



Ministry  
of Finance

Republic  
of Poland

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

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**Ministry of Finance**  
**September 2012**

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Macroeconomic assumptions

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
CPI annual average (%)	4.3	4.0	2.7	2.3	2.5	2.5
USD/PLN (end of year)	3.42	3.28	3.13	2.93	2.89	2.89
EUR/PLN (end of year)	4.42	4.10	4.00	3.75	3.70	3.70

## Objective of the Strategy

### ▪ Objective of the Strategy maintained

minimisation of the long term debt servicing costs subject to constraints on the level of:

- refinancing risk
- exchange rate risk
- interest rate risk
- State budget liquidity risk
- other risks, in particular credit risk and operational risk
- distribution of debt servicing costs over time

### ▪ Two aspects of the Strategy's objective:

- Choice of instruments
- Efficiency of the TS market

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Flexible approach to financing structure

### DOMESTIC FINANCING

- main source of financing the borrowing requirements of the budget

### FOREIGN FINANCING

- ensuring diversification of sources by Poland's access to the investor base in major financial markets
- taking into account the foreign currency borrowing requirements, including principal and interest payments on foreign debt
- maintaining Poland's position in the euro market and strengthening the position in the US dollar market
- utilizing an access to attractive financing in international financial institutions
- stabilising the domestic market by:
  - ensuring safety of financing the State budget borrowing requirements in case of temporary disruptions on the domestic market
  - absorbing foreign investors' demand for Polish treasury securities
- possible sale of foreign currencies on the financial market or in the NBP as an available instrument of managing foreign and domestic currency borrowing requirements, while taking into account considerations of monetary policy and financial rationale

## The Public Finance Sector Debt Management Strategy in the years 2013-2016

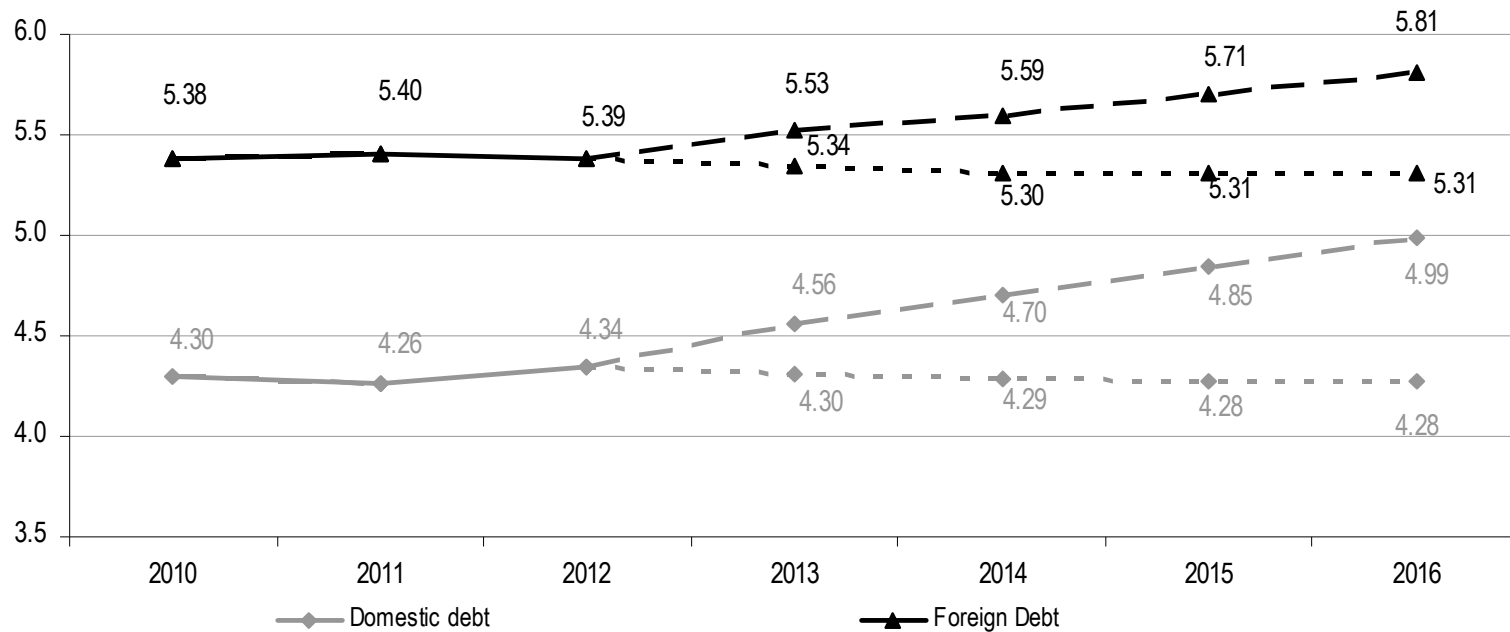
### **Risk constraints of the Strategy's objective: refinancing risk (1)**

