



Ministry  
of Finance

Republic  
of Poland

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

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**Ministry of Finance**  
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# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Macroeconomic assumptions

Item	2015	2016	2017	2018	2019	2020
Real GDP growth (%)	3.6	3.4	3.6	3.8	3.9	3.9
GDP in current prices (PLN bn)	1,789.7	1,857.6	1,954.2	2,068.1	2,197.3	2,341.1
CPI annual average (%)	-0.9	-0.5	1.3	1.8	2.2	2.5
USD/PLN (end of year)	3.90	3.96	3.93	3.85	3.80	3.73
EUR/PLN (end of year)	4.26	4.30	4.26	4.18	4.13	4.05

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Objective of the Strategy

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

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

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

- choice of instruments
- efficiency of the TS market

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Flexible approach to financing structure

### DOMESTIC FINANCING

- main source of financing the State budget borrowing requirements

### FOREIGN FINANCING

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

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

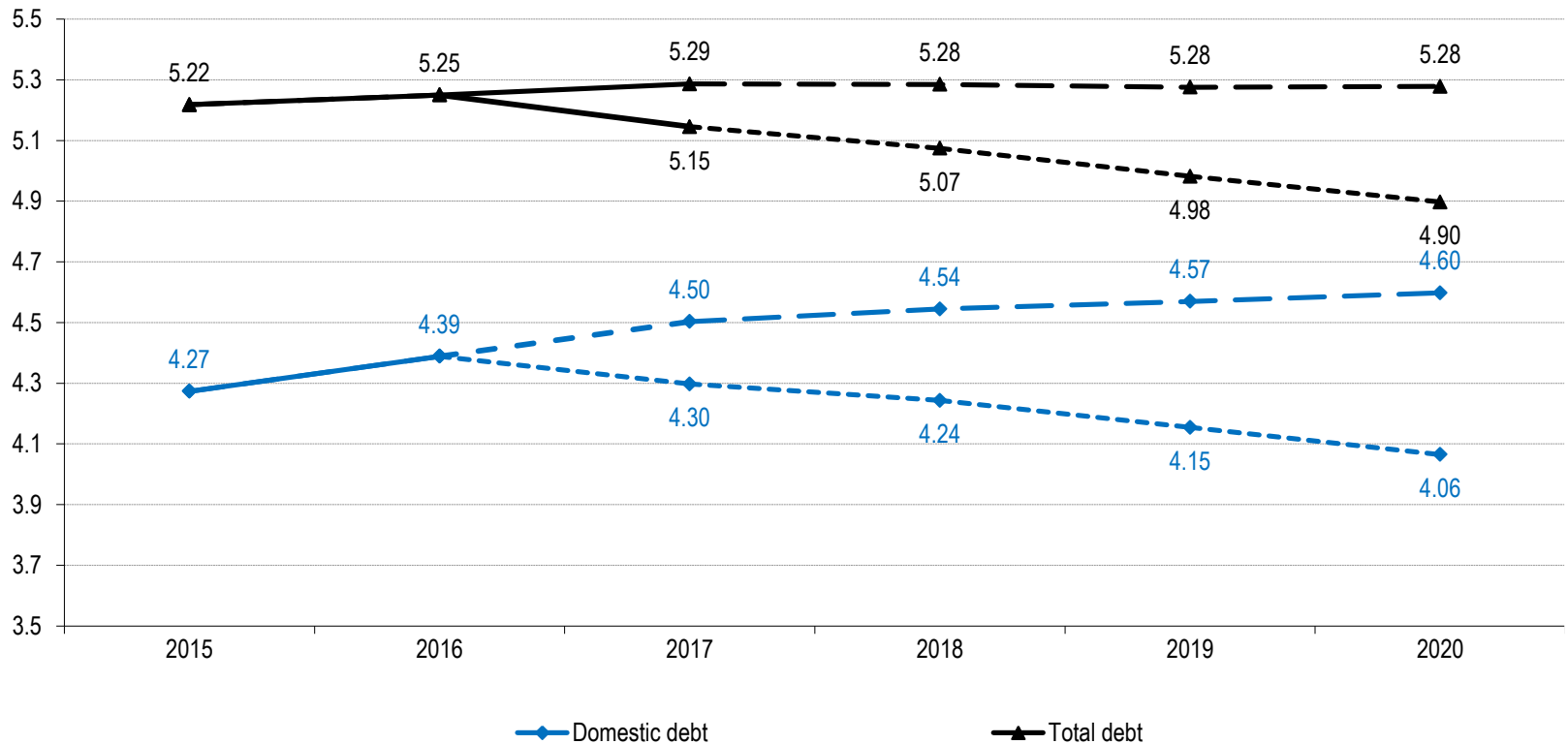
## Risk constraints of the Strategy's objective: refinancing risk (1)

