Ministerstwo
Finansów

THE PUBLIC FINANCE SECTOR DEBT MANAGEMENT STRATEGY

in the years 2014-2017

Ministry of Finance

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I. INTRODUCTION

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

Public debt management is conducted at two levels:

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

The *Strategy,* including forecasts of public debt, has been developed on the basis of the assumptions of the draft Budget Act for 2014. Therefore, it takes into account the planned changes in the pension system, which will have significant effect on the reduction of public debt in 2014, and the reduction of debt growth in the subsequent years.

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

Item	2012 (execution)	2013	2014	2015	2016	2017
1. Public debt						
a) PLN bn	840.5	899.5	810.9	875.5	920.9	964.9
b) GDP %	52.7%	54.8%	47.1%	47.8%	47.1%	46.2%
2. *General government* debt						
a) PLN bn	886.9	952.1	859.5	934.9	993.9	1 046.6
b) GDP %	55.6%	58.0%	49.9%	51.1%	50.8%	50.1%
3. State Tresury debt servicing costs						
a) PLN bn	42.1	42.7	36.2	35.4 – 37.0	37.9 - 39.5	41.2 – 43.0
b) GDP %	2.64%	2.60%	2.10%	1.94% - 2.02%	1.94% - 2.02%	1.97% - 2.06%

With reference to the revision of the Budget Act for 2013, an increase in the public debt-to-GDP ratio from 52.7% at end of 2012 to 54.8% at the end of 2013 is expected. The amount of public debt recalculated using the yearly average of foreign exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year is estimated at 54.0% in 2013. Thus there is no threat that the sanctions specified in the Public Finance act for exceeding the 55% threshold will come into force.

As a result of pension system changes, planned by the Council of Ministers in 2014, there will be a significant decline in debt, primarily due to the transfer of non-equity assets from OPF to the public pension system. After a one-off increase in 2015, in subsequent years, the public debt-to-GDP ratio will decrease and will fall to 46.2% in 2017. The general government debt-to-GDP ratio in the timeframe of the *Strategy* will decrease to 50.1%. The general government debt-to-GDP ratio is not expected to exceed the 60% threshold set out in the Maastricht Treaty.

A slight decrease in ST debt servicing costs-to-GDP ratio in 2013 (to 2.60% from 2.64% in 2012) is forecasted. The ratio will fall significantly to 2.1% in 2014, resulting to a great extent from the cancellation of Treasury securities acquired by the Minister of Finance from the Social Security Institution (ZUS). In subsequent years, depending on the Polish zloty exchange rate, the ST debt servicing costs-to-GDP ratio will remain in the range of 1.9-2.1%.

This *Strategy* is a continuation of the strategy developed last year. The objective of minimisation of the long-term debt servicing costs subject to risk constraints remained unchanged. Three interconnected tasks of the previous strategy: to increase the liquidity, efficiency and transparency of the Treasury securities market were supplemented with the new task of broadening of the scope of the public finance sector liquidity management consolidation.

The following has been assumed for the accomplishment of the *Strategy's* objective for 2014-2017:

- the flexible approach towards shaping the financing structure in terms of selecting the market, currency and instruments shall be maintained, to the extent that cost minimisation is achieved, subject to the assumed risk limitations and avoiding distortions of monetary policy;
- the domestic market shall remain the main source of financing the State budget borrowing requirements;
- the share of foreign currency debt shall rise temporarily as a result of the cancellation of the Treasury securities acquired from Social Security Institution to ca. 35-37% in 2014, and then will be decreasing , ultimately to less than 30%, at a rate depending on market conditions;
- large and liquid fixed rate issue programmes, both in the domestic, as well as the euro and US dollar markets, shall be a priority of the issuance policy;
- the average maturity of domestic debt shall be increased to about 4.5 years, if possible is possible taking into account demand and profitability in particular segments of the yield curve, and the average maturity of the State Treasury debt will be maintained at no less than five years.

The *Strategy* includes six annexes supplementing the main text, with a glossary of terms included.

II. CHANGES IN VOLUME AND STRUCTURE OF PUBLIC DEBT

The goal of debt management is to shape the debt structure so that the public debt entails the least possible cost in the long term with an acceptable level of risk.

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 2002-2012 resulted mainly from changes in the ST debt. Change in nominal debt was primarily an outcome of a relatively high borrowing needs and changes in exchange rate of Polish zloty, and since 2011, also the consolidation of the public finance sector liquidity management. In 2012, for the first time since 2007, there was a decrease in the debt-to-GDP ratio, according to both Polish methodology (from 53.4% at the end of 2011 to 52.7%) and the EU methodology (from 56.2 % at the end of 2011 to 55.6%).

Chart 1. Public debt volume in years 2011-2012[1]

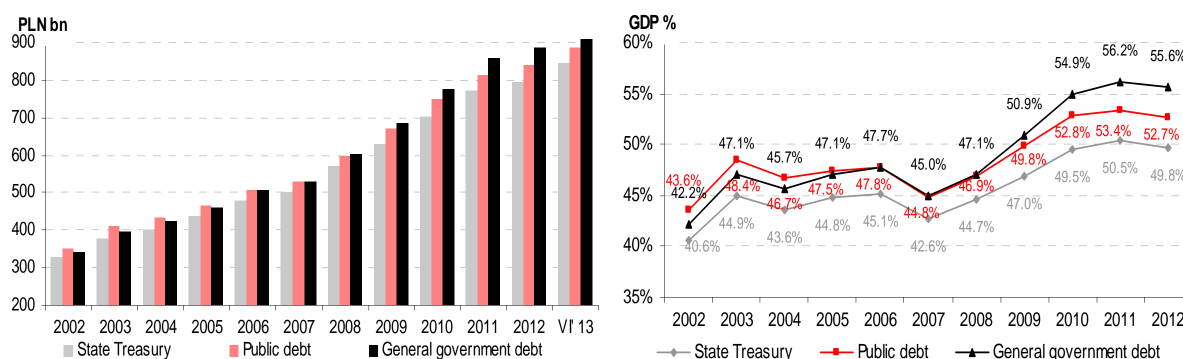
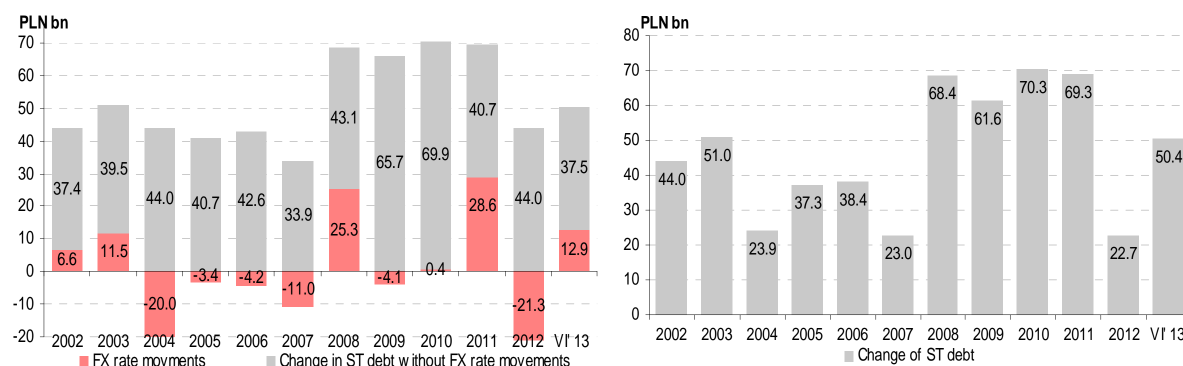


Chart 2. The influence of FX rate movements on ST debt in years 2012-2013

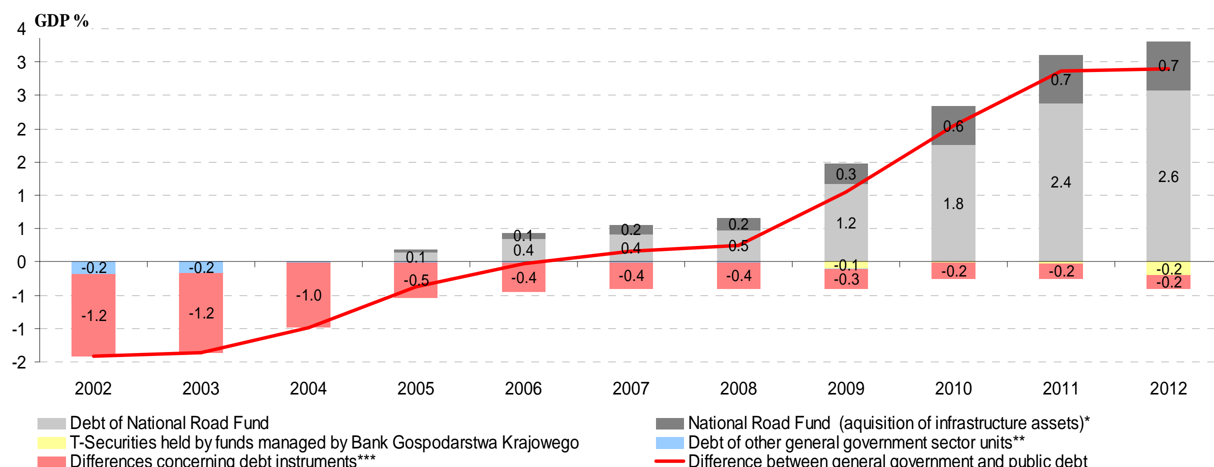


The debt-to-GDP ratio according to the EU methodology (general government debt), which amounted to 55.6% at the end of 2012, was higher than that of public debt according to the national definition (the difference results primarily from the debt of the National Road Fund, which is included in debt according to the EU methodology). The general government debt-to - GDP ratio was lower than the ratio for the whole EU (85.2%) and the Euro zone (90.6%)[2].

1 The detailed data concerning public debt volume are included in annex 6.

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

Chart 3. Changes in the level of debt according to national methodology (public debt) and EU methodology (general government debt)

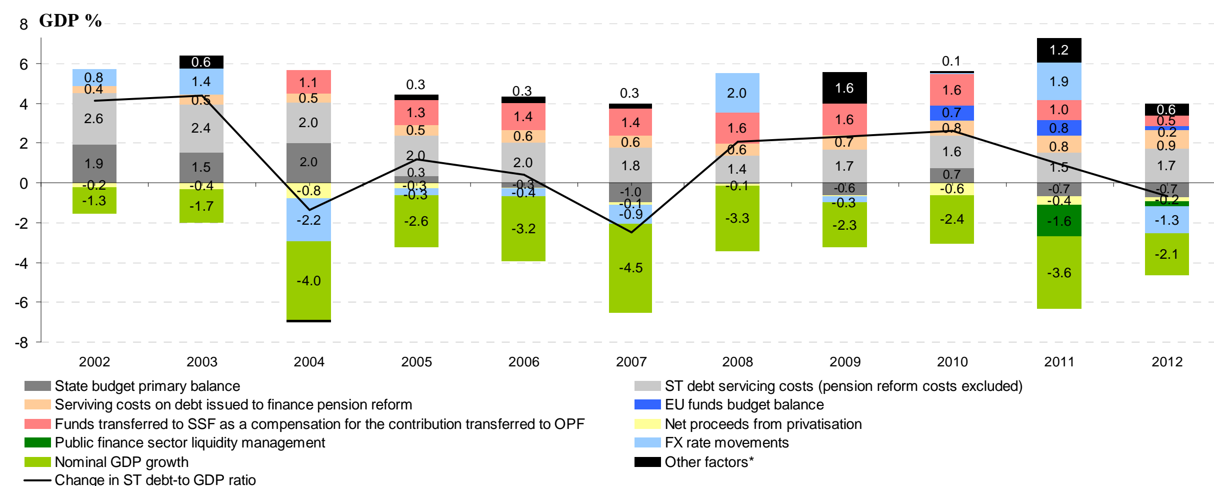


** in compliance with Eurostat guidelines on sector classification of some motorway projects, general government debt figures include capital expenditures of the projects in question*

*** due to changes in sources of financing The Agricultural Market Agency was incorporated in general government sector in 2004. Other differences concerning the scope of the sector are negligible*

**** Matured payables, debt assumption – activation of guarantees, up-front payments on off-market swaps, restructured/refinanced trade credits*

Chart 4. Factors influencing changes in the debt-to-GDP ratio

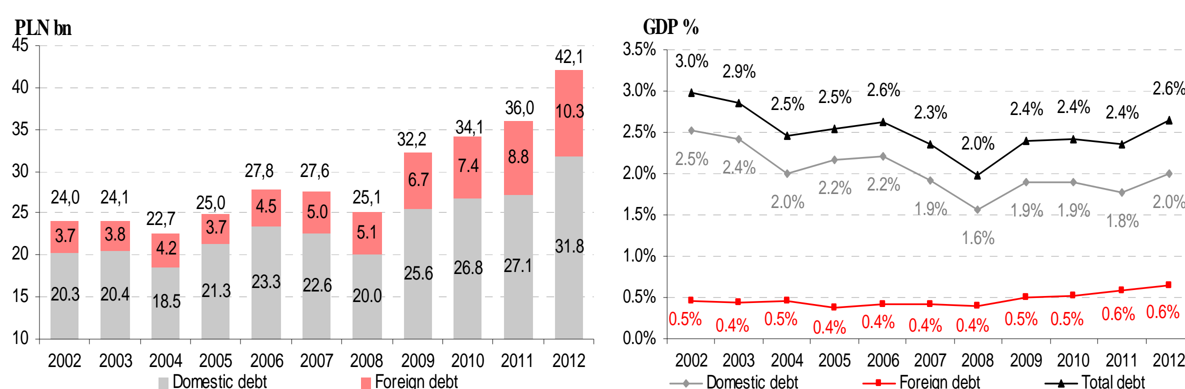


** Other factors include: other borrowing requirements (including: the balance of granted loans, and prefinancing), changes not resulting from borrowing requirements (changes of debt resulting from: changes of budget account balance, TS discount, TS capitalization and indexation, off-budget drawings, written off debt, conversion of FUS debt to OFE securities) and changes in other ST debt (among others: matured payables and funds deposited with Minister of Finance under the public finance sector liquidity management.*

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

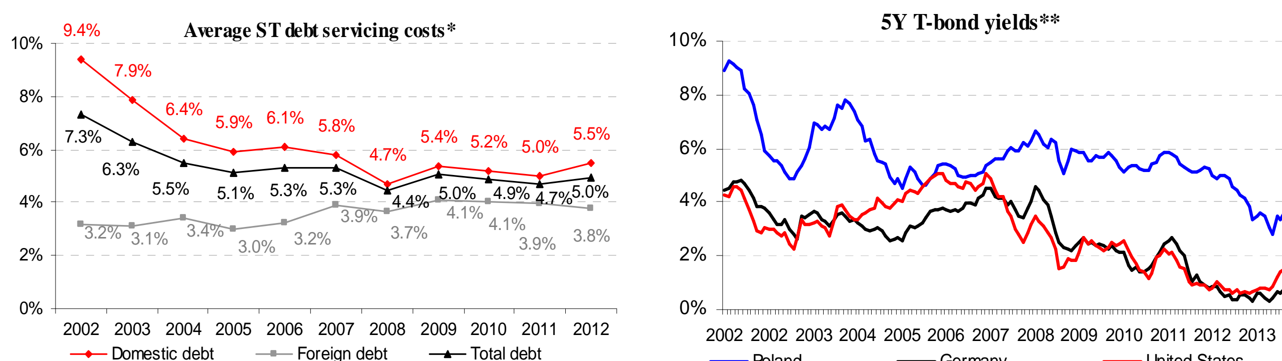
- derivatives - in use since the end of 2006,
- setting coupons of newly issued bonds at levels close to their yields to reduce the accumulation of discount costs at maturity,
- switching auctions, in use since 2001, and buy-back auctions aimed primarily at reducing refinancing risk, but allowing also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

Chart 5. ST debt servicing costs in years 2001-2012



Foreign debt servicing costs were much lower than those of domestic debt, due to the lower share of foreign debt in ST debt, and the difference in interest rates on domestic and major foreign markets. An increase in foreign debt servicing costs since 2009 resulted from an increased importance of foreign financing and depreciation of the Polish zloty. The significant increase in domestic debt servicing costs in 2012 resulted from higher discount expenses from redeemed securities, which was the effect of the structure of debt issued in previous years (especially 2-year zero coupon bonds issued during the global financial crisis).

Chart 6. Market interest rates and average servicing costs of foreign and domestic debt



*** Average ST debt servicing costs were calculated as a ratio of the difference between debt servicing costs and revnues in a particular year to the average debt volume in this year*

*** In domestic currency*

II.2. Structure of the State Treasury debt

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

Refinancing risk

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

- the growing importance of medium and long-term bonds in financing the borrowing requirements, and at the same time the diminishing role of T-bills;
- large-scale of switching auctions;
- pre-financing of the next years‘ State borrowing requirements in the 4th quarter of the current year;
- maintaining the liquidity reserve of the State budget.

Chart 7. Residual maturity of the ST debt in years 2002-13

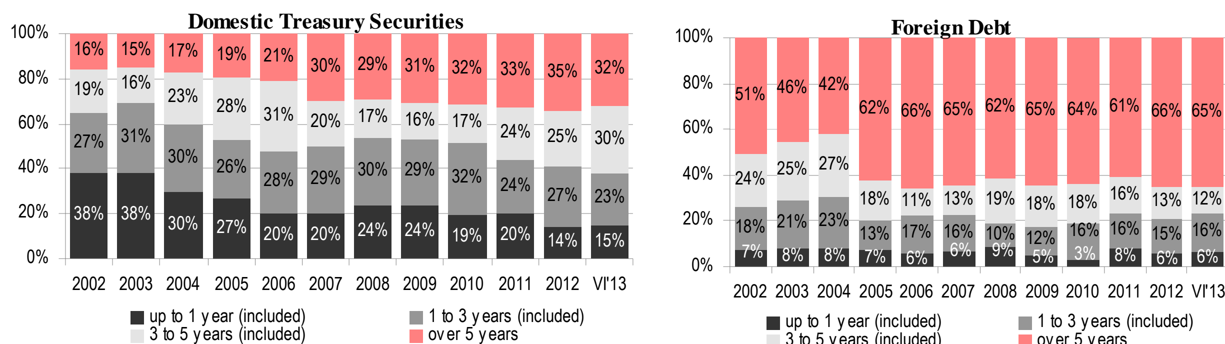
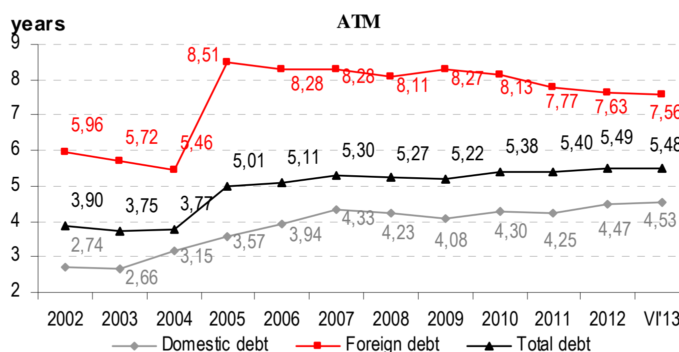


Chart 8. ATM of ST debt in years 2002-2013



The refinancing risk of foreign debt is significantly lower in comparison with that of domestic debt. It was considerably reduced in 2005, due to early redemption of a part of the Paris Club debt which was refinanced by issuing bonds with a significantly longer maturity. The average time to maturity (ATM) of domestic debt reached a record high level in the first half of 2013 (4.56 years in May), and for the overall ST debt has remained at a stable level in recent years.

Foreign exchange risk

The share of debt denominated in foreign currency in ST debt has been slightly exceeding 30% in 2011-2013, and at the end of June 2013 amounted to 30.6%. The increase of the role of foreign currency debt since 2008 was on the one hand the result of volatility of the exchange rate of the Polish zloty and a flexible approach to implementing the objective of minimising the debt servicing costs in the context of foreign exchange risk constraints on the other. It was allowed to temporary increase in foreign financing, if justified by striving towards domestic market stabilisation, diversification of sources of capital and taking advantage of the possibility of issuing bonds with a yield lower than that prevailing in the domestic market and incurring low-interest loans at international financial institutions (IFI).