- aiming at increasing the role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – at a pace dependent on investors' demand
- aiming at even distribution of redemptions and interest payments of domestic and foreign debt
- reaching and maintaining the average term to maturity (ATM) of domestic debt  $\geq 4.5$  years if the demand and the term structure of interest rates make it possible
- maintaining the ATM of State Treasury debt  $\geq 5.0$  years

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## Risk constraints of the Strategy's objective: refinancing risk (2)

ATM of the State Treasury debt

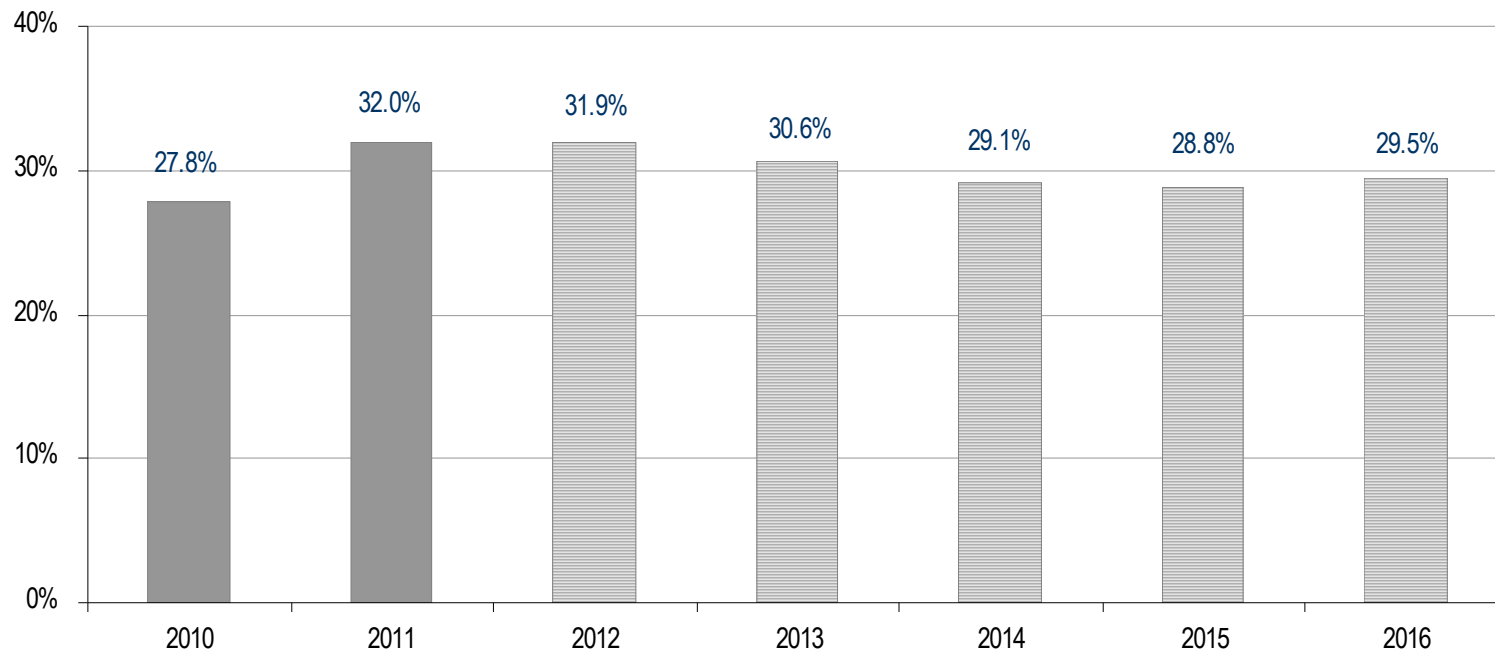


## **Risk constraints of the Strategy's objective: exchange rate risk (1)**

- maintaining the acceptable share of foreign currency debt in total debt  $\leq 30\%$ , with possible temporary deviations due to high volatility of exchange rates, temporary