THE PUBLIC FINANCE SECTOR DEBT MANAGEMENT STRATEGY

in the years 2016-2019

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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 a part of the fiscal policy and covers decisions on what
  portion of State expenditures is to be financed through debt, accordingly, what the level of public debt should be (this aspect is discussed in documents updated on an annual basis, devoted to the government economic programme, 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 budget
  borrowing requirements and designing the debt structure by selecting markets, instruments and dates of issuance.

The macroeconomic and fiscal assumptions adopted in the *Strategy* are compliant with the assumptions of the draft Budget Act for 2016.

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

Item	2014 (execution)	2015	2016	2017	2018	2019
1. Public debt						
a) PLN bn	826.8	870.4	924.7	978.5	1,021.9	1,074.3
b) in relation to GDP	47.8%	48.4%	49.0%	49.0%	48.1%	47.5%
2. The amount specified in article 38a point 3 of the Public Finance Act*						
a) PLN bn	777.5	852.4	918.3	972.3	1,013.3	1,061.0
b) in relation to GDP	45.0%	47.4%	48.6%	48.7%	47.7%	46.9%
3. General government debt						
a) PLN bn	867.0	915.4	977.7	1,039.8	1,097.7	1,152.2
b) in relation to GDP	50.2%	51.0%	51.8%	52.1%	51.6%	50.9%
4. State Treasury debt servicing costs (cash basis)**						
a) PLN bn	34.5	32.3	31.8	31.1 - 32.2	32.1 - 33.3	33.7 - 34.9
b) in relation to 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*

Under the adopted assumptions, in the years 2015-2016 the public debt-to-GDP ratio is expected to increase to 49.0%; following its stabilisation in 2017 it will gradually fall to 47.5% in 2019.The ratio of the amount specified in Article 38a of the Public Finance Act shall reach the level of approximately 48.6% in 2016 and 48.7% in 2017, to decrease gradually to 46.9% in 2019.

The general government debt-to-GDP ratio will grow until 2017, when it will reach 52.1%. The increase in general government debt will result mainly from the growth of National Road Fund (KFD) debt due to the execution of infrastructure projects.

In years 2015-2016 State Treasury debt servicing costs will continue on downward trend, both in nominal terms (from PLN 34.5bn in 2014 to PLN 31.8bn in 2016) and in relation to GDP (from 2.0% to 1.7%). It was assumed that the debt servicing costs-to-GDP ratio will continue to fall in subsequent years, reaching 1.49% - 1.54% in 2019.

This *Strategy* is a continuation of the strategy developed last year. The objective of minimisation of the long-term debt servicing costs subject to the adopted risk constraints remained unchanged. The tasks aimed at implementation of the *Strategy* objective, associated with the development of the financial market have been maintained, i.e. ensuring liquidity, efficiency and transparency of the Treasury Securities (TS) market. The previous year's *Strategy* task, related to the consolidation of the public finance sector liquidity management has been implemented and, as a consequence, it is not included in this document.

The following has been assumed for the accomplishment of the *Strategy's* objective for 2016-2019:

- 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 level 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 will be reduced at a rate depending on market and budgetary conditions, ultimately to the level below 30%,
- building of large and liquid fixed rate issue programmes, both in the domestic, as well as the euro market, shall be a priority of the issuance policy,
- the average maturity of domestic debt shall be maintained at a level no less than 4 years, until the State budget borrowing requirements are lowered, aiming at increasing it to 4.5 years ultimately
- the average maturity of the State Treasury (ST) debt shall be maintained at a level close to five years, with a possibility to shorten it, until the State budget borrowing requirements are lowered.

The Strategy comprises six annexes, including the glossary of terms.

II. CHANGES IN THE VOLUME AND STRUCTURE OF PUBLIC DEBT

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. A separate subchapter discusses the impact of the public finance sector liquidity management consolidation on the volume of debt.

II.1. Volume of public debt and the costs of its servicing

The changes in the volume of public debt in years 2004-2014 resulted mainly from changes in the ST debt. Changes in nominal debt was primarily an outcome of financing of net borrowing requirements and fluctuation of PLN exchange rates. In 2014 a significant decrease of debt was recorded (according to both the national and the EU definition), mainly as a result of cancellation of the TS transferred by open pension funds (OFE) to Social Security Institution (ZUS) under the pension system reform. At the end of 2014, public debt (national definition) amounted to GDP 47.8%, and the *general government* debt (EU definition) reached the level of GDP 50.2%. The general government debt-to-GDP ratio was significantly lower than in the whole EU (86.9%) and euro area (92.2%)[1].

The change in the ratio to GDP of both public debt and *general government* debt in individual years, with reference to the previous strategy, arose from the GDP revision due to the entry into force of ESA2010 provisions.

Chart 1. Public debt level in years 2004-2015[2]

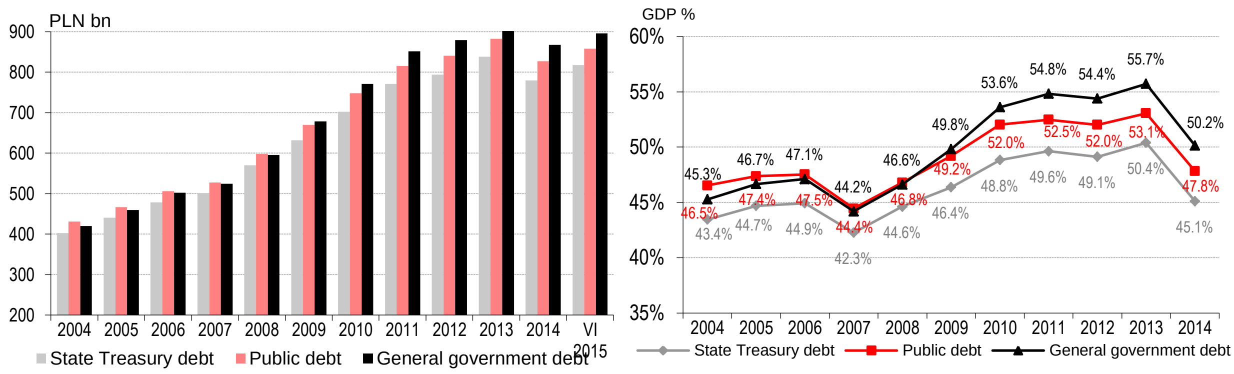
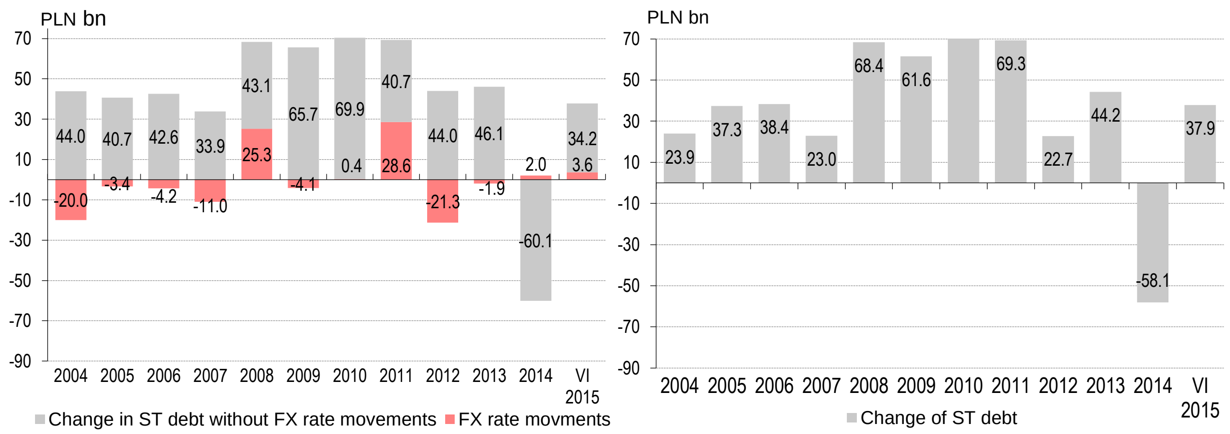


Chart 2. The influence of FX rate movements on ST debt in years 2004-2015



Similar to previous years, the difference between public debt and *general government* debt resulted primarily from the debt of the National Road Fund (KFD), which is included in general

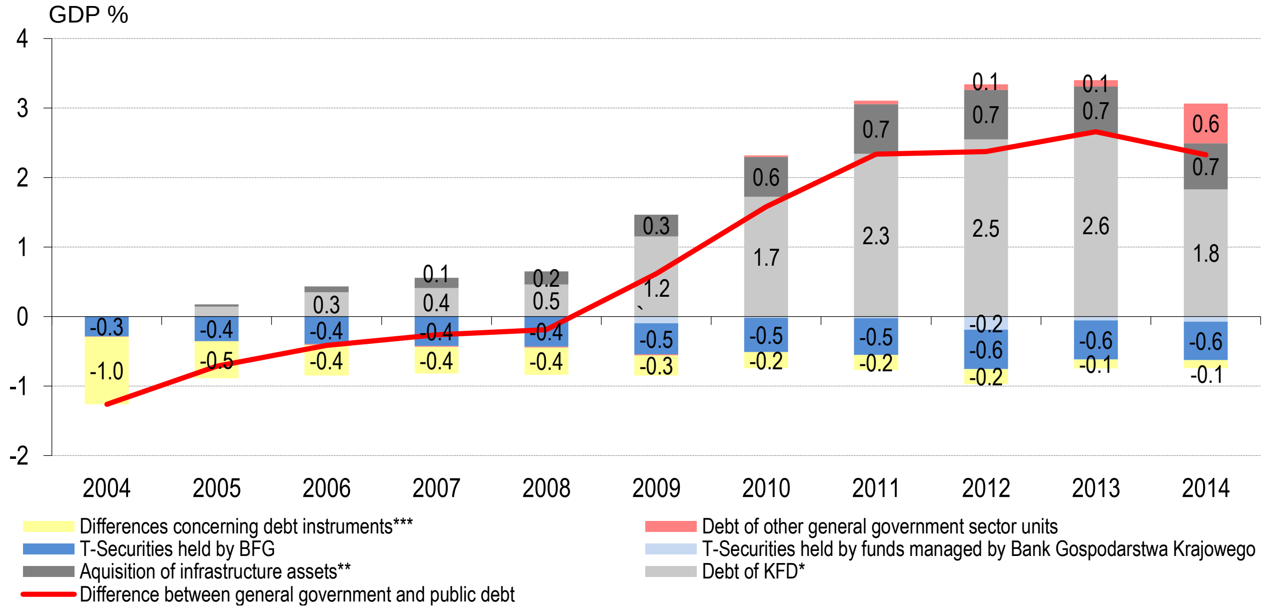
[1] The differences between the Polish and the EU definition are presented in Annex 2, whereas the comparison of the deficit and debt of the EU Member States is included in Annex 4.

[2] Detailed information regarding the level of public debt is presented in Annex 6.

government sector according to the EU definition. In 2014, the following factors affected the differences between the public debt and the *general government* debt:

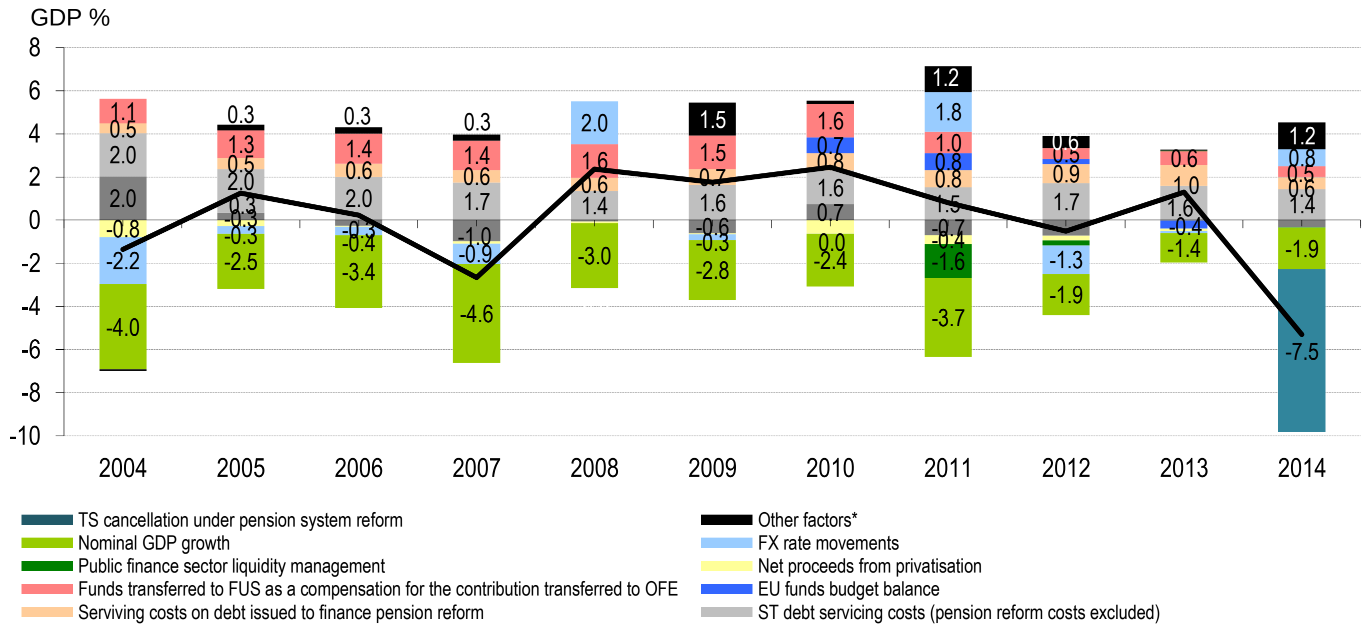
- consolidation of a part of KFD bond liabilities, following their transfer to the Demographic Reserve Fund, as a result of the pension system reform (decrease in debt),
- classifying new entities, in particular, PKP Polskie Linie Kolejowe S.A. company, to the general government sector (increase in debt),
- adjustment (since1995) of the debt level according to the EU definition as a result of the change in the scope of the general government sector, following the application of ESA2010 provisions. In particular, the Bank Guarantee Fund (BFG) has been classified to the sector, resulting in debt reduction as a result of consolidation of TS held by BFG.

Chart 3. Differences in the level of debt according to national methodology and EU methodology



**) Consolidated within the general government sector*
***) In compliance with Eurostat guidelines on sector classification of some infrastructure projects, general government debt figures include capital expenditures of the projects in question*
****) Matured payables, debt assumption – activation of guarantees, currency-interest rate swaps, up-front payments on off-market swaps, restructured/refinanced trade credits*

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



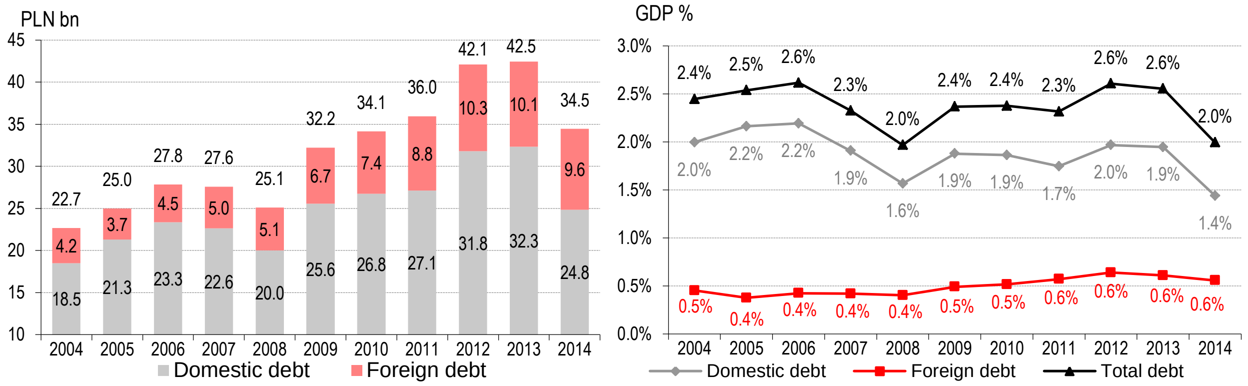
**) Other factors include: other borrowing requirements (including: the balance of granted loans, and prefinancing), changes not resulting from borrowing requirements (changes of debt resulting from: changes of budget account balance, TS discount, TS capitalization and indexation, off-budget drawings, 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 resulted from the changes in debt volume as well as interest rates and exchange rates. At the same time, measures aimed at their smoothing over time were undertaken. These included:

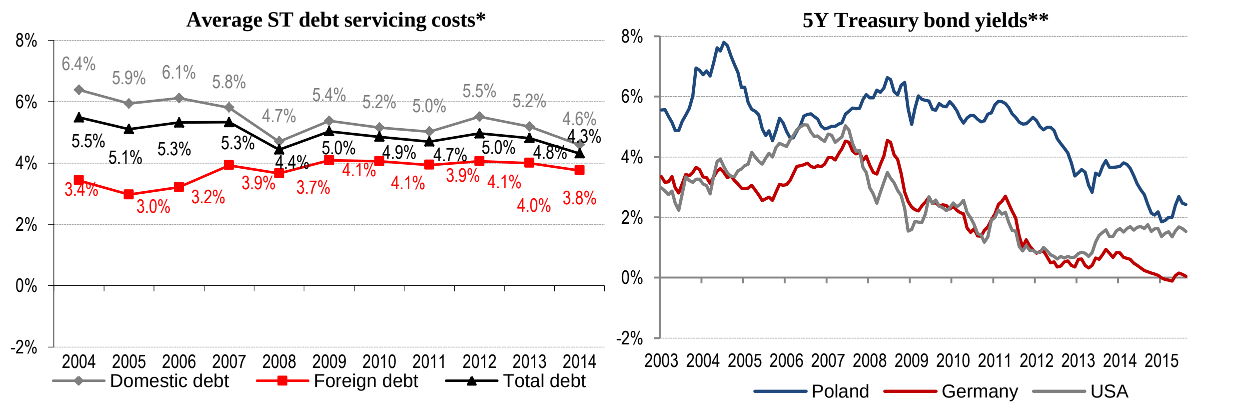
- derivatives - in use since the end of 2006,
- setting coupons of newly issued bonds at levels close to their yields to reduce the accumulation of discount costs at maturity,
- switching auctions, in use since 2001, and buy-back auctions aimed primarily at reducing refinancing risk, but allowing also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

Chart 5. State Treasury debt servicing costs in years 2004-2014



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. The significant growth in debt servicing costs in 2009-2012 resulted from an increased importance of foreign financing and depreciation of the Polish zloty as well as from higher discount expenses from redeemed securities, which was the effect of the structure of debt issued in previous years. Following the stabilisation in 2013, a significant decline in debt servicing costs occurred. Nominal debt servicing costs in 2014 were decreased by PLN 8.0bn, including PLN 4.6bn resulting from cancellation of TS transferred by OFE to ZUS under the pension system reform. The reduction of debt servicing costs was also affected by the significant decrease of yields and the issuance policy consisting of increased share of floating rate instruments, which enabled faster adjustment of debt servicing costs to the declining interest rates. Debt servicing costs were decreased by GDP 0.6% (from 2.6% to 2.0%), and the average interest rate on debt decreased to 4.3%. It is still a significantly higher level than the current cost of market financing, which results from servicing of debt incurred in the past at higher yields.

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. Impact of the public finance sector liquidity management consolidation on public finance

In May 2011 came into force the amendment to the Public Finance Act, which introduced the public finance sector liquidity management consolidation. It included the introduction of:

- the obligation to deposit liquid funds on the account of the Minister of Finance by:
  - state special-purpose funds (excluding funds under the management of ZUS and KRUS),
  - executive agencies,
  - National Health Fund,
  - other state legal entities founded under separate acts, including the National Fund of Environmental Protection and Water Management and State Fund for Rehabilitation of Disabled Persons;
- a possibility to deposit liquid funds by local government units and other public finance sector entities, in the form of a deposit with the Minister of Finance.

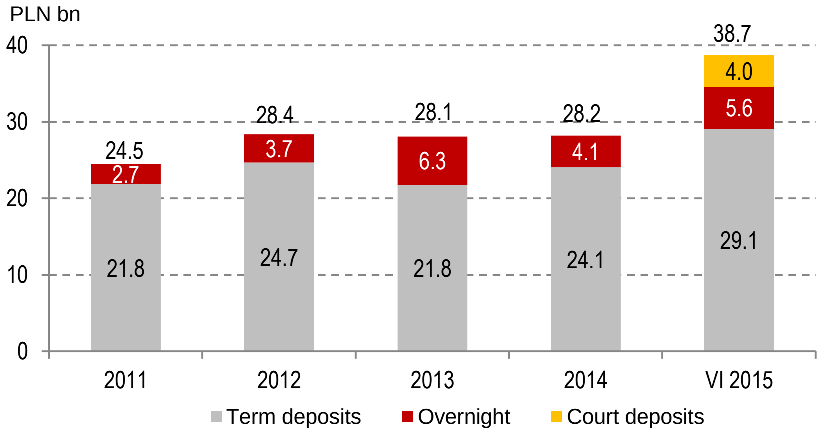
The liquidity management consolidation is aimed at implementation of the first aspect of the *Strategy's* objective, i.e. minimisation of the debt servicing costs through the appropriate selection of debt management instruments. The objective of the consolidation is more efficient management of liquid funds collected in the public sector, and thus reduction of the state budget borrowing requirements and decrease of public debt and debt servicing costs. The consolidation leads to increasing the effectiveness of sector's assets management, while maintaining the autonomy of entities in disposal of funds needed for implementation of their tasks. In accordance with the assumptions of *The Public Finance Sector Debt Management Strategy in the years 2014-2017* and *The Public Finance Sector Debt Management Strategy in the years 2015-2018,* the liquidity management consolidation was continued. The implementation of this task comprised the following measures:

- in September 2013, introduction of a uniform mechanism for the management of foreign currency funds at the disposal of the Minister of Finance, that encompassed both funds from debt management and the European Union funds. The aim of the consolidation of foreign currency funds at the disposal of the Minister of Finance was to increase:
  - the effectiveness of depositing foreign currency funds (through their depositing under more favourable conditions and gaining higher interest),
  - the flexibility of foreign currency funds management process (including the sales of foreign currency), through separation of foreign currency operations and supply of the EU funds budget with funds in PLN,
  - the liquidity cushion of the State budget, which may also temporarily reduce public debt.
- as of February 2014, the use of funds deposited in the State Treasury surety and guarantee reserves account in the process of financing State budget borrowing requirements;
- the amendment to the Public Finance Act which entered into force as of January 1, 2015, comprises broadening the group of public finance units covered by the funds consolidation obligation to include:
  - institutions of budgetary management,
  - state institutions of culture,
  - PAN (Polish Academy of Sciences) and the organisational units founded by it,
  - governmental independent public health care units (SPZOZ),
  - Regional Funds of Environmental Protection and Water Management,

  as well as placing court deposits on the account of the Minister of Finance in the state owned bank – BGK (instead of bank accounts of courts) and entitling the Minister of Finance to temporary use these funds.

