



# Public Debt Management Strategy in the years 2010-2012

(summary)

*Ministry of Finance*

*October 2009*



## Macroeconomic assumptions

Item	2008	2009	2010	2011	2012
Real GDP growth (%)	5.0	0.9	1.2	2.8	3.0
GDP in current prices (PLN bn)	1 272.8	1 322.3	1 350.2	1 414.8	1 489.3
CPI annual average (%)	4.2	3.6	1.0	1.8	2.3
Open market operations rate (%)					
- annual average	5.7	3.8	3.5	4.1	4.3
PLN/USD					
- annual average	2.41	3.19	2.94	2.83	2.68
- end of year	2.96	3.00	2.89	2.77	2.59
PLN/EUR					
- annual average	3.52	4.37	4.08	3.85	3,61
- end of year	4.14	4.19	3.97	3.74	3.50



## Objective of the Strategy

- ***Objective of the Strategy maintained***

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

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

- ***Two aspects of the Strategy's objective:***

- Choice of instruments
- Efficiency of the TS market



## Flexible approach to the financing structure

### DOMESTIC FINANCING

- main source of financing the borrowing requirements of the budget

### FOREIGN FINANCING

- ensuring diversification of sources by Poland's access to the investor base in major financial markets
- taking into account the foreign currency borrowing requirements, including principal and interest payments on foreign debt
- strengthening Poland's position in the euro market – deemed strategic due to the perspective of full integration under the EMU
- utilising an access to attractive financing in international financial institutions
- stabilising the domestic market by ensuring safety of financing the State budget borrowing requirements in case of temporary disruptions on the domestic market
- possible buy and sale of foreign currencies in the NBP as an available instrument of managing foreign currency borrowing requirements and utilising foreign currencies to finance borrowing requirements in PLN, while taking into account considerations of monetary policy and financial rationale