disruptions on the domestic market or possibility of foreign pre-financing by the considerably lower costs in comparison with domestic market
- possible use of derivatives
- maintaining an effective share of the euro in foreign currency debt at  $\geq 70\%$ , with possible temporary deviations in case of limited access to euro market, its ineffectiveness or unfavorable situation in the derivatives market

## Risk constraints of the Strategy's objective: exchange rate risk (2)

Share of foreign debt in ST debt



## **Risk constraints of the Strategy's objective: interest rate risk (1)**

### **DOMESTIC DEBT**

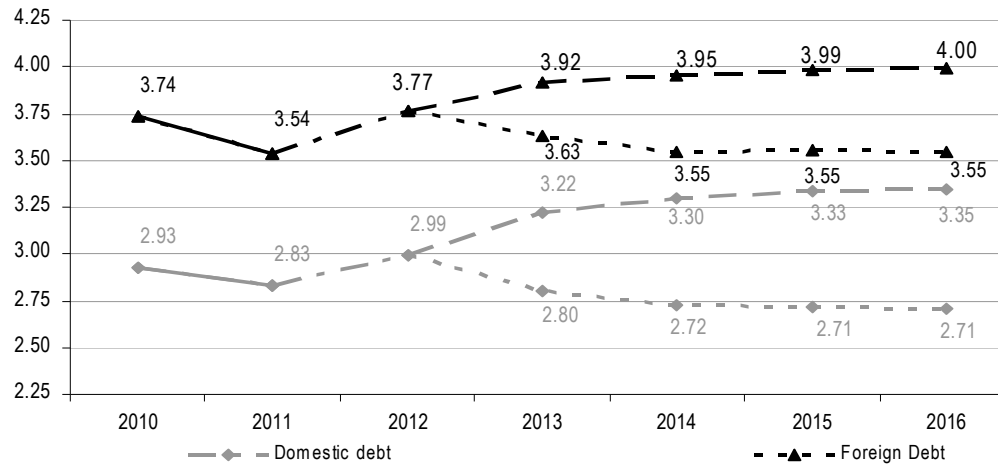
- maintaining duration in the range of 2.5 – 3.5 years and ATR in the range of 2.8-4.2 years
- possible separating the management of the interest rate and refinancing risks by using floating rate bonds, inflation-linked bonds and derivatives

