The Public Finance Sector
DEBT MANAGEMENT STRATEGY
in the years 2010-12

Ministry of Finance

Warsaw, September 2009

The Public Finance Sector
DEBT MANAGEMENT STRATEGY
in the years 2010-2012

I. INTRODUCTION

According to article 70 of the Public Finance Act of June 30, 2005 the Minister of Finance is obliged each year to prepare a 3-year strategy on managing the State Treasury (ST) debt and of influencing the public debt as a whole. This document is presented by the Minister of Finance to the Council of Ministers for its approval and then submitted to the Sejm together with the justification of the draft Budget Act.

Public debt management is conducted at two levels:

- in a broader sense, debt management is a part of fiscal policy and covers decisions on what portion of State expenditures is to be financed by debt and 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 of the draft budget act and the Convergence Programme);
- in a narrower sense, debt management means determining the way of financing the State borrowing requirements and shaping the debt structure, by selecting markets, instruments and dates of issuance.

The Public Finance Sector Debt Management Strategy in the Years 2010-2012 contains forecasts of state public debt levels (in accordance with the national methodology) which are consistent with the fiscal policy assumptions of the draft Budget Act for 2010, however, its objectives and tasks refer to the narrower sense of public debt management. The 3-year general government debt forecast (EU methodology) based on the fiscal path adjusted to the level resulting from putting Poland under the excessive deficit procedure shall be presented in the upcoming Update of the Convergence Programme, which is in the process of being drawn up.

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

	2008 (actual)	**2009**	**2010**	**2011**	**2012**
1. Public debt					
a) PLN BN	597.8	658.8	739.1	770.8	816.1
b) relative to GDP	47.0%	49.8%	54.7%	54.5%	54.8%
2. State Treasury debt servicing costs (cash basis)					
a) PLN BN	25.1	30.6	34.9	40.7	44.2
b) relative to GDP	2.0%	2.3%	2.6%	2.9%	3.0%

Under the adopted assumptions, the debt-to-GDP ratio is expected to increase and exceed the threshold of 50% in 2010. According to the Public Finance Act, exceeding the 50% threshold in 2010 shall necessitate the adoption of a budget deficit-to-revenues ratio in the budget act for the year 2012 not higher than that assumed in the budget for the year 2011. Between 2010 and 2012, the debt-to-GDP ratio is expected to remain close to the 55% threshold (54.5%-54.8%). It means considerable risk that this threshold could be exceeded and sanctions arising from the Public Finance Act could be imposed. The ratio of ST debt servicing costs to GDP is expected to increase to 3.0% in 2012.

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, 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 years 2010-2012:

- the flexible approach towards shaping the financing structure in terms of choosing the market, currency and instruments shall be maintained, to the extent that cost minimisation is achieved, subject to 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 might be periodically increased; the euro market will retain its strategic role in foreign issuance;
- large and liquid fixed rate issue programmes, both in the domestic and the euro market, shall be a priority of the issuance policy;

- efforts to increase the average maturity of the domestic debt (the process that came to a halt in 2008 and 2009) shall be continued, while its duration, which reached an acceptable level from the point of view of the interest rate risk, shall be maintained in the range of 2.5-4.0 years;
- in the case of foreign debt, current levels of neither refinancing risk nor interest rate risk constrain the objective of minimising the debt servicing costs.

The layout of the *Strategy* has not changed significantly. The previous Strategy contained a monographic chapter devoted to the analysis of the impact that the adoption of the euro would have on public debt management in Poland. At present, the impact of the planned adoption of the euro on the objectives, tasks and instruments of debt management is discussed in appropriate chapters of the Strategy.

An important consideration taken into account in the Strategy is the enforcement of the new Public Finance Act due on January 1, 2010. Key changes related to public debt, discussed in subchapter VI.1, are in the field of the scope and organisation of the public finance sector, prudential and remedial procedures (with unchanged thresholds of 50%, 55% and 60%) as well as the timeframe of the Strategy – it shall be a 4-year one beginning from the strategy prepared in 2010.

There are seven Annexes with additional information to the main body of the Strategy, including a glossary.

II. CHANGES IN VOLUME AND STRUCTURE OF PUBLIC DEBT

Financing the State budget borrowing requirements involves incurring public debt and bearing costs of its servicing. The essence of debt management is shaping the structure of debt to minimise servicing costs in the long run while at the same time keeping risk 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 granted guarantees and sureties.

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

Changes in the volume of public debt in the years 2001-09 resulted mainly from changes in the ST debt. The growth of the nominal value of debt was the result of relatively high level of State budget borrowing requirements, decreasing revenues from privatisation and changes in the exchange rate of the Polish zloty. At the same time, since 2004 high rates of the GDP growth and improvement in public finance contributed to the stabilisation of the debt-to-GDP ratio at the average level of about 47% below the first threshold set in the Public Finance Act, i.e. 50%. Significant strengthening of the zloty in 2007 enabled a temporary decrease of the debt-to-GDP ratio to about 45%. In 2008 and over the first half of 2009 public debt rose respectively by PLN 70.3 bn and PLN 37.8 bn (of which ST debt by PLN 68.4 bn and PLN 38.2 bn) as a result of significant depreciation of the zloty and increase of the public finance sector borrowing requirements caused by the economic slowdown.

Chart 1. Volume of public debt in the years 2001-2009[1]

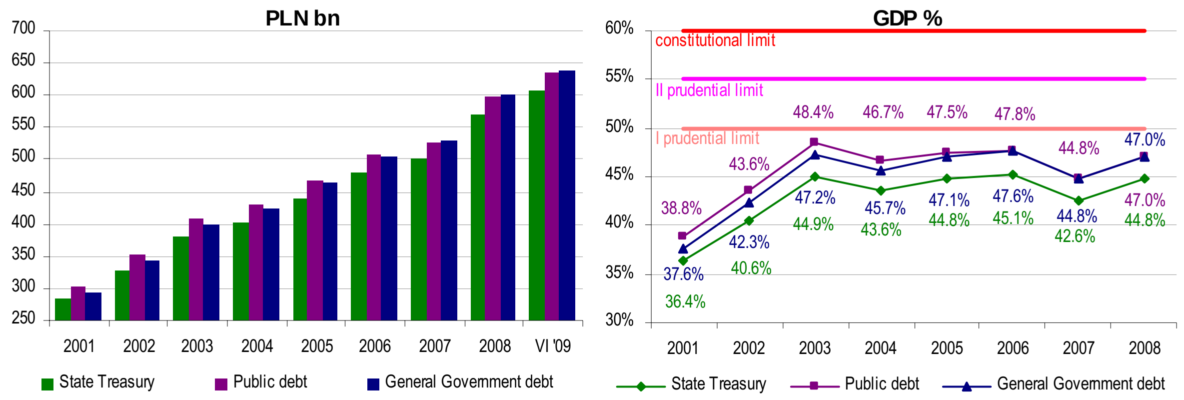
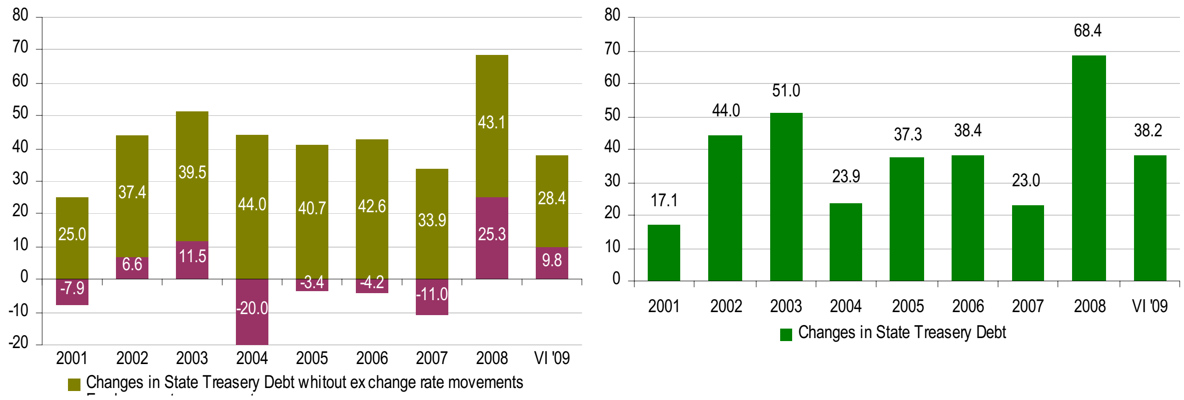


Chart 2. Influence of FX rate movements on the State Treasury debt volume in the years 2001-2009 (PLN bn)



The debt-to-GDP ratio (EU methodology), at the end of 2008 at 47.0%, is lower than the ratio for the EU as a whole (61.5%) and for the Eurozone (69.3%)[2].

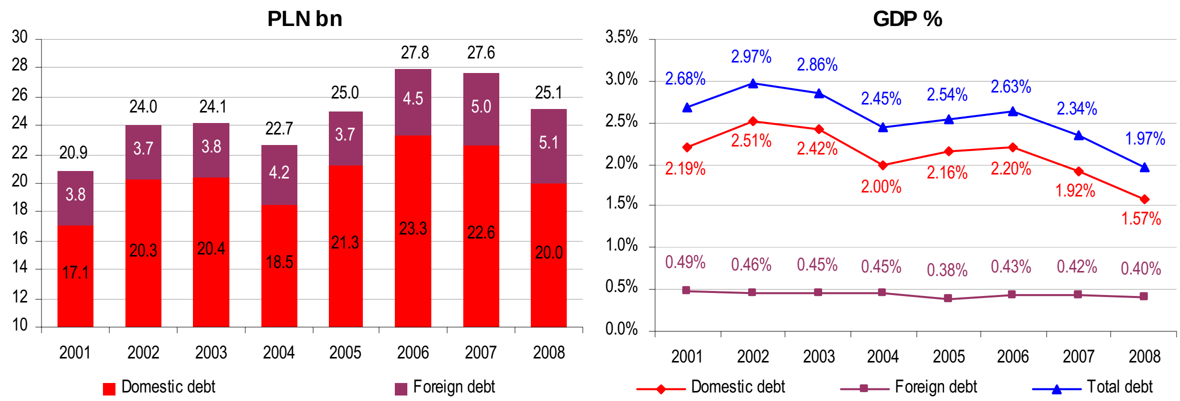
[1] Detailed data on public debt volume are presented in Annex 7.

Table 2. Factors influencing changes of the ST debt- to-GDP (%)

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

**) Funds transferred to Social Security Fund (FUS) as compensation for contributions transferred to OFE.*
***) Mainly: changes of balance of granted loans and prefinancing.*
****) Changes of debt caused by budget account balance, TS discount, TS capitalisation and indexation, off-budget drawings, written off debt, conversion of FUS to OFE debt for securities.*
Attention: In comparison to preceding Strategy the budget account balance classification has been changed, previously it was classified as the element of state budget borrowing requirements, actually it is classified as the element of changes not resulting from State budget borrowing requirements.

Chart 3. ST debt servicing costs in the years 2001-2008



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

- Derivatives – in use since the end of 2006;
- Coupons of Treasury bonds offered in the wholesale market set at the level close to their yields to lower the burden of discount cost cumulating at maturity;
- Switching and buy-back auctions, in use since 2001, with the primary goal to reduce refinancing risk, but also allowing for the redistribution of costs over time.

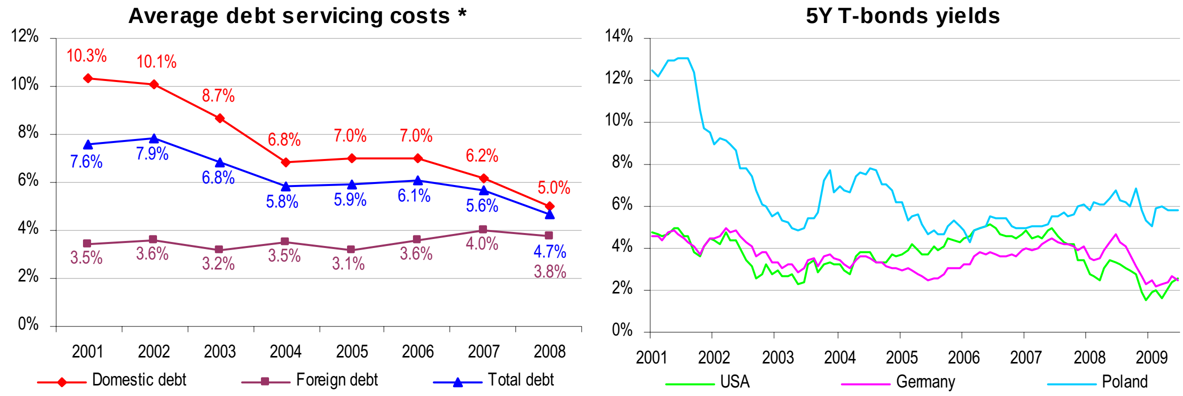
Foreign debt servicing costs were much lower than those of domestic debt, which, in lower extent, resulted from spread between interest rates on domestic and major foreign markets and, more importantly, by the lowering share of foreign debt in total ST debt.

In 2009, the following factors contributed to increase in debt servicing costs:

[2] The main differences between Polish and EU methodology result from matured payables included in liabilities, which constitute public debt according to Polish methodology and State Road Fund (KFD) debt included in public debt only in EU methodology. Differences between these both methodologies are presented in Annex 6 while data concerned deficit and debt of EU member states in Annex 3.

- temporary increase in yields on the domestic market in the fourth quarter of 2008 connected with substantial sales of Treasury securities on the secondary market as a result of an outflow of foreign investors' funds (total domestic debt in Treasury securities decreased by PLN 18.6 bn in 2008) and funds from investment funds (PLN 13.7 bn respectively) as well as freezing of activity on almost all segments of the financial market, including the Treasury securities market,
- significant depreciation of the Polish zloty and an increase in the financing costs on major international financial markets connected with the financial crisis (the increase in credit margins outweighed benefits related to lowering interest rates on these markets).

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



**) Average servicing costs of the ST debt were calculated as a ratio of debt servicing costs in a given year to the arithmetic average of debt volume at the end of given and previous year.*

The ST debt servicing costs to GDP ratio, after a significant fall in the years 2003-04, grew slightly in the years 2005-06 and again significantly fell in the years 2007-08, mainly as a result of high GDP growth rate against a fall of nominal costs. Derivatives conducted in 2007, which transferred costs form 2008 to 2007, and smaller scale of these transactions conducted in 2008 significantly influenced on the fall of costs in 2008.

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 issuance policy and other operations on debt kept the risk connected with the ST debt structure on the safe level.

a) Refinancing risk

The domestic debt refinancing risk was systematically reduced since the year 2004 and was relatively stabilized since 2007. This risk reduction was a result of:

- growing importance of medium and long-term bonds in financing the borrowing requirements; the share of T-bonds with the maturity of 5 years in total sales of T-bonds in regular auctions accounted for respectively 58.9% in 2001 and 83.4% in 2007 respectively[3]. Their share fell to 81.5% in 2008 and 55.7% in the first half of 2009 respectively. The sale value of medium and long-term T-bonds reduced in favour of T-bills and 2Y T-bonds mainly as a result of a decreased demand for those instruments on the primary market. In connection with financial crisis and increasing risk aversion there was significant outflow of foreign investors as well as funds from domestic investment funds, which resulted in substantial supply of T-bonds on the secondary market;
- changes in the amount of T-bills:
    - a fall of both outstanding amount and their share in domestic ST debt in the years 2001-07 respectively from PLN 35.2 bn to PLN 22.6 bn and from 20.0% to 5.9%;
    - an increase to PLN 50.4 bn in 2008 and PLN 60.4 bn in the first half of 2009 (share in the domestic TS were respectively 12.0% and 13.4%). The increase in the outstanding

[3] Including switching and supplementary auctions.

amount of T-bills was a result of a return to the use of these instruments as a source of financing the borrowing requirements. Turn towards short-term financing as a response to the financial crisis and increased borrowing requirements became a common practice of OECD member countries, among others due to an increase of investors' risk aversion and a decrease of short-term interest rates[4];

- significant role of switching auctions. In 2002 T-bonds with short residual maturities with face value of PLN 9.6 bn were bought back, for 2008 and the first half of 2009 the numbers were PLN 22.3 bn and PLN 21.0 bn respectively. Short and medium term T-bonds constituted a dominant share of all T-bonds issued on the switching auctions (96.2% and 79.5% in 2008 and in the first half of 2009 respectively).

Chart 5. Residual maturity of the ST debt in the years 2001-2009

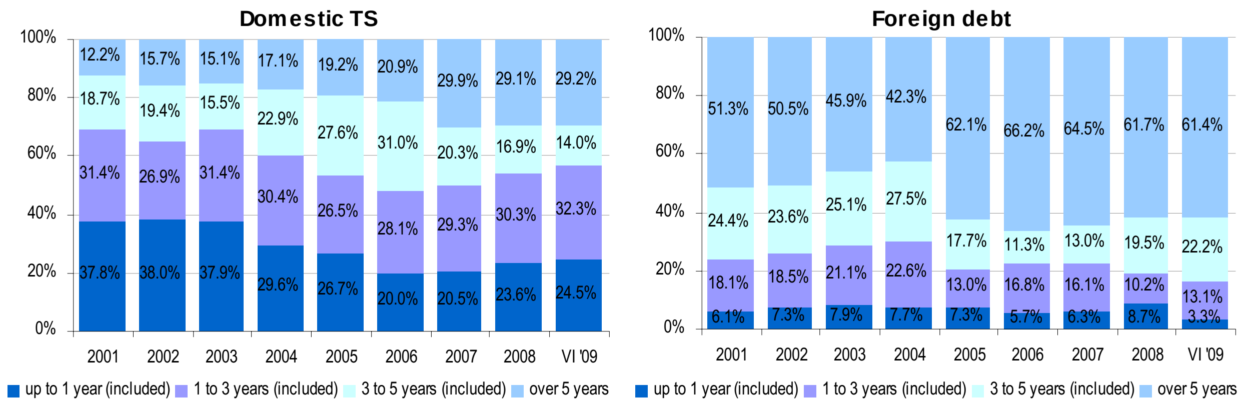
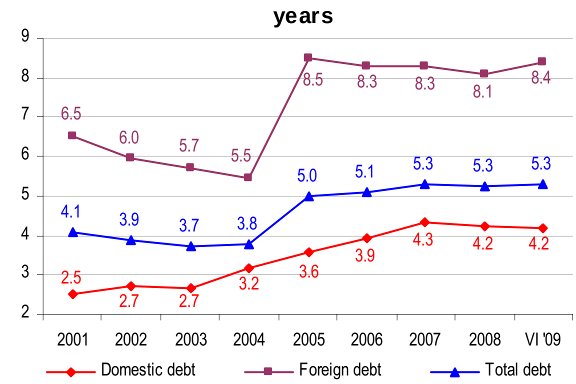


Chart 6. ATM of the ST debt in the years 2001-2009



In comparison with the domestic ST debt, the refinancing risk of foreign ST debt was significantly lower. It was significantly reduced in 2005 when the Paris Club debt was partly repaid before maturity and refinanced by long term T-bonds. In the first half of 2009 an increase of an average term to maturity (ATM) of foreign ST debt was a result of a finalised repaying the Paris Club debt and incurring a long-term loan at the World Bank.

