Ministry
of Finance

Republic
of Poland

The Public Finance Sector Debt Management Strategy in the years 2012-15

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December 2011

Macroeconomic assumptions

Item	2010	2011	2012	2013	2014	2015
Real GDP growth (%)	3.9	4.0	2.5	3.4	3.8	3.9
GDP in current prices (PLN bn)	1 415.4	1 512.3	1 589.6	1 684.2	1 790.6	1 904.7
State budget borrowing requirements	65.4	32.6	46.2	28.8	31.5	33.4
CPI annual average (%)	2.6	4.1	2.8	2.5	2.5	2.5
PLN/USD (end of year)	2.96	3.22	2.96	2.82	2.67	2.59
PLN/EUR (end of year)	3.96	4.35	4.00	3.80	3.60	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 financing structure

DOMESTIC FINANCING

– main source of financing the borrowing requirements of the budget

FOREIGN FINANCING

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

– possible sale of foreign currencies on the financial market or in the NBP as an available instrument of managing foreign 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

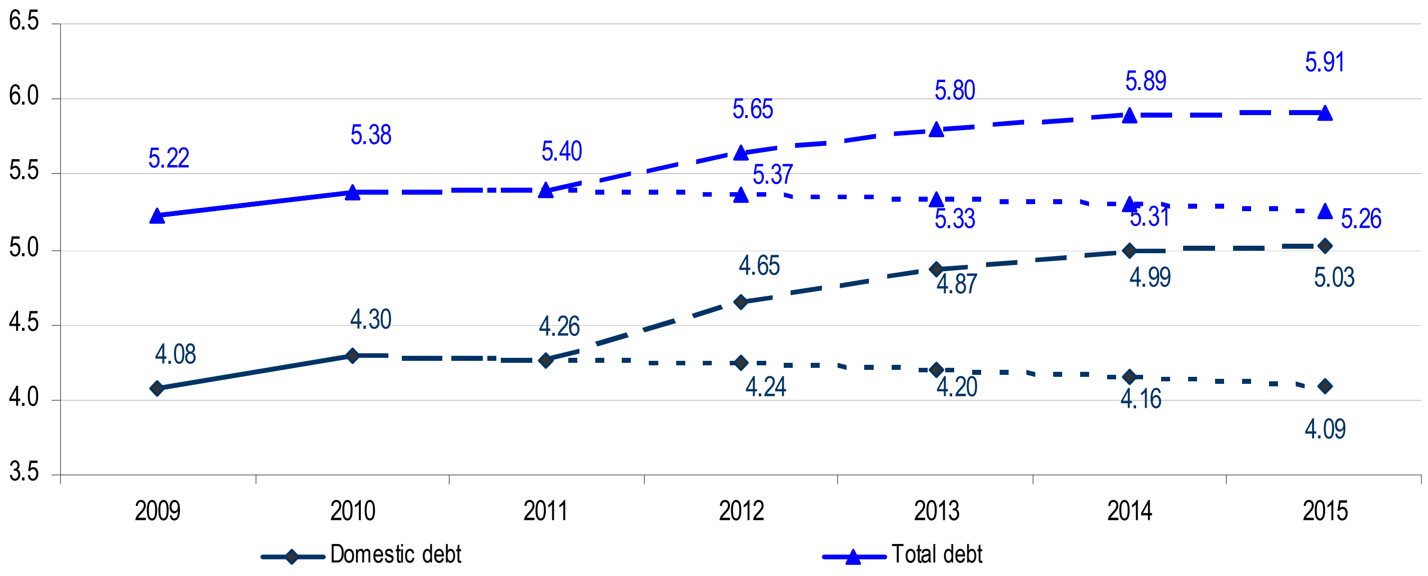
– reaching average term to maturity (ATM) ≥ 4.5 years if the demand and the term structure of interest rates make it possible

FOREIGN DEBT

– current level of foreign debt refinancing risk does not restrain cost minimisation objective: ATM at 8.1 in mid 2011