The units covered by liquidity management consolidation deposited the majority of liquid funds (over PLN 29bn as of the end of June 2015) as term deposits, specifying the amount and the term of the deposit. At the end of a given day, any unused funds were deposited overnight (O/N), without the requirement to submit a separate instruction, and returned to the account of the unit on the following morning. In accordance with the adopted mechanism, court deposits were deposited only overnight (O/N).

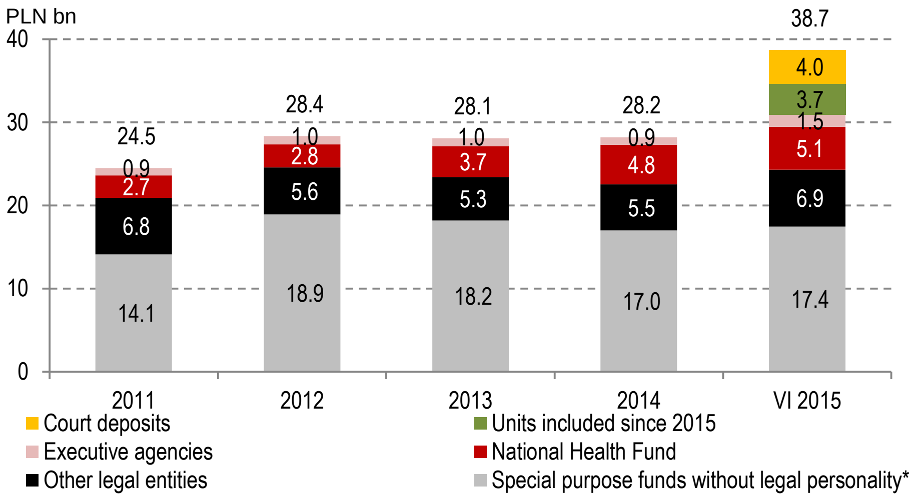
Chart 7. Funds deposited on the account of the Minister of Finance under the public finance sector liquidity management consolidation in years 2011-2015 by the type of deposit



Until the end of June 2015, within the process of depositing funds by new units and placing court deposits, the amount of PLN 7.8bn has been acquired, translating into the reduction of state budget borrowing requirements. Due to the fact that some new deposits (i.e. the majority of court deposits) come from entities outside the public finance sector, the estimated reduction of public debt level amounts to ca. PLN 3.9bn.

As of the end of June 2015 the cumulative effect of all the aforementioned measures comprising the liquidity management consolidation is the reduction of borrowing requirements by ca. PLN 39bn and public debt by ca. PLN 32bn.

Chart 8. Funds deposited on the account of the Minister of Finance under the public finance sector liquidity management consolidation in years 2011-2015 by the type of institution



II.3. Structure of the State Treasury debt

Changes in the ST debt structure resulted from implementation of the *Strategy* objective, i.e. long-term costs minimisation subject to risk constraints. The flexible issuance policy and operations on debt kept the risk related to the ST debt structure on a safe level.

Refinancing risk

The domestic debt refinancing risk had been gradually reduced since 2004, and from 2007 to 2013 it was subject to relative stabilisation. Since 2014 the refinancing risk parameters have slightly deteriorated, which resulted mainly from the pension system reform and the cancellation of TS, comprising predominantly long-term instruments. The level of refinancing risk was a resultant of:

- the growing importance of medium and long-term bonds in financing the borrowing requirements, and at the same time, the decreasing role of T-bills, up to the complete discontinuation of their issuance as of 2013 (risk reduction);
- large scale of switching auctions (risk reduction);
- aging of the existing debt (risk increase);
- prefinancing of the following year State borrowing requirements in the 4th quarter of the preceding year (risk reduction);
- maintaining the liquidity reserve of the State budget (risk reduction - a qualitative factor not affecting the average debt maturity).

Chart 9. Residual maturity of ST debt in years 2004-2015

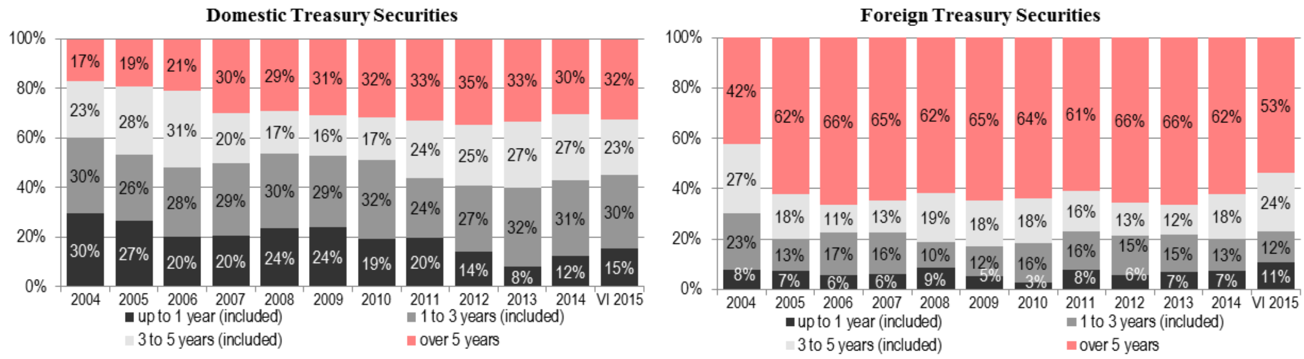
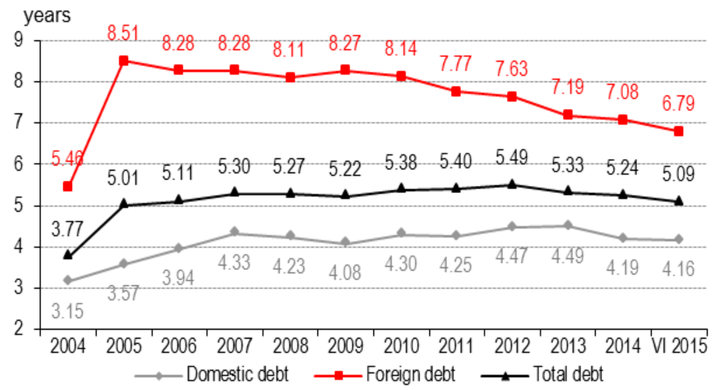


Chart 10. ATM of ST debt in years 2004-2015



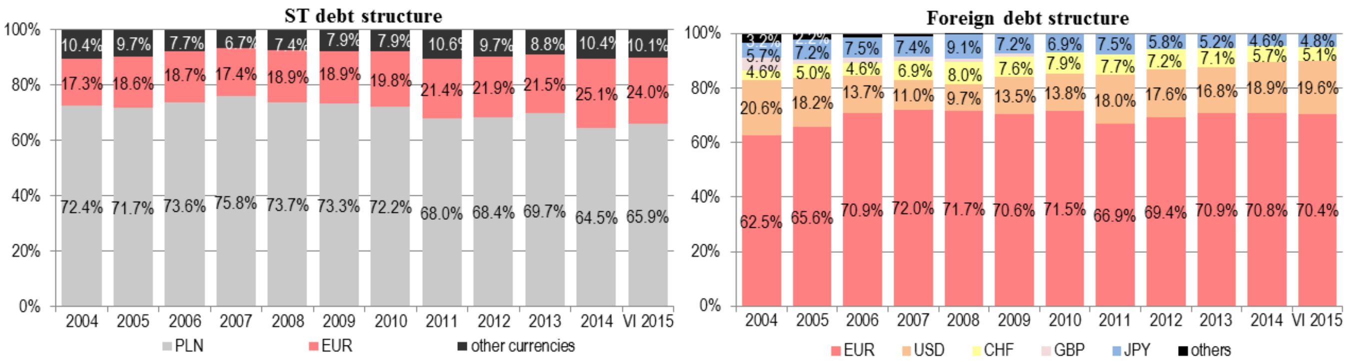
Since 2005 the average maturity of the ST debt has remained at a level above five years, adopted in the strategy as of 2012. In 2014 the decline in the average maturity of the ST debt was recorded, resulted mainly from the reduction in the average maturity of the domestic debt (to 4.19 years) due to the significant share of long-term instruments in TS cancelled under the pension system reform. As at the end of June 2015 the average maturity of the ST debt amounted to 5.09 years and in case of the domestic debt - to 4.16 years.

The sharp reduction in refinancing risk of the foreign debt in 2005 resulted from the early repayment of a part of the Paris Club debt which was refinanced by issuing bonds with a significantly longer maturity. The refinancing risk of the foreign debt, as compared to the domestic debt, is significantly lower, although its average maturity was gradually decreasing as of 2010, to reach the level of 6.79 years at the end of June 2015.

Foreign exchange risk

The increase of the role of foreign currency debt since 2008 has been the result of volatility of the Polish zloty exchange rate and increase in borrowing requirements, which justified the flexible approach to implementing the objective of minimising the debt servicing costs subject to foreign exchange risk constraints. Temporary increase in foreign financing was allowed, if justified by striving towards the 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 in international financial institutions (IFI). The share of debt denominated in foreign currency in the ST debt in the years 2011-2013 slightly exceeded 30%. At the end of 2014 this share increased to 35.5%, which resulted mainly from the pension system reform. In the 1st half of 2015 the share of debt denominated in foreign currency decreased to 34.1%.

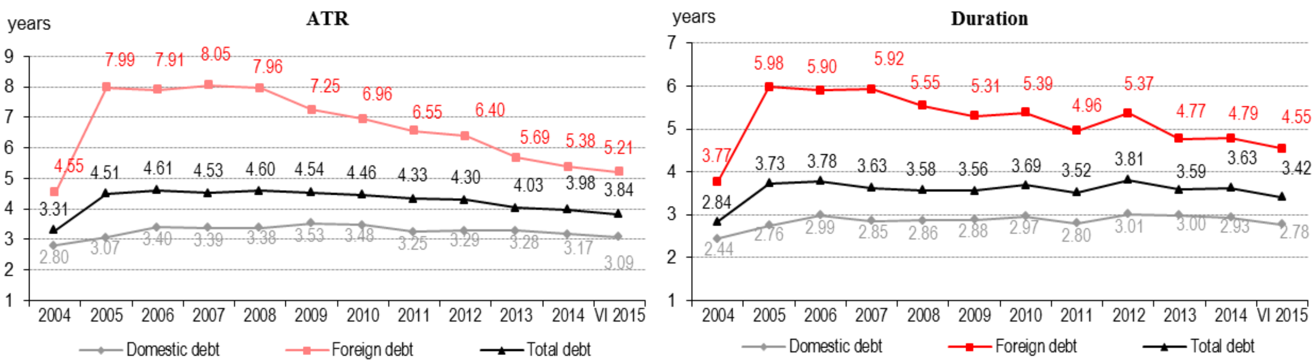
Chart 11. Currency structure of ST debt in years 2004-2015



Interest rate risk

Interest rate risk of the domestic and foreign debt was subject to similar trends as the refinancing risk. In the recent years increase in the share of floating interest rate debt, both domestic (from 12.0% at the end of 2009 to 22.4% in June 2015), and foreign (from 9.6% to 18.3%, respectively) was recorded, which contributed to the reduction in ST debt servicing costs in the period of significant decline in interest rates in financial markets.

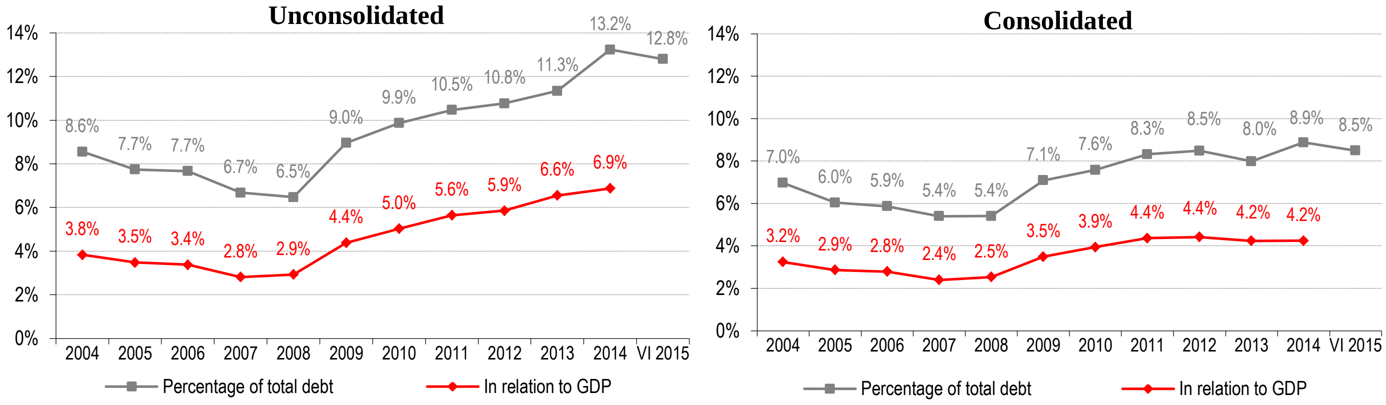
Chart 12. ATR and duration of ST debt in years 2004-2015



II.4. Volume and structure of other public finance sector debt

At the end of 2014, the unconsolidated debt of units other than ST amounted to 13.2% of public debt (the ratio for consolidated debt was 8.9%), compared to 11.3% for unconsolidated debt (8.0% for consolidated debt) at the end of 2013. After the first half of 2015 these values reached the level of 12.8% and 8.5%, respectively.

Chart 13. Share of debt of public finance sector units other than ST in public finance sector debt and as a GDP ratio.



The local government sector debt, in particular that of local government units (LGU), had the highest share in this part of the debt. The share of social security sector unconsolidated debt in the overall debt had been steadily decreasing until 2008, to increase to 4.7% since 2009. The difference between the social security sector unconsolidated and consolidated debt that has been growing since 2009 is a consequence of the fact that shortages of funds in the Social Security Fund (FUS) were financed with loans from the State budget.

Chart 14. Debt of public finance sector units other than ST by sectors.

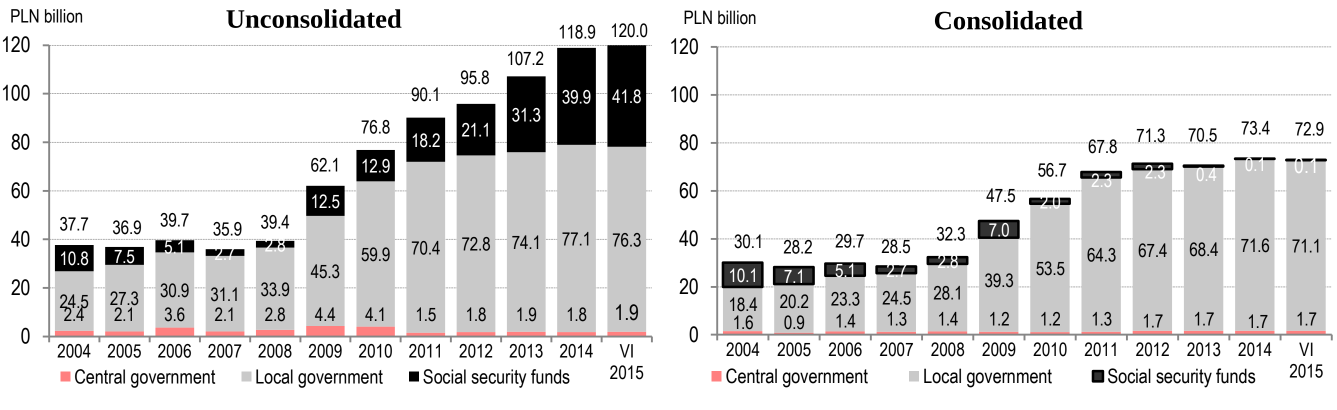
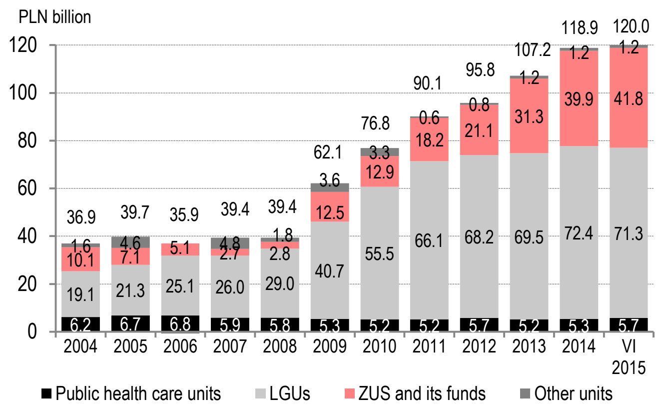


Chart 15. Unconsolidated debt of public finance sector units other than State Treasury



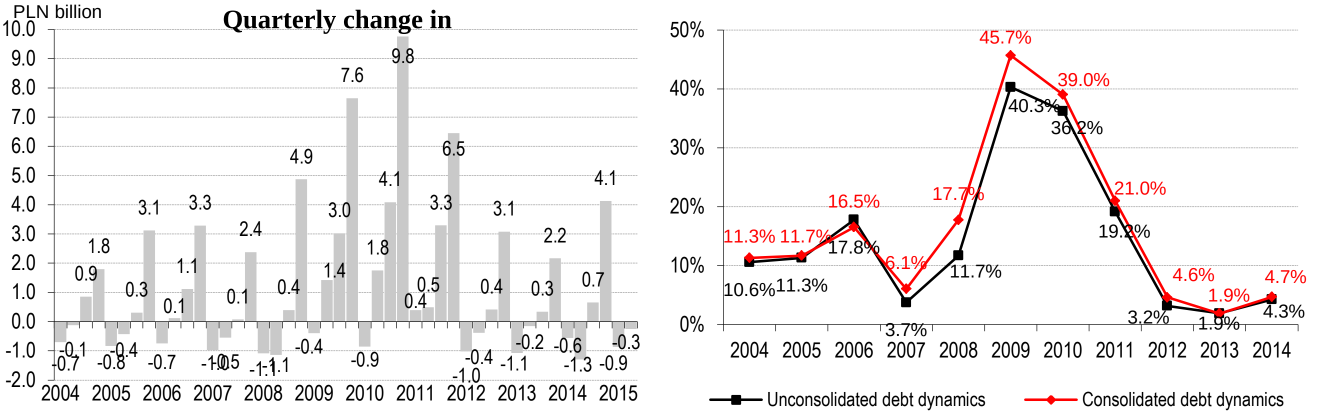
The following part of the subchapter focuses on the analysis of unconsolidated debt of public finance sector (PFS) entities other than ST.

II.4.1. Debt of local government units (LGUs)

The highest dynamics in LGU debt was recorded in 2009 – growth of unconsolidated debt by 40.3% and consolidated debt by 45.7%. In the subsequent years, the growth rate was gradually reduced, and since 2012 it has not exceeded 5%. In 2014 the dynamics of debt of LGUs and their associations reached 4.3% for unconsolidated and 4.7% for consolidated debt.

The debt of LGUs and their associations has been gradually increasing, reaching PLN 72.4bn at the end of 2014, corresponding to the growth of PLN 2.9bn as compared to the end of 2013, with the deficit at a level of PLN 2.3bn. In the first half of 2015 a decline in the debt of LGUs of PLN 1.2 bn was recorded (with a budget surplus of PLN 10.4bn). A similar situation occurred in 2014. In the first half of 2014, the debt decreased by PLN 1.9bn (with a budgetary surplus in the amount of PLN 9.6bn), but in the second half of the year growth of PLN 4.8bn was recorded. LGUs incurred liabilities primarily in the last quarter of the year, which is associated with highly seasonal nature of their results, although in 2009-2011, a significant increase in debt was also recorded in the second and third quarter of the year.