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

### **DOMESTIC DEBT**

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

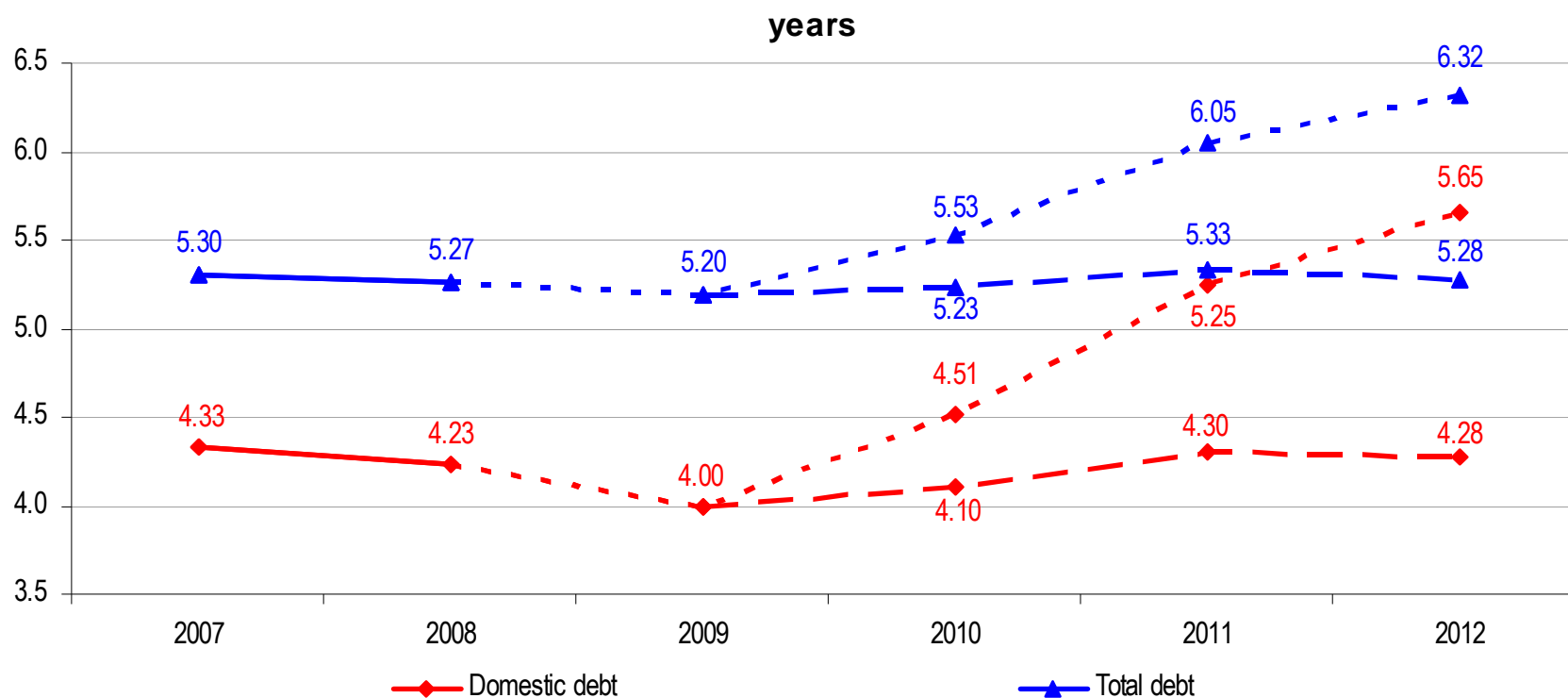
### **FOREIGN DEBT**

- current level of foreign debt refinancing risk does not restrain cost minimisation objective, ATM at 8.4 in mid 2009



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

### *ATM of the State Treasury debt*





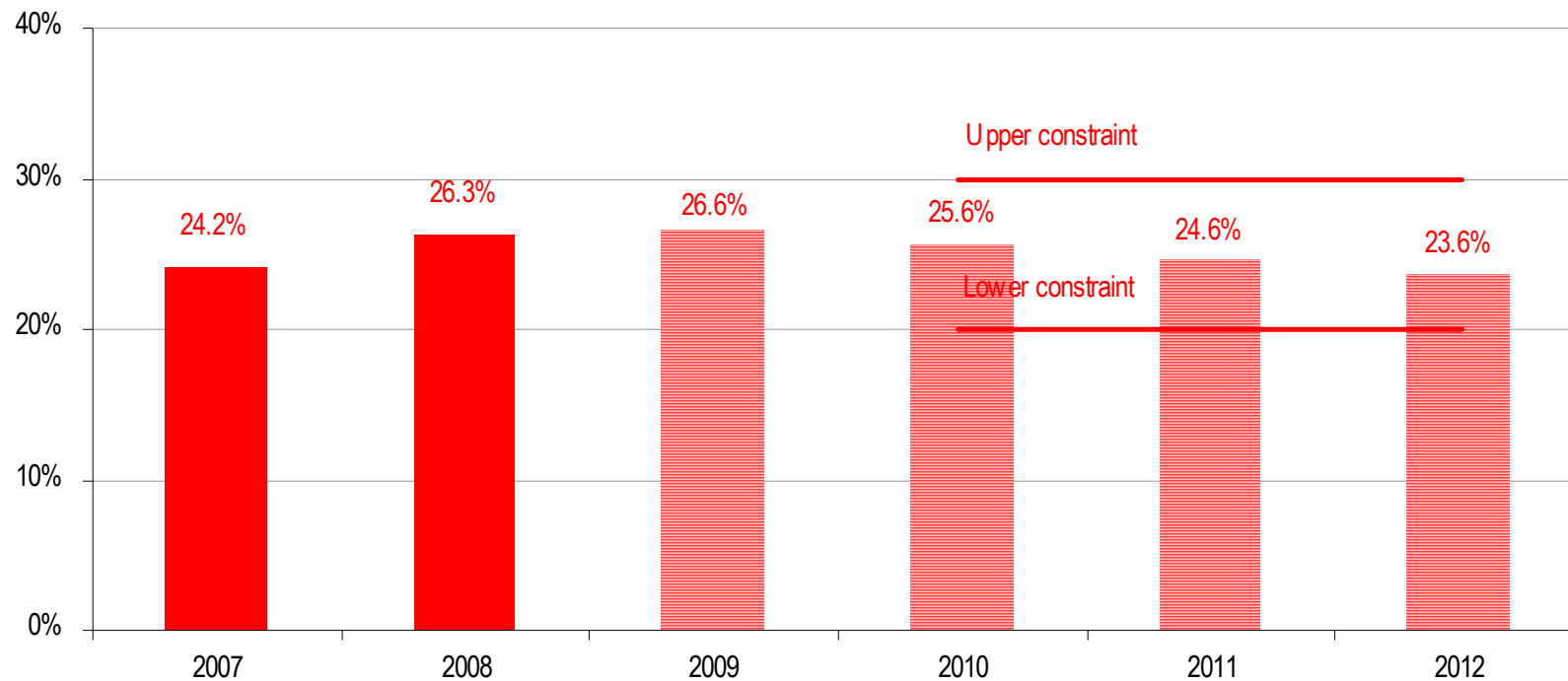
## **Risk constraints of the Strategy's objective: exchange rate risk (1)**