A regular, since 2003, increase of the ATM of the total ST debt originated from a stable growth of the ATM of domestic ST debt, which has a dominant share in total debt, and a significant increase of the ATM of foreign debt in 2005. In the first half of 2009 the ATM of total ST debt was a result of a slight increase in ATM of the foreign ST debt as well as slight drop in ATM of the domestic ST debt.

b) <u>Exchange rate risk</u>

Share of foreign currency debt in total ST debt, excluding a slight increase in 2005, had regularly been decreasing and reached 23.3% at the end of the third quarter of 2008 and

[4] In the first half of 2009 instruments with up to one year maturity accounted for 43% share of TS sales in Poland in the domestic currency as compared to 40% in Great Britain, 52% in Germany, 68% in France, 77% in the United States and 93% in Hungary – see Annex 5.

subsequently it increased to 26.1% in mid 2009. The share of currencies other than the euro was reduced. This tendency was the result of:

- the adoption (in the basic scenario) of foreign financing in the amount close to the value of State budget borrowing requirements in foreign currencies resulting from the servicing and repayment of foreign debt,
- significant volatility of the exchange rate of Polish zloty, including strong appreciation since the end of 2001 to mid 2008 (when the euro and dollar exchange rates decreased by 5% and 47% respectively) and strong depreciation in Q4 2008 and Q1 2009 (when the euro and dollar exchange rates increased by 40% and 67% respectively);
- flexible approach to implementing the objective of minimising the debt servicing costs in the area of exchange rate risk constraints and allowing for a temporary increase of foreign financing justified with striving towards domestic market stabilisation, diversifying sources of raising capital and taking advantage of the possibility to incur low-interest loans at international financial institutions (IFI),
- strategic importance of the euro as a prospective domestic currency (adopting the euro will result in immediate drop of the exchange rate risk).

Chart 7. Currency composition of the ST debt

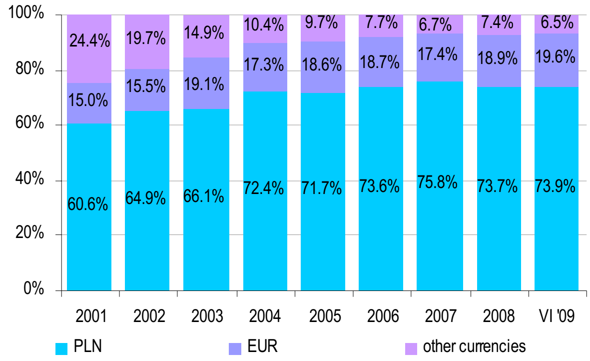
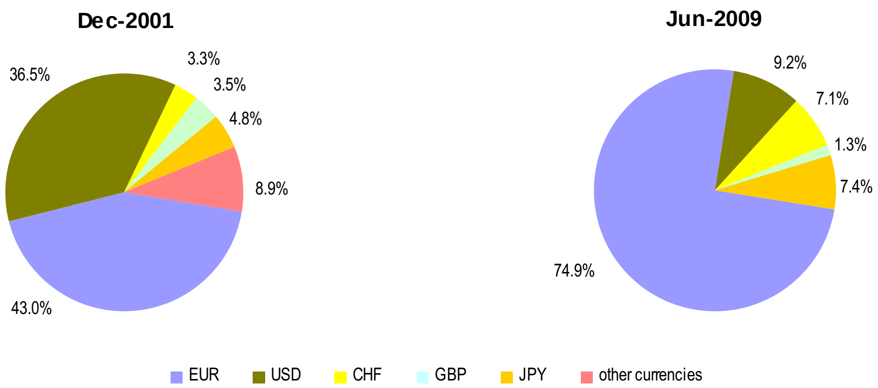


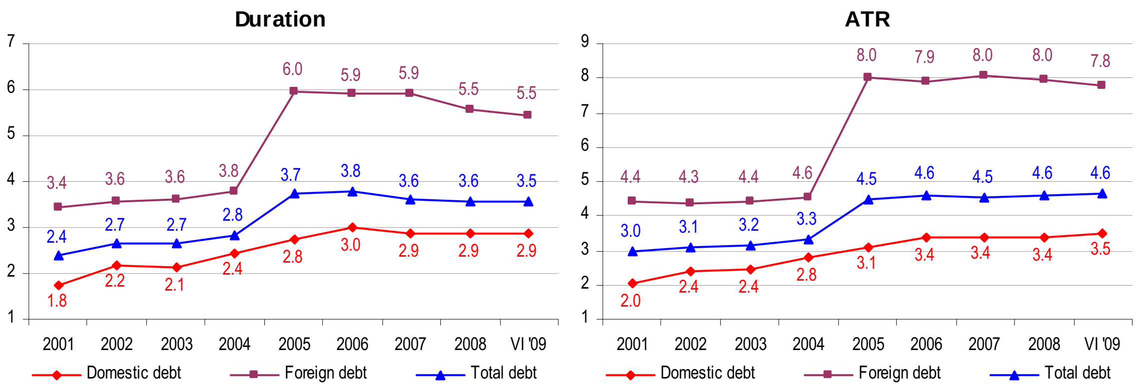
Chart 8. Currency composition of the ST foreign debt



c) <u>Interest rate risk</u>

Due to the dominant role of fixed-rate instruments in new issuance, changes in the interest rate risk of both domestic and foreign debt were similar in recent years to changes in the refinancing risk.

Chart 9. Duration and ATR of the ST debt in the years 2001-2009



Duration of the ST debt is one of the lowest ones across the EU[5]. As in case of the refinancing risk, the interest rate risk of the foreign ST debt remains at an acceptable level.

II.3. Evaluation of implementing the Strategy's objective in 2008 and the first half of 2009

In 2008 and the first three quarters of 2009 debt management was conducted in accordance with *The Public Sector Debt Management Strategy in the Years 2008-10,* approved by the Council of Minister in September 2007 and with *The public Sector Debt Management Strategy in the Years 2009-11*, approved in September 2008. As a result of the crisis in the global financial markets, the macroeconomic and market conditions of implementing the Strategy substantially differed from original assumptions.

Table 3 presents the evaluation of implementing the Strategy's objective along with risk constraints in 2008 and the first half of 2009.

[5] Detailed data regarding ATM and *duration* in EU member states are included in Annex 5.

Table 3. Evaluation of implementing the Strategy's objective in 2008 and over the first half of 2009

<table>
<tr><th colspan="3">I. Strategy's objective</th></tr>
<tr><td rowspan="2">Debt servicing costs minimisation</td><td>Evaluation</td><td>Implementation</td></tr>
<tr><td>High</td><td>

1. Selection of instruments
The domestic market was core to financing the borrowing requirements (in 2008 the face value of TS issuance amounted to PLN 134.3 bn in the domestic market and PLN 8.3 bn in foreign markets, additionally PLN 4.0 bn were drawn from international financial institutions, in the first half of 2009 - PLN 91.6 bn, PLN 7.7 bn and PLN 4.4 bn respectively). Main factors taken into account when deciding about the financing structure were:

situation in global financial markets. Deepening financial crisis contributed to an increase in risk aversion and capital flows towards safe investments. The accumulation of crisis events in September 2008 (including the bankruptcy of the Lehman Brothers bank) had a negative influence on the perception of financial stability of countries classified to the group of so called emerging markets, including Central and Eastern Europe. It resulted in sudden capital outflow from Poland and strong depreciation of the zloty between Q4, 2008 and February 2009. From March 2009 the situation began to gradually improve in global financial markets and investors returned to fundamental evaluation of individual economies – a phenomenon advantageous for Poland. The perception of Poland was further improved by the availability of the flexible line of credit (FLC) at the amount of ca. USD 20.5 bn for Poland by the International Monetary Fund in May 2009. These factors contributed to foreign investors inflow and appreciation of the zloty;
situation in the domestic market. Inflation rise and NBP's interest rates increases in the first half of 2008 and subsequently inflation fall as a result of the economic slowdown along with a series of interest rate cuts in the second half of 2008 and continuation of this tendency over the first half of 2009 had an influence on demand for TS and their yields. High risk aversion and low mutual trust among banks and other financial institutions was reflected by a significant decrease of market liquidity, especially in the fourth quarter of 2008 and in the first half of 2009. The demand for TS remained changeable and was predominantly focused on the segment of short-term instruments, i.e. T-bills and 2-year bonds. In the first half of 2009 demand remained the important factor influencing the shift of the financing burden more than 40% of the domestic borrowing requirements to T-bills. In spite of unfavourable conditions in international markets and significant shortening the maturity of new issues by most OECD member countries, bonds remained the important instruments for financing borrowing requirements in 2009. That was a result of both demand from domestic investors and foreign investors return (the value of debt towards this group increased by PLN 12.1 bn);
distribution over time of state budget borrowing requirements, including those connected with the redemption of large series of bonds. In 2008 financing proceeded according to plans and net borrowing requirements amounted to PLN 42.8 bn, PLN 2.4 bn less than the amount assumed in the Budget Act. In the first half of 2009 borrowing requirements amounted to PLN 26.7 bn and the deficit reached the amount of PLN 16.6 bn, i.e. 89.9% of the amount assumed in the Budget Act. In the state budget amendment act implemented in July 2009, the deficit amount was increased from PLN 18.2 bn to PLN 27.2 bn;
limited State budget borrowing requirements in foreign currencies on the one hand and striving for diversification of markets due to absorption constraints of the domestic market on the other.

</td></tr>
</table>

		The most important activities connected with foreign debt included: • benchmark issues on the strategic euro market (10-year bonds with face value of EUR 2.0 bn in June 2008 and 5-year bonds with face value of EUR 1.0 bn and EUR 0.75 bn in February and May 2009 respectively); • loans drawing from international financial institutions (EUR 1.2 bn in 2008, predominantly from the European Investment Bank and EUR 1.0 bn in the first half of 2009, predominantly from the World Bank); • maintaining Poland's presence in other markets, especially those with low interest rates through issues of bonds in the yen (30-year bonds with face value of JPY 22 bn in June 2008) and the Swiss franc (4-year bonds with face value of CHF 225 million and 9-year bonds with face value of CHF 250 million in April 2008). Raising funds in foreign markets was continued in the third quarter of 2009, which there was an issue of 10-year bonds with face value of USD 3.5 bn in the US market and an issue of 5-year bonds with face value of CHF 750 million in the Swiss market along with drawing loans from international financial institutions at the amount of ca. EUR 1.6 bn. **2. Efficiency of the TS market** Main activities aimed at cost minimisation included: • Issuance policy aimed at creation of liquid benchmark bond issues in the domestic market was continued. EUR 5 bn threshold was exceeded by 10 domestic issues (including 9 fixed-rate bonds). Although, concentration of issuance constituted an important factor facilitating the rise of liquidity on the secondary bond market, the liquidity ratio decreased from 185.4% in 2007 to 149.3% in 2008 and 108.6% in mid 2009 due to the crisis in the financial markets; • Policy of issuing liquid benchmark bonds in the strategic euro market in segments adjusted to the market situation was continued (10 years in 2008 and 5 years in 2009); • switching auctions of inflation-indexed bonds and floating-rate bonds with long maturity conducted in October 2008 and January 2009, of which objective was enhancing of this market segment's liquidity; • publishing the supply during ST auctions, beginning from December 2008, in the set ranges aimed to improve the sale flexibility in the changing market environment and simultaneously maintaining the ST market transparency; • preparing legal infrastructure allowing to issue bonds in the domestic market by the so called syndicate (a consortium of banks); • amendment act of November 6, 2008 on the Personal Income Tax Act and the Corporate Income Tax Act according to which interest or discount on bonds issued by the ST as well as offered in foreign markets and income obtained from bonds sale by non-residents are exempt from income tax.

<table>
<tr><th colspan="7">II. Constraints – quantitative</th></tr>
<tr><th rowspan="2">Constraint</th><th rowspan="2">Evaluation</th><th rowspan="2">Implementations</th><th rowspan="2">Measure</th><th colspan="3">Value</th></tr>
<tr><th>2007</th><th>2008</th><th>Jun 2009</th></tr>
<tr><td rowspan="2">Refinancing risk</td><td rowspan="2">High</td><td rowspan="2">• Flexible approach to financing in the environment of high demand changes
• significance increase of T-bills in financing borrowing requirements, limited sales of medium and long-term bonds as compare with previous years
• High importance of switching auctions
• Maintaining the ATM of domestic debt above 4 years in spite of unfavourable market conditions
• Safe level of foreign debt refinancing risk</td><td>ATM
(in years)
- domestic debt
- foreign debt
- total debt</td><td>4.33
8.28
5.30</td><td>4.23
8.11
5.27</td><td>4.20
8.37
5.31</td></tr>
<tr><td>Share in domestic ST of:
- securities maturing within 1 year
- Treasury bills</td><td>20.5%
5.9%</td><td>23.6%
12.0%</td><td>24.5%
13.4%</td></tr>
<tr><td rowspan="2">Exchange rate risk</td><td rowspan="2">Satisfactory</td><td rowspan="2">• Share of foreign debt in total debt maintained above the range set in the Strategy (20-25%) due to strong depreciation of the zloty (resulted in the increase of ST debt by PLN 25.3 bn in 2008 and by PLN 9.8 bn in the first half of 2009)
• Share of EUR debt in foreign debt maintained above 70% target set in the Strategy
• Increasing importance of long-term non-market financing at international financial institutions</td><td>Share of foreign debt in total ST</td><td>24.2%</td><td>26.3%</td><td>26.1%</td></tr>
<tr><td>Share of euro-denominated debt in foreign debt</td><td>72.1%</td><td>71.8%</td><td>74.9%</td></tr>
<tr><td rowspan="2">Interest rate risk</td><td rowspan="2">High</td><td rowspan="2">• Duration of domestic debt remained in the 2.5-4.0-year range set in the Strategy
• Flexible TS supply in reply to changes in financial markets
• Risk connected with foreign debt remained at a safe level and did not restrain the costs minimisation objective</td><td>Duration (in years)
- domestic debt
- foreign debt
- total debt</td><td>2.85
5.92
3.63</td><td>2.86
5.55
3.58</td><td>2.86
5.46
3.55</td></tr>
<tr><td>ATR (in years)
- domestic debt
- foreign debt
- total debt</td><td>3.39
8.05
4.53</td><td>3.38
7.96
4.60</td><td>3.49
7.77
4.63</td></tr>
</table>

III. Constraints – non-quantitative		
Constrain	Evaluation	Implementation
Liquidity risk	High	Main instruments used in liquidity risk management included: • switching auctions (their main purpose was to reduce refinancing risk connected with redemptions of large issues), • interest-bearing zloty deposits in the National Bank of Poland (NBP) – deposits with the face value of PLN 172 bn and PLN 104 bn were conducted in 2008 and in the first half of 2009 respectively, • zloty deposits, where Bank Gospodarstwa Krajowego (BGK) acts as an intermediary. There were buy-sell-back transactions and interbank deposits. Transactions with the face value of PLN 379 bn and PLN 171 bn were concluded in 2008 and in the first half of 2009 respectively, • interest-bearing foreign currency deposits with the NBP. In 2008 deposits with the face value of USD 0.7 bn and EUR 4.6 bn were conducted and in the first half of 2009 deposits with the face value of EUR 7.9 bn, • temporary usage of the European Commission funds in order to finance borrowing requirements (the amount of PLN 4.7 bn and EUR 1.2 bn in the fourth quarter of 2008 and the first quarter of 2009 respectively), • short-term loans in commercial banks launched in 2008. In July 2008 appropriate agreements with commercial banks were signed. Transactions with the face value of PLN 0.2 bn and PLN 0.4 bn were conducted in 2008 and in the first half of 2009 respectively, • temporary short-term T-bills sale during the times of substantial borrowing requirements connected with redemptions of significant bond issues. Liquid assets of the State budget (on average: PLN 6.5 bn in 2008 and PLN 6.8 bn in the first half of 2009 of zloty deposits as well as PLN 6.5 bn and PLN 3,4 bn respectively of foreign currency deposits) contributed to increased safety in the execution of budgetary flows. In June 2008 redemption of the first PS0608 benchmark series with the initial face value of PLN 19.4 bn took place, of which after switching auctions PLN 12.3 bn remained to be redeemed at maturity. In May 2009 DS0509 benchmark series was redeemed with the initial face value of PLN 28.6 bn (PLN 9.4 bn after switching auctions).
Credit risk	High	• Buy-sell-back transactions did not generate any credit risk. • For interbank deposits the system of credit limits is in place. • Credit risk connected with derivatives is limited by selection of counterparties with high credit rating (it is necessary to have ISDA Master Agreement or an equivalent Polish law agreement signed with MF to make deals) and limitation imposed on the total value of transactions involved with every counterparties aiming to diversify the credit risk. Creditworthiness of potential transaction partners is monitored daily, in case of significant increase in credit risk further transactions are suspended. Derivative transactions were suspended from March till April and from the end of September till December 2008 as a result of significant increase in the systemic risk of the banking sector. • The so called collateral deposit mechanism, aiming to risk reduction, was implemented in new Polish law agreements signed with domestic banks.
Operational risk	Satisfactory	• Debt management conducted in one department in the Ministry of Finance. • Appropriate technical infrastructure for conducting market transactions. • Safety of information connected with debt management. • Integrated database of the ST debt. • Ongoing problems with retaining valuable staff and difficulty in attracting new employees generated significant risk.
Distribution of debt servicing costs over time	Satisfactory	• Smooth distribution of servicing costs was taken into account when deciding about new issues of TS. Coupons of new issues were set close to their yields. • Even distribution of servicing costs was enhanced by switching auctions for bonds maturing in the following year. • Transactions involving derivatives conducted in 2007 contributed to the reduction of servicing costs by PLN 3.1 bn in 2008. In order to limit increasing debt servicing costs in 2009 derivative transactions were continued in 2008,

		yet to a limited extent due to increasing credit risk of banking institutions. From September till October 2008 transaction with the total face value of PLN 12 bn were conducted resulting in decrease in costs by PLN 0.9 bn in 2009 and increase in costs in 2008.

II.4. Volume and structure of debt of public finance sector units other than the State Treasury

At the end of 2008 the debt of units other than the ST constituted 6,6% of debt of the public finance sector before consolidation (5.4% after consolation) as compared to 6.8% (5.4%) at the end of 2007 (6.5% and 5.2% in mid 2009 respectively). In recent years the local government sub-sector debt, in particular of local government units and independent public health units, had the highest and rising share in this part of the debt. The social security sub-sector debt decreased significantly. Detailed data regarding the debt of public finance sector units are presented in Annex 7.