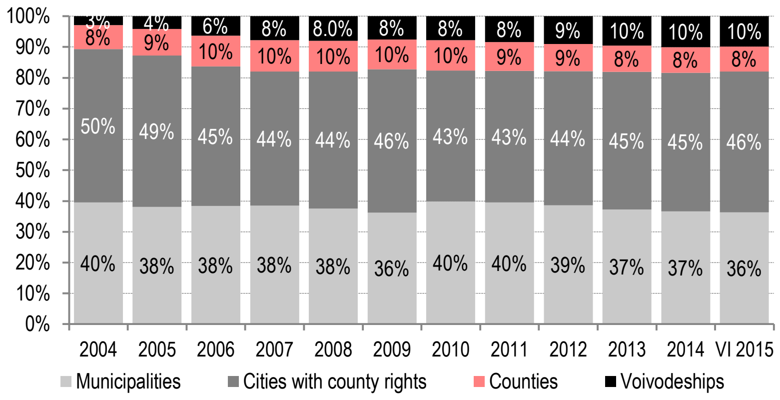
Chart 16. Debt of local government units and their associations: quarterly changes and yearly dynamics



As of 1 January 2014 an individual LGU debt repayment indicator has been applicable, as defined in Article 243 of the Public Finance Act of 27 August 2009.

According to the data contained in resolutions of local government units concerning multiannual financial forecasts, in 2014, 64 units did not accomplish the individual debt repayment indicator defined in Article 243 of the Public Finance Act, including: 47 municipalities, 16 counties and one city with county rights.

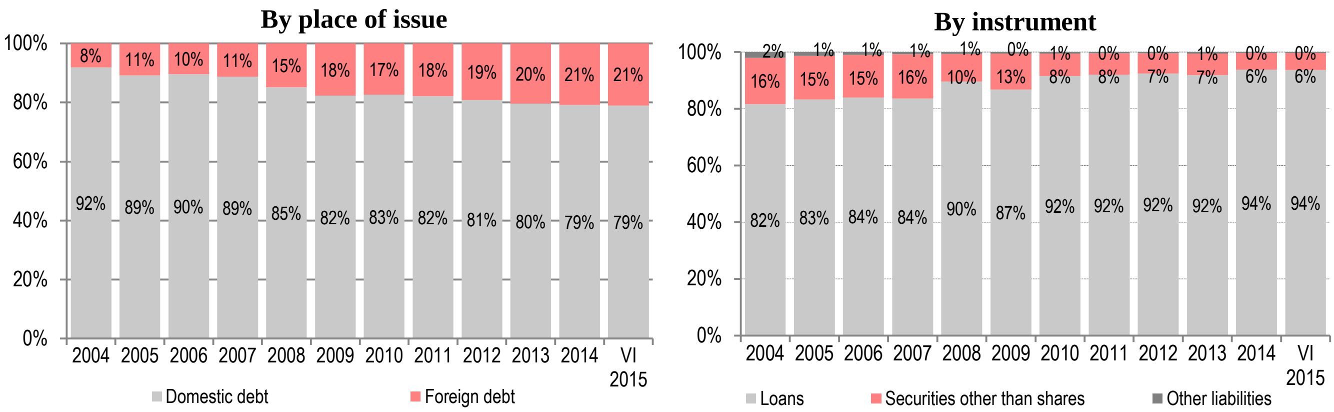
Chart 17. The debt structure of LGUs and their associations according to the levels of local government.



The majority of total liabilities incurred by all local government units are the liabilities of cities with county rights (45.0% in 2014 and 45.7% in the first half of 2015). The share of liabilities of municipalities in 2004-2014 remained at a level of ca. 36-40% (at the end of 2014 the shares reached 36.7%, and at the end of the 1st half of 2015 - 36.3%). Over the recent years, the share of liabilities of voivodeships and counties stabilised at a level of ca. 8-10% (at the end of the 1st half of 2015, it amounted to 9.8% and 8.1%, respectively).

The structure of local government liabilities was dominated by domestic debt, although the share of foreign debt has been increasing steadily, reaching 21% at the end of June 2015. Loans prevailed in the structure of liabilities of LGUs and their associations (94% at the end of June 2015).

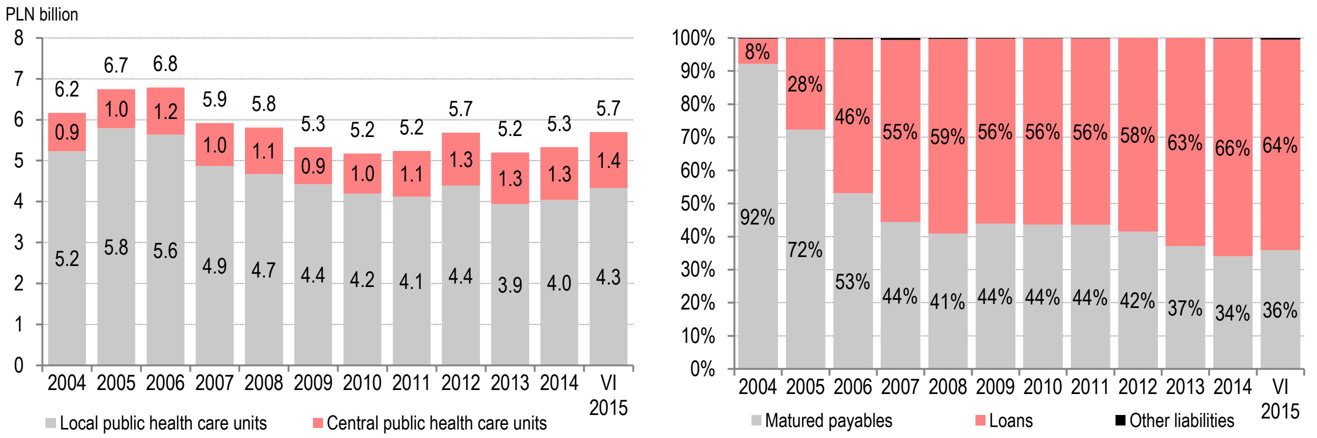
Chart 18. Structure of debt of LGUs and their associations.



II.4.2. Debt of independent public health care units

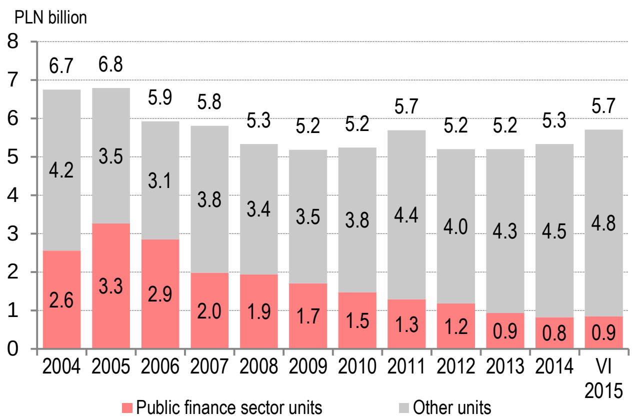
At the end of 2014, the debt of independent public health care units (SPZOZ) amounted to PLN 5.3bn, and to PLN 5.7bn at the end of June 2015, compared to PLN 5.2bn in 2013. Since 2007, loans have been the dominant component of the debt. Matured payables which have arisen as a result of untimely settlement of liabilities continue to be a significant component of debt. Changes in the debt structure in 2005-2008 resulted from the reduction of the growth rate of matured payables while pursuing remedial procedures at the same time.

Chart 19. Debt volume and structure of independent public health care units.



In 2006-2014, the debt of SPZOZ's owed to the public finance sector decreased to ca. PLN 0.8bn at the end of 2014. In the 1st half of 2015, the growth of SPZOZ liabilities towards other PFS entities by PLN 0.03bn was recorded. The level of debt of all SPZOZ was influenced by the commercialisation of SPZOZ conducted pursuant to the Act on therapeutic activity. In accordance with the provisions of the Act, the entity founding the SPZOZ is obliged to cover its deficit during three months after the deadline set for approval of the financial statement. Otherwise, the founding entity shall be bound to change the organisational and legal form of the SPZOZ or to perform its liquidation. In addition, entities which decided to perform the restructuring of hospitals into companies until 31 December 2013 had the opportunity to take advantage of cancellation of the public-law liabilities taken over from the restructured SPZOZ.

Chart 20. Debt of independent public health care units owed to public finance sector and other units.

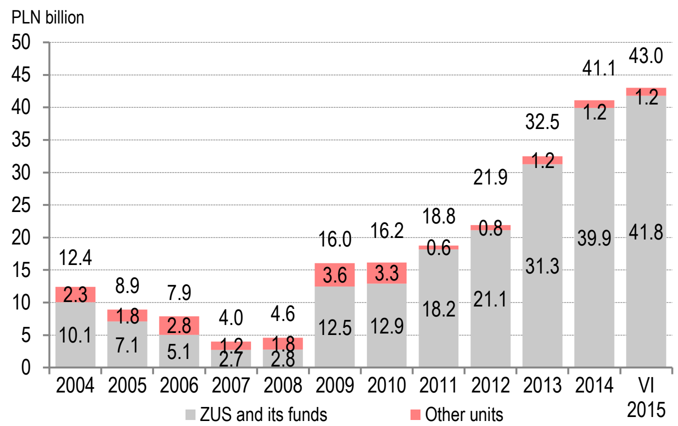


II.4.3. Debt of the Social Insurance Fund and other entities

Among other entities, the debt of the Social Security Institution (ZUS) and funds managed by ZUS, consisting almost entirely of liabilities incurred by the FUS, constituted the biggest share in 2002-2014. In 2009 and subsequent years, there was a significant increase of the FUS debt, up to the level of PLN 39.9bn at the end of 2014 and PLN 41.8bn at the end of June 2015. It resulted from the structural imbalance of the fund financed, besides the budgetary subsidy, also by the loan from the State budget. In mid-2015, it accounted for 99.7% of the total debt of the fund, with the lack of debt in commercial banks.

The debt of other entities constituted an insignificant share of public debt (0.1% of the unconsolidated PFS debt, both at the end of 2014 and in mid-2015).

Chart 21. Debt of Social Security Fund other public finance sector entities.



II.5. Guarantees granted by public finance sector entities

Contingent (undue) liabilities arising from guarantees granted by public sector entities at the end of the first half of 2015 amounted to PLN 112.9bn, compared to PLN 114.5bn, i.e. 6.6% of GDP in 2014 and PLN 108.9bn, i.e. 6.5% of GDP in 2013.

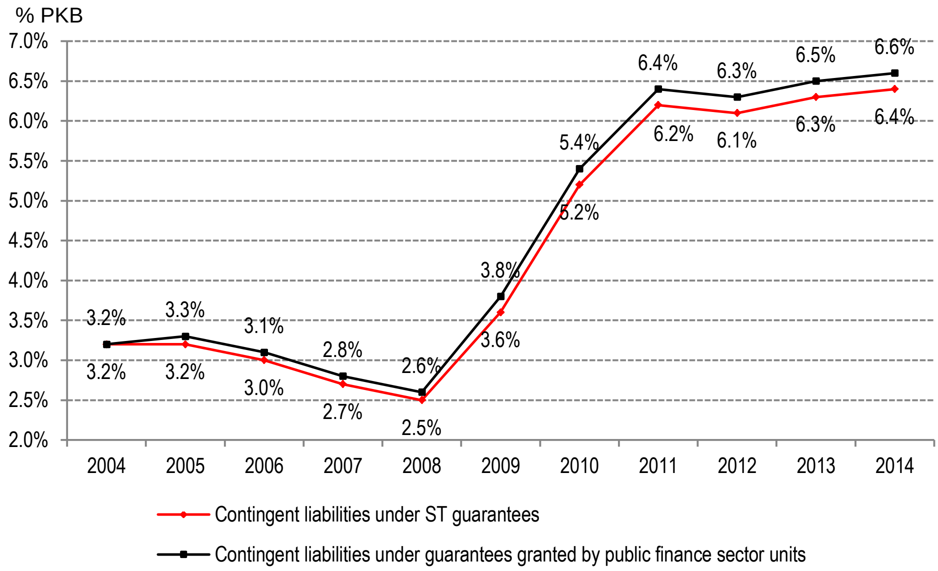
Liabilities due to guarantees granted by the ST had a dominant share in the potential liabilities. At the end of the 1st half of 2015 they amounted to PLN 109.0bn, as compared to PLN 110.8bn, i.e. 6.4% of GDP in 2014 and PLN 104.8bn, i.e. 6.3% of GDP in 2013. The increase in contingent liabilities until the end of 2014 resulted mainly from a large volume of guarantees granted to support the development of infrastructure.

The hitherto ST operations related to guarantees do not pose significant risks to public finance. At the end of 2014, c.a. 85% of contingent liabilities due to guarantees granted by the ST belonged to the low-risk group. The forecasted payments due to guarantees increased from ca. PLN 6.2bn in nominal terms at the end of 2013, to ca. PLN 6.3bn at the end of 2014, reaching 0.36% and 0.37%, respectively, in relation to GDP. At the end of 2014, the long-term risk factor for the entire portfolio of guarantees and sureties stood at less than 6%.

The biggest amounts of ST contingent liabilities (status as at 30 June 2015) resulted from:

- guarantees granted for Bank Gospodarstwa Krajowego,	PLN 76.2bn
including the support for the National Road Fund (KFD)	PLN 74.4bn
- guarantees granted for PKP Polskie Linie Kolejowe S.A.	PLN 9.9bn
- guarantees of payments from the KFD for Gdańsk Transport Company S.A.	PLN 8.6bn
- guarantees of payments from the KFD granted for Autostrada Wielkopolska II S.A.	PLN 6.8bn
- guarantees granted for Autostrada Wielkopolska S.A.	PLN 3.3bn
- guarantees granted for PKP Intercity S.A.	PLN 1.8bn

Chart 22. Contingent liabilities under guaranties and sureties granted by the ST and the public finance sector.



III. EVALUATION OF IMPLEMENTATION OF THE STRATEGY OBJECTIVE

In 2014 and the first half of 2015, debt management was conducted in accordance with *The Public Finance Sector Debt Management Strategy in the years 2014-2017*, adopted by the Council of Ministers in September 2013 and *The Public Finance Sector Debt Management Strategy in the years 2015-2018* adopted in September 2014. Table 2 presents the evaluation of the progress in implementing the *Strategy* objective, including the risk constraints in 2014 and in the first half of 2015.

Table 2. Evaluation of the progress in implementing the Strategy objective in 2014 and in the first half of 2015.

I. Strategy objective – minimisation of debt servicing costs	
Level of implementation*	Implementation method
High	**1. Selection of instruments** The domestic market was the basic source of financing borrowing requirements. In 2014, the face value of TS issuance amounted to PLN 116.9bn in the domestic market (including PLN 33.7 bn with floating interest rate), and funds with the face value amounting to PLN 27.4bn were raised in foreign markets (including PLN 10.0bn from IFIs); in the first half of 2015, this amount reached, respectively, PLN 56.0bn (including PLN 15.3bn with floating interest rate), and PLN 6.7bn (including PLN 0.3bn from IFIs). Main factors taken into account while deciding on the financing structure in 2014 and in the first half of 2015 included: • external factors, in particular: o the monetary policy carried out by the main central banks: **in the euro area**: two reductions of interest rates by the ECB by 10 basis points each, in June and September 2014 to the all-time lows (including the reduction of the deposit rate to -0.20%), announcement of the package of measures stimulating the economy (June 2014), initiation of the purchase programme for ABSs and covered bonds in October 2014 and extending the programme by government bonds as of March 2015 in the total amount of EUR 60bn per month (the value of the entire programme amounts to EUR 1.2bn); **in the USA**: termination of the quantitative monetary policy easing programme (QE3) and expectations on the timing of monetary policy normalisation; **in Japan:** increasing the asset purchase programme from JPY 50bn to JPY 80bn; **in Switzerland:** discontinuing the minimum Swiss franc to Euro exchange rate and lowering interest rates by 50 basis points, resulting in strong Swiss franc appreciation against other currencies, including Polish zloty, and temporary strong weakening of Polish zloty against Euro and US dollar; o economic rebound in the EU member states and recovery in the USA, while loweringthe economic growth rate in China and recession in the eastern trading partners, i.e. in Russia and Ukraine; o escalation of the geopolitical conflict in Ukraine (as of February 2014) resulting in risk aversion and temporary weakening of the domestic bonds and Polish zloty; o uncertainty as for reaching the agreement between Greece and its creditors concerning the financial assistance and the breakdown of negotiations (June 2015) resulting in reducing of Greece rating to the junk rating grade by major rating agencies, have led to strong risk aversion and significant weakening of bonds denominated in Polish zloty as well as the domestic currency; o strong Euro depreciation against US dollar (by 19% in the period under discussion). • local factors, in particular: o monetary policy of the Monetary Policy Council (RPP) – expectations related to interest rate cuts, followed by two reductions, in total, by 100-150 basis points (in October 2014 and in March 2015, including the reduction of the reference rate to the all-time low of 1.5%) and the announcement of keeping the interest rates unchanged in the long run ; o marked acceleration of economic growth rate of Poland in 2014 (3.4% YoY against 1.7% YoY in 2013) and its continuation in 2015 under the lack of inflation pressure and deflation YoY as of July 2014; o the positive perception of Poland both by foreign investors and by rating agencies (upgrading the rating perspective from stable to positive by S&P agency in February 2015); o the continuing moderate interest of foreign investors in the TS market (inflow of foreign capital in the amount of PLN 2.8 bn in 2014 and PLN 7.7 bn in the first half of 2015); o fluctuations in the exchange rate of Polish zloty: in 2014, the EUR/PLN exchange rate was fluctuating in the range of 4.09-4.38 (volatility at a level of 5.2%), and USD/PLN exchange rate - in the range of 3.0-3.59 (8.1%), against the EUR/USD volatility at a level of 6.2%. In the first half of 2015 the EUR/PLN exchange rate was fluctuating in the range of 3.99-4.33 (volatility of 5.7%), and the USD/PLN exchange rate - in the range of 3.52-3.95 (10.2%), against the EUR/USD volatility at a level of 9.4%.

	o decrease in yields of the domestic Treasury bonds in 2014 and at the beginning of 2015 to all-time lows (10-year bondsbelow 2%) and increase in yields as of February 2015 (mainly as a result of the financial crisis in Greece and expectations regarding the interest rates increases by Fed); • uneven distribution over time of the State borrowing requirements, arising from budget execution and the redemption of large series of bonds in January, April and July; • 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; • implementation of the second stage of liquidity management consolidation (details are presented in Chapter II.2); • maintaining a safe level of state budget liquidity, as reflected in prefinancing of a significant part of gross borrowing requirements of the next year (respectively, 28% of the requirements planned for 2014 and ca. 33% for 2015) 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 2014, the total value of TS issued in the Euro market was EUR 2.3bn, while in the first half of 2015, it amounted to EUR 1.0 bn) and for the US dollar market - the issue of bonds with the value of USD 2.0 bn in January 2014; • maintaining the Polish presence in other major markets. In 2014 in the Swiss franc market - the issuance of TS with the value of CHF 500 million, and in April 2015 - with the value of CHF 580 million (historically, the first Polish issuance with the negative yield and, at the same time, the largest foreign bond issue with the negative yield in the Swiss market); • drawing credits from IFIs (in 2014 and in the first half of 2015, the total of EUR 2.5bn, including EUR 1.7bn from the EIB and EUR 0.7bn from the World Bank; in the second half of 2015 drawings of credits from the EIB and the World Bank are planned); • market FX swap transactions, CIRS type, enabling usage of held foreign currency funds for the service of liabilities denominated in the currency with a lower interest rate. In 2014 transactions with the total value of USD 1.0 bn were concluded, whereas those concluded in the first half of 2015 amounted to EUR 0.9bn. **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-2015, 15 issues of bonds exceeded PLN 20 bn (12 at the end of 2014). The share of benchmark issues in the face value of fixed rate medium-term and long-term bonds outstanding, following the decline from 96.6% at the end of 2013 to 47.8% at the end of February 2014, arising from the cancellation of bonds as a result of the pension system reform, increased to 69.8% in June 2015. The average liquidity ratio[3] having increased to 190.6% in 2014, reached 162.1% in the first half of 2015 (as a result of the reduction in turnover in the secondary market); • issuance of liquid bonds series (with face value ensuring the liquidity of a given issue) 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 February 2014, following the entry into force of the ban on OFE investment in the TS, of the mechanism supporting the clearing under the circumstances of temporary and very limited availability of bonds of a given series in the secondary market, through the possibility of concluding the Sell/Buy Back transactions with BGK by authorised entities, i.e. Treasury Securities Dealers (PD) and PD candidates, under special terms. The limited scale of transactions (in 2014 and in the first half of 2015 transactions with the face value of PLN 4.3bn were concluded, i.e. 0.04% of all Sell/Buy Back transactions) confirmed the appropriate functioning of the bond secondary market after the changes in OFE; • issues of short-term saving bonds, so-called KOS, in February 2014 (7-month bonds, sale: PLN 282.2 million) and in December 2014 (14-month bonds, sale: PLN 485.4 million) aimed at occasional extension of the standard offer corresponding to the preferences of individual purchasers and enabling the continuation of saving to holders of maturing bonds, under attractive terms.

