



Ministry
of Finance

Republic
of Poland

The Public Finance Sector Debt Management Strategy in the years 2018-2021

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Ministry of Finance
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Macroeconomic assumptions

Item	2016	2017	2018	2019	2020	2021
Real GDP growth (%)	2.7	3.6	3.8	3.8	3.8	3.6
GDP in current prices (PLN bn)	1,851.2	1,938.3	2,057.2	2,185.3	2,325.7	2,469.5
CPI annual average (%)	-0.6	1.8	2.3	2.3	2.5	2.5
USD/PLN (end of year)	4.18	3.99	3.99	3.99	3.99	3.99
EUR/PLN (end of year)	4.42	4.25	4.25	4.25	4.25	4.25

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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
- ensuring efficiency of the TS market

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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 and the inflow of EU funds
- ensuring diversification of sources by ensuring access to the investor base in major financial markets
- maintaining Poland's position in the euro market
- stabilising domestic market by ensuring safety of financing of the State budget borrowing requirements in case of temporary disruptions on the domestic market
- utilizing an access to attractive financing in international financial institutions
- 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 monetary and economic policy considerations as well as financial rationale

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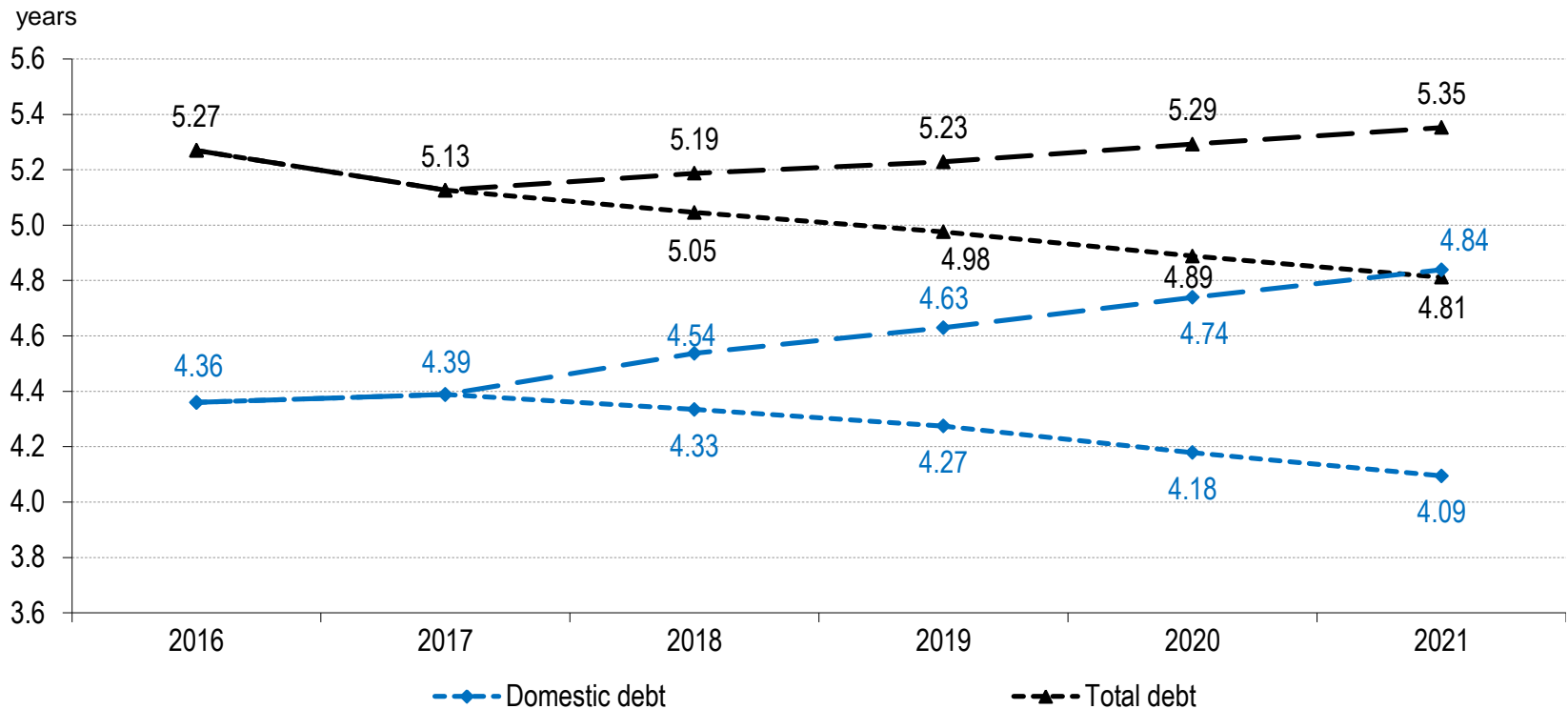
Risk constraints of the Strategy's objective: refinancing risk (1)