- widening the acceptable share of foreign currency debt in total debt to the range of 20-30%, in connection with high volatility of exchange rates and flexible approach to choosing markets
- maintaining an effective share of the euro in foreign currency debt at  $\geq 70\%$
- possible use of derivatives



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

*Share of foreign debt in the State Treasury debt*







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

### **DOMESTIC DEBT**

- maintaining duration in the range of 2.5 – 4.0 years
- possible separating the management of the interest rate and refinancing risks by using floating rate bonds, inflation-linked bonds and derivatives

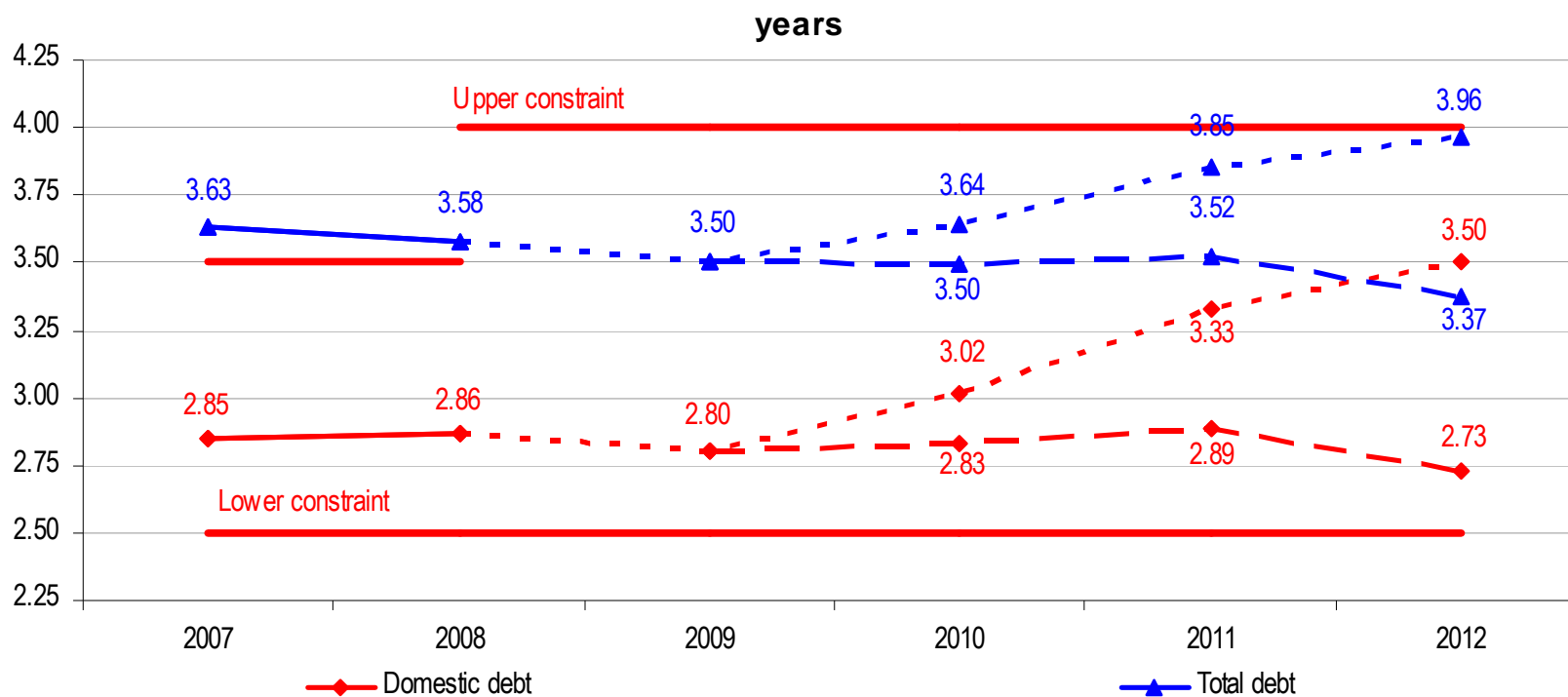
### **FOREIGN DEBT**

- current level of risk is not a constraint for cost minimisation objective, in mid 2009 duration amounted to 5.6 years



