



Ministry  
of Finance

Republic  
of Poland

# The Public Finance Sector Debt Management Strategy in the years 2016-19

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**Ministry of Finance**  
**September 2015**

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Macroeconomic assumptions

Item	2014	2015	2016	2017	2018	2019
Real GDP growth (%)	3.4	3.4	3.8	3.9	4.0	3.9
GDP in current prices (PLN bn)	1,728.7	1,796.5	1,888.3	1,995.0	2,125.3	2,263.4
CPI annual average (%)	0.0	-0.2	1.7	1.8	2.5	2.5
USD/PLN (end of year)	3.51	3.72	3.61	3.50	3.40	3.40
EUR/PLN (end of year)	4.26	4.09	3.97	3.85	3.74	3.74

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Objective of the Strategy

**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

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Flexible approach to financing structure

### DOMESTIC FINANCING

- main source of financing the State budget borrowing requirements

### FOREIGN FINANCING

- taking into account foreign currency borrowing requirements
- ensuring diversification of sources by ensuring access to the investor base in major financial markets
- maintaining Poland's position in the euro market
- utilizing an access to attractive financing in international financial institutions
- stabilising domestic market by ensuring safety of financing of the State budget borrowing requirements in case of temporary disruptions on the domestic market
- possible sale of foreign currencies on the financial market or in the NBP as an available instrument of financing borrowing requirements and currency management, while taking into account considerations of monetary and economic policy as well as financial rationale

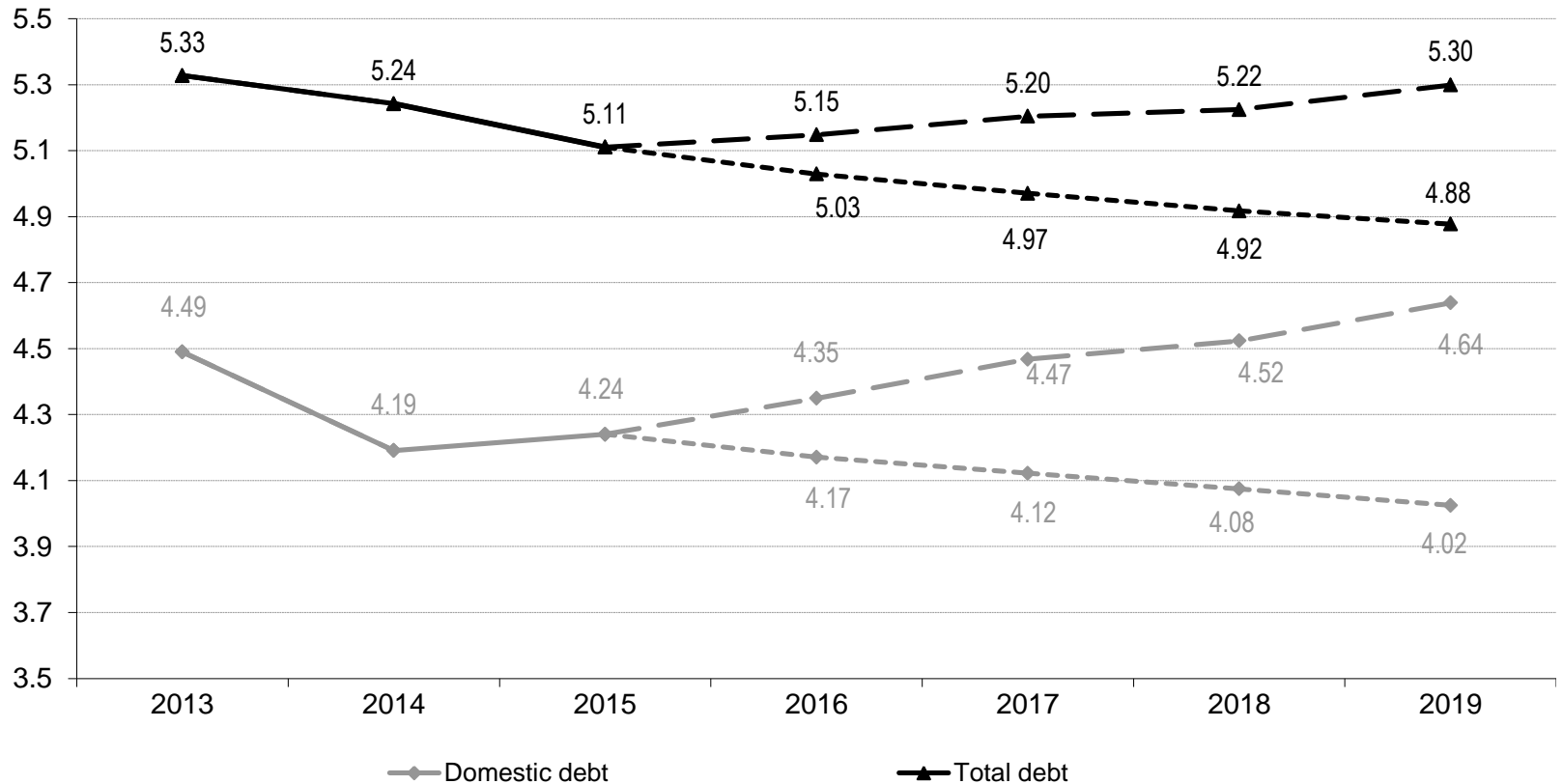
# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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