- maintaining the dominant role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – subject to market situation
- achieving and maintaining the average time to maturity (ATM) of domestic debt at around 4.5 years, subject to market conditions
- maintaining the ATM of total State Treasury debt at a level close to 5 years
- even distribution of debt redemptions

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

ATM of the State Treasury debt



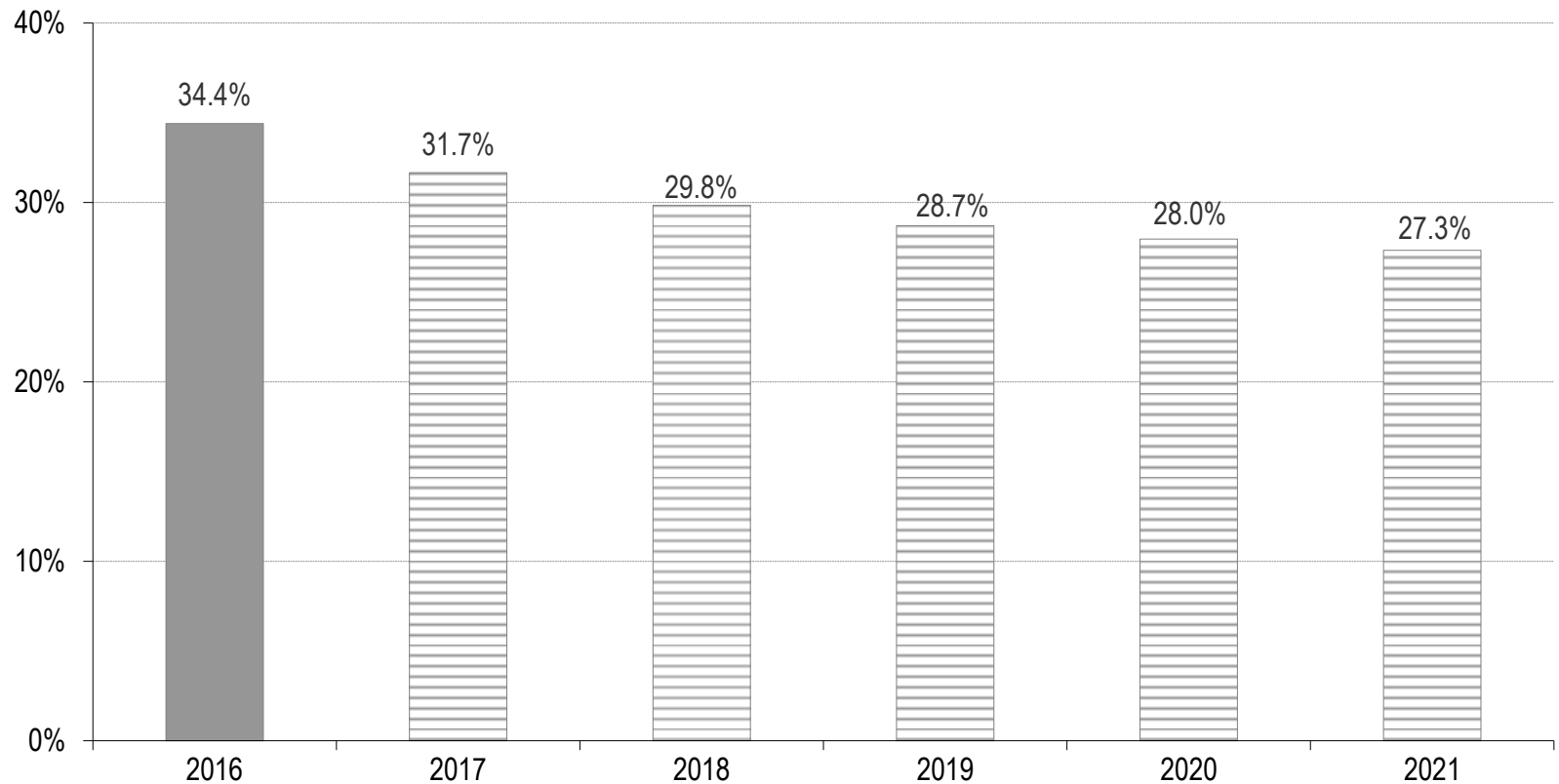
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Risk constraints of the Strategy's objective: exchange rate risk (1)