### **FOREIGN DEBT**

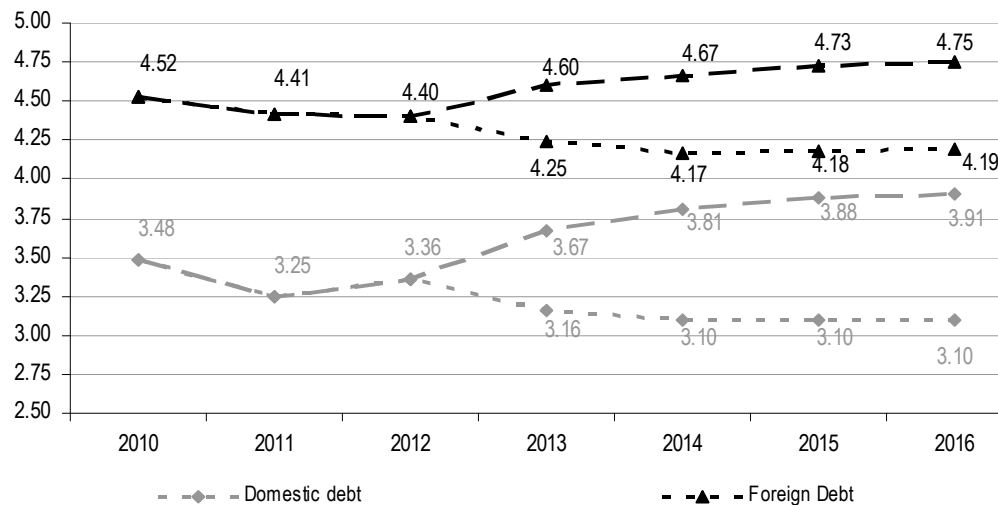
- current level of risk is not a constraint for cost minimisation objective: in mid 2012 duration amounted to 5.5 years

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Risk constraints of the Strategy's objective: interest rate risk (1)



*Duration of the ST debt (in years)*



*ATR of the ST debt (in years)*

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Strategy tasks

### Increasing liquidity of the TS market

- continuation of issuing medium and long term fixed rate benchmark bonds (at least EUR 5 bn) in the domestic market
- large liquid issues in the euro and US dollar markets
- monitoring the effectiveness of new rules evaluating Primary Dealers activity
- expanding uniform price auction formula to switch auctions
- adapting issuance policy to market circumstances

### Increasing efficiency of the TS market, including:

- issuance schedule adjusted to market and budgetary circumstances
- increasing the role of the participants of the Primary Dealers system
- removing technical and legal obstacles
- direct meetings with investors and consultations with market participants
- broadening the investor base, including non-deal roadshows in the key foreign markets

### Increasing transparency of the TS market

- transparent issuance policy, including TS issuance calendars, supply plans of TS and supply offers for individual auctions
- promoting the electronic market