- aiming at increasing the role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – at a pace dependent on investors' demand
- maintaining the average time to maturity (ATM) of domestic debt at no less than 4.0 years until the borrowing requirements are lowered and aiming at increasing it to 4.5 years ultimately
- maintaining the ATM of State Treasury close to 5 years, with a possibility to shorten it until the borrowing requirements are lowered
- aiming at even distribution of redemptions and interest payments of domestic and foreign debt

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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



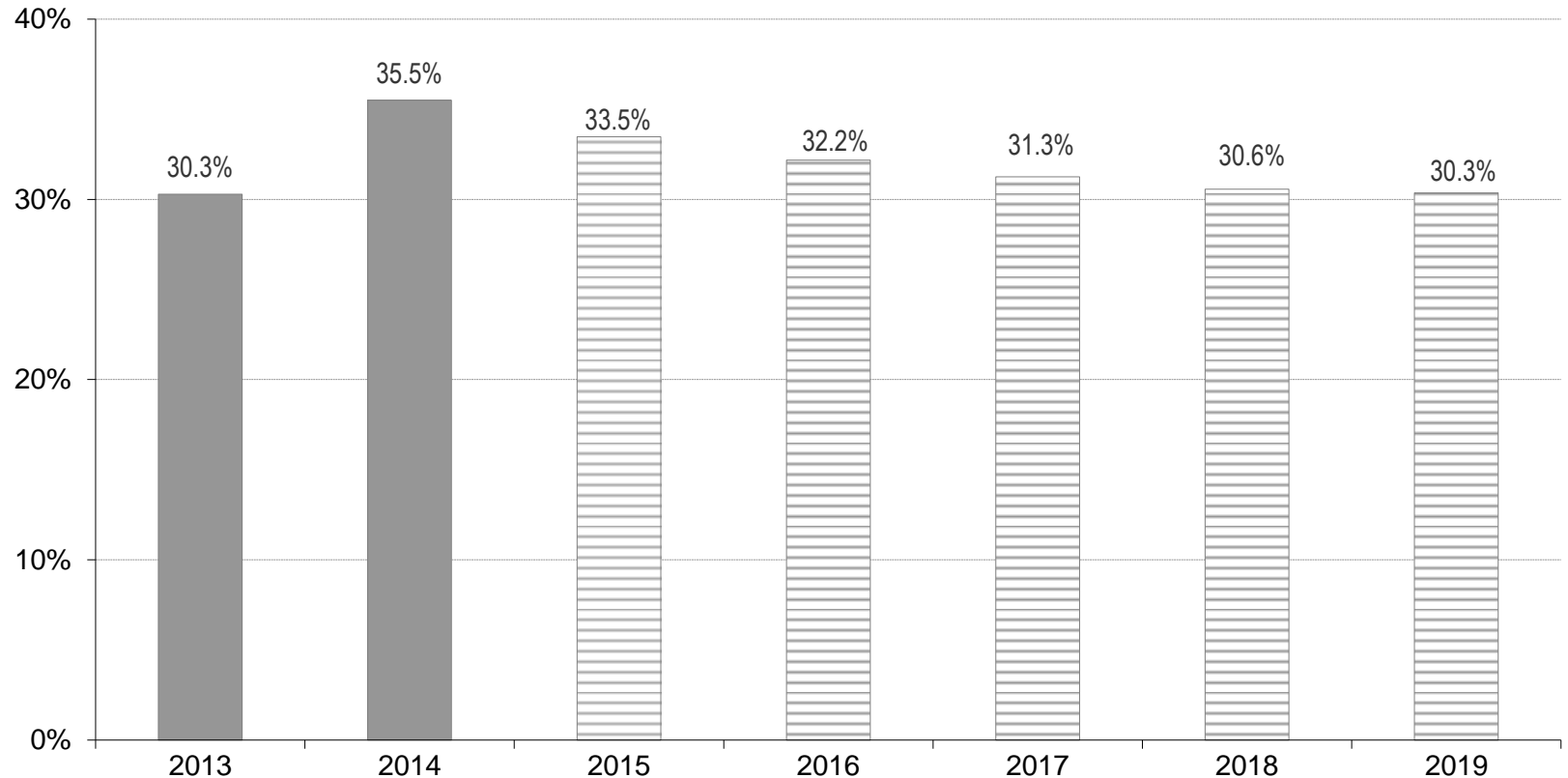
# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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

- pursuing to reduce the share of foreign currency denominated debt in State Treasury debt, depending on market and budgetary conditions, ultimately below 30%
- possible use of derivatives to shape desired structure of debt and financing of State budget borrowing requirements
- maintaining an effective share of the euro in foreign currency debt at  $\geq 70\%$ , with possible temporary deviations in case of limited access to euro market, its ineffectiveness or unfavorable situation in the derivatives market