- reducing in the timeframe of the *Strategy* the share of foreign currency denominated debt in State Treasury debt below 30%
- possible use of derivatives to shape desired structure of debt
- maintaining an effective share of the euro in foreign currency debt at $\geq 70\%$, with possible temporary deviations due to market situation

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



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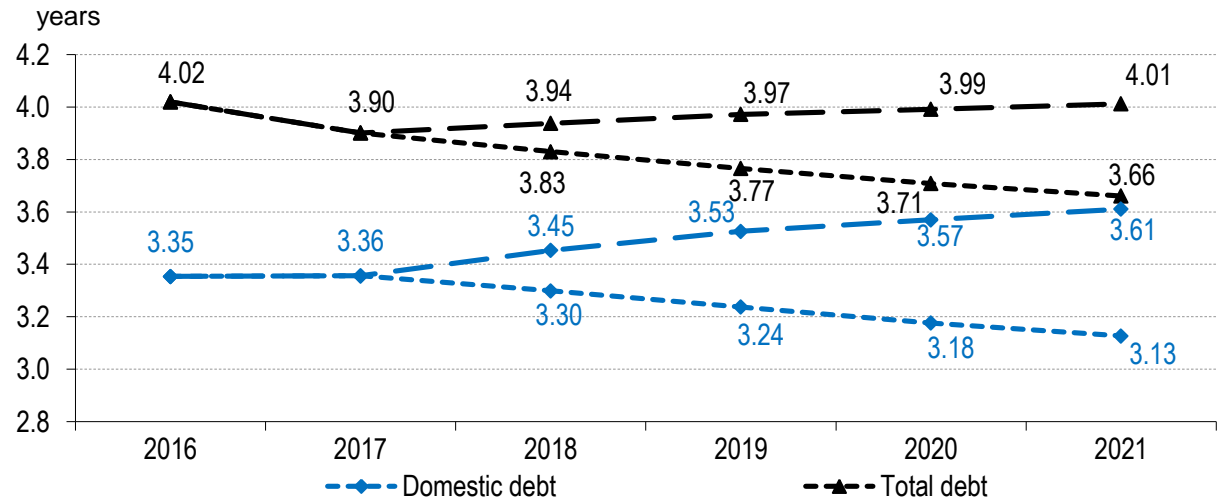
Risk constraints of the Strategy's objective: interest rate risk (1)

- 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 risk by using floating rate bonds and inflation-linked bonds, and by possible use of derivatives
- current level of risk of the foreign currency debt does not pose a limitation to the cost minimization objective