Chart 9. Currency structure of ST debt

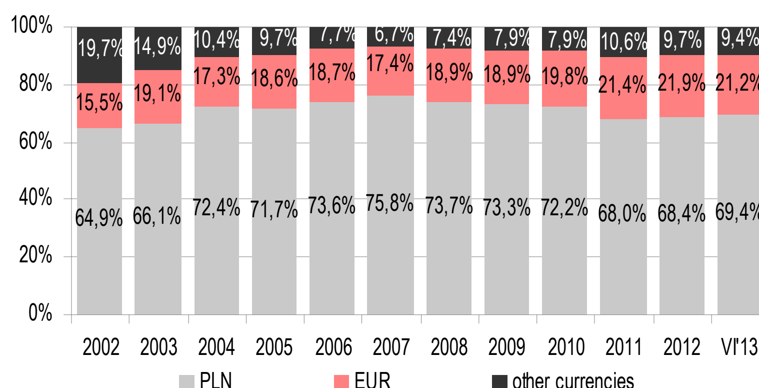


Chart 10. Polish zloty exchange rate against euro and dollar in years 2002-2013

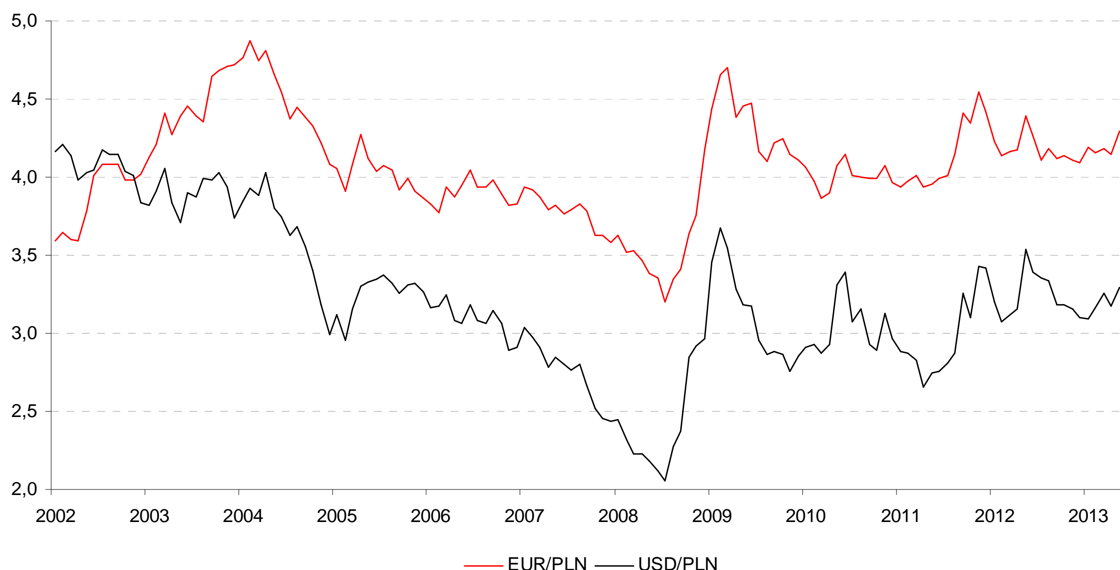
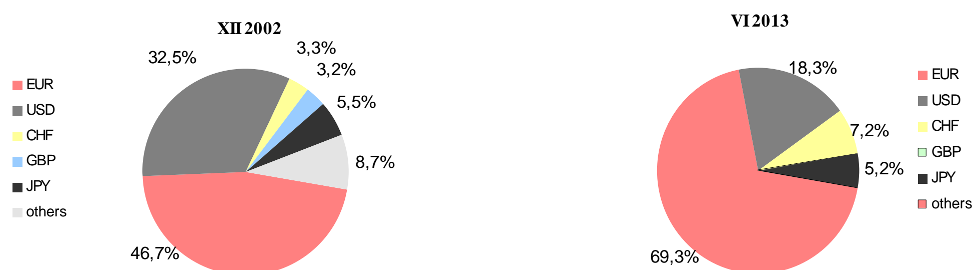


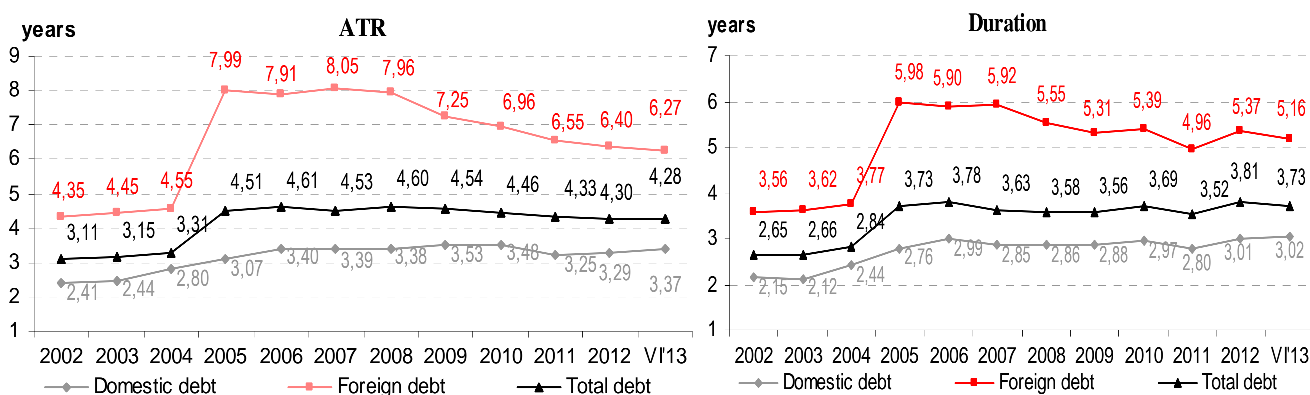
Chart 11. Currency structure of foreign debt



Interest rate risk

Interest rate risk for domestic and foreign debt was in recent years subject to similar trends as the refinancing risk. Interest rate risk of foreign debt remains at an acceptable level.

Chart 12. ATR and duration of ST debt in years 2002-2013



II.3. Volume and structure of public finance sector debt

At the end of 2012, the unconsolidated debt of units other than ST amounted to 10.8% of public debt (the ratio for consolidated debt was 8.5%) compared to 10.5% (8.3%) at the end of

2011. After the first half of 2013 that ratio was 10.9% and 7.8%, 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 unconsolidated debt had been steadily decreasing until 2008, only to increase to 3.2% since 2009. The difference between the social security sector unconsolidated and consolidated debt since 2009 is a consequence of shortages of funds in the Social Security Fund (FUS) that have been financed with loans from the State budget.

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

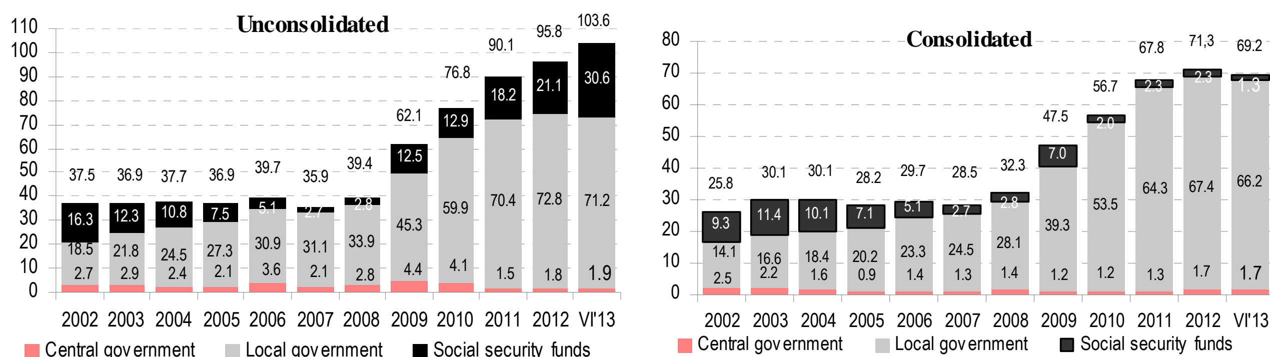


Chart 14. Share of debt of public finance sector units other than ST before and after consolidation in public finance sector debt and as a GDP ratio.

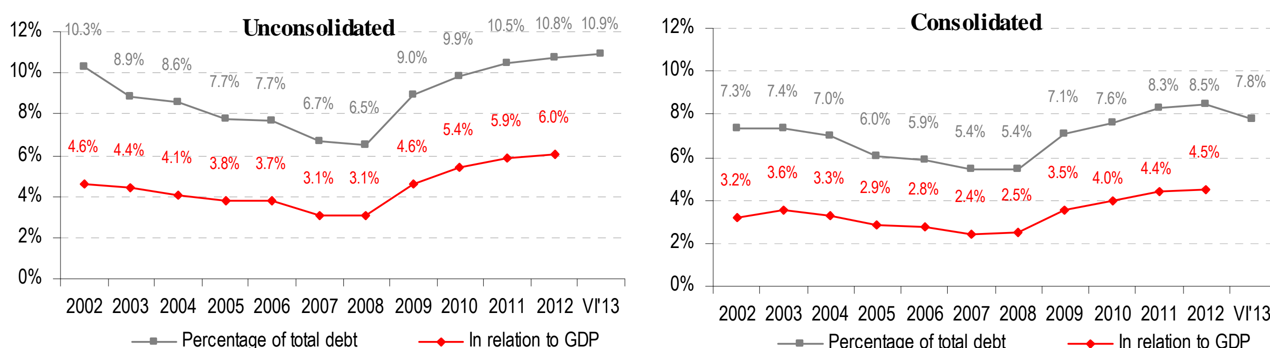
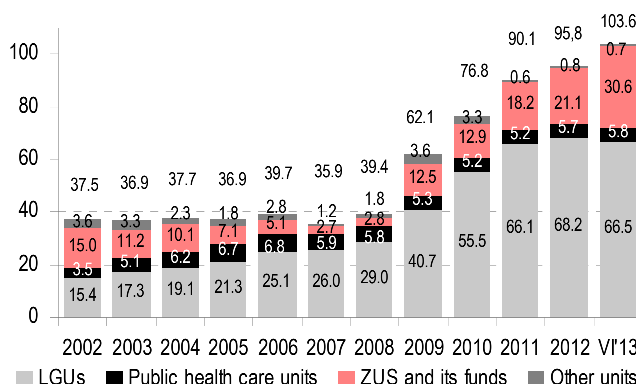


Chart 15. Unconsolidated debt of public finance sector units other than State Treasury (PLN bn).



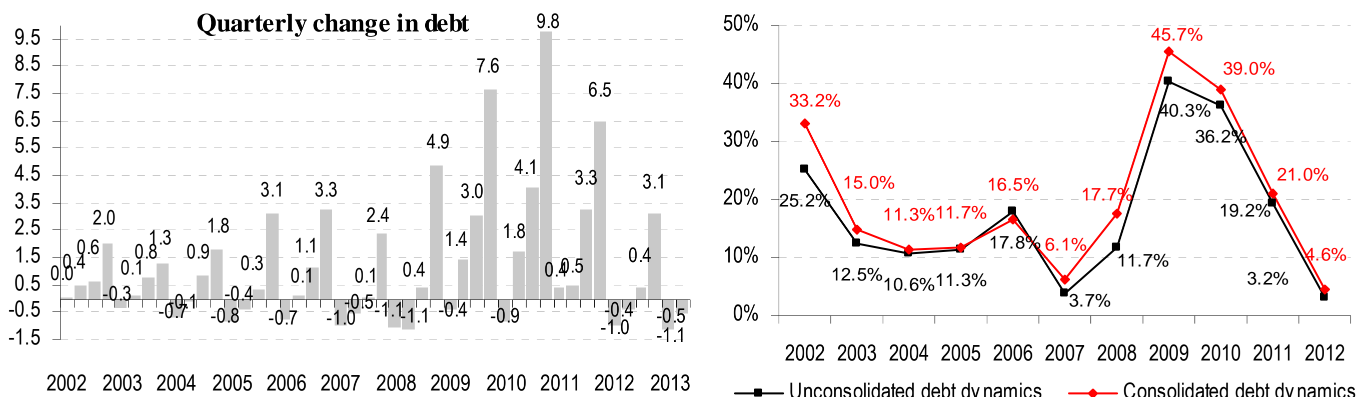
The following part of the subchapter focuses on unconsolidated debt of public finance sector entities other than ST.

II.3.1. Debt of local government units

The debt of local government units and their associations has been gradually increasing, and at the end of 2012 amounted to PLN 68.2 billion, compared to PLN 66.1 billion at the end of 2011. After the first half of 2013, the debt declined to PLN 66.5 billion. In 2009 yearly debt dynamics peaked - it grew to 40.3% (consolidated debt) and 45.7% (unconsolidated debt). In subsequent years, the growth rate has been significantly reduced, and in 2012 amounted to 3.2%

and 4.6%, respectively. The debt of local government units and their associations from the end of 2008 to mid-2013 increased by 129.2% (consolidated debt) and 151.3% (unconsolidated debt).

Chart 16. Debt of local government units and their associations: quarterly changes and yearly dynamics.

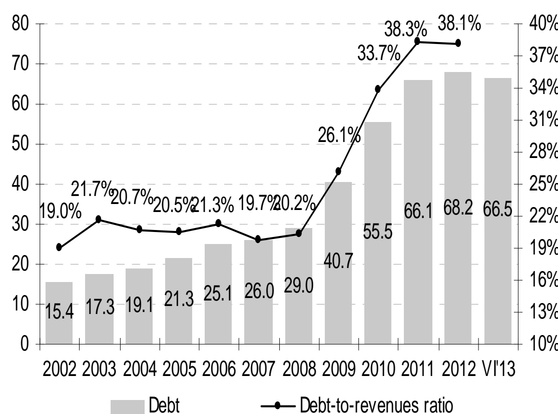


In 2012, the local government units and their associations recorded a budget deficit of PLN 3.0 billion. This result is significantly better than that of 2011 – PLN 10.3 billion. Debt of local government units and their associations in 2012 increased by PLN 2.1 billion.

Local government units incurred liabilities primarily in the last quarter of the year, which was associated with highly seasonal nature of their results, although in 2009-2011, a significant increase in debt took place also in the second and third quarters of the year. In the first half of 2013 there was a decline in the debt of local government units by a total of PLN 1.7 billion (with a budget surplus of PLN 8.1 billion). A similar situation occurred in 2012. In the first half of 2012, the debt decreased by PLN 1.4 billion, with a surplus in the amount of PLN 6.7 billion, but in the second half of the year increased by PLN 3.5 billion.

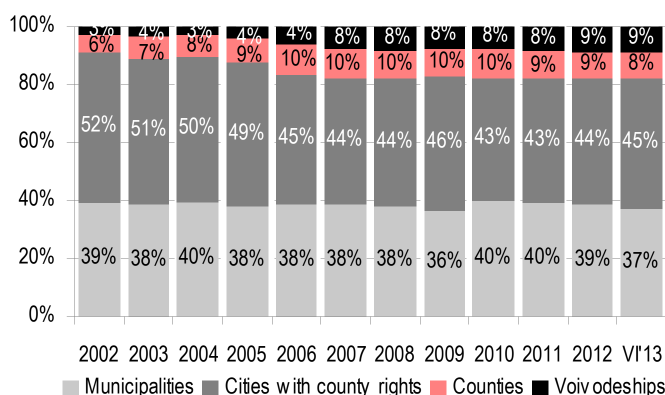
The ratio of total debt of local government units to their revenues in 2012 was well below the legal constraint of 60% and stood at 38.1%, a decrease of 0.2 percentage point compared to 2011. It was the first decline in the debt ratio since 2007. In 2012, the highest average debt ratio was recorded in cities with county rights (48.3%) and the lowest one was recorded in counties (26.5%).

Chart 17. Debt volume and debt-to-revenues ratio of local government units and their associations.



The majority of total liabilities incurred by all local government units are liabilities of cities with county rights (43.6% in 2012 and 45.3% in the first half of 2013). The share of liabilities of municipalities remained in 2002-2011 at a relatively stable level of ca. 36-40% (at the end of 2012, the share rose to 38.6%, just to decrease to 37.0% at the end of June 2013) and the share of voivodeships and counties after several years of growth stabilized at ca. 8-10% (at the end of the second quarter of 2013, it amounted to 9.2% and 8.5%, respectively).

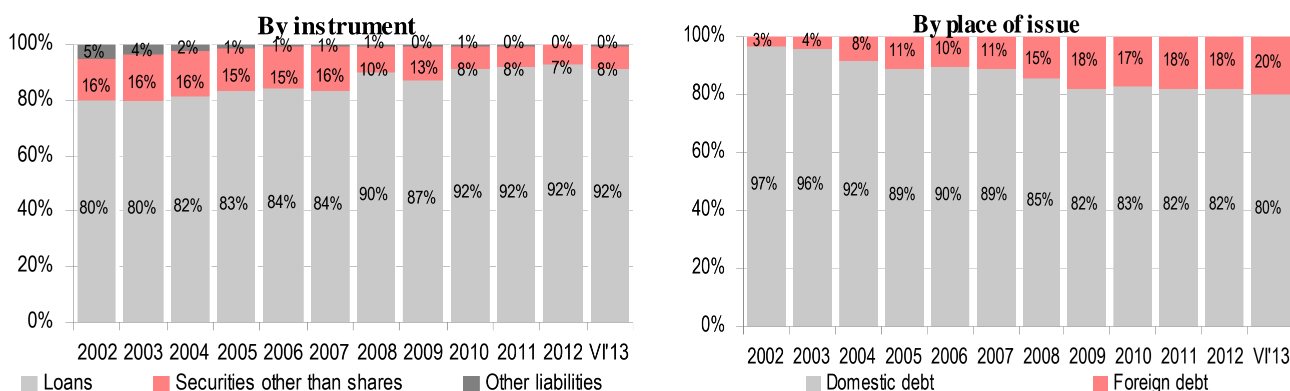
Chart 18. The debt structure of local government units and their associations according to the levels of local government



In 2012, the debt-to-revenues ratio (excluding debt incurred on EU co-financed programmes and projects) exceeded 60% in the 30 local government units (compared to 32 in 2011). The vast majority of units who exceeded the ratio which is the limit specified in the Public Finance Act were the municipalities, in 2012, only three counties and Opolskie Voivodeship exceeded the limit value.

The structure of local government liabilities was dominated by domestic debt, although the share of foreign debt has been increasing steadily, and at the end of June 2013 stood at 20.0%. Loans prevailed in the structure of liabilities of local government units and their associations.

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



II.3.2. Debt of independent public health care units

At the end of 2012, the debt of independent public health care units amounted to PLN 5.7 billion, while at the end of June 2013, it was PLN 5.8 billion compared to PLN 5.2 billion in 2011. Since 2007, loans have been the dominant component of the debt. Matured payables which have arisen as a result of untimely settlement of liabilities continue to be a significant component of debt. Changes in the debt structure in 2005-2008 resulted from a reduction of the growth rate of matured payables while pursuing remedial procedures at the same time.

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

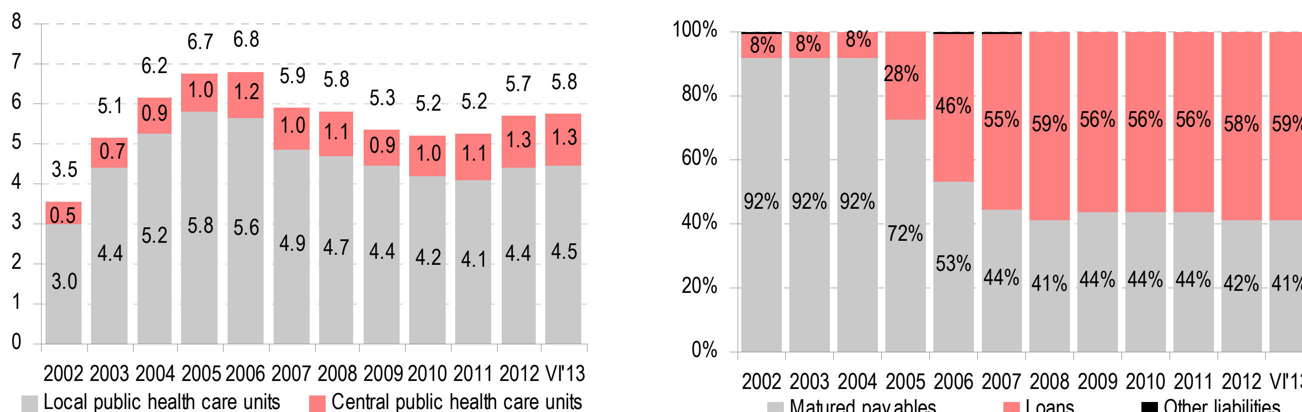
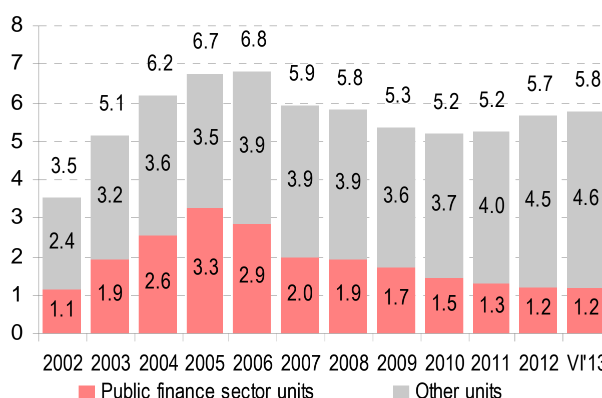


Chart 21. Debt of independent public health care units owed to public finance sector and other units (PLN bn)



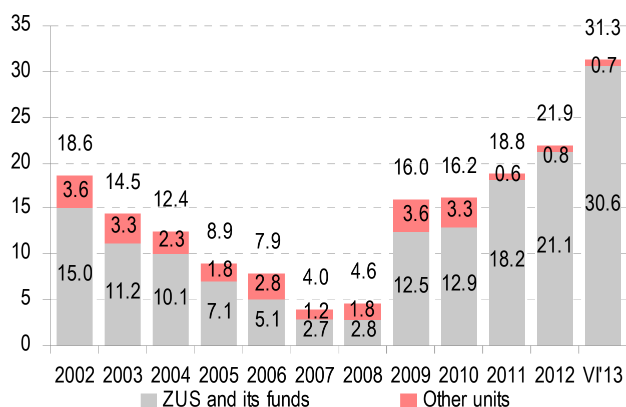
In 2006-2012, the debt of independent public health care units owed to the public finance sector decreased - and at the end of 2012 it amounted to ca. PLN 1.2 billion, and remained at that level at the end of June 2013. This was mainly due to the restructuring of independent public health care units and partial cancellation of loans from the State budget granted under the Act of 2005, as well as a decrease in liabilities towards the Social Insurance Institution.

II.3.3. Debt of the Social Insurance Fund and other entities

In 2002-2012, the Social Insurance Institution (ZUS) and funds managed by it were, among public finance sector units which weren't mentioned in previous subchapters, the most indebted entities. The debt of ZUS and its funds consisted almost exclusively of liabilities incurred by the Social Insurance Fund (FUS). In 2003-2008, the debt of the FUS was gradually decreasing as a result of repayment of loans at commercial banks and conversion of matured payables to T-bonds. In 2009 and subsequent years, there was a significant increase of the FUS debt, up to PLN 21.1 billion at the end of 2012 and PLN 30.6 billion at the end of June 2013. The increase in the Social Insurance Fund debt was a result of a considerable imbalance of the fund resulting from slow increase of revenues due to the reduction of the disability pension premium in 2007-2008, economic slowdown and a significant increase in expenditures related to disability pension and retirement benefits. As of 2009, the loan from the State budget was used as an instrument for financing FUS deficit. In mid-2013, it accounted for 95.7% of the total debt of the fund, while the debt in commercial banks has been repaid in full.