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



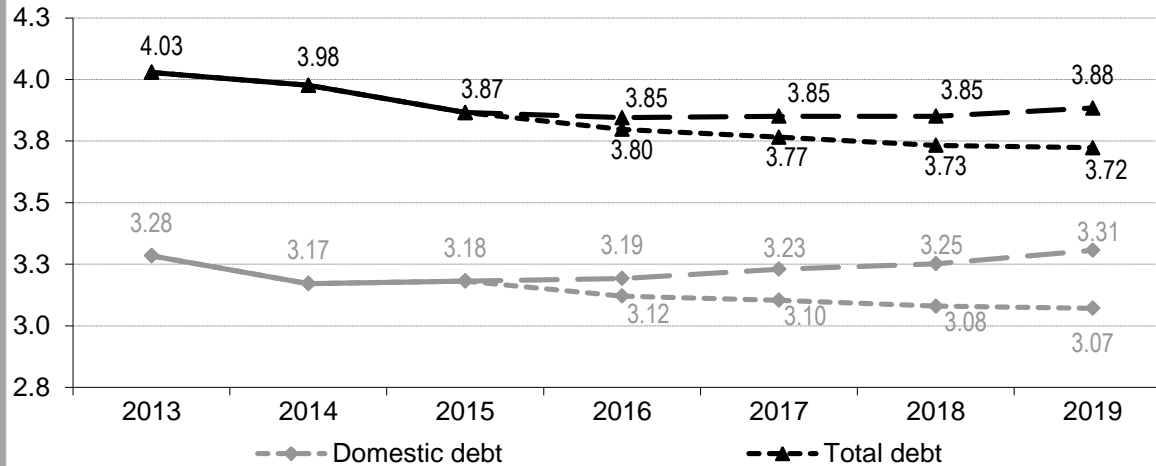
# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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

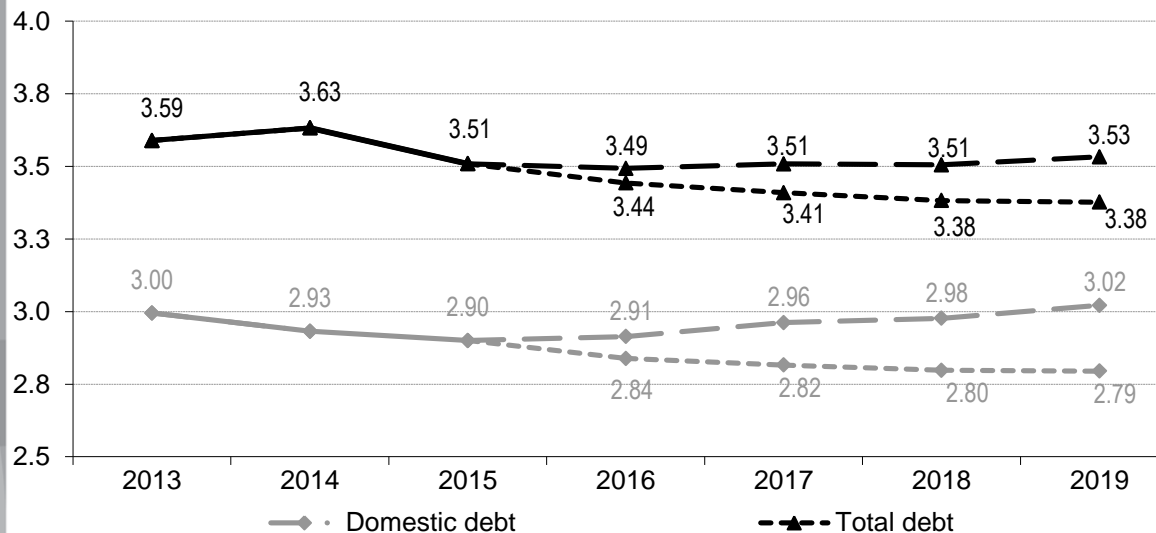
- maintaining average time to re-fixing (ATR) of the domestic debt in the range of 2.8-3.8 years
- separating management of interest rate and refinancing risks by using floating rate bonds and inflation-linked bonds, and possible use of derivatives
- current level of risk of the foreign currency debt does not pose a threat to the cost minimization objective: in mid 2015 ATR amounted to 5.2 years

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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



**ATR of the ST debt**



**Duration of the ST debt**

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Strategy tasks (1)

### 1. To ensure liquidity of the TS market

- continuation of issuing medium and long term fixed rate benchmark bonds (at least PLN 20bn) on the domestic market
- large liquid issues in the euro market and, depending on market circumstances, on the US dollar market
- adapting issuance policy to market circumstances

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Strategy tasks (2)

### 2. To ensure 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
- broadening electronic communication channels with both foreign and domestic investors

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Strategy tasks (3)

### 3. To ensure transparency of the TS market

- transparent issuance policy, including TS issuance calendars, supply plans of TS and supply offers for individual auctions
- promoting electronic market by adequate regulations in Primary Dealers system that ensure competitiveness and transparency