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

### *Duration of the State Treasury debt*





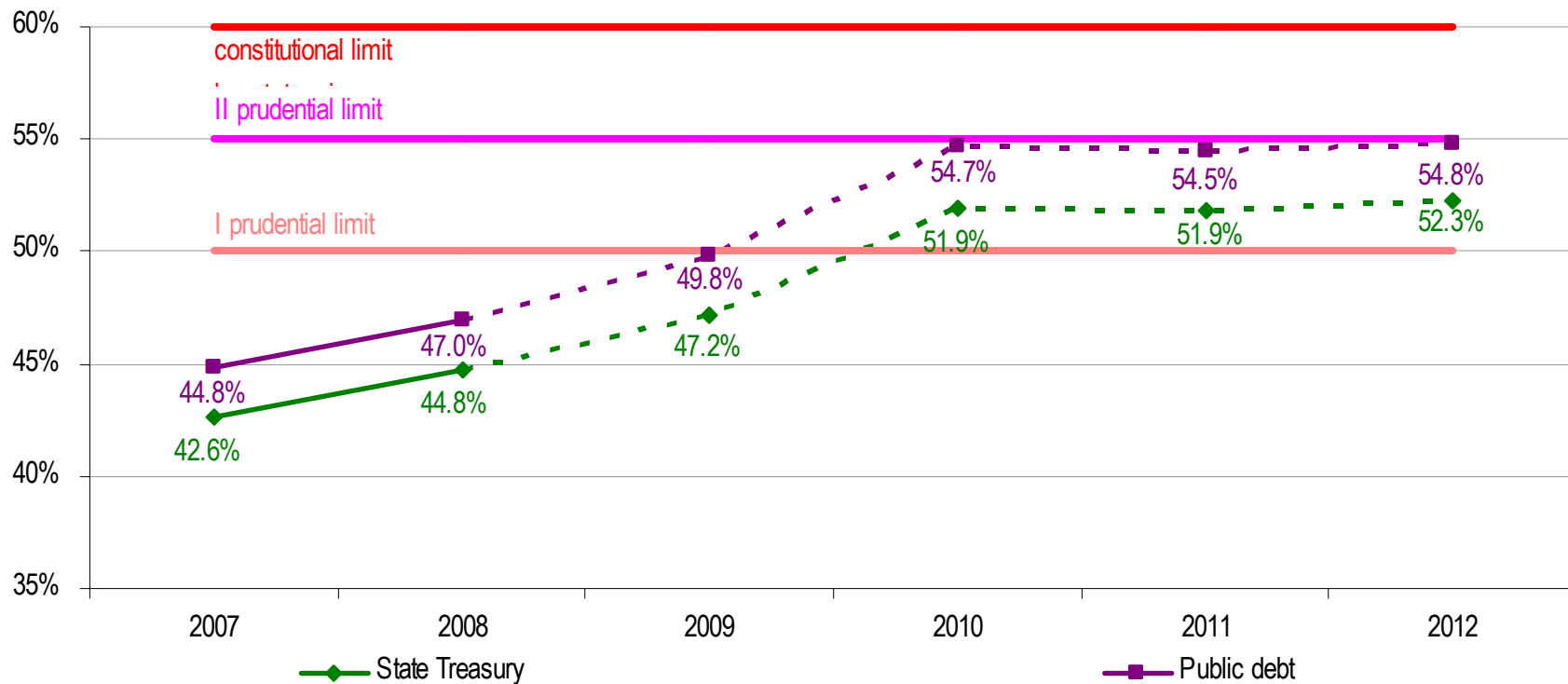
## Strategy tasks

- 1. Increasing liquidity of the TS market**
  - Continuation of issuing medium and long term fixed rate benchmark bonds (at least EUR 5 bn) in the domestic market
  - Large liquid issues in the euro market
  - Adapting issuance policy to market circumstances, including demand in different segments of the TS market
- 2. Increasing efficiency of the TS market, including:**
  - Increasing the role of the participants of the Primary Dealers system
  - Removing technical and legal obstacles
  - Direct meetings with investors and consultations with market participants
  - Broadening the investor base, including non-deal roadshows in the key foreign markets
- 3. Increasing transparency of the TS market**
  - Transparent issuance policy, including TS issuance calendars, supply plans of TS and supply offers for individual auctions
  - Promoting the electronic market