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Debt forecasts

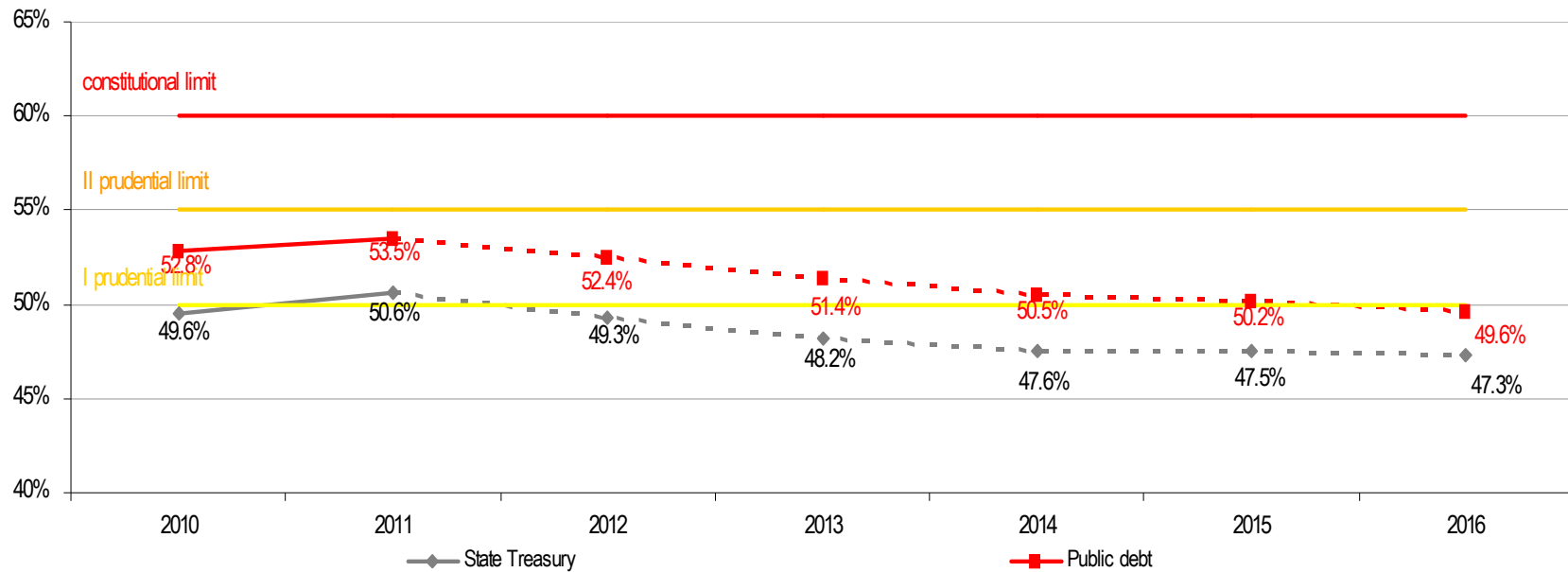
Item	2011	2012	2013	2014	2015	2016
	(execution)					
<b>1. Public debt</b>						
a) bn PLN	815.3	845.8	867.6	893.3	941.5	991.4
b) GDP %	53.5%	52.4%	51.4%	50.5%	50.2%	49.6%
<b>2. General Government debt</b>						
a) bn PLN	859.0	894.7	920.9	944.8	990.0	1 039.0
b) GDP %	56.3%	55.5%	54.5%	53.4%	52.8%	52.0%
<b>3. Debt servicing costs</b>						
a) bn PLN	36.0	43.0	43.5	42.3 - 42.8	42.5 - 44	43.4 - 45.4
b) GDP %	2.36%	2.67%	2.58%	2.39% - 2.42%	2.27% - 2.34%	2.17% - 2.27%

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Public debt volume

Under the adopted assumptions in the *Strategy* timeframe the debt-to-GDP ratio will decrease:

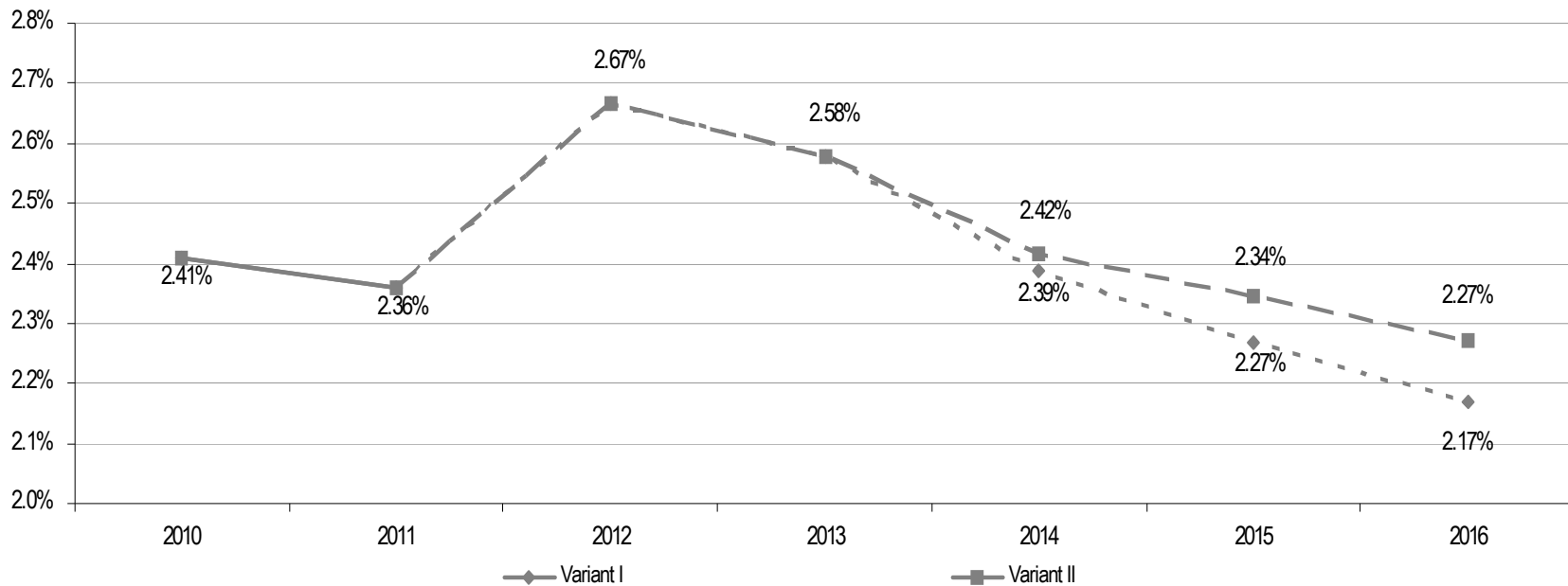
- below the 50% threshold according to Polish methodology
- to 50.2% according to EU methodology



# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Debt servicing costs

Debt servicing costs to GDP ratio will decrease to 2.6% in 2013 and to 2.2-2.3% in the timeframe of the *Strategy*



# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## Sensitivity of the public debt to GDP ratio to changes in assumptions

