The Public Finance Sector
DEBT MANAGEMENT STRATEGY
in the years 2012-2015

Ministry of Finance
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I. INTRODUCTION

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

Public debt management is conducted at two levels:

- in a broader sense, debt management is part of the fiscal policy and covers decisions on what portion of State expenditures is to be financed through debt 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 to the draft Budget Act and the Update of 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 2012-2015 contains forecasts of public debt levels which are consistent with the fiscal policy assumptions of the draft Budget Act for 2012; however, its objectives and tasks refer to public debt management in a narrower sense.

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

Item	2010 (execution)	2011	2012	2013	2014	2015
1. Public debt						
a) PLN bn	747.9	812.3	832.5	846.9	864.8	902.2
b) in relation to GDP	52.8%	53.7%	52.4%	50.3%	48.3%	47.4%
2. G*eneral government* debt						
a) PLN bn	776.8	857.2	890.0	905.2	921.0	956.9
b) in relation to GDP	54.9%	56.7%	56.0%	53.7%	51.4%	50.2%
3. Debt servicing costs						
a) PLN bn	34.1	38.4	43.0	42.7	42.7	42.6
b) in relation to GDP	2.4%	2.5%	2.7%	2.5%	2.4%	2.2%

Pursuant to the Public Finance Act, exceeding the 50% threshold by the ST debt-to-GDP ratio 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. This ratio assumed in the Budget Act for the year 2011 was 14.7%, while that assumed for the year 2012 in the Draft Budget Act is 11.9%. This restriction will have an impact on the budgets of subsequent years.

An increase in the debt-to-GDP ratio from 52.8% at the end of 2010 to 53.7% in 2011 is expected due to considerable depreciation of the zloty resulting from the debt crisis in the Eurozone. Under the adopted assumptions, in the years 2012-2015, the debt-to-GDP ratio is expected to be lower, and it will decrease below the 50% threshold in 2014. The *general government* debt-to-GDP ratio is expected to decrease in the time frame of the Strategy to 50.2%. No threat is expected for this ratio to exceed the 60% threshold stipulated in the Treaty of Maastricht during the term of this Strategy.

In the time frame of the Strategy, the ST debt servicing costs-to-GDP ratio is expected to increase from 2.5% in 2011 to 2.7% in 2012, and then it is expected to decrease gradually to 2.2% in 2015.

This Strategy is to a large extend 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 2012-2015:

- 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 the assumed risk limitations and avoiding distortions of monetary policy;
- the domestic market shall remain the main source of financing the State budget borrowing requirements; the share of foreign financing will be maintained in the range of 20-30%, with possible temporary deviations due to considerable changes in foreign exchange rates;
- large and liquid fixed rate issuances, both in the domestic, as well as the euro and American dollar market, shall be a priority of the issuance policy;
- efforts to increase the average maturity of the domestic debt shall be continued, while its duration, which has already reached an acceptable level from the perspective 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 amendment to the Public Finance Act, which imposed in May 2011 an obligation to allocate free cash on the account of the Minister of Finance on State special purpose funds, executive agencies and certain other public finance sector entities is a considerable change which will affect debt management and public sector's liquidity during the term of this Strategy. As a result of the implementation of the new system of financial liquidity management it is possible to decrease also borrowing requirements by using free cash from public finance sector entities, as well as lowering the ST debt by more than PLN 20 billion, preserving the entities' independence as regards management of funds necessary for them to execute their tasks.

The Strategy layout has not been changed to a large extent. Due to the increasing role of foreign investors in the domestic market, a separate subchapter in which the key groups of investors in the domestic market had been discussed was added in Chapter 3 devoted to the Strategy's assumption. 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

Debt management consists in shaping the structure of debt to minimise debt servicing costs in the long run, keeping risk at the same time at an acceptable level.

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

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

Changes in the volume of public debt in the years 2001-2011 resulted mainly from changes in the ST debt. The growth of the outstanding debt was the result of a relatively high level of State budget borrowing requirements, revenues from privatisation and changes in the exchange rate of the Polish zloty, as well as consolidation in regard of management of the liquidity in the public finance sector. At the same time, high rates of the GDP growth and improvement in the public finance in the years 2004-2007 contributed to the stabilisation of the debt-to-GDP ratio at the average level of ca. 47%, i.e. below the first threshold set in the Public Finance Act. Significant appreciation of the zloty in 2007 resulted even in a temporary decrease of this ratio to the level below 45% of GDP. In the years 2008-2010, the debt-to-GDP ratio rose again, mainly as a result of a considerable increase in the public finance sector borrowing requirements and economic slowdown. In 2010 and in the first half of 2011, public debt rose respectively by PLN 78.0 bn and PLN 40.0 bn (including the increase in ST debt respectively of PLN 70.3 bn and PLN 50.4 bn).

Chart 1. Volume of public debt in years 2001-2011

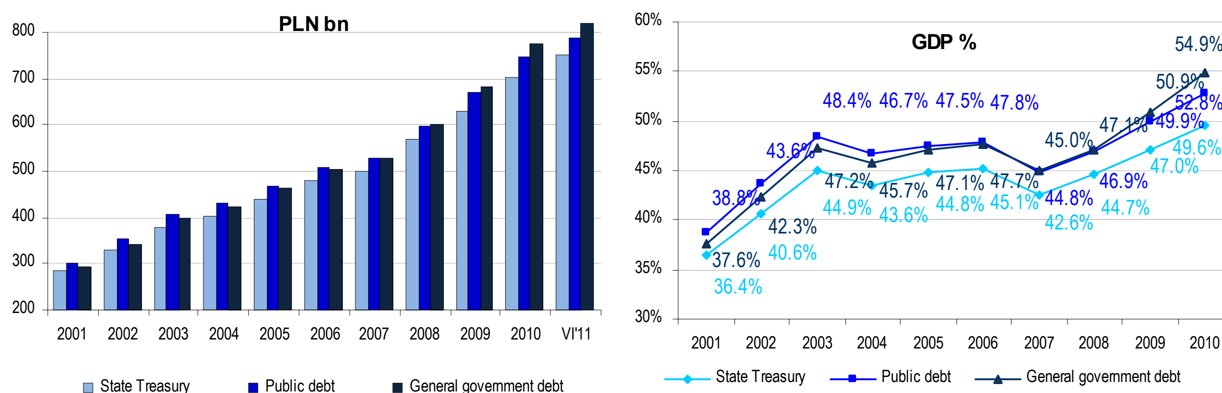
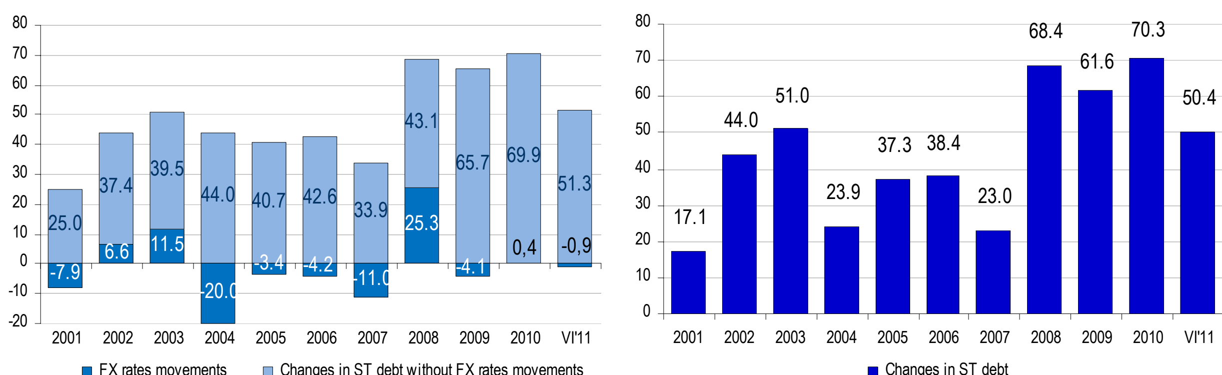


Chart 2. Influence of FX rate movements on the State Treasury debt volume in the years 2001-2011 (PLN bn)



The general government debt-to-GDP ratio (EU methodology), amounting at the end of 2010 to 54.9% was lower as compared to this ratio for the entire EU (80.1%) and for the Eurozone (85.3%).[1]

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[1] The main differences between the Polish and EU methodology result from matured payables included in liabilities, which constitute public debt in accordance with the Polish methodology and National Road

Table 2. The differences in debt-to-GDP ratio – Polish vs. EU methodology

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public debt	**38.8**	**43.6**	**48.4**	**46.7**	**47.5**	**47.8**	**44.8**	**46.9**	**49.9**	**52.8**
1) Adjustments in the scope of the sector, including:	-0.1	-0.2	-0.2	0.0	0.2	0.4	0.5	0.6	1.4	2.3
Funds managed by Bank Gospodarstwa Krajowego (including National Road Fund)	-	-	-	-	0.1	0.4	0.4	0.5	1.1	1.8
National Road Fund (aquisition of infrastructure assets)*	-	-	-	-	0.0	0.1	0.2	0.2	0.3	0.6
Agricultural Market Agency**	0.0	-0.2	-0.1	-	-	-	-	-	-	-
2) Differences in debt instruments, including:	-1.1	-1.2	-1.2	-1.0	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
matured payables	-1.2	-1.3	-1.2	-1.0	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
General government debt	**37.6**	**42.2**	**47.1**	**45.7**	**47.1**	**47.7**	**45.0**	**47.1**	**50.9**	**54.9**

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

**) Due to changes in sources of financing The Agricultural Market Agency was incorporated in general government sector in 2004.

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

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

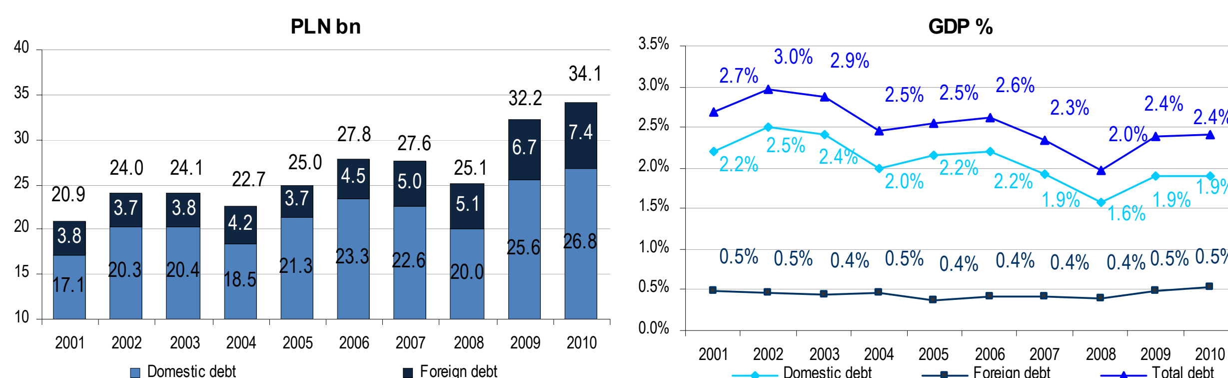
**) Funds transferred to Social Security Fund (FUS) as compensation for contributions transferred to OFE.*
***) Mainly: changes of balance of granted loans and prefinancing.*
****) Changes of debt caused by budget account balance, TS discount, TS capitalization and indexation, off-budget drawings, written off debt, conversion of FUS to OFE debt for securities.*

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

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

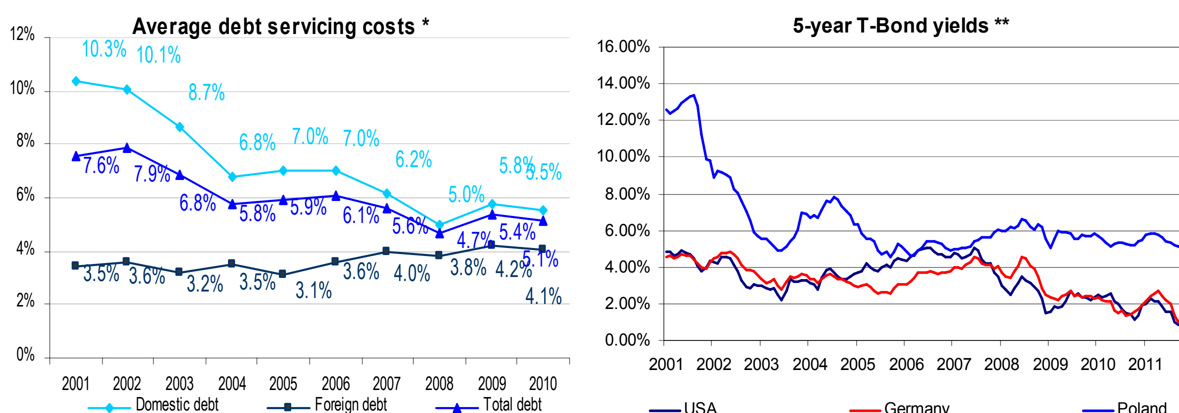
Fund (KFD) debt included in public debt only in the EU methodology. Differences between these both methodologies are presented in Annex 2, while data concerning deficit and debt of the EU Member States are presented in Annex 4.

Chart 3. ST debt servicing costs in the years 2001-2010



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

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



**) Average debt servicing costs were calculated as the relation of debt servicing costs in particular year to the average debt in this year*

***)In domestic currency*

The ST debt servicing costs-to-GDP ratio, after a significant fall in the years 2003-2004, grew slightly in the years 2005-2006, just to fall again significantly in the years 2007-2008, mainly as a result of a high GDP growth rate against with a simultaneous fall of nominal costs. In 2009, this ratio increased primarily as a result of a significant increase in debt and lower GDP growth, then it stabilized in 2010.

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

a) Refinancing risk

The domestic debt refinancing risk was systematically reduced since 2004, and was relatively stable since 2007. The risk reduction was a result of:

- the importance of medium and long-term T-bonds in financing the borrowing requirements. The share of T-bonds with the maturity of 5 years or more in total sales of T- bonds in regular auctions accounted for 24.4% in 2001 and 65.1% in 2007, respectively.[2] Their share fell to 39.6% in 2008 and to 33.2% in 2009, mainly as a result of a decreased demand for those instruments in connection with the financial crisis, just to increase in 2010 to 45.6%. In

[2] Bills and bonds, including switching and supplementary auctions.

the 1st half of 2011, their share amounted to 31.0%, which was due to unfavourable market conditions;

- changes in the outstanding amount of T-bills. In the years 2001-2007, the face value of T-bills fell from PLN 35.2 bn to PLN 22.6 bn, and the share of T-bills in the domestic T-securities decreased from 20.0% to 5.9%. After the growth recorded in 2008-2009 (up to PLN 64.3 bn, i.e. to 14.3% in domestic T-securities in July 2009), the outstanding amount of T-bills fell at the end of June 2011, to PLN 28.0 bn, which accounted for 5.2% of the debt in domestic T-securities;
- significant role of switching auctions. In 2010, T-bonds with short residual maturities with the face value of PLN 32.6 bn were bought back, while in the 1st half of 2011 this value was PLN 19.8 bn. Medium and long-term T-bonds constituted a dominant share of all T-bonds issued in the switching auctions (97.4% in 2010 and 60.9% in the 1st half of 2011).

Chart 5. Residual maturity of the ST debt in the years 2001-2011

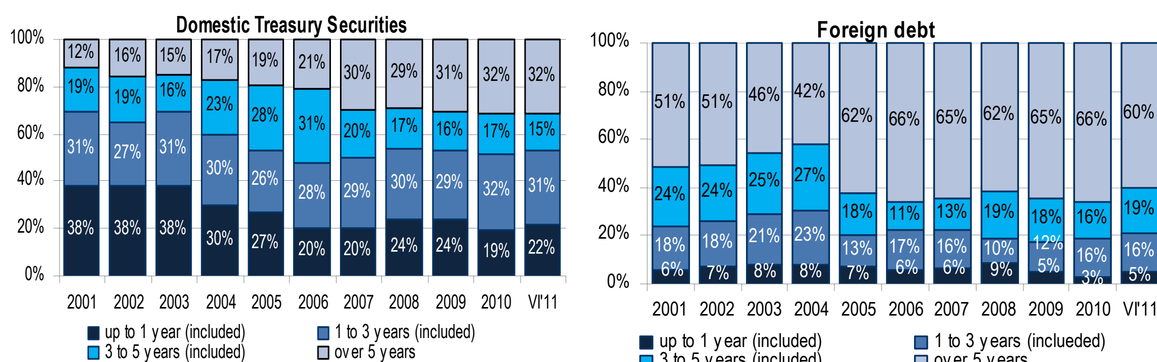
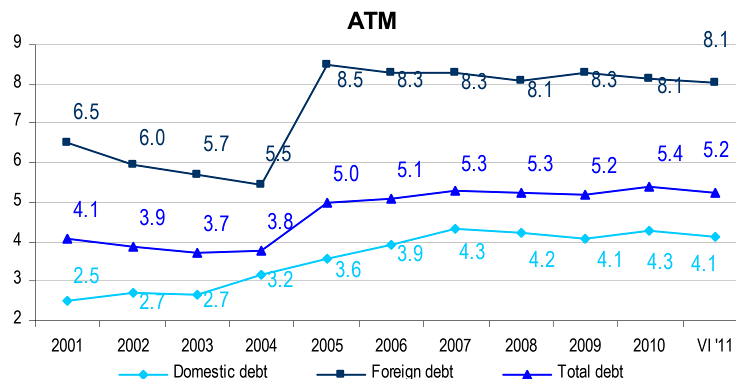


Chart 6. ATM of the ST debt in the years 2001-2010



In comparison with domestic debt, the refinancing risk of foreign debt is 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. Since then, the average term to maturity (ATM) of foreign debt has remained at a relatively stable level, i.e. above 8 years. This was due to the fact that the issues of long-term T-bonds were dominant on international markets, as well as to long maturities of loans incurred in international financial institutions.

A gradual increase in the ATM of the total ST debt from 2004 to 2007 originated from a stable growth of the ATM of domestic debt, which has a dominant share in total debt, and a significant increase in the ATM of foreign debt in 2005. In the following years, the ATM remained stable[3].

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

The share of foreign currency debt in total ST debt, excluding a slight increase in 2005, had been regularly decreasing and reached 23.3% at the end of the Q3, 2008, then it increased to 27.6% at the end of 2010, and at the end of June 2011 it amounted to 27.3%.

[3] Detailed data concerning the ATM and duration in UE states are contained in Annex 5.

The share of currencies other than the euro was reduced. Since mid-2006, the share of the debt in the euro has remained in the range of ca. 70%-75%. In mid-2011, the share of the euro in the total foreign debt amounted to 70.5%.

The increase in the share of debt in foreign currencies in the years 2008-2010 was the result of:

- flexible approach to implementing the objective of minimising the debt servicing costs in the context of exchange rate risk constraints and allowing for a gradual increase in foreign financing justified by striving towards domestic market stabilisation, diversifying sources of raising capital and taking advantage of the possibility of incurring low-interest loans at international financial institutions (the IFI),
- significant volatility of the exchange rate of the Polish zloty, for example in Q4 2008 and in Q1 2009, the exchange rate of the euro increased by 40%, while that of the dollar rose by 67%.