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

<table>
<tr><th colspan="7">II. Constraints of the objective</th></tr>
<tr><th rowspan="2">Constraint</th><th rowspan="2">Level of implementation*</th><th rowspan="2">Implementation method</th><th rowspan="2">Measure</th><th colspan="3">Value</th></tr>
<tr><th>2013</th><th>2014</th><th>June 2015</th></tr>
<tr><td rowspan="2">Refinancing risk</td><td rowspan="2">Satisfactory</td><td rowspan="2">• Lack of Treasury bill issues since 2013;
• High sale of medium and long-term bonds in 2014 and in the first half of 2015 (respectively, 69.3% and 72.0% of all TS sold at outright and switching auctions) under favourable market conditions;
• High importance of switching auctions (in the period from January 2014 to June 2015 39% of the initial debt in bonds maturing in that period was bought back at switching auctions);
• Decrease in the average maturity of domestic debt arising from the portfolio of the TS cancelled in February 2014, and the decline in the average maturity of the ST debt which, however, remained above the level of 5 years defined in the Strategy;
• Decrease in the average maturity of foreign debt associated with the debt ageing and strong appreciation of US dollar, as well as the significantly lower average maturity of debt denominated in USD as compared to debt denominated in EUR;
• Increase in the share of instruments of up to 1 year in the domestic debt resulted from the decline in the domestic debt (cancelling of TS, mainly medium and long-term) and the debt ageing process.</td><td>ATM
(in years)
- domestic
- foreign
- total</td><td>4.49
7.19
5.33</td><td>4.19
7.08
5.24</td><td>4.16
6.79
5.09</td></tr>
<tr><td>Share in domestic TS:
- TS up to 1 year
- T-bills</td><td>8.1%
0.0%</td><td>12.3%
0.0%</td><td>15.4%
0.0%</td></tr>
<tr><td rowspan="2">Foreign exchange risk</td><td rowspan="2">Satisfactory</td><td rowspan="2">• Share of foreign debt, following the growth in 2014 resulting from cancellation of domestic TS, decreased in 2015, in accordance with the assumptions of the Strategy;
• Share of euro denominated debt in the foreign debt remained above the minimum level assumed in the Strategy (70%);
• Continuation of long-term non-marketable financing from IFIs.</td><td>Share of foreign debt in ST debt</td><td>30.3%</td><td>35.5%</td><td>34.1%</td></tr>
<tr><td>Share of euro denominated debt in foreign debt</td><td>70.9%</td><td>70.9%</td><td>70.5%</td></tr>
<tr><td rowspan="2">Interest rate risk</td><td rowspan="2">High</td><td rowspan="2">• ATR of domestic debt remained within the range set in the Strategy: 2.8 -3.8 years;
• Risk of foreign debt, despite a slight increase, remained at a safe level and did not result in constraints for the cost minimisation objective;
• Lowering the risk parameters resulted from the high sale of medium and long-term bonds, debt ageing (an increased share of TS with time to maturity less than one year) as well as the increased exposure to instruments with floating interest rate, which enabled faster adjustment of debt servicing costs to the decreasing interest rates in the financial market.</td><td>ATR (in years)
- domestic
- foreign
- total</td><td>3.28
5.69
4.03</td><td>3.17
5.38
3.98</td><td>3.09
5.21
3.84</td></tr>
<tr><td>Duration (in years)
- domestic
- foreign
- total</td><td>3.00
4.77
3.59</td><td>2.93
4.79
3.63</td><td>2.78
4.55
3.42</td></tr>
</table>

III. Constraints of the objective - cont.		
Constraint	Level of implemen t tation*	Implementation method
Liquidity risk	High	The main instruments used in liquidity risk management included: • switching auctions (in 2014, bonds of the face value of PLN 29.7bn were bought back, while in the first half of 2015, the value reached PLN 8.2 bn); • interest-bearing PLN-denominated deposits at the NBP- deposits of the total value of PLN 92.0bn were made in 2014, while those made in the first half of 2015 amounted to PLN 56.8bn; • PLN-denominated deposits where BGK acted as an intermediary. In 2014 transactions of the total value of PLN 1,064.7bn were concluded, whereas those concluded in the first half of 2015 amounted to PLN 464.8bn; • FX swap transactions enabling temporary usage of foreign currencies held, in order to raise funds denominated in PLN. In 2014, transactions amounting to the equivalent of EUR 0.1bn were performed; • foreign currency deposits - in 2014 the deposits amounting to EUR 190.8bn were made, and in the first half of 2015 - amounting to EUR 55.9bn; sale of a part of foreign currency resources from the EU funds and those associated with the debt servicing in the foreign exchange market (in 2014 foreign currencies equivalent of EUR 9.9bn were sold) and at the NBP (EUR 3.0bn in 2014); • deposits of liquid funds of public finance sector entities in the accounts of the Ministry of Finance in BGK as part of the public finance sector liquidity management consolidation. At the end of 2014, the accumulated funds amounted to PLN 28.2bn, and at the end of June 2015 PLN 38.7bn (effect of implementation of the second stage of liquidity management consolidation in 2015). The level of State liquid assets in 2014 and in the first half of 2015 provided for smooth execution of budgetary flows.
Credit risk	High	• Deposits in BGK, secured with TS, did not generate credit risk; • For unsecured deposits in BGK, 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;
Risk risks	High	• 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	High	• The level of servicing costs in 2014 and 2015 was affected by swap transactions concluded in 2014 within the management of the Budget Act limit and the distribution of costs between years (increase in costs by PLN 1.95bn in 2014 and reduction of costs by PLN 1.97bn in 2015); • Coupons of new issues were set close to their yields; • Switching auctions of T-bonds on domestic market and USD denominated bond buy-back auctions contributed to smooth distribution of costs.

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

IV. ASSUMPTIONS OF THE STRATEGY

The following subchapters present the main macroeconomic assumptions of the *Strategy* and the market conditions that affect debt management. The issues discussed include the role of both domestic and foreign investors in the domestic TS market and the development of the situation in the main international markets.

IV.1. Macroeconomic assumptions of the *Strategy*

The assessment of the macroeconomic situation and directions of the fiscal policy is presented in the justification to the draft Budget Act for 2016. Table 3 presents the macroeconomic assumptions of the *Strategy*, compliant with the assumption of the draft budget.

Table 3. Macroeconomic assumptions of the Strategy

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

IV.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 the significant determinants of debt management. Under the conditions of free capital flow, a well-developed and deep domestic market allows for absorption of external shocks and outflows of foreign capital.

Over the recent years, in the holder's structure of domestic TS the following changes were recorded:

- in the years 2009-2012, an intensive inflow of foreign investors to the domestic TS market occurred (in total, by PLN 134.6bn, to PLN 190.5bn), which implied the significant growth in their share in domestic Treasury bonds from 13.3% to 35.7%. From 2013 to June 2015 non-residents continued to increase their TS holdings, however, on a significantly lower scale than in the previous years (by PLN 13.2bn in total).
- as a result of the pension system reform and cancellation of domestic Treasury bonds transferred from OFE to ZUS in February 2014, the domestic non-banking sector has lost its dominant share among investors holding domestic TS, in favour of foreign investors; in addition, the share of the domestic banking sector has also increased.
- from 2013 to June 2015 the domestic banking sector definitely dominated among domestic TS purchasers, partly replacing foreign investors and OFE in this role. In this period, banks increased their domestic TS holdings by PLN 74.7bn, to PLN 166.3bn.

Chart 23. Structure of domestic TS portfolio held by main group of investors

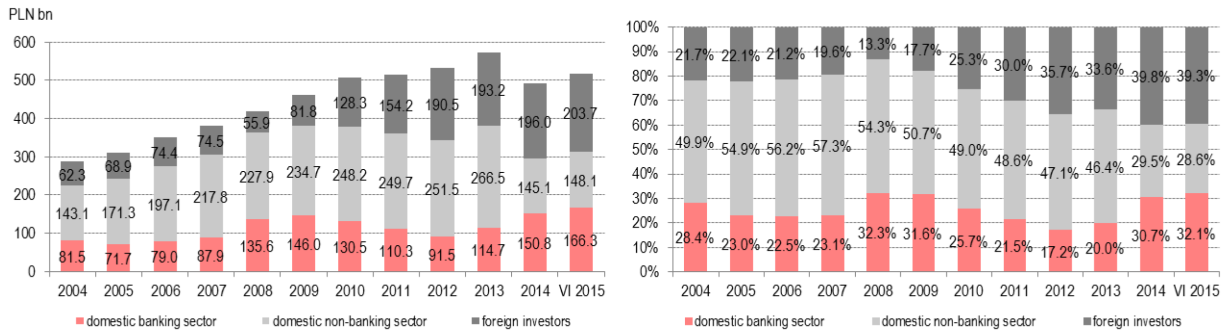
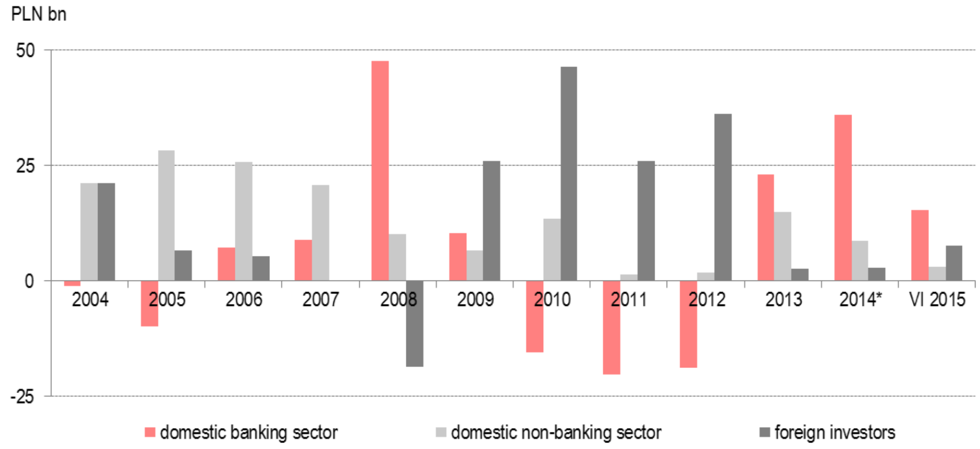


Chart 24. Changes in domestic TS portfolio held by main group of investors



**) Excluding effect of cancellation of TS of nominal value of PLN 130.1bn in February 2014*

IV.2.1. Domestic investor base

Due to the changes introduced in the pension system the share of domestic investors in the holder's structure of debt in domestic TS decreased from 66.4% at the end of 2013 to 60.2% at the end of 2014. In the first half of 2015 this share increased slightly, amounting to 60.7% at the end of June 2015, including portfolios of the domestic banking and non-banking sector constituting 32.1%, and 28.6%, respectively.

The share of banks in the holder's structure of TS debt has been growing systematically since 2013. In 2014 it increased by 10.7 pp, to 30.7%, mainly as a result of the pension system reform, but the relatively high growth in banks' domestic TS holdings was a significant factor as well. In the first half of 2015 the share of banks increased to 32.1%, which resulted from the relatively high growth in TS portfolios of these entities.

The relatively high demand of the domestic banking sector for domestic TS in the recent years, implying the growing share of banks in the structure of TS debt, was related to the continuing over-liquidity in this sector. Moreover, banks absorbed TS supply under the limited growth in holdings of foreign investors and the domestic non-banking sector.

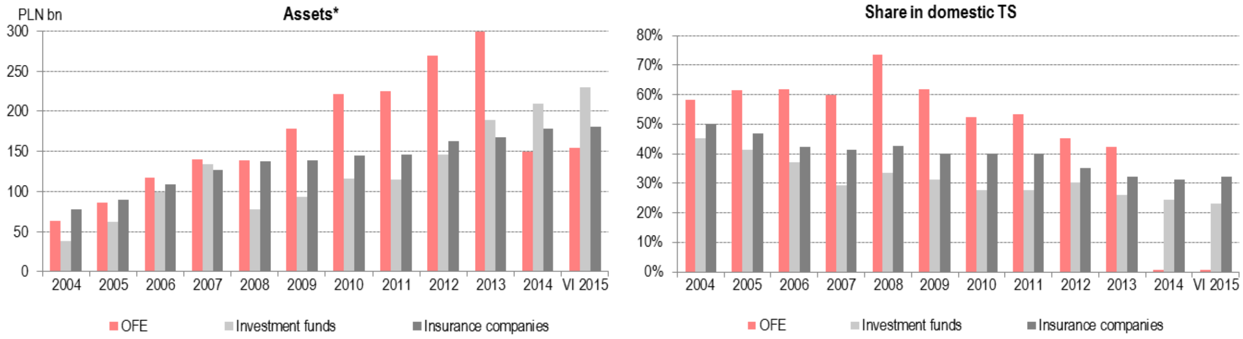
In 2014, over-liquidity of the banking sector slightly decreased (to PLN 108.8bn compared to the record level of PLN 126.5bn in 2013) and according to the "Assumptions of the monetary policy for 2014" presented by the Monetary Policy Council, in 2015 it will remain at the level similar to that recorded in 2014. These factors, as well as the high growth in TS in banks' assets since the beginning of 2013 (PLN 74.7 bn, whereas in the years 2004-2012 the growth in holdings amounted to PLN 8.9 bn) and the continued economic growth (fostering the increase in the scale of loans granted) may influence on restricting the possibility of the banking sector to absorb TS supply in the future.

Beside the banking sector, entities representing the non-banking sector constitute the second major group of domestic investors. Their share in the domestic TS debt, following the decline to the level of 29.5% in 2014 (from 46.4% at the end of 2013) as a consequence of the pension system reform, decreased to 28.6% in the first half of 2015, which resulted from the relatively limited growth in the TS portfolio held by this group of entities.

Due to the long-term, stable investment policy, investment funds and insurance companies represent particularly important entities among non-banking investors. The total share of these entities in the domestic TS amounted to 20.3% at the end of 2014 (compared to 17.2% at the end of 2013), whereas in June 2015 it has reached the level of 19.8%, decreasing slightly since the beginning of 2015.

The main factor affecting the value of TS portfolio held by investment funds and insurance companies is the value of assets of these entities. Over the recent years, a systematic growth in assets managed by these institutions has been observed. The upward trend is particularly visible in case of investment funds which assets have doubled from 2012 to June 2015. In the same period, assets under management of insurance companies increased by 23.3%. The share of TS in assets of investment funds has slightly decreased in the recent years, amounting to ca. 23% at the end of June 2015, whereas for insurance companies it remains at a stable level, constituting ca. 1/3 of the value of assets.

*Chart 25. Assets of non-banking financial institutions and TS share in their assets**



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

The main factors to determine the value of the assets under management of non-banking financial institutions in the forthcoming years include:

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

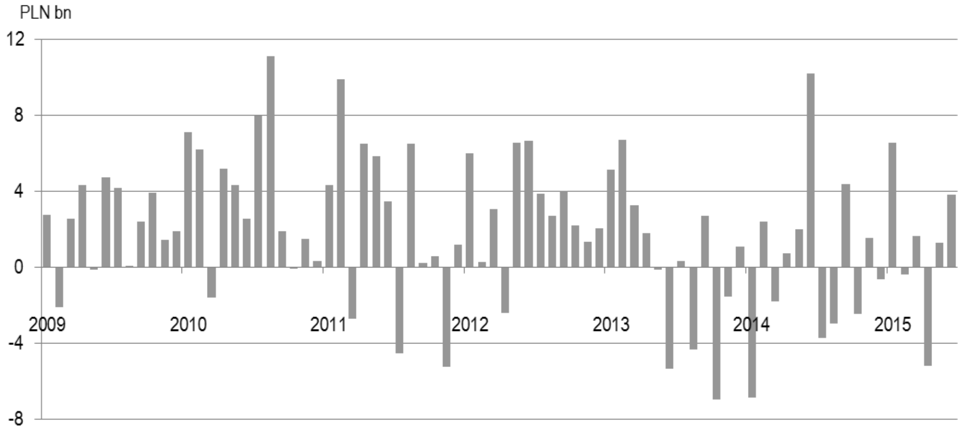
Besides the aforementioned factors related to the value of assets and the investment portfolio management policy, the developments in the share of domestic investors in the holder's structure of domestic TS debt in the forthcoming years will also depend, to a major extent, on the level of borrowing requirements, determining the level of TS supply offered to investors. The increase in domestic investors' share will be possible under the condition of continued fiscal consolidation process, which enable to limit borrowing requirements and prevent facing the absorption barrier for domestic investors.

IV.2.2. Role of foreign investors

Foreign investors play a significant role in financing the State budget borrowing requirements on the domestic market. Their demand strongly depends on the international situation.

From the beginning of 2009 to April 2013 the significant upward trend of domestic TS portfolio held by foreign investors was recorded – the holdings of this group of investors increased almost 4-fold over the entire period. In the second half of 2013 and in the first quarter of 2014, the reversal of this trend occurred, affected by such contributing factors as the monetary policy of Fed and the increase in risk aversion due to the conflict in Ukraine. In the second quarter of 2014, under the influence of the expansive ECB policy, a growth in non-residents' domestic TS holdings was observed (up to record in this year level of PLN 199.8bn at the end of June). In the second half of 2014, foreign capital flows developed under the influence of, on the one hand, expansive ECB monetary policy and, on the other hand, the expected further easing of the monetary policy by the RPP as well as situation in Ukraine. In total, in 2014 non-residents increased their domestic TS holdings by PLN 2.8bn, to PLN 196.0 bn, which represented 39.8% of debt in those instruments (compared to 33.6% at the end of 2013). This growth in share was mainly the statistical effect of the pension system reform. In the first half of 2015 the value of TS portfolio held by non-residents increased by PLN 7.7bn, to PLN 203.7bn (39.3% share in domestic TS). It was mainly the result of the expansive ECB monetary policy, the debt crisis in Greece as well as expectations related to the rise of interest rates by Fed.

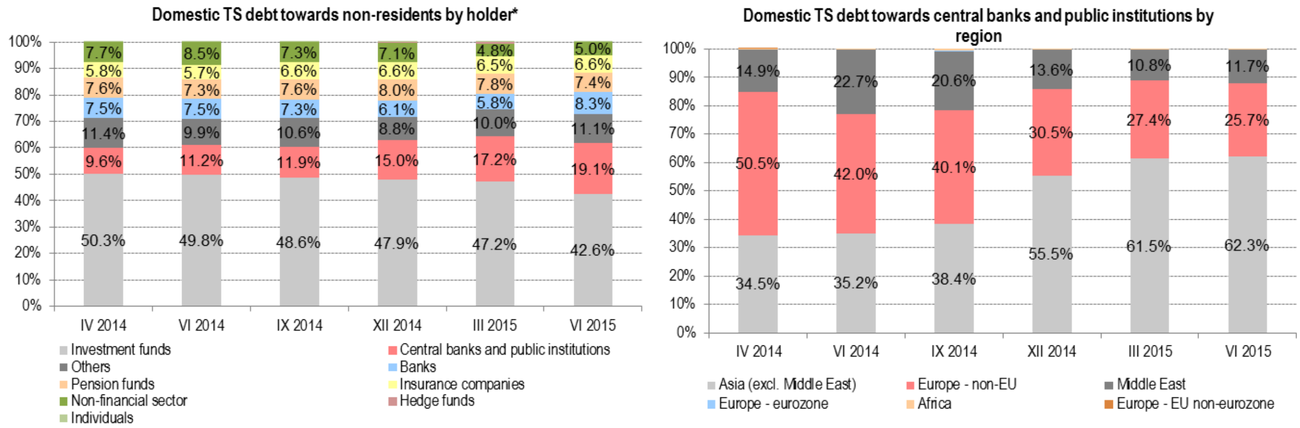
Chart 26. Monthly changes in domestic TS portfolio held by foreign investors



The detailed data available to the Ministry of Finance since April 2014 indicates that the structure of foreign investors holding domestic TS is well-diversified, both in institutional and in geographical terms. It significantly reduces the risk related to a sudden, massive outflow of non-residents from the Polish TS market - the higher the diversification, the lower the risk of single-track actions of these investors.

In the structure of debt in domestic TS held by foreign investors (according to the data for June 2015), stable institutional investors play a dominant role, including: investment funds (42.6%), pension funds (7.4%), insurance companies (6.6%). The growing TS holdings of central banks and public institutions, recognised as the most stable, long-term investors, draws particular attention. In June 2015 the share of these entities reached 19.1% and it has almost doubled since data is available, which resulted mainly from the systematic inflow of capital from Asia (62.3% share in debt held by central banks and public institutions). Significant purchasers of domestic TS are central banks and public institutions from the non-EU European countries (25.7%) and the Middle East (11.7%) as well.

Chart 27. Domestic TS debt towards non-residents by holder and domestic TS debt towards central banks and public institutions by region (data as of June 30, 2015)

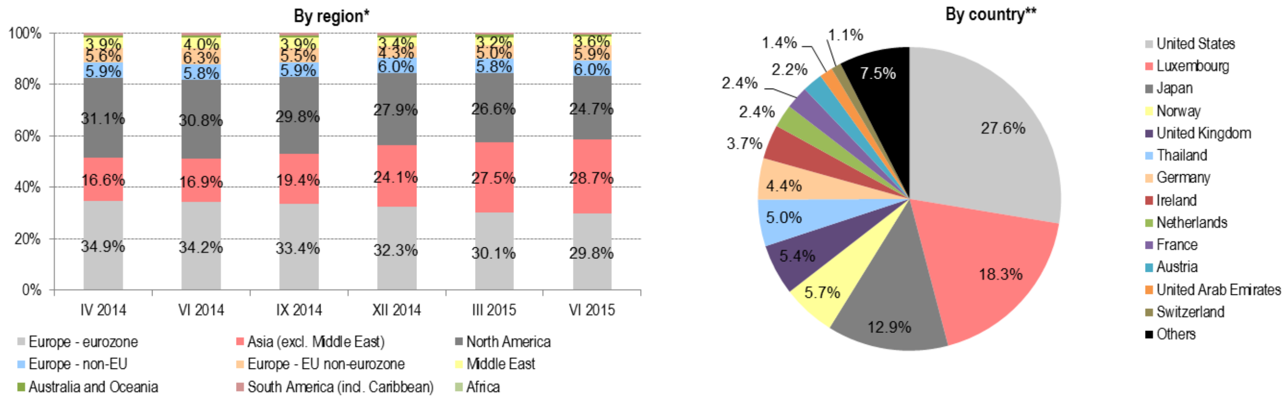


**) Excluding omnibus accounts*

The geographical structure of foreign investors includes non-residents from the Eurozone countries (29.8% share in June 2015), Asia (28.7%), North America (24.7%), as well as other regions (16.9% in total). The largest growth in domestic TS holdings since April 2014 applied to Asian investors (PLN +22.1bn, increase in the share by 12.1 pp). The decline in TS holdings applied mainly to non-residents from North America and Eurozone countries, by PLN 7.5bn (decrease in the share by 6.5 pp) and by PLN 4.8bn (decrease in the share by 5.1 pp), respectively.