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

ATM of the State Treasury debt



Risk constraints of the Strategy’s objective: exchange rate risk (1)

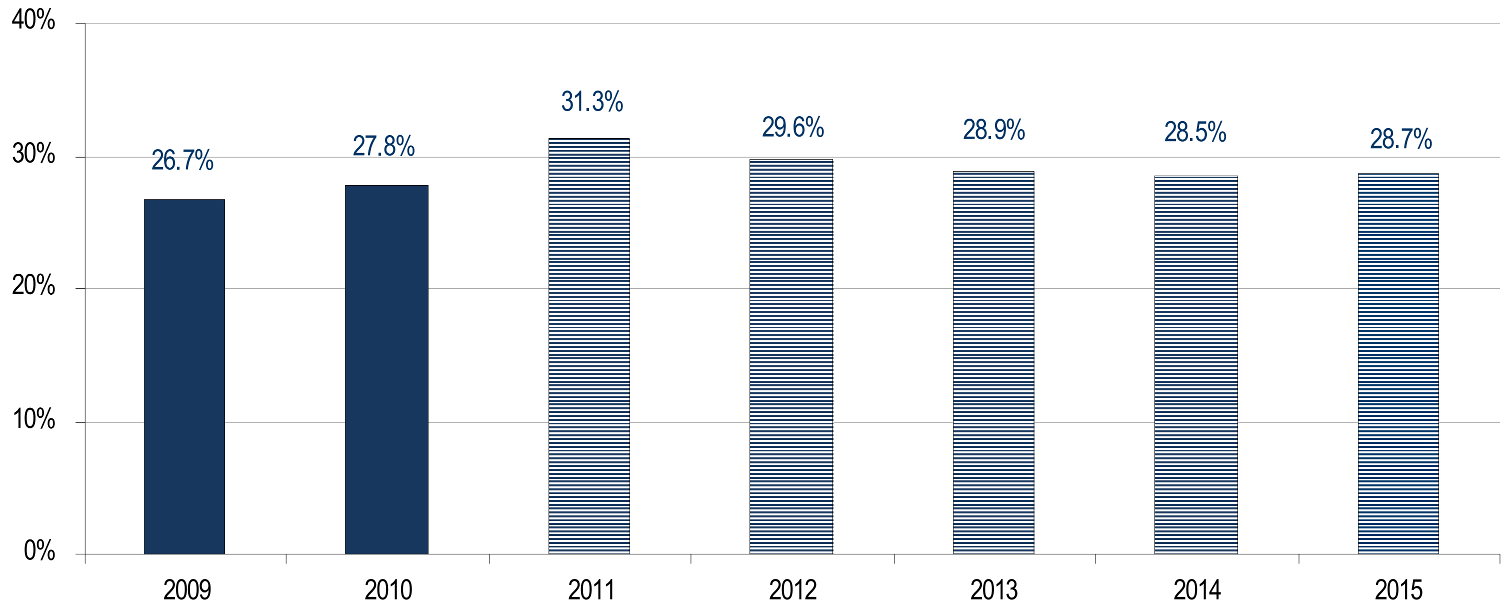
– maintaining the acceptable share of foreign currency debt in total debt to the range of 20-30%, with possible temporary deviations due to high volatility of exchange rates or temporary disruptions on the domestic market

– maintaining an effective share of the euro in foreign currency debt at ≥ 70%, with possible temporary deviations in case of limited access to euro market or unfavourable situation in the derivatives market