Chart 10. Debt of public finance sector units other then ST before and after consolidation by sectors (PLN bn)

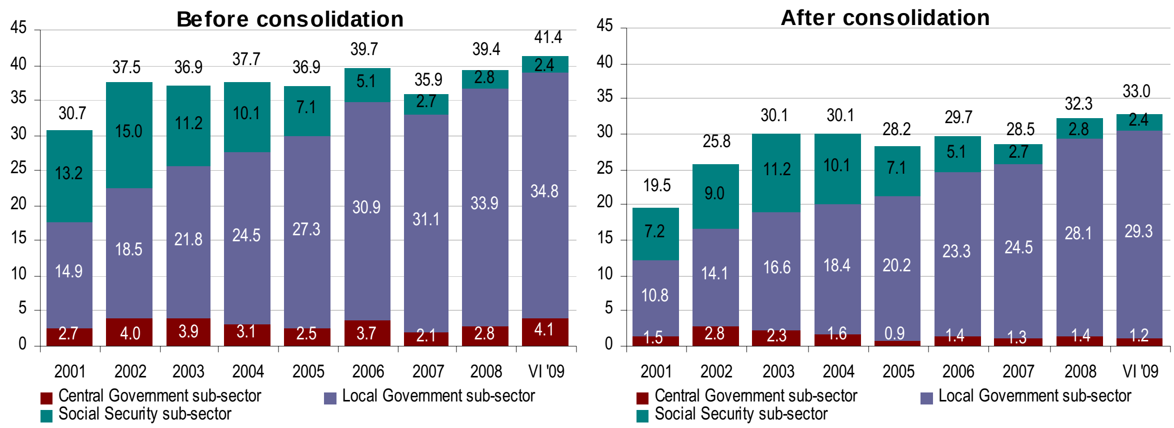


Chart 11. Share of debt of public finance sector units other than ST before and after consolidation in public finance sector debt and as a GDP ratio

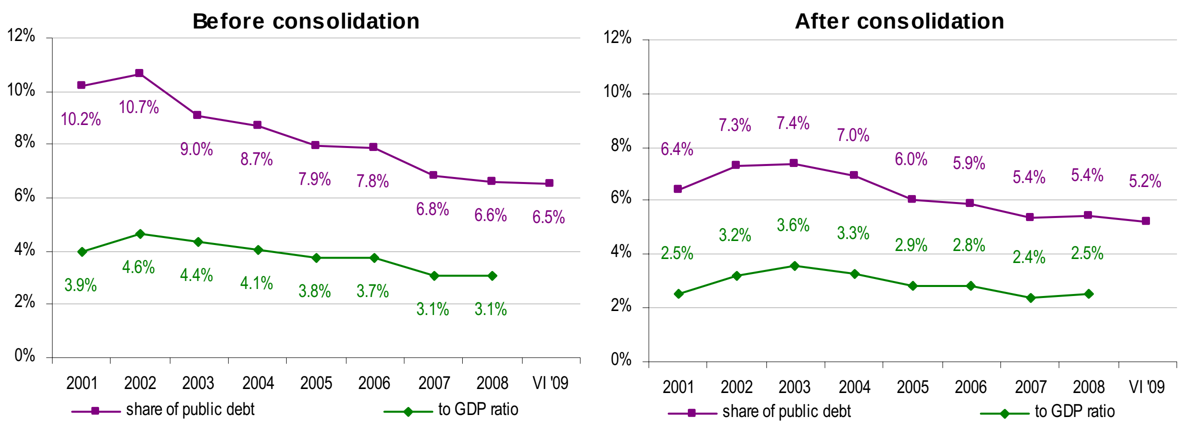
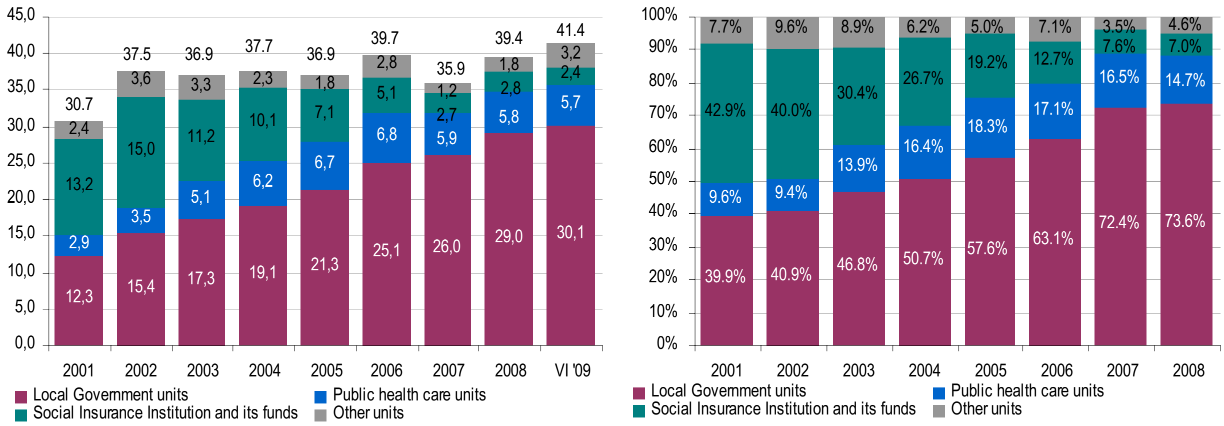


Chart 12. Debt of public finance sector units other than ST before consolidation (PLN bn)

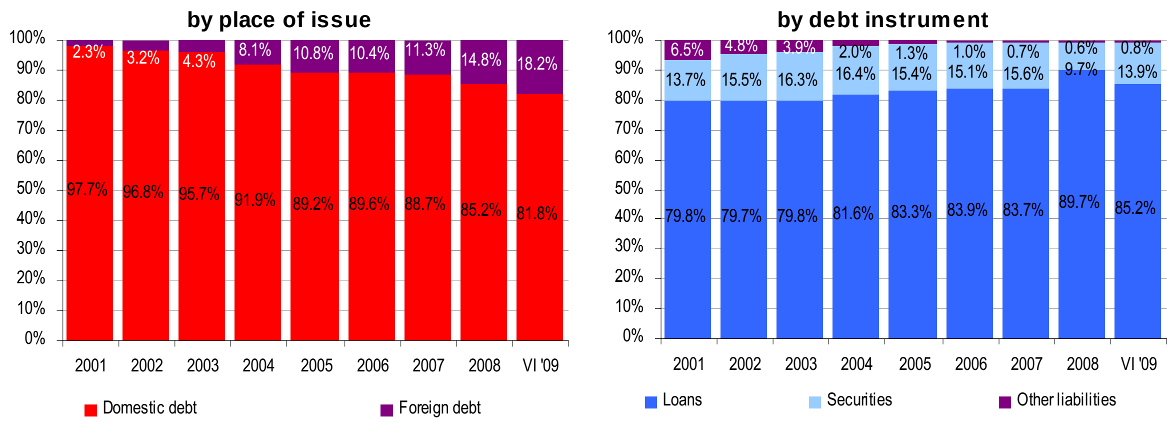


Further in this subchapter the debt of public finance sector units other than the ST before consolidation is analysed.

1) Local government units debt

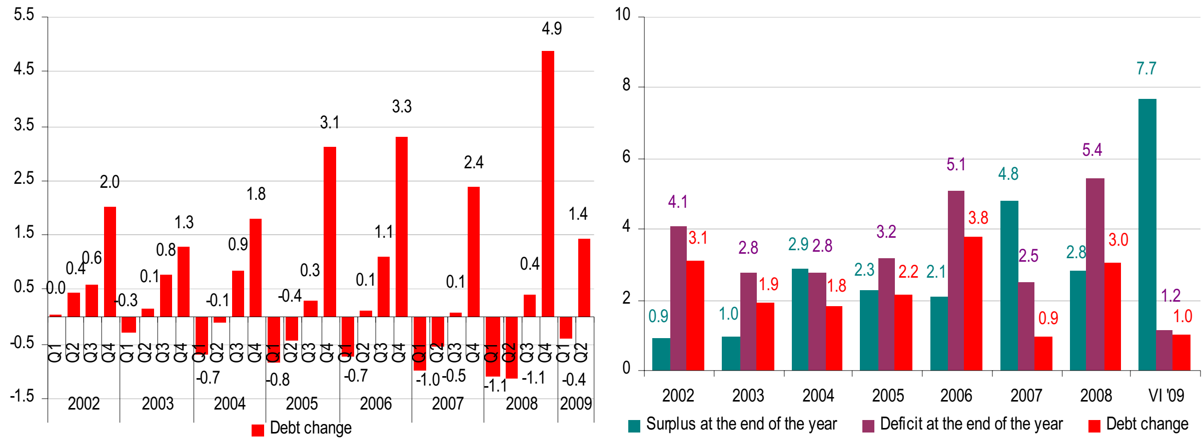
In recent years the debt of local government units and their associations was systematically increasing and at the end of 2009 stood at PLN 29.0 bn as compared to PLN 26.0 bn at the end of 2007 (PLN 30.1 bn in mid 2009). Domestic debt predominated though the share of foreign debt had constantly risen and at the end of 2008 stood at ca. 14.8% (18.2% in mid 2009) while a substantial part of the increase in 2008 (and the first half of 2009) was caused by depreciation of the zloty. Credits and loans constitute the biggest share of the debt of local government units and their associations.

Chart 13. Structure of debt of local government units and their associations



In 2008 local government units and their associations achieved a budget deficit of PLN 2.6 bn as compared to budget surplus of PLN 2.3 bn in 2007 (a surplus of PLN 6.5 bn in mid 2009). The balance of local government units consisted of deficit of individual units in the total amount of PLN 5.4 bn and surpluses in the total amount of PLN 2.8 bn (PLN 7.7 bn and PLN 1.2 bn in mid 2009 respectively). Their debt increased by PLN 3.0 bn (11.7%) (PLN 1.0 bn in the first half of 2009, i.e. 3.5%). Lack of clear connection between the balance of local government units and the change of debt results from aggregating local governments with a different budget situation. The tendency to incur liabilities especially in the last quarter of a year has been maintained, which is connected with strong seasonal patterns of local government budget balances.

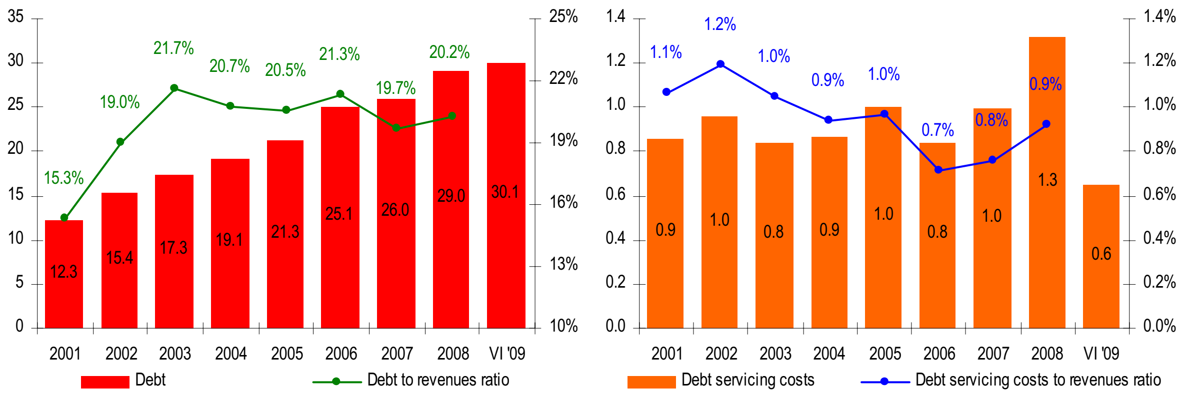
Chart 14. Balance of local government units and their associations and changes in their debt (PLN bn)



The ratio of total debt of local government units to their revenues (debt-to-revenue ratio) is significantly under the legal constraint of 60%. In 2008 it stood at 20.2% and as compared to 2007 was lower by 0.5 pp. In 2008 the debt-to-revenues ratio exceeded 60% in only 2 local government units (as compared to 5 units in 2007).

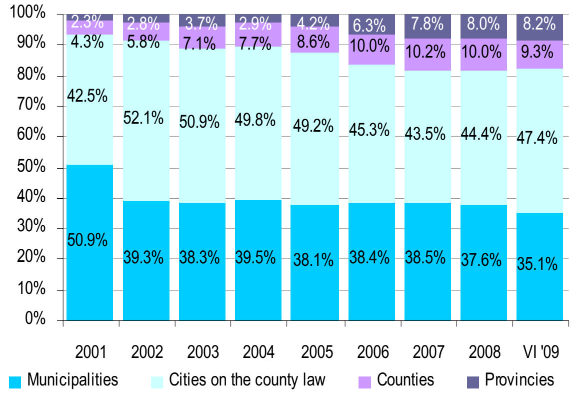
In 2008 the highest debt-to-revenue ratio occurred in cities with the county status (25.8%) while the lowest ratio occurred in counties (15.9%). In comparison with 2007, this ratio increased in cities with the county status and in provinces while it decreased in municipalities and counties. In 2008 debt servicing costs of local government units and their associations stood at PLN 1.3 bn (i.e. 0.9% of total expenditures) and they were higher by 32.7% than in 2007.

Chart 15. Debt, debt to revenues, costs of debt, costs of debt to proceeds of local government units and their associations



The majority of total liabilities of local government units are the liabilities of cities with the county status (44.4% in 2008 and 47.4% in mid 2009). In the years 2002-08 the share of liabilities of municipalities remained at a stable level of ca. 38-39% (this share fell to 35.1% in mid 2009) while the share of provinces increased (from ca. 6% to 8%).

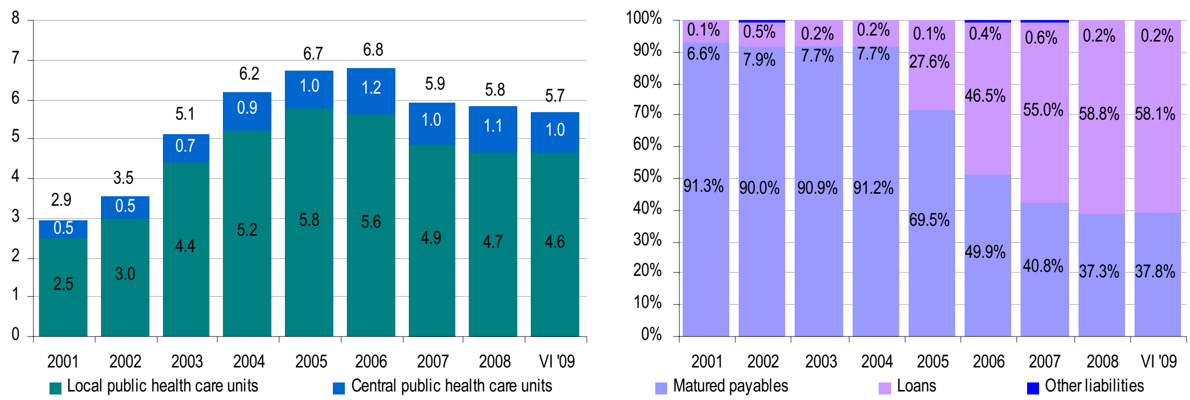
Chart 16. The structure of debt of local government units and their associations according to levels of local governments



2) *Independent public health care units debt*

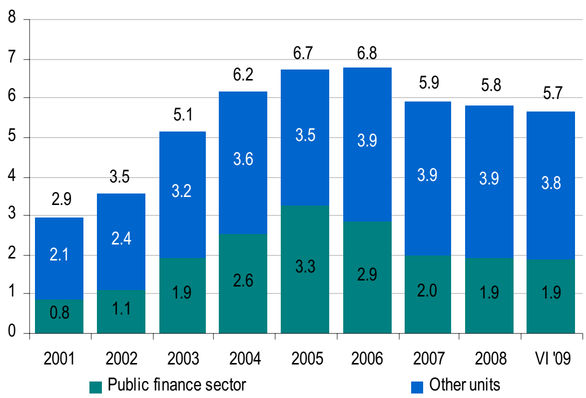
At the end of 2008 the independent public health care units debt stood at PLN 5.9 bn as compared to PLN 5.8 bn in 2007 (it stood at PLN 5.7 bn in mid 2009). Since 2007 loans have been a predominant component of their debt. Matured payables resulting from payment arrears had a significant yet decreasing share in debt. Changes in the structure of debt resulted from limiting the increase of liabilities and undertaking remedial procedures at the same time.

Chart 17. Debt volume and structure of independent public health care units



In the years 2006-07 the independent public health care units debt to the public sector decreased and subsequently stabilised at the level of ca. PLN 2 bn. This especially was a result of the restructuring of independent public health care units, partly written off loans from the state budget granted under the act of 2004 and decrease liabilities to the Social Insurance Institution.

Chart 18. Debt of independent public health care units to public finance sector and other units (PLN bn)

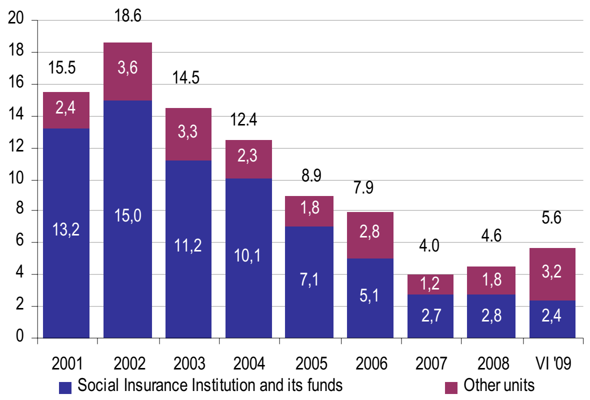


3) Other units debt

Between 2001 and 2008 the highest indebted units were the Social Insurance Institution and funds managed by it, which was almost exclusively the result of liabilities incurred by the Social

Insurance Fund. Since 2003 the debt of the Social Insurance Fund had been systematically decreasing as a result of repayment of loans at commercial banks and conversion of matured payables to ST bonds. At the end of 2008 the debt of the Social Insurance Fund stood at PLN 2.8 bn and consisted exclusively of matured payables (PLN 2.4 bn at the end of June 2009).

Chart 19. Debt of public sector units other than State Treasury, local governments units and independent public health care units (PLN bn)



The matured payables of the Social Insurance Fund resulted mainly from arrears in transfers of retirement contributions to the open pension funds in the years 1999-2002. Since November 2003, these liabilities along with accrued interest were taken over by the ST and converted to Treasury bonds. The remaining part of matured payables of the Social Insurance Fund resulted mainly from unduly collected contributions and current contributions not yet settled or transferred untimely to the open pension funds.

Table 4. Conversion of debt of the Social Insurance Fund (FUS) towards open pension funds into TS (PLN bn)

Item	2003	2004	2005	2006	2007	2008
Face value of issued T-bonds (outstanding at the end of period)	0.4	1.2	2.5	3.7	5.1	5.9

The other units debt constituted an insignificant share of public debt and was shaped by the debt of government agencies to the ST (PLN 3.2 bn in mid 2009. i.e. 0.5% of debt of the public finance sector before consolidation).