The debt of other entities constituted an insignificant share of public debt (less than 0.1% of the unconsolidated public finance sector debt, both at the end of 2012 and in mid-2013).

Chart 22. Debt of Social Insurance Fund other public finance sector entities (PLN bn).



II.4. Guarantees and sureties granted by public finance sector entities

Contingent (undue) liabilities that arise from guarantees and sureties owed by public sector entities at the end of the first half of 2013 amounted to PLN 111.2 billion, compared to PLN 101.1 billion, i.e. 6.3% of GDP in 2012 and PLN 97.7 billion, or 6.4% of GDP in 2011.

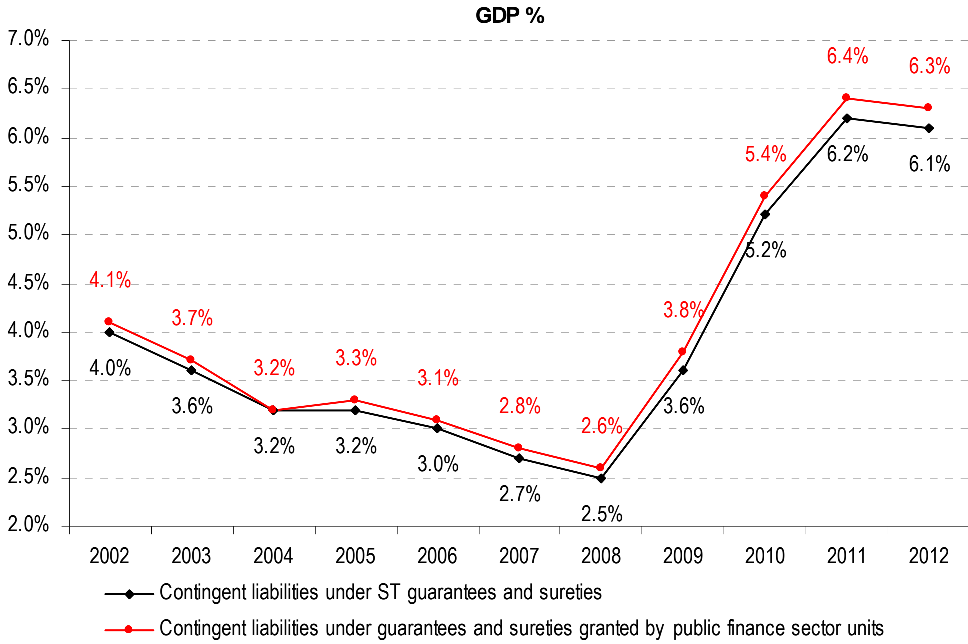
Guarantees and sureties granted by the ST had a dominant share in guarantees and sureties granted by public finance sector entities. In the first half of 2013, they amounted to PLN 107.6 billion compared to PLN 97.5 billion, i.e. 6.1% of GDP in 2012, and PLN 94.3 billion, i.e. 6.2% of GDP in 2011.

ST operations related to granting guarantees and sureties do not pose a significant risks to public finance. At the end of 2012, ca. 90% of contingent liabilities under ST guarantees and sureties belonged to the low-risk group. The increase in contingent liabilities resulted mainly from a large volume of guarantees granted for the development of road infrastructure. At the same time, payments under guarantees and sureties remained at the similar level, rising slightly by PLN 0.1 billion and at the end of 2012 amounted to, as in the previous year, ca. 0.34 % of GDP. At the end of 2012, the long-term risk factor for the portfolio of guarantees and sureties stood at less than 6%.

The biggest amounts of ST contingent liabilities at the end of June 2013 resulted from:

- guarantees granted for Bank Gospodarstwa Krajowego	PLN 76.6 billion
including support for the National Road Fund (KFD)	PLN 74.4 billion
- guarantees of payments from the National Road Fund for Gdańsk Transport Company S.A.	PLN 8.9 billion
- guarantees of payment from the National Road Fund for Autostrada Wielkopolska II S.A.	PLN 7.6 billion
- guarantees granted for PKP Polskie Linie Kolejowe S.A.	PLN 5.6 billion
- guarantees granted for Autostrada Wielkopolska S.A.	PLN 3.5 billion
- guarantees granted for Polskie Koleje Państwowe S.A.	PLN 2.9 billion

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



III. EVALUATION OF IMPLEMENTING THE STRATEGY'S OBJECTIVE

In 2012 and the first half of 2013, debt management was conducted in accordance with *Debt Management Strategy for the Public Finance Sector in 2012-2015*, approved by the Council of Ministers in December 2011 and *Debt Management Strategy for the Public Finance Sector in 2013-2016* approved in September 2012.

Table 2 presents the evaluation of implementing the *Strategy's* objective along with risk constraints in 2012 and the first half of 2013.

Table 2. Evaluation of implementing the Strategy's objective in 2012 and over the first half of 2013

I. Strategy's objective – minimisation of debt servicing costs	
Level of implementation*	Way of implementation
High	**1. Selection of instruments** The domestic market was core source of financing borrowing requirements. In 2012, the face value of TS issuance amounted to PLN 140.7 billion in the domestic market, and PLN 43.8 billion in foreign markets (including PLN 5.5 billion from IFIs); in the first half of 2013, this was PLN 91.2 billion and PLN 8.3 billion, respectively (including PLN 3.0 billion from IFIs). Main factors taken into account when deciding about the financing structure in 2012 and first half of 2013 included: • external factors, in particular: o the economic and fiscal situation in Europe (fall in the GDP growth in the EU, debt crisis in some countries) leading to further downgrades of ratings of European countries (including the loss of top AAA rating by France and Austria)[3]; o restructuring of Greek debt and international aid packages for Cyprus; o the actions taken by the EU to restore macroeconomic stability and improve long-term sustainability of public finances as well as aid and preventive measures (the fiscal pact, agreement on common banking supervision, establishment of a permanent financial assistance mechanism for the Eurozone: the ESM); o the low interest rates policy conducted by those central banks, that have the greatest impact on the situation in the global financial markets; o increasing the scale of asset purchase programme by the Fed and the Bank of Japan, resulting in significant capital flows, including to the Polish government bonds market; o volatility of the EUR/USD exchange rate (within the range of 1.21-1.36). • local factors, in particular: o investors' expectations as to the scale and pace of monetary policy easing (from November 2012 to June 2013, the Monetary Policy Council cut interest rates by 2.0 percentage points); o upgrading the rating outlook for Poland by Fitch from "stable" to "positive" in February 2013[4], and upgrading the credit rating from A- to A by Japan Credit Rating Agency (JCR) in March 2013, o the continuing interest of foreign investors in local currency TS market (the inflow of foreign capital in the amount of PLN 36.3 billion in 2012 and PLN 11.4 billion in the first half of 2013); o significant fluctuations in the exchange rate of Polish zloty: in 2012, the EUR/PLN exchange rate was fluctuating in the range of 4.04-4.50, and in the first half of 2013 in the range of 4.07-4.35; o decrease in yields of domestic and foreign Treasury bonds to the lowest level in

[3] Government debt rating of EU countries is given in Annex 5.

[4] In August 2013, Fitch downgraded the rating outlook for Poland back to "stable".

	the history at the end of 2012. The positive downward trend continued in the first half of 2013, and bond yields reached another record lows in May. • distribution over time of State borrowing requirements, including those connected with the redemption of large series of bonds in January, April and October; • flexible approach to the choice of instruments and timing of issuance in order to adjust the size and structure of the offer to current and expected market conditions; • maintaining a safe level of state budget liquidity, as reflected in prefinancing of a significant part of borrowing requirements of the next year (19% of requirements of 2012, and 29% of requirements planned for 2013) at the end of the preceding year. As far as foreign debt is concerned, the most important operations included: • regular issuance in the euro market (in 2012, the total value of debt incurred in the euro market was EUR 5.3 billion, while in the first half of 2013, it was EUR 1.3 billion) and US dollar market (two issues of bonds with total face value of USD 3.0 billion); • maintaining the Polish presence in other major markets. In 2012, bonds issued on the Japanese yen market amounted to JPY 91.0 billion, and on the Swiss franc market to CHF 825.0 million; • drawing credits from IFIs (in 2012 and the first half of 2013, a total of EUR 2.0 billion, including EUR 1.2 billion from EIB and EUR 0.8 billion from the World Bank). **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. In mid-2013, 17 issuances of bonds had a par value exceeding the equivalent of EUR 5 billion. At the end of June 2013, benchmark issues accounted for 84% of the face value of fixed rate medium-term and long-term bonds outstanding. The average liquidity ratio[5] having decreased to 111.2% in 2009, increased to 173.7% in 2012 and remained at a similar level in the first half of 2013 (173.1%); • issuance of liquid bonds series (regular issuances of a face value ensuring the liquidity of a given issuance) in the euro and US dollar markets; • adjusting the level and structure of the TS supply to the current market situation and influencing this situation through information policy. • introduction in October 2011 of new rules to assess the activity of Primary Dealers (PD), which facilitate the creation of the best conditions for entering transactions involving Treasury securities in the secondary market. The introduction of assessment of TS quotations quality in the electronic market as the sole criterion for assessing the activity of primary dealers and candidates in the secondary market resulted in a significant decrease in the spread between the bid and ask prices quoted by participants of the electronic trading market, with a simultaneous significant increase in quoted volumes. This made the electronic market a real point of reference for all TS market participants (including non-bank and foreign); • introduction in 2012 of the single price auction formula and the possibility of submitting non-competitive tenders at all TS sales auctions. As a result, it was observed that the yields obtained at an auction were often lower than those in the secondary market.

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

<table>
<tr><th colspan="7">II. Constraints - quantitative</th></tr>
<tr><th rowspan="2">Constraint</th><th rowspan="2">Level of implementation *</th><th rowspan="2">Way of implementation</th><th rowspan="2">Measure</th><th colspan="3">Value</th></tr>
<tr><th>2011</th><th>2012</th><th>June 2013</th></tr>
<tr><td rowspan="2">Refinancing risk</td><td rowspan="2">High</td><td rowspan="2">• Limiting T-bills issuance (in August 2013, the debt in Treasury bills was discharged completely)
• High sale of medium and long-term bonds in 2012 and in the first half of 2013 (respectively 64% and 65% of all Treasury securities sold at outright and switching auctions) with favourable market conditions;
• High importance of switching auctions (in the period from January 2012 to June 2013, 30% of the initial debt in bonds was bought back at switching auctions);
• Extension of ATM of domestic debt, despite volatile market conditions.</td><td>ATM
(in years)
- domestic
- foreign
- total</td><td>

4.25
7.77
5.40</td><td>

4.47
7.63
5.49</td><td>

4.53
7.56
5.48</td></tr>
<tr><td>Share in domestic TS:
- TS with maturity up to 1 year
- T-bills</td><td>19.9%
2.3%</td><td>14.2%
1.1%</td><td>14.9%
0.5%</td></tr>
<tr><td rowspan="2">Foreign exchange risk</td><td rowspan="2">Satisfactory</td><td rowspan="2">• Share of foreign debt remained slightly above the level of 30% assumed in the Strategy, which was due to the circumstances in which the Strategy allowed for this excess (i.e. due to the prefinancing of borrowing requirements of 2013, as increased in 2012, with bond issues on international markets at lower yields than that on the domestic market and the depreciation of Polish zloty in June 2013);
• Share of euro denominated debt in the foreign debt was slightly lower than assumed in the Strategy (70%), due to the circumstances in which the Strategy allowed for deviations (i.e. an increased share of new issues in US dollar in 2012);
• Continuation of long-term non-marketable financing from IFIs.</td><td>Share of foreign debt in ST debt</td><td>32.0%</td><td>31.6%</td><td>30.6%</td></tr>
<tr><td>Share of euro-denominated debt in foreign debt</td><td>66.9%</td><td>69.4%</td><td>69.3%</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 range of 2.5-3.5 years set in the Strategy ;
• ATR of domestic debt remained in the range of 2.8-4.2 years set in the Strategy;
• Risk of foreign debt remained at a safe level and did not pose a threat to the costs minimisation objective</td><td>ATR (in years)
- domestic
- foreign
- total</td><td>
3.25
6.55
4.33</td><td>
3.29
6.40
4.30</td><td>
3.37
6.27
4.28</td></tr>
<tr><td>Duration
(in years)
- domestic
- foreign
- total</td><td>

2.80
4.96
3.52</td><td>

3.01
5.37
3.81</td><td>

3.02
5.16
3.73</td></tr>
</table>

III. Constraints – non-quantitative		
Constraint	Level of implementation*	Way of implementation
Liquidity risk	High	The main instruments used in liquidity risk management included: • switching auctions (in 2012, bonds of the face value of PLN 40.3 billion were bought back, while in the first half of 2013, it was PLN 12.1 billion); • interest-bearing PLN-denominated deposits at the NBP- deposits of the total value of PLN 123.5 billion were made in 2012, while those made in the first half of 2013 amounted to PLN 52.4 billion, • PLN-denominated deposits where Bank Gospodarstwa Krajowego (BGK) acted as an intermediary. In 2012, transactions amounted in total to PLN 980.1 billion, while in the first half of 2013, transactions amounted to PLN 523.9 billion; • FX swap transactions enabling temporary usage of held currencies in order to raise funds denominated in PLN. In 2012, transactions amounted to the equivalent of USD 1.4 billion; • Interest-bearing foreign currency deposits - in 2012, deposits amounted to EUR 125.5 billion, while in the first half of 2013, to EUR 61.8 billion; • sale of a part of foreign currency funds from the EU funds directly in the foreign exchange market (in 2012, foreign currencies equivalent of EUR 6.5 billion were sold, in 2013 sale continued); • deposits of liquid funds of public sector entities in the accounts of the Ministry of Finance in BGK as part of the consolidation of public finances sector liquidity. At the end of June 2013, the accumulated funds amounted to PLN 29.7 billion. The level of State liquid assets in 2012 and in the first half of 2013 provided for smooth execution of budgetary flows.
Credit risk	High	• Deposits in BGK, secured with TS, did not generate 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; • A collateral system related to transactions on derivatives in the form of blocking TS in the National Depository Securities (KDPW) is in force. Secured transactions do not generate credit risk; • The credit risk generated by unsecured transactions is diversified through limits imposed on the total value of transactions made with individual partners. Creditworthiness of potential partners is monitored on an on-going basis; • Only short-term transactions (up to one year) were carried out.
Operational risk	Satisfactory	• Debt management conducted in one department in the Ministry of Finance. • Technical infrastructure adequate to the requirements of conducting market transactions. • Security of information related to debt management. • Integrated database of the ST debt.

Distribution of debt servicing costs over time	Satisfactory	• The level of servicing costs in 2012 was affected by swap transactions carried out in 2011 (the costs for 2011 grew by PLN 1.56 billion and costs for 2011 fall by PLN 1.61 billion in 2012) and in 2012 (an increase in the costs by PLN 0.49 billion in 2012 and a decrease by PLN 0.50 billion in 2013). The purpose of the transactions was to maintain the debt servicing costs in a given year at a level consistent with the limits specified in the Budget Act, lowering at the same time those costs in the following year; • Coupons of new issues were set close to their yields. • Switching auctions of T-bonds on domestic market and euro denominated bond buy-back auction contributed to smooth distribution of costs.

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

IV. IMPACT OF CHANGES IN THE PENSION SYSTEM ON PUBLIC FINANCE AND TS MARKET

The following subchapters outline main assumptions of the planned changes in the pension system that will affect public finance and the Treasury securities market.

IV.1 Changes in the pension system

In accordance with the provisions of the Act of 25 March 2011 on the amendment of certain laws relating to the operation of the social security system, in June 2013 a review of the pension system was published and on September 4, 2013, the concept for changes in the pension system to be introduced in 2014 was presented.

The following changes in the pension system are planned:

1. Cancellation of 51.5% of accounting units recorded in the settlement account of each member of the open pension fund and transfer of assets in a corresponding value to the ZUS Simultaneously records on individual accounts in ZUS (sub-account) with at least similar value will be made. Asset classes to be transferred to ZUS will be specified by law, however Treasury securities and bonds guaranteed by the State Treasury will be transferred in the first place. The assets will be transferred up to the 51.5% of the net asset value of each open pension fund.

   After the conversion of ST liabilities which will involve the acquisition of TS by the Minister of Finance in exchange for the guarantee covering the payment of pension entitlements to the insured, corresponding to the indexed value of TS recorded on individual sub-accounts in ZUS, the TS will be cancelled.
2. As of the day of the transfer of the assets Open Pension Funds (OPF) will be obliged to maintain the share of TS and bonds guaranteed by the ST in their assets at a level not lower than on September 3, 2013 (i.e. the day preceding the notice of changes to the pension system).
3. The introduction of a so-called "safety zipper" to mitigate the risk of adverse impact of the asset price changes on the financial market on the value of capital accumulated in OPF by the insured who are 10 years or less from retirement. The assets remaining in OPF of those insured will be subject to a gradual transfer from OPF to SSI in the form of cash. ZUS will be held responsible for the payment of pensions from both pillars.
4. Members of OPF and individuals entering the pension system will be granted a choice between OPF and ZUS regarding the 2.92% portion of their future contributions.
5. OPF will be prohibited from investing in TS and bonds guaranteed by the ST.

IV.2. IMPACT OF CHANGES IN THE PENSION SYSTEM ON PUBLIC FINANCE

The inception of OPF and their operation under the current formula enforces funding additional borrowing requirements of the State budget which result from the transfer of funds to Social Security Fund as a compensation for contribution transferred to OPF since the introduction of the pension reform (i.e. since 1999). It is also necessary to incur servicing costs accrued on this additional debt. According to the estimates of the Ministry of Finance, at the end of 2012 the total amount of debt issued to finance additional borrowing requirements resulting from the establishment and operation of OPF stood at PLN 279.4 billion, which accounted for 17.5% of GDP. This means that the debt due to OPF constitute more than 30% of the total public debt.

Table 3. The influence of OPF on budget deficit and public debt in years 1999-2012

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Funds transferred to Social Security Fund as compensation for contribution transferred to OPF														
PLN bn	2.3	7.6	8.7	9.5	9.9	10.6	12.6	14.9	16.2	19.9	21.1	22.3	15.4	8.2
GDP%	0.3	1.0	1.1	1.2	1.2	1.1	1.3	1.4	1.4	1.6	1.6	1.6	1.0	0.5
2. Servicing costs on additional debt issued due to pension reform*														
PLN bn	0.2	0.8	1.8	3.0	3.8	4.3	5.1	6.4	7.0	7.7	10.0	11.4	12.4	14.4
GDP%	0.0	0.1	0.2	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.8	0.9
3. Influence of pension reform on general government deficit (1+2)**														
PLN bn	2.4	8.4	10.5	12.5	13.7	14.9	17.7	21.3	23.2	27.6	31.1	33.8	27.8	22.6
GDP%	0.4	1.1	1.3	1.5	1.6	1.6	1.8	2.0	2.0	2.2	2.3	2.4	1.8	1.4
4. Influence of pension reform on public debt*														
PLN bn	2.6	12.0	24.1	37.7	52.0	68.3	87.1	109.2	134.0	163.7	196.5	232.9	260.6	279.4
GDP%	0.4	1.6	3.1	4.7	6.2	7.4	8.9	10.3	11.4	12.8	14.6	16.4	17.1	17.5

) .Estimates of the Ministry of Finance

***) Since 2004 funds transferred to Social Security Fund as compensation for contribution transferred to OPF are classified as a financial transaction (State budget's outflows). According to the EU methodology the funds are treated as expenditures and thus they increase general government deficit.*

The changes in the pension system will bring about a drop in public debt in 2014, mainly as a result of a one-off effect of the cancellation of TS acquired by the Ministry of Finance. According to preliminary estimates and assuming that new contributions of half of the insured will go to ZUS instead of OPF, public debt-to-GDP ratio (domestic definition) will fall as a consequence of changes in the pension system by c.a. 7 percentage points, and the general government-debt-to-GDP ratio by c.a. 8 percentage points respectively. ESA2010 when come in force in September 2014 will in comparison with ESA95 be neutral for the impact of changes in the pension system on general government debt. Net borrowing requirements in 2014 will be reduced by about PLN 16.5 billion.

The introduction of a "safety zipper" and a lower contributions to OPF, along with lower number of people insured in OPF will have a permanent effect on the level of borrowing requirements as well as the volume of public debt, lowering both in subsequent years.

According to preliminary opinions of rating agencies, the proposed pension system changes are deemed neutral for Poland's credit rating outlook (as a result of both the reduction of public debt and the increase of future pension liabilities of Social Security Fund) assuming that debt-to-GDP ratio thresholds will be adjusted[6]. Such adjustments are to be implemented in the newly introduced stabilizing expenditure rule (see Chapter VIII.1).