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Debt forecasts

Item	2014	2015	2016	2017	2018	2019
	(execution)					
<b>1. Public debt</b>						
a) PLN bn	826.8	870.4	924.7	978.5	1,021.9	1,074.3
b) GDP%	47.8%	48.4%	49.0%	49.0%	48.1%	47.5%
<b>2. Amount specified in the article 38 of the Public Finance Act*</b>						
a) PLN bn	777.5	852.4	918,3	972.3	1,013.3	1,061.0
b) GDP%	45.0%	47.4%	48.6%	48.7%	47.7%	46.9%
<b>3. General government debt</b>						
a) PLN bn	867.0	915.4	977.7	1,039.8	1,097.7	1,152.2
b) GDP%	50.2%	51.0%	51.8%	52.1%	51.6%	50.9%
<b>4. State Treasury debt servicing cost**</b>						
a) PLN bn	34.5	32.3	31.8	31.1 – 32.2	32.1 - 33.3	33.7 – 34.9
b) GDP%	1.99%	1.80%	1.68%	1.56% - 1.61%	1.51% - 1.57%	1.49% - 1.54%

*\*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.*

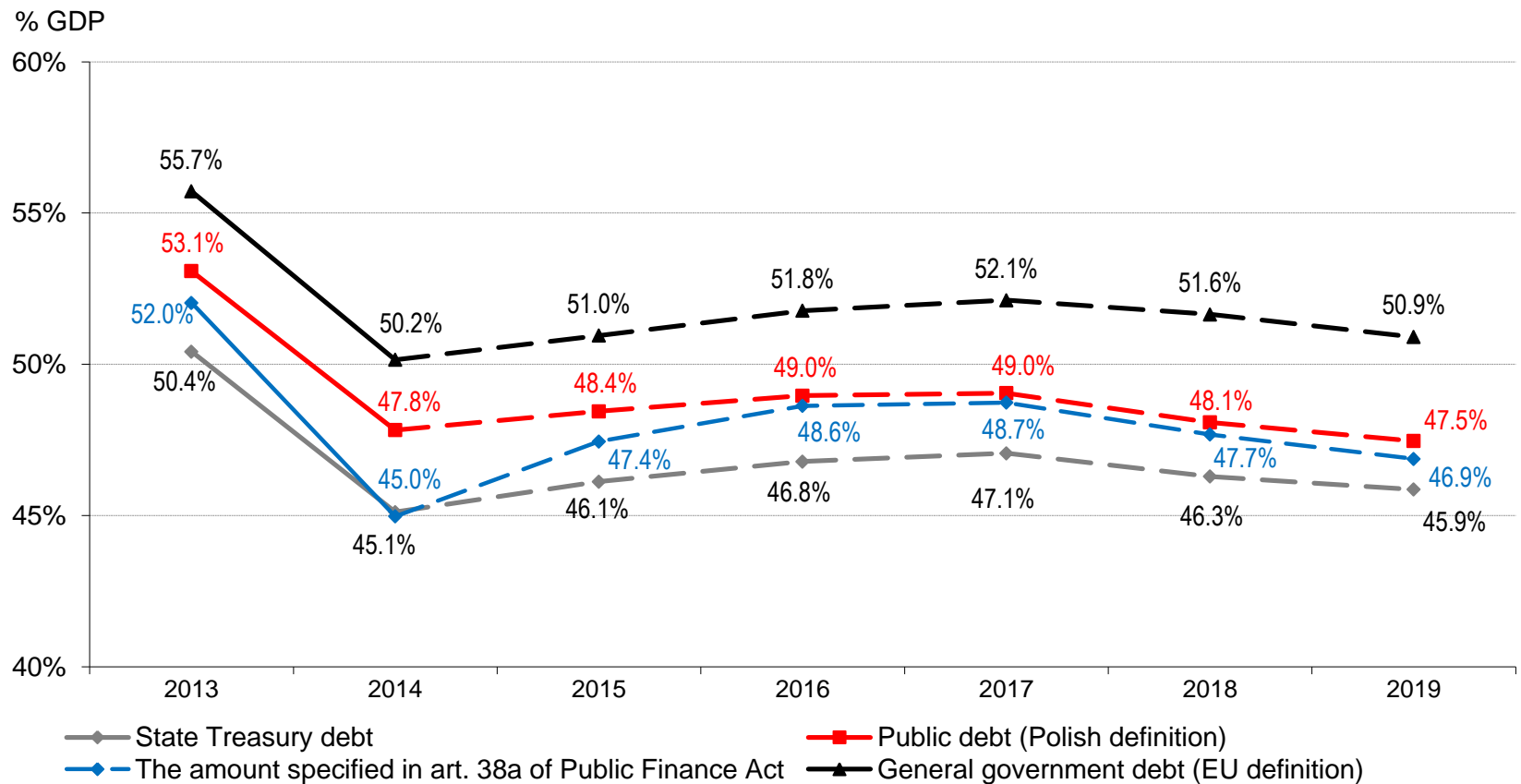
*\*\*Forecasts of the debt servicing costs for the years 2017-2019 account for the exchange rate risk provisions*