Chart 7. Currency structure of State Treasury debt

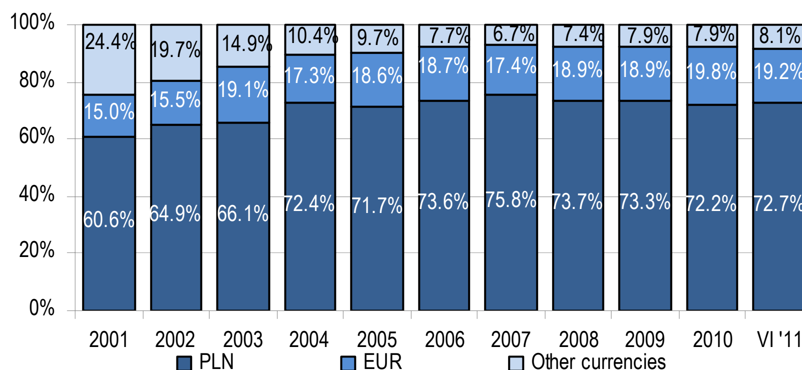


Chart 8. Polish zloty exchange rate against euro and dollar in years 2001-2011

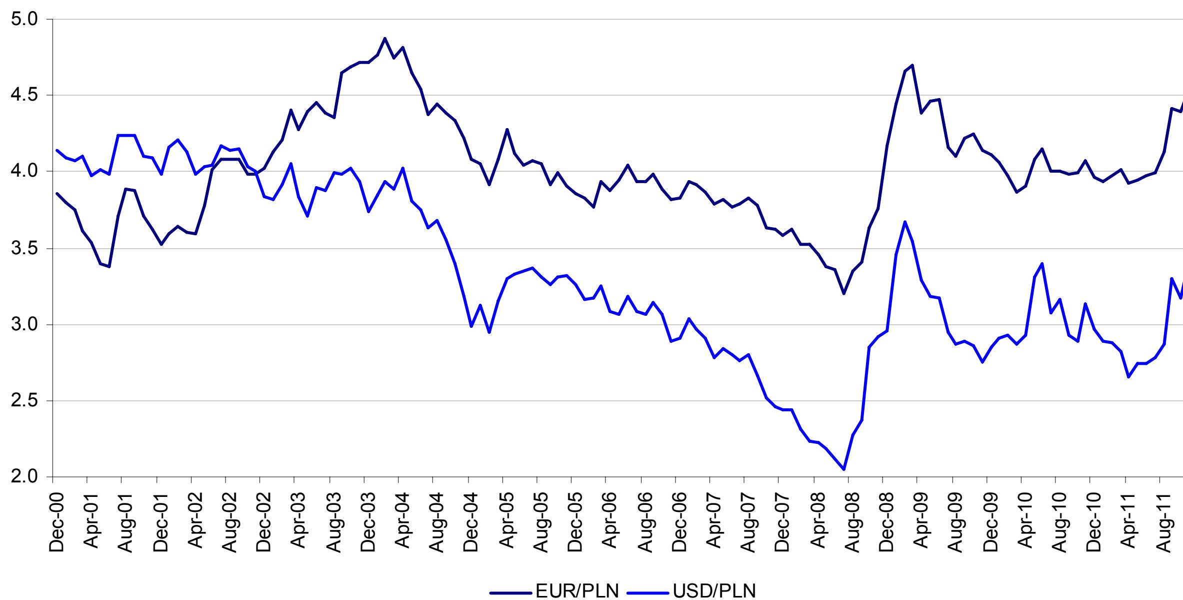
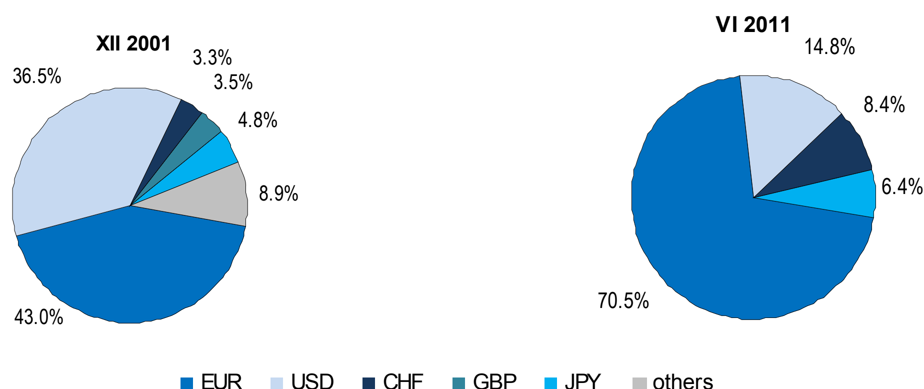


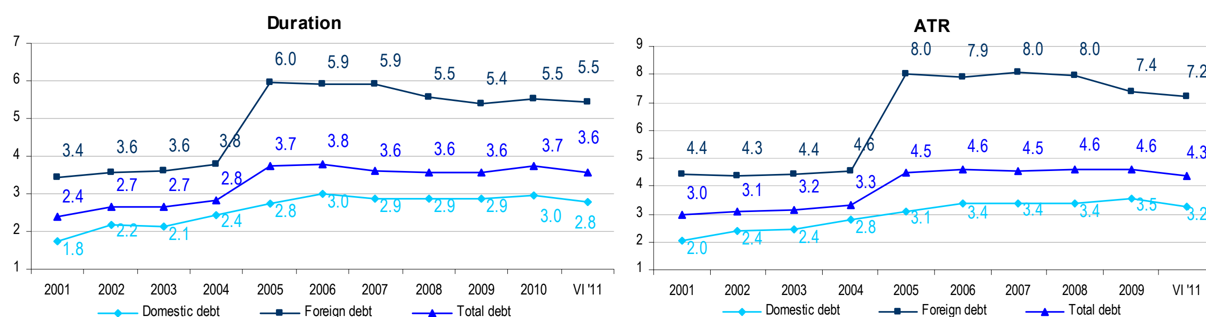
Chart 9. Currency composition of the ST foreign debt



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 to changes in the refinancing risk over recent years.

Chart 10. Duration and ATR of ST debt in years 2001-2011



As in the 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 2010 and the first half of 2011

In 2010 and the first half of 2011, debt management was conducted in accordance with *The Debt Management Strategy for the Public Finance Sector in the Years 2010-2012* approved by the Council of Ministers in September 2009 and *The Public Finance Sector Debt Management Strategy in the Years 2011-2014* approved in September 2010.

Table 4 presents the evaluation of implementing the Strategy's objective along with risk constraints in 2010 and the 1st half of 2011.

Table 4. Evaluation of implementing the Strategy's objective in 2010 and over the 1st half of 2011.

I. Strategy's objective		
	Evaluation*	Implementation
Debt servicing costs minimisation	High	**1. Selection of instruments** The domestic market was core to financing the borrowing requirements. In 2010, the face value of TS issuance amounted to PLN 165.4 bn on the domestic market, and PLN 34.8 bn in foreign markets (including PLN 7.2 bn from the IFI); in the first half of 2011 it was PLN 80.4 bn and PLN 16.6 bn, respectively (including PLN 4.0 bn from the IFI). Main factors taken into account when deciding about the financing structure included: • situation in global financial markets. In the period under discussion, concerns about the fiscal standing of some Eurozone countries, in particular Greece, Ireland, Portugal, Spain and Italy affected investors' decisions. Increasing threats of these countries' insolvency caused a global increase in risk aversion resulting in a considerable weakening of the euro against the dollar, decrease in stock exchange indices worldwide and increase of TS yields in the majority of countries. Furthermore, the sentiment in the market was affected by concerns about the American economy and the consequences of the increasing state debt in the USA. The culmination of market weakening was the US triple-A rating cut by S&P to AA+ in August 2011. Reaching an agreement with banks regarding restructuring of Greek debt (incurring 50% voluntary losses that lowering Greek debt about EUR 100 bn), increasing EFSF borrowing ability (for EUR 1 tr) and banks' capitalizing (EUR 106 bn) on October EU summit meeting only transitionally improved market sentiment; • the situation in the domestic market. In 2010, there were considerable fluctuations in the entire yield curve resulting from negative information coming from abroad and positive information coming from the country. An inflow of non-residents in the TS market in 2010 amounted to PLN 46.4 bn, primarily it was due to the positive evaluation of macro-economic foundation and the fiscal situation in Poland when compared to the other EU states, a higher level of interest rates when compared to issuers having a similar credit risk valuation, anticipation of appreciation of the Polish zloty and the cheap money policy implemented by the ECB and the FED. In 2010, the demand for TS focused mostly on the segment with maturity up to 2 years; however, the demand for TS with longer maturities was significantly higher than in 2009. In Q1 2011, deterioration in the domestic debt market resulted primarily from investors' expectations as to the scale and dynamics of the monetary policy (increase in the yields on the short end of the yield curve), concerns about a considerable demand on the domestic market and volatility in the core markets (increases on the long end of the yield curve). In the second quarter of the year, there was a decline in TS yields. The debt market strengthened due to lower expectations of interest rates increases, lower supply of TS and considerable demand from foreign investors. Deepening of debt crisis in euro-zone increased risk aversion that caused the rise in TS yields in mid Q4 2011. • distribution over time of state borrowing requirements, including those connected with the redemption of large series of bonds; • reducing borrowing requirements from the second quarter of 2011, affected by introduction in May 2011 of: liquidity management consolidation (allocating liquid funds of public finance sector entities on accounts with the Minister of Finance) and the reform of the pension system which reduced contributions forwarded to Open Pension Funds; • flexible approach to debt management, that included determination of dates of issuance and instruments, and efforts to diversify markets and currencies in connection with the constraints in the domestic market

absorption. The following measures were undertaken: partial pre-financing of borrowing requirements in 2010 and 2011 at the end of the preceding years and accumulation of increased funds at the beginning of 2010 and 2011, respectively, rapid acquisition of additional funds from the domestic and foreign markets (until the end of October 2011 the gross borrowing requirements were entirely covered), adjusting the offer volume and structure to the current market situation.

In terms of foreign debt the most important operations included:

- regular issuance on the euro market (15-year ones worth EUR 3.0 bn carried out in January 2010, 7-year ones of EUR 1.25 bn carried out in March 2010, 10-year ones worth EUR 1.0 bn carried out in September 2010, and the relaunching of that issue worth PLN 1.0 bn in January 2011 and 15-year ones worth EUR 460.0 in June 2011);
- maintaining the Polish presence in other major markets, including that in USD (5-year bonds worth USD 1.5 bn in July 2010, 10-year ones worth USD 1.0 bn in April 2011, and relaunching the issue worth USD 1.0 bn in June 2011 and 10-year ones worth USD 2.0 bn in November 2011), in CHF (4-year ones worth totally 625.0 ml in March and July 2010 and 5-year ones worth CHF 350.0 ml in February 2011) and in JPY (15-year bonds worth JPY 18.0 bn in January 2011 and 4-year ones worth JPY 25 bn in July 2011);
- credit drawings at IFI (in total in 2010 and the 1st half of 2011, EUR 2.8 bn, including those drawn from the World Bank's in the amount of EUR 1.0 bn and from the EIB in the amount of EUR1.8 bn).

2. Efficiency of the TS market

The main measures aimed at cost minimisation included:

- the policy providing liquid benchmark bond issues in the domestic market was continued. In mid-2011, 11 issuances (including one with a floating-rate) of medium- and long-term bonds exceeding the equivalent of EUR 5 bn. At the end of June 2011, the benchmark issuances accounted for 91% of the face value of fixed rate medium- and long-term bonds. Concentration on issuance constituted an important factor facilitating the rise of liquidity on the secondary bond market. The average liquidity ratio[4], having decreased to 111.2% in 2009 due to the crisis in the financial markets then increased to 154.7% in 2010 and to 197.5% over the 1st half of 2011;
- the policy of liquid T-bonds issuance (regular issuances with a value ensuring the liquidity of a given issuance) on a strategic euro market was continued;
- adjusting the level and structure of the TS supply to the current market situation and influencing this situation through measures related to debt management and information policy.

[4] Liquidity ratio – the quotient of the monthly value of transactions involving bonds to the debt month-end.

<table>
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<tr><th>2009</th><th>2010</th><th>June 2011</th></tr>
<tr><td rowspan="2">Refinancing risk</td><td rowspan="2">Satisfactory</td><td rowspan="2">• Limitation of T-bills issuance
• The increase in the sale of medium and long-term bonds (45.6% of all TS sold at auctions) in 2010, and then a decrease in the first half of 2011 (31.0%) due to unfavourable market conditions
• High importance of switching auctions
• An increase of the average maturity of domestic debt in 2010, despite difficult market conditions
• Safe level of foreign debt refinancing risk</td><td>ATM
(in years)
- domestic
- foreign
- total</td><td>4.08
8.27
5.22</td><td>4.30
8.13
5.38</td><td>4.12
8.05
5.22</td></tr>
<tr><td>Share in domestic TS
:
- TS with maturity up to 1 year
- T-bills</td><td>23.9%
10.3%</td><td>19.0%
5.5%</td><td>22.0%
5.2%</td></tr>
<tr><td rowspan="2">Exchange rate risk</td><td rowspan="2">High</td><td rowspan="2">• Share of foreign debt within the range of 20-30% set in the Strategy
• The share of the euro in foreign debt within the 70% target set in the Strategy
• Continuation of long-term non-market financing at international financial institutions</td><td>Share of foreign debt in ST debt</td><td>26.7%</td><td>27.8%</td><td>27.3%</td></tr>
<tr><td>Share of euro-denominated debt in foreign debt</td><td>70.6%</td><td>71.5%</td><td>70.5%</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.
• The risk of foreign debt remained at a safe level and did not restrain the costs minimisation objective.</td><td>Duration (in years)
- domestic
- foreign
- total</td><td>2.88
5.39
3.59</td><td>2.97
5.54
3.74</td><td>2.79
5.45
3.57</td></tr>
<tr><td>ATR (in years)
- domestic
- foreign
- total</td><td>3.53
7.37
4.57</td><td>3.48
7.19
4.52</td><td>3.23
7.18
4.34</td></tr>
</table>

III. Constraints – non-quantitative		
Constraint	Evaluation*	Implementation
Liquidity risk	High	The main instruments used in liquidity risk management included: • switching auctions (aimed at reducing the refinancing risk at redemption of large issues), • interest-bearing zloty deposits in the NBP - deposits of the total value of PLN 172.9 bn were made in 2010, while those made in the first half of 2011 amounted to PLN 73.7 bn, • zloty deposits where Bank Gospodarstwa Krajowego (”BGK”) acted as an intermediary, including buy-sell-back transactions and interbank deposits. In 2010, those transactions amounted in total to PLN 543.3 bn, while in the 1st half of 2011 these amounted to PLN 380.7 bn; • FX swap transactions enabling temporary usage of held currencies in order to raise funds denominated in PLN. EUR/PLN and USD/PLN transactions worth ca. EUR 4.4 bn were conducted in 2010 and EUR 0.4 bn in 2011, with a guarantee to carry out reverse transactions as at a predetermined exchange rate. Those transactions resulted in a decrease in cash denominated in foreign currencies and increase cash denominated in the zloty; • maintaining funds in interest-bearing accounts at the NBP and in interest-bearing currency deposits – the average value in 2010 was EUR 1.8 bn, while that in the 1st half of 2011 was EUR 1.3 bn; • interest-bearing currency deposits in BGK – deposits of EUR 1.9 bn were opened in 2010, while those opened in the 1st half of 2011 amounted to EUR 12.3 bn; • deposit transactions denominated in the euro with debt management agencies improving the efficiency of depositing temporarily free cash and creating an opportunity to raise short-term funds on attractive terms and conditions; • T-bills buy-back auctions aimed at reducing refinancing risk (the face value of T-bills bought back in 2010 amounted to PLN 6,2 bn, T, while in the first half of 2011 it was PLN 1.2 bn); • introduction in 2011, in consultation with the NBP, of regular sales of part of foreign currency funds from the EU funds directly in the foreign exchange market; • starting in May 2011, in accordance with the amended Public Finance Act, allocation of free funds of public finance sector entities in the accounts with the Minister of Finance maintained in BGK. At the end of June, funds in the amount of PLN 22.8 bn were accumulated. The level of state liquid assets in 2010 (an average of PLN 8.7 bn in accounts denominated in the zloty, and the equivalent of EUR 1.8 bn in the accounts denominated in foreign currencies) and in the 1st half of 2011 (PLN 9.8 bn and EUR 1.4 bn) provided for smooth execution of budgetary flows. In March 2010, benchmark series PS0310 with the initial debt of PLN 29.6 bn (PLN 11.8 bn after switching auctions), in November 2010 benchmark series DS1110 with the initial debt of PLN 27.9 bn (PLN 10.9 bn after switching auctions) and in May 2011 benchmark series PS0511 with the initial debt of PLN 23.6 bn (PLN 11.5 bn after switching auctions) were redeemed.
Credit risk	High	• Deposits in BGK, secured with TS, did not generate any credit risk. • For unsecured deposits a system of credit limits is in place. • Credit risk connected with derivatives is limited by selection of counterparties with high credit rating (it is necessary to hold an ISDA Master Agreement or a Framework Agreement signed with MF to make deals). • In October 2010, a collateral system related to transactions on derivatives in the form of TS blockade in the NDS was implemented. This system covers those domestic banks which have signed a Framework Agreement related to a collateral agreement. Secured transactions do not generate credit risk. • The credit risk generated by unsecured transactions is diversified through limits imposed on the total value of transactions concluded with individual partners. Creditworthiness of potential partners is monitored on an on-going basis.
Operational risk	Satisfactory	• Debt management conducted in one department in the Ministry of Finance.

		• Technical infrastructure adequate for the requirements of conducting market transactions. • Security of information related to debt management. • Integrated database of the ST debt.
Distribution of debt servicing costs over time	Satisfactory	• The level of servicing costs in 2010 was affected by swap transactions concluded in 2009 (a decrease in 2009 and an increase in 2010 in the costs by PLN 0.3 bn) and in 2010 (an increase in 2010 and a decrease in 2011 in the costs by PLN 0.7 bn). The purpose of the transactions concluded in 2010 was to maintain the debt servicing costs at a level consistent with the limits of the Budget Act, lowering at the same time those costs in the following year. • At issuance of new series of TS the uniform distribution of payments under their handling was taken into account. Coupons of new issues were set close to their yields. • Switching auctions of bonds maturing in the subsequent year and T-bill buyback auctions contributed to smooth distribution of costs.

**) According to the following scale: high, satisfactory, moderate, low.*

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

At the end of 2010, the debt of the public finance sector other than ST prior to the consolidation amounted to 10.3% of public finance sector debt (7.6% after the consolidation) as compared to 9.3% (7.1%) at the end of 2009. In the 1st half of 2011 the ratio amounted to 9.8% and 7.3%, respectively. The local government sector debt, in particular that of local government units, had the highest share in this part of the debt. The social security sector debt had been steadily decreasing until 2008 just to increase again in 2009 and then decrease again in 2010. The difference between the balance of the social insurance sector debt in 2010, before and after consolidation is due to the fact that temporary shortages of funds in the Social Insurance Fund (FUS) from 2009 were financed with loans from the state budget.

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

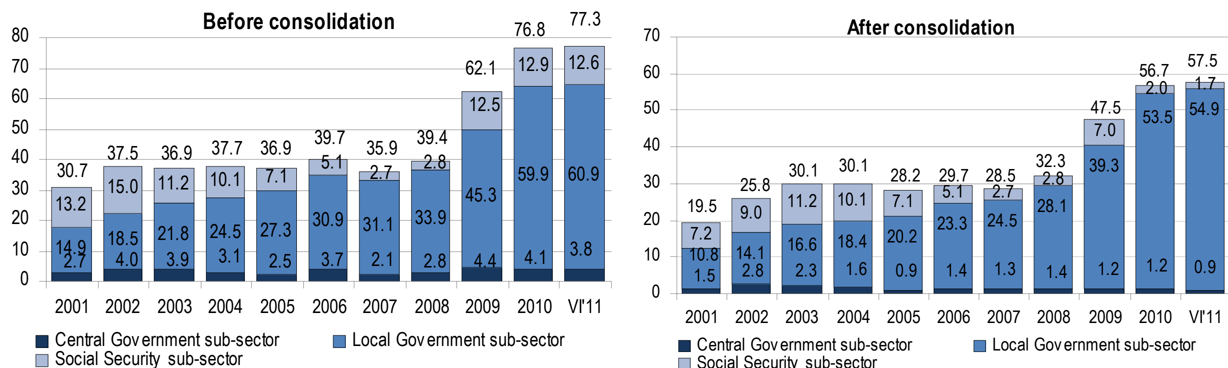


Chart 12. Share of debt of public finance sector units other than ST before and after consolidation in public finance sector debt and as a GDP ratio

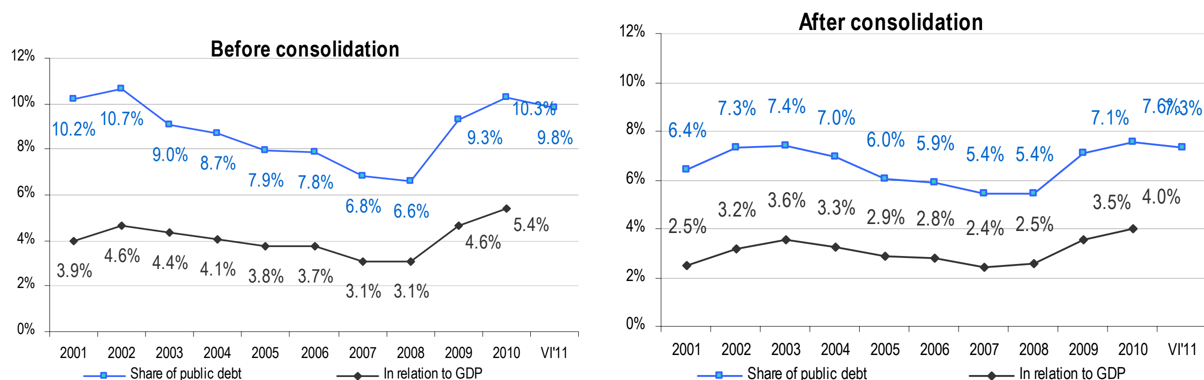
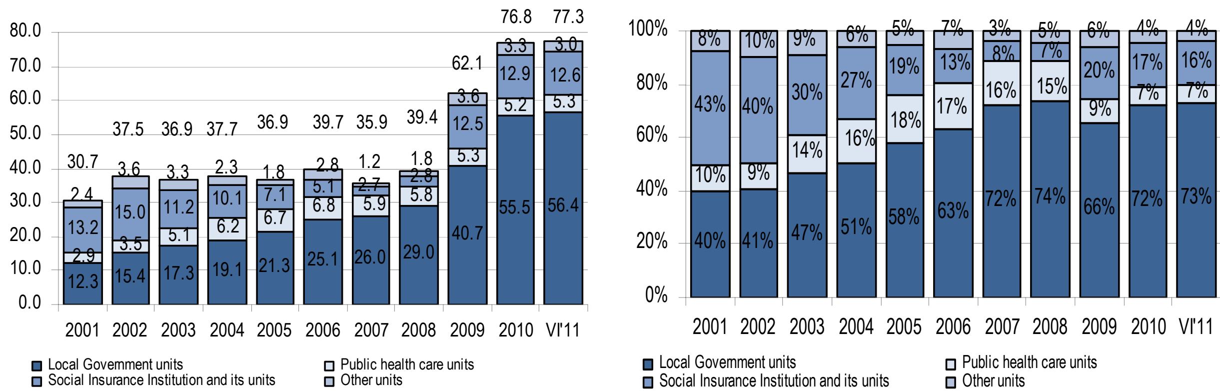


Chart 13. Debt of public finance sector units other than ST before consolidation (bn PLN)



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

1) Local government units debt

The debt of local government units and their associations was systematically increasing and at the end of 2010 it amounted to PLN 55.5 bn, and to PLN 56.4 bn in mid-2011, as compared to PLN 40.7 bn at the end of 2009. In 2009, the increase in the debt within 12 months was considerable (an increase by 40.3% prior to the consolidation and 45.7% after consolidation), and it remained at a high level in 2010 (36.1% and 39.1%, respectively). The debt of local government units and their associations from the end of 2008 to mid-2011 increased by a total of 94.1% before consolidation and 107.7% after consolidation.