IV.3. Impact of changes in the pension system on TS market

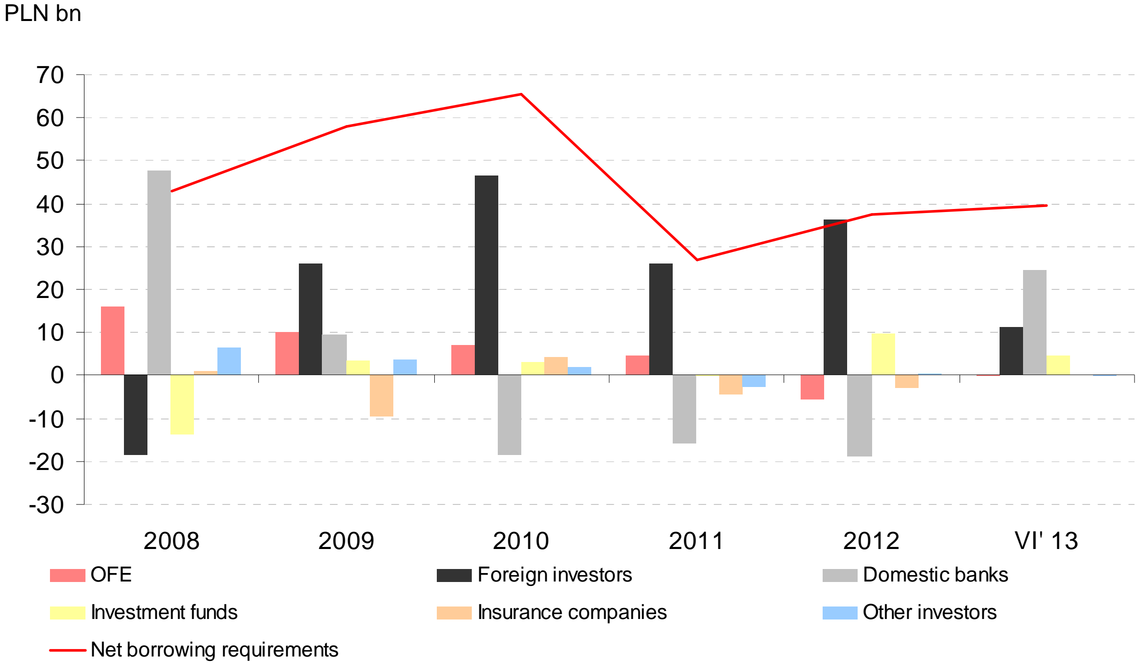
The planned pension system changes will alter the holder's structure of domestic TS. As of the day of the transfer of the assets from OPF to ZUS, there will be a one-off drop in the share of the nonbanking sector in domestic ST from 46% in mid-2013 to around 31-33%, and the share of domestic banking sector and non-residents will increase to c.a. 24-26% (from 20%) and c.a. 42-44% (from 34%) respectively. The cancellation of the part of the domestic debt resulting from the acquisition of TS by the Minister of Finance will also lead to the increase in the share of foreign currencies denominated debt – from 30.6% at the end of June 2013, to c.a. 35-37%. In the following years lower borrowing requirements and thus the lower need for foreign financing shall lead to gradual increase of domestic investors' share in Polish TS market and to a decrease of the foreign debt share in total debt.

Open pension funds have played substantial role in the development of the TS market, especially in the early stages of their existence. By 2008, the increase in OPF investments in TS had grown intensively. In years 2005-2008, OPF increased their investments in the TS with an

[6] Such a view was presented in the comments by Moody's on 5 September 2013 and by Fitch Ratings on 10 September 2013.

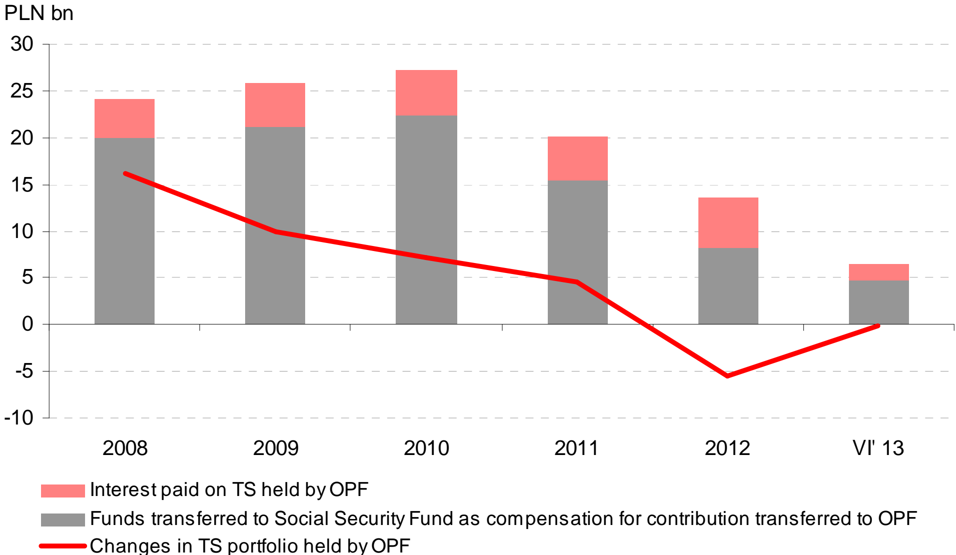
average of PLN 15.6 billion per year in nominal value. In recent years, pension funds' net investments in TS were not material for financing the state budget borrowing needs, in spite of the fact that OPF had TS portfolio with the highest value among nonbanking investors. From 2009 OPF investments in TS have been trending downward.

Chart 24. Change in holder's structure of domestic TS and net borrowing requirements in years 2008-2013.



In recent years, the share of TS in pension funds' assets fell below 50%, which means that the transfer of contributions to OPF, which are refunded by the ST with the issuance of debt, requires seeking TS buyers more actively among the remaining group of investors, mainly foreign ones. In the long term, reduction in the level of borrowing requirements resulting from changes in the pension system should stabilize the TS market.

Chart 25. Inflow of contributions and TS interest to OPF and the changes in OPF's TS portfolio in years 2008-2013.



The growing importance of foreign investors in the Polish TS market (see Chapter V.2) was partly an outcome of a significant level of borrowing requirements, which were increased due to the need to refund social security contributions transferred to OPF and servicing costs on the debt incurred for this purpose. At the same time, the role of OPF as a stabilizer of the TS domestic market in the event of foreign capital's movements in recent years has been ambiguous.

Monthly changes in the TS portfolio of OPF and foreign investors between the end of 2007 and mid 2013 are presented in Table 4.

Table 4. Comparison of changes in TS portfolios held by OPF and foreign investors

	Changes in TS portfolio		no of observations (months)	%%
	OPF	**Foreign investors**		
1	+	+	28	42.4%
2	+	-	14	21.2%
3	-	+	20	30.3%
4	-	-	4	6.1%
		Total	**66**	**100%**

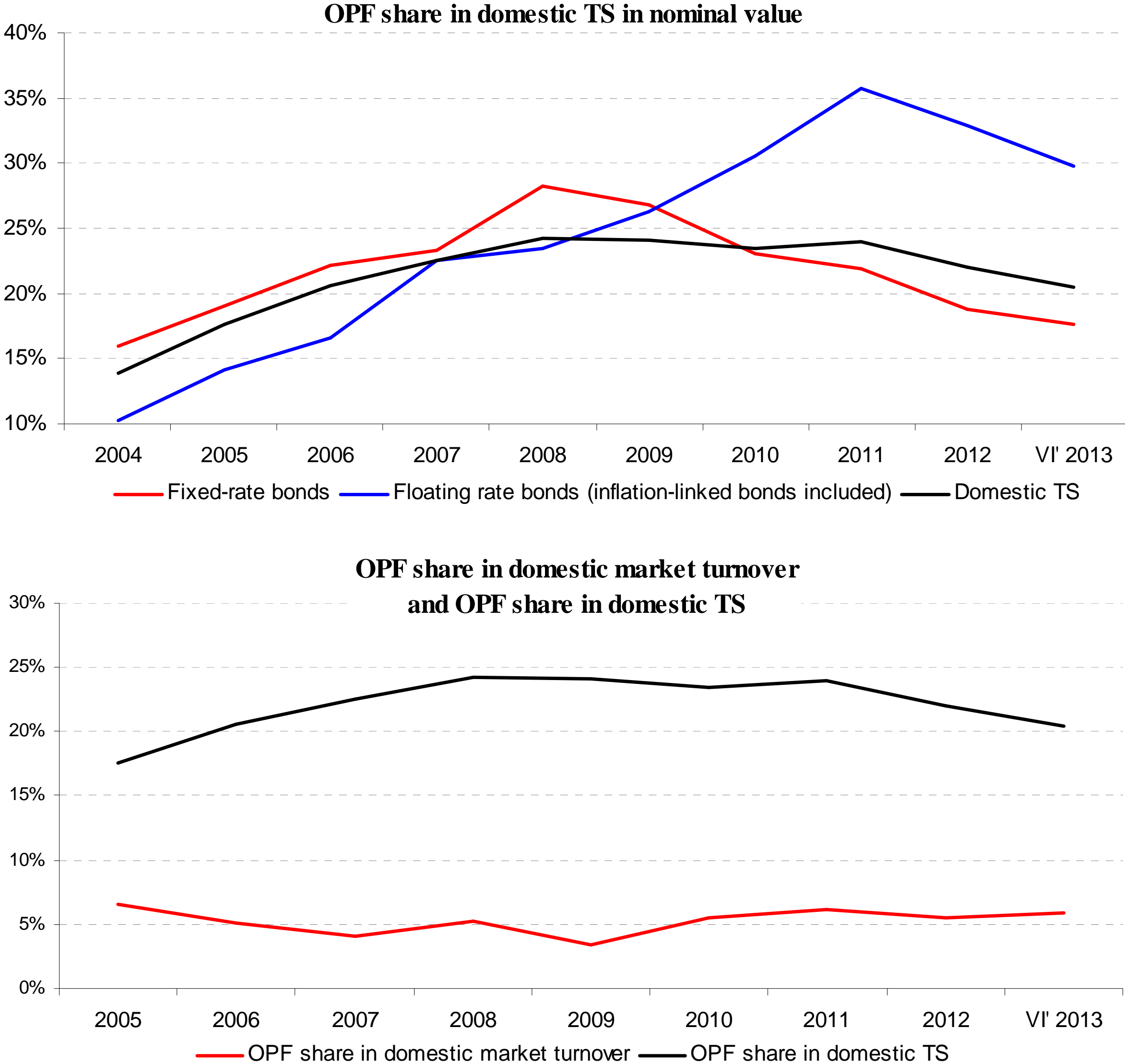
.(+) is related to increase in TS portfolio in particular month, (-) is related to decrease in TS portfolio in a particular month

The positive impact of OPF on the stabilization of the TS market in the event of foreign capital outflow was particularly evident when foreign investors were shorting their positions on TS moderately. Then OPF took over a significant portion of TS sold by foreign investors. However, in the event of high outflows (at least ca. PLN 5 billion in one month) the value of TS purchased by OPF was significantly lower than the value of TS sold by foreign investors. OPF more explicitly mitigated the volatility on TS market in case of inflow of foreign capital on the Polish market. In such cases, OPF have been selling TS and thus reducing the scope of the decrease in TS yields. In almost half of the months analysed, OPF have been behaving similarly to foreign investors: purchased TS (42.4% of all observations) and sold (6.1%) in the same months as foreign investors.

Chart 26. Monthly changes of TS portfolios held by OPF and foreign investors in years 2008-2013

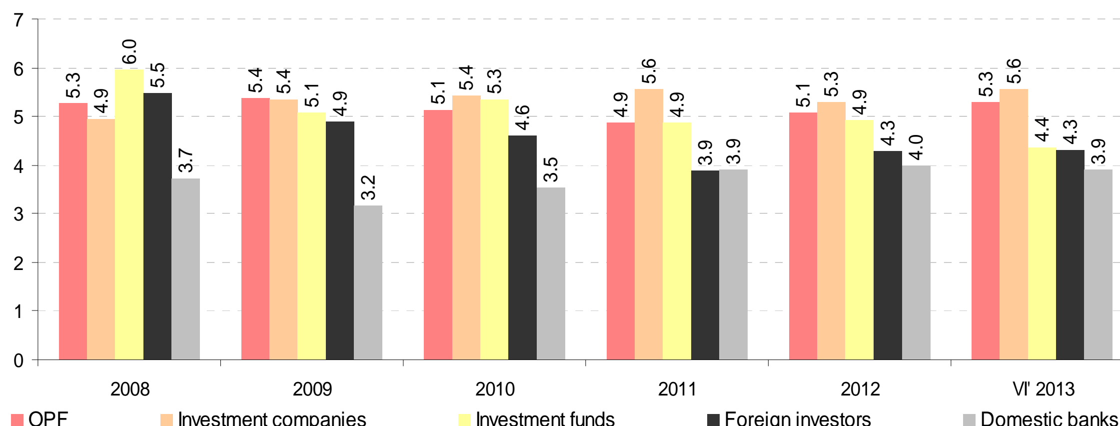
OPF are generally stable long-term investors, that invests also in less liquid securities. The funds do not constitute a group of investors who trade securities actively in the secondary market and thus they do not stimulate liquidity in this market. At the end of June 2013, OPF held 20.5% of all domestic TS, including 17.7% of fixed rate bonds (most liquid) and 31.2% of floating-rate and inflation-linked bonds (less liquid). The share of OPF in TS market turnover is much lower their share in domestic TS and at the end of June 2013 it accounted for approximately 6% of the turnover.

Chart 27. OPF share in domestic TS and market turnover



The average time to maturity of T-bonds portfolio held by OPF in 2008-2013 ranged between 4.9-5.4 years. OPF have TS portfolio with one of the highest maturities among major groups of investors in TS, however insurance companies had a portfolio with higher average maturity (4.9-5.6 years, including 5.6 years at the end of June 2013 as compared to 5.3 years for OPF). At the end of June 2013, TS portfolios with ATM similar to the average time to maturity of all domestic TS (4.5 years) were held by investment funds and foreign investors. Domestic banks had TS portfolios with maturity lower than the ATM for total domestic TS (3.9 years).

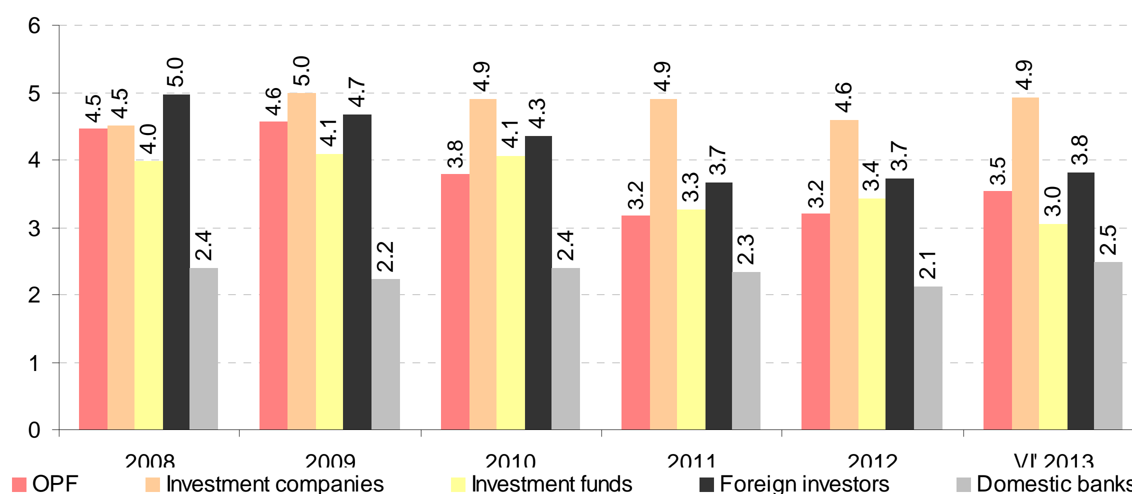
Chart 28. Average time to maturity of marketable T-Bonds portfolios held by selected groups of investors in years 2008-2013



The cancellation of TS acquired by the Minister of Finance, resulting from pension system changes, will cause a decline in ATM of domestic debt from ca. 4.4 years to ca. 4.2. In the long term, reduced borrowing requirements will limit the supply of TS, probably those with shorter maturities, i.e. those most often purchased by banks and some foreign investors. This should result in a gradual increase in ATM to the level assumed in the *Strategy*.

The portfolio of government bonds held by OPF had one of the lowest ATR (average time to refixing), which is an interest rate risk measure, among TS buyers. In years 2008-2013, this measure was in the range of 3.2-4.6 years for OPF and 3.3-3.8 for total domestic TS. The portfolio of T-bonds held by domestic banks had a lower ATR, and so was the one of investment funds. T-bonds portfolios with the highest and stable value of ATR (4.6-5.0 years in the analysed period) had insurance companies.

Chart 29. ATR of marketable T-Bonds portfolios held by selected groups of investors in years 2008-2013

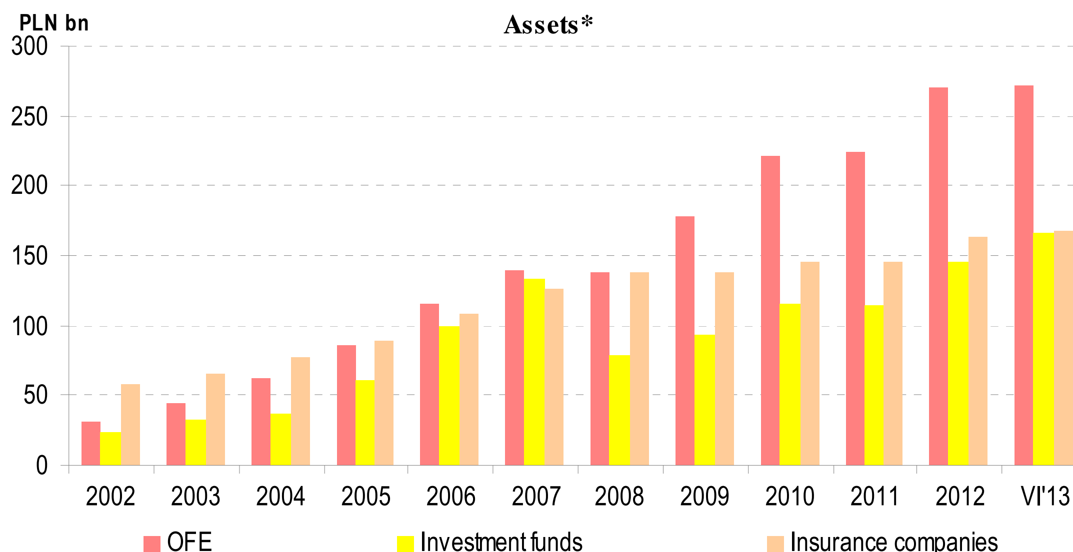


The cancellation of TS acquired by the Minister of Finance will be neutral for ATR measure, which will remain at a level close to the one before the cancellation and will be amount around 3.4 years. It means that interest rate risk will stabilize.

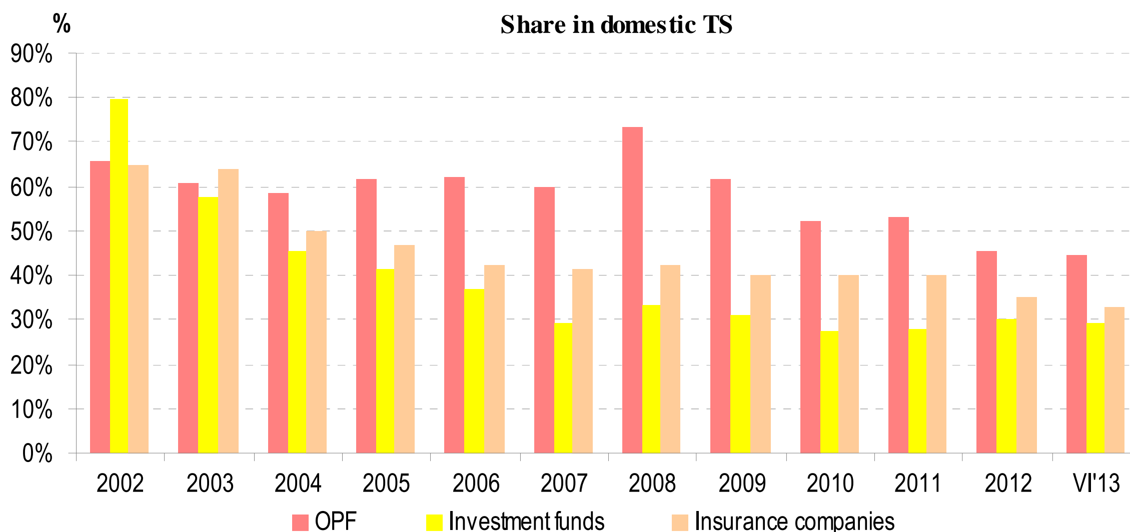
Apart from pension funds, also insurance companies and investment funds belong to the group of stable long-term nonbanking investors. At the end of June 2013, their share in domestic TS totalled 17.5%. TS represent more than 30% of the assets of insurance companies

and more than one-quarter of investment funds assets. Assets under management of non-banking insurance companies are increasing steadily. From the end of 2007 to the end of March 2013, assets of insurance companies rose from PLN 126.9 bn to PLN 168.5 bn (32.8% increase), while investment funds assets under management rose from PLN 133.8 billion to PLN 166.2 billion (24.2% increase).

Chart 30. Assets of nonbanking financial institutions and TS share in their assets



* *For OPF and investment funds net assets are presented (assets reduced by liabilities)*



The main factors that will determine the value of the assets under management of nonbanking financial institutions include:

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

V. ASSUMPTIONS OF THE STRATEGY

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

V.1. Macroeconomic assumptions of the Strategy

Assessment of the macroeconomic situation and directions of the fiscal policy has been presented in the justification to the draft Budget Act for 2014. Table 5 presents the macroeconomic assumptions of the *Strategy*.

Table 5. Macroeconomic assumption adopted in the Strategy

Item		2012	2013	2014	2015	2016	2017
Real GDP growth (%)		1,9	1,5	2,5	3,8	4,3	4,3
GDP at current prices (PLN bn)		1 595,3	1 642,9	1 721,5	1 829,8	1 955,6	2 089,6
Average CPI (%)		3,7	1,6	2,4	2,5	2,5	2,5
USD/PLN	- end of period*	3,10	3,14	3,02	2,95	2,92	2,92
EUR/PLN	- end of period*	4,09	4,07	3,92	3,84	3,80	3,80

**including reserve for exchange rate risk*

V.2. The domestic Treasury securities market

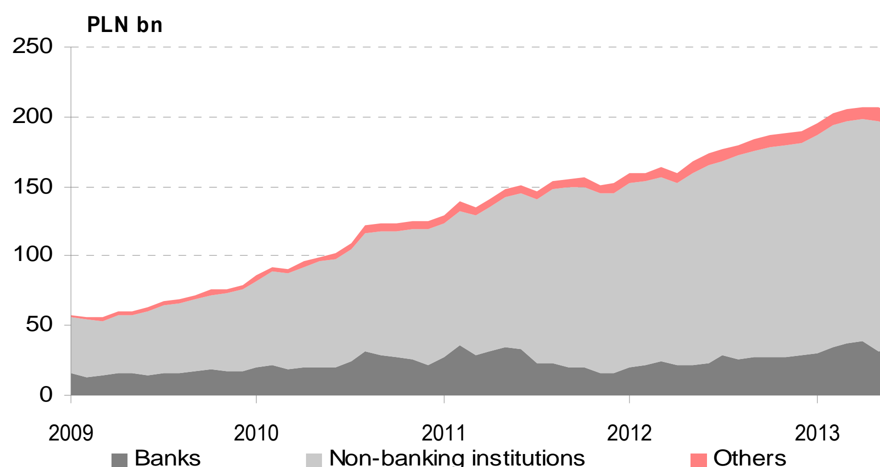
The level of development of the domestic financial market, including the domestic investor base, as well as the role of foreign investors in the domestic market are important determinants of debt management. Under conditions of free movement of capital, a well developed and deep domestic market allows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

The planned introduction in 2014 of the changes in the pension system and operation of pension funds will be the main determinants influencing the further development of the domestic investor base and the TS market (impact of OPF and other domestic non-bank financial institutions on the TS market is discussed in Chapter IV.3).