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Public debt volume

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

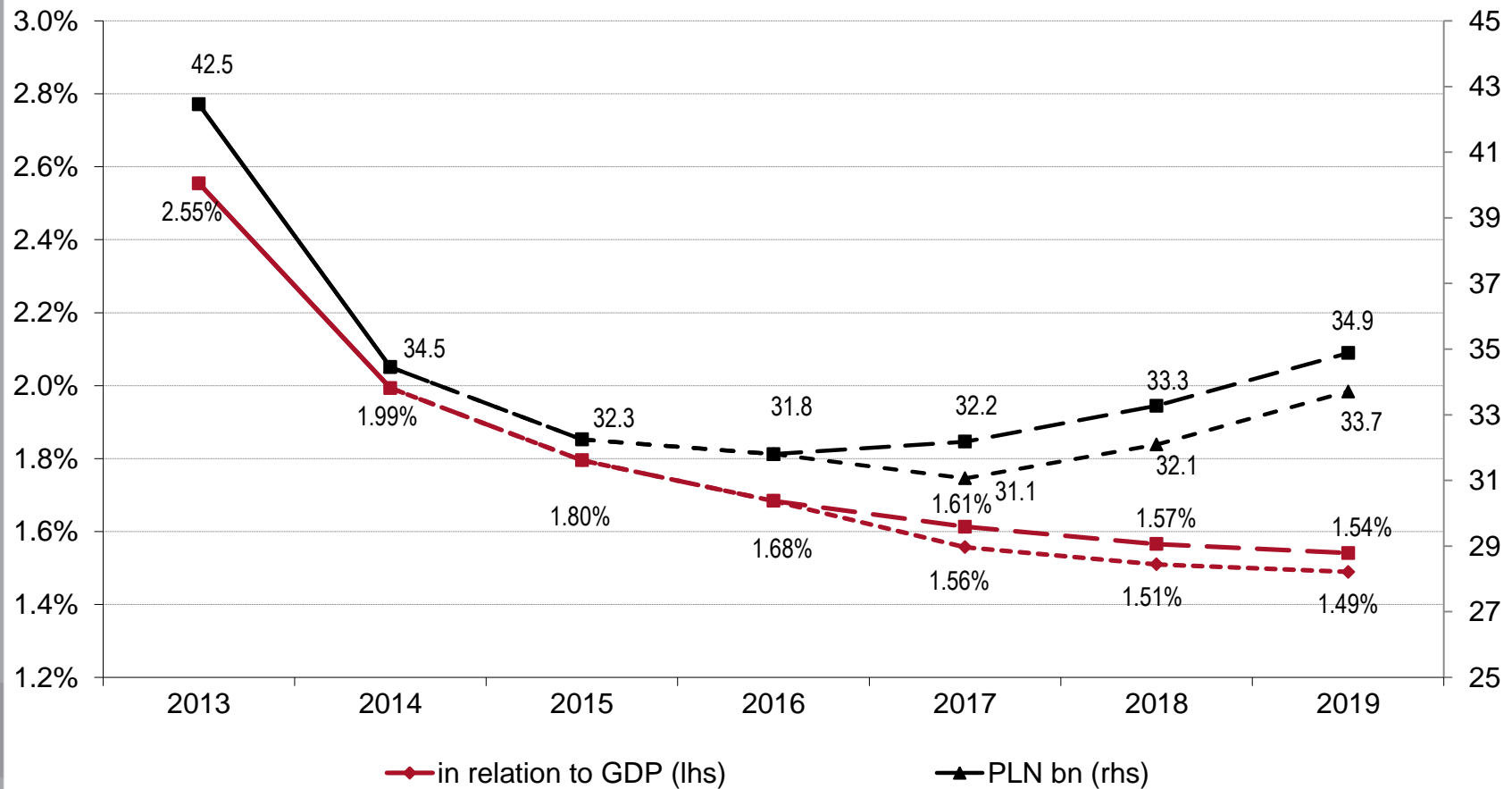
- peak at 49% in 2016-2017 and decrease to 47.5% by 2019 (domestic definition)
- peak at 52.1% in 2017 and decrease to 50.9% by 2019 (EU definition)



# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Debt servicing costs

The debt servicing costs-to-GDP ratio on a decreasing path, reaching 1.49%-1.54% by 2019 (depending on the exchange rate)



# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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

Item	2016	2017	2018	2019
<b>GDP and borrowing requirements</b>				
- GDP growth path lower by 1 p.p.	0.47%	0.94%	1.39%	1.84%
- borrowing requirements higher by PLN 10bn yearly	0.54%	1.04%	1.50%	1.90%
<b>FX rates</b>				
- 10 p.p. depreciation of PLN towards all currencies	1.55%	1.51%	1.45%	1.42%