## Public debt volume

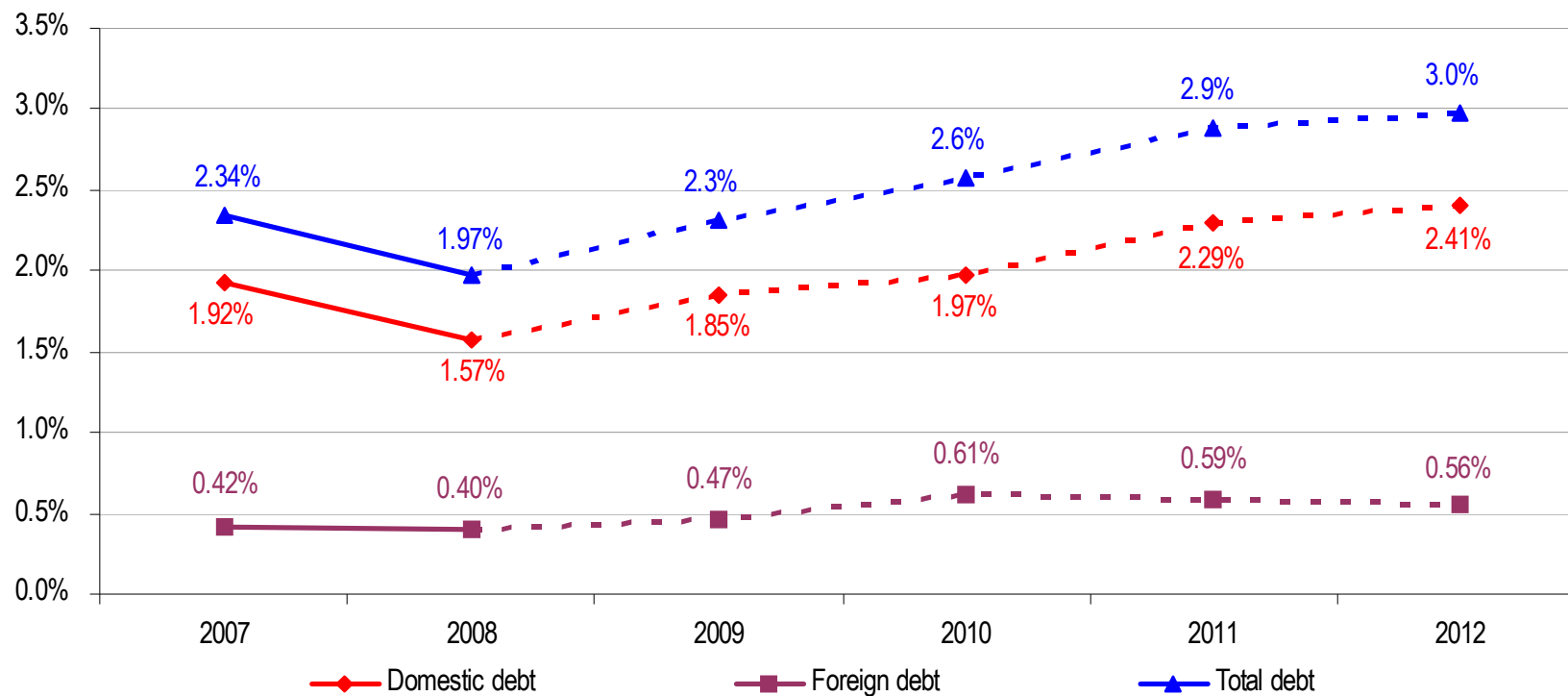
➤ In the years 2010-2012 the debt to GDP ratio close to the 55% threshold – risk of triggering the procedures envisaged in the Public Finance Act





## State Treasury debt servicing costs

➤ Increase in the costs to GDP ratio to 3.0% in 2012





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

	2010	2011	2012
GDP and borrowing requirements (GDP %)			
- growth path of GDP lower by 1 percentage point	0.51	1.02	1.57
- borrowing requirements higher by PLN 1 bn a year	0.08	0.15	0.22
Exchange rate (GDP %)			
- PLN depreciation by 10% towards all currencies	1.32	1.27	1.25

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

	2010	2011	2012
Interest rates – 1 percentage point increase (PLN bn)			
- total debt	0.6	2.6	3.6
- domestic debt	0,6	2,4	3.3
- foreign debt	0.1	0.2	0.4
Exchange rate - PLN depreciation by 1% towards all currencies (PLN million)			
	83	83	84