At the end of June 2015 domestic TS were held in portfolios of foreign investors representing 59 countries, including the US (27.6%), Luxembourg (18.3%), Japan (12.9%), Norway (5.7%), the United Kingdom (5.4%), Thailand (5.0%), Germany (4.4%) and Ireland (3.7%). Investors from Luxembourg represent mostly institutions from outside Europe (mainly from the US), running investment activities in Europe through companies registered in Luxembourg – hence their high share. The most significant changes in the share since April 2014 have been recorded in case of investors from Thailand (+4.0 pp), Japan (+1.1 pp), Luxembourg (-3.3 pp) and the United States (-5.7 pp).

Chart 28. Geographical structure of domestic TS debt towards non-residents by region and by country (data as of June 30, 2015)

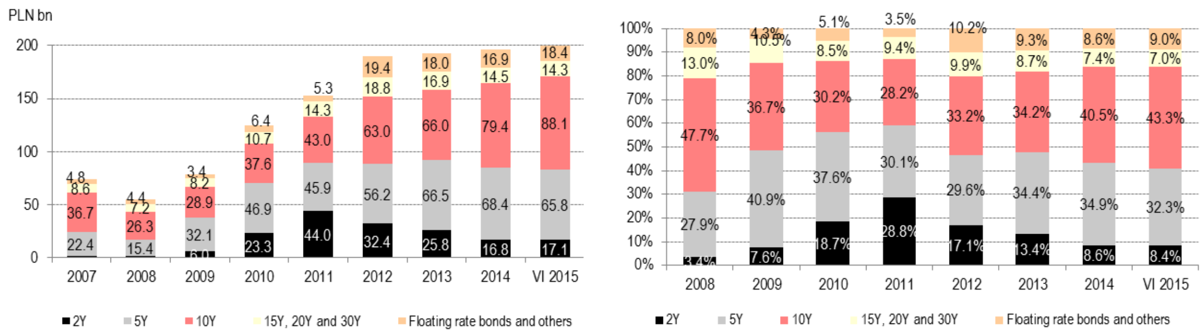


*) Excluding omnibus accounts

**) Excluding omnibus accounts and central banks

In the portfolio structure of TS held by non-residents positive trends have been observed since 2012 - on the one hand, in the form of the growth in the share of 10-year bonds (dominant share of 43.3% in June 2015 – an increase by 15.1 pp compared to the end of 2011) and, on the other hand, the decline in the share of bonds with the shortest 2-year maturity (8.4% share in June 2015 – a decline by 20.4 pp compared to the end of 2011).

Chart 29. Structure of non-residents' TS portfolios by instrument



The perception of Poland by foreign investors will have a significant influence on the terms of financing State budget borrowing requirements in the timeframe of the *Strategy*.

The inflow of foreign investors over the recent years has had a significant impact on the TS yields decline along the whole yield curve, to consecutive, all-time low levels (the last ones were recorded at the beginning of 2015), both in the domestic and foreign markets.

The inflow of foreign capital into Poland should continue, and the risk of its sudden, significant outflow should remain constrained, provided that the main factors fostering decisions of foreign entities to invest in Polish TS are maintained:

- there is a disparity in interest rates,
- the investment risk assessment for Poland is maintained or improved,
- perception of Poland by the financial markets as a country that stands out in the group of emerging markets is maintained, among others, owing to the strong economic foundations and the improving fiscal situation (abrogation of the excessive deficit procedure for Poland by the Ecofin Council pursuant to the decision of 19 June 2015),

- there is a big and liquid financial market in Poland (particularly, the TS market) and its adequate infrastructure,
- the holder and geographical structure of foreign investors remains well-diversified.

Moreover, in view of the increased volatility in international financial markets continuing since 2008, access of Poland to the flexible credit line from the International Monetary Fund (IMF) has a significant stabilising role; in January 2015 the IMF credit line was extended for the consecutive two years, in the amount reduced from SDR 22.0bn to SDR 15.5bn (i.e. the equivalent of ca. USD 22.1bn). Further withdrawal from the flexible credit line shall be performed gradually, depending on conditions in the external environment of Polish economy.

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, on the one hand, effects of the expected monetary policy normalisation by Fed may be anticipated, and on the other hand, a possible further easing of the monetary policy conducted by the ECB and the Bank of Japan will foster the inflow of investors to the domestic TS market. The effects of stronger foreign 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 the introduced market affecting 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, considering the impact on the Polish zloty exchange rate. Therefore, this factor determines a flexible approach to shaping the financing structure in terms of selection of the market and currency.

IV.3. International situation

In 2014, the continuation of the economic rebound, started in the second half of 2013, was observed in the EU - GDP across the EU increased by 1.4% and in the euro area - by 0.9%. According to the EC forecast published in May 2015, the recovery trend shall continue in 2015, and the European economy will record the GDP growth at a level of 1.8% (1.5% in the euro area). According to the EC estimates, the growth rate of the biggest EU economy - Germany, will increase to 1.9% in 2015, compared to 1.6% recorded in 2014. For the Polish economy the situation in export markets, mainly in the German market, will be the key factor determining the path of external demand.

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

- 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:
  - since September 2014 the ECB has been maintaining the main interest rate at record low level of 0.05% and it has also announced the continuation of the asset purchase programme launched in October 2014, until the moment of sustainable recovery of the inflation path in the direction of inflation target, i.e. at least by the end of September 2016;
  - since December 2008, Fed has been maintaining the basic rate in the range from 0.00 to 0.25%, declaring the commencement of monetary policy normalisation under the circumstances of further improvement in the labour market, and recovery of mid-term inflation to the level around the inflation target, which may occur before the end of 2015;
  - in October 2014 the Bank of Japan extended the asset purchase programme to JPY 80 trillion per year;
  - in January 2015, the Swiss National Bank (SNB) resigned from its strive to maintain the EUR/CHF exchange rate at a minimum level of 1.20, reduced the deposit rate to -0.75%

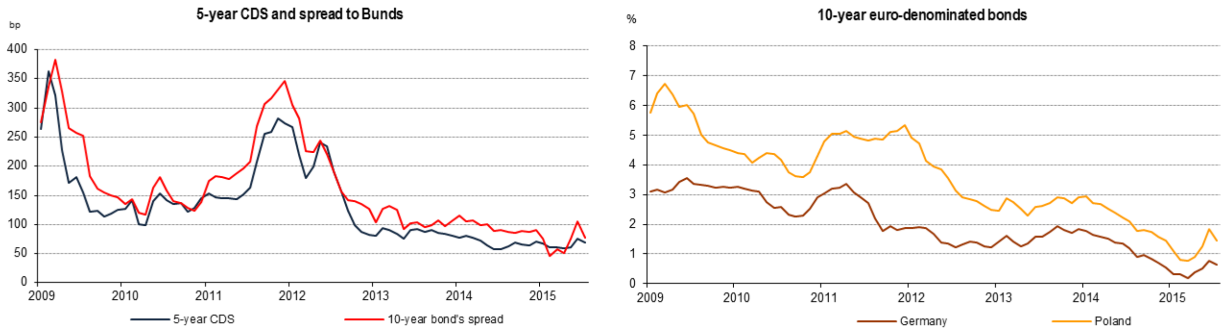
and set the level of fluctuations for 3-month LIBOR rate in Swiss franc at -1.25% to -0.25%.

- the 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.

  In 2014 and in the first quarter of 2015, a significant downward trend of EUR-denominated bonds as well as their spread to German EUR-denominated bonds was observed (record low levels of both values in March 2015 - 0.68% and 38 bp, respectively). Following the growth in TS yields from April to June 2015, due to the increased risk aversion, in July 2015 the decline in both, yields of Polish 10-year bonds (to ca. 1.44%), and their spread to German bonds (to ca. 78 bp) was recorded.

  In case of market credit rating of Poland measured by CDS quotations, from the end of 2012 to the first half of 2014, a moderate downward tendency was observed. From the second half of 2014 to May 2015 the valuation of 5-year CDS quotations for Poland remained at a stable level of ca. 64 bp and it was similar to the level recorded in Slovakia and the Czech Republic although these countries have a higher credit rating than Poland. In June 2015, CDS quotations increased to ca. 75 bp, to fall to ca. 69 bp in July 2015.

Chart 30. 5-year Polish CDS and 10-year EUR-denominated T-bonds yields in Poland and Germany



V. OBJECTIVE OF THE STRATEGY

The objective of the *Strategy* will remain **the minimisation of the long-term debt servicing costs subject to the constraints at 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

This objective, determining the debt management, is applied in aspects:

- **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 of minimisation of debt servicing costs has not changed in comparison with 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 the 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 arise from the comparison of financing costs in the long term, taking into consideration constraints resulting from the acceptable risk levels.

Debt management expertise indicates the importance of flexibility and diversification of sources of financing borrowing requirements. In the period of turmoil in financial markets it is advisable to use instruments adequate to the market situation. At the same time, the possibility to choose the currency and the market allows for appropriate distribution of incurred liabilities over time and the accumulation of reserves in case of periodic market disturbances and, consequently, enables to lower the overall cost of raising capital.

The domestic market shall remain the main source of financing the State budget borrowing requirements. The supply of instruments in the domestic market will be developed in a flexible manner, adapted to the current market situation, i.e. the reported structure and level of demand, so that the TS supply impact on the yield level can be minimised. Funds raised in the international markets will be an important supplementary source of domestic financing. Financing in foreign currencies should:

- take into account foreign currency borrowing requirements,
- ensure diversification of funding sources through the access of Poland to the investor base in major financial markets,
- maintain the position of Poland in the Euro market,
- utilize the access to attractive financing in international financial institutions,
- stabilise the domestic market through ensuring the security of financing the State budget borrowing requirements in case of temporary disturbances in the domestic market,
- allow for selling currencies on the financial market or in the NBP as an instrument of foreign currency borrowing requirements financing and foreign currency funds management, while

taking into account the conditions arising from 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
   - maintaining of the average maturity of the domestic debt at a level not lower than 4 years until the State budget borrowing requirements are lowered, and aiming at increasing it to 4.5 years ultimately
   - maintaining the average maturity of the State Treasury debt close to five years, with its possible shortening, until the State budget borrowing requirements are lowered,
   - aiming at even distribution of interest payments and redemptions of domestic and foreign debt in the subsequent years,
2) exchange rate risk
   - 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 in order to shape desired currency structure of debt and financing State budget borrowing requirements,
   - aiming, within the timeframe of the *Strategy*, at maintaining the effective (i.e. taking into account derivative transactions) share of Euro in foreign currency debt at a level of at least 70%, with possible temporary deviations in case of limited access to the Euro market, its inefficiency or unfavourable situation in derivatives market;
3) interest rate risk
   - keeping ATR of the domestic debt in the range of 2.8-3.8 years,
   - separating the management of the interest rate risk from the management of the refinancing risk by using floating-rate bonds and inflation-linked bonds, and a possible use of derivatives,
   - the current level of foreign debt interest rate risk does not restrain cost minimisation;
4) State budget liquidity risk
   - keeping the safe level of State budget liquidity while managing liquid assets in an effective way,
   - utilisation of liquid funds of public finance sector entities and court deposits in managing the State budget liquidity,
   - the level of liquid assets will be determined by the State budget demand for funds, the current and expected market situation, taking into account seasonality as well as striving for the even distribution of TS supply within a year,
   - using foreign currency funds and derivative transactions in managing the currency structure of liquid State budget funds;
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 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 in individual years, in particular, through the use of derivatives,
- setting bond coupons at the levels that shall be close to their yields over the sales period.

VI. TASKS OF THE STRATEGY

The following tasks have been recognised as essential for implementing the objective of the *Strategy*:

1) Ensuring liquidity of the TS market,
2) Ensuring efficiency of the TS market,
3) Ensuring transparency of the TS market,

The tasks assumed in the *Strategy* are long-term and cover measures implemented on a continuous basis. These tasks are to a large extent interdependent, i.e. individual measures may contribute to the implementation of more than one task at a time. Accordingly, the measures undertaken should be mainly aimed at maintaining the proper functioning of the market or its further improvement, in order to contribute to the better implementation of the *Strategy* objective.

With reference to the implementation of the task included in the last years' *Strategy*, related to consolidation of the public finance sector liquidity management, it is not included in this document. Details concerning the implementation of this task are presented in Chapter II.2.

VI.1. Ensuring liquidity of the TS market

Ensuring adequate liquidity of the TS market and of the individual issues contributes to the elimination of the premium expected by investors in case of insufficient liquidity of TS, i.e. those with high costs of disinvestment, as well as to the increase of demand from investors interested in holding liquid issues. Both these factors contribute to decreasing TS yields and, accordingly, to the minimisation of ST debt servicing costs. The following measures are planned in the timeframe of the *Strategy*:

- Continuation of issuing large series of benchmark bonds in the domestic market, ensuring their sufficient liquidity in the secondary market. Maintaining the policy of issuing medium and long-term fixed-rate bond series until their value reaches at least PLN 20bn, adopted since 2003, is planned;
- Large liquid bond issues in the Euro market and, depending on market conditions, also on the US dollar market;
- Adapting the issuance policy, including sale, switching and buy-back auctions to market circumstances, including the demand in different segments of the TS market.

VI.2. Ensuring efficiency of the TS market

Ensuring the efficiency of the TS market covers measures aimed at minimising debt servicing costs under the second out of two aspects of implementation of this objective, that have been discussed in Chapter V. It applies to both the primary and secondary market. The following measures are planned:

- Adjusting the issuance timing in the domestic and foreign market to the market and budgetary conditions, while taking into account measures arising from the task of increasing the transparency of the TS market;
- Increasing the role of participants of the Primary Dealers (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 financial market participants, 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, aimed at effective exchange of information and

taking into account investors' requirements in the implementation process of the *Strategy*, including:
  - regular meetings with banks participating in the PD system,
  - meetings with non-banking sector entities,
  - meetings with foreign investors and foreign banks,
  - ad hoc meetings and phone consultations with investors;
- Extension of the investor base, including, 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,
  - promotion of Polish TS issued both in the domestic and foreign markets;
- Active participation in conferences and seminars for investors;
- Expanding electronic communication channels with domestic and foreign investors.

VI.3. Ensuring the transparency of the TS market

Ensuring the transparency of the TS market is aimed at limiting the uncertainty connected with its functioning and enables its participants to receive reliable information on current market prices and to formulate expectations concerning the future market prices. Both predictability of the issuance policy and transparent functioning of the secondary market contribute to transparency of the market as a whole. The following measures are planned in the timeframe of the *Strategy*:

- Transparent issuance policy with regard to information concerning the TS issuance plans (comprising the annual calendar of auctions, annual, quarterly, and monthly plans of TS supply);
- Promoting the electronic market through appropriate PD system regulations, while maintaining the competitiveness and transparency rules, in particular, related to the obligations imposed on participants of the system concerning quoting benchmark bonds, maintaining specific spreads and participation in the fixings of TS.

VII. 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 debt, including the debt of units other than the State Treasury entities, 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 LGUs as well as the prudential and remedial procedures, which apply 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 recalculated using for the foreign currency denominated debt the yearly average of the NBP foreign currency exchange rates for the year concerned and reduced by the value of the State budget liquid funds (Article 38a), exceed 55%.

Moreover, the stabilising expenditure rule included in the Public Finance Act sets the thresholds for the relation to GDP of the amount specified in Article 38a of the Act at the levels of 43% and 48%. Exceeding the thresholds with a fulfilment of additional conditions defined in the Act triggers the automatic correction mechanism, that limits the growth rate of expenditures for the specific budgetary year. This amount and the limit obtained on its basis are subsequently distributed to individual general government sector entities covered by the scope of the expenditure rule.

VII.1. Assumptions of the strategy of granting sureties and guarantees

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

- concentration of granting sureties and guarantees on supporting development-oriented projects concerning infrastructure investments, environmental protection, creating new jobs and regional development, in particular, based on the EU funds (loans and bonds guaranteed by the ST should help to acquire the EU funds), but also on subsidising other investment tasks which may arise from potential new support programmes for granting sureties and guarantees in compliance with the EU rules;
- sureties and guarantees may be also used to support possible measures undertaken in case of potential deterioration in the Polish financial system;
- 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 value of new sureties and guarantees granted in a given year is limited through the Budget Act. The limit for 2016 in the draft budget act was determined at a level of PLN 200bn. The extent of use of the ST sureties and guarantees instrument will result mainly 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.

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 for liabilities of 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.

VII.2. 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 ST will increase within the timeframe of the *Strategy* from PLN 126.0bn to PLN 148.6bn before consolidation, mainly as a result of financing FUS deficit by loans from the State budget. After consolidation, debt of other entities of the sector will increase slightly, from PLN 74.6bn to PLN 77.6bn. The increase will result from relatively insignificant increase in the LGUs debt and the stabilisation of debt of other units of central and local government sector.

Within the timeframe of the *Strategy*, the before consolidation debt of other public finance sector units in relation to the GDP will amount to ca. 6.8%, whereas the debt after consolidation will amount to approximately 3.8%. The share of this group of entities in the total debt of the public finance sector before consolidation will amount to ca. 12.8%, and to ca. 7.1% after consolidation.

Chart 31. Debt of public finance sector entities other than State Treasury by sectors, before and after consolidation

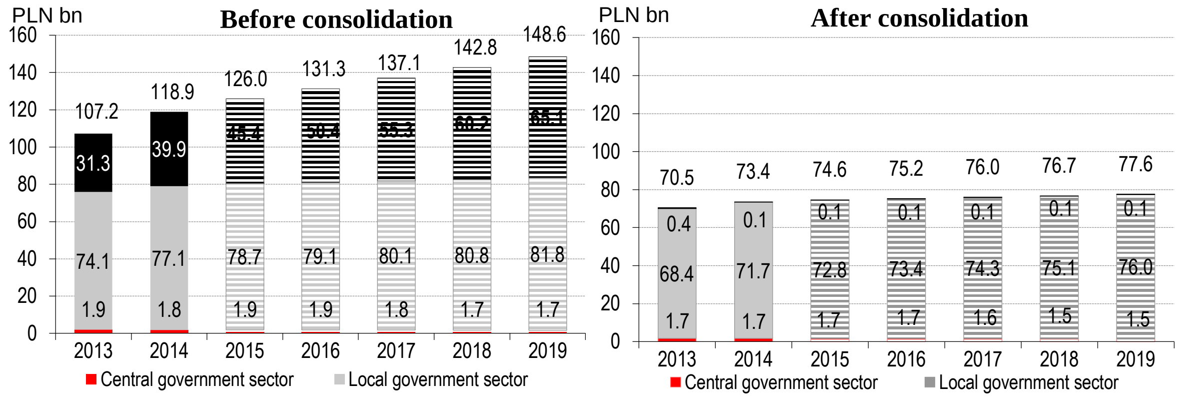
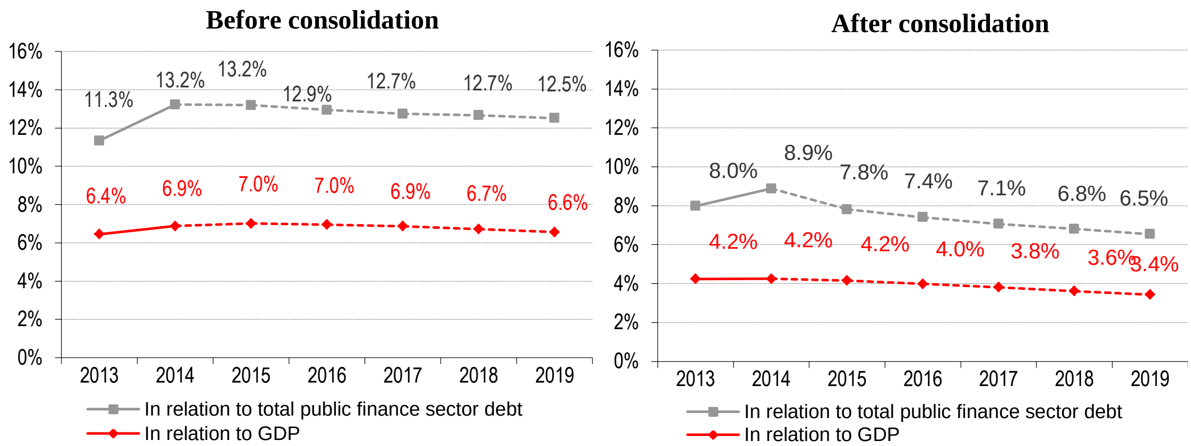


Chart 32. Debt of public finance sector units other than ST in relation to GDP and total public finance sector debt



VII.2.1. Debt of local government units

The *Strategy* assumes that the debt of the LGUs and their associations will slightly increase as a result of financing the deficits of this group of units. The borrowing requirements of the LGUs will be determined by their investment expenditures, in particular, by expenditure allocated for the implementation of infrastructural projects, including those co-financed with the EU funds.

Loans incurred in the domestic market from commercial banks will remain the dominant source of financing of the borrowing requirements of LGUs. The foreign debt, both under bonds issued in international markets and loans incurred at international financial institutions, will constitute the supplementary source of financing the borrowing requirements of those units.

The level of debt of the LGUs will be affected by the rules regarding incurring liabilities, including the individual debt ratio which came into force as of January 1, 2014.