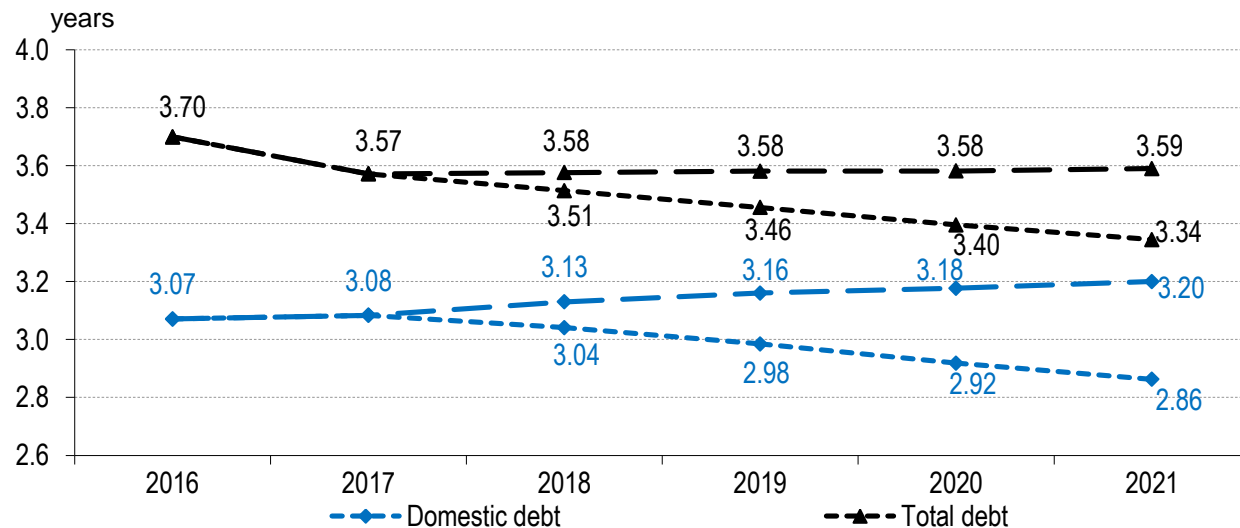
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Risk constraints of the Strategy's objective: interest rate risk (2)

ATR of the ST debt



Duration of the ST debt



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Risk constraints of the Strategy's objective: state budget liquidity risk

- maintaining safe level of State budget liquidity and effective management of liquid assets. The level of liquid assets would be determined on the basis of current and forecasted budgetary and market situation, including budget seasonality and smoothing of TS supply over the year
- a possibility to use FX funds and derivative transactions in managing the currency structure of liquid assets

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Risk constraints of the Strategy's objective: other types of risk, in particular credit and operational risk

- concluding derivative transactions with entities with high creditworthiness
- using solutions that mitigate credit risk, including collateral agreements, and allowing for its diversification while concluding derivative transactions. In the timeframe of the *Strategy* concluding new collateral agreements is planned that would be in line with current best practices in the market and what would enable to conclude transactions on more favorable terms without bearing credit risk
- diversification of credit risk generated by uncollateralized transactions

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Risk constraints of the Strategy's objective: distribution of debt servicing costs over time

- targeting the even distribution of debt servicing costs in subsequent years, including the use of derivative instruments
- setting bond coupons at the levels slightly below their forecasted yield in the sales period

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Strategy tasks (1)

1. Ensuring liquidity of the Treasury Securities (TS) market

- issuing medium and long term fixed rate benchmark bonds (at least PLN 25bn) on the domestic market, while targeting the smooth distribution of debt redemptions
- large liquid issues in the euro market and, depending on market circumstances, on the US dollar market
- adjusting issuance policy (sales, switching and buy-back auctions) to market circumstances, including demand in particular segments of the yield curve

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Strategy tasks (2)

2. Ensuring efficiency of the TS market:

- issuance schedule adjusted to market and budgetary circumstances
- increasing the role of the participants of the Primary Dealers system in development of TS market and debt management operations
- sustaining relations with domestic and foreign investors, by:
 - regular meetings with banks participating in PD system
 - meetings with domestic non-banking sector
 - meetings with foreign investors and banks
 - ongoing meetings and phone consultations with investors
- broadening the investor base, including regular meetings with foreign investors on key international financial markets in order to promote TS issued on both domestic and foreign markets
- active participation in conferences and seminars with investors

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Strategy tasks (3)

3. Ensuring transparency of the TS market

- transparent issuance policy, including TS issuance calendars covering current year, quarter and month
- promoting electronic market by:
 - adequate regulations in PD system that ensure competitiveness and transparency, in particular with regard to PD duties related to TS quotations, sustaining adequate spread levels and the share in TS fixing;
 - adjusting the electronic market status to current needs of TS market while taking into account regulatory environment.