– possible use of derivatives

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

Share of foreign debt in ST debt



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

DOMESTIC DEBT

– maintaining duration in the range of 2.5 – 4.0 years

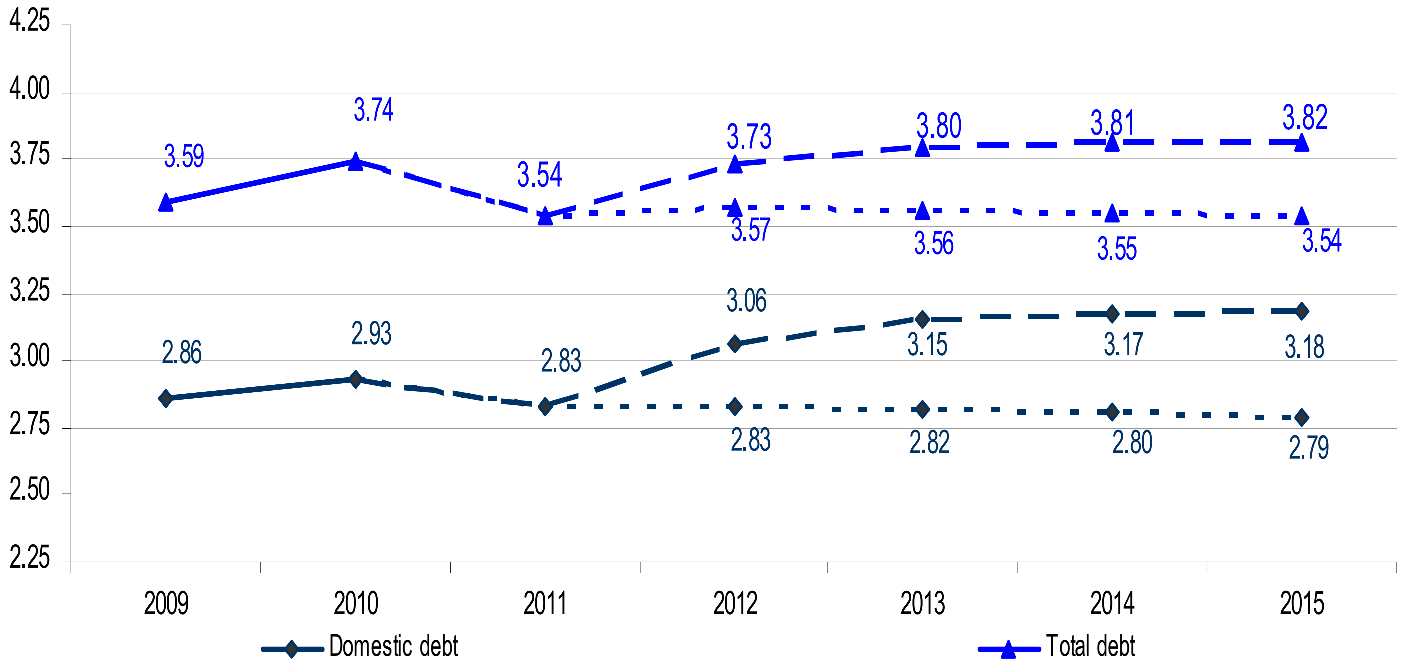
– possible separating the management of the interest rate and refinancing risks by using floating rate bonds, inflation-linked bonds and derivatives

FOREIGN DEBT

– current level of risk is not a constraint for cost minimisation objective: in mid 2011 duration amounted to 5.5 years

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

Duration of the ST 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 and US dollar markets
   - Adapting issuance policy to market circumstances, including demand in different segments of the TS market
   - Modifying the principles of evaluating primary dealers activity aimed at fostering liquidity on the secondary market
2. **Increasing efficiency of the TS market,** including:
   - Issuance schedule adjusted to market and budgetary circumstances
   - Increasing the role of the participants of the Primary Dealers system
   - Removing technical and legal obstacles
   - Direct meetings with investors and consultations with market participants
   - Broadening the investor base, including non-deal roadshows in the key foreign markets
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