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

Item	2016	2017	2018	2019
<b>1 p.p. increase in interest rates</b>				
- total debt	1.6	4.1	5.3	6.4
- domestic debt	1.2	3.3	4.2	5.0
- foreign debt	0.3	0.9	1.1	1.4
<b>FX rates</b>				
- 1 p.p. depreciation of PLN towards all currencies	90.9	92.8	98.1	97.6

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Public finance sector liquidity management consolidation - summary

### STAGE 1 (since May 2011):

- **Obligation** to deposit liquid funds on the account of the Minister of Finance by:
  - special purpose state funds, excl. funds managed by Social Security Institution (ZUS) and Agricultural Social Insurance Fund (KRUS)
  - executive agencies
  - National Health Fund
  - other legal entities, including National Fund for Environmental Protection and Water Management and State Fund of Rehabilitation of the Disabled
- **Possibility** for all other public finance sector entities (including local government units) to deposit liquid funds on the account of the Minister of Finance.

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Public finance sector liquidity management consolidation

### STAGE 2

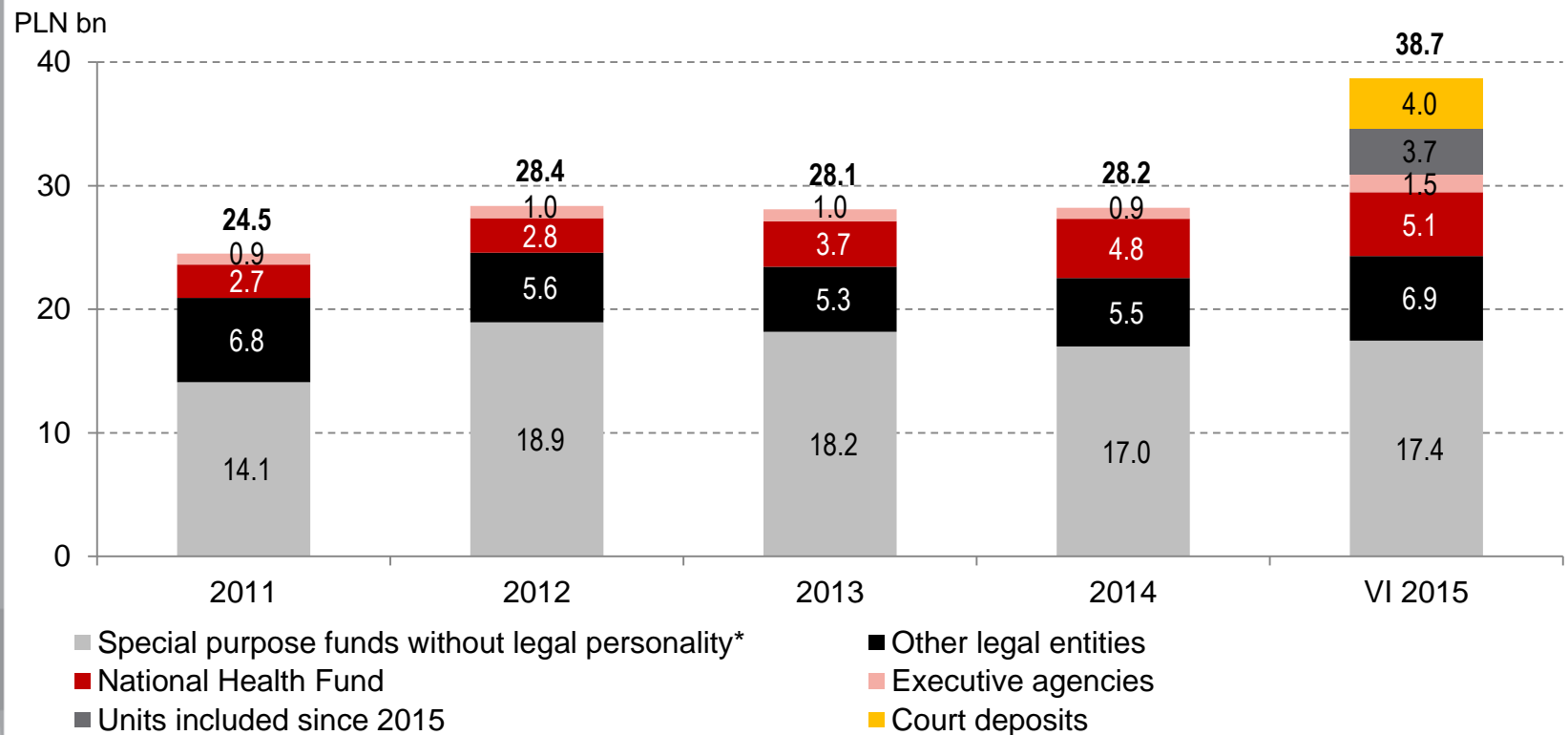
- **September 2013:** introduction of a uniform mechanism for State budget foreign currency funds management, that encompassed both funds from debt management and EU funds
- **February 2014:** using funds deposited in the guarantee reserves account to finance State budget borrowing requirements
- **January 2015:** broadening the group of public finance units covered by the funds consolidation obligation to include:
  - institutions of budgetary management
  - state institutions of culture
  - Polish Academy of Sciences (PAN) and the organisational units founded by it
  - governmental independent public health care units (SPZOZ)
  - Regional Funds of Environmental Protection and Water Management
- **January 2015:** placing court deposits on the account of the Minister of Finance and entitling the Minister of Finance to temporary use these funds