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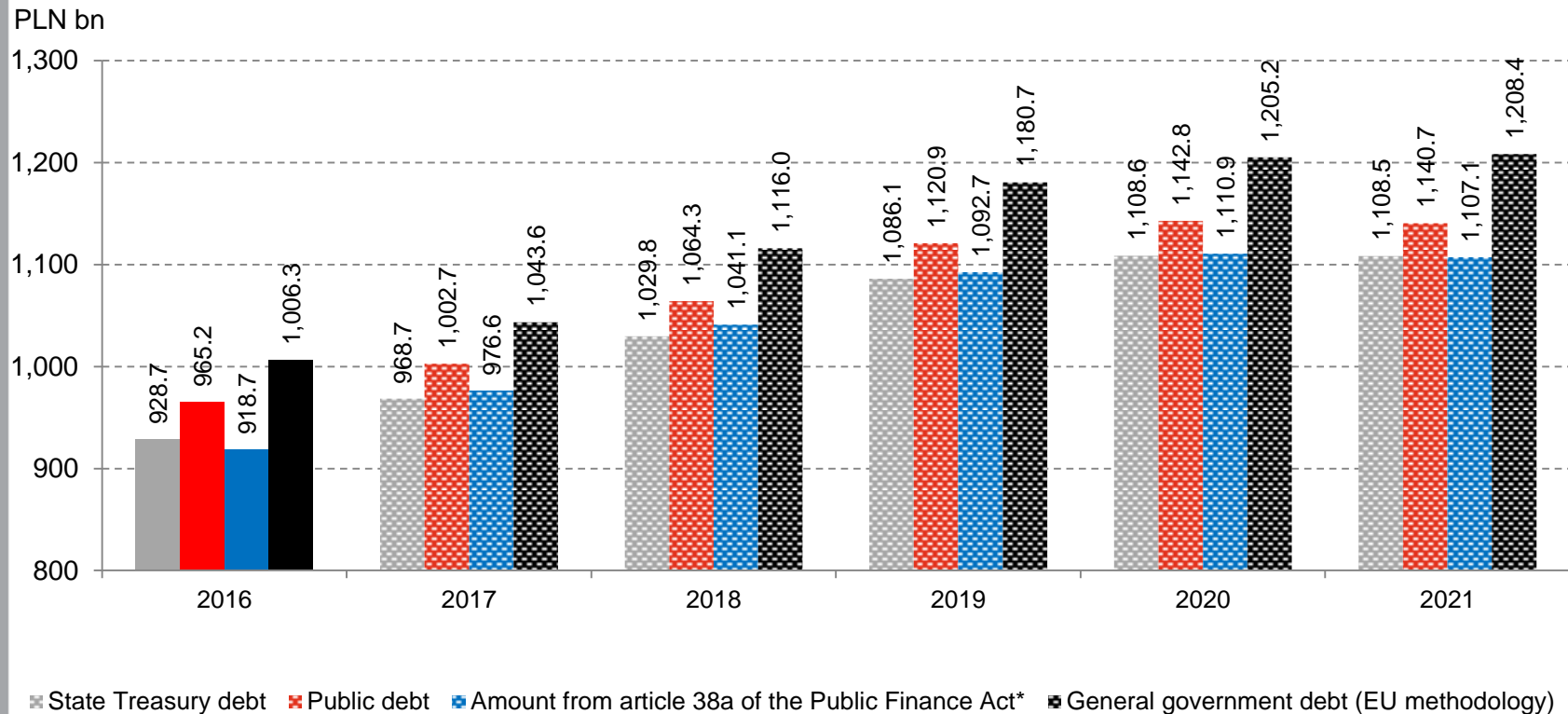
Strategy tasks (4)

4. Effective management of State budget liquidity

- depositing PLN and FX funds in NBP or in the financial market via BGK (the state-owned bank)
- concluding buy-sell-back transactions directly on the financial market as a new instrument of investing budgetary funds without bearing credit risk
- sales of the part of FX funds on the market or in NBP
- utilizing liquid funds of public finance sector entities and court deposits placed on the account of the Minister of Development and Finance
- using FX swap transactions to shape currency structure of liquid funds
- short term loans on interbank market