Chart 14. Debt of local government units and their associations and its dynamics

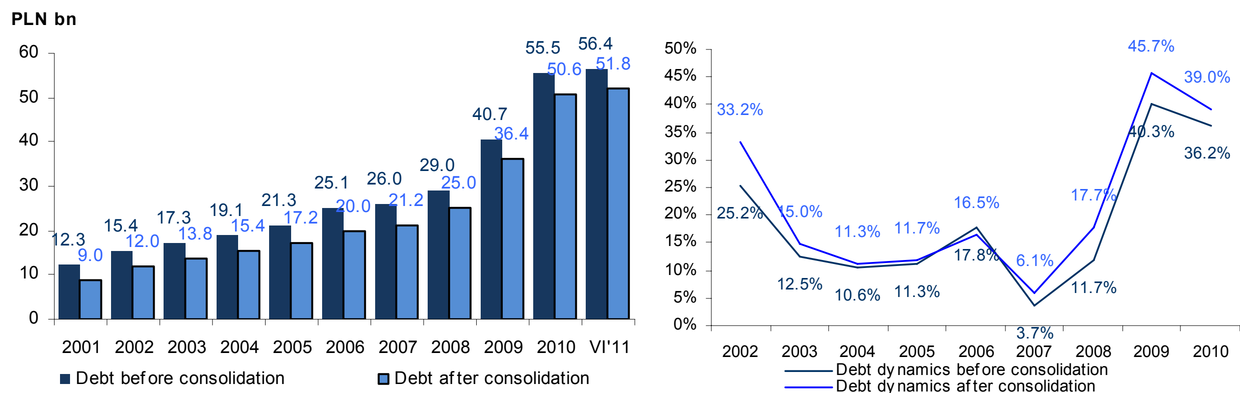
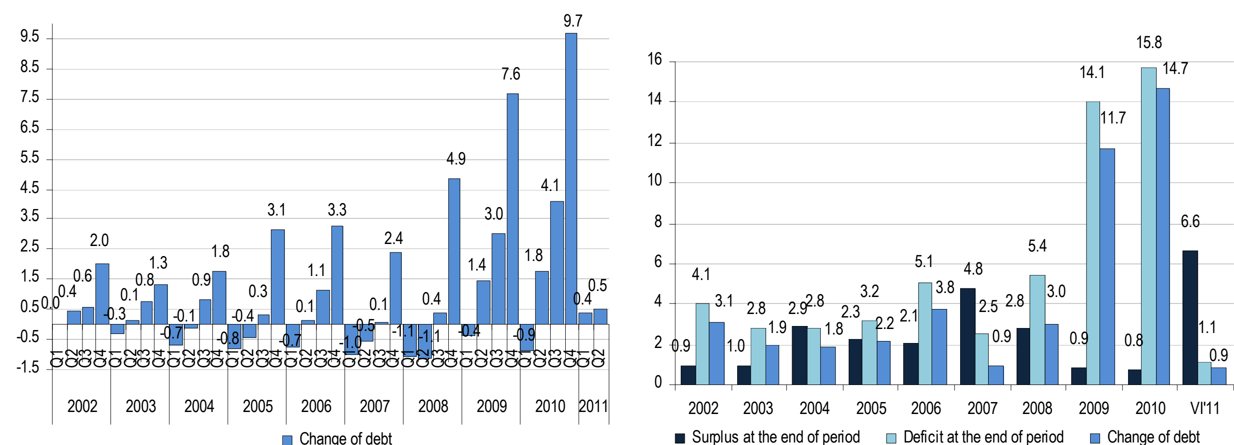


Chart 15. Balance of local government units and their associations an changes In their debt



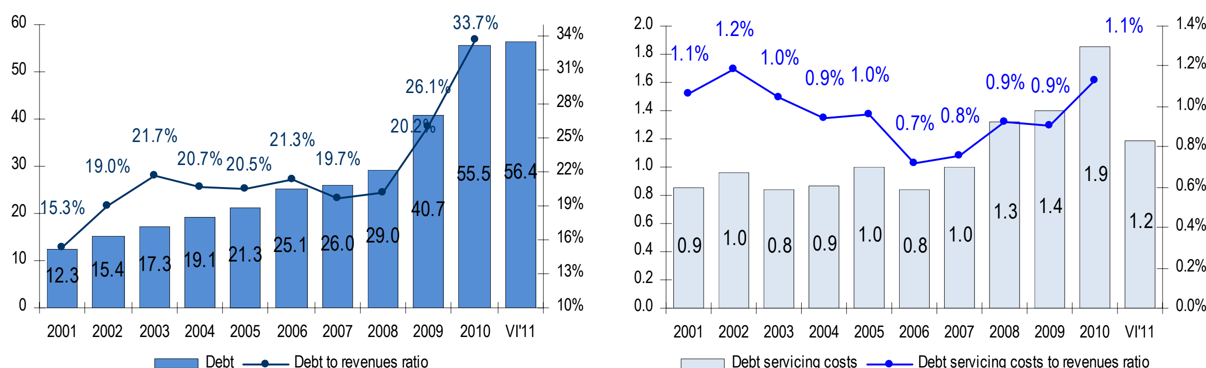
In 2010, total local government units and their associations recorded a budget deficit of PLN 15 bn as compared to PLN 13.2 bn in 2009. The result of local government units in 2010 was due to: deficits of individual units amounting in total to PLN 15.8 bn and a surplus in the total amount of PLN 0.8 bn, while debt of local government units and their associations increased in

2010 by PLN 14.7 bn. Lack of clear correlation between the balance of local government units and the increase in debt in some years is due to the aggregation of units with varying budgetary situations.

Local government units incurred liabilities primarily in the last quarter of the year, which is associated with highly seasonal nature of their results, although in 2009-2010 a significant increase in debt was recorded also in the 2nd and 3rd quarters of the year. In the 1st half of 2011, debt of local government units increased by EUR 0.9 bn (the same increase in debt was recorded in the 1st half of 2010) with a surplus of PLN 5.5 as compared to a surplus of PLN 4.1 bn in the 1st half of 2010.

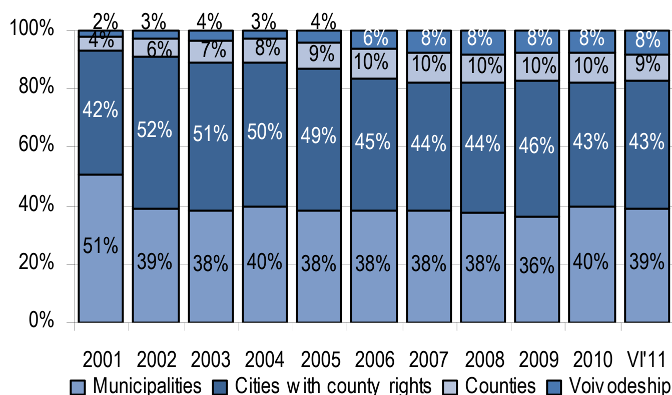
The ratio of total debt of local government units to their revenues (debt-to-revenue ratio) is significantly under the legal constraint of 60%, although 2010 was another year in which it increased significantly , up to 33.7%, i.e. by 7.6 pp as compared to 2009. In 2010, the highest average debt ratio was recorded in cities with county rights (43.5%) and the lowest one was recorded in counties (24.2%). In 2010, debt servicing costs of local government units and their associations amounted to PLN 1.9 bn, (i.e. 1.0% of total expenditures) and were higher by 31.6% compared to those incurred in 2009.

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



The majority of total liabilities incurred by local government units are liabilities of cities with county rights (42.5% in 2010 and 43.4% in mid-2011), while the share of liabilities of municipalities remained in 2002-11 at a stable level of ca. 36-40% (at the end of 2010, the share rose to 39.8%, and at the end of June 2011, it slightly decreased to 39.4%), while the share of voivodeships and counties liabilities was increasing steadily (from 2.8% to 7.9%, and from 5.8% to 9.4%, respectively).

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



In 2010, in 70 local government units (compared to 17 in 2009), the debt-to-revenues ratio exceeded 60%. The largest increase in the number of units with the debt ratio above 60% was recorded in the municipalities group (54 units). This level was exceeded in two cities with county rights - in Toruń and Wrocław, where the debt-to-revenues ratio was 64.8% and 60.7%,

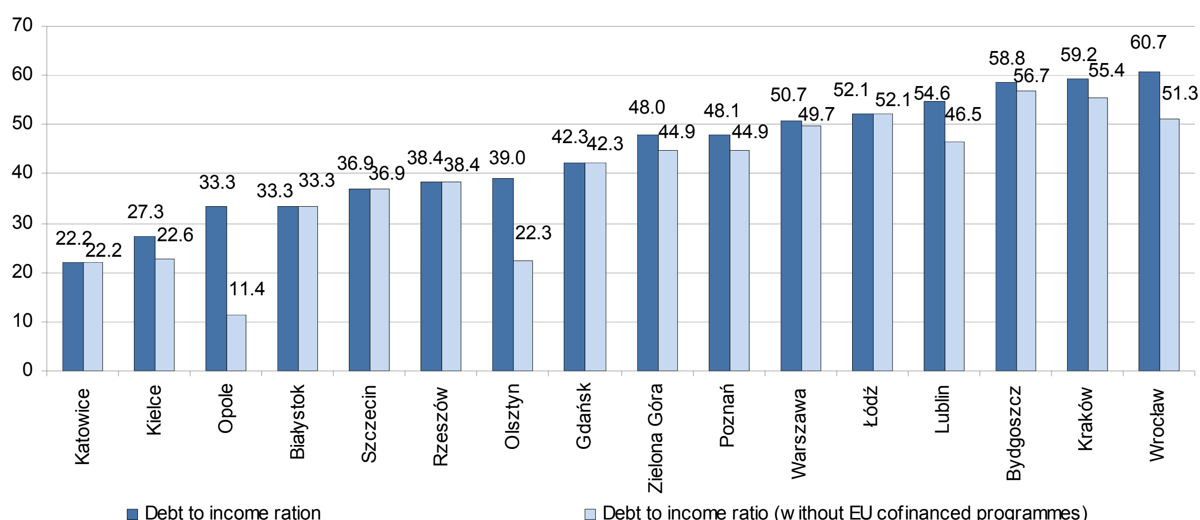
respectively, while the debt-to-revenues ratio after excluding the liabilities resulting from EU co-financed programmes, which is the limit specified in the Public Finance Act, was exceeded in 17 units (municipalities) as compared to 7 units (also municipalities) in 2009.

Table 5. Indebted local government units with respect to debt-to-revenues ratio in years 2009-2010

	Group of units	Total number of units	Number of indebted units					
			Debt-to-revenues ratio					
			total	i<10%	10%<i<30%	30%<i<50%	50%<i<60%	i>60%
XII 2009	Municipalities	2 413	2 272	579	1 111	504	64	14 (7)*
	Cities with county rights	65	65	3	26	30	4	2 (0)
	Counties	314	311	72	171	64	3	1 (0)
	Voivodeships	16	15	6	8	1	0	0
	Total	**2 808**	**2 663**	**660**	**1 316**	**599**	**71**	**17 (7)**
XII 2010	Municipalities	2 414	2 351	280	951	869	183	68 (17)
	Cities with county rights	65	65	3	16	36	8	2 (0)
	Counties	314	311	47	163	90	11	0
	Voivodeships	16	16	3	4	8	1	0
	Total	**2 809**	**2 743**	**333**	**1134**	**1003**	**203**	**70 (17)**

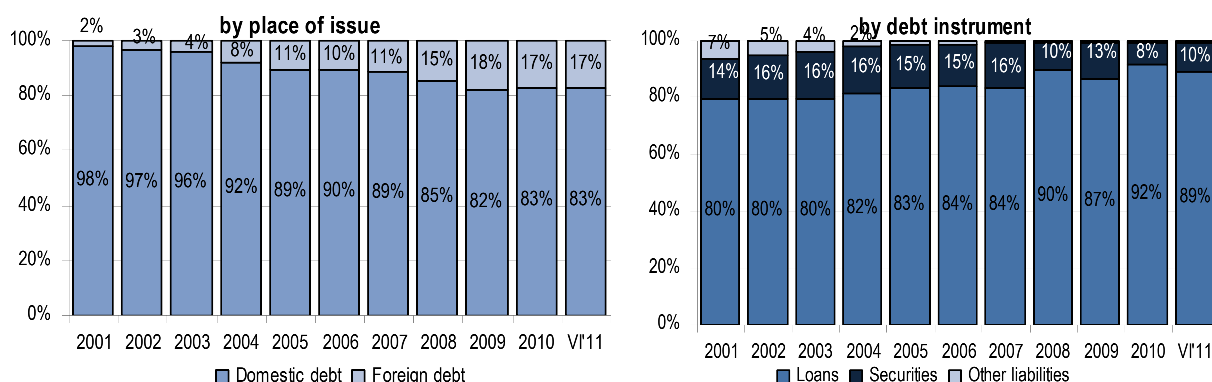
**) Values in brackets present number of units that exceeded the l60% debt-to-revenues ratio after excluding liabilities resulting from EU cofinanced programmes*

Chart 18. Debt-to-revenues ratio for voivodeships' capitals in 2010



Domestic debt constituted a dominant share in the total debt, although the share of foreign debt continued to increase, and at the end of June 2011 it amounted to ca. 17.2%. Loans and credits prevailed in the structure of local government liabilities and their associations.

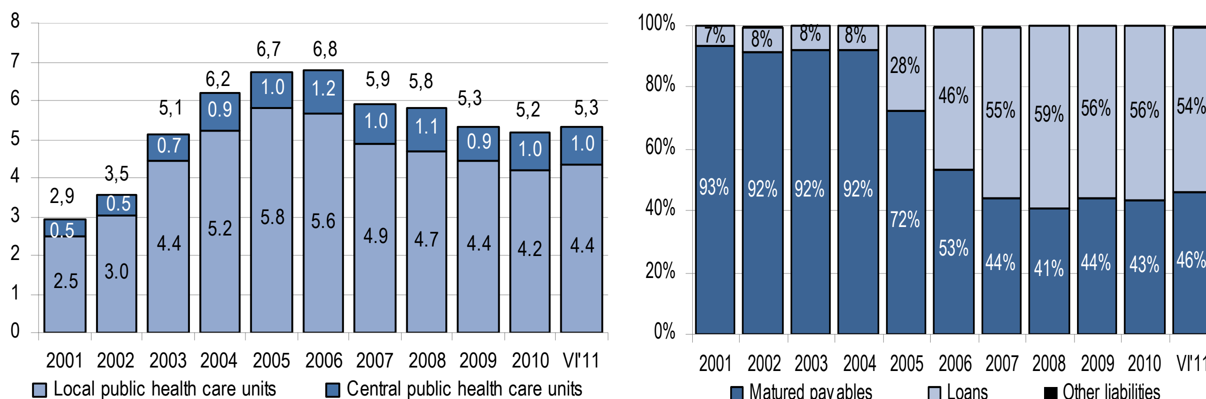
Chart 19. Structure of debt of local government units and their associations



2) Debt of independent public health care units

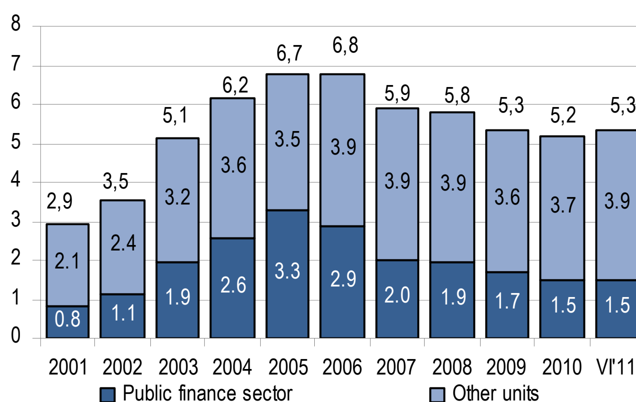
At the end of 2010, the independent public health care units debt amounted to PLN 5.2 bn, while that as of the end of June 2011 amounted to PLN 5.3 bn, as compared to PLN 5.3 bn in 2009. From 2007, loans were the predominant component of their debt. Matured payables resulting from payment arrears continued to have a significant share in the debt. Changes in the structure of debt in the years 2005-2008 resulted from limiting the increase in liabilities and undertaking remedial procedures at the same time.

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



In the years 2007-2010, the independent public health care units debt towards the public finance sector decreased. At the end of 2010 it amounted to ca. PLN 1.5 bn and remained at the same level at the end of June 2011. This was particularly a result of restructuring of independent public health care units, partly written off loans from the State budget granted under the Act of 2005 and a decrease in liabilities to the Social Insurance Institution.

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



3) Debt of other units

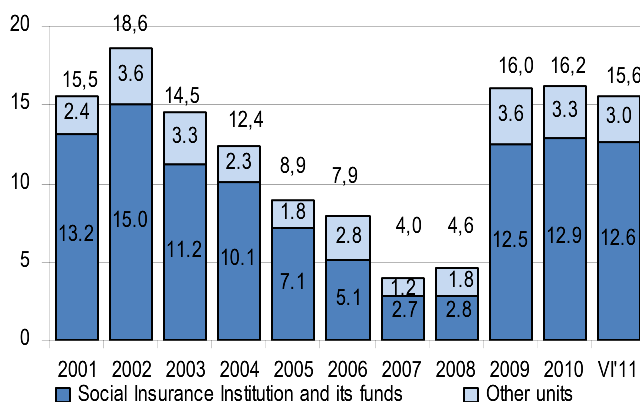
In the years 2001-2010, the most indebted units were the Social Insurance Institution and funds managed by it, which was almost exclusively due to liabilities incurred by the Social Insurance Fund (FUS). In the years 2003-2008, the debt of the Social Insurance Fund was systematically decreasing as a result of repayment of loans at commercial banks and conversion of matured payables to T-bonds. In 2009, there was a significant increase of the FUS debt (up to PLN 12.5 bn). At the end of 2010, the FUS debt amounted to PLN 12.9 bn (respectively PLN 12.6 bn at the end of June 2011). The increase in the debt of the Social Insurance Fund was a result of a considerable imbalance of the fund resulting from slow increase of revenues caused by the reduction of the disability pension contribution in the years 2007-2008, economic slowdown and a significant increase in expenditures related to disability pension and retirement benefits.