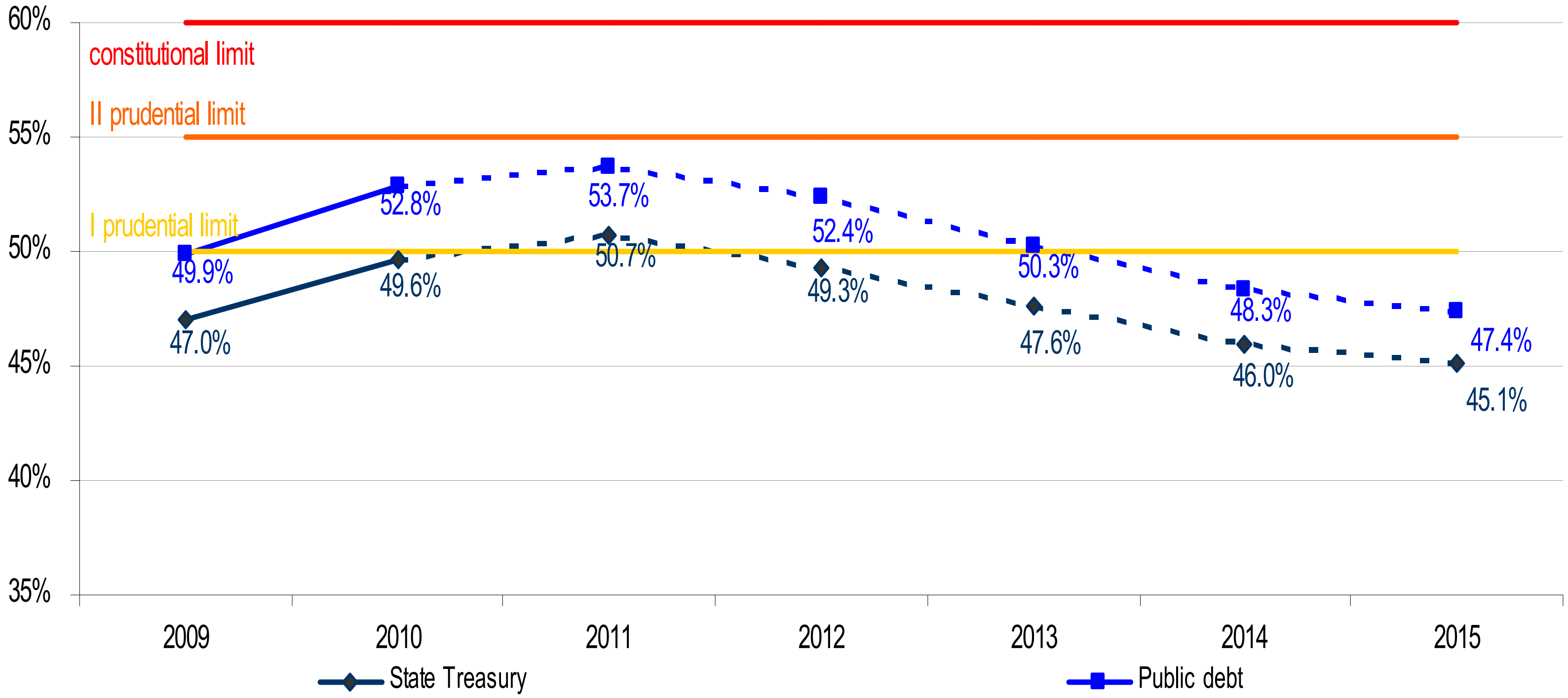
Debt forecasts

Item	2010	2011	2012	2013	2014	2015
State Treasury debt						
PLN bn	701.9	767.0	782.9	800.3	821.9	858.9
Domestic	507.0	526.7	550.8	569.2	588.0	612.5
Foreign	194.8	240.3	232.1	231.1	233.9	246.4
GDP %	49.6	50.7	49.3	47.5	45.9	45.1
Public debt						
PLN bn	747.9	812.3	832.5	846.9	864.8	902.2
GDP %	52.8	53.7	52.4	50.3	48.3	47.4
General government debt						
PLN bn	776.8	857.2	890.0	905.2	921.0	956.9
GDP %	54.9	56.7	56.0	53.7	51.4	50.2