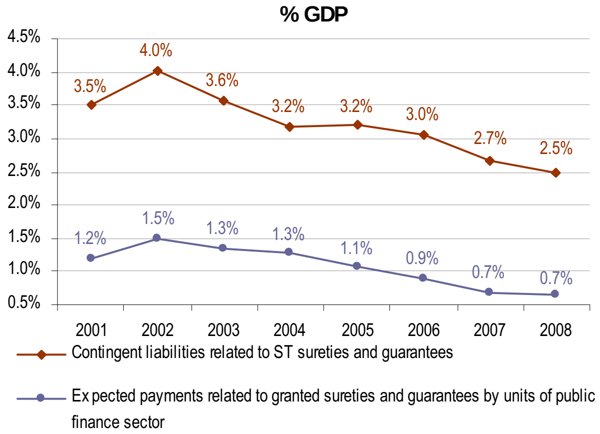
II.5. Guarantees and sureties granted by public finance sector entities

The activity of the ST in granting guaranties and sureties has not created any serious threats to the public finance so far. Limitations on guarantees and sureties granted by the ST were set in the budget act for 2008 at the value of PLN 15.0 bn. of which PLN 0.6 bn only was used.

At the end of 2008 over 70% of contingent liabilities under guarantees and sureties granted by the ST belonged to the low-risk group. Nominal value of contingent liabilities remained at the level comparable with that of 2007. i.e. ca. PLN 31.5 bn while their ratio to the GDP decreased by 0.2%. Simultaneously, expected payments resulting from guarantees and sureties increased by PLN 0.3 bn in nominal terms and stabilised in relation to GDP. The long-term risk ratio for the whole portfolio slightly increased. As in previous years, domestic guarantees and sureties were relatively more risky.

In mid 2009 the liabilities under guarantees and sureties granted by the ST stood at PLN 36.9 bn.

Chart 20. Contingent liabilities and expected payments under guarantees and sureties granted by the ST



The value of contingent liabilities of local government units under guarantees and sureties increased from PLN 3.5 bn at the end of 2007 to PLN 6.8 bn at the end of 2008 and subsequently decreased to PLN 5.0 bn in mid 2009.

III. ASSUMPTIONS OF THE STRATEGY

III.1. Macroeconomic situation in Poland

Major macroeconomic factors influencing changes of the nominal value of public debt are the borrowing requirements (including the deficit of the public finance sector) and changes in the exchange rate of the zloty. Changes in the debt-to-GDP ratio are also influenced by the real GDP growth and changes in prices. The main factors having a direct impact on debt servicing costs include interest rates, exchange rates and, to a lesser extent, inflation. The credit rating of Poland, which remained at the level of A- at all three major rating agencies since March 2007, also influenced costs of financing the borrowing requirements[6].

1. GDP growth

In 2008, real GDP growth reached 5.0% as compared to 6.8% in 2007. The slowdown of the economic growth results from the negative impact of the global financial crisis, which became particularly acute in Poland over the second half of 2008. In spite of the recession in most EU member countries, GDP growth in 2009 is expected to reach 0.9% in Poland. Such a considerable slowdown in GDP growth will result from decreasing private investments and a drop in exports. Main factors contributing to the GDP growth will include private sector consumption, public investments and an improving external trade balance (slower fall in exports than in imports). A slightly higher real GDP growth rate in 2010 is predicted, i.e. 1.2% and a further increase only in subsequent years, as major trading partners emerge from the recession. The economic situation in Poland will be contingent on the overall health of the global economy and on the fiscal policy in the context of the excessive deficit procedure imposed on Poland, as well as plans to adopt the euro.

2. Fiscal deficit

In 2008 the deficit of the general government sector exceeded the threshold of 3% considerably, standing at 3.9%, up by 1.9 pp as compared to 2007. This growth resulted predominantly from the economic slump observed in Q4, 2008. On May 13, 2009 Poland was once again put under the excessive deficit procedure by the European Commission while the ECOFIN Council announced under Article 104 of the Treaty establishing the European Community – the EC Treaty, that excessive deficit was observed in Poland and it recommended that it should be reduced below the reference value by 2012.

Unfavourable changes in the macroeconomic situation of Poland's economy proved stronger than previously predicted, which resulted in deterioration of the current balance of the state budget and a necessity to amend the Budget Act for 2009, as a result the deficit of the state budget increased by PLN 9 bn to PLN 27.2 bn.

3. Inflation

Due to faltering dynamics of domestic demand and considerable reductions of raw material prices on the global market, the inflation pressure weakened in Q4, 2008. The annual average CPI amounted to 4.2% in 2008 and fell to 3.5% in mid 2009. The still relatively high inflation results among others from the depreciation of the zloty in H2, 2008 and at the beginning of 2009, an increase of food prices over the first months of 2009, increases of electricity and fuel prices as well as the increase of the excise tax rates on tobacco goods and alcohol.

In the nearest future, the inflation pressure is expected to ease due to low dynamics of economic growth along with a weaker wages and salary pressure, appreciation of the zloty and a high supply of agricultural produce. After a transitional period of low price dynamics in 2010 (of 1%), inflation is expected to gradually return to the inflation target set by the Monetary Policy Council, i.e. 2.5%.

4. Exchange rate of the zloty

In 2008 the zloty weakened against the euro and the US dollar by 16.5% and 21.6% respectively (predominantly during the fourth quarter) and by further 7% over the first half of 2009. Depreciation of the zloty was predominantly connected with the impact of global factors and was triggered off by an unstable situation of global financial markets resulting in an

---

[6] In the case of Moody's agency A2 rating approximately corresponds to A- for Standard&Poor's and Fitch agencies. For government debt rating of the EU Member States see Annex 4.

increase in risk aversion, also towards the currencies of emerging economies. Between July and August 2009 the zloty appreciated strongly, however, as a result of which the zloty strengthened by 1.7% against the euro and by 3.2% against the dollar over the first eight months of 2009.

Between 2009 and 2010, as sentiments on global financial markets improve and the global economy gradually return to the path of growth, the zloty is expected to appreciate, supported by such factors as relatively robust foundations of the Polish economy, including much lower external imbalance than in 2008 and an influx of foreign direct investments. Higher economic growth rate and increases of NBP interest rates as part of tightening the monetary policy are expected to contribute to further appreciation of the zloty in the years 2011-2012.

5. Interest rates

After four increases of NBP interest rates in H1, 2008 (to 6.0% in June), the Monetary Policy Council began to ease its monetary policy during the fourth quarter. So far in 2009, the reference rate has been reduced to 3.5% in total.

It is expected that basic interest rates will remain unchanged until the end of the year. The Monetary Policy Council is predicted to begin tightening its monetary policy over the second half of 2010 as the current inflation rate is expected to fall considerably below the inflation target and first symptoms of economic recovery are expected on the domestic market. The scope and pace of raising NBP interest rates between 2011 and 2012 will be dependent on inflation forecasts.

TS yields will to a large extent depend on demand in individual market segments, including changes in risk aversion and liquidity preferences of major investor groups. Increasing value of assets of non-banking institutional investors (see section 6) along with renewed interest in the Polish market among foreign investors will be of considerable importance[7]. The demand among these two groups of investors would allow for reducing the significance of the banking sector in the financing structure of borrowing requirements and as a result for restoring the demand for instruments with longer maturity.

Table 5. Macroeconomic assumptions of the Strategy

Item		2008	2009	2010	2011	2012
Real GDP growth (%)		5.0	0.9	1.2	2.8	3.0
GDP in current prices (PLN bn)		1272.8	1322.3	1350.2	1414.8	1489.3
Average CPI (%)		4.2	3.6	1.0	1.8	2.3
Reference interest rate (%) – yearly average		5.7	3.8	3.5	4.1	4.3
PLN/USD	- yearly average	2.4092	3.1938	2.9410	2.8297	2.6773
PLN/USD	- at the end of period	2.9618	2.9955	2.8863	2.7701	2.5926
PLN/EUR	- yearly average	3.5166	4.3676	4.0776	3.8526	3.6143
PLN/EUR	- at the end of period	4.1724	4.1906	3.9656	3.7396	3.5000

6. Investor base development

The level of development of the domestic financial market, the investor base in particular, is an important factor influencing the management of debt. In the environment of free capital flows, a well-developed and deep domestic market enables an absorption of external shocks and neutralises outflows of foreign capital.

A few recent years brought dynamic growth in assets of domestic institutional investors. This was predominantly a result of the boom on the Stock Exchange. Due to a relatively low level on interest on deposits, the focus was shifted from bank deposits towards investment funds and other financial products bearing potentially much higher rates of return.

This tendency reversed in 2008 in wake of the crisis on financial markets. The value of assets of non-banking financial institutions dropped significantly. The biggest drops (from PLN 133.8 bn at the end of 2007 to PLN 77.2 bn in mid 2009) were recorded by investments funds, predominantly due to the slump on the Warsaw Stock Exchange and redemption of units.

[7] Debt in domestic TS to foreign investors fell by PLN 18.6 bn in 2008 and increased by PLN 12.1 bn in H1, 2009

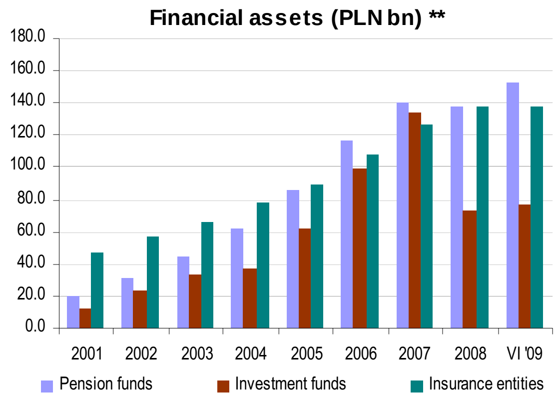
Increasing yields of deposits played an additional role.

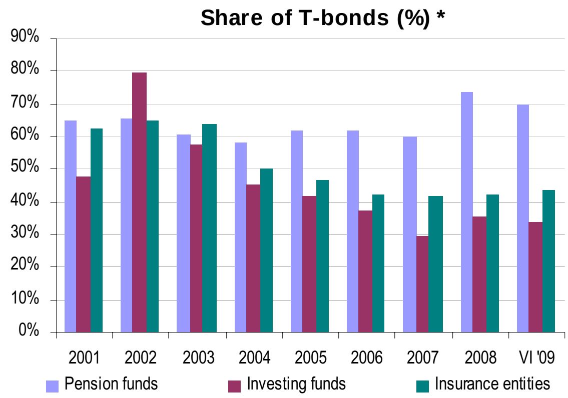
Increasing risk aversion connected with the crisis of financial markets was also one of causes of renewed interest in TS among retail investors. After decreasing in the years 2002-07, debt in retail bonds increased from PLN 8.7 bn at the end of 2007 to PLN 10.3 bn in mid 2009. Furthermore, the debt towards natural persons in TS traded at auctions increased from PLN 2.4 bn to PLN 2.7 bn respectively.

Main factors influencing the growth of value of non-banking financial institutions assets include:

- the pension reform introduced in 1999, accompanied by setting up Open Pension Funds (OFE). Assets of these funds are growing quickly due to inflow of prospective pensioners' contributions;
- dynamic development of the insurance market (assets grew by ca. PLN 12 bn over 2 past years);
- conditions on the Polish stock market which are one of factors determining the investment preferences of households. The boom observed on the Warsaw Stock Exchange since February this year could result in renewed interest in placing savings at investment funds.

Chart 21. Non-banking financial institutions assets and share of TS



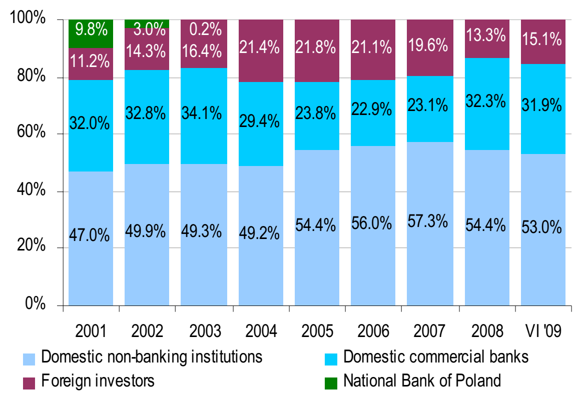


**) In case of insurance companies data as of the end of March 2008.*

***) In case of investment funds and pension funds there are presented net financial assets (assets diminished by liabilities).*

Since 2005 the non-banking sector has been in possession of over a half of TS issued on the domestic market. Development of the domestic non-banking market contributes to increasing stability of demand for TS and, due to the long-term nature of investments by a majority of institutions active in this sector, to spurring demand for long-term instruments.

Chart 22. Domestic ST debt by holder



III.2. International situation

After the collapse of industrial production and global trade at the turn of 2008 and 2009, the global economy began to emerge from deep recession even though the global GDP is predicted to fall throughout 2009, including in three major economies, i.e. the US, the Eurozone and Japan. In 2010 economic growth is expected in most parts of the world though its pace will be materially lower than the long-term average.

In 2008 the growth rate in the EU stood at 0.9% (0.7% in the Eurozone). According to forecasts issued by the European Commissions, in 2009 GDP will decrease by 4.0% in the EU (4.0% in the Eurozone). In 2010 a slightly positive economic growth rate is expected in the Eurozone and then it is predicted to approximate 2% over three subsequent years. As the Eurozone emerges from the recession, the economic situation in the countries of Central and Eastern Europe is also expected to improve. However, forecasts are tentative due to such factors as the necessity to withdraw strong stimulus from the macroeconomic policy, the fiscal policy in particular, supporting the economic activity in the years 2009-10.

The most important aspects of the international situation, from the TS debt management point of view, include:

- the situation on the interest rate markets for currencies in which liabilities will be contracted, predominantly on the euro and US dollar markets;
- perception of the credit risk of the Polish government and liquidity preferences of purchasers of Polish bonds active on the global market, influencing the level of premium with respect to base markets;
- considerable increase of borrowing requirements of numerous countries resulting from a loss of budget revenue caused by adverse economic conditions on the global market and from economy stimulus measures undertaken by individual governments.

1. Euro market (EUR)

In response to the deepening recession in the Eurozone, since October 2008 the base interest rate has been reduced from 4.25% to the current level of 1% by the European Central Bank (ECB). At present, interest rates in the Eurozone are the lowest level ever, Market expectations indicate that money market interest rates could be raised by ca. 50 bp by mid 2010.

2. American market (USD)

Since 2007 the FED reduced its reference interest rate to the level of 0.00-0.25% in December 2008 with the aim of boosting financial markets and stimulating the American economy. Additionally the government prepared a wide package of fiscal measures aimed at stimulating the economy in the coming quarters. Market expectations indicate that money market interest rates could be raised by more than 60 bp by mid 2010.

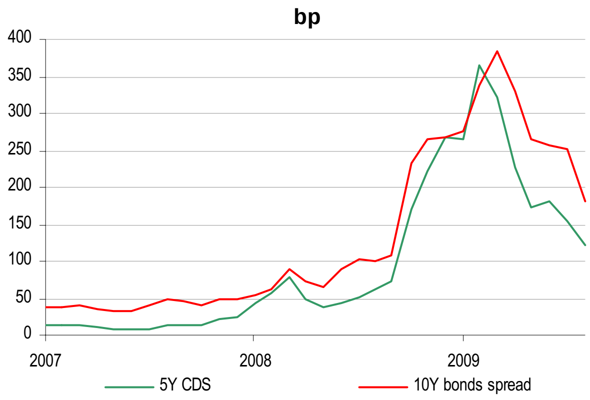
3. Japanese market (JPY)

In 2008, Japanese GDP declined. In order to revive it, an economic stimulus package with value equivalent to 3% of the GDP was announced by the government in April 2009 as a result of which an increase in public finance deficit and the public debt (at present ca. 170% of the GDP) is expected. Since December 2008 the central bank has maintained interest rates at the level of 0.1% (reduction from 0.3%). They are not expected to be raised in the nearest future.

4. Credit spreads

Considerable changes in investors' behaviour on debt markets are one of the consequences of the global financial crisis. Uncertainty arising from an unknown scale of losses and its impact on financial standing of potential counterparts results in a significant decrease of liquidity and rising risk aversion among investors. There are clearly capital outflows from smaller market which cannot manage to assure suitable liquidity to markets of bigger issuers. It caused a significant rise of credit spreads between yields of bonds of big issuers with higher creditworthiness and of smaller issuers, especially those perceived as emerging markets or those which have only recently ceased to be qualified as such, including Poland. Gradual rebuilding of trust on global financial markets over H2, 2009 enabled markets to return to price differences in economic foundations of individual countries. The spread between yields of Polish and German 10-year Treasury bonds denominated in the euro decreased from over 300 bp at the beginning of 2009 to ca. 170 bp in September 2009.

Chart 23. 5-year CDS for Poland and credit spreads of Polish EUR 10-year T-bonds in relation to bunds



IV. DEBT MANAGEMENT STRATEGY OBJECTIVE IN THE YEARS 2010-12

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

a) refinancing risk,
b) exchange rate risk,
c) interest rate risk,
d) State budget liquidity risk,
e) other risks. in particular credit risk and operational risk,
f) distribution of debt servicing costs over time.

There are two levels on which the cost minimisation objective is applied:

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

The scope of implementing the cost minimisation objective remains unchanged as compared to the previous year's Strategy. This provides for possible flexibility in choosing the market, currency and instrument type. The choice of the financing structure should take into account the assessment of the market situation (levels of interest rates and shapes of yield curves on respective markets as well as expected exchange rates) and result from comparing long-term funding costs, subject to constraints resulting from acceptable levels of risk.

The wealth of experience in debt management indicates the significance of flexibility and diversification of sources of financing borrowing requirements. At times of a turmoil in the financial markets, it is prudent to use instruments adequate to market situation. Such was the case over the first half of 2009 when the issue of Treasury bills was increased and over the second half of 2009 when big issues on foreign markets were conducted and the level of debt in Treasury bills was reduced. At the same time, the possibility to select the market and the currency allows for appropriate distribution of incurring liabilities over time as well as increasing the level of liquid funds at times of transitional market turmoil and, as a result, lowering the overall cost of raising capital.