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Debt forecasts



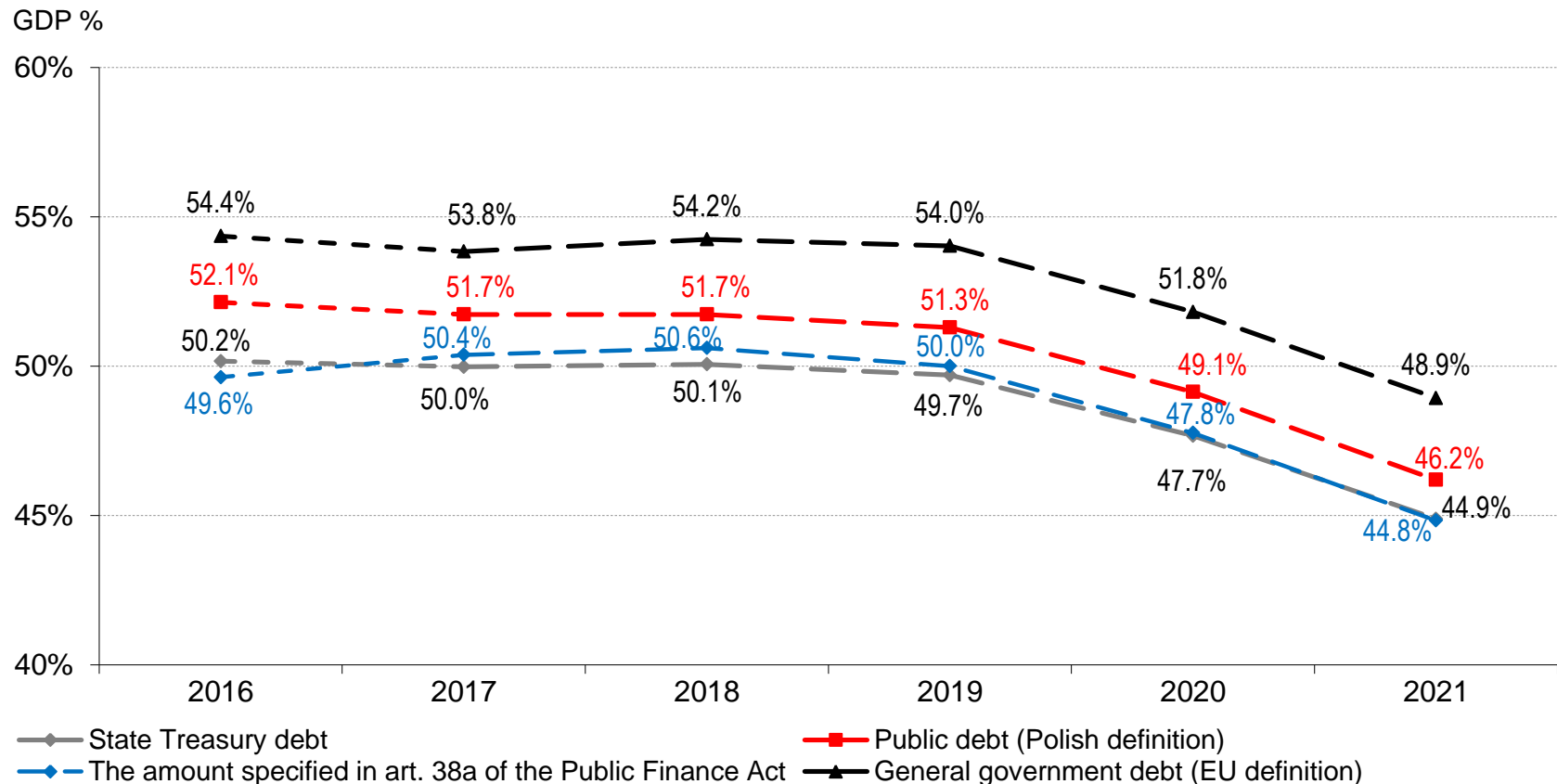
**The amount of public debt recalculated using the yearly average of foreign currency exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year.*

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Debt forecast

The debt-to-GDP ratio is assumed to:

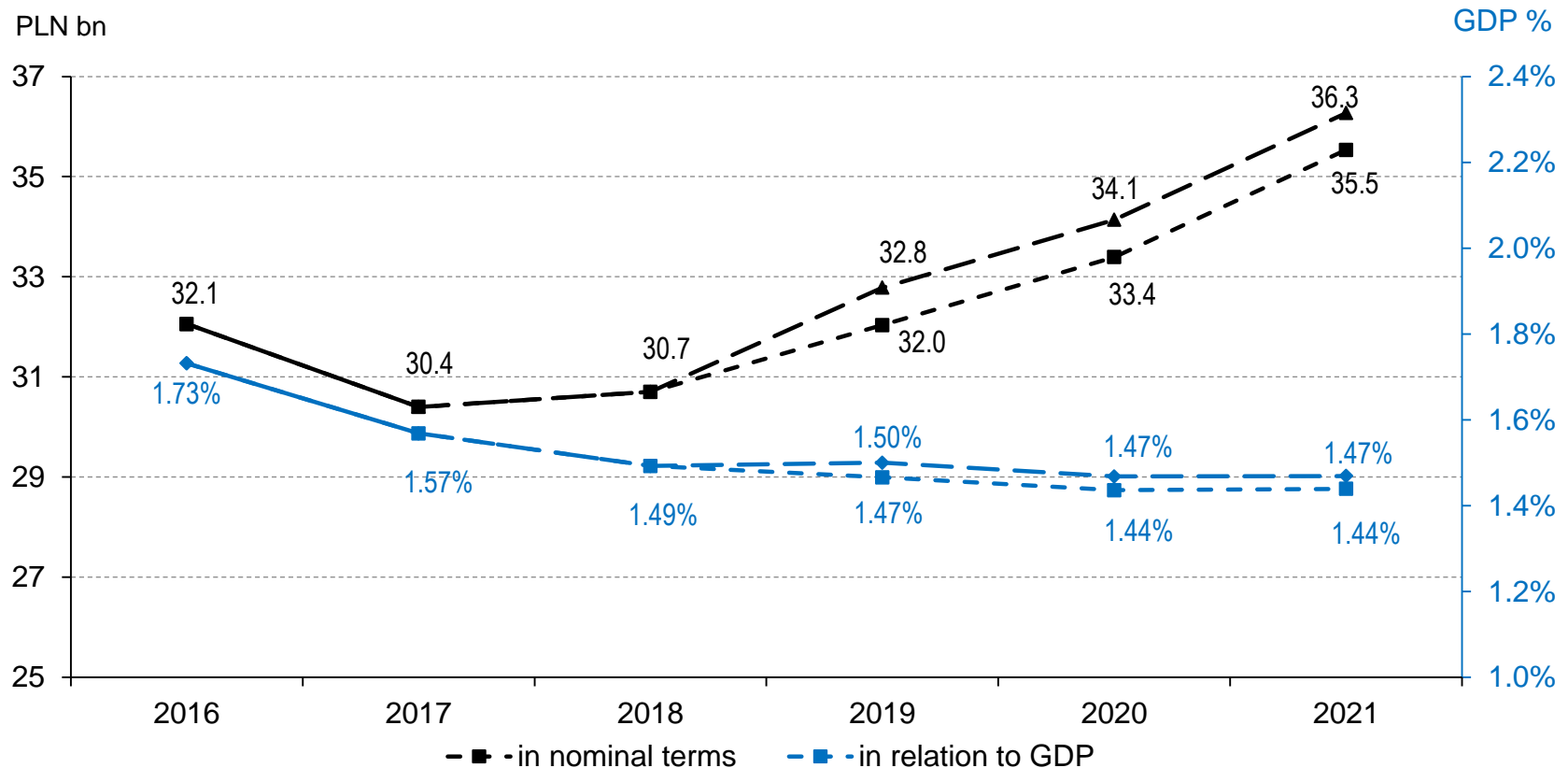
- **(under domestic definition):** fall to 51.7% in 2017 and stabilize on that level in 2018, and then decrease to 46.2% by 2021
- **(under EU definition):** fall to 53.8% in 2017, one-off increase in 2018 and then decrease to 48.9% by 2021



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Debt servicing costs

The debt servicing costs-to-GDP ratio on a decreasing path from 2017 on, reaching 1.44%-1.47% by 2021 (depending on the exchange rate)



* Forecasts of the debt servicing costs for the years 2019-2021 account for the exchange rate risk provisions