Public debt volume

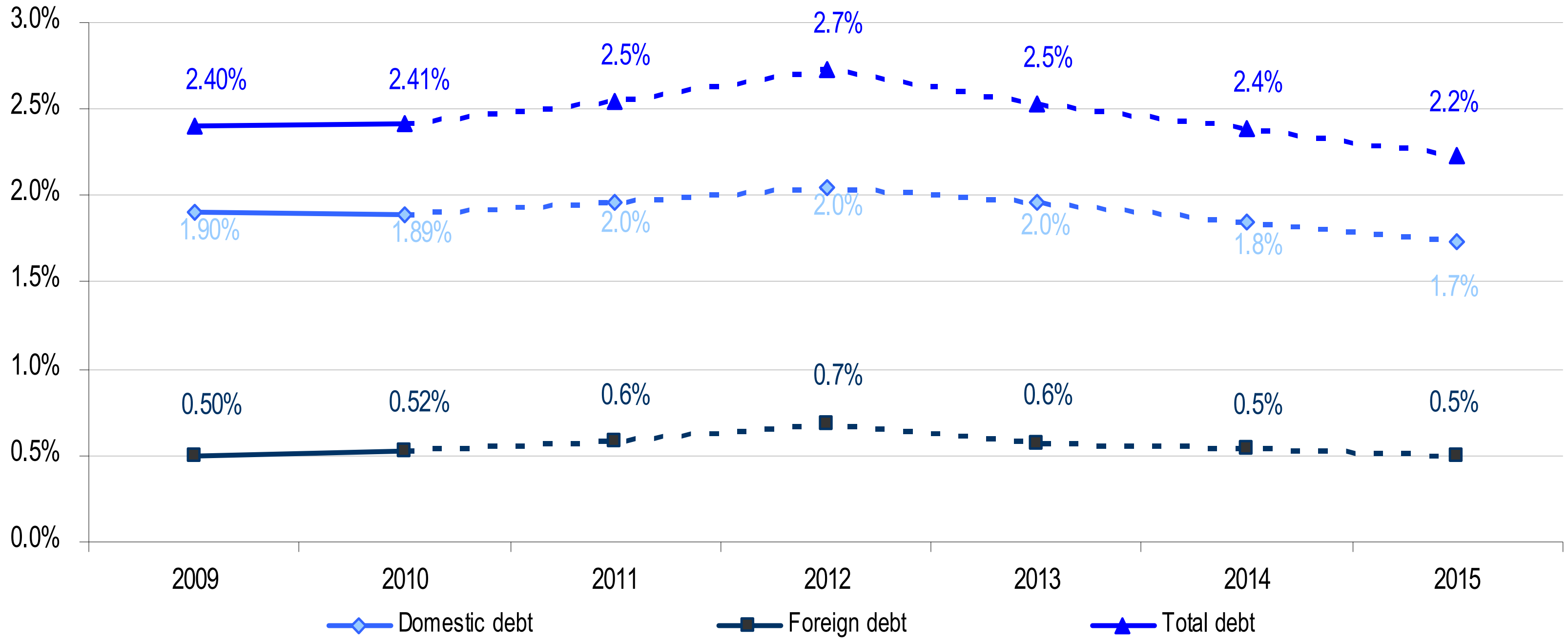
Under the adopted assumptions the debt-to-GDP ratio will decrease:

- **below the 50% threshold in 2014 - according to Polish methodology**
- **to 50.2% within the timeframe of the Strategy - according to EU methodology**



State Treasury debt servicing costs

Increase in the costs to GDP ratio to 2.7% in 2012 and decrease to 2.2% in 2015



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

Item	2012	2013	2014	2015
GDP and borrowing requirements (GDP %)				
- growth path of GDP lower by 1 percentage point	0.50	0.97	1.40	1.83
- borrowing requirements higher by PLN 1 bn a year	0.07	0.13	0.19	0.24
Exchange rate (GDP %)				
- PLN depreciation by 10% towards all currencies	1.52	1.43	1.36	1.34