The domestic market will remain the main source of financing the State budget borrowing requirements. The supply of domestic instruments will be designed in a way preventing the occurrence of excessive increase in yields in respective segments of the yield curve. Due to the considerable growth in the borrowing requirements of the State budget expected in the years 2010-2012, funding raised on international markets is of increasing importance. Therefore, financing borrowing requirements of the budget in foreign currencies should:

- ensure diversification of sources of funding through Poland's access to the investor base on major financial markets,
- take into account foreign currency borrowing requirements of the budget including repayment of capital instalments and interest on foreign debt,
- strengthen the position of Poland on the euro market, which is of strategic importance due to the perspective of full integration under the EMU,
- take advantage of opportunities provided by access to financing on attractive conditions at international financial institutions,
- stabilise the domestic market by ensuring security of financing the State budget borrowing requirements should temporary disturbances on the domestic market occur,

- allow buying and selling foreign currencies at the NBP as an instrument for managing the foreign currency borrowing requirements of the State budget and utilising funding raised on foreign markets for financing borrowing requirements in the domestic currency while taking into account monetary policy considerations and its 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:

a) refinancing risk
   - aiming at increase of the role of medium and long-term instruments in financing the State budget borrowing requirements on the domestic market at a pace contingent on investors' demand,
   - aiming at even distribution of redemptions and interest payments of domestic and foreign debt in subsequent years,
   - reaching the ATM of domestic debt at the level of at least 4.5 years in the Strategy's timeframe,
   - the current level of foreign debt refinancing risk does not restrain cost minimisation;

b) exchange rate risk
   - extending the acceptable range of the share of foreign currency debt in total debt in the period preceding the entry to the Eurozone to 20-30% in connection with increased volatility of foreign currency exchange rates and the need to maintain a flexible approach in incurring liabilities,
   - possibility to use derivatives in managing the exchange rate risk in order to create an adequate currency structure of debt and finance 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 as the future domestic currency in foreign currency debt at the level of at least 70%;

c) interest rate risk
   - keeping duration of the domestic debt in the range of 2.5-4.0 years,
   - possibility of separating the management of the interest rate risk from the management of refinancing risk by using floating-rate bonds, inflation-linked bonds and derivatives,
   - the current level of foreign debt interest rate risk does not retrain cost minimisation;

d) State budget liquidity risk
   - keeping a safe level of State budget liquid assets while managing them effectively,
   - the level of liquid assets will be the product of 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 to use liquid foreign currency funds in managing liquidity in the zloty,
   - aiming at effective utilisation of financial assets of the ST and other sector units in managing State budget liquidity;

e) other risks, in particular credit risk and operational risk
   - concluding transactions involving derivatives with domestic and foreign entities with high creditworthiness,
   - use of instruments limiting credit risk and solutions allowing for its diversification when concluding transactions involving derivatives,
   - diversification of credit risk generated by uncollateralised transactions;

f) distribution of debt servicing costs over time
   - aiming at smooth distribution of yearly debt servicing costs with the use of available instruments, especially switching auctions and derivatives,
   - setting bond coupons at levels close to their yields over the sales period.

V. STRATEGY TASKS IN A THREE-YEAR HORIZON

The major tasks for implementing the Strategy's objective are:

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

As the financial market develops constantly, the tasks of the Strategy are of long-term nature and cover measures implemented on a continuous basis. The tasks of the Strategy are to a large extent inter-connected, i.e. individual actions may contribute to the implementation of more than one task.

Ad 1. Increasing liquidity of the TS market

Increasing liquidity of the TS market in general and of TS issues in particular contributes to eliminating the spread that investors require in case of insufficiently liquid TS, i.e. those with high costs for pulling out of investment, as well as to increasing the demand from investors interested in liquid investments only. Both of these factors contribute to decreasing TS yields and hence to the minimisation of TS debt servicing costs. Market liquidity is of key importance in the context of Poland's planned entry to the Eurozone, which requires consistent implementation of adjusting measures in the period preceding the adoption of the euro. In the period covered by the Strategy the following measures are planned:

- Continuation of issuing large benchmark bonds on the domestic market ensuring 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 bn equivalent, adopted in 2003, remains in force. Bond issues will be granted sufficient liquidity by using such instruments as issuance calendar, switching auctions and supplementary auctions. Buy-back auctions of less liquid bond issues are also possible.

  EUR 5 bn has been adopted as a reference value at the current stage of development of the domestic TS market and is considered sufficient to provide sufficient liquidity for large institutional investors and not yet generating excessive refinancing risk at maturity. In mid 2009 there were 8 bond series exceeding the EUR 5 bn equivalent as compared to 11 series in mid 2008. The number of series exceeding the reference value dropped as a result of considerable depreciation of the zloty throughout this period: the exchange rate of the euro increased by 33%.
- Large liquid bond issues on the euro market, contributing to the development of the Polish yield curve. In mid 2009 there were 3 bond issues of EUR 3 bn or more, of which one exceeded EUR 5 bn.
- Adapting the issuance policy, including sale, switching and buy-back auctions, to market circumstances, including the demand in different segments of the TS market.

Ad 2. Increasing efficiency of the TS market

Increasing efficiency of the TS market covers activities aimed at minimising debt servicing costs at the second of two levels stated in Chapter IV. It includes both the primary and the secondary market. The following actions are planned:

- Adjusting the timing of issuance on the domestic and foreign market to market and budgetary conditions, taking into account actions 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 – the areas where primary dealers are at least as competitive as other participants of the financial market, concluding transactions and choosing partners will be made with preferences resulting from their participation in the PD system taken into account;
- Removing technical and legal obstacles on the domestic and foreign TS market, in particular actions aiming at enabling the settlement of transaction on TS issued on the domestic

market by internationally recognised clearing houses (Clearstream and Euroclear in particular).

- Direct meetings with investors on the domestic and foreign market along with consultations with TS market participants. in order to exchange information efficiently, including information regarding tackling the consequences of the financial crisis, as well as taking investors' needs into account 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 on key foreign markets with the aim of:
  - building and maintaining relations with key foreign investors,
  - separating specific issues of foreign 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, in particular with foreign investors.

Ad 3. Increasing transparency of TS market

Measures taken to increase transparency of the TS market allow to limit uncertainty connected with its functioning and acquire reliable information on current market prices, as well as help to formulate expectations of future price levels. Both predictability of the issuance policy and transparent secondary market contribute to transparency of the market as a whole. The following measures are planned within the Strategy's timeframe:

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

VI. INFLUENCING THE PUBLIC FINANCE SECTOR DEBT

According to Article 60 of the Public Finance Act, the Minister of Finance holds control over the public finance sector in respect to the rule which states that the public debt must not exceed 60% of the annual GDP.

In the case of other public finance sector units, which are autonomous in incurring liabilities, the influence on their level of debt is indirect and stem from regulations of the Public Finance Act. First and foremost, 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 units when the public debt-to-GDP ratio exceeds the thresholds of 50%, 55% and 60%.

VI.1. Changes in legal regulations

1. The Public Finance Act

The most important legislative change that will influence incurring liabilities by public finance sector units and their level of borrowing requirements is the Public Finance Act of August 27 2009 and the act of August 27 2009 provisions implementing the Public Finance Act, the majority of which will come into force on January 1, 2010. In the line of the public debt the new act, as compared to the currently ruling act, introduces the following changes:

- Change in the scope and organisation of the public finance sector:
  - setting up new organisational forms, the objective of which is the increase of the whole sector efficiency,
  - due to the adjustment of the public finance sector scope to the EU methodology, excluding research and development units as well as science institutes from the sector – it means in particular that like in the EU methodology, research and development units debt will not constitute public debt in the Polish methodology;
- Changing of prudential and remedial procedures while maintaining current thresholds of the public debt-to-GDP ratio, the most important changes include:
  - Changing consequences of exceeding the 55% and 60% thresholds for the State budget – in the new act, there was imposed an obligation to adopt the budget act for the next year without the deficit or with such a difference between State budget expenditures and revenues which ensures decrease in the TS debt-to-GDP ratio;
  - imposing additional constraints on growth of expenditures (including: salary rise in the budgetary sector and indexation of pensions) and granting new credits and loans from the State budget when the debt-to-GDP ratio exceeds 55% and 60%;
  - excluding local government units from limitations in prudential and remedial procedures at the first threshold of 50%;
- introduction of a balanced budged principle of local government units since 2011 and a system of individual constraints on incurring debt since 2014, depending on the ability of individual units to their repayments;
- separating EU funds budget within the State budget. The balance of EU funds budget will not be included in the balance of the State budget, however, the deficit of EU funds budget will be included in the State budget borrowing requirements and the surplus will be used in the State budget debt management;
- extending the time horizon of the debt management Strategy from 3 to 4 years;
- implementing the Multi-Year State Financial Plan (WPFP). The level of the deficit in the draft budget act for a given year cannot be higher than the level of the deficit set in the WPFP.

2. Reorganisation in the health care system

The Resolution of the Council of Ministers of April 27, 2009 on establishing the multi-year program “Support for Local Government Units in Actions Stabilising the Health Care System” covering the years 2009-11 influences liabilities of local government units and public health care units. The program is addressed to those local government units which will undertake reorganisation process in the scope of the health care system within realization of their own tasks that are not covered with provincial contracts. Its objective is to enhance the economic stability of entities providing health care services. The reorganisation process rely on liquidation of the existing public health care unit, taking over its liabilities by local government unit and:

- setting up a capital company with the objective of running an independent public health care unit or
- transferring these tasks to a different public health care unit which already exists.

Local government units joining to the program will receive subsidies granted from the State budget with destination to repay taking over liabilities of public health care units as well as cover other costs connected with the implementation of the program. The amount at the level of PLN 1.15 bn was allotted for the implementation of the program in the years 2009-11. It is assumed that the program will cover ca. 30-40% of public health care units.

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

Granting sureties and guarantees by the public finance sector units, 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 become public debt if they are executed.

In order to reduce risk stemming from granting ST guarantees and sureties while preserving advantages of using them as an instrument of the State's economic policy, the following principles, also in force in last year's strategy, should be maintained:

- Concentrating on granting sureties and guarantees to support development-oriented investments in infrastructure, protection of environment, creating new jobs, regional development, residential building, railway, especially those co-financed with EU funds (loans and bonds secured or guaranteed by the ST should help to acquire the EU structural funds), but also to support other investments that may arise from possible new support programs using sureties and guarantees in compliance with the EU rules.
- The ratio of expected guarantees and sureties granted by the ST to GDP should not exceed 1.4% while the ratio of the ST contingent liabilities resulting from granted sureties and guarantees to GDP should not exceed 4.5%.
- 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.

According to the Act on sureties and guarantees granted by the ST and by some other legal persons the budget act determines each year the total amount to which guarantees and sureties can be granted by the ST.

Contingent liabilities under the ST sureties and guarantees are expected to increase in the Public Finance Sector Debt Management Strategy time horizon. At the end of 2009 their ratio to GDP may exceed the 4.5 per cent threshold adopted in the Granting Sureties and Guarantees Strategy. The limit for 2009 set in the amendments to the budget act adopted in July 2009 was increased from PLN 40 bn to PLN 55 bn as well as the limit in the draft budget act for 2010 was set at the level of PLN 55 bn. It is expected that ca. 70% of the limit allotted for the years 2009-10 will be used. Simultaneously, it is assumed that the risk of payments resulting from the ST sureties and guarantees will not increase.

Increase of the scale usage of the guarantees and sureties granted by the ST will result from the implementation of the Stability and Development government plan announced in October 2008 in response to the economic slowdown caused by deterioration of global economic conditions and the global financial crisis, to support investments in infrastructure and initiatives under the ST sureties and guarantees will have the sureties and guarantees granted by the ST to the following entities:

- Bank Gospodarstwa Krajowego for:
  - bonds issuance in favour of the State Road Fund (KFD) in order to finance the express roads and motorways construction (in July 2009 a guarantee of PLN 750 million was granted for an issuance of 3-year bonds with the face value of PLN 600 million; in September a guarantee of PLN 13.0 bn was granted for an issuance of long-term bonds with the face value of PLN 7.25 bn);

– bonds issuance and incurring of credits and loans with the aim of supporting Polish export;

- entities involved in the of motorways construction within the concessionary mechanism, ST guarantees for payment of funds from the KFD at an amount required for repayment of liabilities resulting from credits incurred at domestic and international financial institutions and issued corporate bonds;

Moreover, the ST guarantees and sureties will be granted to including:

- the Industrial Development Agency, the total limit for ST guarantees and sureties for credits incurred as well as bonds issued by the Agency in order to support economic initiatives stimulating demand and economic growth was set at the level of PLN 5 bn for the years 2009-10;
- PKP Polish Railway Lines Company for co-financing projects in the rail infrastructure;
- domestic credit institutions for creating lines of credit for financing projects carried out by small and medium-sized enterprises and local government units.

Moreover, the government draft act on the recapitalisation of certain financial institutions, which anticipates the possibility of using the ST guarantees instrument. will have an impact on the use of the limits of sureties and guarantees amount in the years 2009-10. Currently, the draft act is the subject of the Polish Parliament.

VI.3. Debt of public finance units other than State Treasury

Under the adopted assumptions the debt of the public finance sector units other than the ST will increase in the Strategy time horizon from PLN 57.5 bn to PLN 61.2 bn before consolidation and from PLN 50.6 bn to PLN 53.4 after consolidation. This increase will be the result of:

- systematic increase of the debt of local government units and their associations,
- stabilisation of debt of independent public health units,
- temporary increase of the debt of the Social Insurance Fund by incurring loans at commercial banks and a decrease of matured payables,
- stabilisation of debt of other units in central and local sector.

The debt of the other sector before consolidation-to-GDP ratio in the Strategy time horizon will increase from 3.9% to 4.1%. alike the ratio for the debt after consolidation will increase from 3.4% to 3.6%. The share of this group of units in total debt of the public finance sector before consolidation will remain at c.a. 7.2% before consolidation and at c.a. 6.4% after consolidation.

Chart 24. Debt of public finance sector units other than State Treasury

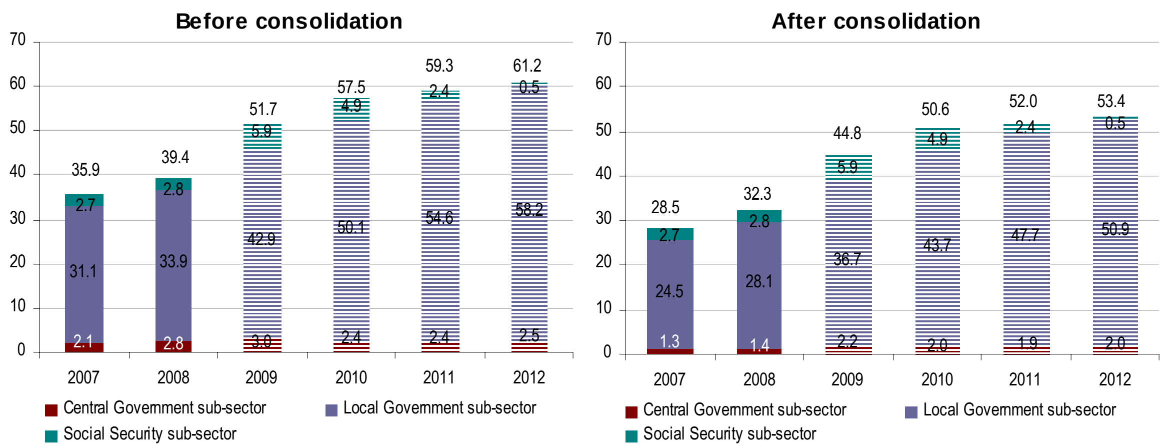


Chart 25. Debt of the public finance sector units other than ST before and after consolidation – ratio to GDP and share in total debt of public finance sector

1) Debt of local government units

In the Strategy, there is assumed, that the debt of local government units and their associations will systematically be increasing and will be a result of deficits and surpluses of individual units. Borrowing requirements of local government units will be first of all the effect of executing infrastructural projects, co-financed from the EU funds within the Financial Perspective 2007-13, and in the years 2009-10 also from relatively low revenues as a result of the economic slowdown. Significant part of investments will be the effect of preparation for the European Football Championships EURO 2012. Like in previous years, the majority of the debt will be generated by cities with the county status and communes.

The dominant instrument of financing the borrowing requirements of local government units will still be loans in commercial banks in the domestic market. The debt resulting from municipal bonds, especially those issued by large units, will increase. The significance of the foreign debt resulting from both bonds issued in international markets and loans incurred at international financial institutions is likely to increase further.

In the Strategy time horizon, the local government units will be incurring liabilities on the rules defined in the Public Finance Act of June 30, 2005. The new rules of liabilities incurring by local government units, making incurring liabilities contingent upon the unit potential to repayment of liabilities, will come into force since 2014, yet the principle of balanced current budget of local government units will come into force since 2011, which will have an impact on the scale of incurring new liabilities.

2) Debt of independent public health care units

Under the adopted assumptions the debt of independent public health care units before consolidation will be stabilised in the Strategy time horizon. The debt of local government units will continue to dominate in the structure of liabilities of independent public health care units.

Changes in the debt will be the result of:

- liquidation of the same part of existing independent public health care units and taking over their liabilities by local government units within the reorganisation process of the local health care system under the Resolution of the Council of Ministers of April 27, 2009 on establishing the multi-year program “Support for Local Government Units in Actions Stabilising the Health Care System”,
- restructuring of existing debt of independent public health care units – on principles supporting healing the financial situation of individual units, taking into account the interest of creditors, founding bodies of independent public health care units and the ST,
- possible increase in matured payables of independent public health care units as a result of the economic slowdown,
- current financial results of individual units.

Within the restructuring of the existing debts of independent public health care units under the Public Assistance and Restructuring of Local Independent Public Health Care Units Act, written off matured payables of some units and further conversion of matured payables into loans will occur.

Under the adopted assumptions loans will remain the major element of debt while a temporary increase of matured payables will occur.

3) Debt of other units

The debt before consolidation of other units of the public finance sector in the Strategy time horizon will be the result of:

- temporary increase of debt of other state legal persons, mainly agricultural agencies, from loans granted by the ST for prefinancing of tasks co-financed with the EU funds,
- temporary increase of debt of the Social Insurance Fund from loans incurred at commercial banks,
- decrease in matured payables of the Social Insurance Fund, especially resulting from arrears in transfers of retirement contributions to open pension funds,
- stabilisation of the debt of state higher schools, state and local cultural units, the Polish Academy of Sciences and units established by it.

Loans granted within the public finance sector will predominate in the debt of other public finance sector units.

VII. EXPECTED EFFECTS OF IMPLEMENTING THE STRATEGY

The expected effects of implementing the Strategy cover forecasts of:

- the volume of public debt and its servicing costs,
- the volume of contingent liabilities 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 objective with adopted macroeconomic and budgetary assumptions. The most important threats to implementing the Strategy have also been presented in this chapter.

VII.1. Volume of debt and its servicing costs

Under the adopted assumptions, the public debt-to-GDP ratio will continue to increase exceeding the threshold of 50% in 2010. According to the Public Finance Act, exceeding the 50% threshold in 2010 will necessitate adopting a deficit-to-GDP ratio in the Budget Act for 2012 that will not be higher than that adopted in the Budget Act for 2011. In the years 2010-12, the debt-to-GDP ratio is expected to remain close to the threshold of 55% (54.5%-54.8%). It means considerable risk of exceeding this threshold and triggering off sanctions resulting from the Public Finance Act (see Annex 6, Table 5).

The increase in the ST debt servicing costs will first of all result from an increase of debt volume. The ST debt servicing costs-to-GDP ratio will increase to 3.0% in 2012.