The structure of the debt of the Social Insurance Fund changed in 2010 as compared to 2009. It consisted of loans from the State budget amounting to PLN 10.9 bn (compared to PLN

5.5 bn in 2009) and matured payables in the amount of PLN 2.0 bn (compared to PLN 3.0 bn in 2009). In the 1st half of 2011, debt towards the state budget did not change, while matured payables were reduced to PLN 1.6 bn. Both at the end of 2010 and in mid-2011, the FUS did not have obligations towards commercial banks.

The debt of other entities constituted an insignificant share of public debt (0.4% of the public finance sector before consolidation, both at the end of 2010 and in mid-2011), and resulted mainly from debt of government agencies to the ST.

Chart 22. Debt of public finance sector units other than State Treasury, local government units and independent public health care units



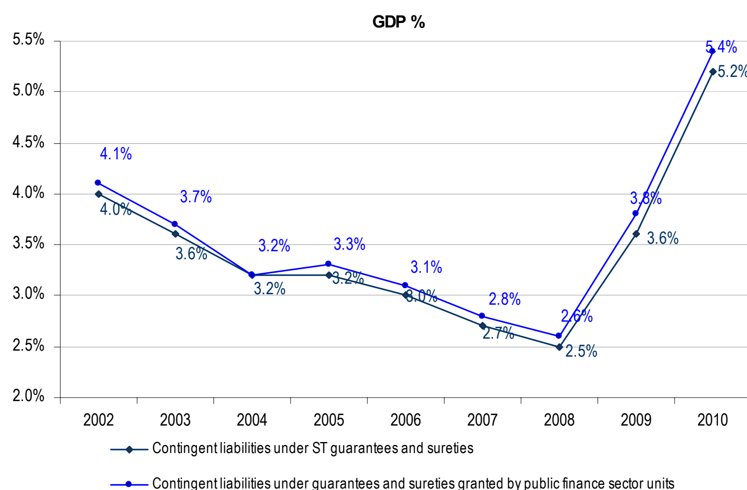
II.5. Guaranties and sureties granted by public finance sector entities

In nominal terms contingent liabilities under guarantees and sureties granted by public finance sector entities amounted in terms of nominal at the end of the 1st half of 2011 to PLN 83.1 bn, as compared to PLN 76.0 bn, i.e. 5.4% of GDP in 2010 and PLN 50.9 bn, i.e. 3.8% of GDP in 2009.

Contingent liabilities under guarantees and securities granted by the ST had a dominant share in contingent liabilities under guarantees and sureties granted by public finance sector entities. At the end of the first half of 2011, these amounted to PLN 80.1 bn as compared to PLN 73.2 bn. i.e. 5.2% of GDP in 2010 and PLN 48.9 bn, i.e. 3.6% of GDP in 2009.

ST operations related to granting guarantees and sureties do not pose significant risks to public finance. At the end of 2010, over 90% of contingent liabilities under ST guarantees and sureties belonged to the low-risk group. The long-term risk factor for the portfolio of ST guarantees and sureties decreased from about 8.1% at the end of 2010 to approximately 6.2% at the end of the 1st half of 2011. The increase in ST contingent liabilities resulted mainly from a large volume of guarantees granted for the development of road infrastructure.

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



The largest amounts of ST contingent liabilities at the end of June 2011 were mainly a result of:

- guarantees granted for Bank Gospodarstwa Krajowego	PLN 50.6 bn
including support for the National Road Fund	PLN 47.9 bn
- guarantees of payments from National Road Fund for Gdańsk Transport Company S.A.	PLN 8.5 bn
- guarantees of payments from National Road Fund for Autostrada Wielkopolska II SA	PLN 7.4 bn
- guarantees granted for Polskie Koleje Państwowe S.A.	PLN 4.3 bn
- guarantees granted for Autostrada Wielkopolska S.A.	PLN 3.2 bn
- guarantees granted for PKP Polskie Linie Kolejowe S.A.	PLN 2.2 bn

III. ASSUMPTIONS OF THE STRATEGY

III.1. Macroeconomic situation in Poland

The most important macroeconomic factors resulting in a change in face value of public debt include: the amount of borrowing requirements (including public finance sector deficit) and changes in the exchange rate of PLN. 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 since March 2007 at the level of A- at Standard&Poors and Fitch agencies and A2 at Moody's agency also influenced costs of financing the borrowing requirements[5].

Assessment of the macroeconomic situation and directions of the fiscal policy has been presented in the justification to the draft Budget Act for 2012. Table 6 presents the macroeconomic assumption of the *Strategy*.

Table 6. Macroeconomic assumptions adopted in the Strategy

Item		2010	2011	2012	2013	2014	2015
Real GDP growth (%)		3.9	4.0	2.5	3.4	3.8	3.9
GDP in current prices (PLN bn)		1 415.4	1 512.3	1 589,6	1 684,2	1 790,6	1 904.7
Borrowing requirements of State budget (PLN bn)		65.4	32,6	46,2	28,8	31,5	33,4
Average CPI (%)		2.6	4,1	2.8	2.5	2.5	2.5
PLN/USD	- end of the year	2.96	3.22	2.96	2.82	2.67	2.59
PLN/EUR	- end of the year	3.96	4.35	4.00	3.80	3.60	3.50

III.2. The domestic TS market

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

1. Development of the domestic investor base

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

This trend was transitionally reversed in 2008 as a result of the crisis in financial markets. The decline in assets value concerned mainly investment funds as a consequence of units redemptions connected with investors outflow, as well as drop in prices of financial assets, first of all stocks. The assets value of pension funds and insurance companies returned to growing trend after stability in 2009.

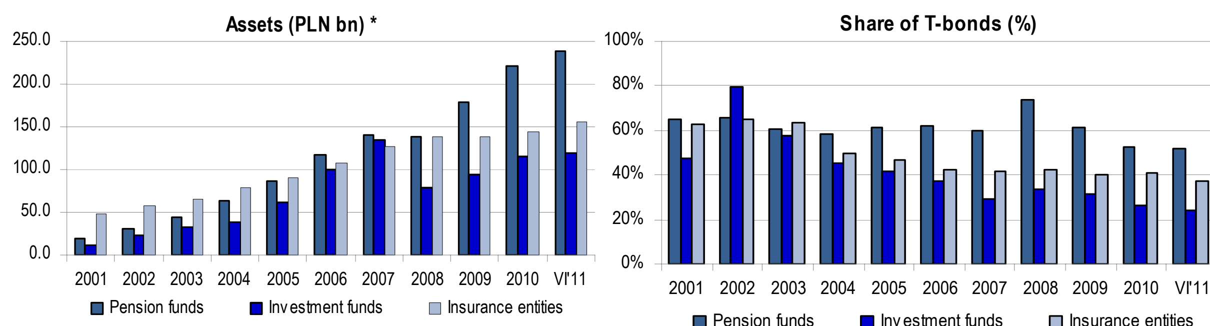
The main factors influencing the value of the assets managed by non-banking financial institutions include:

- pension reform of 1999 and the open pension funds (OFE) establishment, whose assets are growing due to inflow of prospective pensioners' contributions. It is expected that the role of OFE as purchasers of TS will gradually decline in the subsequent years due to a decrease from 1 May 2011 of contributions to OFE, from the current level of 7.3% initially to 2.3%, and ultimately - from 2017 – to 3.5% of the base of pension contributions, as well as a gradual increase in the limit for investments in shares. The impact of this change on the debt market should be rather neutral, as the decline in demand of OFE will be accompanied by a decrease in the supply for new debt associated with a reduction of contribution reimbursement transferred to OFE from the ST;

[5]The last change of credit rating took place in March 2007 and relying on rating rising by Standard&Poors agency from BBB+ to A-. In the case of Moody's agency A2 rating approximately corresponds to A for Standard&Poor's and Fitch. For government debt rating of the EU Member States see Annex 6.

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

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

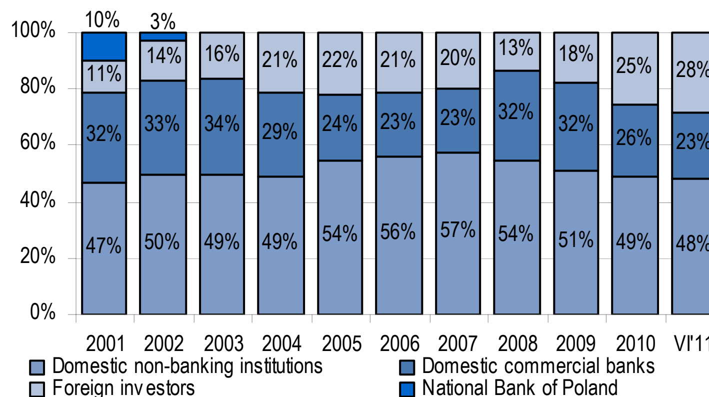


*) The data on investment and pension funds present the Net Asset Value which is calculated by subtracting the value of liabilities from total assets.

From 2005 to 2009, more than half of domestic TS were held by the domestic non-banking institutions. The reduction of non-banking sector in the domestic debt in 2010 was associated with an all time high inflow of foreign investors on the domestic TS market who financed the total net borrowing requirements of the State budget.

Development of the domestic non-banking sector contributes to increasing stability of the demand for TS. Long-term nature of investments of a substantial part of non-banking investors increases the demand for long-term instruments. The banking sector demand for TS may be treated as a residual factor; the role of banks usually decreases in periods of rapid economy development, on the other hand banks - just as in 2008 - absorb the supply of TS in crisis situations, which is due to the structural over-liquidity of the banking sector[6].

Chart 25. Domestic ST debt by holder



2. The role of foreign investors

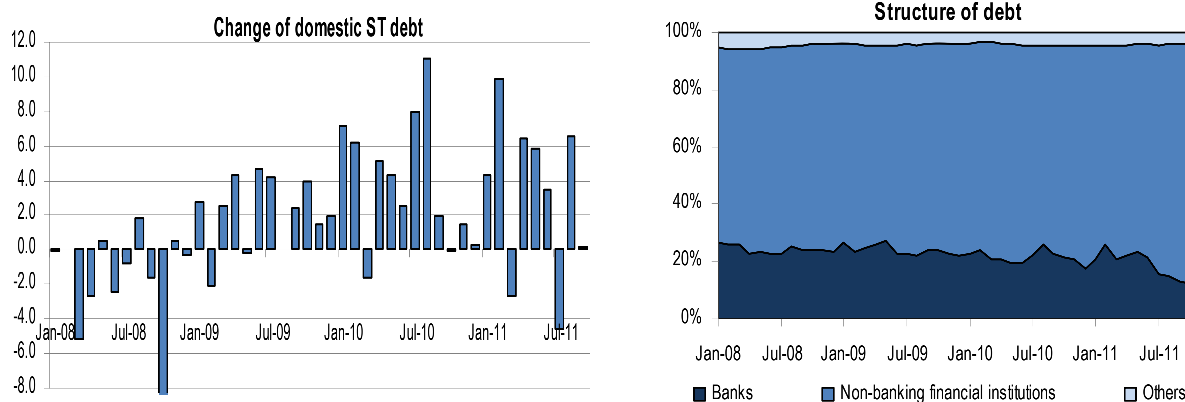
Foreign investors play an important role in financing the borrowing requirements of the State budget on the domestic market. Non-residents demand is highly volatile and depends to a large extent on the international situation.

After a significant outflow of foreign investors from the TS market in 2008, their share in domestic debt declined from ca. 20% to ca. 13%. This was the result of the financial crisis (which started with the fall of Lehman Brothers) and concerns about global economic growth, which caused a strong increase in risk aversion and the sale of assets of the "emerging" markets, including those of the countries of the region. Since 2009 foreign investors increased their interest in the domestic TS market, largely as a result of improved sentiments in financial markets and the relatively good economic situation in Poland (1.6% GDP growth in 2009). As a

[6] According to the Monetary Policy Council, as presented in "Assumptions of the Monetary Policy for the Year 2011" (Warsaw, September 2010), the year 2011 will be another year of an increase of excessive liquidity in the banking sector, and its average level within the year may exceed PLN 100 bn. Inflow of funds from the EU will be the main factor increasing the liquidity of the sector.

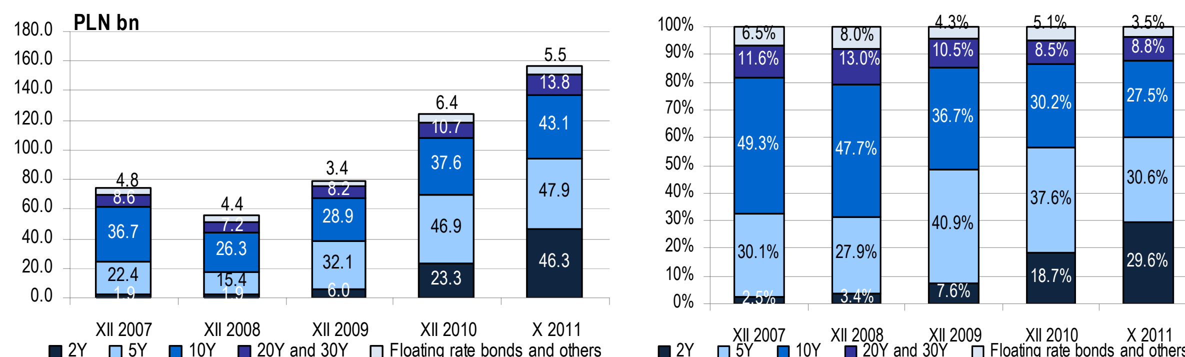
result, the involvement of this group of investors in the TS increased throughout the year by PLN 25.9 bn, to ca. 18% of domestic TS. In 2010 this tendency was continued (inflow of PLN 46.4 bn) as well as in 2011 (inflow of PLN 30 bn in the period from January to October), which was the result of a positive perception of Poland by foreign investors as compared to other European countries. Thus, the involvement of non-residents in the domestic debt market reached record levels, both in absolute terms (PLN 158,3 bn at the end of October 2011), as well as regarding the share of domestic debt (ca. 30%).

Chart 26. Change in domestic ST debt held by foreign investors and the holders composition of this debt in period I 2008-IXI 2011



The structure of debt in TS owned by non-residents is dominated by T-bonds; in the period from December 2007 to October 2011, they accounted for 93-100% of the debt. During this period, the involvement of foreign investors in bonds more than doubled, amounting to PLN 156,6 bn. The most stable group of buyers, and at the same time holders of the largest portfolio of T-bonds was the non-banking financial sector, which from June 2009 gradually increased its involvement in T-bonds (bond portfolio growth from June 2009 to October 2011 amounted to PLN 89,4 bn).

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



The growth of foreign investors debt was accompanied by modification of the T-bonds portfolio structure held by non-residents. A stable growth rate of long-term T-bond portfolio was accompanied by dynamic growth of the portfolio of 2-year bonds, especially from 2010 onwards. This was accompanied by a similar change in the structure of the portfolio of bonds held by non-residents from non-banking sector. In 2010, the debt to non-residents increased by 288% in relation to 2-year bonds and by 30% in relation to 10-year bonds, in 2011 (by the end of October) by 99% and 15%, respectively.

The perception of Poland by foreign investors will have significant influence on the terms and conditions of financing state budget borrowing requirements in the horizon of the Strategy. The inflow of foreign investors in the period 2009-2011 had an impact on the decline in the yields of TS throughout the whole yield curve.

The inflow of foreign capital to Poland should continue, and the risk of withdrawing from Poland a significant part of this capital should remain limited, provided the main factors fostering decisions to invest in Polish TS by foreign investors prevail:

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

However, stronger short-term foreign capital flows not associated with these factors should also be taken into account. The effects of such flows should be cushioned by the market itself (over liquidity in the interbank market and a limited supply of short-term TS make the market capable of absorbing significant pools of such securities), or by introduced market instruments.

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

III.3. International situation

Current forecasts concerning the condition of the global economy suggest that 2011 will be a period of a lower growth rate of the global GDP, compared to very good results achieved in 2010. In accordance with the European Commission forecast published in autumn this year, in 2011 the GDP growth rate in the Eurozone will slow down to 1.5%, including the biggest economy - Germany to 2.9%, compared to 1.9% and 3.7%, respectively, in 2010. According to the latest EC forecasts GDP growth in the USA in 2011 will amount to 1.6%, compared to 3.0% in 2010. A key factor determining the path of external demand for the Polish economy will be the situation on export markets.

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

- the situation on the interest rate markets for the currencies in which liabilities will be incurred, predominantly on the EUR and USD markets;
- perception of the credit risk of the Polish government and liquidity preferences of purchasers of Polish T-bonds active on the global market, influencing the margin level in comparison to core markets,
- considerable increase of borrowing requirements of numerous countries resulting from a loss of budget revenues caused by downturn in global economy and from economy stimulus measures undertaken by individual governments. In spite of actions undertaken by some countries with the aim of reducing borrowing requirements (caused by concerns about the fiscal situations of e.g. in Greece, Ireland, Portugal, Spain and Italy), the effects of lower TS supply will be more visible in the long term rather than in the short term,
- the influence of concerns for euro-zone future on the financial market, related to threat of losing the access to the marketable financing of subsequent euro-zone countries and the final form of institutional framework to be designed to prevent them.

1. Euro market (EUR)

Despite serious problems with public finances of several Eurozone countries, the European Central Bank raised interest rates in 2011 (for the first time since 2009) by 25 bp in April and next in July. After that according to increased risk of slowdown in European economy, ECB reduced interest rates about 25 bp and since November the base rate has been 1,25%. The market expects a small decline in interest rates in the near future (in relation to the 6-month rate by ca. 20 bp within 6 months).

Disturbances in euro market functioning caused by debt crisis might make it difficult to issue benchmark bonds on that market.

2. American market (USD)

In accordance with the data from the European Commission, the U.S. budget deficit in 2009 and in 2010 was respectively 11.5% and 10.6% of GDP and in those years it reached the highest level since World War II. Despite an agreement between Democrats and Republicans as to increasing the limit of public debt (in 2010 the debt amounted to 95.2% of GDP), Standard & Poor's downgraded the U.S. rating in August 2011 from AAA to AA+ (with a negative outlook).

Since December 2008, FED has maintained the federal funds rate in the range from 0.00 to 0.25% and it plans to maintain it at a level around zero at least until mid-2013. FED has also announced that it is prepared to use available tools in order to achieve economic growth. The market does not expect interest rate increases in near future.

3. Japanese market (JPY)

Japan has one of the highest public debt-to-GDP ratio levels among industrialized countries. In accordance with EC calculations released in autumn in 2010 it amounted to 197,6% of GDP. This debt is the result of massive spending on stimulating the economy in the 90s in the 20th century, as well as stimulus packages aimed at fighting the recession of 2008. Since December 2008, the Central Bank has maintained interest rates at the level of 0—0.1%, aiming at stimulation of the economy. Furthermore, it has maintained assets buyback fund at the level of JPY 20 tr.. In August, Moody's downgraded Japan's rating, justifying its decision with the increase in the country's debt and frequent changes in the government, preventing the implementation of long-term economic strategies. The market does not expect interest rates increases in the near future.

4. Swiss market (CHF)

Swiss public debt does not exceed 40% of GDP, and economic growth in 2010 amounted to 2.7%, while in 2011-2012, the European Commission forecasts that it will be below 2%. As a result of financial turmoil, CHF has become one of the few currencies in which savings can be safely invested, which has resulted in a surge of its value. CHF - appreciating at a rapid pace (from ca. CHF 1.5 per EUR 1 at the beginning of 2010 to slightly over 1 at the beginning of August 2011) - made the Swiss National Bank (SNB) carry out an intervention at the beginning of September. The Bank set the minimum exchange rate of CHF to EUR at 1.2, and undertook to struggle to accomplish that objective "with outmost determination", and to buy foreign currencies in unlimited quantities. According to the Bank, revaluation of CHF is a serious threat to the Swis100s economy. In response to the decision of the SNB, CHF depreciated considerably. The market does not expect interest rates increases in the near future.

5. Credit spreads

Considerable changes in investors' behaviour on debt markets are one of the consequences of the global financial crisis. Uncertainty arising from potential losses and its impact on the financial standing of counterparties results in a significant diminish of liquidity and rising risk aversion among investors. At the turn of 2008 and 2009, clear capital outflows from smaller markets which are not capable of ensuring adequate liquidity to markets of big issuers were observed. It caused a significant rise of credit spreads between yields of bonds of big issuers with high creditworthiness and yields of T-bonds of smaller issuers, especially those perceived as emerging markets or those which have only recently ceased to be qualified as such, including Poland.