VII.2.2. Debt of other entities

Credits and loans will be the dominating element in the debt structure of the other public finance sector entities.

It is assumed that within the timeframe of the *Strategy* the debt of independent public health care units (SPZOZ) will stabilise. The debt of local government units will continue to have a dominant share in the total liabilities of SPZOZ.

It is assumed that due to utilization of loans from the State budget as a financing instrument, FUS debt after consolidation will be insignificant.

VIII. EXPECTED EFFECTS OF IMPLEMENTING THE STRATEGY

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

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

These are the expected results of the implementation of the *Strategy* objectives under the adopted macroeconomic and budgetary assumptions. Moreover, the most important threats to the implementation of the *Strategy* objectives are indicated in subchapter VIII.3.

VIII.1. Debt volume and its servicing costs

Under the adopted assumptions, in the years 2015-2016 the public debt-to-GDP ratio is expected to increase to 49.0%, following its stabilisation in 2017 it will gradually fall to 47.5% in 2019.The ratio of the amount specified in Article 38a of the Public Finance Act shall reach the level of ca. 48.6% in 2016 and 48.7% in 2017, to decrease gradually to 46.9% in 2019.

Tabela 4. Forecasts of the public debt volume and the ST debt servicing costs

Item	2014	2015	2016	2017	2018	2019
1. State Treasury debt						
a) PLN bn	779.9	828.6	883.5	938.8	983.8	1,038.1
- domestic	503.1	551.3	599.3	645.5	683.2	723.1
- foreign	276.9	277.3	284.1	293.4	300.6	315.1
b) in relation to GDP	45.1%	46.1%	46.8%	47.1%	46.3%	45.9%
2. Public debt						
a) PLN bn	826.8	870.4	924.7	978.5	1,021.9	1,074.3
b) in relation to GDP	47.8%	48.4%	49.0%	49.0%	48.1%	47.5%
3. The amount specified in article 38a point 3 of the Public Finance Act**						
a) PLN bn	777.5	852.4	918.3	972.3	1,013.3	1,061.0
b) in relation to GDP	45.0%	47.4%	48.6%	48.7%	47.7%	46.9%
4. General government debt						
a) PLN bn	867.0	915.4	977.7	1,039.8	1,097.7	1,152.2
b) in relation to GDP	50.2%	51.0%	51.8%	52.1%	51.6%	50.9%
5. State Treasury debt servicing costs (cash basis)						
a) PLN bn, incl.:	34.5	32.3	31.8	31.1 - 32.2	32.1 - 33.3	33.7 - 34.9
- domestic	24.8	22.1	21.7	21.8	22.3	23.9
- foreign	9.6	10.2	10.1	9.3 - 10.4	9.8 – 11.0	9.8 – 10.9
b) in relation to 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 *general government* debt-to-GDP ratio will grow until 2017, when it will reach 52.1%. The increase in general government debt will result mainly from the growth of National Road Fund (KFD) debt due to the execution of infrastructure projects.

In the years 2015-16 State Treasury debt servicing costs will continue on downward trend, both in nominal terms (from PLN 34.5bn in 2014 to PLN 31.8bn in 2016), as well as in relation to GDP (from 2.0% to 1.7%). It was assumed that the debt servicing costs-to-GDP ratio will continue to fall in the subsequent years, reaching 1.49% - 1.54% in 2019.

Chart 33. Debt-to-GDP ratio

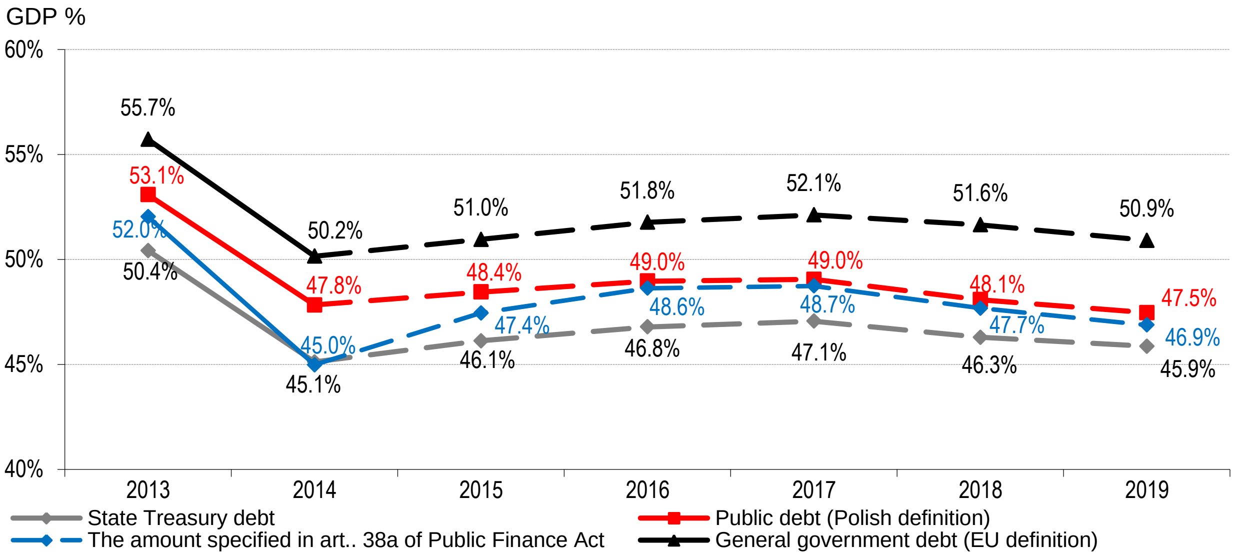


Chart 34. ST debt servicing costs-to-GDP ratio

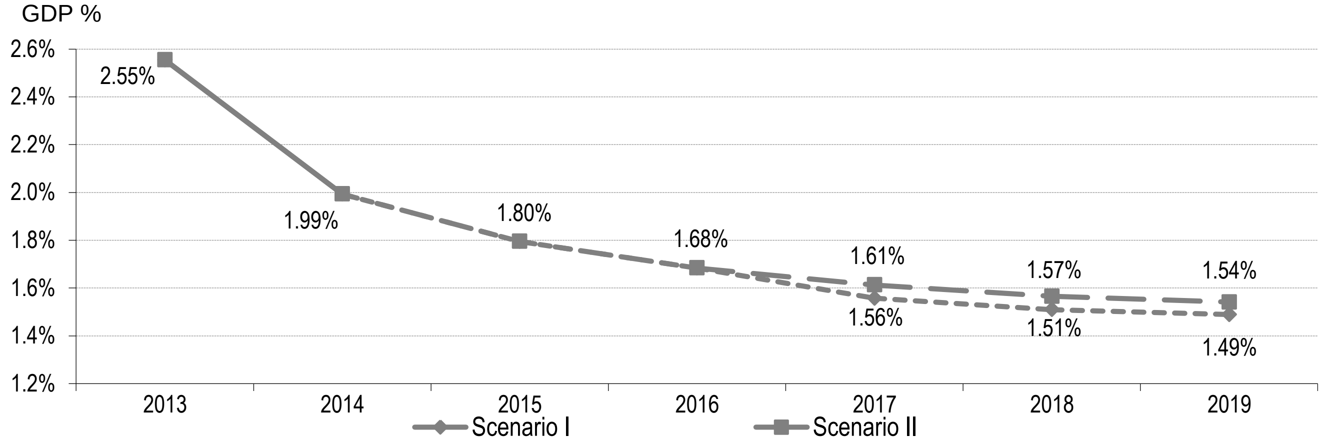
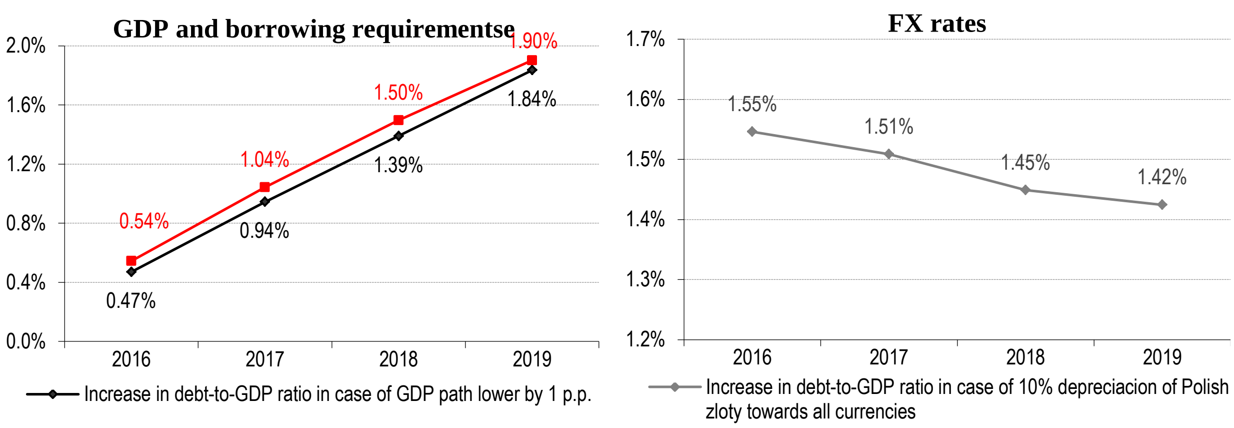
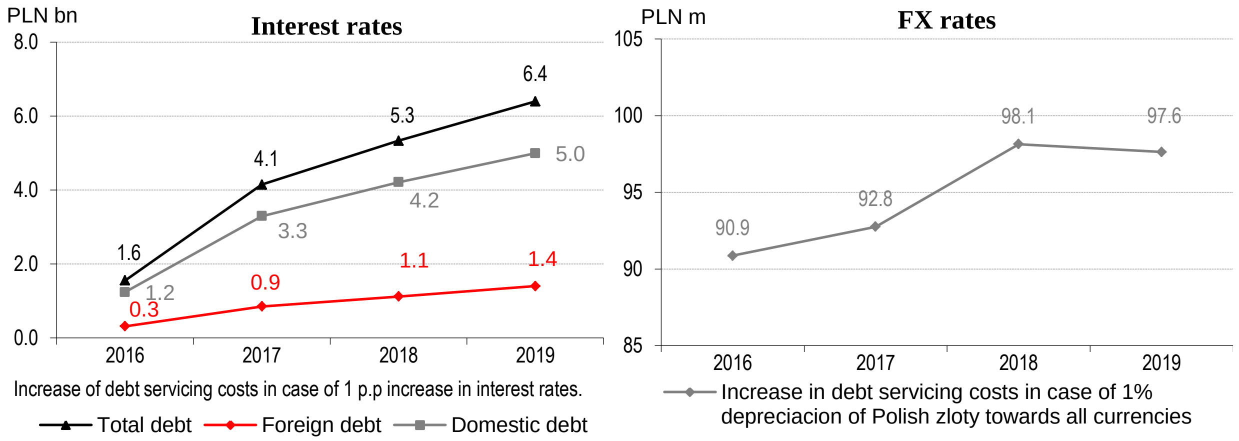


*Chart 35. Sensitivity of public debt-to- GDP ratio to changes in assumptions**



**) assuming the change of paths since 2016*

Chart 36. Sensitivity of ST debt servicing costs-to-GDP ratio to changes in assumptions.



Contingent liabilities (guarantees and sureties)

It is expected that in 2015 the ratio of ST contingent liabilities resulting from sureties and guarantees to GDP will amount to ca. 7.5%. Following its transitional growth to GDP 7.9% in 2016, its stabilisation is assumed. Then it is expected to decline to GDP 7.3% in 2019. At the same time, the amount of expected payments on this account will remain at a safe level.

Table 5. Forecast of contingent liabilities under guarantees and sureties granted by the ST and the public finance sector units

	2015	2016	2017	2018	2019
1. Forecasted payments under guarantees and sureties granted by:					
a) Public finance sector					
- PLN bn	8.9	8.9	8.6	7.2	7.1
- In relation to GDP	0.5%	0.5%	0.4%	0.3%	0.3%
b) State Treasury					
- PLN bn	8.8	8.9	8.5	7.1	7.1
- In relation to GDP	0.5%	0.5%	0.4%	0.3%	0.3%
2. Contingent liabilities under guarantees and sureties granted by:					
a) Public finance sector					
- PLN bn	138.3	152.4	162.0	164.7	169.8
- In relation to GDP	7.7%	8.1%	8.1%	7.7%	7.5%
b) State Treasury					
- PLN bn	134.5	148.5	157.9	160.5	165.5
- In relation to GDP	7.5%	7.9%	7.9%	7.5%	7.3%

VIII.2. Structure of the State Treasury debt

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

- regarding the refinancing risk – the direction of changes in the ATM of the ST domestic marketable debt will depend on market conditions, so that the average maturity in 2019 may reach the value in the range from 4.0 to 4.6, and for the total ST debt, 4.9-5.3 years compared to , respectively, 4.2 and 5.1 years at the end of 2015;
- the interest rate risk will remain within the range set in the *Strategy*, depending on the adopted financing structure, the ATR of the domestic marketable debt will remain within the range of ca. 3.1-3.3 years compared to 3.2 at the end of 2015, while the ATR of the total debt will be in the range of ca. 3.7-3.9 years; the duration of the domestic marketable debt will stay in the range of ca. 2.8-3.0 years compared to ca. 2.9 at the end of 2015, while that of the total debt will range from ca. 3.4-3.5 years;

- the average share of foreign currency debt will be reduced and in within the timeframe of the *Strategy*, it may approach 30%.

Chart 37. ATM of the ST debt

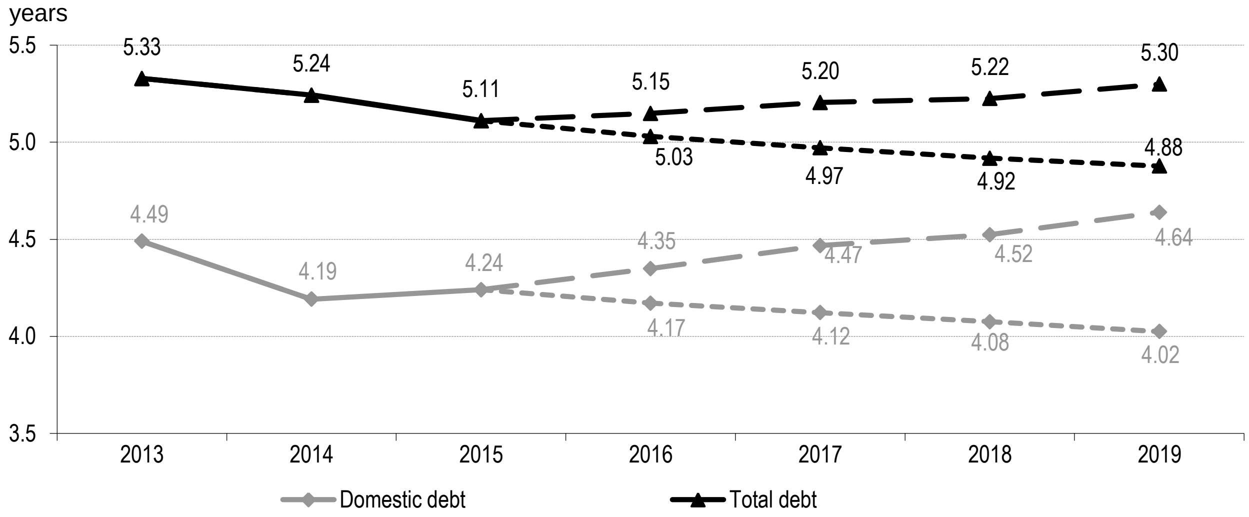


Chart 38. ATR of ST debt

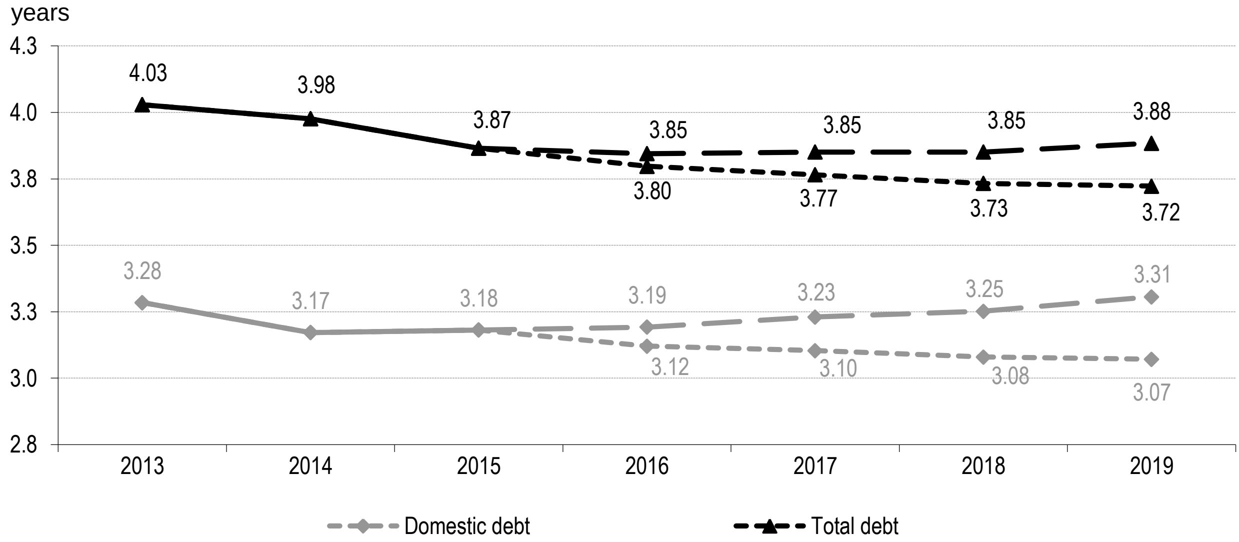


Chart 39. Duration of the ST debt

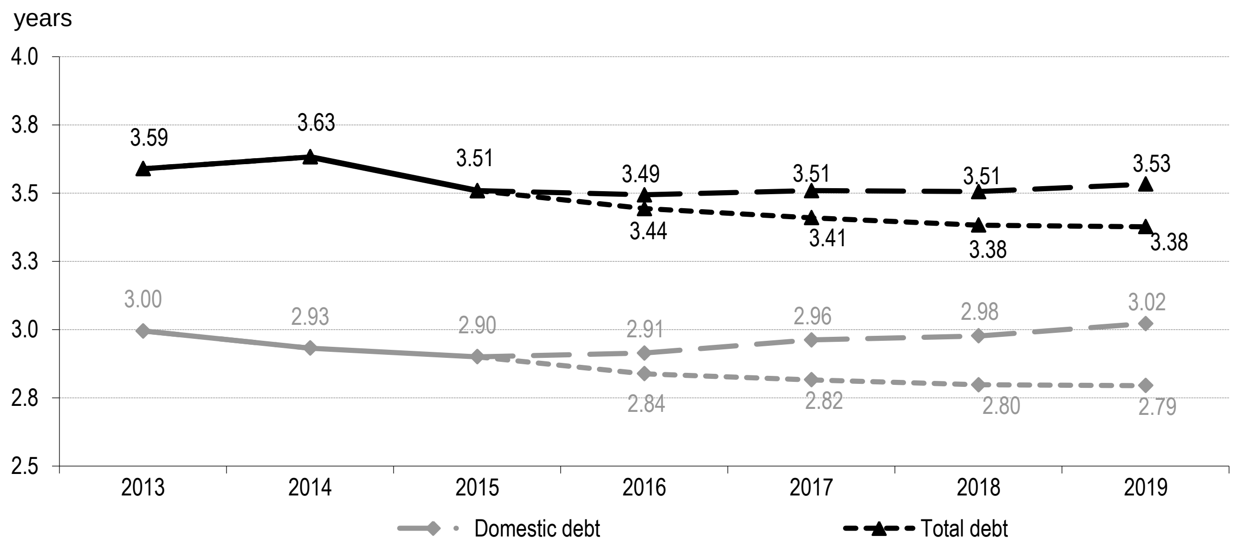
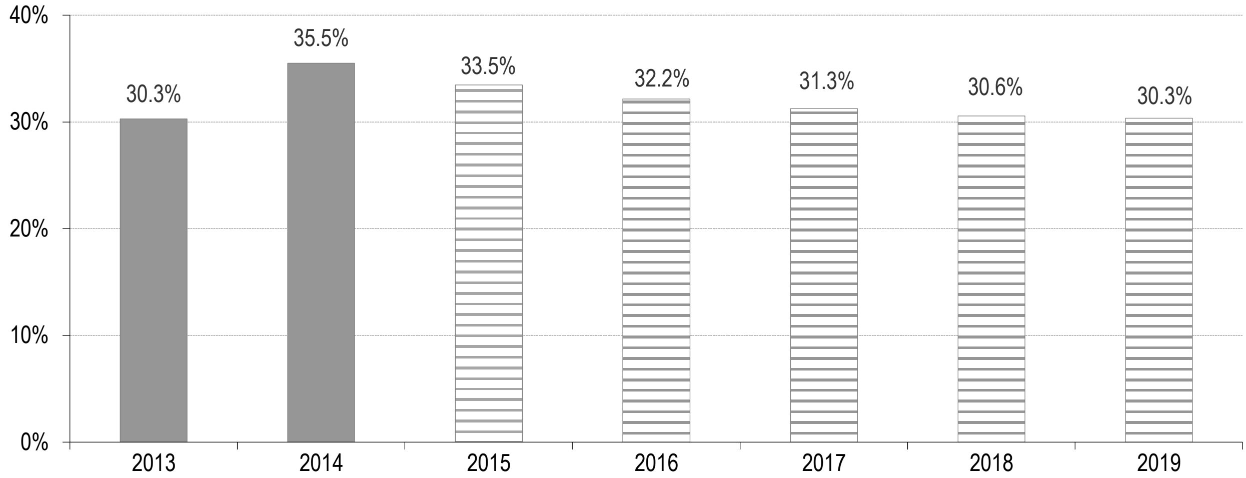


Chart 40. Share of foreign debt in the ST debt



VIII.3. Threats to the Strategy implementation

The main threats to the implementation of the presented *Strategy* are mainly associated with:

1. a macroeconomic situation in Poland varying from the assumed scenario, in particular, a slower GDP growth, higher interest rates, as well as volatility in foreign exchange rates;
2. international market circumstances, including:
   - slower than expected economic growth rate in Europe and in the USA,
   - capital withdrawal towards investments in core markets or other markets, resulting from normalisation of the monetary policy in the USA and economic growth constraints in China,
3. the risk of excessive growth of public debt and *general government* debt to the GDP ratio, resulting from:
   - higher State budget borrowing requirements depending, among others, on the trends in the Polish economy,
   - lower exchange rate of the Polish Zloty as compared to the assumptions of the *Strategy*,
   - considerable increase in debt sector entities other than ST, in particular, the LGUs,
   - 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
CIRS – *currency interest swap*
CDS – c*redit 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 Security Fund
GDP – Gross Domestic Product
GG – general government sector
IRS – *interest rate swap*
IFI – International Financial Institutions
IMF – International Monetary Fund
KFD – National Road Fund
LGUs – local government units
NBP – National Bank of Poland
OFE – Open Pension Funds
PFS – Public Finance Sector
SPZOZ – independent public health care units
ST – State Treasury
TS – Treasury securities
PD – Primary Dealers
VAT – value added tax
ZUS – Social Security 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:

$$ATR = \frac{\sum_{r \in R} r NZ_r + \sum_{t \in T} t NS_t + \sum_{j \in J} \frac{1}{2} NI_j I_0}{\sum_{r \in R} NZ_r + \sum_{t \in T} NS_t + \sum_{j \in J} NI_j I_0}$$

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. Yield of benchmark bond is the reference point for yields in a given maturity segment. Benchmark issues subject to trading on the electronic market Treasury BondSpot Poland are TS issues defined by the Minister of Finance, in particular fixed rate bonds, with maturity not less than one year and total face value not less than PLN 10 bn or on-the-run isuues with total face value not less than PLN 2 bn. When setting benchmarks on the Polish yield curve in Reuters and Bloomberg the criterion of time to maturity is applied.