Table 6. Forecasts of the public debt volume and the ST debt servicing costs in the years 2009-2012

Item	2008	2009	2010	2011	2012
1. State Treasury debt					
a) PLN bn	569.9	623.5	700.4	733.8	779.3
domestic	420.2	457.7	521.2	553.1	592.1
foreign	149.7	165.9	179.2	180.7	187.2
b) relative to GDP	44.8%	47.2%	51.9%	51.9%	52.3%
2. Public debt					
a) PLN bn	597.8	658.8	739.1	770.8	816.1
b) relative to GDP	47.0%	49.8%	54.7%	54.5%	54.8%
3. State Treasury debt servicing costs (cash basis)					
a) PLN bn	25.1	30.6	34.9	40.7	44.2
b) relative to GDP, including:	2.0%	2.3%	2.6%	2.9%	3.0%
- domestic debt	1.6%	1.9%	2.0%	2.3%	2.4%
- foreign debt	0.4%	0.5%	0.6%	0.6%	0.6%

Chart 26. Public debt-to-GDP ratio

Chart 27. ST debt servicing costs-to-GDP ratio

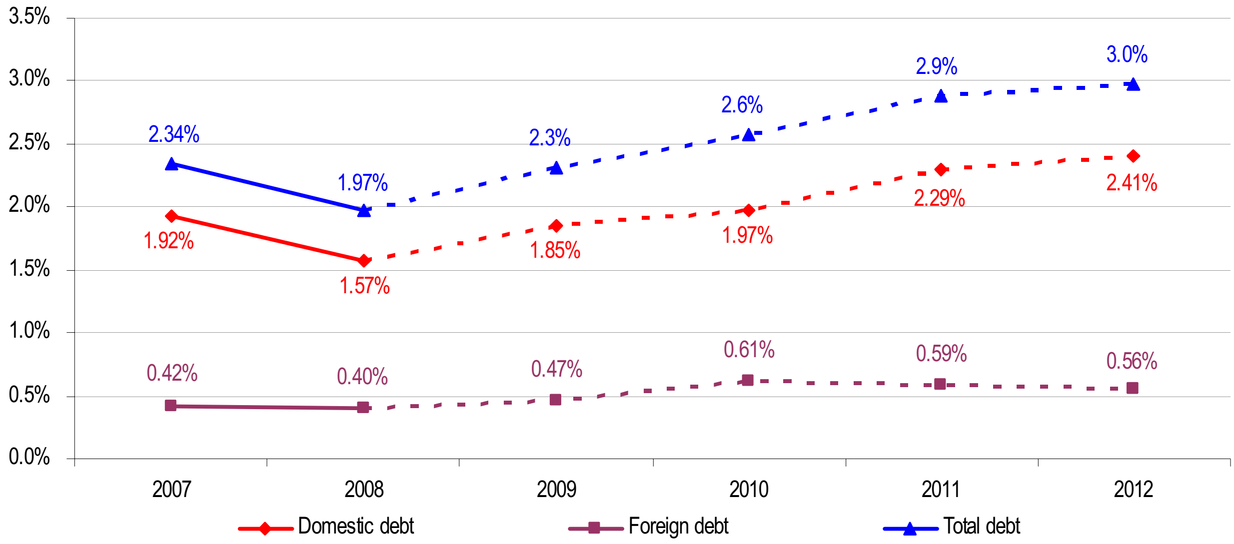


Chart 28. Sensitivity of public debt-to-GDP ratio to changes in assumptions

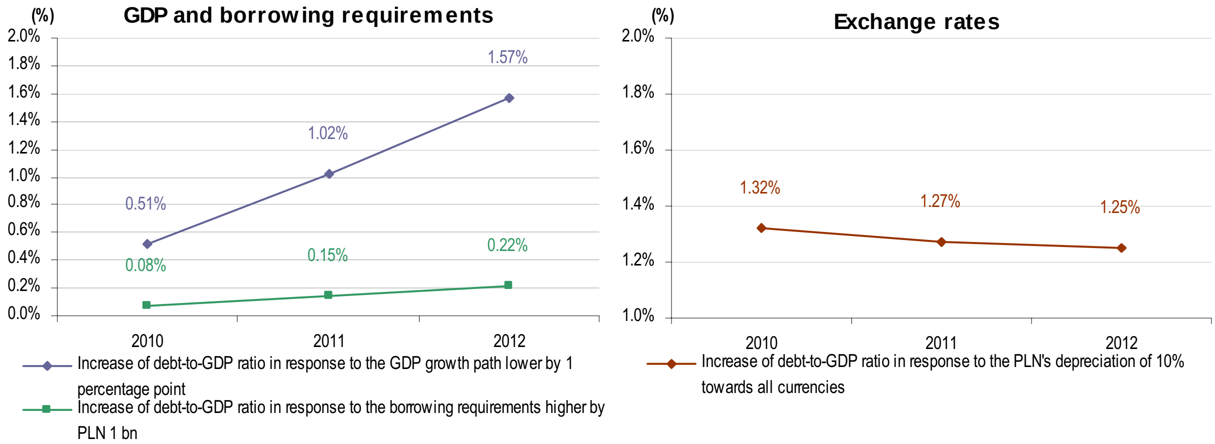
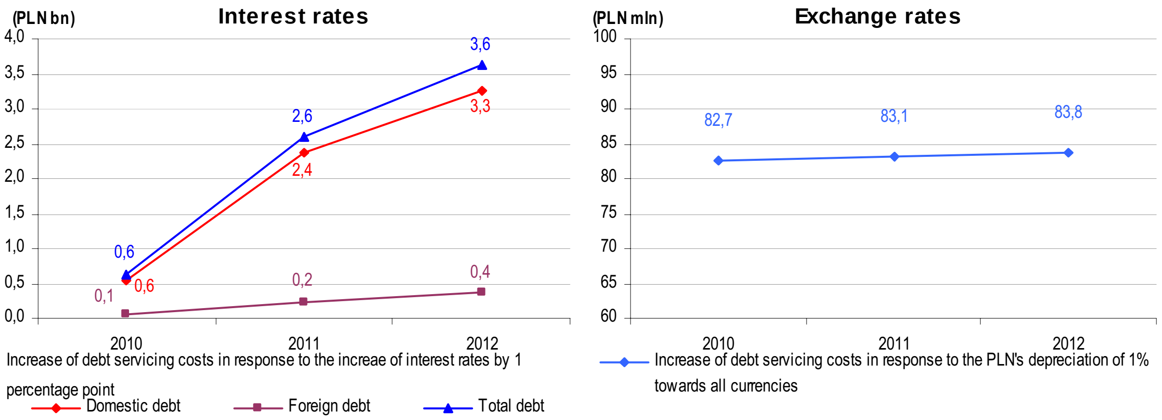


Chart 29. Sensitivity of the ST debt servicing costs to changes in assumptions



Contingent liabilities (guarantees and sureties)

It is expected that the ratio of ST contingent liabilities resulting from granted guarantees and sureties to GDP will exceed 4.5%. At the same time, the risk-weighted payments resulting from granted guarantees and sureties will remain at a safe level and will not exceed the threshold of 1.4% of GDP set in the Strategy of granting sureties and guarantees.

Table 7. Forecasts of contingent liabilities and risk-weighted payments resulting from guarantees and sureties granted by the ST and the public finance sector units

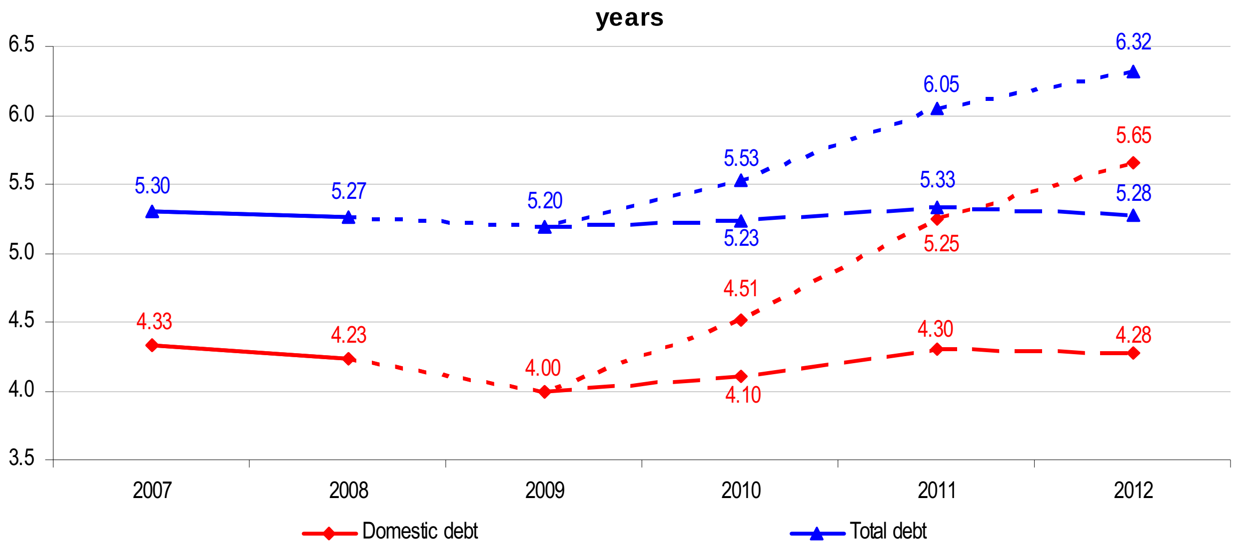
Public finance sector		**2009**	**2010**	**2011**	**2012**
Contingent liabilities	PLB bn	80.6	127.7	150.7	167.6
	Relative to GDP	6.0%	9.3%	10.5%	11.1%
Risk-weighted payments	PLN bn	8.4	9.2	7.7	8.2
	Relative to GDP	0.6%	0.7%	0.5%	0.5%
State Treasury		**2009**	**2010**	**2011**	**2012**
Contingent liabilities	PLB bn	78.7	125.8	148.7	165.6
	Relative to GDP	5.9%	9.2%	10.4%	11.0%
Risk-weighted payments	PLN bn	8.2	9.0	7.5	8.0
	Relative to GDP	0.6%	0.7%	0.5%	0.5%

VII.2. State Treasury debt structure

It is forecasted that in the timeframe of the Strategy:

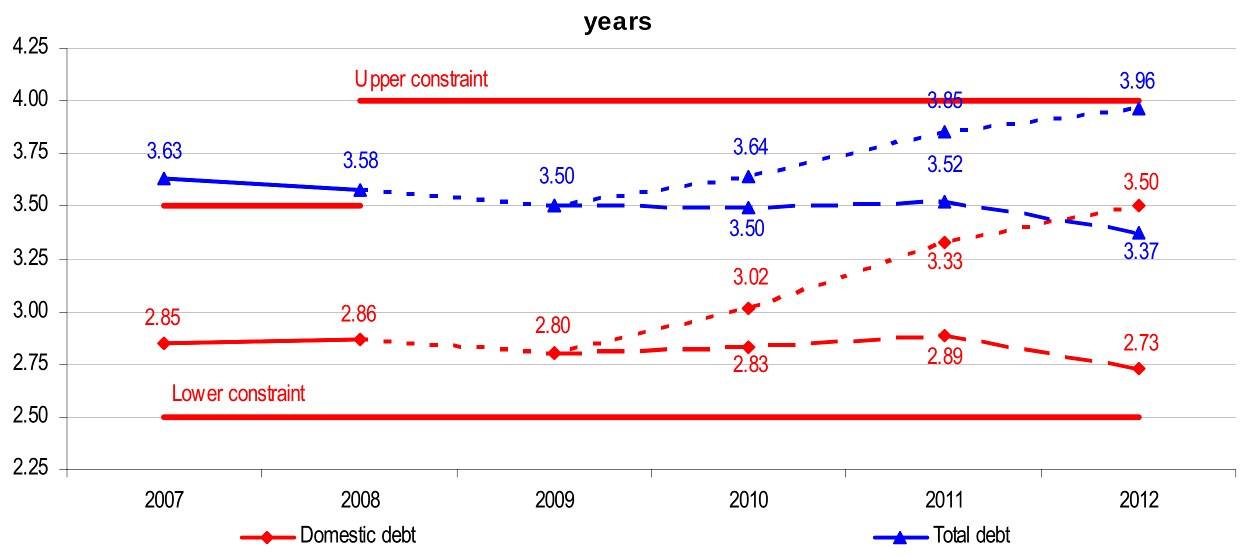
- the refinancing risk will be reduced – the ATM of the domestic marketable debt of the ST will increase, depending on the adopted financing strategy, to 4.3-5.65 years, while the ATM of the total ST debt will be in the range of 5.3-6.3 years,

Chart 30. ATM of the ST debt



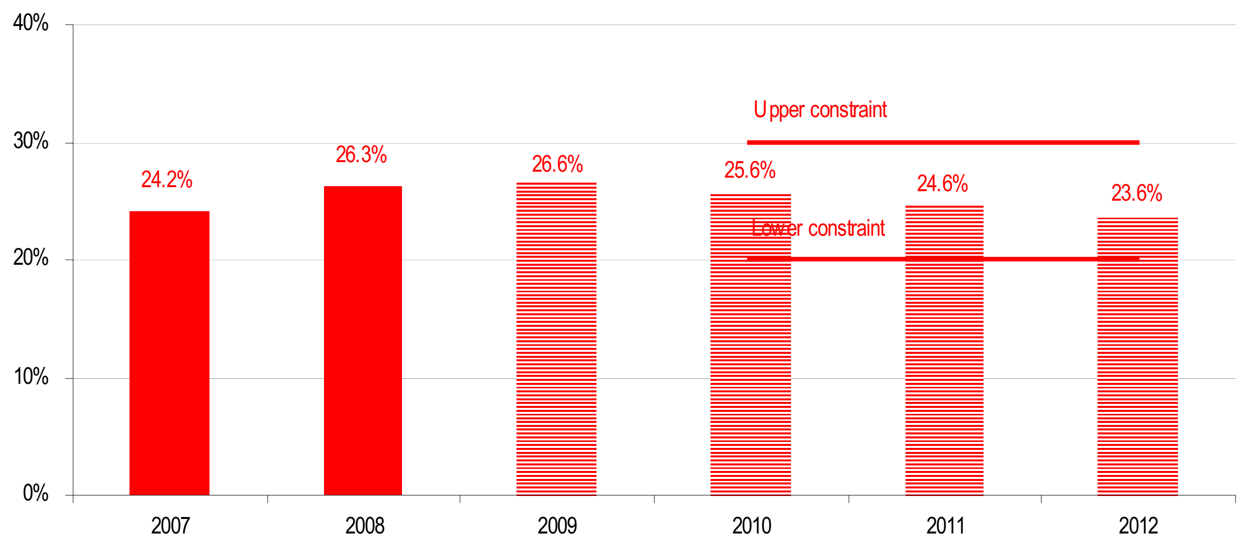
- the interest rate risk will be stabilised at least, depending on the adopted financing structure it will be possible to reduce it – duration of the domestic marketable debt will be in the range of 2.7-3.5 years while that of total debt in the range of 3.4-4.0 years,

Chart 31. Duration of the ST debt



- the average share of foreign debt will reach about 25%, while deviations from the basic scenario are possible within the range of 20-30% adopted in the Strategy in connection with a flexible approach to foreign financing.

Chart 32. Share of foreign debt in the ST debt



VII.3. Threats to the implementation of the Strategy

The main possible threats to the implementation of the Strategy are:

1) alternative to the assumed development of the macroeconomic situation in Poland, in particular the decrease on the GDP growth rate, higher interest rates as well as volatility of exchange rates;
2) development of the situation in the world's economy, including:
   - obstacles for major economies to emerge from the recession as well as the financial crisis,
   - more withdrawal of lending capital from the emerging markets resulting from global investors' risk aversion;
3) the risk that the public debt-to-GDP will exceed the threshold of 55% over the Strategy's timeframe, as a result of:
   - higher borrowing requirements of the State budget depending on the situation of the Polish economy among others,
   - lower exchange rate of the zloty as compared to that assumed in the Strategy,

- considerable increase in debt of public finance sector units other than the ST,
- distribution of risk between the public partner and the private partner in public-private partnerships,
- the necessity to execute sureties and guarantees granted by public finance sector units.

Outlays on infrastructure investments co-financed by the EU funds in connection with the preparations for the European Football Championship EURO 2012 co-hosted by Poland will constitute a challenge in all three areas.

4) Uncertainty connected with the timeframe set for Poland's entry to the Eurozone and its impact on the exchange rate and interest rates.

Annex 1. 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:

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

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. In the *Strategy* it was assumed that all new issues of fixed-rate bonds, except for two-year bonds (used for the medium-term liquidity management) should achieve a benchmark status. The minimum face value of the issue ensuring the liquidity was set at an equivalent of EUR 5 billion on the domestic market and EUR 5 billion on the Euro market. On other markets the value of the benchmark depends on issuer's preferences connected with refinancing risk and standard of market's development.
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.

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[8] – 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* are.

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

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 maturitiy 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

[8] In relation to previous Strategy the notation manner of duration formula has changed, which now precisely describes the calculation algorithm of the index value for floating rate bonds. In itself the calculation algorithm has not changed.

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.

Reference portfolio – see *benchmark (portfolio).*

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. 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 n 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 Treasury securities.

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[9]. 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. 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,

[9] The government model is used in such countries as Spain or Italy.

- 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 Euro zone).