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

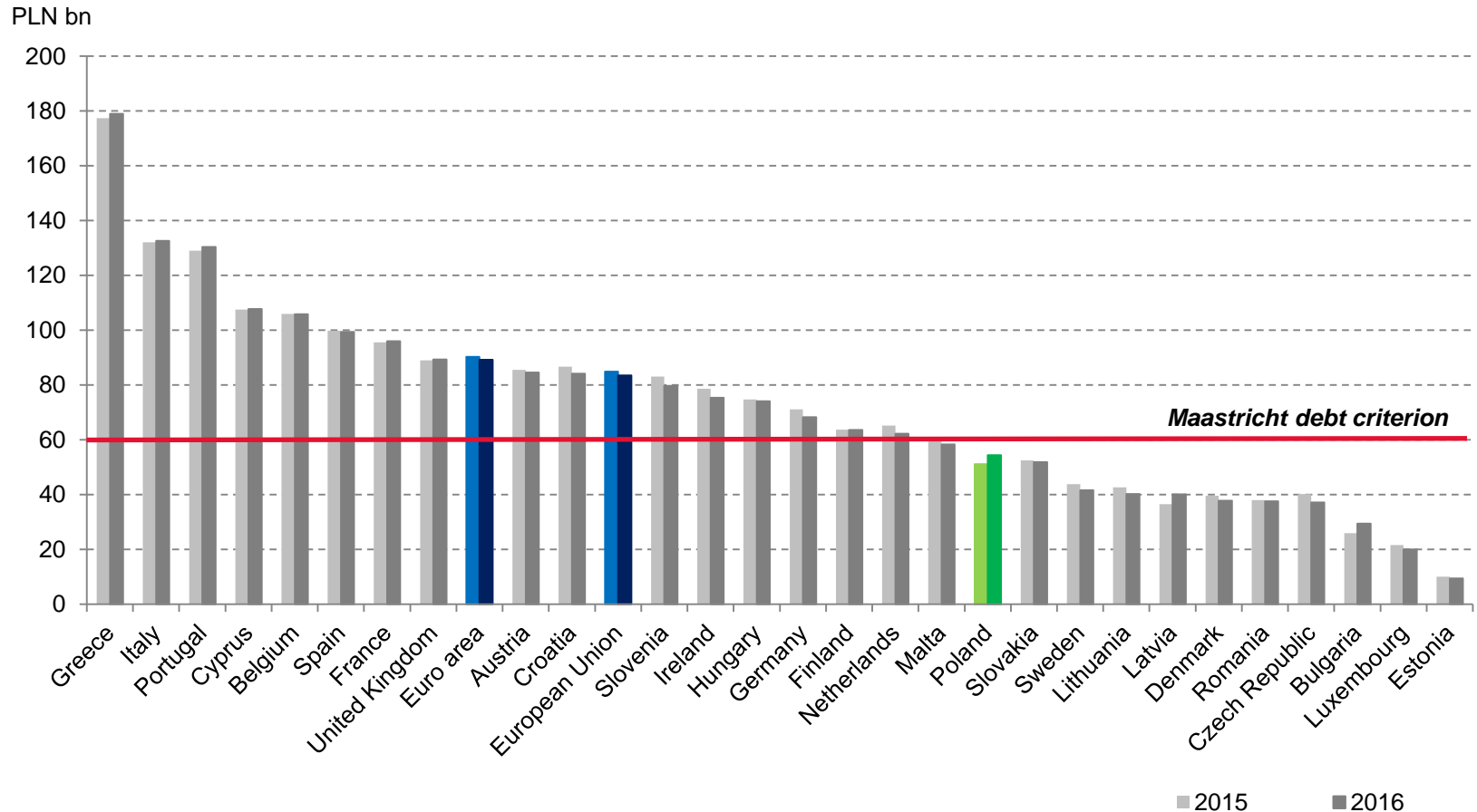
Item	2018	2019	2020	2021
GDP and borrowing requirements				
- GDP growth path lower by 1 p.p.	0.49%	0.98%	1.41%	1.78%
- borrowing requirements higher by PLN 10bn yearly	0.51%	0.96%	1.38%	1.76%
FX rates				
- 10 % depreciation of PLN towards all currencies	1.53%	1.46%	1.37%	1.26%

Sensitivity of the debt servicing costs to changes in assumptions

Item	2018	2019	2020	2021
1 p.p. increase in interest rates				
- domestic debt (PLN bn)	1.4	3.3	4.4	5.4
- foreign debt (PLN bn)	0.3	0.8	1.1	1.4
- total debt (PLN bn)	1.7	4.1	5.6	6.8
FX rates				
- 10 % depreciation of PLN towards all currencies (PLN bn)	0.86	0.83	0.83	0.82

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General government debt in the EU member states



Source: Eurostat, data for Poland MoF