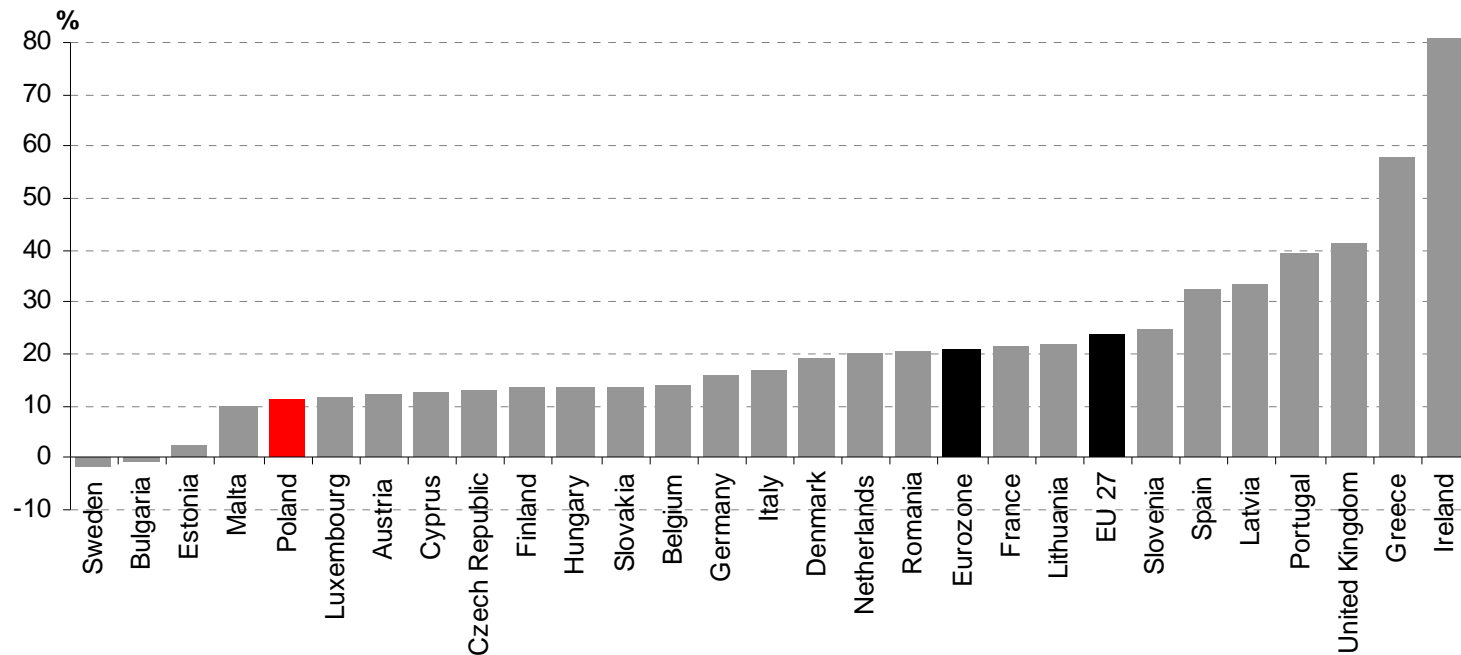
Item	2013	2014	2015	2016
<b>GDP and borrowing requirements (GDP %)</b>				
- growth path of GDP lower by 1 p.p.	0.50%	0.98%	1.46%	1.93%
- borrowing requirements higher by PLN 1 bn a year	0.06%	0.12%	0.17%	0.22%
<b>Exchange rates (GDP %)</b>				
- PLN depreciation by 10% towards all currencies	1.53%	1.43%	1.42%	1.44%