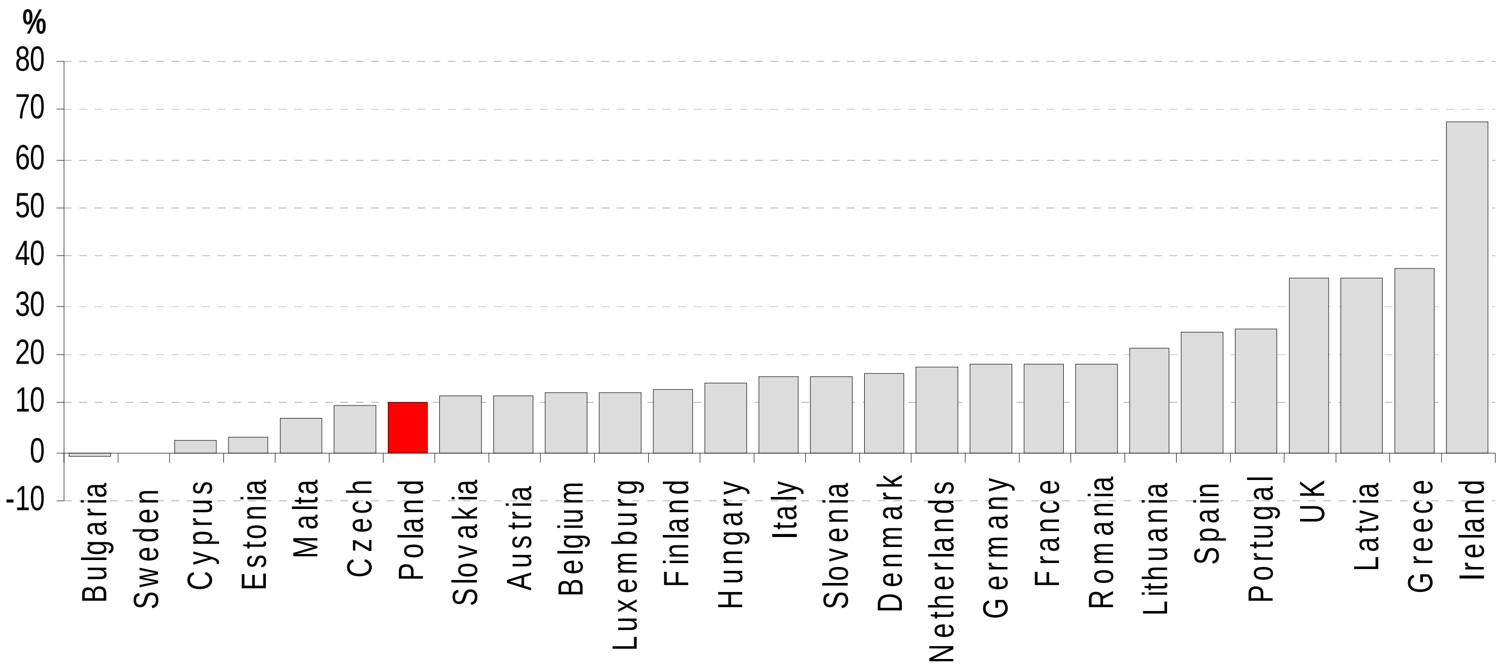
Sensitivity of the debt servicing costs to changes in assumptions

Item	2012	2013	2014	2015
Interest rates – 1 percentage point increase (PLN bn)				
- total debt	0.9	2.5	3.8	4.7
- domestic debt	0.6	2.0	3.1	3.6
- foreign debt	0.2	0.6	0.8	1.1
Exchange rate - PLN depreciation by 1% towards all currencies (PLN million)				
	100.5	96.2	96.9	95.6