2. *(portfolio)* target characteristics of the public debt portfolio, which constitutes a *reference portfolio* for the existing portfolio and determines 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/sellback – 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 market value of debt in particular currency.

Exchange rate risk – arises from the existence in the State Treasury debt instruments denominated and settled in foreign currencies. The exchange rate risk is manifested 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 value depends on the value of other assets so-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 to 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.

Public Debt – debt of State Treasury and public finance sector units after consolidation. Public finance sector includes:

- bodies of public authority, including bodies of government administration, bodies of state control and legal protection, courts and tribunals;
- local government units and their associations;
- budgetary units;
- local government budgetary entities;
- executive agencies;
- institutions of budgetary management;
- state special-purpose funds;
- Social Security Institution and funds under management of it;
- Agricultural Social Insurance Fund (KRUS) and funds under management of the President of KRUS;
- National Health Fund;
- independent public health care units;
- public universities;
- Polish Academy of Sciences and organizational units founded by it;
- state and local government cultural institutions and state film institutions;
- other state or local government legal persons founded under separated acts in order to execute public tasks, excluding enterprises, research institutes, banks and commercial companies.

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 financing borrowing needs on the financial market at rational cost.

State budget liquidity risk is managed on one hand by keeping safe reserve of funds at the lowest possible level (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 *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 incurring loans and granting guarantees 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 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. 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) ➢ definition of categories of financial liabilities; ➢ definition of general government sector.

Table 2. Limits on the public debt to GDP ratio in Public Finance Act

Public Finance Act
I. Legal procedures regarding limits on public debt to GDP ratio
1) 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; 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) 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,

Public Finance Act
h) 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;
2) **the ratio in year x is equal to or greater than 60%:** a) procedures provided in point 1, 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 are not applicable if the amount of debt determined by recalculating public debt using for the foreign currency denominated debt yearly average of NBP exchange rates and reducing it by the value of State budget liquid funds raised to finance borrowing requirements of the following year does not exceed the threshold of 55%.
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 transitional 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 total ratio of: ➢ instalments of loans and interest payable in this fiscal year, ➢ redemption of securities and interest (including discount) payable on them, ➢ potential payments resulting from sureties and guarantees granted, to planned revenues cannot exceed in the budgetary year and any other year following the budgetary year the arithmetical average for last three years of current revenues including proceeds from privatisation minus current expenditures to total revenues ratio;
g) Limitations on debt repayments of local government do not apply to: ➢ instalments of loans and interest payable on them drawn in connection with a programme, project or task co-financed with the EU funds; ➢ redemption of securities and interest (including discount) payable on them issued in connection with a programme, project or task co-financed with the EU funds; - but no later than 90 days after the end of the programme, project or task and receiving a refund; this cut-off date doesn't apply to liabilities incurred for national contribution; ➢ instalment of loans and redemption of securities and interest (including discount) payable on them incurred or issued to finance national contribution of a programme, project or task with the EU co-financing level exceeding 60%.

Table 3. Correction mechanism of the stabilising expenditure rule.

Public Finance Act
The correction amounts of the stabilizing expenditure rule pursuant to Article 112aa:
1) – 2 percentage points: ➢ the general government deficit in year x-2 exceeds GDP 3% (including costs of pension system reform) or

Public Finance Act
➢ the amount specified in article 38a point 3 of the Public Finance Act (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) exceeds in year x -2 GDP 48%.
2) – 1.5 percentage points: ➢ the general government deficit in year x-2 does not exceed GDP 3% (including costs of pension system reform) andthe amount specified in article 38a point 3 of the Public Finance Act exceeds in year x-2 GDP 43% but is lower or equal to GDP 48% and ➢ the forecasted dynamics of the real GDP for year x (assumed in the draft budget act for the year x) is not lower than the medium term average by over 2 percentage points;
➢ the general government deficit in year x-2 does not exceed GDP 3% (including costs of pension system reform) and ➢ the amount specified in article 38a point 3 of the Public Finance Act in year x-2 is lower or equal to GDP 43% and ➢ the sum of the differences between the general government nominal balance and the medium-term budgetary objective (MTO) exceeds in year x-2 - 6% of the GDP and ➢ the forecasted dynamics of the real GDP for year xn (assumed in the draft budget act for the year x) is not lower than the medium term average by over 2 percentage points;
3) + 1.5 percentage points: ➢ the general government deficit in year x-2 does not exceed GDP 3% (including costs of pension system reform) and ➢ the amount specified in article 38a point 3 of the Public Finance Act in year x-2 is lower or equal to GDP 43% and ➢ the sum of the differences between the general government nominal balance and the MTO exceeds in year x-2 6% of the GDP and ➢ the forecasted dynamics of the real GDP for year x (assumed in the draft budget act for the year x) is not higher than the medium term average by over 2 percentage points
4) in other cases there is no correction element

Table 4. 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*[1)] sector is defined in 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 are deemed non-marketable (f. ex. PKP PLKS.A., Port Lotniczy Łódź, health care institutions)	
➢ 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, which have not been lagged nor cancelled);	➢ securities; ➢ loans; ➢ cash and deposits;
differences in liabilities depending on regulations	
➢ matured payables;	➢ [4)] ➢ restructured or refinanced trade credits (including those with original maturity of one year or less) are included in loan category[5)]
3) valuation of liabilities denominated in foreign currencies	
➢ liabilities denominated in a foreign currency shall be converted into the national currency on the basis of the middle exchange rate applicable on the last working day	➢ liabilities denominated in a foreign currency, or exchanged from one foreign currency through contractual agreements to one or more other foreign currencies shall

Polish regulations	EU regulations
public debt	**general government debt**
of each period.	be converted into the other foreign currencies at the rate agreed on in those contracts and shall be converted into the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year.
4) 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) ESA2010 (Regulation (EU) No 549/2013 of the European Parliament and of the Council of May 21, 2013 on the European system of national and regional accounts in the European Union) states that an entity is classified to the general government sector if it is not a separate institutional unit from government or is a separate institutional unit controlled by general government and it is non-market. The ability to undertake market activity will be checked notably through the usual quantitative criterion, i.e. if the ratio of sales to production costs is above 50% , the unit is in principle market. However, in order to decide whether a producer that operates under the control of government is a market unit some qualitative criteria must also be taken into account. 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).
3) In compliance with Eurostat guidelines on sector classification of some infrastructure projects, general government debt figures may, under specified conditions, include capital expenditures of the projects in question (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.

Table 5. 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
	Greece		Οργανισμός Διαχείρισης Δημοσίου Χρέους
	Ireland		National Treasury Management Agency
	Latvia		Valsts Kase
	Germany		Finanzagentur GmbH
	Portugal		Instituto de Gestão do Crédito Público
	Slovakia		Agentúra pre riadenie dlhu a likvidity
	Cyprus	government	Υπουργείο Οικονομικών
	Estonia		Rahandusministeerium
	Spain		Ministerio de Economía y Hacienda
	Lithuania		Finansų Ministeria
	Luxemburg		Ministère des Finances
	Slovenia		Ministrstvo za finance
	Malta		Treasury Department
	Italy		Ministero dell'Ecomomia e delle Finanze
Other EU countries	Sweden	agency	Riksgälden
	Hungary		Államadósság Kezelő Központ Zrt.
	United Kingdom		Debt Management Office
	Denmark	bank	Danmarsk Nationalbank
	Bulgaria	government	Министерство на финансите
	Croatia		Ministarstvo Financija
	Czech Republic		Ministerstvo financí
	Poland		Ministerstwo Finansów
	Romania		Ministerul Economiei şi Finanţelor

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 power significant 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 separated 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 11 out of 18 member states in the Eurozone).

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 6.General government deficit, debt[1)] and yields on 10-year bonds[2)] in the EU countries in 2013-2014

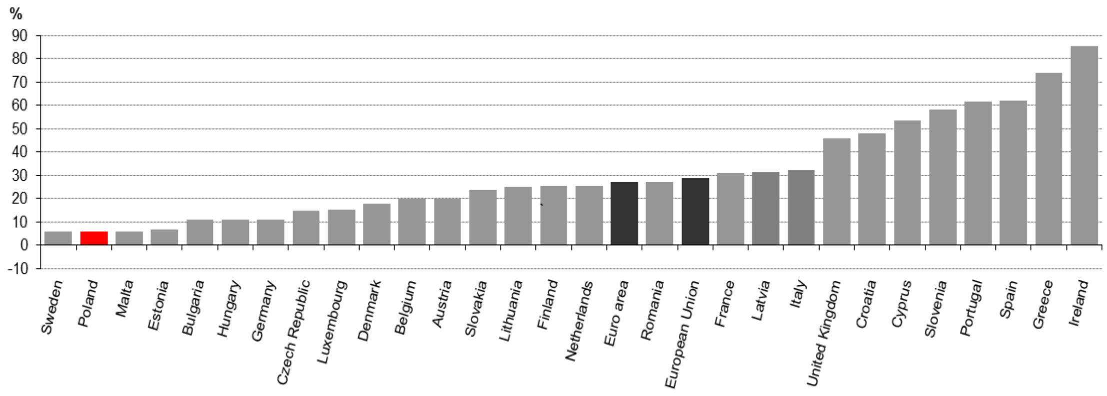
	2013			2014		
	GG balance	GG debt	10Y interest rate	GG balance	GG debt	10Y interest rate
	% PKB	% PKB	%	% PKB	% PKB	%
Greece	-12,3	175,0	10,05	-3,5	177,1	6,93
Italy	-2,9	128,5	4,32	-3,0	132,1	2,89
Portugal	-4,8	129,7	6,29	-4,5	130,2	3,75
Ireland	-5,8	123,2	3,79	-4,1	109,7	2,37
Cyprus	-4,9	102,2	6,50	-8,8	107,5	6,00
Belgium	-2,9	104,4	2,41	-3,2	106,6	1,71
Spain	-6,8	92,1	4,56	-5,8	97,7	2,72
France	-4,1	92,3	2,20	-4,0	95,6	1,67
Euro area[3)]	**-2,9**	**91,3**	**2,99**	**-2,4**	**92,2**	**2,04**
United Kingdom	-5,7	87,3	2,03	-5,7	89,3	2,14
European Union	**-3,2**	**85,5**	**2,96**	**-2,9**	**86,9**	**2,21**
Croatia	-5,4	80,8	4,68	-5,7	85,1	4,05
Austria	-1,3	80,9	2,01	-2,4	84,6	1,49
Slovenia	-14,9	70,3	5,81	-4,9	80,9	3,27
Hungary	-2,5	77,3	5,92	-2,6	76,9	4,81
Germany	0,1	77,3	1,57	0,7	74,9	1,16
Malta	-2,6	69,8	3,36	-2,1	68,5	2,61
Netherlands	-2,3	67,6	1,96	-2,3	67,9	1,45
Finland	-2,5	55,6	1,86	-3,2	59,3	1,45
Slovakia	-2,6	54,6	3,19	-2,9	53,6	2,07
Poland	**-4,0**	**55,7**	**4,03**	**-3,2**	**50,2**	**3,52**
Denmark	-1,1	45,0	1,75	1,2	45,1	1,32
Sweden	-1,4	38,7	2,12	-1,9	43,9	1,72
Czech Republic	-1,2	45,1	2,11	-2,0	42,6	1,58
Lithuania	-2,6	38,8	3,83	-0,7	40,8	2,79
Latvia	-0,7	38,2	3,34	-1,4	40,0	2,51
Romania	-2,2	38,0	5,41	-1,5	39,8	4,49
Bulgaria	-0,9	18,3	3,47	-2,8	27,6	3,35
Luxembourg	0,9	23,0	1,85	0,6	22,1	1,34
Estonia	-0,2	10,1	:	0,6	10,6	:

[1]) Data on general government balance and debt – Eurostat. Data on Poland – MF.

[2]) 10-year interest rate – average of average monthly 10-year T-bond yields from last twelve months, average in December, Eurostat.

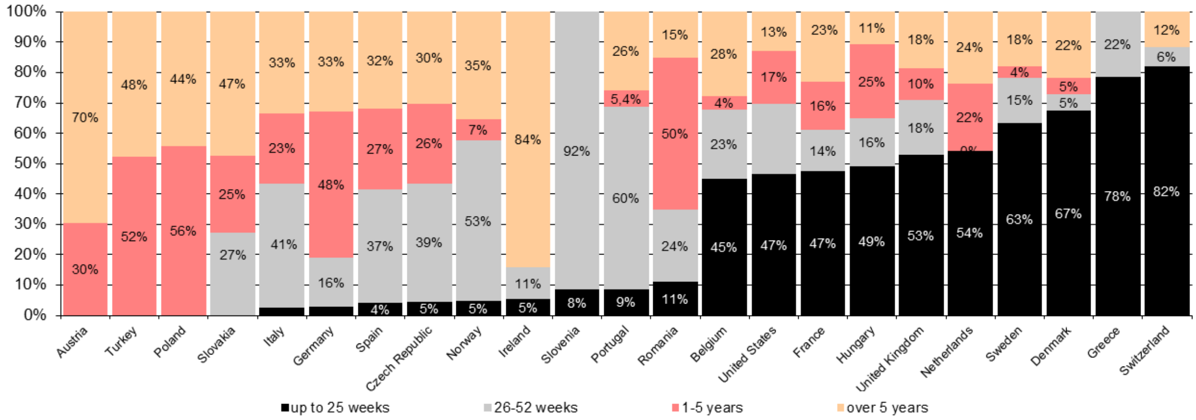
[3]) Data on 2013 for 17 countries and 2014 for 18 countries.

*Chart 1. Cumulative growth of general government debt to GDP ratio in years 2008-2014**



**) Difference between general government debt to GDP ratio at the end of the years 2014 and 2007.*

*Chart 2. T-bonds issuance in Poland and selected countries in terms of maturity in 2015 r.**



**) Auctions and syndicates from January 1, to September 18, 2015.*

Annex 5. Government debt rating of EU Member States and selected market data

Table 7. Long-term government debt rating in foreign currency of EU Member States as of September 21, 2015

	Standard&Poor's	**Fitch**	**Moody's**
Austria	AA+	AA+ ↓	Aaa
Belgium	AA	AA	Aa3
Bulgaria	BB+ ↓	BBB-	Baa2
Chroatia	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
Luxemburg	AAA	AAA	Aaa
Latvia	A-	A-	A3 ↑
Malta	BBB+	A	A3
Germany	AAA	AAA	Aaa
Poland	**A-**	**A-**	**A2**
Portugal	BB+ ↑	BB+	Ba1
Romania	BBB-	BBB-	Baa3
Slovakia	A+ ↑	A+	A2
Slovenia	A-	BBB+	Baa3 ↑
Sweeden	AAA	AAA	Aaa
Hungary	BB+ ↑	BB+	Ba1
United Kingdom	AAA	AA+	Aa1
Italy	BBB- ↓	BBB+	Baa2

Source: Reuters.

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

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

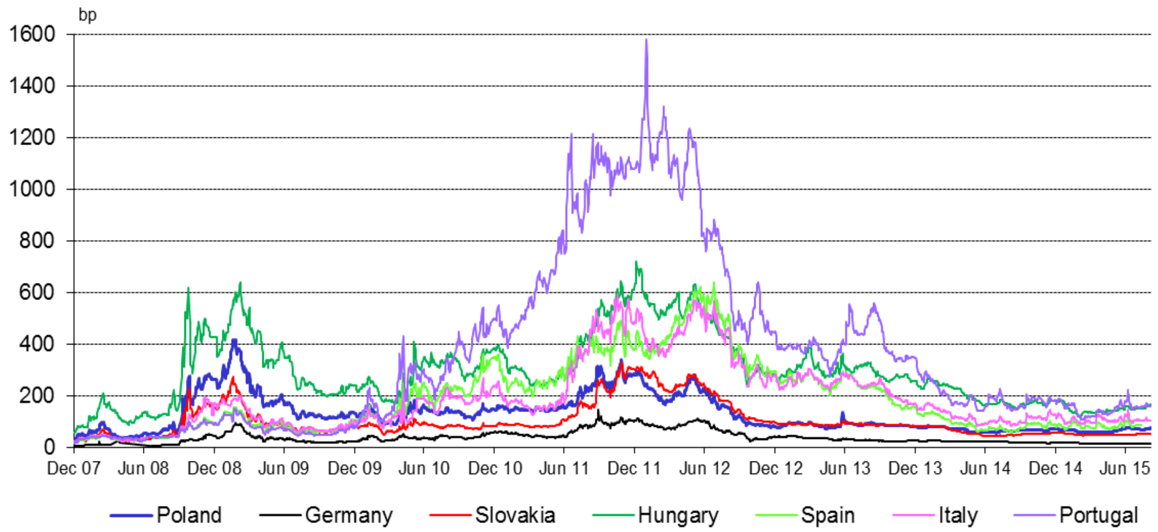


*Chart 4. Selected 10Y euro-denominated bond spread towards German bunds**

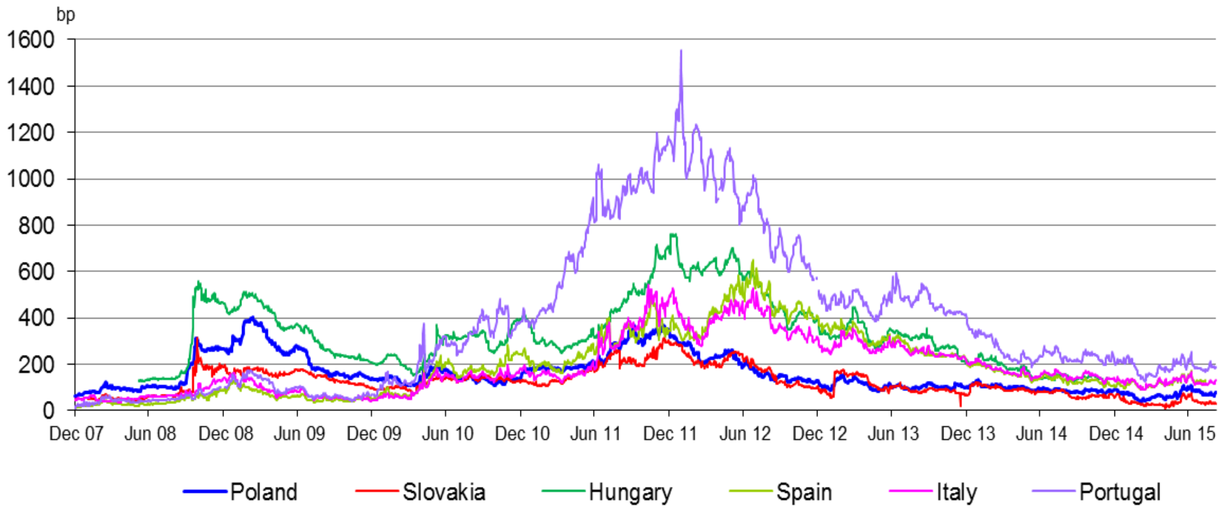


Chart 5.Polish zloty exchange rate against euro and dollar in years 2004-2015

Annex 6. Public debt In Poland – statistical annex

Table 8. Public debt in Poland in period 2004 – VI 2015

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	VI 2015
1. State Treasury debt												
a) PLN bn	402.9	440.2	478.5	501.5	569.9	631.5	701.9	771.1	793.9	838.0	779.9	817.8
domestic *	291.7	315.5	352.3	380.4	420.2	462.7	507.0	524.7	543.0	584.3	503.1	539.3
foreign *	111.2	124.7	126.2	121.1	149.7	168.8	194.8	246.4	250.9	253.8	276.9	278.5
b) GDP %	43.4%	44.7%	44.9%	42.3%	44.6%	46.4%	48.8%	49.6%	49.1%	50.4%	45.1%	-
2. Public debt												
a) PLN bn	431.4	466.6	506.3	527.4	597.8	669.9	747.9	815.3	840.5	882.3	826.8	858.2
b) GDP %	46.5%	47.4%	47.5%	44.4%	46.8%	49.2%	52.0%	52.5%	52.0%	53.1%	47.8%	-
3. General government debt (EU methodology)												
a) PLN bn	419.8	459.7	501.9	524.4	595.4	678.3	770.6	851.7	878.8	926.5	867.0	895.7
b) GDP %	45.3%	46.7%	47.1%	44.2%	46.6%	49.8%	53.6%	54.8%	54.4%	55.7%	50.2%	-