Table 1. Institutions responsible for debt management in the EU Member States

	Country	Model	Institution name
Euro zone	Austria	agency	Österreichische Bundesfinanzierungsagentur
	Belgium		Agence de la Dette (Agentschap van de Schuld)
	Finland		Valtiokonttori
	France		Agence France Trésor
	Germany		Finanzagentur GmbH
	Ireland		National Treasury Management Agency
	Malta		Debt Management Office
	Netherlands		Agentschap van het ministerie van Financiën
	Portugal		Instituto de Gestão do Crédito Público
	Slovakia		Štátna pokladnica
	Cyprus	bank	Κεντρικη Τραπεζα Τησ Κυπρου
	Greece	government	Γενικο Λογιστηριο Τοψ Κρατοψσ
	Italy		Ministero dell'Ecomomia e delle Finanze
	Luxemburg		Ministère des Finances
	Slovenia		Ministrstvo za finance
	Spain		Ministerio de Ekonomia
Other EU countries	Hungary	agency	Államadósság Kezelő Központ Zrt.
	Sweden		Riksgäldskontoret
	Latvia		Valsts Kase
	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 şi Finanţelor

Annex 3. General government deficit and debt and yields on 10-year bonds in the EU Member States

	2007			2008		
	General government balance %GDP	General government debt %GDP	10-year rate[1)]	General government balance %GDP	General government debt %GDP	10-year rate[1)]
Italy	-1.5	103.5	4.54	-2.7	105.8	4.47
Greece	-3.6	94.8	4.53	-5.0	97.6	5.07
Belgium	-0.2	84.0	4.41	-1.2	89.6	3.87
Hungary	-4.9	65.8	6.93	-3.4	73.0	8.31
France	-2.7	63.8	4.35	-3.4	68.1	3.54
Portugal	-2.6	63.5	4.47	-2.6	66.4	4.00
Germany	-0.2	65.1	4.21	-0.1	65.9	3.05
Malta	-2.2	62.1	4.81	-4.7	64.1	4.17
Austria	-0.5	59.4	4.34	-0.4	62.5	3.74
Netherlands	0.3	45.6	4.34	1.0	58.2	3.65
Great Britain	-2.7	44.2	4.70	-5.5	52.0	3.37
Cyprus	3.4	59.4	4.60	0.9	49.1	4.60
Poland	**-1.9**	**44.9**	**5.86**	**-3.9**	**47.1**	**5.70**
Ireland	0.2	25.0	4.45	-7.1	43.2	4.57
Spain	2.2	36.2	4.35	-3.8	39.5	3.86
Sweden	3.8	40.5	4.31	2.5	38.0	2.67
Finland	5.2	35.1	4.34	4.2	33.4	3.72
Denmark	4.5	26.8	4.33	3.6	33.3	3.50
Czech Republic	-0.6	28.9	4.65	-1.5	29.8	4.30
Slovakia	-1.9	29.4	4.61	-2.2	27.6	4.72
Slovenia	0.5	23.4	4.55	-0.9	22.8	4.56
Lithuania	-1.0	9.0	4.94	-3.2	15.6	9.00
Latvia	-0.4	17.0	5.10	-4.0	19.5	9.03
Luxemburg	3.6	6.9	4.68	2.6	14.7	4.17
Bulgaria	0.1	14.1	5.08	1.5	14.1	7.76
Romania	-2.5	12.7	6.93	-5.4	13.6	8.38
Estonia	2.7	3.5	6.81	-3.0	4.8	8.48
UE 27	**-0.8**	**58.7**	**-**	**-2.3**	**61.5**	**-**
Euro zone	**-0.6**	**66.2**	**-**	**-1.9**	69.6	**-**

[1)] 10-tear rate – harmonized long-term interest rates for convergence purposes, i.e. rates on the secondary market, for Luxembourg - index based on basket of long-term bonds issued by private credit institutions with an average actual maturity close to 10 years, for Estonia - an interest rate on loans for non-financial companies and households with maturity close to 10 years; Statistics Pocket Book, ECB.

[2)] Data for Poland – Ministry of Finance, other data - Eurostat Euro-indicators news release 56/2009 of April 22, 2009.

Annex 4. Government debt rating of EU Member States

Table 2. Long-term government debt rating in foreign currency of EU Member States

as of September 11, 2009

	Moody's	**Standard&Poor's**	**Fitch**
Austria	Aaa	AAA	AAA
Belgium	Aa1	AA+	AA+
Bulgaria	Baa3	BBB	BBB-
Cyprus	Aa3	A+	AA-
The Czech Republic	A1	A	A+
Denmark	Aaa	AAA	AAA
Estonia	A1	A-	BBB+
Finland	Aaa	AAA	AAA
France	Aaa	AAA	AAA
Greece	A1	A-	A
Spain	Aaa	AA+	AAA
The Netherlands	Aaa	AAA	AAA
Ireland	Aa1	AA	AA+
Lithuania	A3	BBB	BBB
Latvia	Baa3	BB+	BB+
Luxemburg	Aaa	AAA	AAA
Malta	A1	A	A+
Germany	Aaa	AAA	AAA
Poland	**A2**	**A-**	**A-**
Portugal	Aa2	A+	AA
Romania	Baa3	BB+	BB+
Slovakia	A1	A+	A+
Slovenia	Aa2	AA	AA
Sweden	Aaa	AAA	AAA
Hungary	Baa1	BBB-	BBB
The United Kingdom	Aaa	AAA	AAA
Italy	Aa2	A+	AA-

Source: International Financing Review, September 12, 2009

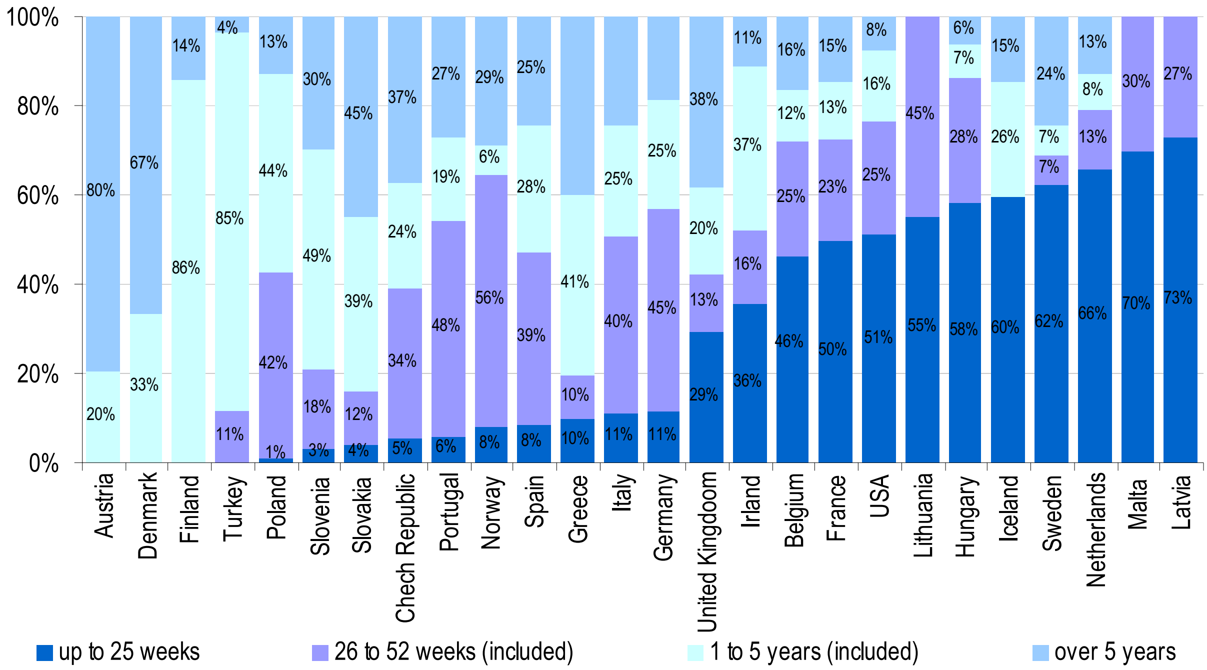
Annex 5. ATM and duration of public debt of EU Member States

Table 3. ATM and duration of public debt of EU Member States in 2008

	ATM			Duration		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Austria	8.30	8.60	2.10	6.00	6.10	1.90
Belgium	6.10	6.20	0.40	4.4**	4.5**	0.1**
The Czech Republic	6.60	*	*	4.3**	*	*
Denmark	24.58	10.99	1.82	14.75	7.30	-0.65
Estonia	*	*	*	*	*	*
Finland	3.90	3.90	0.00	2.90	2.90	0.00
France	6.80	6.80	*	5.3**	5.3**	*
Greece	8.40	*	*	*	5.30	*
Spain	6.60	6.60	*	4.80	4.80	*
The Netherlands	6.60	6.60	*	*	*	*
Ireland	6.19	*	*	6.07	*	*
Luxemburg	6.35	6.35	*	*	*	*
Germany	6.6	6.70	1.40	4.9**	4.9**	1.4**
Poland	**5.27**	**4.23**	**8.11**	**3.58**	**2.86**	**5.55**
Portugal	6.19	*	*	3.88	*	*
Slovakia	4.73	3.83	7.61	3.05	3.23	6.29
Slovenia	*	*	*	*	*	*
Sweden	4.80	5.70	0.13	*	*	*
Hungary	4.82	3.89	6.36	3.01	2.61	3.68
The United Kingdom	*	14.50	*	*	9.00	*
Italy	6.8	6.60	11.00	4.50	4.50	5.30

*) Not available.
**) Modified *duration*.
Source: OECD's Statistical Data Warehouse, www.oecd.int.

Chart 1. Bond issuance in the domestic market in Poland and other countries regarding the maturity in 2009



Annex 6. Legal regulations applied to public debt in Poland and the EU

Table 4. Public debt – basic legal regulations

<table>
<tr><th>Polish regulations</th><th>EU regulations</th></tr>
<tr><td>1. Constitution of the Republic of Poland
➢ ban on contracting loans and granting guarantees and sureties resulting in the public debt exceeding 3/5 of GDP (Article 216(5));</td><td>1. Treaty establishing European Community
➢ 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 104) – specifies the so called Excessive Deficit Procedure (EDP);</td></tr>
<tr><td rowspan="3">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.</td><td>2. Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community
➢ definition of general government debt and reference value of debt to GDP ratio at 60%;</td></tr>
<tr><td>3. Council Regulation on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty establishing European Community
➢ definition of general government debt with specification of categories of liabilities which constitute it;</td></tr>
<tr><td>4. The European System of Accounts (ESA'95)
➢ definition of categories of financial liabilities;
➢ definition of general government sector.</td></tr>
</table>

Table 5. Limits on the public debt to GDP ratio in the current and the new Public Finance Act

<table>
<tr><th>Current Public Finance Act</th><th>New Public Finance Act</th></tr>
<tr><td colspan="2">I. Legal procedures regarding limits on public debt to GDP ratio</td></tr>
<tr><td colspan="2">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;</td></tr>
<tr><td>b) the state budget deficit to state budget revenue ratio adopted for the year x+2 is the upper limit on the deficit to revenue ratio in the budget act of each local government unit for the year x+2;</td><td></td></tr>
<tr><td colspan="2">2) the ratio in year x is greater than 55%. and lower than 60%:</td></tr>
<tr><td>a) the level of state deficit in adopted draft budget act by the Council of Ministers for the year x+2 must ensure a decrease in the ratio of the State Treasury debt to GDP as compared to the ratio announced for the year;</td><td>a) the state budget for the year x+2 has to be at least balanced 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;</td></tr>
</table>

<table>
<tr><th>Current Public Finance Act</th><th>New Public Finance Act</th></tr>
<tr><td>b) the upper limit on the deficit to revenue ratio of each local government unit for the year x+2 is calculated by multiplying the state budget deficit to revenue ratio adopted for the year x+2 by coefficient “R”, calculated as;
R = (0.6 - PD/GDP) : 0.05
where: GDP - gross domestic product. PD - public debt are amounts announced for the previous budget year (year x);</td><td>b) budget deficit of local government unit minus cumulated budgetary surplus from previous years and liquid funds in budget resolution adopted for the year x+2 can only derive from expenditure connected with the execution of current tasks financed by the EU funds and non-returnable financial means from admitted help 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 CPI in the budgetary year x+1,
➢ ban of granting new loans and credits from the State budget is introduced,
➢ increase in expenditures of the Sejm (lower house of Polish Parliament), the Senate (upper mouse 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 projects;</td></tr>
<tr><td colspan="2">e) the Council of Ministers presents a remedial program ensuring a fall In the ratio of public debt to GDP;</td></tr>
<tr><td colspan="2">3) the ratio in year x is equal to or greater than 60%:</td></tr>
<tr><td>a) state budget for the year x+2 must at least be balanced;</td><td>a) procedures predicted in points a, c, d in case of the ratio greater than 55%, and lower than 60% are in force;</td></tr>
<tr><td colspan="2">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%;</td></tr>
<tr><td colspan="2">II. Principles and limits on incurring liabilities by local government units</td></tr>
<tr><td colspan="2">a) Local government units can incur loans and issue securities for:
➢ 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;</td></tr>
</table>

Current Public Finance Act	New Public Finance Act
	➢ preceding financing tasks financed by UE funds;
b) 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;	
c) Local government can only incur these liabilities of which servicing costs are borne at least once a year, while: ➢ discount of securities issued by local government cannot exceed 5% of their face value, ➢ capitalization of interest is inadmissible;	
d) For a local government unit, the ratio of total debt in a fiscal year to: ➢ 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:	
(in force until the 31st December 2013) ➢ in given budgetary year 15%, in case when public debt to GDP ratio exceed 55%, it cannot exceed 12%;	*(in force since the 1st January 2014)* ➢ 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;
e) The ratio of total debt at the end of a fiscal year to total revenues and of total debt at the end of quarter to planned revenues cannot exceed 60%;	e) Assumed and executed current expenditures must not be higher than assumed and executed current revenues including liquid funds and budgetary surpluses from previous years;
f) Limitations on debt of local government are not applied 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.	f) Executed current expenditures can be higher than executed current revenues including liquid funds and budgetary surpluses from previous years only by amounts which are connected with the execution of current tasks financed by EU funds and non-returnable financial means from admitted help by EFTA member countries. in case of not receiving them in the given year.

Table 6. Main differences in general government debt – Polish (current act and new project on act) and EU definition

Current Polish regulations	New Polish regulations	EU regulations
public debt		**general government debt**
1) scope of the public finance sector		
➢ 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;
differences in the scope of sector depending on regulations		
a) funds formed within Bank Gospodarstwa Krajowego (BGK) ➢ are excluded from the public finance sector;		➢ State Road Fund (KFD) is included in the general government sector;
b) research and development units and science institutes		

Current Polish regulations	New Polish regulations	EU regulations
public debt		**general government debt**
➢ are included in the public finance sector;	➢ are excluded from the public finance sector. with the exception of science institutes of Polish Academy of Science (PAN);	➢ are excluded from the general government units;
2) liabilities which constitute public debt		
➢ securities (excluding shares); ➢ loans and credits (including securities whose disposal is limited); ➢ deposits; ➢ matured payables (i.e. liabilities due but not settled);		➢ securities other than shares excluding financial derivatives; ➢ loans; ➢ cash and deposits;
differences in liabilities depending on regulations		
➢ matured payables;		- [3]
3) contingent liabilities		
differences in treatment of contingent liabilities in debt-to-GDP ratio		
➢ is not included; since January 2006 in line with the Act of 30 June 2005 on Public Finance 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) 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 7. Public Debt in Poland – statistical annex

Table 6. Public debt in the period 2001-VI 2009

	2001	2002	2003	2004	2005	2006	2007	2008	VI 2009
1. State Treasury debt									
a) PLN bn	283.9	327.9	378.9	402.9	440.2	478.5	501.5	569.9	608.1
domestic *	185.0	219.3	251.2	291.7	315.5	352.3	380.4	420.2	449.2
foreign *	98.9	108.6	127.8	111.2	124.7	126.2	121.1	149.7	159.0
b) GDP %	36.4%	40.6%	44.9%	43.6%	44.8%	45.1%	42.9%	44.8%	-
2. Public debt									
a) PLN bn	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8	635.6
b) GDP %	38.8%	43.6%	48.4%	46.7%	47.5%	47.8%	45.2%	47.0%	-
3. General government debt (EU methodology)									
a) PLN bn	293.0	342.1	397.9	422.3	462.7	505.1	527.6	598.4	637.3
b) GDP %	37.6%	42.3%	47.2%	45.7%	47.1%	47.6%	45.2%	47.1%	-

*) *place of issue criterion*

Table 7. GDP and exchange rates in the period 2001-VI 2009

	2001	2002	2003	2004	2005	2006	2007	2008	VI 2009
1. Gross Domestic Product									
PLN bn	779.6	808.6	843.2	924.5	983.3	1 060.2	1 167.8	1271.7	-
2. Exchange rate *(at the end of a period)*									
a) EUR	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	4.1724	4.4696
b) USD	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.9618	3.1733

Table 8. Number of indebted local government units with respect to the debt to proceeds ratio in the years 2007-08

	Group of units	Total number of units	Number of indebted units					
			Debt to proceeds ratio					
			total	i<10%	10%<i<30%	30%<i<50%	50%<i<60%	i>60%
XII 2007	Municipalities	2 413	2 285	749	1 206	299	26	5
	Cities with the county status	65	65	6	37	20	2	0
	Counties	314	304	99	153	47	5	0
	Provinces	16	16	2	10	3	1	0
	Total	**2 808**	**2 670**	**856**	**1 406**	**369**	**34**	**5**
XII 2008	Municipalities	2 413	2 273	832	1109	306	24	2
	Cities with the county status	65	65	8	36	20	1	0
	Counties	314	306	110	152	40	4	0
	Provinces	16	16	8	3	5	0	0
	Total	**2808**	**2660**	**958**	**1300**	**371**	**29**	**2**

Table 9. Debt of public finance sector before consolidation *

Debt of public finance sector		2007		2008				2009			
		December	Structure	Change Dec 2007 - Dec 2008		December	Structure	Change Dec 2008 - Jun 2009		June	Structure
		PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%
BEFORE CONSOLIDATION		**537 432.3**	**100.0%**	**71 936.1**	**13.4%**	**609 368.3**	**100.0%**	**40 125.5**	**6.6%**	**649 493.8**	**100.0%**
1.	Debt of central government sub-sector	503 599.6	93.7%	69 096.6	13.7%	572 696.2	94.0%	39 535.6	6.9%	612 231.8	94.3%
1.1.	State Treasury	501 531.0	93.3%	68 414.9	13.6%	569 945.9	93.5%	38 179.2	6.7%	608 125.2	93.6%
1.2.	National Heath Fund	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
1.3.	State earmarked funds with legal personality	0.7	0.0%	-0.7	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
1.4.	State higher schools	279.4	0.1%	40.1	14.4%	319.5	0.1%	-63.8	-20.0%	255.7	0.0%
1.5.	Research and development units	314.4	0.1%	38.3	12.2%	352.6	0.1%	71.7	20.3%	424.3	0.1%
1.6.	Independent public health care units	1 048.6	0.2%	83.2	7.9%	1 131.8	0.2%	-110.7	-9.8%	1 021.1	0.2%
1.7.	State culture units	60.4	0.0%	-21.2	-35.1%	39.2	0.0%	-9.6	-24.4%	29.7	0.0%
1.8.	Polish Academy of Science (PAN) and units established by it	8.9	0.0%	0.5	6.0%	9.4	0.0%	1.1	11.9%	10.5	0.0%
1.9.	Other State legal entities established under separate acts for public tasks execution with the exception of enterprises. banks and companies organized under commercial law	356.4	0.1%	541.4	151.9%	897.7	0.1%	1 467.6	163.5%	2 365.4	0.4%
2.	Debt of local government sub-sector	31 087.8	5.8%	2 809.7	9.0%	33 897.5	5.6%	941.0	2.8%	34 838.4	5.4%
2.1.	Local government units and their associations	25 988.6	4.8%	3 040.6	11.7%	29 029.1	4.8%	1 029.2	3.5%	30 058.4	4.6%
2.2.	Local earmarked funds with legal personality	147.2	0.0%	-17.5	-11.9%	129.7	0.0%	-35.7	-27.5%	94.0	0.0%
2.3.	Independent public health care units	4 871.8	0.9%	-194.9	-4.0%	4 676.9	0.8%	-30.7	-0.7%	4 646.2	0.7%
2.4.	Local cultural units	63.3	0.0%	-18.2	-28.7%	45.1	0.0%	-16.9	-37.5%	28.2	0.0%
2.5.	Other local legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	16.8	0.0%	-0.2	-1.4%	16.6	0.0%	-5.0	-30.0%	11.6	0.0%
3.	Debt of social security sub-sector	2 744.9	0.5%	29.8	1.1%	2 774.7	0.5%	-351.1	-12.7%	2 423.6	0.4%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	2 744.9	0.5%	29.8	1.1%	2 774.7	0.5%	-351.1	-12.7%	2 423.5	0.4%
3.3.	Farmer's Social Insurance Institution (KRUS) and funds manager by it	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%