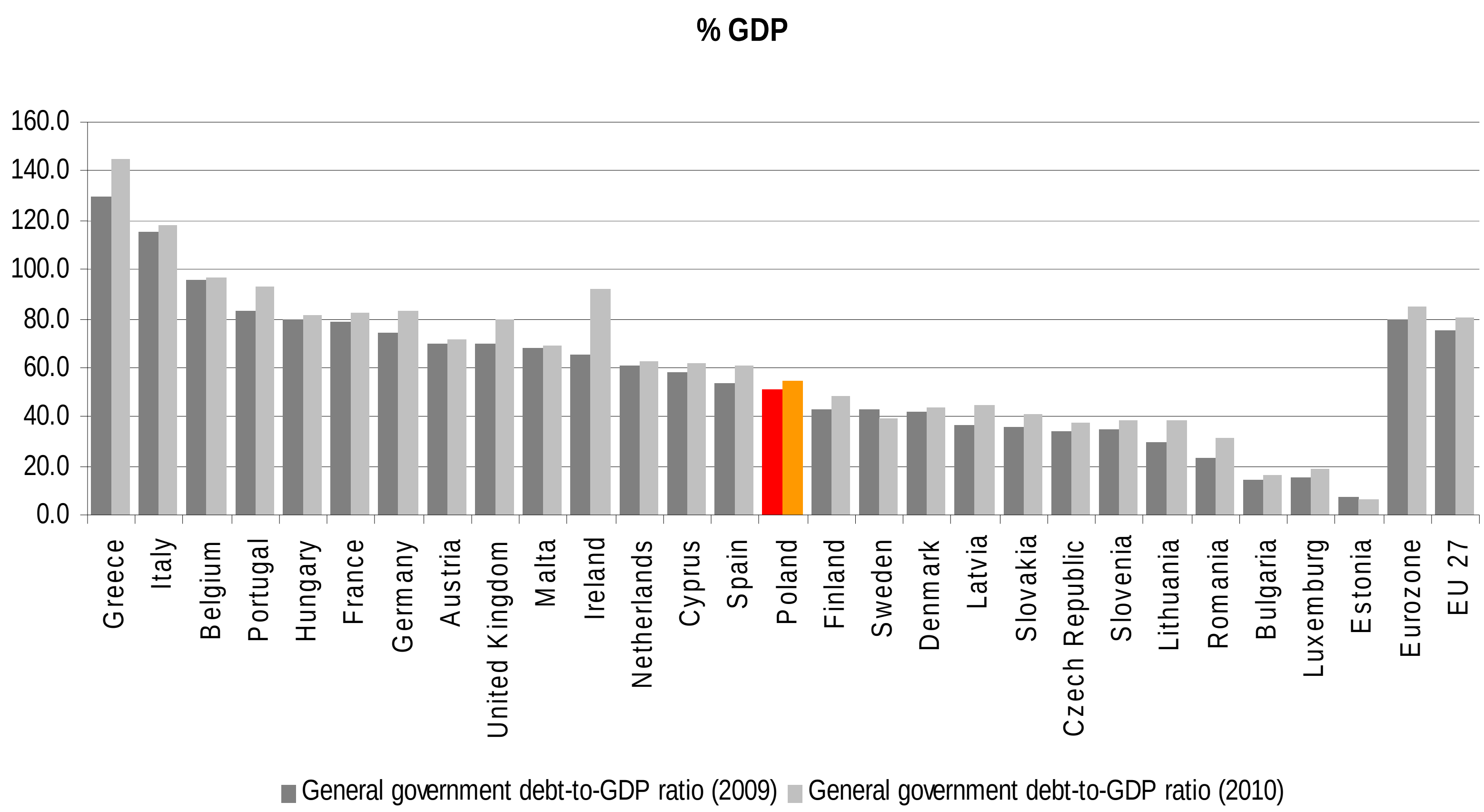
Liquidity management consolidation

- **Effective May 2011:**
  - obligation of public finance sector entities on the central level, such as state agencies and funds, to place their liquid funds on a deposit account with the Minister of Finance
  - possibility of local government units and other public sector entities to place their liquid funds on a deposit account with the Minister of Finance
- **At the end of October 2011 the liquid funds deposited on the account with the Minister of Finance amounted to PLN 23.2 bn**
- **Decrease in the State budget borrowing requirements of over PLN 20 bn expected in years 2011-2012**

The total increase of general government debt in relation to GDP in the EU in 2007-2010



General government debt and balance in the EU member states in 2009-2010



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

as of November 29, 2011

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

Source: Reuters, November 29, 2011

↓ ↑ - upgrade or downgrade in comparison to previous Strategy