## Sensitivity of the debt servicing costs to changes in assumptions

Item	2013	2014	2015	2016
<b>Interest rates - increase by 1 p.p.</b>				
	PLN bn			
- domestic debt	1,1	2,4	3,5	4,4
- foreign debt	0,3	0,6	0,9	1,1
- total debt	1,3	2,9	4,3	5,5
<b>Exchange rates</b>				
	PLN m			
- PLN depreciation by 1% towards all currencies	103,2	101,4	95,6	103,4

## The Public Finance Sector Debt Management Strategy in the years 2013-2016

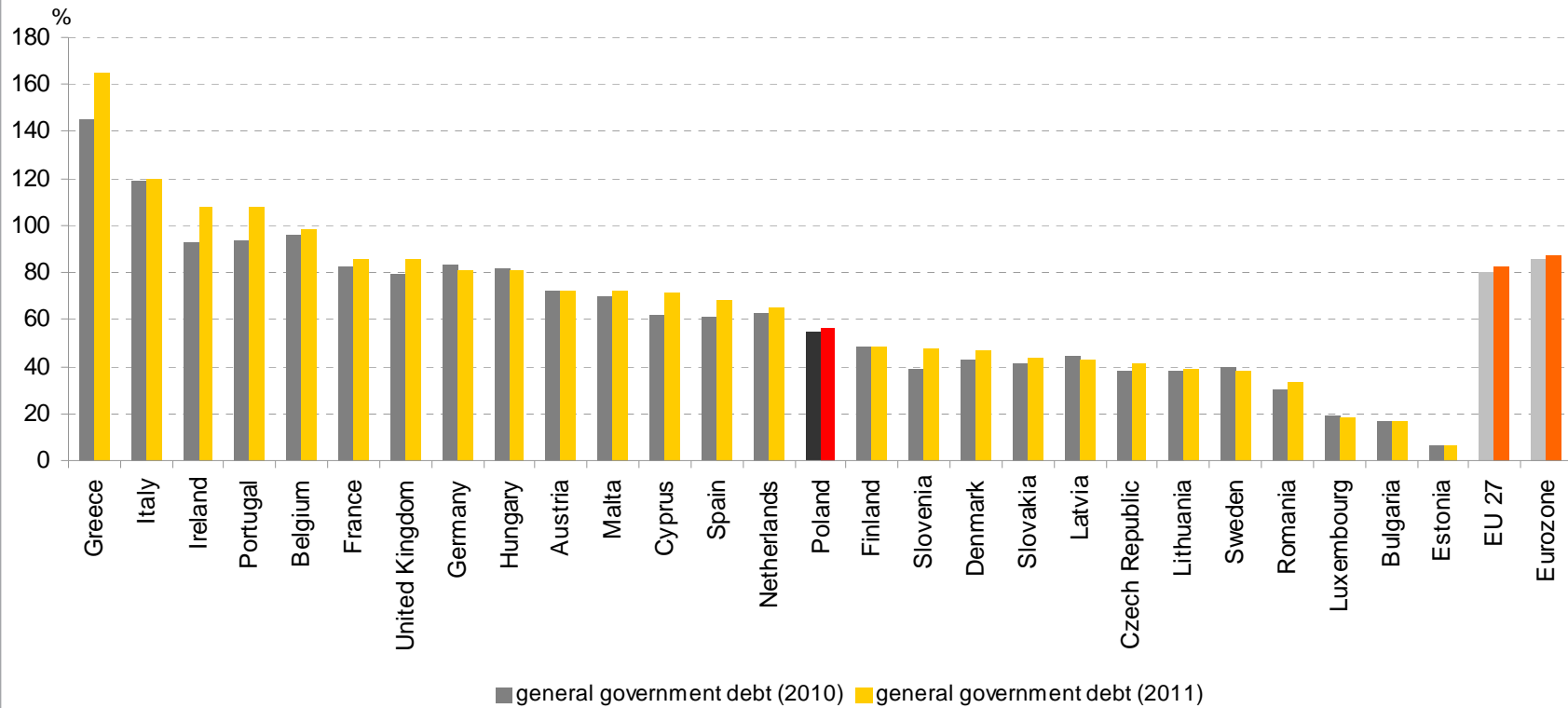
### The total increase of general government debt in relation to GDP in the EU in the years 2008-2011\*



\* the difference between debt to GDP relation at the end of 2011 and 2007

# The Public Finance Sector Debt Management Strategy in the years 2013-2016

## General government debt in the EU member states



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## Long-term government debt rating in foreign currency in the EU

	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
<b>Poland</b>	<b>A-</b>	<b>A-</b>	<b>A2</b>
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. as of September 13. 2012

↑↓ - Upgrade or downgrade by one notch in comparison to previous *Strategy* (i.e. 29 Nov 2011)

## The Public Finance Sector Debt Management Strategy in the years 2013-2016

### **Prospective changes in legal procedures regarding limits on public debt-to-GDP ratio (mechanism):**

- **the definition of public debt remains unchanged;**
- when the public debt-to-GDP ratio exceeds the 50% or 55% threshold, the following calculations are made:
  - a. public debt denominated in foreign currency is recalculated using arithmetic mean of average exchange rates of foreign currencies in zloty published by the National Bank of Poland that applied for working days of the budgeted year concerned
  - b. the amount calculated in point a. is reduced by the value of liquid funds that will be used to finance the state budget borrowing needs in the following budget year
- if the ratio calculated according to the instructions presented above does not exceed the 50% or 55% threshold, the legal restrictions regarding limits on the ratio (prudential and remedial procedures and increases in VAT rates) do not apply

## The Public Finance Sector Debt Management Strategy in the years 2013-2016

### **Prospective changes in legal procedures regarding limits on public debt-to-GDP ratio (justification):**

The aim of the changes is to improve the fiscal rule regarding public debt in order to restrict the risk that the prudential and remedial sanctions will apply without economic justification, i.e. when the thresholds are exceeded as a result of:

- depreciation of Polish zloty (an external factor, which is highly volatile and vulnerable to speculation)
- incurring in current year liabilities on prefinancing next year's borrowing needs (i.e. limiting the refinancing risk or taking advantage of favorable market conditions and thus reducing debt servicing costs)