Foreign investors play a significant role in financing the state budget borrowing requirements on the domestic market. Their demand is of high volatility and strongly depends on the international situation.

After a significant outflow of foreign investors from the TS market in 2008, when their share in the domestic debt declined from ca. 20% to ca. 13%, since 2009 they have increased their interest in TS market, largely as a result of improved sentiment in financial markets and good perception of macroeconomic situation in Poland by financial markets. As a result, non-resident's portfolio in domestic Treasury securities had been increasing in subsequent years and thus reached a record high in April 2013 on the domestic debt market, both in absolute terms (PLN 207.1 billion) as well as in relation to the domestic debt (over 36%). At the end of July 2013, after the outflow of foreign investors in June by more than PLN 5 billion due to deterioration in global sentiment, these values amounted to PLN 202.1 billion and 35% respectively.

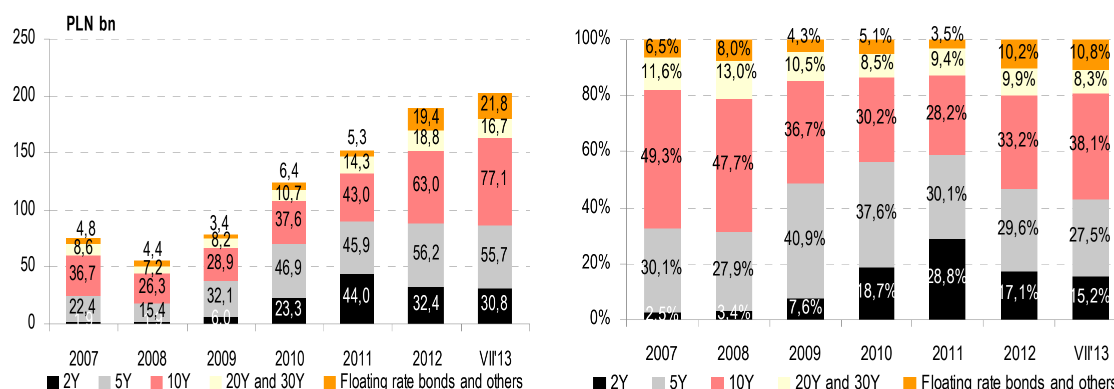
Chart 31. Non-residents' holdings structure of domestic ST debt in years 2009-2013



In the period from January 2009 to July 2013, the involvement of foreign investors in Treasury securities increased 3.5-fold. The most stable group of buyers among non-residents and holders of the largest portfolio of TS was the non-banking financial sector (its portfolio increased by PLN 122 billion in the analysed period). Growth of the TS portfolio held by this group of investors was a result of both the broadening of the foreign entities buying Polish TS (insurance funds, pension funds, investment funds, public funds asset management entities) and the growing diversification of the geographical structure. The traditional buyers of domestic Treasury securities from Western Europe and the United States were joined to more and more extent by buyers from Asia, the Middle East and all parts of Europe, including the central banks of all these regions.

In the portfolio structure of TS held by non-residents, a dynamic growth of 10-year bond portfolio has been continued (in the period from the end of 2011 to July 2013, it grew by almost 80%), and at the end of 2012, the portfolio of floating-rate bonds saw a significant increase. The involvement of foreign investors in the bonds with the shortest maturities fell gradually (a decrease of 30% compared to the end of 2011).

Chart 32. Structure of non-residents T-bonds portfolio



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

The inflow of foreign capital into Poland should continue, however the foreign investors' share in domestic TS market, after an increase related to the cancelation of the bonds purchased by the Minister of Finance from ZUS, most probably will be diminishing. The risk of sudden

outflow from the TS market should remain limited, provided that the main factors fostering decisions to invest in Polish TS by foreign investors prevail:

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

Stronger short-term foreign capital flows unrelated to the above factors may occur as a result of turmoil on international financial markets. In the medium term, the effects of gradual reduction of the asset purchase programmes conducted by central banks, especially by the Fed, might be expected. The effects of such capital flows should be cushioned by the market itself (over-liquidity in the interbank market and a limited supply of short-term TS make the market capable of absorbing significant pools of such securities), or by introduced market instruments.

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

V.3. International situation

The improvement of the situation in the financial markets of UE, as a result of the weakening of concerns of the Eurozone , has not reflected into an improvement in the rate of growth. The indexes of the EU economy in the second half of 2012 turned out to be worse than expected, and throughout 2012, the European economy has recorded a slight decline in GDP (-0.3%). Some improvement in the external environment can be expected only in the second half of 2013. According to the European Commission forecasts published in May 2013, a fall in GDP in the Eurozone in 2013 will be 0.4% (in 2012, the decline was 0.6%) , while in 2014 it is expected to increase by 1.2%. The growth rate of the biggest economy - Germany, will decrease to 0.4% compared to 0.7% in 2012. In accordance with the forecasts of the European Commission, the GDP growth in the USA in 2013 will be 1.9%, compared to 2.2% in 2012. From a point of view of the Polish economy the situation on export markets will be a key factor in determining the path of external demand for Polish products..

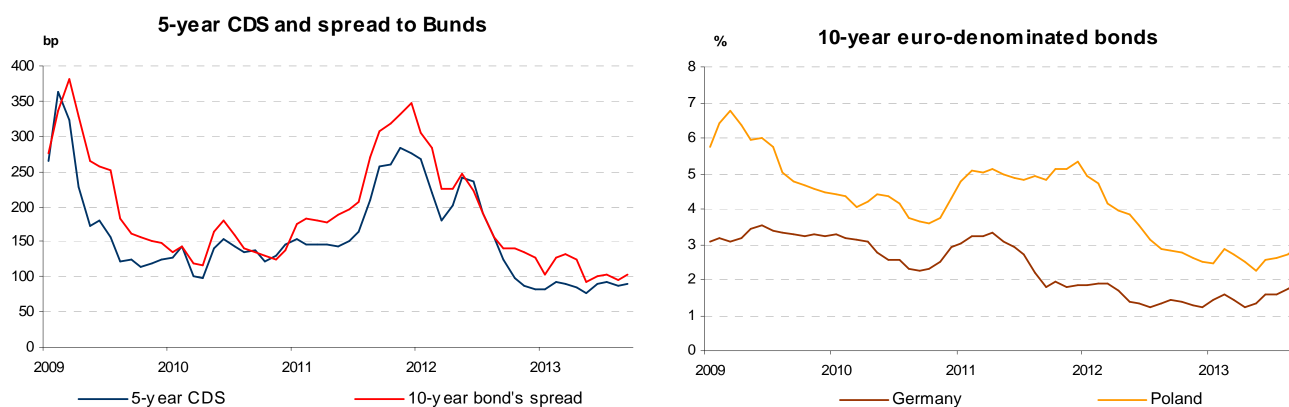
The most important international conditions from the perspective of ST debt management include:

- considerable borrowing requirements of numerous countries resulting from a loss of budget revenues due to global economic downturn and from measures undertaken by individual governments to stimulate the economy;
- the situation on the interest rate markets for the currencies in which liabilities will be incurred, predominantly in the EUR and USD markets, and actions undertaken by central banks
  - the ECB has been maintaining the main rate at 0.5%, the record low level, which depending on the macroeconomic situation may be further reduced,
  - since December 2008, the FED has been maintaining the basic federal funds rate in a range from 0.00 to 0.25%; it has not changed its policy to stimulate the market, but it has declared the readiness to reduce the scale of asset purchase programme at the time of the apparent upturn of economic situation in USA,
  - in April 2013 the Bank of Japan decided to take the revolutionary step in its monetary policy. It switched from interest rates control to money supply control and declared to conduct its operations so that the money supply grows at an annual rate of JPY 60-70 trillion,
  - since September 2011, the Swiss National Bank (SNB) has been striving to weaken

the Swiss Franc and to maintain its exchange rate at minimum level of 1.20 per euro;

- perception of Poland credit risk and liquidity preferences of buyers of Polish bonds operating in global markets, which affect the amounts of the premium in relation to core markets. The spread between the yields of Polish and German 10-year euro government bond decreased to around 100 basis points in mid-September 2013. The cost of market financing in euro fell sharply compared to pre-crisis levels due to the decline in interest rates on core markets. At the same time, the market pricing of credit risk of a substantial part of the EU countries increased, including the Eurozone, which was also reflected in downgrades of ratings of some countries[7]. In September 2013, the credit rating of Poland measured by CDS quotations were on the level similar to the one of Slovakia and the Czech Republic despite the fact that these countries have a higher credit rating than Poland.

Chart 33. 5-year Polish CDS and 10-year euro-denominated Treasury bonds yields in Poland and Germany



[7] Credit risk assessment of the EU member states, including credit ratings and CDS pricing is presented in Annex 6.

VI. STRATEGY'S OBJECTIVE

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

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

There are two aspects in which this objective is applied:

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

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

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

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

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

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

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

1. refinancing risk
   - striving for increasing the role of medium and long-term instruments in the State budget borrowing requirements financing in the domestic market at a pace dependent on investors' demand,
   - striving for even distribution of interest payments and redemptions of domestic and foreign debt in subsequent years,
   - reaching the ATM of domestic debt at the level of at least 4.5 years, provided that is possible from the perspective of the demand and yield level in particular segments of the yield curve,
   - maintaining the ATM of ST debt at the level of at least 5 years;
2. exchange rate risk
   - a temporary increase in the share of debt denominated in foreign currencies as a result of the redemption of bonds transferred from the pension funds to around 35-37% in 2014, followed by its reduction to less than 30%, at a rate depending on market conditions,
   - possibility of using derivatives in managing exchange rate risk in order to create an adequate currency structure of debt and financing borrowing requirements of the State budget,
   - aiming, within the timeframe of the Strategy, for the effective (i.e. taking into account derivative transactions) share of the Euro in foreign currency debt of at least 70%, with the possibility of temporary deviations from this level in the case of limited access to the Euro market, its inefficiency or adverse conditions on derivatives market;
3. interest rate risk
   - keeping ATR of the domestic debt in the range of 2.8-4.0 years,
   - possibility of separating the management of the interest rate risk from the management of the refinancing risk by using floating-rate bonds, inflation-linked bonds and derivatives,
   - the current level of foreign debt interest rate risk does not restrain cost minimisation;
4. State budget liquidity risk
   - keeping a safe level of State budget liquidity while managing liquid assets in an effective way,
   - utilisation of free funds of selected public finance sector entities in managing the State budget liquidity, including the extension of units and available funds covered by liquidity management consolidation,
   - the level of liquid assets will be determined by the State budget's demand for funds and the smoothening of TS supply within a year, taking into account seasonal considerations as well as current and expected market situation,
   - possibility of using liquid assets in managing liquidity in the Polish Zloty;
5. other risks, in particular credit risk and operational risk
   - concluding transactions involving derivatives with domestic and foreign entities with high creditworthiness,

- using instruments limiting credit risk and solutions allowing for its diversification when concluding transactions involving derivatives,
- diversification of credit risk generated by uncollateralised transactions;

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

VII. STRATEGY TASKS

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

1. Increasing the liquidity of the TS market,
2. Increasing the efficiency of the TS market,
3. Increasing the transparency of the TS market.
4. Extending liquidity management consolidation of public finance.

The tasks assumed in the *Strategy* are long-term ones and cover measures implemented on a continuous basis. The tasks of the *Strategy* are to a large extent interdependent, i.e. individual measures may contribute to the implementation of more than one task at a time. The task of consolidating the liquidity management of the public finance sector is intended to increase the efficiency of managing the assets and liabilities of the public finance sector. Within the timeframe of the *Strategy* there are plans to expand the liquidity management consolidation to new sector entities and instruments.

VII.1. Increasing the liquidity of the TS market

Increasing the liquidity of the TS market and of the TS 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 increase demand from investors interested in liquid investments only. Both these factors contribute to decreasing TS yields and hence to the minimisation of ST debt servicing costs. The following measures are planned to be carried out in the timeframe of the *Strategy*:

- Continuation of issuing large series of benchmark bonds on the domestic market ensuring their sufficient liquidity on the secondary market. The policy of issuing medium and long-term fixed-rate bond series until their value reaches at least EUR 5 billion equivalent, adopted in 2003, remains in force.
- EUR 5 billion has been adopted as a reference value at the current stage of the domestic TS market development, and it is considered adequate to ensure sufficient liquidity for large institutional investors, not posing at the same time excessive refinancing risk at maturity. Individual issues can have a value in excess of PLN 30 billion.
- Neutralization of potential consequences that may result from changes in the pension system for the liquidity of some of TS, by re-opening the issues for which the outstanding amount was significantly reduced, taking into account the budgetary and market conditions.
- Large liquid bond issues in the euro market and the USD market. In mid-2013, there were three bond issues of EUR 3 billion or more, of which one exceeded EUR 5 billion, while two issues in USD were worth USD 3 billion or more.
- Extending the uniform price auction formula to switch auctions.
- Adapting the issuance policy, including sale, switching and buy-back auctions to market circumstances, in particular to the demand in different segments of the TS market.

VII.2. Increasing the efficiency of the TS market

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

- Adjusting the timing of issuance on the domestic and foreign market to marketable and budgetary conditions, taking into account measures aimed at increasing transparency of the TS market;
- Increasing the role of participants of the PD system in the development of the TS market and in debt management operations - in the areas where participants of the PD system are at least as competitive as other participants of the financial market, conclusion of

transactions and selection of partners will be carried out taking into account preferences resulting from their participation in the system;

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

VII.3. Increasing the transparency of the TS market

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

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

VII.4. Broadening the public finance sector liquidity management consolidation

Liquidity management consolidation is implementing the *Strategy's* objective understood in the first aspect, i.e. as a selection of instruments for debt management. The first stage of consolidation was introduced in May 2011 and obliged selected public sector entities to deposit surplus funds in the accounts of the Ministry of Finance. This represented a change in the system, leading to more efficient asset management in the sector. The result was a reduction in the borrowing needs by the amount of consolidated funds of public sector entities (since the introduction of the consolidation until June 2013, by about PLN 29.7 billion), as well as the reduction of the public debt (by PLN 26.8 billion), while maintaining the autonomy of units in the use of funds needed to carry out their tasks.

The first stage of consolidation did not impose obligation on all public finance sector entities to deposit its funds in the accounts of the Ministry of Finance, therefore following activities are planned for broadening the public finance sector liquidity management:

1. broadening the group of public sector entities covered by the obligation of consolidation of funds,
2. consolidation of court deposits by placing them on the account of the Minister of Finance, and not on courts' bank accounts as it is now,
3. temporary use of funds in the State Treasury surety and guarantee reserve account to finance the borrowing requirements,
4. consolidation of foreign currency funds at the disposal of the Ministry of Finance.

VIII. IMPACT ON THE PUBLIC FINANCE SECTOR DEBT

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

In the case of public finance sector units other than the State Treasury, which are autonomous in incurring liabilities, the influence on their level of debt is indirect and is derived from the regulations of the Public Finance Act. Above all, they include constraints imposed on the manner of incurring liabilities by local government units, as well as prudential and remedial procedures, which are applied to the public finance sector entities when both the public debt-to-GDP ratio and at the same time the ratio to GDP of the amount of public debt calculated using yearly average of foreign currencies exchange rates from the year concerned and reduced by the value of the State budget liquid funds raised to finance the following year's borrowing needs exceeds 50% and 55% respectively.

VIII.1. Changes in legal regulations

Apart from changes in the pension system discussed in Chapter IV, regulatory changes in the following areas are planned within the timeframe of the *Strategy*:

1. **Broadening the public finance sector liquidity management consolidation**

After the positive outcome of the so-called public finance sector liquidity management consolidation introduced in 2011, further steps in this area are to be undertaken. These operations are discussed in more detail in Chapter V.4. concerning the objectives of the strategy. In order to extend the liquidity management consolidation, a legislative process aiming at amending Public Finance Act has been undertaken.

2. **Introduction of the stabilizing expenditure rule**

On 16 July 2013, the Council of Ministers approved *the draft guidelines for the act amending the Public Finance Act* that introduces the stabilizing expenditure rule (SER). Currently works are conducted on the draft act drawn up on the basis of these guidelines. On 19 September this year, the draft was adopted by the Council of Ministers Committee, and on 24 September it was submitted to the Council of Ministers. However, the rule was already used supplementary in the planning of expenditure for 2014, and according to the draft act SER will be binding in the budget process for 2015. The goal of the rule is ensuring the sustainability of public finances in Poland and correction of their possible excessive imbalance (especially the sum of the differences between the general government nominal balance and the medium-term budgetary objective – MTO), but at the same time not causing excessive tightening of fiscal policy, especially under conditions of severe economic slowdown and excessive loosening under favourable economic conditions. At the same time, the introduction of the rule will be an implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, in part relating to the fiscal rules, and implementation of the recommendations of the Council of the EU from May 2013.

The expenditure resulting from the rule covers the expenditure of public finance sector and funds in BGK, which are included in the general government sector according to the EU definition, with the exceptions indicated below. First, the calculation of the limit will exclude budget spending of EU funds and that part of the expenditure which is financed by means of a non-refundable grant from the EU and EFTA countries. Secondly, the costs of those units which do not have the ability to generate high deficits will be also excluded.

From the amount of expenditure determined in this manner, we will subtract the expected level of consolidated expenditures of LGUs and their associations, units referred to in Article

139 of Public Finance Act and the National Health Fund (NFZ). The rest of the amount will constitute a limit distributed within the rest of the sector. The limit will be legally binding and aggregated. This means that the expenditure of some units covered by the limit will be able to grow faster at the expense of slower growth or decrease in expenditures of other entities subjected to the limit. Decisions on the directions of fiscal policy, and thus on allocation of adequate financial resources necessary to implement them, will be made by the Government and the Parliament. Distribution of the amount of limit between the different units of the sector will depend on the government's economic policy in compliance with applicable laws and programs, including the priority of using the available allocation of resources under the EU funds.

Due to a much wider range, the new rule at the time of entry into force will replace the temporary expenditure rule, which limited the growth of certain budget expenditures to forecast CPI inflation rate increased by 1 percentage point. Temporary expenditure rule concerned only planned budget discretionary spending and so-called new legally mandated expenditure, which also included the existing legally mandated expenditure when the determining act was modified.

Entry into force of SER will also change the sanctions applicable beyond prudential limits of public debt. The draft act provides that the sanctions after exceeding 55% and 60% of GDP will be maintained. Previous sanctions invoked after exceeding the threshold of 50% of GDP will be replaced by sanctions resulting from the SER correction mechanism. Current sanctions amount only to the imposition of restrictions on the state budget, without taking the whole public sector into account, which would not prevent the increase in public debt in the coming years. The additional disadvantage is their strong pro-cyclical nature due to the need to tighten fiscal policy during poor economic conditions. The stabilizing expenditure rule stipulates a different type of sanctions that will primarily affect a much wider range of public sector, thus ensuring more effective correction, which also will depend on the economic situation forecast for the next year. According to the draft act, the sanctions relating to the higher (55%) threshold will be supplemented by the SER correction mechanism.

After the entry into force of the changes to the pension system, in connection with the reduction of the public debt-to-GDP ratio, there are plans to adequately reduce the public debt thresholds on which the correction mechanism is based.

3. Changes in the regulations relating to local government units

From 1 January 2014, the system of setting individual limits on incurring debt by local government units, as defined in the Public Finance Act of 27 August 2009, will come into force, making the possible amount of debt of each LGU dependent on the ability to repay the debt. The new solution is to customize an indicator defining the safe level of debt and to reflect the creditworthiness of units and their financial standing. At the same time, in order to increase the absorption of EU funds by local government units, there are deliberations on alleviating the constraints of the Public Finance Act. Deliberations, *inter alia*, pertain to the exclusion of interest on the liabilities incurred to finance projects co-financed with EU funds from the debt limit and some exclusions regarding certain liabilities incurred to co-finance expenditure.

In order to provide the Minister of Finance with a wider range of information on the projected financial position of local government units, which is important for exercising by the Minister of Finance the overall control over the debt and the deficit of the public finance sector, the Act of 7 December 2012 on the amendment of certain acts in connection with the implementation of the Budget Act introduced solutions extending the range of data collected by the Ministry of Finance and improving their submission process. This regulation have made it possible to obtain information about the forecasts of LGUs in electronic form, and introduced a uniform model for multi-year financial forecast for LGUs.

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

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

- granting sureties and guarantees shall concentrate on supporting development-oriented projects concerning infrastructure investments, environment protection, creating new jobs and regional development, in particular EU founded ones (loans and bonds guaranteed by the ST should help to acquire the EU funds), but also on subsidising other investments that may arise from possible new support programmes for granting sureties and guarantees in compliance with the EU rules;
- sureties and guarantees can also be granted to support possible measures undertaken in the event of potential deterioration in the 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 May 8, 1997 on sureties and guarantees granted by the State Treasury and certain other legal persons, each year the Budget Act stipulates the total amount to which guarantees and securities can be granted by the State Treasury. The limit for 2014 in the draft budget act was set at PLN 300 billion.

