,635.9	0.7	591.1	13.3	594.4	11.8
TZ bonds	2.6	2.2	2.1	0.0	-0.4	-16.9	-0.1	-2.9
WZ bonds	1,731.9	251.0	1,087.5	0.1	-1,480.9	-85.5	836.5	333.3
DZ bonds	150.3	-	-	-	-150.3	-100.0	-	-
PP bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
1.2. Savings bonds	18.8	19.0	18.3	0.0	0.2	0.9	-0.6	-3.4
DOS bonds	5.2	3.9	3.6	0.0	-1.3	-24.5	-0.4	-9.5
TOZ bonds	-	-	0.0	0.0	0.0	-	0.0	-
COI bonds	9.8	11.1	10.4	0.0	1.3	13.3	-0.6	-5.9
EDO bonds	3.8	4.0	4.3	0.0	0.1	3.9	0.4	9.4
2. TS issued in foreign markets	145,213.8	183,773.6	190,223.8	23.8	38,559.8	26.6	6,450.2	3.5
3. Foreign loans	39,370.9	51,166.8	50,724.3	6.3	11,795.9	30.0	-442.5	-0.9
European Investment Bank	22,361.5	30,295.3	30,904.3	3.9	7,933.9	35.5	609.0	2.0
The World Bank	15,682.5	19,628.0	18,731.1	2.3	3,945.4	25.2	-896.9	-4.6
Council of Europe Development Bank	830.6	793.4	727.7	0.1	-37.1	-4.5	-65.7	-8.3
Paris Club	306.7	271.7	213.3	0.0	-35.1	-11.4	-58.3	-21.5
other loans	189.6	178.4	147.8	0.0	-11.2	-5.9	-30.6	-17.1
4. Other ST debt	0.9	0.0	0.1	0.0	-0.9	-99.6	0.1	1960.8