Gradual rebuilding of trust on global financial markets from second half of 2009 enabled markets to return to price differences in economic foundations of individual countries. The spread between yields of Polish and German 10-year T-bonds denominated in the euro decreased from over 300 bp at the beginning of 2009 to ca. 140 bp at the end of 2010, then again rose at the end of November 2011 to over 320 bp. Taking into consideration the decrease in interest rates on core markets, the cost of market financing in the euro decreased when compared to the level from before the crisis. At the same time, as a result of the crisis in Greece, Ireland and Portugal, and recently also due to concerns about the fiscal condition in other countries, including Italy, there was an increase in the market valuation of the credit risk of a substantial number of EU states, including those comprising the Eurozone, which was reflected also in the reduction of ratings of some countries[7]. In November 2011 creditworthiness of Poland measured by CDS spreads was close to the level of Slovakia and closer to the level of France than Spain or Italy.

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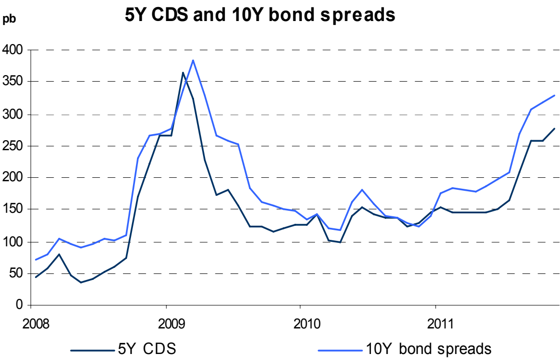
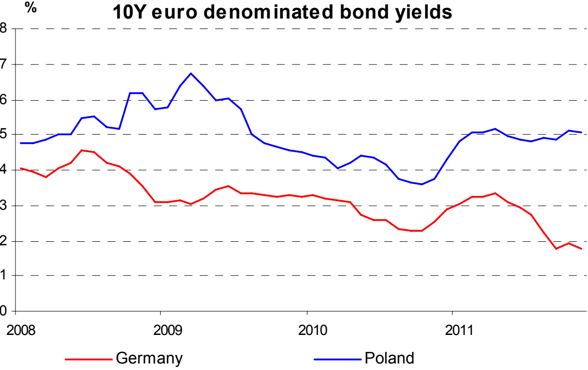
[7]Credit risk assessment of the EU Member States, including credit ratings and CDS pricing are presented in Annex 6.

Chart 28. 5-year CDS spreads for Poland and 10-year yields of Polish and German euro denominated T-Bonds





IV. DEBT MANAGEMENT STRATEGY OBJECTIVE IN THE YEARS 2012-2015

The objective of the Strategy, that will determine all debt management activities, will remain **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 aspects in which this objective is applied:

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

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

Experience in debt management indicates the importance of flexibility and diversification of sources of borrowing requirements financing. At times of financial turmoil it is advisable to use instruments adequate to the market situation. 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 of the State budget borrowing requirements. The offer of instruments in the domestic market will be designed in such a way as the supply in particular segments of the yield curve does not cause excessive yield growth. Due to the assumed high level of State budget borrowing requirements in the years 2012-2015, the role of funds raised in international markets in financing them will remain significant. Therefore, financing the borrowing requirements in foreign currencies should:

- ensure diversification of financing sources through Poland’s access to the investor base on major financial markets,
- take into account foreign currency borrowing requirements including repayment of principal instalments and interest on foreign debt,
- maintain the Polish position on the euro market and build the position on USD market as a complementary financing market,
- take advantage of opportunities provided by access to financing on attractive terms and conditions at international financial institutions,
- stabilise the domestic market through:
  - ensuring security of financing the State budget borrowing requirements in case of temporary disturbances on the domestic market occur,

- absorbing a significant part of foreign investors' demand for Polish TS, which is an alternative to increasing the debt to foreign investors on the domestic market,

- allow for selling currencies on the foreign exchange market and at the NBP as an instrument of foreign demand management of the State budget and utilising funds raised on international markets to finance its borrowing requirements in the national currency, taking into account the constraints resulting from the monetary policy and the economic rationale.

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

a) refinancing risk
   - aiming to increase 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 payments under servicing and redemption of domestic and foreign debt in subsequent years,
   - reaching the ATM of domestic debt at the level of at least 4.5 years within the Strategy's timeframe, unless that is impossible from the perspective of the demand and yields level in particular segments of the yield curve,
   - the current level of foreign debt refinancing risk does not restrain cost minimisation;

b) exchange rate risk
   - maintaining the acceptable range of the share of foreign currency debt in total debt in the range of 20-30%, with possible temporary deviations from that range due to high volatility of exchange rates or severe turmoil on the domestic market,
   - possibility of using derivatives in managing the exchange rate risk in order to create an adequate currency structure of debt and to 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 of at least 70%, with possible temporary deviations from that level in case of limited access to euro market or unfavourable situation on the derivatives market;

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

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

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

f) distribution of debt servicing costs over time;

- aiming at smooth distribution of debt servicing costs over time 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 FOUR-YEAR HORIZON

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

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

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

Ad 1. Increasing the liquidity of the TS market,

Increasing liquidity of the TS market in general and individual issues contributes to elimination of the spread that investors expect in case of insufficient liquidity of TS, i.e. those with high costs for pulling out of an investment, as well as to increased demand from investors interested in liquid investments only. Both of these factors contribute to decreasing TS yields and hence to the minimisation of ST debt servicing costs. In the timeframe of 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 T-bond series until their value reaches at least EUR 5 bn equivalent, adopted in 2003, remains in force.

  EUR 5 bn has been adopted as a reference value at the current stage of development of the domestic TS market, ensuring sufficient liquidity for large institutional investors and not posing at the same time excessive refinancing risk at maturity. In the period covered by the Strategy it will be possible to increase the unit value of benchmark bonds above PLN 30 bn. In mid-2011, the debt under 11 bond series (10 of which were fixed-rate ones) exceeded EUR 5 bn equivalent.
- Large liquid bond issues on the euro and USD market, contributing to the development of the Polish yield curve. In mid-2011, there were 4 bond issues of EUR 3 bn or more, of which one exceeded EUR 5 bn and one issue in USD exceeded USD 3 bn.
- Monitoring and if appropriate, modifying of new Primary Dealers (PD) activity assessment rules, introduced in October 2011, which encourage to create possibly the best conditions for concluding transactions on TS secondary market. The effect of introduction of TS quotes quality assessment on electronic platform is narrowing of bid – offer spreads submitted by market participants and increasing possibility of conducting transactions with relatively high face value.
- Adapting the issuance policy, including sale, switching and buy-back auctions to market circumstances, in particular to the demand in different segments of the TS market.

Ad 2. Increasing the efficiency of the TS market

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

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

- Direct meetings with investors on the domestic and foreign market along with consultations with TS market participants aimed at effective exchange of information, taking investors' requirements 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 in key foreign markets aimed at:
  - 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 the transparency of the TS market

Measures taken to increase the transparency of the TS market allow for limiting uncertainty connected with its functioning and acquiring reliable information on current market process, and they help to formulate expectations as to future market prices. Both predictability of the issuance policy and transparent functioning of secondary market contribute to transparency of the market as a whole. In the period covered by the Strategy the following measures are planned:

- 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 transparency rules, mainly the obligations imposed on dealers and candidates concerning quoting benchmark bonds, maintaining specific spreads and participation in the fixings of TS.

VI. INFLUENCING THE PUBLIC FINANCE SECTOR DEBT

Pursuant to Article 74 of the Public Finance Act of August 27, 2009, 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 public finance sector units other than the State Treasury, which are autonomous in incurring liabilities, the influence on their level of debt is indirect and is derived from the regulations of the Public Finance Act. First of all, they include constraints imposed on the manner of incurring liabilities by local government units as well as prudential and remedial procedures, which are applied to the public finance sector units when the public debt-to-GDP ratio exceeds the thresholds of 50%, 55% and 60%.

VI.1. Changes in legal regulations

The most important legislative change that influences financial operations of the public finance sector entities is the amendment to the Public Finance Act and other acts that came into force on 1 January 2011. In the area of influencing the public finance sector debt, the following changes were introduced:

- strengthening the State budget liquidity system by:
  - the obligation to deposit free cash of special purpose state funds, executing agencies and other selected public finance sector units on the account of the Minister of Finance,
  - the possibility of local government units and other public finance sector entities to place their liquid assets as deposit account with the Minister of Finance;

  These measures constitute a comprehensive change aimed at increasing the efficiency of managing the assets of the public finance sector. They result in a reduction of the borrowing requirements by utilised free cash of public finance sector units as well as in a reduction of the public debt and ST debt servicing costs. At the same time, public sector entities maintain independence of managing funds required for the implementation of their tasks. It has been assumed that the implementation of the amendment to the Public Finance Act will reduce the State budget borrowing requirements by more than PLN 20 bn in the years 2011-2012;
- introducing an expenditure rule that constraints the growth of discretionary expenditures and new fixed expenditures that cover the previous fixed expenditures as well, if the legal act applicable to them is modified; under the rule, the act drafts resulting in the increase in the expenditures require to include it in the general expenditure and fixed expenditures pool that cannot grow (in real terms) by more than 1% annually; the expenditure rule is applied in the period of the excessive deficit procedure;
- introducing new rules for revenues and expenditures of the public finance sector in a situation when Poland is subject to the excessive deficit procedure; in accordance with these rules, the Council of Ministers cannot adopt act drafts which may result in a reduction of revenues or increase in expenditures of public finance sector units that were not covered by the expenditure rule in relation to amounts resulting from the applicable law,
- the act drafts adopted by the Council of Ministers whose financial result may include the change of the expenditures of the public finance sector units in relation to amounts resulting from the applicable law must include upper limits of those expenditures for 10 budget years of the implementation of the act, separately for each year,
- strengthening the prudential procedures whenever the public debt-to-GDP has exceeded 55% by:
  - a review by the Council of Ministers of the applicable regulations with the aim of submitting proposals of additional legal solutions designed to influence the level of State budget revenues, including those related to the effective rates of goods and services tax,
  - introducing additional mechanism securing public finances through increase in VAT rates in the case of exceeding 55% by the debt-to-GDP ratio and their maintenance at the increased level for subsequent 3 years,

– restricting the possibility of incurring liabilities by government administration authorities for preparing new investments exclusively to the case when at least 50% of costs is co-financed with EU funds.

Pursuant to the Public Finance Act of 27 August, 2009, rules regarding balanced current budgets of local government units came into force on 1 January 2011, while a system of individual constraints on incurring debt will come into force in 2014, under which the individual amount of debt to be incurred by individual units will depend on their capacity to repay it[8].

In order to limit the deficit and the increase in the debts of self government units, a new expenditure rule for the self government sub-sector is being developed. It will form an additional element to stabilise public finances within local governments.

Pursuant to the Act of 25 March 2011 on the amendment of certain acts related to the functioning of social security system, the contributions transferred by the Social Insurance Institution (ZUS) to the Open Pension Fund (OFE) were reduced from 7.3% to 2.3% and, ultimately, from 2017 on, to 3.5% of the pension contribution basic amount. The remaining part of the existing contribution is registered in the ZUS on special individual sub-accounts and transferred to a separate fund managed by the ZUS in order to finance current payments. The total reduction of borrowing requirements towards the introduced changes is to amount, in 2011-2020, to ca. PLN 196 bn, i.e. to ca. 7.7% of the GDP in 2020.

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

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

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

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

The amount of new sureties and guarantees granted in the given year is determined by the Budget Act. Pursuant to Article 31 of the Act of 8 May 1997 on sureties and guarantees granted by the ST and certain other legal persons, each year the Budget Act stipulates the total amount to which guarantees and securities can be granted by the ST. The limit for 2012 in the draft Budget Act was set at PLN 200 bn.

The scope of use of guarantees and sureties granted by the ST will be determined, above all, by further infrastructure investments, as well as by the possible measures undertaken in case of potential disruptions that could be a result of the global financial and economic crisis. Sureties and guarantees granted to the following entities will have the greatest impact on the increase of the contingent liabilities resulting from sureties and guarantees granted by the ST:

- Bank Gospodarstwa Krajowego for bonds issuance and repayment of credits incurred in favor of the National Road Fund (KFD) in order to co-finance the road infrastructure construction;

[8] The rules and limits of incurring liabilities by self government units are discussed in Annex 2.

- PKP Polskie Linie Kolejowe S.A. for the repayment of credits incurred in order to co-finance the modernization of the railway infrastructure.

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

Under the adopted assumptions, the outstanding debt of public finance sector units other than the State Treasury will increase, in the timeframe of the *Strategy*, from PLN 91.1 bn to PLN 109.3 bn before consolidation and from PLN 68.0 bn to PLN 84.2 bn after consolidation. The increase will be the result of:

- the increase in the debt of local government units and their associations,
- stabilisation of debt of independent public health units,
- gradual improvement of the Social Insurance Fund balance,
- stabilisation of debt of central Government and local Government sector.

Chart 29. Debt of other public finance sector units other than State Treasury

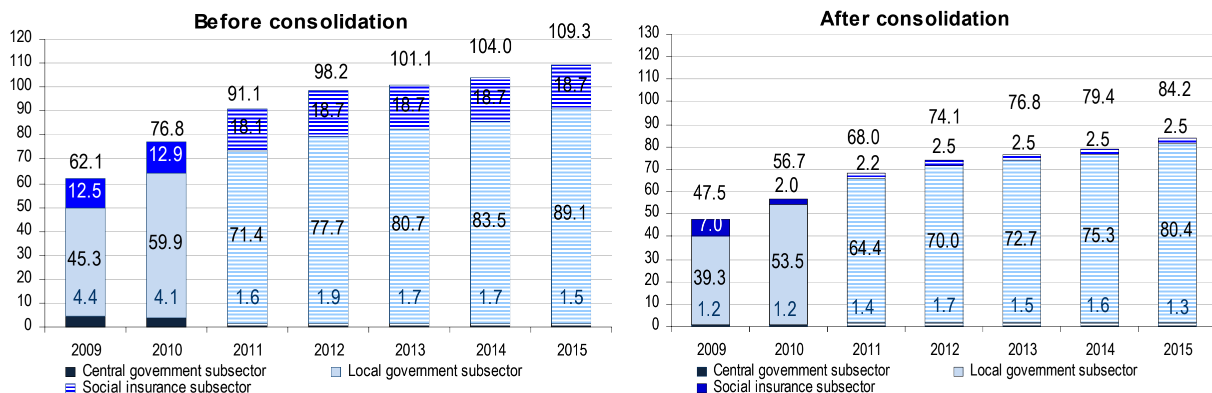
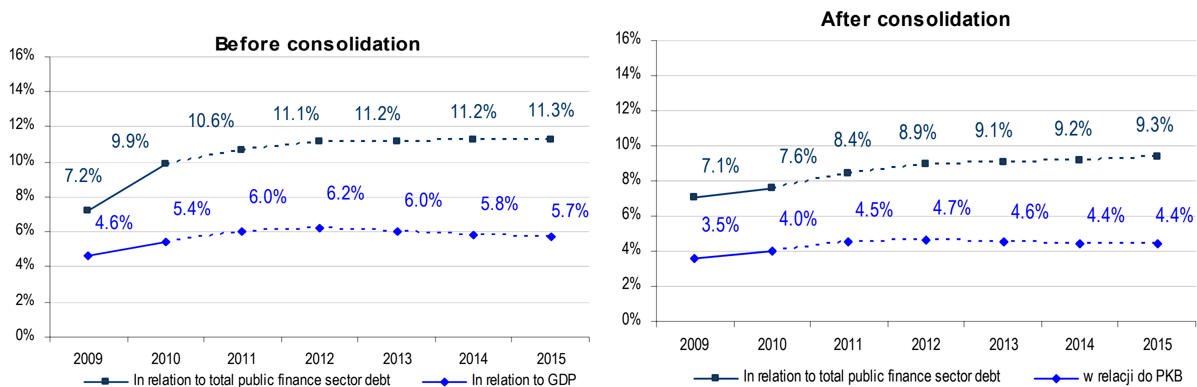


Chart 30. Debt of public finance sector units other than State Treasury in relation to GDP and total public finance sector debt



The debt of the other sector before consolidation-to-GDP in the timeframe of the *Strategy* is expected to amount to ca. 5.9%, whereas the debt after consolidation will amount to ca. 4.5%. The share of this group of units in the total debt of the public finance sector is expected to amount to ca. 11.2% before consolidation and to ca. 9.1% after consolidation.

1) Debt of local government units

According to the assumptions of the *Strategy* the debt of local government units and their associations will be increasing, while at the decreasing rate. This will be a result of a decline in, total deficit of this group of units. Borrowing requirements of local government units and their associations will be determined by investment expenditures, in particular, by expenditures on infrastructure projects , including those co-financed with the EU funds. Like in previous years, cities with county rights and municipalities will contribute most to debt growth.

Commercial banks loans on domestic market will remain the dominant source of financing the borrowing requirements of local government units.. The debt from municipal bonds, especially those issued by large units, will be rising. The significance of the foreign debt from

both bonds issued on international markets and loans incurred at international financial institutions is likely to increase.

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

2) Debt of independent public health care units

It was assumed that the debt of independent public health care units before consolidation will be stabilised in the timeframe of the *Strategy*. The debt of local entities will continue to have a dominant share of the total liabilities of independent public health care units.

Changes in the debt will be the result of:

- restructuring of the existing debt of public health care units - in accordance with principles supporting the improvement of financial management in individual units, while taking into account the needs of the founding bodies of independent public health care units, the ST and creditors.
- current financial outcome of individual units.

Loans will remain the prevailing debt component.

3) Debt of other units

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

- gradual improvement of the Social Insurance Fund balance,
- changes of debt of other state legal entities,
- stabilisation of the debt of other units.

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

VII. EXPECTED EFFECTS OF IMPLEMENTING THE STRATEGY

The expected effects of implementing the Strategy cover the forecasts of:

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

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

VII.1. Volume of debt and its servicing costs

In 2011, the public debt-to-GDP ratio is expected to increase from 52.8% at the end of 2010 to 53.7%. This will be a result of significant depreciation of the zloty in response to the debt crisis in the Eurozone. Under the adopted assumptions, the debt-to-GDP ratio will be decreasing in the years 2012-15 and will fall below the threshold of 50% in 2014. The *general government* debt-to-GDP ratio will be falling as well, amounting to 50.2% in the year 2015 In the timeframe of the *Strategy* no threat is expected for this ratio to exceed the threshold of 60% of GDP that is determined in the Treaty of Maastricht.

Pursuant to the Public Finance Act, if the public debt-to-GDP ratio remain above the threshold of 50% till the end of 2014 it will enforce adopting, in the subsequent Budget Acts, a deficit-to-revenues ratio not higher than that adopted in previous years. Due to the substantial share of foreign debt in the ST debt, the exchange rate of the zloty at the end of relevant years will have significant impact on the ratio.

The increase in the ST debt servicing costs will, first of all, result from the increase in debt. The ST debt servicing costs-to-GDP ratio will increase to 2.7% in 2012 and then will be gradually decreasing to 2.2% in 2015.