The extent of use of ST sureties and guarantees will result primarily from the continuation of infrastructural investments, as well as possible measures which can be undertaken in the event of potential deterioration of the Polish financial system resulting from a global financial and economic crisis. An increase in contingent liabilities resulting from sureties and guarantees granted by the ST will be affected to a large extent by sureties and guarantees granted to the following entities:

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

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

Under the adopted assumptions, the nominal debt of public finance sector entities other than the State Treasury will increase slightly, within the timeframe of the *Strategy*, from PLN 110.1 bn to PLN 117.6 bn before consolidation, and from PLN 73.5 billion to PLN 76.1 billion after consolidation. The increase will be the result of:

- decreasing deficits in the following years, and then surpluses in the budgets of LGUs,
- stabilisation of debt of other units of central and local government sector

Chart 32. Debt of public finance sector entities other than State Treasury by sectors, before and after consolidation (in PLN billion)

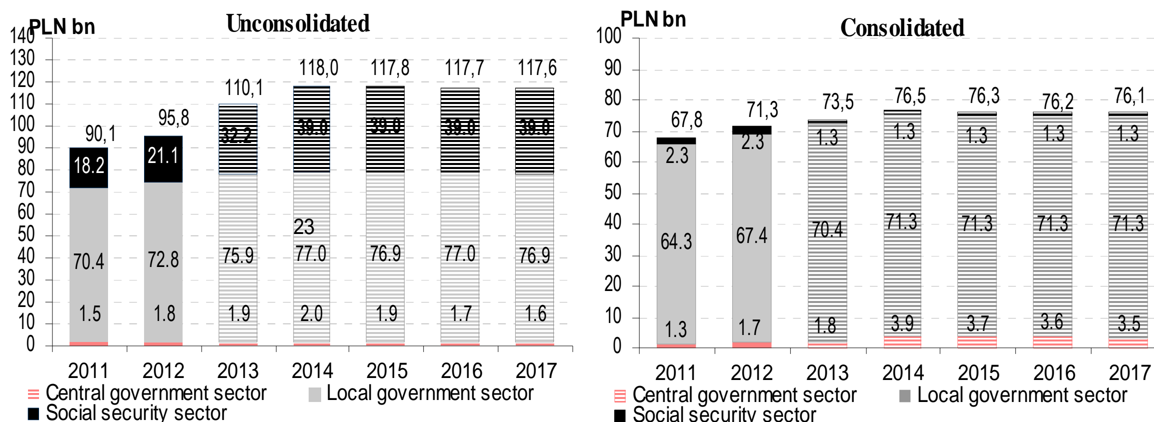
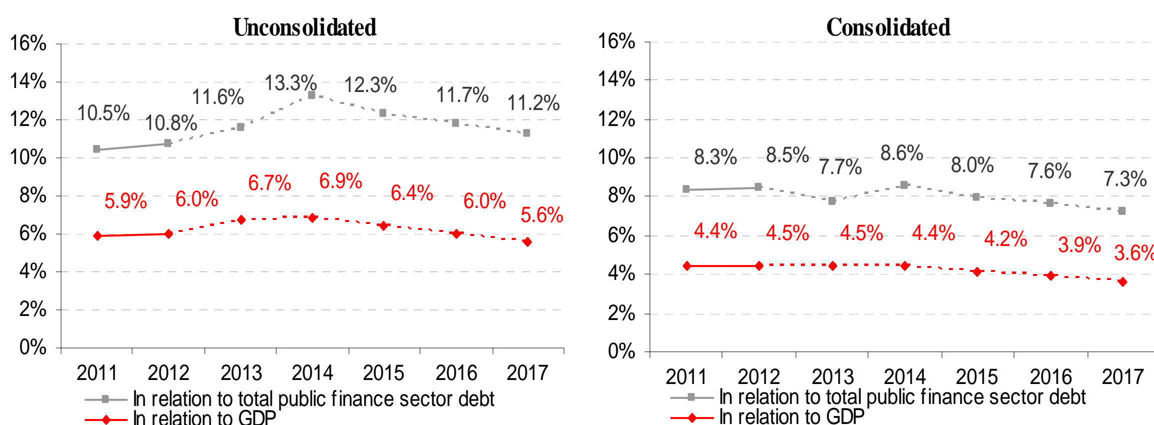


Chart 33. Debt of public finance sector units other than ST in relation to GDP and total public finance sector debt



The timeframe of the *Strategy,* the before consolidation debt of the other public finance sector units in relation to GDP will amount to ca. 6.3%, whereas the debt after consolidation will amount to approximately 4.1% of GDP. The share of this group of entities in the total debt of the public finance sector before consolidation is expected to amount to ca. 12.1%, and to ca. 7.8% after consolidation.

VIII.3.1. Debt of local government units

The *Strategy* assumes that the debt of LGUs and their associations will continue to increase until 2014, but at a a decreasing rate and it will result from declining total deficit of this group of units. From 2015, the debt of LGUs is expected to enter a downward trend, resulting from the total surplus of this group of units.

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

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

The balanced current budget rule for local government units, in force since 2011, will have an impact on the amounts of newly incurred liabilities. Until 2013, local government units will be incurring liabilities under the rules defined in the Public Finance Act of June 30, 2005. Rules regarding incurring liabilities that are defined in the Public Finance Act of August 27, 2009

aimed at preventing local government units from excessive indebtedness will come into force in 2014.

VIII.3.2. Debt of independent public health care units

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

Changes in the debt will be the result of:

- changes in the legal form of those units, including transformation of some of them into commercial partnerships,
- current financial balance of individual entities.

Loans will remain the dominant debt component.

VIII.3.3. Debt of other entities

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

IX. EXPECTED EFFECTS OF IMPLEMENTING THE STRATEGY

The expected effects of the *Strategy* implementation include forecasts of:

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

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

IX.1. Debt volume and its servicing costs

With reference to the revision of the Budget Act for 2013, an increase in the public debt-to-GDP ratio from 52.7% at end of 2012 to 54.8% at the end of 2013 is expected. The amount of public debt recalculated using the yearly average of foreign exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year is estimated at 54.0% in 2013. Thus there is no threat that the sanctions specified in the Public Finance act for exceeding the 55% threshold will come into force.

As a result of pension system changes, planned by the Council of Ministers in 2014, there will be a significant decline in debt, primarily due to the transfer of non-equity assets from OPF to the public pension system. After a one-off increase in 2015, in subsequent years, the public debt-to-GDP ratio will decrease and will fall to 46.2% in 2017. The general government debt-to-GDP ratio in the timeframe of the *Strategy* will decrease to 50.1%. The general government debt-to-GDP ratio is not expected to exceed the 60% threshold set out in the Maastricht Treaty.

A slight decrease in ST debt servicing costs-to-GDP ratio in 2013 (to 2.60% from 2.64% in 2012) is forecasted. The ratio will fall significantly to 2.1% in 2014, resulting to a great extent from the cancellation of Treasury securities acquired by the Minister of Finance from the Social Security Institution. In subsequent years, depending on the Polish zloty exchange rate, the ST debt servicing costs-to-GDP ratio will remain in the range of 1.9-2.1%.

Table. 8 Forecasts of public debt volume and the ST debt servicing costs

Item	2012	2013	2014	2015	2016	2017
1. State Tresury debt						
a) PLN bn	793.9	841.5	771.0	837.7	884.4	929.5
- domestic debt	543.0	587.4	504.2	550.4	585.3	618.7
- foreign debt	250.9	254.1	266.8	287.3	299.1	310.9
b) in relation to GDP	49.8%	51.2%	44.8%	45.8%	45.2%	44.5%
2. Public debt						
a) PLN bn	840.5	899.5	810.9	875.5	920.9	964.9
b) in relation to GDP	52.7%	54.8%	47.1%	47.8%	47.1%	46.2%
3. The amount specified in article 38a of Public Finance Act*						
a) PLN bn	818.7	887.5	803.7	864.0	909.6	950.3
b) in relation to GDP	51.3%	54.0%	46.7%	47.2%	46.5%	45.5%
4. *General government* debt						
a) PLN bn	886.9	952.1	859.5	934.9	993.9	1 046.6
b) in relation to GDP	55.6%	58.0%	49.9%	51.1%	50.8%	50.1%
5. State Tresury debt servicing costs (on cash basis)**						
a) PLN bn, including:	42.1	42.7	36.2	35.4 – 37.0	37.9 - 39.5	41.2 – 43.0
- domestic debt servicing	31.8	32.4	24.4	25.1	26.8	29.3
- foreign debt servicing	10.3	10.3	11.8	10.3 - 11.9	11 - 12.7	11.9 - 13.7
b) in relation to GDP	2.64%	2.60%	2.10%	1.94% - 2.02%	1.94% - 2.02%	1.97% - 2.06%

** The amount of public debt recalculated using the yearly average of foreign currency exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year.*

*** ST debt servicing cost forecasts for the years 2014-2016 are presented in ranges including reserves for exchange rate risk*

Chart 34. Debt-to-GDP ratio

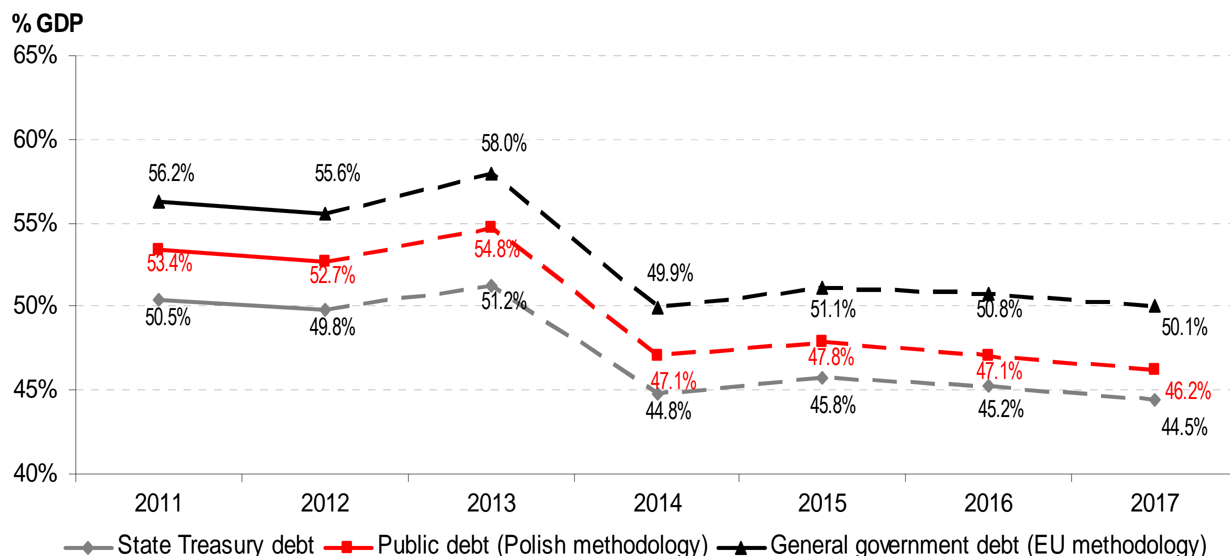


Chart 35. ST debt servicing costs-to-GDP ratio

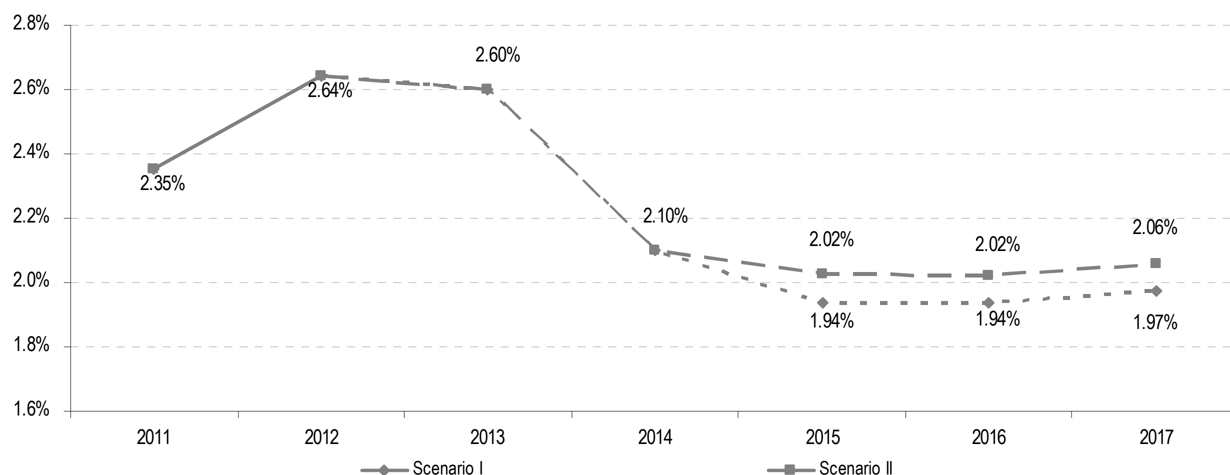
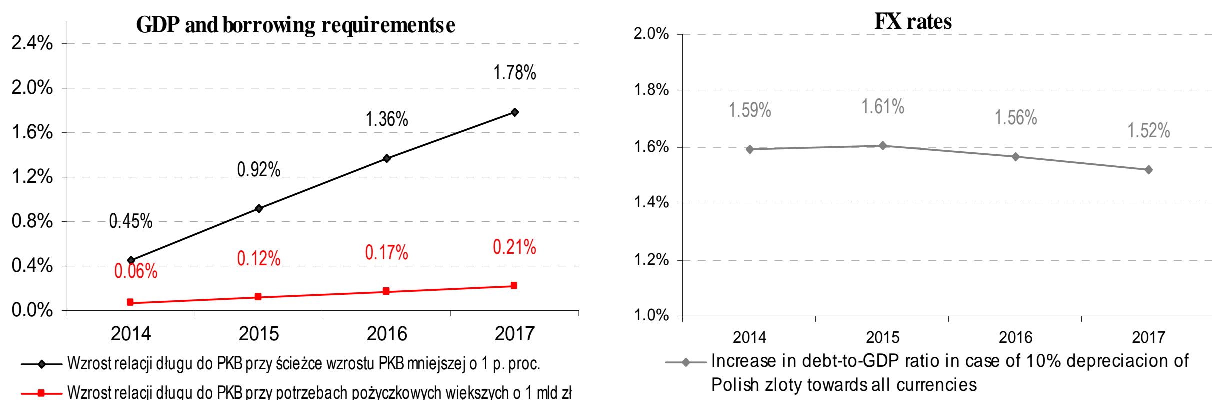


*Chart 36. Sensitivity of public debt-to- GDP ratio to changes in assumptions**



* *assuming the change of paths since 2014.*

IX.1.1. Contingent liabilities (guaranties and sureties)

It is expected that the ratio of ST contingent liabilities resulting from sureties and guarantees to GDP will amount in 2013 to ca. GDP 6.7 % . At the same time the amount of expected payments on this account will remain at a safe level, i.e. they will not exceed the threshold of 1.4% of GDP.

Table 9. Forecast of contingent liabilities under guaranties and sureties granted by the ST and the public finance sector units

	2013	2014	2015	2016	2017
Forecasted payments under guaranties and sureties granted by:					
- Public finance sector					
PLN bn	6.6	8.0	8.6	9.5	9.4
GDP %	0.4%	0.5%	0.5%	0.5%	0.5%
- State Treasury					
PLN bn	6.5	7.9	8.5	9.4	9.3
GDP %	0.4%	0.5%	0.5%	0.5%	0.4%
Contingent liabilities under guaranties and sureties granted by:					
- Public finance sector					
PLN bn	114.4	138.6	151.2	167.8	184.5
GDP %	7.0%	8.0%	8.3%	8.6%	8.8%
- State Treasury					
PLN bn	110	133.5	145.4	161.2	176.9
GDP %	6.7%	7.8%	7.9%	8.2%	8.5%

IX.2. State Treasury debt structure

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

- the refinancing risk will remain at the level similar to that prevailing at the end of 2012. The ATM of the ST domestic marketable debt will remain within the range of ca. 4.2-4.4 years compared to ca. 4.4 at the end of 2013, while that of the total ST debt will be in the range of 5.3–5.5 years;
- the interest rate risk will remain within the range set in the *Strategy*. Depending on the adopted financing structure, ATR of the domestic marketable debt will remain within the range of ca. 3.2-3.4 years compared to 3.3 at the end of 2013, while ATR of the total debt will be in the range of ca. 4.2-4.3 years. The duration of the domestic debt will be in the range of ca. 2.7-3.0 years compared to 3.0 at the end of 2013, while that of the total debt will be in the range of ca. 3.5-3.7 years;
- the average share of foreign debt will reach ca. 35%, though deviations from the basis scenario are possible in connection with a flexible approach to foreign financing and the volatility of the exchange rate of the Polish Zloty.

Chart 38. ATM of the ST debt

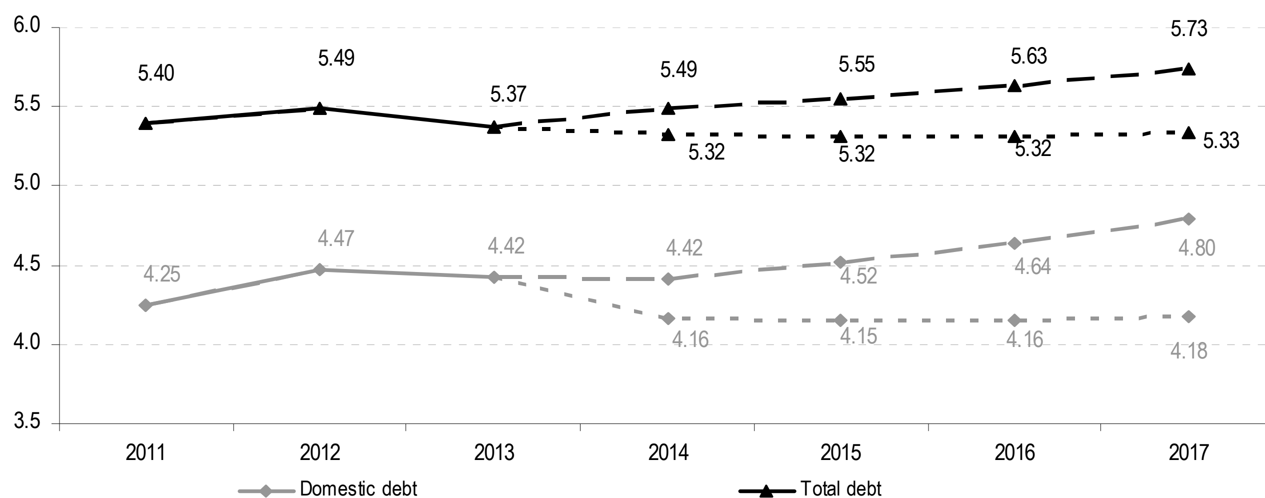


Chart 39. ATR of ST debt

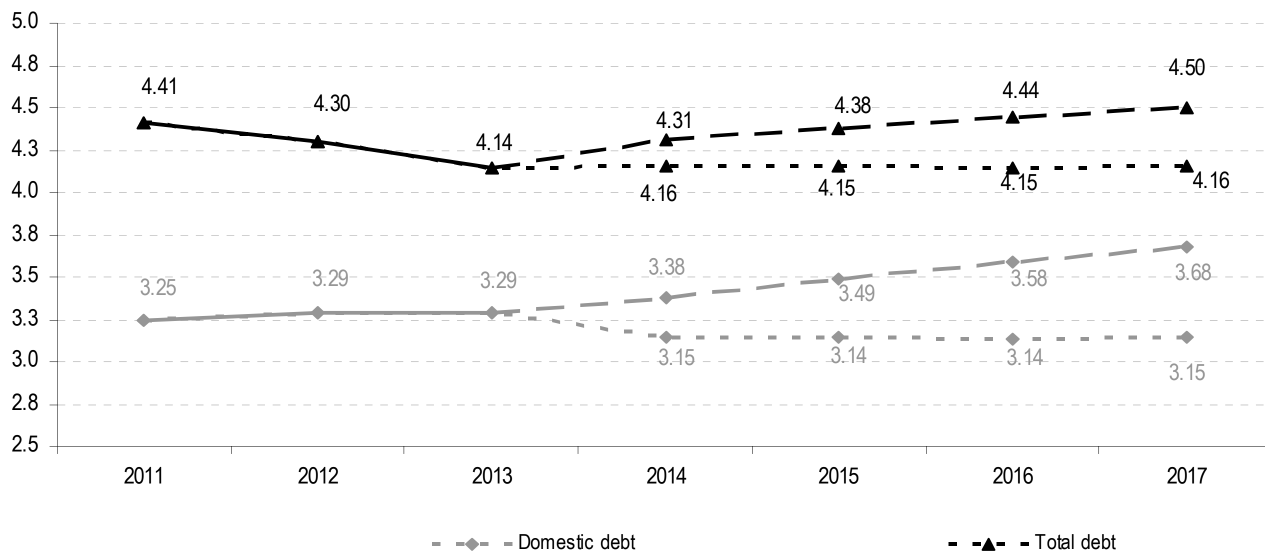


Chart 40. Duration of the ST debt

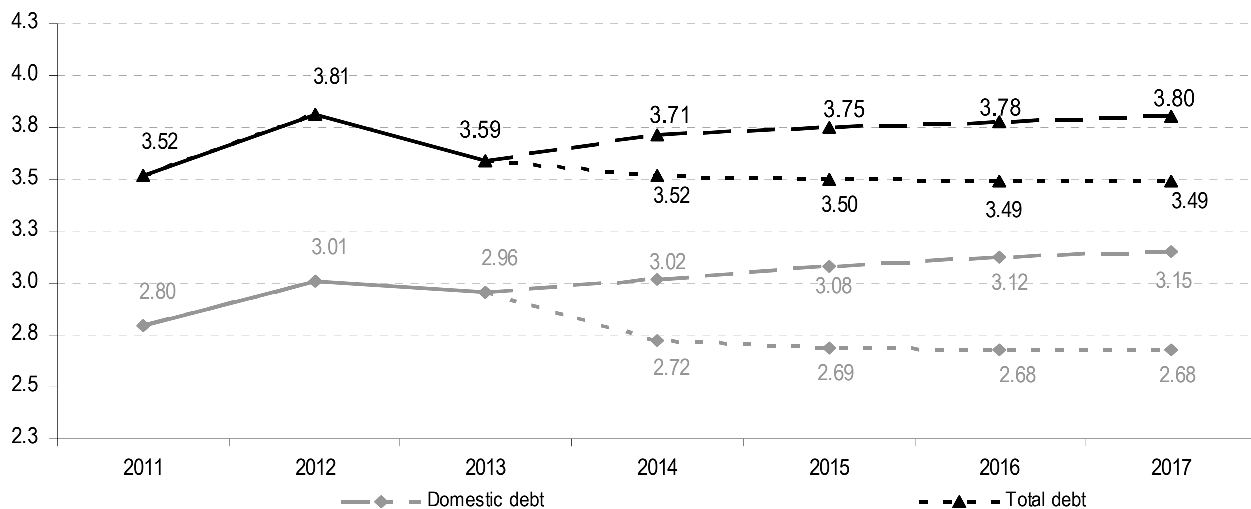
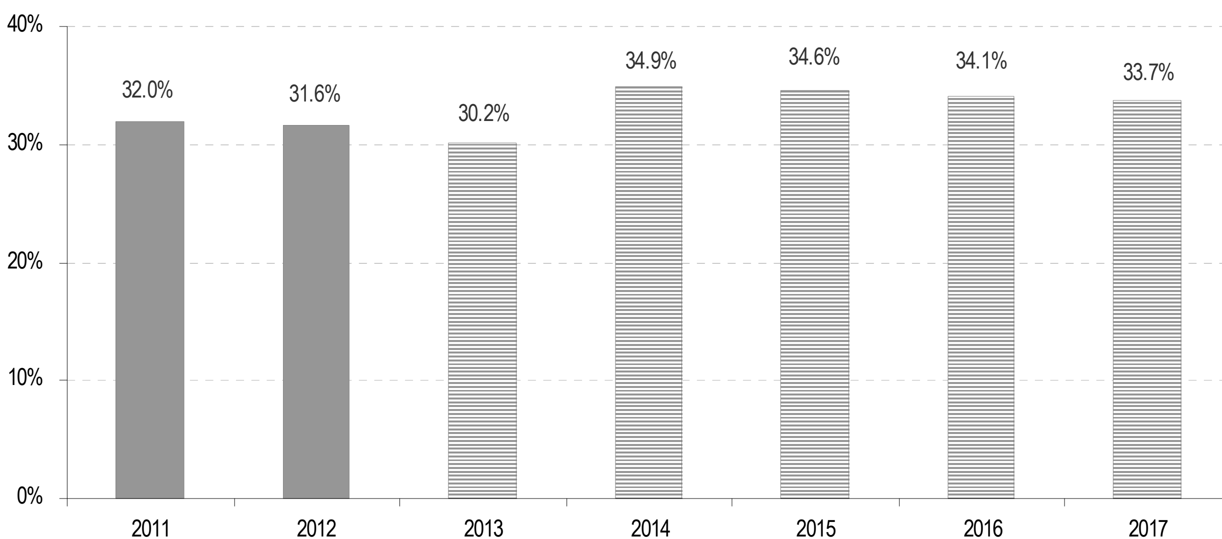