**) place of issue criterion*

Table 9. GDP and exchange rates in period 2004 – VI 2015

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	VI 2015
1. Gross Domestic Product												
PLN bn	927.3	984.9	1 065.2	1 186.8	1 277.3	1 361.8	1 437.4	1 553.6	1 615.9	1 662.7	1 728.7	-
2. Exchange rate (end of period)												
a) EUR	4.0790	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	4.4168	4.0882	4.1472	4.2623	4.1944
b) USD	2.9904	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	3.4174	3.0996	3.0120	3.5072	3.7645

*Table 10. Unconsolidated public finance sector debt **

Public finance sector debt		2013		2014				2015			
		XII	Structure	Change XII 2013 - XII 2014		XII	Structure	Change XII 2014 - VI 2015		VI	Structure
		PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%
UNCONSOLIDATED		**945,220.7**	**100.0%**	**-46,373.0**	**-4.9%**	**898,847.7**	**100.0%**	**38,976.7**	**4.3%**	**937,824.4**	**100.0%**
1.	**Central government sector debt**	**839,907.1**	**88.9%**	**-58,124.2**	**-6.9%**	**781,782.9**	**87.0%**	**37,915.0**	**4.8%**	**819,697.8**	**87.4%**
1.1.	State Treasury	838,025.4	88.7%	-58,087.0	-6.9%	779,938.4	86.8%	37,862.3	4.9%	817,800.7	87.2%
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	579.8	0.1%	-47.3	-8.2%	532.5	0.1%	-23.2	-4.4%	509.4	0.1%
1.4.	Independent public health care units	1,261.4	0.1%	28.2	2.2%	1,289.6	0.1%	80.2	6.2%	1,369.8	0.1%
1.5.	State institutions of culture	13.4	0.0%	-4.4	-33.1%	8.9	0.0%	-0.8	-9.1%	8.1	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	3.8	0.0%	2.3	59.9%	6.1	0.0%	-3.3	-54.7%	2.8	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	23.3	0.0%	-16.1	-68.9%	7.3	0.0%	-0.2	-2.1%	7.1	0.0%
2.	**Local government sector debt**	**74,056.0**	**7.8%**	**3,088.0**	**4.2%**	**77,144.1**	**8.6%**	**-821.8**	**-1.1%**	**76,322.3**	**8.1%**
2.1.	Local government units and their associations	69,492.7	7.4%	2,955.6	4.3%	72,448.2	8.1%	-1,145.3	-1.6%	71,302.9	7.6%
2.2.	Local earmarked funds	3,937.6	0.4%	101.2	2.6%	4,038.8	0.4%	294.0	7.3%	4,332.8	0.5%
2.3.	Independent public health care units	81.1	0.0%	5.5	6.8%	86.6	0.0%	-19.3	-22.3%	67.3	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	544.7	0.1%	25.8	4.7%	570.4	0.1%	48.8	8.6%	619.3	0.1%
3.	**Social security sector debt**	**31,257.6**	**3.3%**	**8,663.1**	**27.7%**	**39,920.8**	**4.4%**	**1,883.6**	**4.7%**	**41,804.3**	**4.5%**
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	158.4%	0.0	0.0%	0.0	-56.0%	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	31,257.6	3.3%	8,663.1	27.7%	39,920.7	4.4%	1,883.6	4.7%	41,804.3	4.5%
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 22, 2015*

*Table 11. Consolidated public finance sector debt **

Public finance sector debt		2013		2014				2015			
		XII	Structure	Change XII 2013 - XII 2014		XII	Structure	Change XII 2014 - VI 2015		VI	Structure
		PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%	PLN mn	%
CONSOLIDATED		**882,293.0**	**100.0%**	**-55,521.3**	**-6.3%**	**826,771.7**	**100.0%**	**31,379.9**	**3.8%**	**858,151.6**	**100.0%**
1.	**Central government sector debt**	**813,515.3**	**92.2%**	**-58,522.6**	**-7.2%**	**754,992.7**	**91.3%**	**31,973.8**	**4.2%**	**786,966.5**	**91.7%**
1.1.	State Treasury	811,827.1	92.0%	-58,494.9	-7.2%	753,332.2	91.1%	31,931.8	4.2%	785,264.0	91.5%
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	531.9	0.1%	-54.1	-10.2%	477.8	0.1%	-17.9	-3.7%	459.9	0.1%
1.4.	Independent public health care units	1,133.5	0.1%	38.9	3.4%	1,172.5	0.1%	65.0	5.5%	1,237.4	0.1%
1.5.	State institutions of culture	8.3	0.0%	-5.8	-70.6%	2.4	0.0%	-1.4	-56.6%	1.1	0.0%
1.6.	Polish Academy of Science (PAN) and units established by it	2.1	0.0%	3.6	172.5%	5.7	0.0%	-3.5	-60.9%	2.2	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	12.4	0.0%	-10.3	-82.5%	2.2	0.0%	-0.3	-11.8%	1.9	0.0%
2.	**Local government sector debt**	**68,397.6**	**7.8%**	**3,262.5**	**4.8%**	**71,660.1**	**8.7%**	**-587.4**	**-0.8%**	**71,072.6**	**8.3%**
2.1.	Local government units and their associations	65,210.1	7.4%	3,053.9	4.7%	68,264.0	8.3%	-871.7	-1.3%	67,392.3	7.9%
2.2.	Local earmarked funds	3,129.1	0.4%	201.8	6.5%	3,331.0	0.4%	278.9	8.4%	3,609.9	0.4%
2.3.	Independent public health care units	54.5	0.0%	7.2	13.3%	61.7	0.0%	-13.6	-22.1%	48.1	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	3.8	0.0%	-0.5	-12.4%	3.4	0.0%	19.0	562.8%	22.3	0.0%
3.	**Social security sector debt**	**380.1**	**0.0%**	**-261.2**	**-68.7%**	**118.9**	**0.0%**	**-6.4**	**-5.4%**	**112.5**	**0.0%**
3.1.	Social Insurance Institution (ZUS)	0.0	0.0%	0.0	158.4%	0.0	0.0%	0.0	-56.0%	0.0	0.0%
3.2.	Funds managed by Social Insurance Institution	380.1	0.0%	-261.2	-68.7%	118.9	0.0%	-6.4	-5.4%	112.4	0.0%
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 22, 2015*

Table 12. State Treasury debt by instrument according to the place of issue criterion (PLN million)

	XII 2013	XIII 2014	VI 2015	structure VI 2015 %	change XII 2014 – XII 2013		change VI 2015 - XII 2014	
					PLN mn	%	PLN mn	%
State Treasury Debt	**838 025,4**	**779 938,4**	**817 800,7**	**100,0**	**-58 087,0**	**-6,9**	**37 862,3**	**4,9**
I. Domestic debt	**584 273,0**	**503 079,0**	**539 257,6**	**65,9**	**-81 194,0**	**-13,9**	**36 178,5**	**7,2**
1. Treasury Securities issued in domestic market	574 338,0	491 841,3	518 033,4	63,3	-82 496,7	-14,4	26 192,1	5,3
1.1. Marketable securities	565 703,8	482 942,8	508 923,4	62,2	-82 761,0	-14,6	25 980,6	5,4
fixed rate	421 166,5	369 850,0	386 793,9	47,3	-51 316,5	-12,2	16 943,9	4,6
OK bonds	61 527,1	47 075,7	54 790,0	6,7	-14 451,4	-23,5	7 714,3	16,4
PS bonds	172 794,2	149 302,1	151 222,5	18,5	-23 492,1	-13,6	1 920,4	1,3
DS bonds	148 565,1	140 568,2	147 403,7	18,0	-7 996,9	-5,4	6 835,5	4,9
WS bonds	38 280,0	32 904,0	33 377,6	4,1	-5 376,0	-14,0	473,7	1,4
fixed rate - inflation-linked	30 050,3	7 779,0	7 730,4	0,9	-22 271,3	-74,1	-48,6	-0,6
IZ bonds	30 050,3	7 779,0	7 730,4	0,9	-22 271,3	-74,1	-48,6	-0,6
floating rate	114 487,0	105 313,8	114 399,1	14,0	-9 173,3	-8,0	9 085,4	8,6
TZ bonds	360,5	70,6	0,0	0,0	-289,9	-80,4	-70,6	-100,0
WZ bonds	114 126,5	105 243,1	114 399,1	14,0	-8 883,4	-7,8	9 156,0	8,7
1.2. Savings bonds	8 634,2	8 898,5	9 110,0	1,1	264,3	3,1	211,5	2,4
fixed rate	2 685,5	2 719,6	2 930,0	0,4	34,1	1,3	210,4	7,7
KOS bonds	873,1	485,4	481,4	0,1	-387,7	-44,4	-4,1	-0,8
DOS bonds	1 812,4	2 234,2	2 448,6	0,3	421,8	23,3	214,4	9,6
floating rate	5 948,7	6 178,9	6 179,9	0,8	230,2	3,9	1,1	0,0
TOZ bonds	258,6	456,4	510,7	0,1	197,8	76,5	54,3	11,9
COI bonds	1 848,3	1 807,4	1 740,0	0,2	-40,9	-2,2	-67,4	-3,7
EDO bonds	3 841,7	3 915,0	3 929,3	0,5	73,3	1,9	14,2	0,4
2. Other domestic debt	9 935,1	11 237,8	21 224,2	2,6	1 302,7	13,1	9 986,4	88,9
deposits	9 918,5	11 218,6	21 208,8	2,6	1 300,1	13,1	9 990,2	89,1
matured payables	13,1	15,7	11,8	0,0	2,6	20,0	-3,8	-24,4
other	3,6	3,5	3,5	0,0	0,0	-0,7	0,0	-0,9
II. Foreign debt	**253 752,3**	**276 859,4**	**278 543,1**	**34,1**	**23 107,0**	**9,1**	**1 683,7**	**0,6**
1. Treasury securities issued in international markets	193 781,9	208 420,1	212 046,7	25,9	14 638,2	7,6	3 626,6	1,7
1.1. Marketable securities	193 781,9	208 420,1	212 046,7	25,9	14 638,2	7,6	3 626,6	1,7
fixed rate	192 267,4	206 803,9	210 223,3	25,7	14 536,5	7,6	3 419,3	1,7
EUR	120 069,7	127 536,5	129 699,2	15,9	7 466,8	6,2	2 162,7	1,7
USD	42 372,2	52 066,5	54 378,2	6,6	9 694,3	22,9	2 311,7	4,4
CHF	16 654,4	14 356,0	12 649,0	1,5	-2 298,3	-13,8	-1 707,1	-11,9
JPY	13 171,1	12 844,9	13 496,9	1,7	-326,2	-2,5	652,0	5,1
floating rate	1 514,5	1 616,2	1 823,4	0,2	101,7	6,7	207,2	12,8
USD	246,4	286,9	308,0	0,0	40,5	16,4	21,0	7,3
CHF	1 268,1	1 329,3	1 515,5	0,2	61,2	4,8	186,2	14,0
2. Loans	59 970,4	68 439,2	66 493,1	8,1	8 468,8	14,1	-1 946,1	-2,8
fixed rate	19 078,6	18 400,6	17 445,8	2,1	-678,0	-3,6	-954,8	-5,2
EUR	18 991,9	18 383,6	17 445,8	2,1	-608,4	-3,2	-937,8	-5,1
JPY	86,6	17,0	0,0	0,0	-69,6	-80,4	-17,0	-100,0
floating rate	40 891,8	50 038,7	49 047,3	6,0	9 146,8	22,4	-991,4	-2,0
EUR	40 891,8	50 038,7	49 047,3	6,0	9 146,8	22,4	-991,4	-2,0
3. Other foreign debt	0,0	0,0	3,3	0,0	0,0	-100,0	3,3	-

Table 13. State Treasury debt by holder (PLN million)

	XII 2013	XII 2014	VI 2015	structure VI 2015 %	change XII 2014 – XII 2013		change VI 2015 - XII 2014	
					PLN mn	%	PLN mn	%
State Treasury debt	**838 025,4**	**779 938,4**	**817 800,7**	**100,0**	**-58 087,0**	**-6,9**	**37 862,3**	**4,9**
I. State Treasury debt towards residents	**403 314,7**	**323 045,9**	**349 932,9**	**42,8**	**-80 268,9**	**-19,9**	**26 887,0**	**8,3**
Domestic banking sector	**125 813,6**	**165 722,6**	**179 364,0**	**21,9**	**39 909,0**	**31,7**	**13 641,4**	**8,2**
1. TS issued in domestic market	114 686,2	150 800,1	166 258,0	20,3	36 113,8	31,5	15 457,9	10,3
1.1.Marketable TS	114 686,2	150 800,1	166 258,0	20,3	36 113,8	31,5	15 457,9	10,3
OK bonds	15 349,5	15 410,6	23 226,4	2,8	61,2	0,4	7 815,8	50,7
PS bonds	31 870,3	41 460,0	45 386,9	5,5	9 589,7	30,1	3 926,9	9,5
DS bonds	18 180,2	23 821,7	22 624,1	2,8	5 641,5	31,0	-1 197,5	-5,0
WS bonds	2 223,9	2 976,4	3 050,4	0,4	752,4	33,8	74,1	2,5
IZ bonds	677,0	838,9	931,0	0,1	161,9	23,9	92,1	11,0
TZ bonds	0,0	0,0	0,0	0,0	0,0	-	0,0	-
WZ bonds	46 385,4	66 292,5	71 039,1	8,7	19 907,2	42,9	4 746,5	7,2
1.2. Savings bonds	0,0	0,0	0,0	0,0	0,0	-	0,0	-
KOS 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	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	11 127,4	14 922,6	13 106,0	1,6	3 795,2	34,1	-1 816,5	-12,2
Domestic non-banking sector	**277 501,1**	**157 323,2**	**170 568,9**	**20,9**	**-120 177,9**	**-43,3**	**13 245,7**	**8,4**
1. TS issued in domestic market	266 493,4	145 055,2	148 067,7	18,1	-121 438,2	-45,6	3 012,4	2,1
1.1.Marketable TS	257 874,8	136 172,0	138 971,0	17,0	-121 702,8	-47,2	2 799,1	2,1
OK bonds	20 335,7	14 848,5	14 416,4	1,8	-5 487,1	-27,0	-432,2	-2,9
PS bonds	74 388,2	39 477,9	40 050,0	4,9	-34 910,3	-46,9	572,1	1,4
DS bonds	64 414,5	37 296,5	36 660,1	4,5	-27 118,0	-42,1	-636,5	-1,7
WS bonds	19 200,7	15 456,8	16 053,7	2,0	-3 743,9	-19,5	596,8	3,9
IZ bonds	22 528,8	2 478,3	3 093,0	0,4	-20 050,5	-89,0	614,7	24,8
TZ bonds	359,8	70,6	0,0	0,0	-289,1	-80,4	-70,6	-100,0
WZ bonds	56 647,1	26 543,2	28 697,9	3,5	-30 103,9	-53,1	2 154,7	8,1
1.2. Savings bonds	8 618,6	8 883,3	9 096,6	1,1	264,6	3,1	213,4	2,4
KOS bonds	873,0	485,3	481,3	0,1	-387,7	-44,4	-4,1	-0,8
DOS bonds	1 810,8	2 232,4	2 446,3	0,3	421,6	23,3	213,9	9,6
TOZ bonds	258,3	456,1	510,4	0,1	197,8	76,6	54,3	11,9
COI bonds	1 839,9	1 802,0	1 737,0	0,2	-37,9	-2,1	-65,0	-3,6
EDO bonds	3 836,6	3 907,4	3 921,7	0,5	70,8	1,8	14,3	0,4
2. Other ST debt	9 935,1	11 237,8	21 224,2	2,6	1 302,7	13,1	9 986,4	88,9
deposits	9 918,5	11 218,6	21 208,8	2,6	1 300,1	13,1	9 990,2	89,1
matured payables	13,1	15,7	11,8	0,0	2,6	20,0	-3,8	-24,4
other	3,6	3,5	3,5	0,0	0,0	-0,7	0,0	-0,9
3. TS issued in foreign markets	1 072,6	1 030,2	1 277,0	0,2	-42,4	-4,0	246,8	24,0
II. State Treasury debt towards non-residents	**434 710,7**	**456 892,6**	**467 867,8**	**57,2**	**22 181,9**	**5,1**	**10 975,2**	**2,4**
1. TS issued in domestic market	193 158,3	195 986,0	203 707,7	24,9	2 827,6	1,5	7 721,8	3,9
1.1.Marketable TS	193 142,8	195 970,7	203 694,4	24,9	2 828,0	1,5	7 723,7	3,9
OK bonds	25 842,0	16 816,6	17 147,2	2,1	-9 025,5	-34,9	330,7	2,0
PS bonds	66 535,8	68 364,2	65 785,6	8,0	1 828,5	2,7	-2 578,6	-3,8
DS bonds	65 970,4	79 450,0	88 119,5	10,8	13 479,6	20,4	8 669,5	10,9
WS bonds	16 855,4	14 470,8	14 273,5	1,7	-2 384,6	-14,1	-197,2	-1,4
IZ bonds	6 844,5	4 461,8	3 706,4	0,5	-2 382,7	-34,8	-755,4	-16,9
TZ bonds	0,7	0,0	0,0	0,0	-0,7	-100,0	0,0	-
WZ bonds	11 094,0	12 407,4	14 662,1	1,8	1 313,4	11,8	2 254,7	18,2
1.2. Savings bonds	15,5	15,2	13,3	0,0	-0,3	-2,1	-1,9	-12,6
KOS bonds	0,1	0,1	0,1	0,0	0,0	11,4	0,0	0,0
DOS bonds	1,6	1,8	2,4	0,0	0,2	11,9	0,6	33,0
TOZ bonds	0,3	0,3	0,3	0,0	0,0	0,9	0,0	0,0
COI bonds	8,5	5,4	2,9	0,0	-3,1	-36,1	-2,5	-45,8
EDO bonds	5,1	7,6	7,6	0,0	2,5	50,1	0,0	-0,3
2. TS issued in foreign markets	181 581,9	192 467,3	197 663,6	24,2	10 885,4	6,0	5 196,3	2,7
3. Foreign loans	59 970,4	68 439,2	66 493,1	8,1	8 468,8	14,1	-1 946,1	-2,8
European Investment Bank	34 024,6	40 344,2	38 859,9	4,8	6 319,6	18,6	-1 484,3	-3,7
The World Bank	25 112,8	27 276,2	26 695,0	3,3	2 163,4	8,6	-581,2	-2,1
Council of Europe Development Bank	746,4	802,0	938,3	0,1	55,5	7,4	136,3	17,0
Paris Club	36,9	0,0	0,0	0,0	-36,9	-100,0	0,0	-
other loans	49,8	17,0	0,0	0,0	-32,8	-65,9	-17,0	-100,0
4. Other ST debt	0,0	0,0	3,3	0,0	0,0	-100,0	3,3	-

Table 14. Factors influencing change in the debt-to-GDP ratio

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Change in ST debt-to GDP ratio	-1.4	1.2	0.2	-2.7	2.4	1.8	2.5	0.8	-0.5	1.3	-5.3
State budget primary balance	2.0	0.3	-0.3	-1.0	-0.1	-0.6	0.7	-0.7	-0.7	0.0	-0.3
ST debt servicing costs (pension reform costs excluded)	2.0	2.0	2.0	1.7	1.4	1.6	1.6	1.5	1.7	1.6	1.4
Servicing costs on debt issued to finance pension reform	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.8	0.9	1.0	0.6
Cancellation of TS under pension system reform	-	-	-	-	-	-	-	-	-	-	-7.5
EU funds budget balance	-	-	-	-	-	-	0.7	0.8	0.2	-0.4	0.0
Funds transferred to FUS as a compensation for the contribution transferred to OPF	1.1	1.3	1.4	1.4	1.6	1.5	1.6	1.0	0.5	0.6	0.5
Net proceeds from privatisation	-0.8	-0.3	0.0	-0.1	-0.1	0.0	-0.6	-0.4	-0.2	-0.1	0.0
Public finance sector liquidity management	-	-	-	-	-	-	-	-1.6	-0.2	0.0	0.0
FX rate movements	-2.2	-0.3	-0.4	-0.9	2.0	-0.3	0.0	1.8	-1.3	-0.1	0.8
Nominal GDP growth	-4.0	-2.5	-3.4	-4.6	-3.0	-2.8	-2.4	-3.7	-1.9	-1.4	-1.9
Other factors*	-0.1	0.3	0.3	0.3	0.0	1.5	0.1	1.2	0.6	0.0	1.2