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

Item	2010	2011	2012	2013	2014	2015
1. State Treasury debt						
a) PLN bn	701.9	767.0	782.9	801.3	822.9	859.9
domestic	507.0	526.7	550.8	570.2	589.0	613.5
foreign	194.8	240.3	232.1	231.1	233.9	246.4
b) in relation to GDP	49.6%	50.7%	49.3%	47.6%	46.0%	45.1%
2. Public debt						
a) PLN bn	747.9	812.3	832.5	846.9	864.8	902.2
b) in relation to GDP	52.8%	53.7%	52.4%	50.3%	48.3%	47.4%
3. General government debt						
a) PLN bn	776.8	857.2	890.0	905.2	921.0	956.9
b) in relation to GDP	54.9%	56.7%	56.0%	53.7%	51.4%	50.2%
4. State Treasury debt servicing costs (cash basis)						
a) PLN bn	34.1	38.4	43.0	42.7	42.7	42.6
b) in relation to GDP, including:	2.4%	2.5%	2.7%	2.5%	2.4%	2.2%
- domestic debt	1.9%	2.0%	2.0%	2.0%	1.8%	1.7%
- foreign debt	0.5%	0.6%	0.7%	0.6%	0.5%	0.5%

Chart 31. Debt-to-GDP ratio

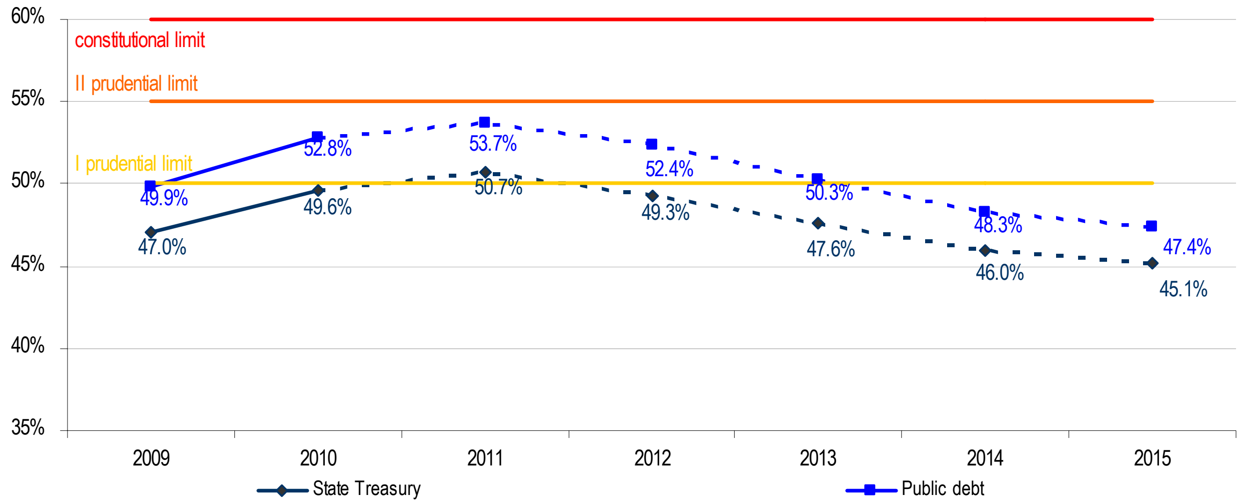


Chart.32. ST debt servicing costs-to-GDP ratio

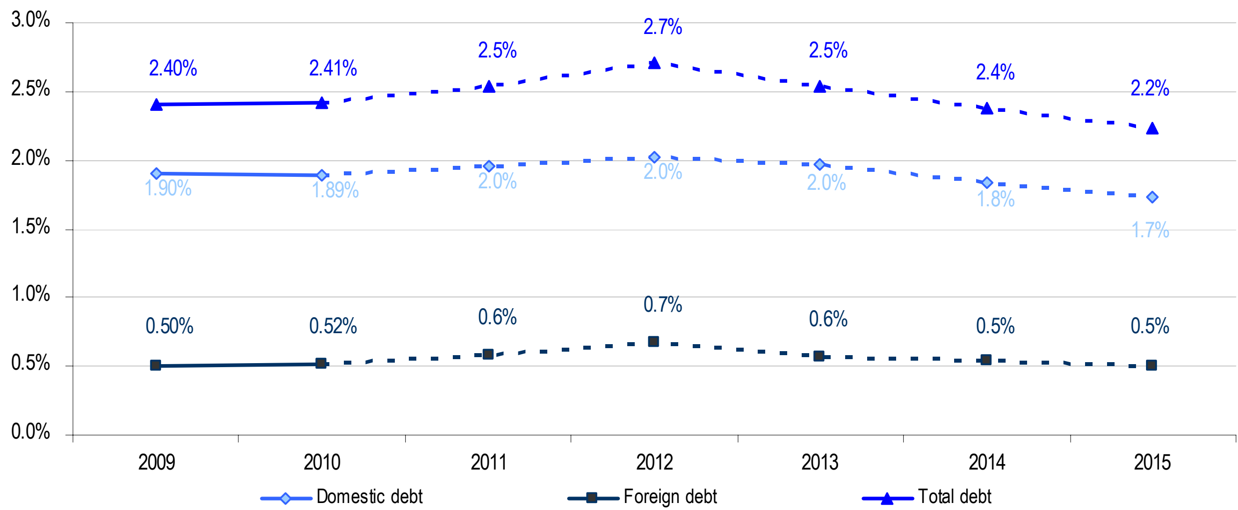
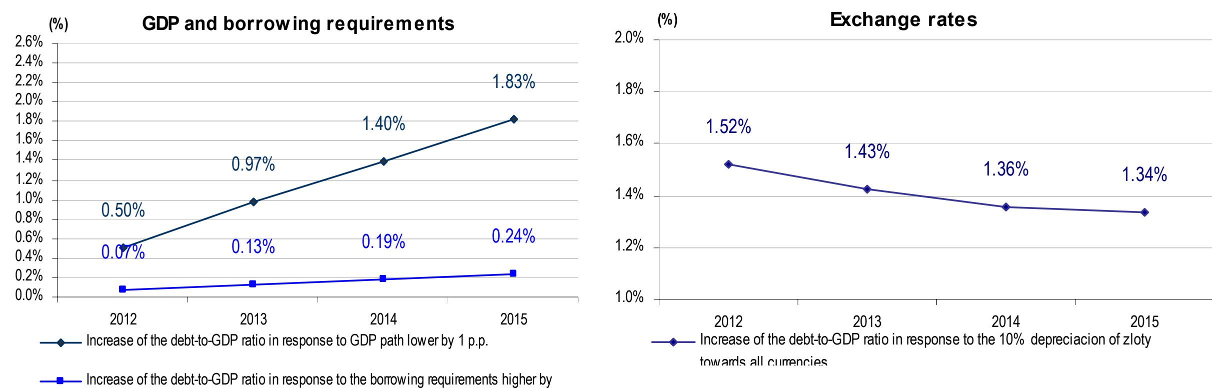
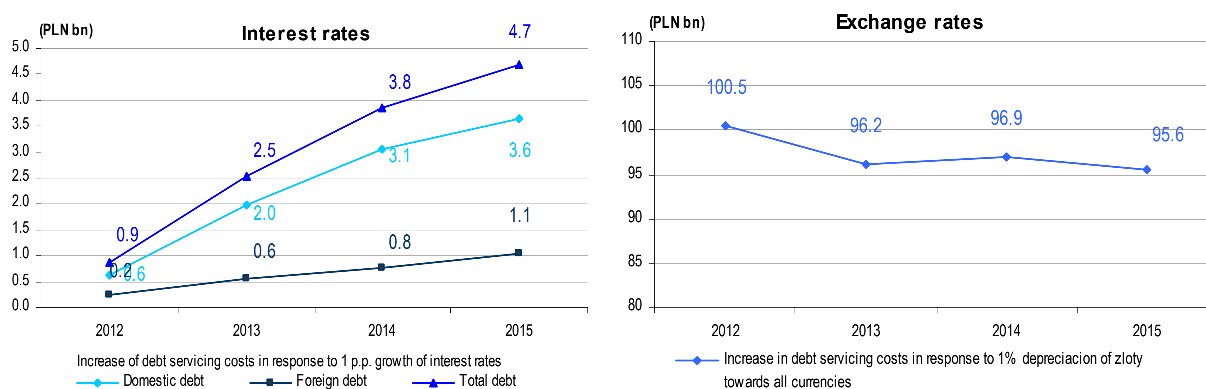


Chart 33. Sensitivity of public debt-to-GDP ratio to changes in assumptions



**) Assuming the change of paths since 2012.*

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



Contingent liabilities (guarantees and sureties)

It is expected that, the ratio of contingent liabilities resulting from sureties and guarantees granted by public finance sector units will amount to ca. 6.4% GDP in 2011, including those granted by the ST which will amount to ca. 6.2% GDP. In 2012, the ratio may increase to 8.3% and 8.0%, respectively. However, the ratio is expected to decline in following years.

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

Public finance sector	**2011**	**2012**	**2013**	**2014**	**2015**
PLN bn	96,9	131.8	131.1	122.7	124.6
GDP %	6,4%	8.3%	7.8%	6,9%	6.5%
State Treasury	**2011**	**2012**	**2013**	**2014**	**2015**
PLN bn	93,5	127.6	126.0	116.5	117.0
GDP %	6,2%	8.0%	7.5%	6.5%	6.1%

VII.2. Structure of the State Treasury debt

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

- depending on the adopted strategy of financing, the refinancing risk will remain at the level similar to that at the end of 2010 or will be limited. The Average Time to Maturity of the ST domestic marketable debt will remain within the range of ca. 4.1-5.0 years compared to ca. 4.3 at the end of 2011, and that of the total ST debt will fall within the range of ca. 5.3–5.9 years,
- the interest rate risk will remain within the range set in the *Strategy*. Depending on the adopted structure of financing, *duration* of the domestic marketable debt, will remain within the range of ca. 2.8-3.2 years compared to ca. 2.8 in December 2011, while that of the total debt within the range of ca. 3.5-3.8,
- the average share of foreign debt will reach ca. 30%, while deviations from the basis scenario are possible within the range of 20-30% adopted in the *Strategy* in connection with a flexible approach to foreign financing and the volatility of exchange rate.

Chart 35. ATM of the ST debt

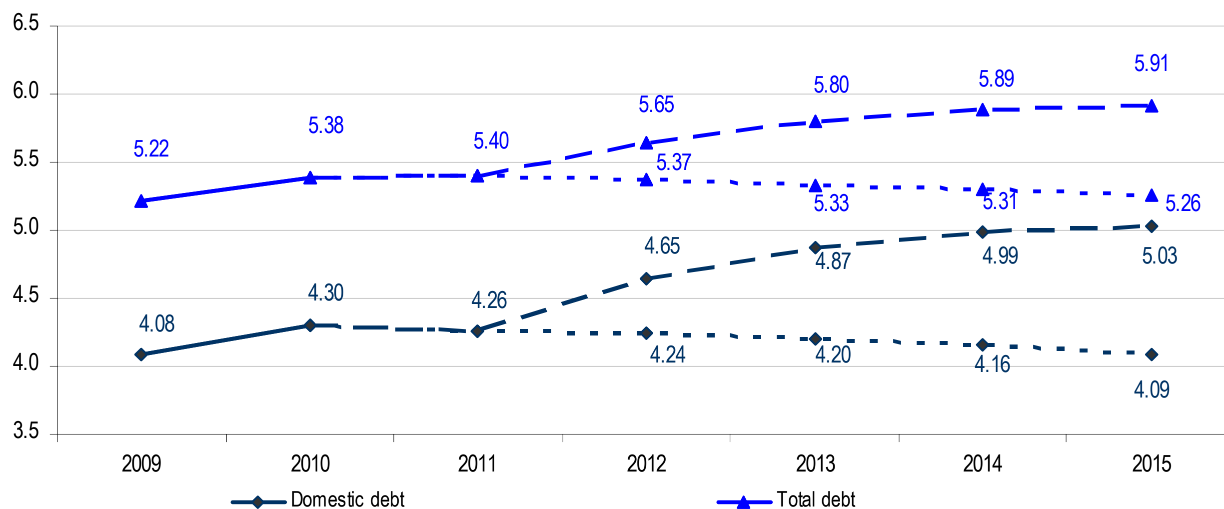


Chart 36. Duration of the ST debt

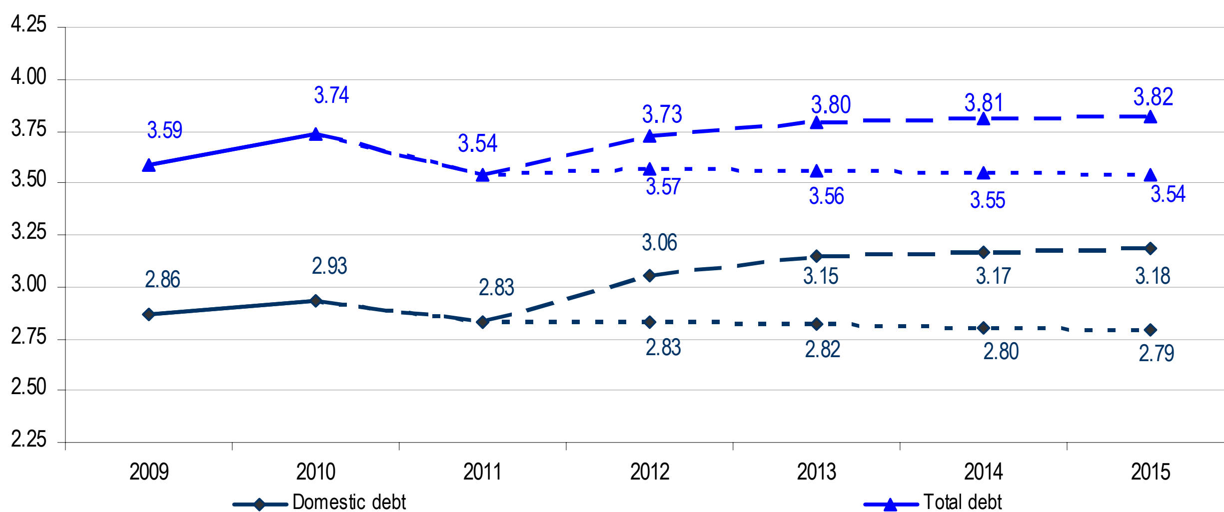
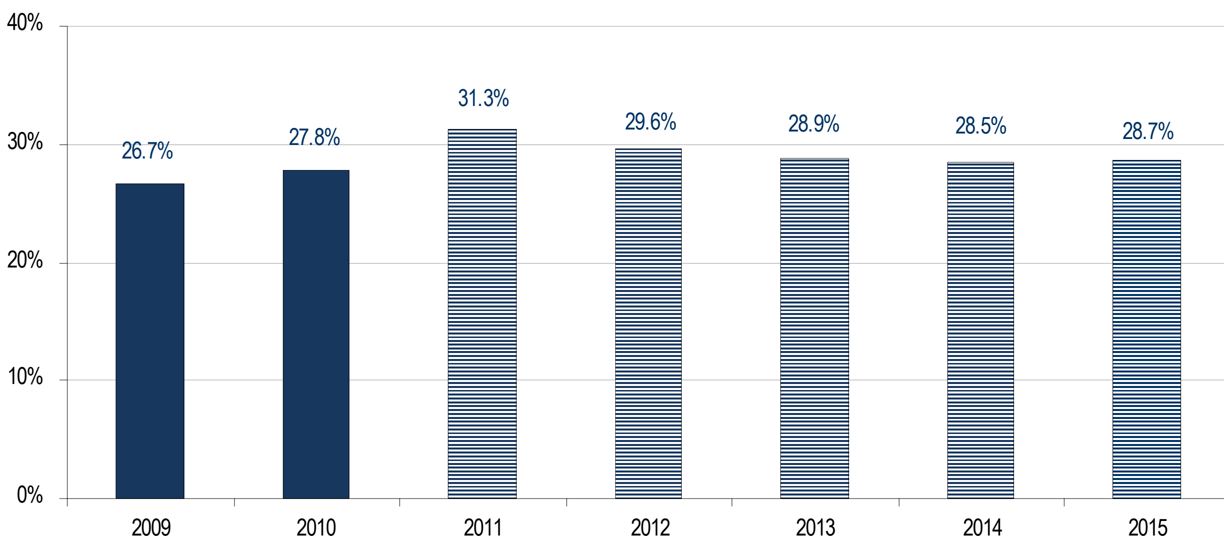


Chart 37. Share of foreign debt In the ST debt



VII.3. Threats to the Strategy implementation

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

1) a macroeconomic situation in Poland alternative to that assumed, in particular the slower GDP growth, higher interest rates as well as volatility of exchange rates;
2) development of the situation in the world's economy, including:
   - the influence of the debt crisis on the economic growth in Europe and the USA,
   - the influence of the debt crisis of certain Eurozone countries on the EU institutional solutions, in particular on the Eurozone future,
   - withdrawal of lending capital towards investments on core markets resulting from concerns about the fiscal standing of issuers from the Eurozone and global investors' risk aversion;
3) the risk that the public debt-to-GDP ratio will exceed, in the timeframe of the *Strategy* , the threshold of 55% and that the general government debt-to-GDP ratio will exceed the threshold of 60%, as a result of:
   - higher borrowing requirements of the State budget depending, among others, on the situation of Polish economy,
   - a lower exchange rate of the zloty compared to that assumed in the Strategy,
   - a considerable increase in debt of public finance sector entities other than the ST, in particular local government units,
   - the amount of liquid funds of the public finance sector entities placed on a deposit account with or put at the disposal of the Minister of Finance,
   - the distribution of risk between public and private partner in the public-private partnerships,
   - executing sureties or guarantees granted by public finance sector entities, when it is necessary.

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

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

where:
s – payment date (of interest or face value),
S – set of all payment dates (of interest or face value),
r – payment date of the nearest fixed coupon for floating-rate instruments,
R – set of all payment dates of the nearest fixed coupons for floating-rate instruments,
S_r- set of all payment dates for these floating-rate securities. which the nearest fixed 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 of tasks infrastructure, organization and control of the debt management. Operational risk is the type of risk most difficult to measure.

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

Option – the right (but not the obligation) to buy or sell a specified asset at an agreed price, which the issuer of the option is obliged to observe with respect to the holder of the option. The

options may be separate financial instruments or they may be built into other instruments, e.g. an option to present savings bonds to the State Treasury for early redemption.

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

Potential debt – liabilities that are not public debt, but which can become public debt once a specific event takes place. Guaranties and sureties granted by the public finance sector units are a classical example of potential debt. In the case of execution of a guaranty or surety, the liabilities became payable and increase expenditures of an entity that granted them, thus increasing its borrowing requirements and public debt.

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

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

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

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

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

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

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

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

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

Table 1. Public debt – basic legal regulations

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

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

Current Public Finance Act
I. Legal procedures regarding limits on public debt to GDP ratio
1) the ratio in year *x* is greater than 50%, and not greater than 55%: a) the state budget deficit to state budget revenue ratio in the draft budget act adopted by the Council of Ministers for the year x+2 cannot be higher than in the year x+1;
2) the ratio in year *x* is greater than 55%. and lower than 60%: a) it is assumed the lack of deficit or the difference between state budget revenues and expenditures in draft budget act adopted by the Council of Ministers for the year x+2 must ensure the decrease in State Treasury debt to GDP ratio as compared to the ratio announced for the year x; b) budget deficit of local government unit diminished by cumulated budgetary surplus from previous years and liquid funds in budget resolution for the year x+2 can only derive from expenditures for current tasks co-financed from EU funds or non-returnable financial aid provided by EFTA member countries; c) in draft budget act adopted by the Council of Ministers for the year x+2: ➢ no increase in salaries of public sector employees is assumed, ➢ revaluation of pensions must not exceed the CPI level in the budgetary year x+1, ➢ ban on granting new loans and credits from the State budget is introduced, ➢ the increase in expenditures of the Sejm (lower house of Polish Parliament), the Senate (upper house of Polish Parliament), Presidential Chamber of the Republic of Poland, Constitutional Tribunal, Supreme Chamber of Control (NIK), Supreme Court, Primary Administration Court, common courts of law and provincial administration courts, Spokesman of Citizen Rights, Spokesman of Child Rights, National Board of Radio and Television, General Inspector for the Security of Personal Data, The Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation, National Electoral Office, National Labour Inspection must not be higher than expenditures in the government administration; d) the Council of Ministers make a review of: ➢ State budget expenditures financed by foreign credits, ➢ long- term programs; e) the Council of Ministers presents a remedial program ensuring the fall in public debt to GDP ratio;
f) The Council of the Ministers make a review of regulations in force to propose possible legal solutions which influence state budget revenues, including VAT rates,
g) increase of VAT rates for subsequent 3 years is introduced;
h) State Fund for the Rehabilitation of Disabled Persons receives earmarked subsidies from the state budget for co-financing of disabled workers salaries at the level of 30% of planned funds for that year,
i) New liabilities can be incurred by government administration if the investments are co-financed from EU funds or non-returnable financial aid provided by EFTA member countries at the maximum level, set in the

Current Public Finance Act	
rules or procedures for particular type of investment, not lower than 50% of the total costs, however these restrictions do not apply to state road rebuilding or repairs required for road traffic hazard removal, anti-flood infrastructure investments, electronic toll service and compensations for properties taken over for public roads investments;	
3) **the ratio in year x is equal to or greater than 60%:**	
a) procedures provided in point 2, letters a, c, d, f, g and h in case of the ratio greater than 55%, and lower than 60% are in force;; b) budgets of local government units for the year x+2 must at least be balanced; c) a ban on granting new sureties and guarantees by public finance sector entities is introduced; d) the Council of Ministers presents to the Parliament a remedial programme with the main objective to prepare and implement actions aimed at reducing the public debt-to-GDP ratio below 60%;	
II. Principles and limits on incurring liabilities by local government units	
a) planned and executed current expenditures must not exceed planned and executed current revenues including liquid funds and budgetary surpluses from previous years;	
b) executed current expenditures can be higher than executed current revenues including liquid funds and budgetary surpluses from previous years only by amounts linked with the current tasks co-financed from EU funds or non-returnable financial aid provided by EFTA member;	
c) Local government units can incur loans and issue securities for: ➢ repayment of earlier incurred liabilities resulting from securities and loans, ➢ covering temporary budget deficit of local government within the fiscal year, ➢ financing of planned budget deficits; ➢ preceding financing tasks co-financed from UE funds;	
d) Loans incurred and securities issued for covering temporary budget deficit of local government have to be paid off or redeemed in the same year as they were incurred or issued;	
e) Local government can only incur liabilities of which servicing costs are borne at least once a year, while: ➢ discount of securities issued by local government cannot exceed 5% of their face value, ➢ capitalization of interest is inadmissible;	
f) For a local government unit, the ratio of: ➢ 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 till December 31, 2013.)	*(in force Since January 1, 2014.)*
in given budgetary year 15%, in case of public debt to GDP ratio exceed 55%, it cannot exceed 12%;	in the budgetary year and any other year following the budgetary year the arithmetical average for last three years calculated as current revenues including proceeds from privatisation minus current expenditures to total revenues ratio;
g) The ratios of total debt at the end of a fiscal year to total revenues and total debt at the end of quarter to planned revenues cannot exceed 60%;	
h) Limitations on debt of local government do not apply to issuing securities and incurring loans in connection with financial means specified in an agreement with an entity that disposes the EU structural funds or the Cohesion Fund.	