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Public finance sector liquidity management consolidation – results to date

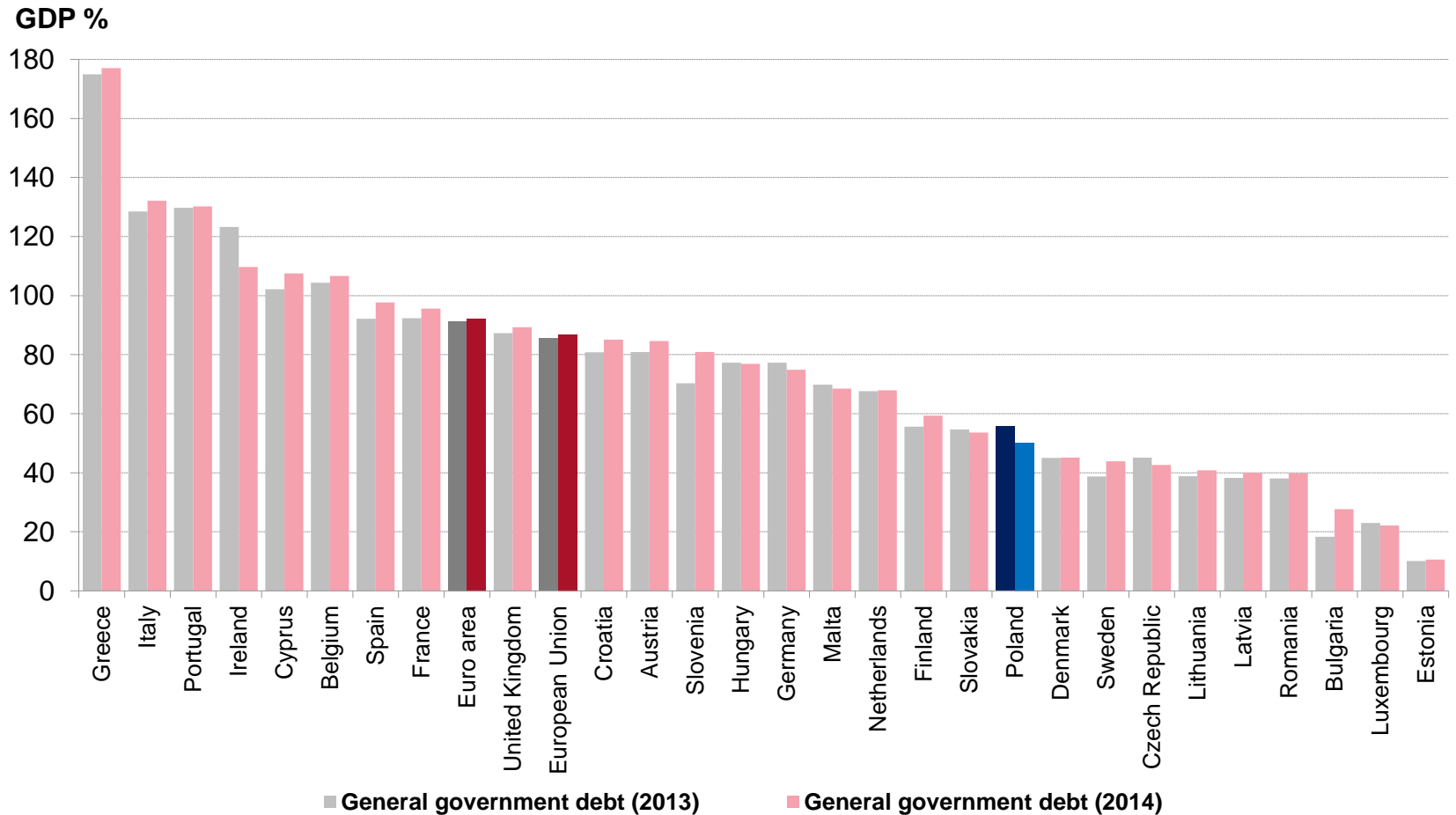
- borrowing requirements lowered by **PLN 39bn**
- public debt decreased by **PLN 32bn**

*Funds deposited on the account of the Minister of Finance under the public finance sector liquidity management consolidation in years 2011-2015*