**) preliminary data on September 11, 2008*

Table 10. Debt of public finance sector after consolidation *

Debt of public finance sector		2007		2008				2009			
		December	Structure	Change Dec 2007 - Dec 2008		December	Structure	Change Dec 2008 - Jun 2009		June	Structure
		PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%
AFTER CONSOLIDATION		**527 441.8**	**100.0%**	**70 322.6**	**13.3%**	**597 764.4**	**100.0%**	**37 849.5**	**6.3%**	**635 613.9**	**100.0%**
1.	Zadłużenie sektora rządowego	500 213.8	94.8%	66 669.2	13.3%	566 883.0	94.8%	37 012.4	6.5%	603 895.4	95.0%
1.1.	State Treasury	498 962.5	94.6%	66 499.1	13.3%	565 461.6	94.6%	37 191.9	6.6%	602 653.5	94.8%
1.2.	National Heath Fund	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
1.3.	State earmarked funds with legal personality	0.4	0.0%	-0.4	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
1.4.	State higher schools	246.9	0.0%	51.2	20.7%	298.2	0.0%	-53.6	-18.0%	244.5	0.0%
1.5.	Research and development units	203.7	0.0%	38.4	18.9%	242.1	0.0%	-13.9	-5.7%	228.2	0.0%
1.6.	Independent public health care units	734.1	0.1%	41.4	5.6%	775.5	0.1%	-34.7	-4.5%	740.8	0.1%
1.7.	State culture units	52.9	0.0%	-32.6	-61.7%	20.3	0.0%	-4.7	-23.0%	15.6	0.0%
1.8.	Polish Academy of Science (PAN) and units established by it	4.8	0.0%	0.6	13.5%	5.5	0.0%	-1.7	-30.9%	3.8	0.0%
1.9.	Other State legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	8.5	0.0%	71.5	845.1%	79.9	0.0%	-71.0	-88.8%	8.9	0.0%
2.	Debt of local government sub-sector	24 483.1	4.6%	3 623.7	14.8%	28 106.8	4.7%	1 188.3	4.2%	29 295.0	4.6%
2.1.	Local government units and their associations	21 203.3	4.0%	3 763.4	17.7%	24 966.7	4.2%	1 249.6	5.0%	26 216.3	4.1%
2.2.	Local earmarked funds with legal personality	14.4	0.0%	0.0	0.3%	14.5	0.0%	-14.5	-100.0%	0.0	0.0%
2.3.	Independent public health care units	3 202.8	0.6%	-115.3	-3.6%	3 087.5	0.5%	-36.6	-1.2%	3 050.9	0.5%
2.4.	Local cultural units	48.2	0.0%	-23.7	-49.2%	24.5	0.0%	-7.8	-32.0%	16.6	0.0%
2.5.	Other local legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	14.4	0.0%	-0.8	-5.3%	13.6	0.0%	-2.5	-18.4%	11.1	0.0%
3.	Debt of social security sub-sector	2 744.9	0.5%	29.8	1.1%	2 774.7	0.5%	-351.1	-12.7%	2 423.6	0.4%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	2 744.9	0.5%	29.8	1.1%	2 774.7	0.5%	-351.1	-12.7%	2 423.5	0.4%
3.3.	Farmer's Social Insurance Institution (KRUS) and funds managed by it	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%

**) preliminary data on September 11, 2008*

State Treasury Debt according by the place of issue criterion, by instrument (m PLN, at nominal value, eop)

	Dec 2007	Dec 2008	Jun 209	structure Jun 209	change Dec 2008 - Dec 2007		change Jun 209 - Dec 2008	
				%%	PLN mln	%%	PLN mln	%%
State Treasury debt [1]	501,531.0	569,945.9	608,125.2	100.0%	68,414.9	13.6%	38,179.2	6.7%
I. Domestic debt	380,409.2	420,202.1	449,174.6	73.9%	39,792.9	10.5%	28,972.5	6.9%
1. Treasury Securities	380,169.0	419,422.7	448,903.8	73.8%	39,253.7	10.3%	29,481.1	7.0%
1.1. Marketable Treasury Securities	373,454.6	411,218.7	439,666.6	72.3%	37,764.1	10.1%	28,447.9	6.9%
Treasury bills	22,586.2	50,403.4	60,364.5	9.9%	27,817.2	123.2%	9,961.1	19.8%
marketable bonds	350,868.4	360,815.2	379,302.1	62.4%	9,946.8	2.8%	18,486.8	5.1%
marketable fixed-income bonds	289,325.8	294,952.3	315,141.5	51.8%	5,626.4	1.9%	20,189.3	6.8%
2-year zerocoupon bonds	38,289.3	24,816.1	42,857.8	7.0%	-13,473.2	-35.2%	18,041.7	72.7%
5-year fixed-income bonds	105,338.3	105,910.4	118,829.1	19.5%	572.1	0.5%	12,918.7	12.2%
5-year fixed-income retail bonds	1,404.9	1,110.7	1,022.1	0.2%	-294.2	-20.9%	-88.6	-8.0%
10-year fixed-income bonds	122,351.0	135,880.8	123,175.3	20.3%	13,529.8	11.1%	-12,705.5	-9.4%
20-year fixed-income bonds	18,374.0	23,278.8	26,623.2	4.4%	4,904.8	26.7%	3,344.4	14.4%
30-year fixed-income bonds	1,000.0	1,387.2	1,387.2	0.2%	387.2	38.7%	0.0	0.0%
10-year fixed-income bonds - debt conversion [2]	2,568.3	2,568.3	1,246.8	0.2%	0.0	0.0%	-1,321.5	-51.5%
marketable floating rate notes	53,347.2	55,073.0	53,283.7	8.8%	1,725.8	3.2%	-1,789.3	-3.2%
3-year retail FRN	2,349.2	1,307.1	1,299.4	0.2%	-1,042.1	-44.4%	-7.7	-0.6%
7-year FRN	19,670.4	19,670.4	19,670.4	3.2%	0.0	0.0%	0.0	0.0%
10-year FRN (WZ)	18,453.8	22,081.6	21,781.6	3.6%	3,627.8	19.7%	-300.0	-1.4%
10-year FRN (DZ)	12,123.9	11,264.0	9,782.4	1.6%	-859.9	-7.1%	-1,481.6	-13.2%
private placement FRN	750.0	750.0	750.0	0.1%	0.0	0.0%	0.0	0.0%
marketable index-linked bonds	8,195.3	10,789.9	10,876.8	1.8%	2,594.6	31.7%	86.9	0.8%
12-year index-linked	8,195.3	10,337.0	10,410.6	1.7%	2,141.6	26.1%	73.6	0.7%
15-year index-linked	0.0	453.0	466.2	0.1%	453.0	-	13.2	2.9%
1. 2. Savings bonds	6,318.5	7,897.5	8,977.3	1.5%	1,579.0	25.0%	1,079.8	13.7%
2-year savings bonds	5,234.0	5,483.6	6,016.9	1.0%	249.7	4.8%	533.3	9.7%
4-year savings bonds	552.3	1,131.4	1,306.9	0.2%	579.1	104.8%	175.5	15.5%
10-year savings bonds	532.2	1,282.5	1,653.5	0.3%	750.2	141.0%	371.0	28.9%
1.3. Non-marketable T-Bonds	395.9	306.6	259.9	0.0%	-89.3	-22.6%	-46.7	-15.2%
Bonds issued for Bank BGŻ S.A.	395.9	306.6	259.9	0.0%	-89.3	-22.6%	-46.7	-15.2%
2. Other domestic ST debt [3]	240.2	779.4	270.8	0.0%	539.2	224.5%	-508.5	-65.3%
II. Foreign debt	121,121.8	149,743.8	158,950.5	26.1%	28,622.0	23.6%	9,206.7	6.1%
1. Treasury Securities (international mkts.)	92,253.9	121,156.2	127,305.7	20.9%	28,902.3	31.3%	6,149.5	5.1%
Brady Bonds	1,319.0	1,008.5	1,080.5	0.2%	-310.5	-23.5%	72.0	7.1%
international bonds	90,934.9	120,147.7	126,225.2	20.8%	29,212.8	32.1%	6,077.5	5.1%
2. Foreign Loans	28,867.9	28,587.6	31,644.8	5.2%	-280.3	-1.0%	3,057.2	10.7%
Paris Club	10,526.1	3,172.6	385.4	0.1%	-7,353.6	-69.9%	-2,787.1	-87.9%
International Financial Institutions	18,153.4	24,996.8	30,845.0	5.1%	6,843.4	37.7%	5,848.2	23.4%
of which: European Investment Bank	13,042.5	19,265.5	20,523.4	3.4%	6,223.1	47.7%	1,257.8	6.5%
other creditors	188.4	418.2	414.4	0.1%	229.8	122.0%	-3.9	-0.9%

1) Treasury Securities by original maturity.

2) On September 30 and December 29, 1999, convertible bonds, USD bonds for buy-back of Brady bonds, long-term liabilities towards NBP and bonds issued to implement the agreement with the Paris Club were converted to marketable bonds having redemption dates of - April 29, 2002 (KO0402); December 22, 2002 (TK1202); April 22, 2003 (CK0403); July 22, 2004 (PK0704) and August 22, 2008 (DK0809).

3) Other domestic debt includes: liabilities of budgetary units, liabilities to the budgetary sphere for non-indexation of wages in the early 1990s and advances for cars, credit taken by the Labour Fund.

DOMESTIC STATE TREASURY DEBT according to the place of issue criterion by holder (m PLN, at nominal value, eop)1)

	Dec 2007	Dec 2008	Jun 209	structure Jun 209 %%	change Dec 2008 - Dec 2007 PLN mln	%%	change Jun 209 - Dec 2008 PLN mln	%%
Domestic State Treasury Debt	380,409.2	420,202.1	449,174.6	100.0%	39,792.9	10.5%	28,972.5	6.9%
Domestic banking sector	87,862.1	135,603.6	143,254.3	31.9%	47,741.5	54.3%	7,650.7	5.6%
Treasury securities	87,862.1	135,603.6	143,254.3	31.9%	47,741.5	54.3%	7,650.7	5.6%
- of which: TS on MF account *	0.0	0.0	804.0	0.2%	0.0	-	804.0	-
Marketable instruments	87,466.2	135,297.0	142,994.4	31.8%	47,830.8	54.7%	7,697.3	5.7%
Treasury bills	11,468.2	38,098.3	43,585.3	9.7%	26,630.2	232.2%	5,487.0	14.4%
2-year zero-coupon bonds	9,088.3	7,474.7	11,742.3	2.6%	-1,613.6	-17.8%	4,267.5	57.1%
3-year floating rate bonds issued in retail network	512.0	5.4	3.9	0.0%	-506.5	-98.9%	-1.6	-29.0%
3-year floating rate bonds	0.0	0.0	0.0	-	0.0%	-	0.0	-
5-year fixed rate bonds and fungible bonds	23,498.9	31,024.0	36,045.9	8.0%	7,525.1	32.0%	5,022.0	16.2%
5-year fixed rate bonds issued in retail network	4.1	11.2	70.3	0.0%	7.1	173.6%	59.1	527.0%
7-year floating rate bonds	9,911.4	11,588.2	12,538.9	2.8%	1,676.8	16.9%	950.6	8.2%
10-year floating rate bonds (WZ)	4,977.8	10,733.7	10,306.2	2.3%	5,755.9	115.6%	-427.5	-4.0%
10-year floating rate bonds (DZ)	3,219.2	2,968.3	2,544.2	0.6%	-250.9	-7.8%	-424.1	-14.3%
10-year fixed rate bonds	22,255.0	31,554.4	23,524.2	5.2%	9,299.3	41.8%	-8,030.2	-25.4%
10-year fixed rate bonds (converted)	189.0	243.6	468.7	0.1%	54.6	28.9%	225.2	92.4%
private placements	15.0	15.0	15.0	0.0%	0.0	0.0%	0.0	0.0%
12-year inflation linked	633.7	862.1	695.8	0.2%	228.3	36.0%	-166.2	-19.3%
15-year inflation linked	0.0	15.0	15.5	0.0%	15.0	-	0.4	2.9%
20-year fixed rate bonds	1,633.7	617.5	1,181.9	0.3%	-1,016.2	-62.2%	564.4	91.4%
30-year fixed rate bonds	60.0	85.6	256.3	0.1%	25.6	42.6%	170.7	199.6%
Non - marketable instruments	395.9	306.6	259.9	0.1%	-89.3	-22.6%	-46.7	-15.2%
Bonds issued for Bank BGŻ S.A.	395.9	306.6	259.9	0.1%	-89.3	-22.6%	-46.7	-15.2%
Other domestic debt	0.0	0.0	0.0	0.0%	0.0	-	0.0	-100.0%
Domestic non-banking sector	218,063.5	228,723.3	237,939.2	53.0%	10,659.9	4.9%	9,215.9	4.0%
Treasury securities	217,823.2	227,944.0	237,668.4	52.9%	10,120.7	4.6%	9,724.5	4.3%
Marketable instruments	211,510.2	220,062.1	228,712.1	50.9%	8,551.8	4.0%	8,650.0	3.9%
Treasury bills	11,101.8	11,685.3	11,806.3	2.6%	583.5	5.3%	121.1	1.0%
2-year zero-coupon bonds	27,337.5	15,437.0	27,221.3	6.1%	-11,900.5	-43.5%	11,784.2	76.3%
3-year floating rate bonds issued in retail network	1,832.1	1,299.8	1,293.4	0.3%	-532.3	-29.1%	-6.4	-0.5%
3-year floating rate bonds	0.0	0.0	0.0	-	0.0	-	0.0	-
5-year fixed rate bonds and fungible bonds	59,448.1	59,483.3	61,668.3	13.7%	35.1	0.1%	2,185.0	3.7%
5-year fixed rate bonds issued in retail network	1,396.2	1,095.2	948.0	0.2%	-301.0	-21.6%	-147.3	-13.4%
7-year floating rate bonds	8,921.3	7,352.5	6,401.4	1.4%	-1,568.8	-17.6%	-951.1	-12.9%
10-year floating rate bonds (WZ)	13,436.8	11,303.3	11,419.6	2.5%	-2,133.4	-15.9%	116.3	1.0%
10-year floating rate bonds (DZ)	8,693.8	8,084.3	7,027.2	1.6%	-609.4	-7.0%	-1,057.1	-13.1%
10-year fixed rate bonds	63,366.8	77,980.4	72,539.3	16.1%	14,613.6	23.1%	-5,441.1	-7.0%
10-year fixed rate bonds (converted)	2,379.3	2,324.7	778.0	0.2%	-54.6	-2.3%	-1,546.6	-66.5%
private placements	735.0	735.0	735.0	0.2%	0.0	0.0%	0.0	0.0%
12-year inflation linked	3,825.8	6,102.9	6,792.4	1.5%	2,277.1	59.5%	689.5	11.3%
15-year inflation linked	0.0	416.4	428.5	0.1%	416.4	-	12.2	2.9%
20-year fixed rate bonds	8,475.9	15,653.8	18,645.6	4.2%	7,177.9	84.7%	2,991.9	19.1%
30-year fixed rate bonds	560.0	1,108.2	1,007.8	0.2%	548.2	97.9%	-100.4	-9.1%
Savings bonds	6,313.0	7,881.9	8,956.3	2.0%	1,568.9	24.9%	1,074.4	13.6%
2-year savings bonds	5,229.5	5,470.3	6,004.9	1.3%	240.9	4.6%	534.5	9.8%
4-year savings bonds	551.6	1,129.6	1,298.7	0.3%	578.0	104.8%	169.1	15.0%
10-year savings bonds	532.0	1,282.0	1,652.8	0.4%	750.0	141.0%	370.8	28.9%
Other domestic debt	240.2	779.4	270.8	0.1%	539.2	224.4%	-508.5	-65.3%
TSs held by foreign investors	74,483.7	55,875.1	67,981.1	15.1%	-18,608.5	-25.0%	12,105.9	21.7%
Treasury securities	74,483.7	55,875.1	67,981.1	15.1%	-18,608.5	-25.0%	12,105.9	21.7%
Marketable instruments	74,478.1	55,859.6	67,960.2	15.1%	-18,618.6	-25.0%	12,100.6	21.7%
Treasury bills	16.3	619.9	4,972.9	1.1%	603.5	3700.4%	4,353.0	702.3%
2-year zero-coupon bonds	1,863.4	1,904.3	3,894.3	0.9%	40.9	2.2%	1,990.0	104.5%
3-year floating rate bonds issued in retail network	5.2	1.9	2.1	0.0%	-3.3	-63.1%	0.2	12.9%
3-year floating rate bonds	0.0	0.0	0.0	-	0.0	-	0.0	-
5-year fixed rate bonds and fungible bonds	22,391.3	15,403.2	21,114.9	4.7%	-6,988.2	-31.2%	5,711.7	37.1%
5-year fixed rate bonds issued in retail network	4.6	4.3	3.8	0.0%	-0.4	-7.7%	-0.5	-10.7%
7-year floating rate bonds	837.7	729.6	730.1	0.2%	-108.1	-12.9%	0.5	0.1%
10-year floating rate bonds (WZ)	39.2	44.6	55.8	0.0%	5.4	13.8%	11.3	25.2%
10-year floating rate bonds (DZ)	211.0	211.3	211.0	0.0%	0.4	0.2%	-0.3	-0.2%
10-year fixed rate bonds	36,729.1	26,346.0	27,111.8	6.0%	-10,383.1	-28.3%	765.8	2.9%
private placements	0.0	0.0	0.0	0.0%	0.0	-	0.0	-
12-year inflation linked	3,735.9	3,372.0	2,922.3	0.7%	-363.9	-9.7%	-449.7	-13.3%
15-year inflation linked	0.0	21.6	22.2	0.0%	21.6	-	0.6	2.9%
20-year fixed rate bonds	8,264.5	7,007.5	6,795.7	1.5%	-1,257.0	-15.2%	-211.8	-3.0%
30-year fixed rate bonds	380.0	193.5	123.1	0.0%	-186.6	-49.1%	-70.3	-36.3%
Savings bonds	5.5	15.6	20.9	0.0%	10.1	182.5%	5.4	34.5%
2-year savings bonds	4.5	13.3	12.1	0.0%	8.8	193.2%	-1.2	-9.3%
4-year savings bonds	0.7	1.8	8.2	0.0%	1.0	144.3%	6.4	360.6%
10-year savings bonds	0.3	0.5	0.7	0.0%	0.3	99.6%	0.2	42.6%

* face value of TS on MF account in connection with collateral deposits in commercial banks

1) according to the place of issue criterion, data captures financial flows between sectors; Bonds according to primary term to maturity