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

Polish regulations	EU regulations
public debt	**general government debt**
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), f. ex. : the National Road Fund (KFD), the Railway Fund (FK)	
➢ are excluded from the public finance sector;	➢ are included in the general government sector [3];
2) liabilities which constitute public debt	

Polish regulations	EU regulations
public debt	**general government 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 [4)]; ➢ cash and deposits;
differences in liabilities depending on regulations	
➢ matured payables;	- [4)]
3) contingent liabilities	
differences in treatment of contingent liabilities in debt-to-GDP ratio	
➢ is not included; since 1st January 2006 in line with the Public Finance Act of 30 June 2005 the basic category of public debt to which all the limits apply is public debt without risk-weighted sureties and guarantees. New Public Finance Act does not incorporate changes to contingent liabilities;	➢ EU limitations do not take directly into account contingent liabilities generated by issued sureties and guarantees; ➢ when specific criteria are met (in line with ESA'95 rules) contingent liabilities should be treated as debt assumed by the entity which issued surety or guarantee;

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

Annex 3. Institutional framework for public debt management in the EU Member State

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

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

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

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

In both cases the execution of tasks imposed on the central bank is not optimal. In addition, even if monetary policy and debt management are entrusted to different divisions and the so-called "Chinese Wall" is used, suspicions can arise that some information on interest rate levels unknown to the market may be used in debt management, thus reducing trust in the issuer and resulting in investors requesting an additional risk premium for 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[8]. This is due to the significant ability of the government to influence the creation of appropriate legal and institutional infrastructure, necessary for the efficient functioning of the financial market. However, the disadvantages of this solution become increasingly visible in developed and stable economies:

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

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

- the ability to select optimal solutions as well as to carry out long-term debt management objectives by limiting the risk of impact of short-term fiscal policy goals on management decisions,

[8] 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 Eurozone).

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

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

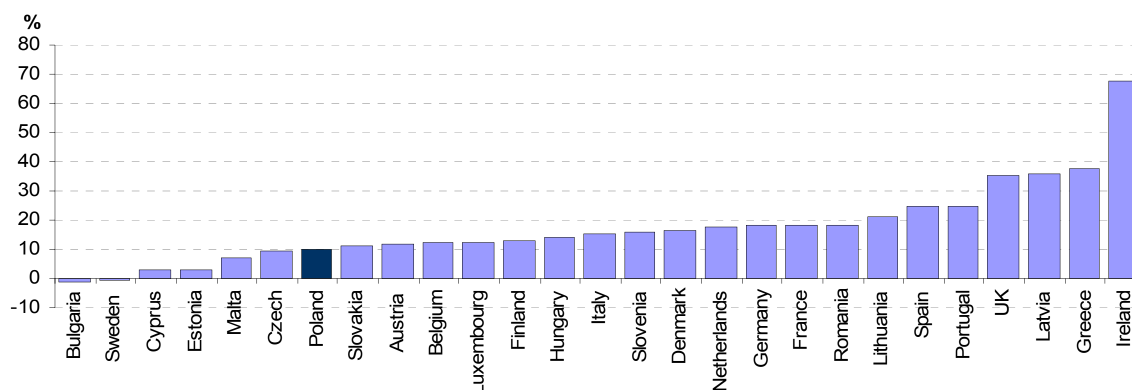
Annex 4. General government deficit and debt and yields on 10-year bonds in the EU Member States

Table 5.Deficit, general government debt and yields on 10-year bonds in the EU countries in 2009-2010

	2009			2010		
	General government balance % GDP	General government debt %PKB	10-year interest rate[1)] (%)	General government balance % GDP	General government debt %PKB	10-year interest rate[1)] (%)
Greece	-15,8	129,3	5,17	-10,6	144,9	9,09
Italy	-5,4	115,5	4,31	-4,6	118,4	4,04
Belgium	-5,8	95,9	3,90	-4,1	96,2	3,46
Portugal	-10,1	83,0	4,21	-9,8	93,3	5,40
Hungary	-4,6	79,7	9,12	-4,2	81,3	7,28
France	-7,5	79,0	3,65	-7,1	82,3	3,12
Germany	-3,2	74,4	3,22	-4.3	83,2	2,74
Austria	-4,1	69,5	3,94	-4,4	71,8	3,23
United Kingdom	-11,5	69,6	3,36	-10,3	79,9	3,36
Malta	-3,7	67,8	4,54	-3,6	69,0	4,19
Ireland	-14,2	65,2	5,23	-31,3	92,5	5,74
Netherlands	-5,6	60,8	3,69	-5,1	62,9	2,99
Cyprus	-6,1	58,5	4,60	-5,3	61,5	4,60
Spain	-11,2	53,8	3,98	-9,3	61,0	4,25
Poland	**-7,3**	**50,9**	**6,12**	**-7,8**	**54,9**	**5,78**
Finland	-2,5	43,3	3,74	-2,5	48,3	3,01
Sweden	-0,7	42,7	3,25	0,2	39,7	2,89
Denmark	-2,7	41,8	3,59	-2,6	43,7	2,93
Latvia	-9,7	36,7	12,36	-8,3	44,7	10,34
Slovakia	-8,0	35,5	4,71	-7,7	41,0	3,87
Czech Republic	-5,8	34,4	4,84	-4,8	37,6	3,88
Slovenia	-6,1	35,3	4,38	-5,8	38,8	3,83
Lithuania	-9,5	29,4	14,00	-7,0	38,0	5,57
Romania	-9,0	23,6	9,69	-6,9	31,0	7,34
Bulgaria	-4,3	14,6	7,22	-3,1	16,3	6,01
Luxemburg	-0,9	14,8	4,23	-1,1	19,1	3,17
Estonia	-2,0	7,2	:	0,2	6,7	:
Eurozone	**-6,4**	**79,8**	**3,82**	**-6,2**	**85,3**	**3,62**
EU 27	**-6,9**	**74,7**	**4,13**	**-6,6**	**80,1**	**3,83**

[1)]10-year interest rate – average of average monthly 10-year Treasury Bond yields since last twelve months; average in December; Eurostat
[2)] Data on general government balance and debt are consistent with Eurostat Euro-indicators news release 153/2011, 21 October 2011.

*Chart 1. Cumulated growth of general government debt to GDP ratio in 2008-2010**



**) The difference between general government debt to GDP ratio at the end of the years 2010 and 2007.*

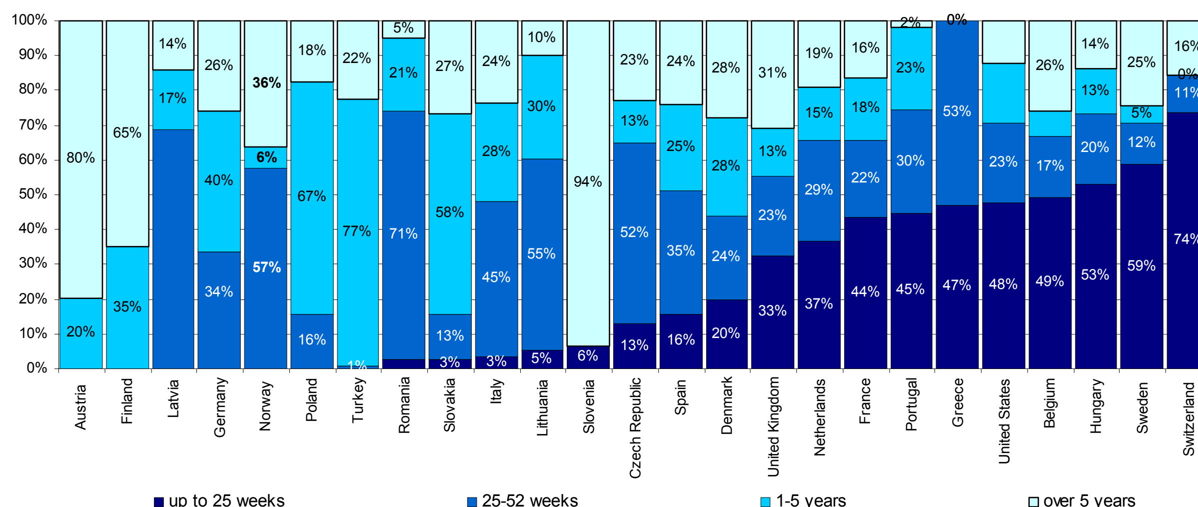
Annex 5. ATM and duration of public debt of EU Member States

Table 5. ATM and duration of public debt of EU Member States in 2009

	ATM			Duration		
	total	domestic	foreign	total	domestic	foreign
Austria	8,30	8,40	2,50	6,90	7,00	2,20
Belgium	6,45	6,47	0,25	4,81**	4,83**	0,04**
Czech Republic	6,30	*	*	4,40**	*	*
Denmark	7,90	9,00	2,50	9,30	6,70	-0,30
Estonia	*	*	*	*	*	*
Finland	4,60	4,60	0,00	2,70	2,70	0,00
France	7,10	7,10	*	5,50**	5,50**	*
Greece	7,10	*	*	*	4,20	*
Spain	6,60	6,60	*	4,30	4,30	*
Netherlands	7,00	7,00	*	*	*	*
Ireland	5,91	*	*	5,02	*	*
Luxemburg	6,30	6,30	0,00	*	*	*
Germany	5,94	5,95	1,73	4,78**	4,79**	0,22**
Poland	**5,38**	**4,30**	**8,13**	**3,74**	**2,97**	**5,54**
Portugal	5,77	*	*	3,87	*	*
Slovakia	5,67	5,67	*	4,71	4,71	*
Slovenia	6,30	5,40	6,70	5,00**	4,20**	5,30**
Sweden	5,20	6,00	0,13	*	*	*
Hungary	4,16	4,05	4,31	2,77	2,68	2,89
United Kingdom	*	14,07	0,00	*	8,50	0,00
Italy	7,20	7,10	9,70	4,90	4,90	5,20

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

*Chart 2. Bond issuance in the domestic market in Poland and other countries regarding the maturity in 2011**



*) auctions and syndications from 1 January to 29 November 2011.

Annex 6. Government debt rating of EU Member States

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

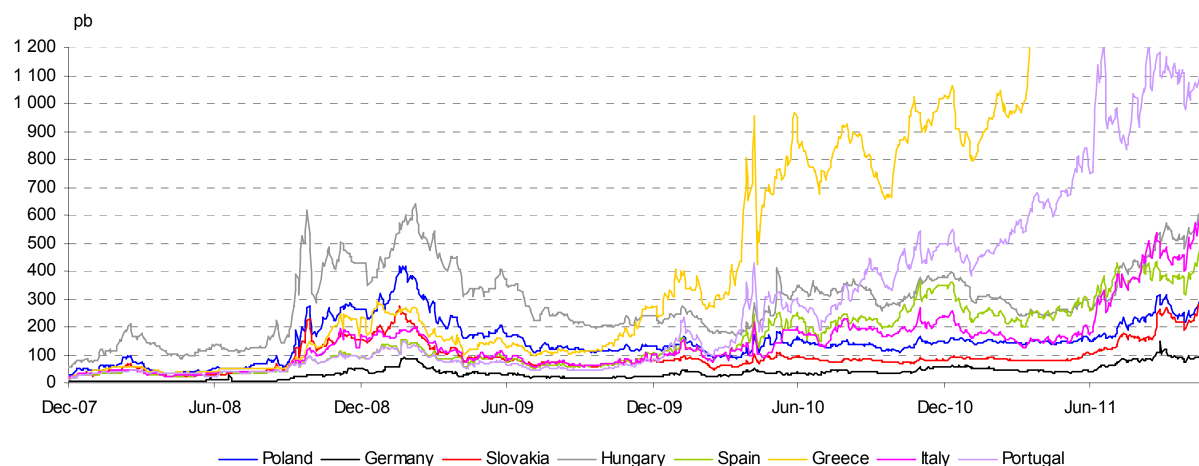
as of November 29, 2011

	Moody's	Standard&Poor's	Fitch
Austria	**Aaa**	**AAA**	**AAA**
Belgium	**Aa1**	**AA** ↓	**AA+**
Bulgaria	**Baa2** ↓	**BBB**	**BBB-**
Cyprus	**Baa3** ↓↓↓↓↓↓	**BBB** ↓↓↓↓	**BBB** ↓↓↓↓↓
Czech Republic	**A1**	**AA-** ↑↑	**A+**
Denmark	**Aaa**	**AAA**	**AAA**
Estonia	**A1**	**AA-** ↑↑↑	**A+** ↑
Finland	**Aaa**	**AAA**	**AAA**
France	**Aaa**	**AAA**	**AAA**
Germany	**Aaa**	**AAA**	**AAA**
Greece	**Ca** ↓↓↓↓↓↓↓↓↓	**CC** ↓↓↓↓↓↓↓↓↓	**CCC** ↓↓↓↓↓↓↓
Hungary	**Ba1** ↓↓↓	**BBB-**	**BBB-**
Ireland	**Ba1** ↓↓↓↓↓↓↓↓	**BBB+** ↓↓↓↓	**BBB+** ↓↓↓↓
Italy	**A2** ↓↓↓	**A** ↓	**A+** ↓
Latvia	**Baa3**	**BB+** ↑	**BBB-** ↑
Lithuania	**Baa1**	**BBB**	**BBB**
Luxembourg	**Aaa**	**AAA**	**AAA**
Malta	**A2** ↓	**A**	**A+**
Netherlands	**Aaa**	**AAA**	**AAA**
Poland	**A2**	**A-**	**A-**
Portugal	**Ba2** ↓↓↓↓↓↓↓	**BBB-** ↓↓↓	**BB+** ↓↓
Romania	**Baa3**	**BB+**	**BBB-** ↑
Slovakia	**A1**	**A+**	**A+**
Slovenia	**Aa3** ↓	**AA-** ↓	**AA-** ↓
Spain	**A1** ↓↓↓↓	**AA-** ↓	**AA-** ↓↓
Sweden	**Aaa**	**AAA**	**AAA**
United Kingdom	**Aaa**	**AAA**	**AAA**

Source: Reuters

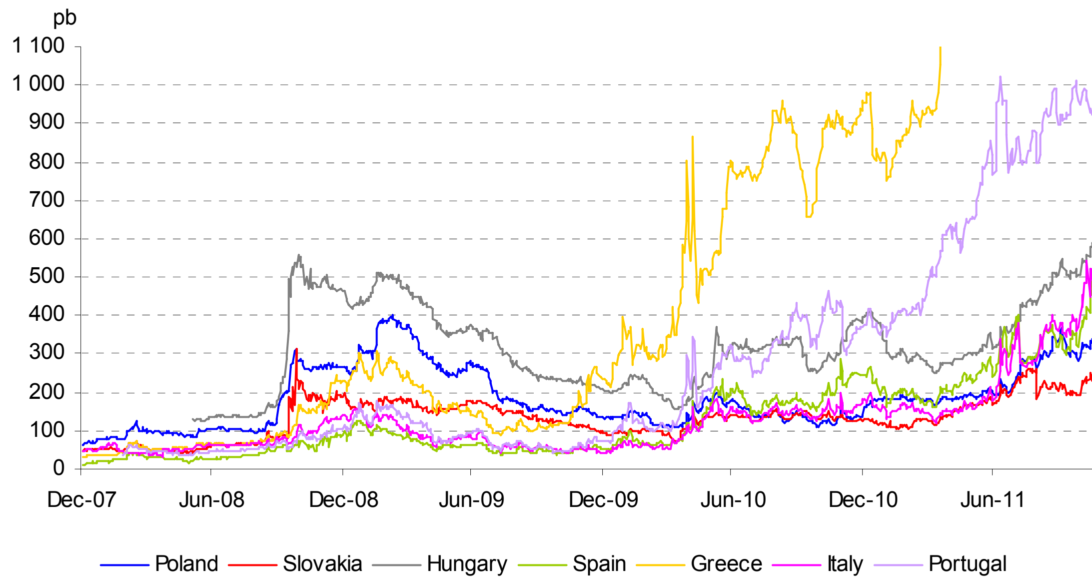
↓ ↑ - downgrade or upgrade of rating in comparison to previous Strategy.

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



* Since mid-April 2011 Greek CDS quotations are significantly above 1200 bp.