# The Public Finance Sector Debt Management Strategy in the years 2016-2019

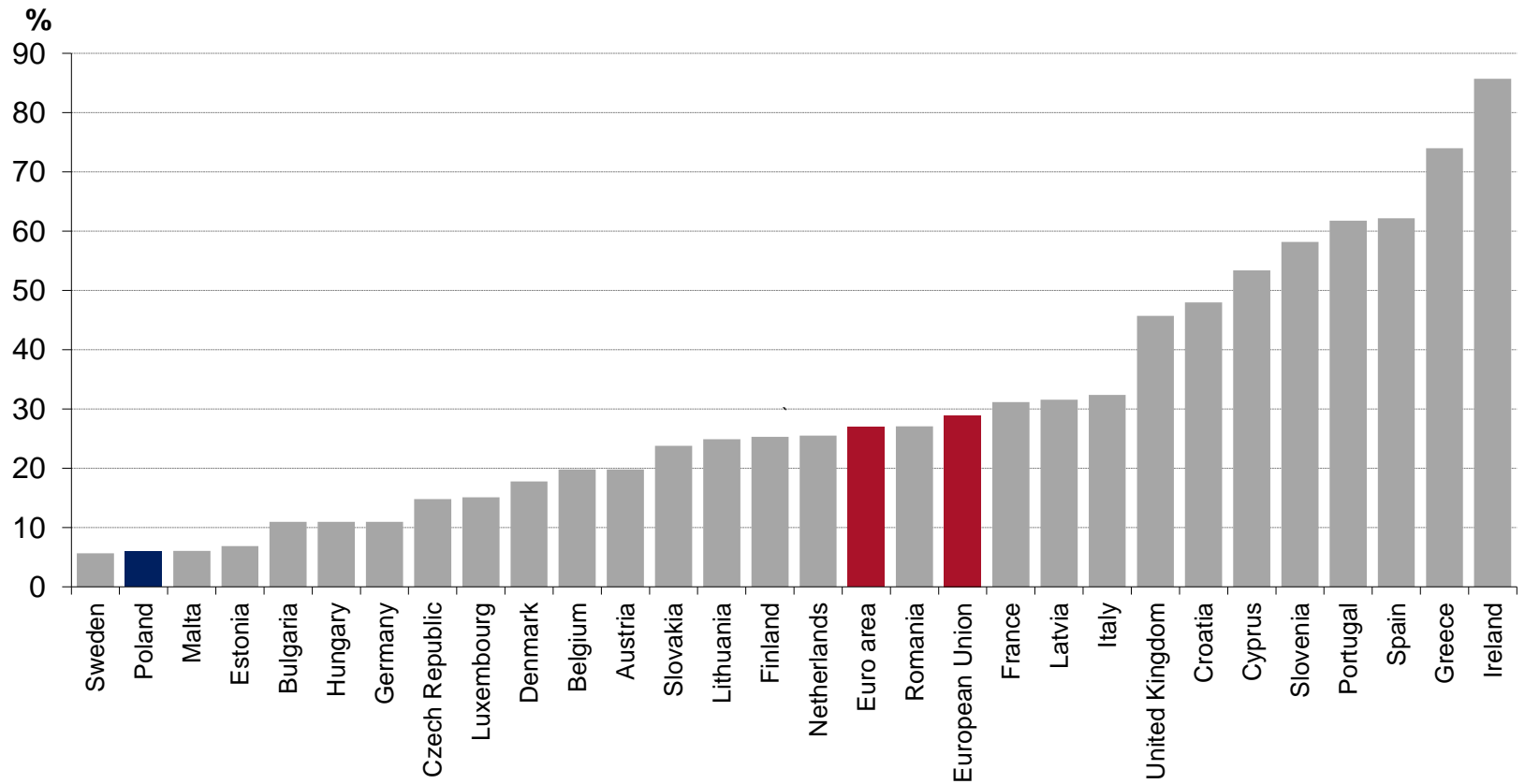
## General government debt in the EU member states



Source: Eurostat

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

## Changes in the general government debt to GDP ratios in the EU in the years 2008-2014\*



\* the difference between debt to GDP relation at the end of 2014 and 2007

Source: Eurostat

# The Public Finance Sector Debt Management Strategy in the years 2016-2019

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

	Standard&Poor's	Fitch	Moody's
Austria	AA+	AA+	Aaa
Belgium	AA	AA	Aa3
Bulgaria	BB+	BBB-	Baa2
Croatia	BB	BB	Ba1
Cyprus	B+	B-	B3
Czech Republic	AA-	A+	A1
Denmark	AAA	AAA	Aaa
Estonia	AA-	A+	A1
Finland	AA+	AAA	Aaa
France	AA	AA	Aa2
Greece	CCC+	CCC	Caa3
Spain	BBB	BBB+	Baa2
Netherlands	AA+	AAA	Aaa
Ireland	A+	A-	Baa1
Lithuania	A-	A-	Baa1
Luxembourg	AAA	AAA	Aaa
Latvia	A-	A-	A3
Malta	BBB+	A	A3
Germany	AAA	AAA	Aaa
<b>Poland</b>	<b>A-</b>	<b>A-</b>	<b>A2</b>
Portugal	BB+	BB+	Ba1
Romania	BBB-	BBB-	Baa3
Slovakia	A+	A+	A2
Slovenia	A-	BBB+	Baa3
Sweden	AAA	AAA	Aaa
Hungary	BB+	BB+	Ba1
United Kingdom	AAA	AA+	Aa1
Italy	BBB-	BBB+	Baa2

Source: Reuters, as of September 21, 2015