Chart 41. Share of foreign debt in the ST debt



IX.3. Threats to the *Strategy* implementation

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

1. a macroeconomic situation in Poland varying from the assumed one, in particular a slower GDP growth, higher interest rates, as well as volatility in foreign exchange rates;
2. conditions in the international market, including:
   - slower than expected economic growth in Europe and the USA,
   - lending capital withdrawal towards investments on core markets resulting from limiting the asset purchase program by the FED;
3. the risk of excessive growth of public debt and general government debt to GDP ratio, in resulting from:
   - higher borrowing requirements of the State budget depending, among others, on the Polish of Polish economy,
   - a lower exchange rate of the Polish Zloty as compared to the one assumed in the *Strategy*,
   - a lower demand for TS at auctions that could be related to the limited base of investors due to an exclusion of OPF after introduction of pension system changes,
   - a considerable increase in debt of public finance sector entities other than ST, in particular local government units,
   - the necessity to execute sureties or guarantees granted by public finance sector entities.

Annex 1. Abbreviations and glossary

A. Abbreviations used in the Strategy

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

B. Glossary

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

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

where:
t – maturity date,
T – set of all maturity dates,
N_t – face value paid at time t,
I_0 – current indexation coefficient of inflation-linked instruments' face value (for non-indexed Treasury Securities $I_0 = 1$).

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.

Benchmark

1. (*issue*) the large amount of TS issue with a liquid secondary market. Yields of benchmark bonds are a reference point for yields in a given maturity segment.

2. *(portfolio)* target characteristics of the public debt portfolio, which constitutes a *reference portfolio* for the existing portfolio and specifies the direction of public debt management. The characteristics of the reference portfolio may include the share of particular currencies, interest rates and types of instruments, as well as the values of synthetic indicators which most often constitute the risk measures, e.g. the average maturity or duration.

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

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

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

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

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

where:
s – payment date (of interest or face value),
S – set of all payment dates (of interest or face value),

r – payment date of the nearest fixed coupon for floating-rate instruments,
R – set of all payment dates of the nearest fixed coupons for floating-rate instruments,
S_r- set of all payment dates for these floating-rate securities. which the nearest fixed 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.

Residency 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/ESA 2010*) ➢ definition of categories of financial liabilities; ➢ definition of general government sector.

** The ESA 2010 will be applied for the first time to data transmitted from 1 September 2014*

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;

Current Public Finance Act

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 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%;

Procedures provided in point 1 and 2 are not applicable if the amount of debt determined by the conversion of public debt to the Polish currency using yearly average of NBP exchange rates for liabilities denominated in foreign currencies less the funds that Minister of Finance had at disposal at the end of the year do not exceed the thresholds of 50% and 55%.

Procedures provided in point 1 are not applicable in 2013.

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 tasks financed or co-financed with the EU structural funds or the Cohesion Fund;	g) Limitations on debt repayments of local government do not apply to: ➢ issuing securities and incurring loans in connection with tasks financed or co-financed with the EU structural funds or the Cohesion Fund;

Current Public Finance Act	
➢ issuing securities and incurring loans for repayment of assumed independent public health care units liabilities.	➢ issuing securities and incurring loans for repayment of assumed independent public health care units liabilities (excluding interest); ➢ eurobonds (excluding interest payable on them) issued priror to entry into force of current Public Finance Act, i.e. January 1st, 2010.

** Przepisy dotyczące limitów zaciągania zobowiązań przez JST znajdują się także w art. 169 i 170 ustawy z dnia 30 czerwca 2005 r., które zostały utrzymane w mocy do dnia 31 grudnia 2013 r. , w ustawie z dnia 27 sierpnia 2009 r. – Przepisy wprowadzające ustawę o finansach publicznych oraz ustawie z dnia 7 grudnia 2012 r. o zmianie niektórych ustaw w związku z realizacją ustawy budżetowej.*

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/ESA2010 [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];
b) public corporations that do not cover at least 50 % of its costs by its sales	
➢ are excluded from the public finance sector;	➢ are included in the general government sector;
2) ***liabilities which constitute public debt***	
➢ securities (excluding shares); ➢ loans (including securities whose disposal is limited); ➢ deposits; ➢ matured payables (i.e. liabilities due but not settled);	➢ securities other than shares excluding financial derivatives; ➢ loans; ➢ cash and deposits;
differences in liabilities depending on regulations	
➢ matured payables; ➢ unnamed (uncategorised?) contracts connected with financing of services, goods or construction works that produce economic effects similar to loan;	- [4] ➢ restructured or refinanced trade credits (including those with original maturity of one year or less) are included in loan category[5]
3) ***contingent liabilities***	
differences in treatment of contingent liabilities in debt-to-GDP ratio	
➢ is not included;	➢ 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). ESA2010 (Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union. ESA 2010 retains the "50% rule" but changes the definition of production costs by adding of "net interest charges" as a measure of the "costs of borrowed capital". What is more, there are additional qualitative criteria.

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.
5) Pursuant to decision of Eurostat of 31 July 2012 on *The statistical recording of some operations related to trade credits incurred by government units*

Annex 3. Institutional framework for public debt management in the EU member states

There is 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 the tasks imposed on the central bank is not optimal. Furthermore, even if the tasks of monetary policy and debt management are assigned to separate divisions and the so-called "Chinese Wall" is applied, suspicions can arise that some information on interest rate levels unknown to the market may be used in debt management, thus reducing confidence to the issuer and resulting in requesting an additional risk premium for TS by investors.

An argument used by supporters of **the bank model** is their conviction belief that the central bank is better prepared to operate on the financial market than unit remaining within the structure of a ministry.

The government model is used successfully in conditions typical for emerging economies or subject to political transformations where development of the domestic financial market is low, though the model is used also in some developed economies. This is due to the large impact on the powersignificant 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 run,
- lack of sufficient flexibility and ability to react quickly to changing market conditions (which is especially important if derivatives are used in debt management) arising from the significant bureaucracy of administrative entities,
- difficulties in recruiting and retaining appropriately highly qualified 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 generalization (it does not mean a government agency as defined by Polish law) as specialized institutions involved in debt management in different countries vary considerably within the scope of their tasks and the level of their institutional independence. As an agency can be also consider organisationally and budgetary part of the ministry. The common feature of all agencies

though is their high level of autonomy in selecting methods used to fulfil the entrusted tasks. The advantages associated with entrusting debt management to specialized institutions include:

- the ability to select optimal solutions as well as to carry out long-term debt management objectives by limiting the risk of impact of short-term fiscal policy goals on management decisions,
- ensuring greater transparency in debt management operations through the use of better control and reporting mechanisms, thus increasing investor confidence and lowering costs of financing of borrowing requirements,
- 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 compete with 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 28 member states of the enlarged EU the agency model is applied (in 10 out of 17 member states in the 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
	Greece		Οργανισμός Διαχείρισης Δημοσίου Χρέους
	Germany		Finanzagentur GmbH
	Portugal		Instituto de Gestão do Crédito Público
	Slovakia		Agentura pre riadenie dlhu a likvidity
	Cyprus	government	Υπουργείο Οικονομικών
	Estonia		Rahandusministeerium
	Malta		Treasury Department
	Spain		Ministerio de Ekonomia y Hacienda
	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
	Croatia		Ministarstvo Financija
	Lithuania		Finansų Ministeria
	Poland		Ministerstwo Finansów
	Romania		Ministerul Economiei şi Finanţelor

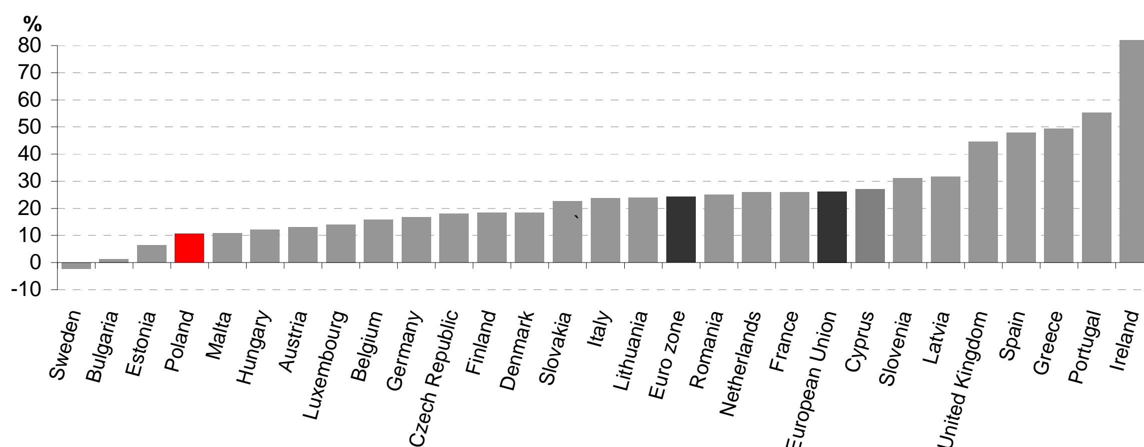
Annex 4. General government deficit and debt, yields on 10-year bonds in the EU member states and TS issuance structure in selected countries

Table 5.General government deficit, debt and yields on 10-year bonds in the EU countries in 2011-2012

	2011			2012		
	GG balance	GG debt	10Y interest rate	GG balance	GG debt	10Y interest rate
	% PKB	% PKB	%	% PKB	% PKB	%
Greece	-9.5	170.3	15.75	-10.0	156.9	22.50
Italy	-3.8	120.8	5.42	-3.0	127.0	5.49
Portugal	-4.4	108.3	10.24	-6.4	123.7	10.55
Ireland	-13.4	106.4	9.60	-7.6	117.4	6.17
Belgium	-3.7	97.8	4.23	-3.9	99.8	3.00
Eurozone	**-4.2**	**87.3**	**4.41**	**-3.7**	**90.6**	**4.01**
France	-5.3	85.8	3.32	-4.8	90.2	2.54
United Kingdom	-7.8	85.5	2.87	-6.3	88.8	1.74
Cyprus	-6.3	71.1	5.79	-6.3	85.8	7.00
EU 28	**-4.4**	**82.5**	**4.31**	**-4.0**	**85.2**	**3.74**
Spain	-9.4	69.3	5.44	-10.6	84.2	5.85
Germany	-0.8	80.4	2.61	0.2	81.9	1.50
Hungary	4.3	81.4	7.64	-1.9	79.2	7.89
Austria	-2.5	72.5	3.32	-2.5	73.2	2.37
Malta	-2.8	70.3	4.49	-3.3	71.6	4.13
Netherlands	-4.5	65.5	2.99	-4.1	71.3	1.93
Poland	**-5.0**	**56.2**	**5.96**	**-3.9**	**55.6**	**5.00**
Slovenia	-6.4	46.9	4.97	-4.0	54.1	5.81
Finland	-0.8	49.0	3.01	-1.9	53.6	1.89
Slovakia	-5.1	43.3	4.45	-4.3	52.1	4.55
Czech Republic	-3.3	40.8	3.71	-4.4	45.9	2.78
Denmark	-1.8	46.4	2.73	-4.0	45.5	1.40
Latvia	-3.6	41.9	5.91	-1.2	40.7	4.57
Lithuania	-5.5	38.5	5.16	-3.2	40.6	4.83
Sweden	0.2	38.4	2.61	-0.5	38.0	1.59
Romania	-5.6	34.7	7.29	-2.9	37.8	6.68
Luxembourg	-0.2	18.3	2.92	-0.8	20.8	1.82
Bulgaria	-2.0	16.3	5.36	-0.8	18.5	4.50
Estonia	1.2	6.2	:	-0.3	10.1	:

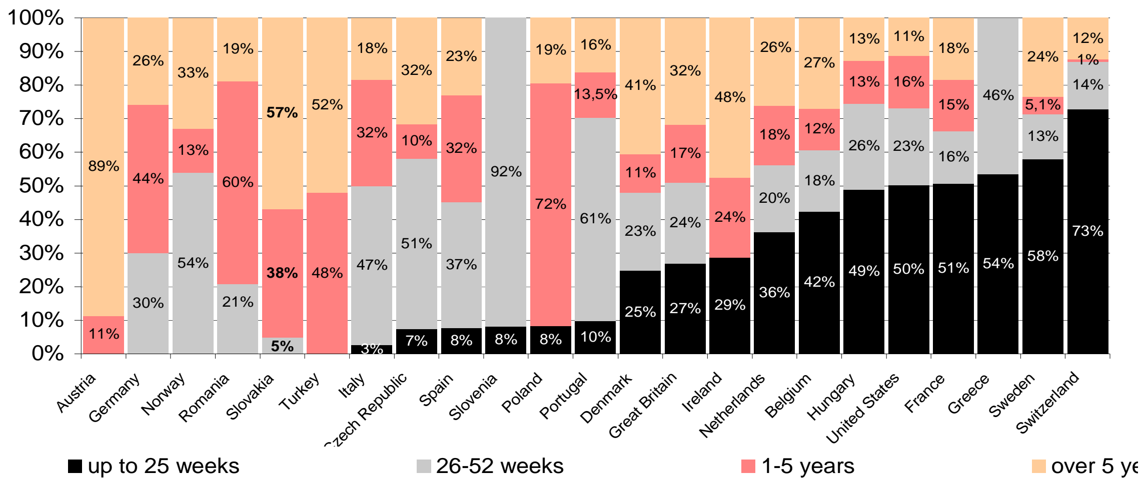
[1]) *Data on general government balance and debt are consistent with Eurostat.*
[2])*10-year interest rate – average of average monthly 10-year T-bond yields from last twelve months, average in December, Eurostat.*

*Chart 1. Cumulative growth of general government debt to GDP ratio in years 2008-2012**



**) Difference between general government debt to GDP ratio at the end of the years 2012 and 2007.*

*Chart 2. T-bonds issuance in Poland and selected countries in terms of maturity in 2013 r.**



**) auctions and syndicates from January 1, to September 19, 2013.*

Annex 5. Government debt rating of EU Member States

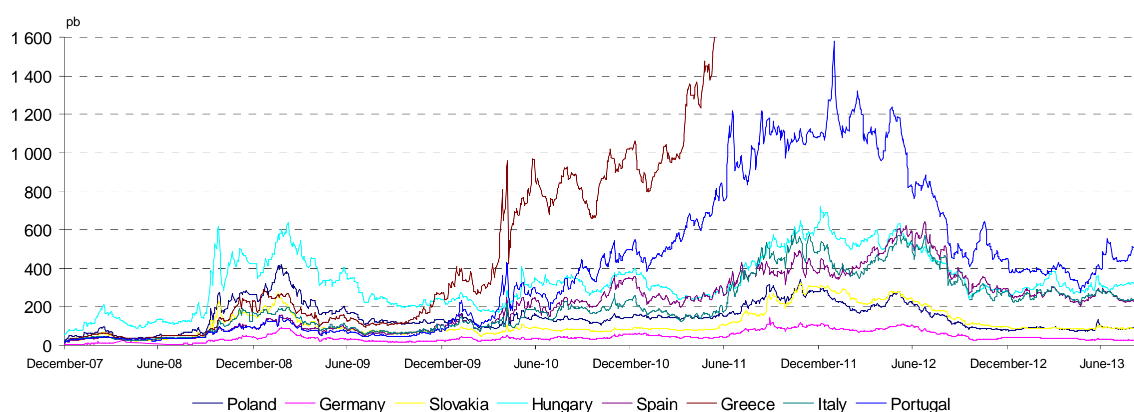
Table 6. Long-term government debt rating in foreign currency of EU Member States as of September 23, 2013

	Standard&Poor's	Fitch	Moody's
Austria	AA+	AAA	Aaa
Belgium	AA	AA	Aa3
Bulgaria	BBB	BBB-	Baa2
Croatia	BB+	BBB-	Ba1
Cyprus	CCC+ ↓↓↓↓↓	B- ↓↓↓↓↓	Caa3 ↓↓↓↓↓↓
Czech Republic	AA-	A+	A1
Denmark	AAA	AAA	Aaa
Estonia	AA-	A+	A1
Finland	AAA	AAA	Aaa
France	AA+	AAA	Aa1 ↓
Germany	AAA	AAA	Aaa
Greece	B- ↑↑	B- ↑	C
Hungary	BB ↓	BB+	Ba1
Ireland	BBB+	BBB+	Ba1
Italy	BBB+	A-	Baa2
Latvia	BBB+ ↑↑	BBB+ ↑↑	Baa3
Lithuania	BBB	BBB+ ↑	Baa1
Luxembourg	AAA	AAA	Aaa
Malta	BBB+ ↓	A ↓	A3
Netherlands	AAA	AAA	Aaa
Poland	**A-**	**A-**	**A2**
Portugal	BB	BB+	Ba3
Romania	BB+	BBB-	Baa3
Slovakia	A	A+	A2
Slovenia	A- ↓	A-	Ba1 ↓↓
Spain	BBB- ↓↓	BBB	Baa3
Sweeden	AAA	AAA	Aaa
UK	AAA	AAA	Aa1 ↓

Source: Reuters.