Chart 4. Selected 10-year euro bonds spread to German Bunds



** Since mid-April 2011 the spread of 10-year Greek bonds to Buds is significantly above 1100 bp.*

Annex 7. Public Debt in Poland – statistical annex

Table 8. Public debt in the period 2001-VI 2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	VI 2011
1. State Treasury debt											
a) PLN bn	283,9	327,9	378,9	402,9	440,2	478,5	501,5	569,9	631,5	701,9	752,2
domestic *	185,0	219,3	251,2	291,7	315,5	352,3	380,4	420,2	462,7	507,0	546,8
foreign*	98,9	108,6	127,8	111,2	124,7	126,2	121,1	149,7	168,8	194,8	205,5
b) GDP %	36,4%	40,6%	44,9%	43,6%	44,8%	45,1%	42,6%	44,7%	47,0%	49,6%	-
2. Public debt											
a) PLN bn	302,1	352,4	408,3	431,4	466,6	506,3	527,4	597,8	669,9	747,9	786,0
b) GDP %	38,8%	43,6%	48,4%	46,7%	47,5%	47,8%	44,8%	46,9%	49,9%	52,8%	-
3. General government debt (EU methodology)											
a) PLN bn	292,8	340,9	396,7	422,4	463,0	506,0	529,3	600,8	684,2	776,8	819.9
b) GDP %	37,6%	42,2%	47,1%	45,7%	47,1%	47,7%	45,0%	47,1%	50,9%	54,9%	-

**) place of issue criterion*

Table 9. GDP and exchange rate In the period 2001-VI 2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	VI 2011
1. Gross Domestic Product											
PLN bn	779,6	808,6	843,2	924,5	983,3	1 060,2	1 176,7	1 275,4	1 343,4	1 415,4	-
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	4,1082	3,9603	3,9866
b) USD	3,9863	3,8388	3,7405	2,9904	3,2613	2,9105	2,4350	2,9618	2,8503	2,9641	2,7517

*Table 10. Debt of public finance sector before consolidation**

	Debt of public finance sector	2009		2010				2011			
		XII	Structure	Change XII 2009 - XII 2010		XII	Structure	Change XII 2010 - VI 2011		VI	Structure
		PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%
	BEFORE CONSOLIDATION	**693 609.1**	**100.0%**	**85 073.2**	**12.3%**	**778 682.3**	**100.0%**	**50 824.6**	**6.5%**	**829 506.9**	**100.0%**
1.	Debt of central government sub-sector	635 867.3	91.7%	70 034.7	11.0%	705 902.0	90.7%	50 140.6	7.1%	756 042.6	91.1%
1.1.	State Treasury	631 506.5	91.0%	70 344.1	11.1%	701 850.6	90.1%	50 369.0	7.2%	752 219.5	90.7%
1.2.	State earmarked funds with legal personality	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State higher schools	254.8	0.0%	36.0	14.1%	290.8	0.0%	-240.3	-82.6%	50.5	0.0%
1.4.	Research and development units	432.0	0.1%	-432.0	-100.0%	-	-	-	-	-	-
1.5.	Independent public heath care units	902.8	0.1%	74.6	8.3%	977.3	0.1%	10.3	1.1%	987.6	0.1%
1.6.	State culture units	26.7	0.0%	18.6	69.8%	45.3	0.0%	3.0	6.7%	48.3	0.0%
1.7.	Polish Academy of Science (PAN) and units established by it	10.7	0.0%	-0.4	-3.9%	10.3	0.0%	-0.5	-4.6%	9.8	0.0%
1.8.	Other State legal entities established under separate acts for public tasks execution with the exception of enterprises. banks and companies organized under commercial law	2 733.8	0.4%	-6.0	-0.2%	2 727.8	0.4%	-0.9	0.0%	2 726.9	0.3%
2.	Debt of local government sub-sector	45 282.1	6.5%	14 601.2	32.2%	59 883.3	7.7%	1 030.5	1.7%	60 913.8	7.3%
2.1.	Local government units and their associations	40 726.6	5.9%	14 752.8	36.2%	55 479.4	7.1%	899.8	1.6%	56 379.2	6.8%
2.2.	Local earmarked funds with legal personality	82.0	0.0%	-82.0	-100.0%	0.0	0.0%	-	-	-	-
2.3.	Independent public health care units	4 426.1	0.6%	-223.9	-5.1%	4 202.2	0.5%	152.7	3.6%	4 354.9	0.5%
2.4.	Local cultural units	37.2	0.0%	54.0	144.9%	91.2	0.0%	1.9	2.1%	93.2	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	10.1	0.0%	100.3	990.7%	110.4	0.0%	-24.0	-21.7%	86.4	0.0%
3.	Debt of social security sub-sector	12 459.8	1.8%	437.1	3.5%	12 896.9	1.7%	-346.4	-2.7%	12 550.5	1.5%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	495.8%	0.0	0.0%	0.0	-85.6%	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	12 459.8	1.8%	437.1	3.5%	12 896.9	1.7%	-346.3	-2.7%	12 550.5	1.5%
3.3.	Farmer's Social Insurance Institution (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Heath Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

**) data as of December 2, 2011.*

*Table 10. Debt of public finance sector after consolidation **

	Debt of public finance sector	2009		2010				2011			
		XII	Structure	Change XII 2009 - XII 2010		XII	Structure	Change XII 2010 - VI 2011		VI	Structure
		PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%	PLN mln	%
	AFTER CONSOLIDATION	**669 876.4**	**100.0%**	**78 022.4**	**11.6%**	**747 898.8**	**100.0%**	**38.107,8**	**5,1%**	**786.006,6**	**100,0%**
1.	Debt of central government sub-sector	623 592.0	93.1%	68 768.5	11.0%	692 360.5	92.6%	37.033,8	5,3%	729.394,3	92.8%
1.1.	State Treasury	622 389.8	92.9%	68 820.3	11.1%	691 210.1	92.4%	37.244,6	5,4%	728.454,7	92.7%
1.2.	State earmarked funds with legal personality	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State higher schools	239.1	0.0%	34.9	14.6%	274.0	0.0%	-226.9	-82.8%	47.1	0.0%
1.4.	Research and development units	233.6	0.0%	-233.6	-100.0%	-	-	-	-	-	-
1.5.	Independent public heath care units	700.2	0.1%	131.6	18.8%	831.9	0.1%	16.5	2.0%	848.4	0.1%
1.6.	State culture units	14.7	0.0%	18.1	123.2%	32.8	0.0%	1.2	3.8%	34.0	0.0%
1.7.	Polish Academy of Science (PAN) and units established by it	6.5	0.0%	0.4	7.0%	6.9	0.0%	-0.2	-3.2%	6.7	0.0%
1.8.	Other State legal entities established under separate acts for public tasks execution with the exception of enterprises. banks and companies organized under commercial law	8.1	0.0%	-3.3	-41.1%	4.7	0.0%	-1.4	-29.7%	3.3	0.0%
2.	Debt of local government sub-sector	39 324.7	5.9%	14 194.3	36.1%	53 519.0	7.2%	1 420.3	2.7%	54 939.4	7.0%
2.1.	Local government units and their associations	36 371.3	5.4%	14 197.1	39.0%	50 568.4	6.8%	1 298.1	2.6%	51 866.6	6.6%
2.2.	Local earmarked funds with legal personality	0.0	0.0%	0.0	-100.0%	0.0	0.0%	.-	-	-	-
2.3.	Independent public health care units	2 916.5	0.4%	-47.0	-1.6%	2 869.5	0.4%	136.0	4.7%	3 005.5	0.4%
2.4.	Local cultural units	27.1	0.0%	34.5	127.1%	61.6	0.0%	-4.6	-7.4%	57.0	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	9.7	0.0%	9.8	101.1%	19.5	0.0%	-9.3	-47.4%	10.3	0.0%
3.	Debt of social security sub-sector	6 959.8	1.0%	-4 940.5	-71.0%	2 019.3	0.3%	-346.3	-17.2%	1 673.0	0.2%
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	-100.0%	0.0	0.0%	0.0	-	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	6 959.8	1.0%	-4 940.5	-71.0%	2 019.3	0.3%	-346.3	17.2%	1 673.0	0.2%
3.3.	Farmer's Social Insurance Institution (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Heath Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

**) data as of December 2, 2011.*

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

	Dec 2009	Dec 2010	Jun 2011	structure Jun 2011 %	change Dec 2010 - Dec 2009 m PLN	change Dec 2010 - Dec 2009 %	change Jun 2011 - Dec 2010 m PLN	change Jun 2011 - Dec 2010 %
State Treasury debt	631.506,5	701.850,6	752.219,5	100,0%	70.344,1	11,1%	50.369,0	7,2%
I. Domestic debt	462.733,6	507.011,5	546.758,6	72,7%	44.278,0	9,6%	39.747,1	7,8%
1. Treasury Securities 1)	462.483,7	506.984,5	536.749,0	71,4%	44.500,8	9,6%	29.764,6	5,9%
1.1. Marketable Treasury Securities	452.956,2	499.258,4	529.460,9	70,4%	46.302,2	10,2%	30.202,5	6,0%
Treasury bills	47.544,6	27.966,1	27.973,6	3,7%	-19.578,5	-41,2%	7,5	0,0%
marketable bonds	405.411,6	471.292,2	501.487,2	66,7%	65.880,6	16,3%	30.195,0	6,4%
marketable fixed-income bonds	342.883,1	390.997,7	409.684,0	54,5%	48.114,6	14,0%	18.686,4	4,8%
2-year zerocoupon bonds	59.941,9	105.527,4	125.595,1	16,7%	45.585,5	76,0%	20.067,7	19,0%
5-year fixed-income bonds	128.841,2	131.891,4	124.647,2	16,6%	3.050,2	2,4%	-7.244,1	-5,5%
5-year fixed-income retail bonds	623,6	0,0	0,0	0,0%	-623,6	-100,0%	0,0	-
10-year fixed-income bonds	123.065,9	120.585,1	126.198,0	16,8%	-2.480,8	-2,0%	5.612,8	4,7%
20-year fixed-income bonds	29.023,2	31.606,6	31.856,6	4,2%	2.583,3	8,9%	250,0	0,8%
30-year fixed-income bonds	1.387,2	1.387,2	1.387,2	0,2%	0,0	0,0%	0,0	0,0%
marketable floating rate notes	51.595,3	65.382,7	74.140,3	9,9%	13.787,4	26,7%	8.757,6	13,4%
3-year retail FRN	1.235,0	1.048,4	874,2	0,1%	-186,6	-15,1%	-174,3	-16,6%
4-year FRN	0,0	0,0	9.055,1	1,2%	0,0	-	9.055,1	-
7-year FRN	19.670,4	19.670,4	15.837,1	2,1%	0,0	0,0%	-3.833,3	-19,5%
10-year FRN (WZ)	21.781,6	36.679,8	40.389,8	5,4%	14.898,2	68,4%	3.710,0	10,1%
10-year FRN (DZ)	8.158,3	7.234,2	7.234,2	1,0%	-924,2	-11,3%	0,0	0,0%
private placement FRN	750,0	750,0	750,0	0,1%	0,0	0,0%	0,0	0,0%
marketable index-linked bonds 2)	10.933,2	14.911,9	17.662,9	2,3%	3.978,7	36,4%	2.751,0	18,4%
12-year index-linked	10.464,6	10.759,5	11.119,0	1,5%	295,0	2,8%	359,4	3,3%
15-year index-linked	468,6	4.152,3	6.543,9	0,9%	3.683,7	786,0%	2.391,6	57,6%
1. 2. Savings bonds	9.317,0	7.618,0	7.233,1	1,0%	-1.699,0	-18,2%	-384,9	-5,1%
2-year savings bonds	5.706,4	3.419,4	2.738,9	0,4%	-2.287,0	-40,1%	-680,5	-19,9%
4-year savings bonds	1.461,5	1.562,8	1.679,3	0,2%	101,3	6,9%	116,5	7,5%
10-year savings bonds	2.149,0	2.635,7	2.814,9	0,4%	486,7	22,6%	179,2	6,8%
1.3. Non-marketable T-Bonds	210,5	108,1	55,1	0,0%	-102,4	-48,6%	-53,0	-49,1%
Bonds issued for Bank BGŻ S.A.	210,5	108,1	55,1	0,0%	-102,4	-48,6%	-53,0	-49,1%
2. Other domestic ST debt	249,9	27,1	10.009,6	1,3%	-222,8	-89,2%	9.982,5	36884,2%
deposits of public finance sector entities 3)	0,0	0,0	9.925,5	1,3%	0,0	-	9.925,5	-
automobile prepayments 4)	3,3	3,4	3,3	0,0%	0,0	1,5%	0,0	-0,3%
matured payables 4) 5)	246,5	23,1	80,1	0,0%	-223,5	-90,6%	57,0	247,2%
other liabilities 4)	0,0	0,6	0,6	0,0%	0,6	-	0,0	-7,5%
II. Foreign debt	168.772,9	194.839,0	205.460,9	27,3%	26.066,1	15,4%	10.621,9	5,5%
1. Treasury Securities (international mkts.)	134.064,7	155.468,1	163.221,5	21,7%	21.403,5	16,0%	7.753,3	5,0%
Brady Bonds	846,6	880,4	817,3	0,1%	33,8	4,0%	-63,1	-7,2%
international bonds	133.218,1	154.587,8	162.404,2	21,6%	21.369,7	16,0%	7.816,4	5,1%
2. Foreign Loans	34.708,2	39.370,9	42.239,5	5,6%	4.662,6	13,4%	2.868,6	7,3%
Paris Club	326,2	306,7	250,6	0,0%	-19,4	-6,0%	-56,1	-18,3%
International Financial Institutions	34.185,6	38.874,5	41.830,5	5,6%	4.688,9	13,7%	2.956,0	7,6%
of which: European Investment Bank	20.846,0	22.361,5	26.056,0	3,5%	1.515,5	7,3%	3.694,6	16,5%
other creditors	196,4	189,6	158,4	0,0%	-6,8	-3,5%	-31,3	-16,5%

1) Treasury securities by initial maturity;
2) indexed nomnal value;
3) free funds of public finance sector entities placed at the Ministry of Finance account as deposits;
4) data update on a quarterly basis;
5) data on matured payables of the State Treasury budgetary units.

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

	Dec 2009	Dec 2010	Jun 2011	structure Jun 2011	change Dec 2010 - Dec 2009		change Jun 2011 - Dec 2010	
					m PLN	%	m PLN	%
Domestic State Treasury debt	462.733,6	507.011,5	546.758,6	100,0%	44.278,0	9,6%	39.747,1	7,8%
DOMESTIC BANKING SECTOR	146.018,4	130.526,4	126.385,3	23,1%	-15.492,0	-10,6%	-4.141,1	-3,2%
Treasury securities	146.018,4	130.526,4	126.385,3	23,1%	-15.492,0	-10,6%	-4.141,1	-3,2%
- TS od the MoF account *	988,0	4.101,0	6.350,8	1,2%	3.113,0	315,1%	2.249,8	54,9%
Marketable Treasury securities	145.807,9	130.418,3	126.330,2	23,1%	-15.389,6	-10,6%	-4.088,1	-3,1%
Treasury bills	32.742,4	15.871,0	15.047,0	2,8%	-16.871,5	-51,5%	-824,0	-5,2%
2-year zerocoupon bonds	24.174,1	34.622,7	31.204,1	5,7%	10.448,6	43,2%	-3.418,6	-9,9%
3-year retail FRN	5,4	8,5	7,4	0,0%	3,1	58,5%	-1,1	-12,4%
4-year FRN	0,0	0,0	5.551,5	1,0%	0,0	-	5.551,5	-
5-year fixed-income bonds	36.804,0	28.694,2	24.325,1	4,4%	-8.109,9	-22,0%	-4.369,1	-15,2%
5-year fixed-income retail bonds	7,0	0,0	0,0	0,0%	-7,0	-100,0%	0,0	-
7-year FRN	12.260,4	11.298,1	9.781,8	1,8%	-962,3	-7,8%	-1.516,3	-13,4%
10-year FRN (WZ)	10.587,7	15.807,2	17.107,0	3,1%	5.219,5	49,3%	1.299,8	8,2%
10-year FRN (DZ)	2.073,7	2.529,8	2.396,6	0,4%	456,1	22,0%	-133,1	-5,3%
10-year fixed-income bonds	24.544,2	19.584,6	18.743,9	3,4%	-4.959,6	-20,2%	-840,6	-4,3%
private placement FRN	15,0	15,0	140,0	0,0%	0,0	0,0%	125,0	833,3%
12-year index-linked	1.082,1	469,7	446,3	0,1%	-612,4	-56,6%	-23,4	-5,0%
15-year index-linked	15,6	70,2	153,5	0,0%	54,6	350,6%	83,4	118,8%
20-year fixed-income bonds	1.221,3	1.317,4	1.309,4	0,2%	96,1	7,9%	-8,1	-0,6%
30-year fixed-income bonds	275,0	130,0	116,4	0,0%	-145,0	-52,7%	-13,6	-10,5%
Non-marketable T-Bonds	210,5	108,1	55,1	0,0%	-102,4	-48,6%	-53,0	-49,1%
bonds issued for Bank BGŻ S.A.	210,5	108,1	55,1	0,0%	-102,4	-48,6%	-53,0	-49,1%
Other domestic ST debt	0,0	0,0	0,0	0,0%	0,0	-	0,0	-
matured payables	0,0	0,0	0,0	0,0%	0,0	-	0,0	-
other liabilities	0,0	0,0	0,0	0,0%	0,0	-	0,0	-
DOMESTIC NON-BANKING SECTOR	234.901,9	248.228,6	264.852,8	48,4%	13.326,7	5,7%	16.624,2	6,7%
Treasury securities	234.652,0	248.201,5	254.843,3	46,6%	13.549,5	5,8%	6.641,7	2,7%
Marketable Treasury securities	225.355,3	240.602,4	247.629,0	45,3%	15.247,0	6,8%	7.026,6	2,9%
Treasury bills	11.540,4	8.594,7	8.920,5	1,6%	-2.945,8	-25,5%	325,9	3,8%
2-year zerocoupon bonds	29.775,8	47.636,1	51.305,1	9,4%	17.860,3	60,0%	3.669,0	7,7%
3-year retail FRN	1.227,7	1.037,3	864,4	0,2%	-190,4	-15,5%	-172,9	-16,7%
4-year FRN	0,0	0,0	1.960,2	0,0	0,0	-	1.960,2	-
5-year fixed-income bonds	59.930,0	56.338,7	56.378,8	10,3%	-3.591,4	-6,0%	40,2	0,1%
5-year fixed-income retail bonds	612,9	0,0	0,0	0,0%	-612,9	-100,0%	0,0	-
7-year FRN	6.643,6	6.777,3	4.689,0	0,9%	133,7	2,0%	-2.088,3	-30,8%
10-year FRN (WZ)	11.174,1	20.735,6	23.211,2	4,2%	9.561,6	85,6%	2.475,5	11,9%
10-year FRN (DZ)	5.923,8	4.554,0	4.487,3	0,8%	-1.369,7	-23,1%	-66,7	-1,5%
10-year fixed-income bonds	69.655,5	63.382,4	61.577,4	11,3%	-6.273,0	-9,0%	-1.805,0	-2,8%
private placement FRN	735,0	735,0	610,0	0,1%	0,0	0,0%	-125,0	-17,0%
12-year index-linked	7.014,2	6.669,3	6.648,3	1,2%	-344,9	-4,9%	-21,0	-0,3%
15-year index-linked	430,8	3.252,4	5.309,4	1,0%	2.821,6	655,0%	2.057,1	63,2%
20-year fixed-income bonds	19.695,4	19.733,9	20.475,3	3,7%	38,5	0,2%	741,4	3,8%
30-year fixed-income bonds	996,3	1.155,7	1.192,0	0,2%	159,4	16,0%	36,3	3,1%
Savings bonds	9.296,7	7.599,2	7.214,3	1,3%	-1.697,5	-18,3%	-384,9	-5,1%
2-year savings bonds	5.698,2	3.414,2	2.733,8	0,5%	-2.284,0	-40,1%	-680,5	-19,9%
4-year savings bonds	1.452,9	1.553,0	1.669,4	0,3%	100,1	6,9%	116,4	7,5%
10-year savings bonds	2.145,6	2.631,9	2.811,1	0,5%	486,3	22,7%	179,1	6,8%
Other domestic ST debt	249,9	27,1	10.009,6	1,8%	-222,8	-89,2%	9.982,5	36884,2%
deposits of public finance sector entities	0,0	0,0	9.925,5	1,8%	0,0	-	9.925,5	-
automobile prepayments	3,3	3,4	3,3	0,0%	0,0	1,5%	0,0	-0,3%
matured payables	246,5	23,1	80,1	0,0%	-223,5	-90,6%	57,0	247,2%
other liabilities	0,0	0,6	0,6	0,0%	0,6	-	0,0	-7,5%
TS's HELD BY FOREIGN INVESTORS	81.813,3	128.256,5	155.520,5	28,4%	46.443,2	56,8%	27.264,0	21,3%
Treasury securities	81.813,3	128.256,5	155.520,5	28,4%	46.443,2	56,8%	27.264,0	21,3%
Marketable Treasury securities	81.793,0	128.237,7	155.501,6	28,4%	46.444,7	56,8%	27.263,9	21,3%
Treasury bills	3.261,8	3.500,5	4.006,1	0,7%	238,8	7,3%	505,6	14,4%
2-year zerocoupon bonds	5.992,1	23.268,6	43.085,8	7,9%	17.276,5	288,3%	19.817,2	85,2%
3-year retail FRN	1,9	2,6	2,4	0,0%	0,7	35,4%	-0,3	-10,0%
4-year FRN	0,0	0,0	1.543,4	0,0	0,0	-	1.543,4	-
5-year fixed-income bonds	32.107,1	46.858,5	43.943,3	8,0%	14.751,4	45,9%	-2.915,2	-6,2%
5-year fixed-income retail bonds	3,7	0,0	0,0	0,0%	-3,7	-100,0%	0,0	-
7-year FRN	766,4	1.595,0	1.366,3	0,2%	828,6	108,1%	-228,7	-14,3%
10-year FRN (WZ)	19,8	136,9	71,6	0,0%	117,1	589,8%	-65,4	-47,7%
10-year FRN (DZ)	160,9	150,3	350,2	0,1%	-10,5	-6,6%	199,9	132,9%
10-year fixed-income bonds	28.866,3	37.618,2	45.876,7	8,4%	8.751,9	30,3%	8.258,5	22,0%
private placement FRN	0,0	0,0	0,0	0,0%	0,0	-	0,0	-
12-year index-linked	2.368,3	3.620,5	4.024,3	0,7%	1.252,2	52,9%	403,8	11,2%
15-year index-linked	22,3	829,8	1.080,9	0,2%	807,5	3618,5%	251,1	30,3%
20-year fixed-income bonds	8.106,5	10.555,2	10.071,9	1,8%	2.448,7	30,2%	-483,3	-4,6%
30-year fixed-income bonds	115,9	101,5	78,8	0,0%	-14,4	-12,5%	-22,7	-22,4%
Savings bonds	20,3	18,8	18,9	0,0%	-1,5	-7,3%	0,1	0,3%
2-year savings bonds	8,3	5,2	5,1	0,0%	-3,0	-36,7%	-0,1	-1,4%
4-year savings bonds	8,6	9,8	9,9	0,0%	1,2	13,5%	0,1	1,1%
10-year savings bonds	3,4	3,8	3,8	0,0%	0,4	11,2%	0,0	0,7%

* face value of TS on the MoF account as collateral for State Treasury bank deposits.