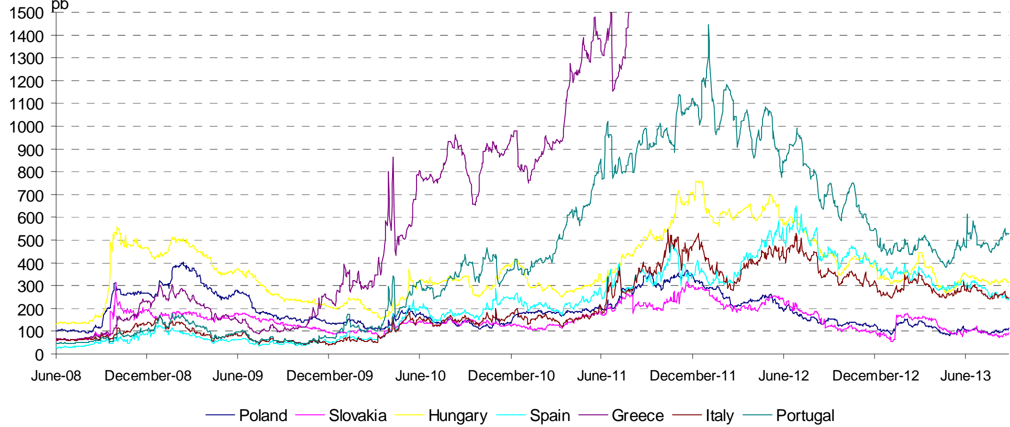
↓ ↑ - *downgrade or upgrade of rating in comparison to previous Strategy.*

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



** Since mid-June 2011 Greek CDS are quoted above 1 600 bp.*

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



** Since September 2011 10Y Greek bonds spread towards German bunds is quoted well above 1500 bp.*

Annex 6. Public debt In Poland – statistical annex

Table 7. Public debt in Poland in period 2001 – VI 2013

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	VI 2013
1. State Tresury debt													
a) PLN bn	283.9	327.9	378.9	402.9	440.2	478.5	501.5	569.9	631.5	701.9	771.1	793.9	844.3
domestic *	185.0	219.3	251.2	291.7	315.5	352.3	380.4	420.2	462.7	507.0	524.7	543.0	585.6
foreign *	98.9	108.6	127.8	111.2	124.7	126.2	121.1	149.7	168.8	194.8	246.4	250.9	258.6
b) GDP %	36.4%	40.6%	44.9%	43.6%	44.8%	45.1%	42.6%	44.7%	47.0%	49.5%	50.5%	49.8%	-
2. Public debt													
a) PLN bn	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8	669.9	747.9	815.3	840.5	888.1
b) GDP %	38.8%	43.6%	48.4%	46.7%	47.5%	47.8%	44.8%	46.9%	49.8%	52.8%	53.4%	52.7%	-
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	684.4	777.4	859.2	886.9	937.5
b) GDP %	37.6%	42.2%	47.1%	45.7%	47.1%	47.7%	45.0%	47.1%	50.9%	54.9%	56.2%	55.6%	-

**) place of issue criterion*

Table 8. GDP and exchange rates in period 2001 – VI 2013

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	VI 2013
1. Gross Domestic Product													
PLN bn	779.6	808.6	843.2	924.5	983.3	1 060.2	1 176.7	1 275.5	1 344.5	1 416.6	1 528.1	1 595.3	-
2. Exchange rate (end of period)													
a) EUR	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	4.4168	4.0882	4.3292
b) USD	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	3.4174	3.0996	3.3175

*Table 9. Public finance sector debt before consolidation **

	Public finance sector debt	2011		2012				2013			
		XII	Structure	Change XII 2011 - XII 2012		XII	Structure	Change XII 2012 - VI 2013		VI	Structure
		PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%
	BEFORE CONSOLIDATION	**861,243.7**	**100.0%**	**28,407.9**	**3.3%**	**889,651.6**	**100.0%**	**58,246.8**	**6.5%**	**947,898.4**	**100.0%**
1.	**Central government sector debt**	**772,638.9**	**89.7%**	**23,064.1**	**3.0%**	**795,702.9**	**89.4%**	**50,410.8**	**6.3%**	**846,113.7**	**89.3%**
1.1.	State Treasury	771,127.5	89.5%	22,726.2	2.9%	793,853.7	89.2%	50,402.2	6.3%	844,255.9	89.1%
1.2.	Earmarked State Funds	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State institutions of higher education	351.2	0.0%	168.0	47.8%	519.1	0.1%	-24.8	-4.8%	494.4	0.1%
1.4.	Independent public heath care units	1,122.2	0.1%	171.3	15.3%	1,293.5	0.1%	22.0	1.7%	1,315.6	0.1%
1.5.	State institutions of culture	23.4	0.0%	-6.6	-28.3%	16.8	0.0%	-7.4	-44.1%	9.4	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	9.4	0.0%	-1.4	-15.1%	8.0	0.0%	-2.5	-31.2%	5.5	0.0%
1.7.	Other central government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	5.1	0.0%	6.7	129.5%	11.8	0.0%	21.2	179.3%	33.0	0.0%
2.	**Local government sector debt**	**70,448.2**	**8.2%**	**2,363.8**	**3.4%**	**72,812.1**	**8.2%**	**-1,633.7**	**-2.2%**	**71,178.4**	**7.5%**
2.1.	Local government units and their associations	66,106.0	7.7%	2,100.1	3.2%	68,206.1	7.7%	-1,670.2	-2.4%	66,535.9	7.0%
2.2.	Local earmarked funds	4,119.1	0.5%	273.8	6.6%	4,392.9	0.5%	63.2	1.4%	4,456.1	0.5%
2.3.	Independent public heath care units	109.7	0.0%	-10.2	-9.3%	99.5	0.0%	-16.1	-16.2%	83.4	0.0%
2.4.	Other local government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	113.4	0.0%	0.2	0.2%	113.6	0.0%	-10.6	-9.3%	103.0	0.0%
3.	**Social security sector debt**	**18,156.6**	**2.1%**	**2,980.0**	**16.4%**	**21,136.6**	**2.4%**	**9,469.6**	**44.8%**	**30,606.3**	**3.2%**
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	18,156.6	2.1%	2,980.0	16.4%	21,136.6	2.4%	9,469.6	44.8%	30,606.3	3.2%
3.3.	Agricultural Social Insurance Fund (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Heath Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

**) data as of September 10, 2013*

*Table 10. Public finance sector debt after consolidation **

	Public finance sector debt	2011		2012				2013			
		XII	Structure	Change XII 2011 - XII 2012		XII	Structure	Change XII 2012 - VI 2013		VI	Structure
		PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%
	AFTER CONSOLIDATION	**815,345.5**	**100.0%**	**25,131.3**	**3.1%**	**840,476.8**	**100.0%**	**47,630.5**	**5.7%**	**888,107.3**	**100.0%**
1.	**Central government sector debt**	**748,805.9**	**91.8%**	**22,013.6**	**2.9%**	**770,819.5**	**91.7%**	**49,758.9**	**6.5%**	**820,578.4**	**92.4%**
1.1.	State Treasury	747,504.3	91.7%	21,624.5	2.9%	769,128.8	91.5%	49,756.4	6.5%	818,885.1	92.2%
1.2.	Earmarked State Funds	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
1.3.	State institutions of higher education	332.4	0.0%	154.0	46.3%	486.4	0.1%	-31.7	-6.5%	454.7	0.1%
1.4.	Independent public heath care units	951.1	0.1%	237.6	25.0%	1,188.6	0.1%	15.0	1.3%	1,203.7	0.1%
1.5.	State institutions of culture	7.8	0.0%	-4.7	-60.0%	3.1	0.0%	0.7	22.0%	3.8	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	6.0	0.0%	-1.3	-21.0%	4.7	0.0%	-2.4	-50.3%	2.3	0.0%
1.7.	Other central government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	4.3	0.0%	3.6	82.3%	7.9	0.0%	20.9	265.0%	28.8	0.0%
2.	**Local government sector debt**	**64,260.6**	**7.9%**	**3,137.7**	**4.9%**	**67,398.3**	**8.0%**	**-1,198.1**	**-1.8%**	**66,200.2**	**7.5%**
2.1.	Local government units and their associations	61,189.4	7.5%	2,830.8	4.6%	64,020.2	7.6%	-1,272.0	-2.0%	62,748.2	7.1%
2.2.	Local earmarked funds	2,999.8	0.4%	314.2	10.5%	3,314.1	0.4%	80.3	2.4%	3,394.3	0.4%
2.3.	Independent public heath care units	63.2	0.0%	-5.1	-8.1%	58.1	0.0%	-5.6	-9.7%	52.5	0.0%
2.4.	Other local government legal entities established under separate acts for public tasks execution. with the exception of enterprises. banks and companies organized under commercial law	8.2	0.0%	-2.3	-27.7%	5.9	0.0%	-0.8	-13.5%	5.1	0.0%
3.	**Social security sector debt**	**2,279.1**	**0.3%**	**-20.0**	**-0.9%**	**2,259.1**	**0.3%**	**-930.4**	**-41.2%**	**1,328.7**	**0.1%**
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	2,279.1	0.3%	-20.0	-0.9%	2,259.1	0.3%	-930.4	-41.2%	1,328.7	0.1%
3.3.	Agricultural Social Insurance Fund (KRUS)	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%
3.4.	National Heath Fund	0.0	0.0%	0.0	-	0.0	0.0%	0.0	-	0.0	0.0%

**) data as of September 10, 2013*

Table 11. State Treasury debt by instrument according to the place of issue criterion (PLN million)

	XII 2011	XII 2012	VI 2013	structure VI 2013 %	change XII 2012 – XII 2011		change VI 2013 - XII 2012	
					PLN mn	%	PLN mn	%
State Treasury Debt	**771,127.5**	**793,853.7**	**844,255.9**	**100.0**	**22,726.2**	**2.9**	**50,402.2**	**6.3**
I. Domestic debt	**524,689.6**	**542,969.9**	**585,624.3**	**69.4**	**18,280.4**	**3.5**	**42,654.4**	**7.9**
1. Treasury Securities issued in domestic market	514,285.2	533,477.5	574,302.0	68.0	19,192.3	3.7	40,824.5	7.7
1.1. Marketable securities	507,225.2	526,109.5	566,987.8	67.2	18,884.3	3.7	40,878.3	7.8
fixed rate	422,927.1	404,025.7	433,171.9	51.3	-18,901.4	-4.5	29,146.3	7.2
Treasury bills	12,013.8	6,110.4	3,083.5	0.4	-5,903.5	-49.1	-3,026.9	-49.5
OK bonds	108,785.5	55,489.4	58,205.0	6.9	-53,296.1	-49.0	2,715.7	4.9
PS bonds	135,561.9	151,290.3	169,571.2	20.1	15,728.5	11.6	18,280.9	12.1
DS bonds	133,150.7	154,636.1	164,032.1	19.4	21,485.4	16.1	9,396.0	6.1
WS bonds	33,415.2	36,499.5	38,280.0	4.5	3,084.3	9.2	1,780.5	4.9
fixed rate - inflation-linked	20,673.9	23,100.0	23,308.6	2.8	2,426.2	11.7	208.6	0.9
IZ bonds	20,673.9	23,100.0	23,308.6	2.8	2,426.2	11.7	208.6	0.9
floating rate	63,624.3	98,983.8	110,507.3	13.1	35,359.5	55.6	11,523.5	11.6
TZ bonds	590.2	494.6	444.4	0.1	-95.6	-16.2	-50.3	-10.2
WZ bonds	62,284.1	97,739.2	109,312.9	12.9	35,455.1	56.9	11,573.7	11.8
PP bonds	750.0	750.0	750.0	0.1	0.0	0.0	0.0	0.0
1.2. Savings bonds	7,060.0	7,367.9	7,314.2	0.9	307.9	4.4	-53.7	-0.7
fixed rate	2,312.9	1,784.0	1,521.1	0.2	-528.9	-22.9	-262.9	-14.7
DOS bonds	2,312.9	1,784.0	1,521.1	0.2	-528.9	-22.9	-262.9	-14.7
floating rate	4,747.1	5,584.0	5,793.1	0.7	836.8	17.6	209.1	3.7
TOZ bonds	-	80.5	123.5	0.0	80.5	-	43.0	53.4
COI bonds	1,798.4	1,831.9	1,865.6	0.2	33.5	1.9	33.7	1.8
EDO bonds	2,948.8	3,671.5	3,804.0	0.5	722.8	24.5	132.5	3.6
2. Other domestic debt	10,404.3	9,492.4	11,322.3	1.3	-911.9	-8.8	1,829.9	19.3
deposits of public finance sector entities	10,391.5	9,438.1	11,310.0	1.3	-953.5	-9.2	1,871.9	19.8
matured payables	9.3	50.8	7.3	0.0	41.5	445.3	-43.5	-85.7
other	3.5	3.6	5.1	0.0	0.1	3.2	1.5	41.4
II. Foreign debt	**246,438.0**	**250,883.8**	**258,631.6**	**30.6**	**4,445.8**	**1.8**	**7,747.9**	**3.1**
1. Treasury securities issued in international	195,271.1	199,955.1	203,586.9	24.1	4,684.0	2.4	3,631.8	1.8
1.1. Marketable securities	195,271.1	199,955.1	203,586.9	24.1	4,684.0	2.4	3,631.8	1.8
fixed rate	194,991.6	198,431.5	202,000.1	23.9	3,439.9	1.8	3,568.6	1.8
EUR	114,236.1	123,367.6	124,235.1	14.7	9,131.5	8.0	867.5	0.7
USD	43,947.4	44,014.3	47,108.5	5.6	67.0	0.2	3,094.2	7.0
CHF	18,893.2	16,680.0	17,275.9	2.0	-2,213.2	-11.7	595.9	3.6
JPY	17,914.9	14,369.6	13,380.6	1.6	-3,545.3	-19.8	-989.0	-6.9
floating rate	279.6	1,523.6	1,586.8	0.2	1,244.1	445.0	63.2	4.1
USD	279.6	253.6	271.4	0.0	-26.0	-9.3	17.8	7.0
CHF		1,270.1	1,315.4	0.2	1,270.1	-	45.4	3.6
2. Loans	51,166.8	50,928.6	55,044.7	6.5	-238.2	-0.5	4,116.1	8.1
fixed rate	23,799.5	21,496.0	20,937.5	2.5	-2,303.5	-9.7	-558.5	-2.6
EUR	23,340.8	21,251.6	20,771.8	2.5	-2,089.2	-9.0	-479.8	-2.3
USD	8.6	3.9	2.1	0.0	-4.7	-54.6	-1.8	-46.5
JPY	450.1	240.5	163.7	0.0	-209.6	-46.6	-76.8	-31.9
floating rate	27,367.3	29,432.6	34,107.2	4.0	2,065.3	7.5	4,674.6	15.9
EUR	27,233.9	29,428.2	34,107.2	4.0	2,194.3	8.1	4,679.0	15.9
USD	133.4	4.4	-	0.0	-129.0	-96.7	-4.4	-100.0
3. Other foreign debt	0.0	0.1	0.0	0.0	0.1	2353.2	-0.1	-96.5

Table 12. State Treasury debt by holder (PLN million)

	XII 2011	XII 2012	VI 2013	structure VI 2013 %	change XII 2012 – XII 2011		change VI 2013 - XII 2012	
					PLN mn	%	PLN mn	%
State Treasury debt	**771,127.5**	**793,853.7**	**844,255.9**	**100.0**	**22,726.2**	**2.9**	**50,402.2**	**6.3**
I. State Treasury debt towards residents	**382,135.1**	**361,478.4**	**393,635.9**	**46.6**	**-20,656.7**	**-5.4**	**32,157.4**	**8.9**
Domestic banking sector	**120,229.4**	**98,564.1**	**124,257.1**	**14.7**	**-21,665.3**	**-18.0**	**25,693.0**	**26.1**
1. TS issued in domestic market	110,347.7	91,526.3	115,984.7	13.7	-18,821.3	-17.1	24,458.4	26.7
1.1.Marketable TS	110,347.7	91,526.3	115,984.7	13.7	-18,821.3	-17.1	24,458.4	26.7
Treasury bills	7,044.4	3,769.8	2,088.6	0.2	-3,274.6	-46.5	-1,681.2	-44.6
OK bonds	22,700.5	7,115.5	13,673.3	1.6	-15,585.0	-68.7	6,557.8	92.2
PS bonds	25,900.2	24,411.6	35,431.5	4.2	-1,488.6	-5.7	11,020.0	45.1
DS bonds	24,108.3	19,844.9	20,209.2	2.4	-4,263.4	-17.7	364.3	1.8
WS bonds	1,054.0	1,389.7	2,616.2	0.3	335.7	31.8	1,226.6	88.3
IZ bonds	637.0	581.2	753.0	0.1	-55.8	-8.8	171.8	29.6
TZ bonds	0.6	0.5	0.5	0.0	-0.1	-12.6	0.0	0.0
WZ bonds	28,887.7	34,398.3	41,197.4	4.9	5,510.6	19.1	6,799.1	19.8
PP bonds	15.0	15.0	15.0	0.0	0.0	0.0	0.0	0.0
1.2. Savings bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
DOS bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
TOZ bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
COI bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
EDO bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
2. Other ST debt	0.0	0.0	0.0	0.0	0.0	-	0.0	-
deposits of public finance sector entities	0.0	0.0	0.0	0.0	0.0	-	0.0	-
matured payables	0.0	0.0	0.0	0.0	0.0	-	0.0	-
other	0.0	0.0	0.0	0.0	0.0	-	0.0	-
3. TS issued in foreign markets	9,881.7	7,037.8	8,272.4	1.0	-2,844.0	-28.8	1,234.6	17.5
Domestic non-banking sector	**261,905.7**	**262,914.4**	**269,378.8**	**31.9**	**1,008.6**	**0.4**	**6,464.4**	**2.5**
1. TS issued in domestic market	249,710.7	251,472.4	256,431.6	30.4	1,761.8	0.7	4,959.2	2.0
1.1.Marketable TS	242,669.6	244,122.0	249,132.6	29.5	1,452.4	0.6	5,010.6	2.1
Treasury bills	3,235.2	1,750.9	891.5	0.1	-1,484.3	-45.9	-859.4	-49.1
OK bonds	42,100.7	15,930.9	12,423.9	1.5	-26,169.7	-62.2	-3,507.0	-22.0
PS bonds	63,747.9	70,630.9	79,423.8	9.4	6,883.0	10.8	8,792.9	12.4
DS bonds	66,035.5	71,812.2	66,556.0	7.9	5,776.7	8.7	-5,256.2	-7.3
WS bonds	18,087.1	16,278.6	19,561.6	2.3	-1,808.5	-10.0	3,283.0	20.2
IZ bonds	14,995.4	12,960.5	11,955.7	1.4	-2,034.9	-13.6	-1,004.8	-7.8
TZ bonds	587.5	492.2	443.5	0.1	-95.3	-16.2	-48.7	-9.9
WZ bonds	33,145.4	53,530.8	57,141.5	6.8	20,385.4	61.5	3,610.7	6.7
PP bonds	735.0	735.0	735.0	0.1	0.0	0.0	0.0	0.0
1.2. Savings bonds	7,041.1	7,350.4	7,299.0	0.9	309.4	4.4	-51.4	-0.7
DOS bonds	2,308.9	1,782.4	1,519.7	0.2	-526.5	-22.8	-262.7	-14.7
TOZ bonds	0.0	80.3	123.3	0.0	80.3	-	43.0	53.5
COI bonds	1,787.3	1,820.8	1,856.9	0.2	33.5	1.9	36.1	2.0
EDO bonds	2,944.8	3,666.9	3,799.1	0.4	722.1	24.5	132.3	3.6
2. Other ST debt	10,404.3	9,492.4	11,322.3	1.3	-911.9	-8.8	1,829.9	19.3
deposits of public finance sector entities	10,391.5	9,438.1	11,310.0	1.3	-953.5	-9.2	1,871.9	19.8
matured payables	9.3	50.8	7.3	0.0	41.5	445.3	-43.5	-85.7
other	3.5	3.6	5.1	0.0	0.1	3.2	1.5	41.4
3. TS issued in foreign markets	1,790.7	1,949.5	1,624.9	0.2	158.7	8.9	-324.6	-16.6
II. State Treasury debt towards non-residents	**388,992.4**	**432,375.3**	**450,620.1**	**53.4**	**43,382.8**	**11.2**	**18,244.8**	**4.2**
1. TS issued in domestic market	154,226.9	190,478.7	201,885.7	23.9	36,251.8	23.5	11,407.0	6.0
1.1.Marketable TS	154,207.9	190,461.2	201,870.5	23.9	36,253.2	23.5	11,409.3	6.0
Treasury bills	1,734.3	589.7	103.4	0.0	-1,144.6	-66.0	-486.3	-82.5
OK bonds	43,984.3	32,442.9	32,107.8	3.8	-11,541.4	-26.2	-335.2	-1.0
PS bonds	45,913.7	56,247.8	54,715.9	6.5	10,334.1	22.5	-1,531.9	-2.7
DS bonds	43,006.9	62,979.1	77,266.9	9.2	19,972.2	46.4	14,287.8	22.7
WS bonds	14,274.1	18,831.2	16,102.2	1.9	4,557.1	31.9	-2,729.0	-14.5
IZ bonds	5,041.5	9,558.4	10,599.9	1.3	4,516.9	89.6	1,041.5	10.9
TZ bonds	2.2	1.9	0.4	0.0	-0.3	-12.6	-1.5	-80.1
WZ bonds	251.0	9,810.1	10,974.0	1.3	9,559.2	3808.6	1,163.9	11.9
PP bonds	0.0	0.0	0.0	0.0	0.0	-	0.0	-
1.2. Savings bonds	19.0	17.5	15.2	0.0	-1.4	-7.6	-2.3	-13.4
DOS bonds	3.9	1.5	1.4	0.0	-2.4	-61.2	-0.1	-8.4
TOZ bonds	0.0	0.2	0.2	0.0	0.2	-	0.0	0.0
COI bonds	11.1	11.1	8.7	0.0	0.1	0.5	-2.4	-21.8
EDO bonds	4.0	4.7	4.9	0.0	0.7	18.0	0.2	4.7
2. TS issued in foreign markets	183,598.7	190,967.9	193,689.7	22.9	7,369.2	4.0	2,721.8	1.4
3. Foreign loans	51,166.8	50,928.6	55,044.7	6.5	-238.2	-0.5	4,116.1	8.1
European Investment Bank	30,295.3	29,130.2	32,205.3	3.8	-1,165.2	-3.8	3,075.2	10.6
The World Bank	19,628.0	20,855.6	21,996.2	2.6	1,227.6	6.3	1,140.7	5.5
Council of Europe Development Bank	793.4	702.4	679.4	0.1	-91.0	-11.5	-23.0	-3.3
Paris Club	271.7	136.4	86.1	0.0	-135.3	-49.8	-50.2	-36.8
other loans	178.4	104.1	77.5	0.0	-74.3	-41.7	-26.5	-25.5
4. Other ST debt	0.0	0.1	0.0	0.0	0.1	2353.2	-0.1	-96.5

Table 14. Local government units and their debt-to-revenues ratio in 2011 – 2012

	Group of units	Total no. of units	Number of indebted units					
			Debt-to-revenues ratio*					
			Total	i<10%	10%<i<30%	30%<i<50%	50%<i<60 %	i>60%
XII 2011	Municipalities	2414	2305	322	917	825	210	31
	Cities with county rights	65	64	2	18	30	14	0
	Counties	314	311	48	159	91	12	1
	Voivodeships	16	16	3	3	8	2	0
	Total	2809	2696	375	1097	954	238	32
XII 2012	Municipalities	2414	2300	297	923	858	196	26
	Cities with county rights	65	64	2	14	35	13	0
	Counties	314	310	48	155	86	18	3
	Voivodeships	16	16	1	4	6	4	1
	Total	2809	2690	348	1096	985	231	30

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

Chart 5. Debt-to-revenues ratio for voivodeships' capitals in 2012