- aiming at increasing the role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – at a pace dependent on market situation
- maintaining the average time to maturity (ATM) of domestic debt at no less than 4.0 years and aiming at increasing it to 4.5 years ultimately
- maintaining the ATM of State Treasury close to 5 years
- aiming at even distribution of debt redemptions

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

ATM of the State Treasury debt



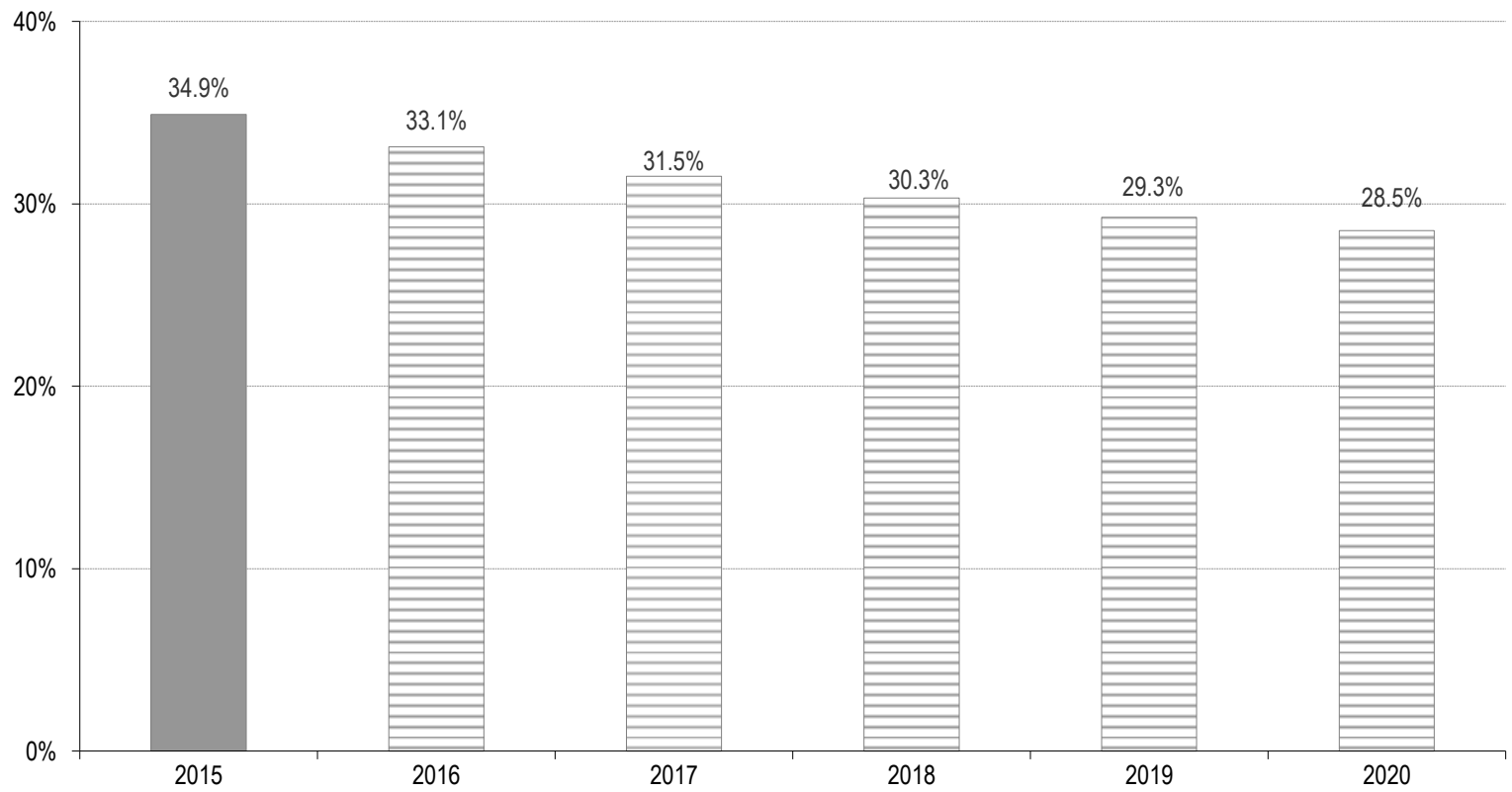
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## Risk constraints of the Strategy's objective: exchange rate risk (1)

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

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



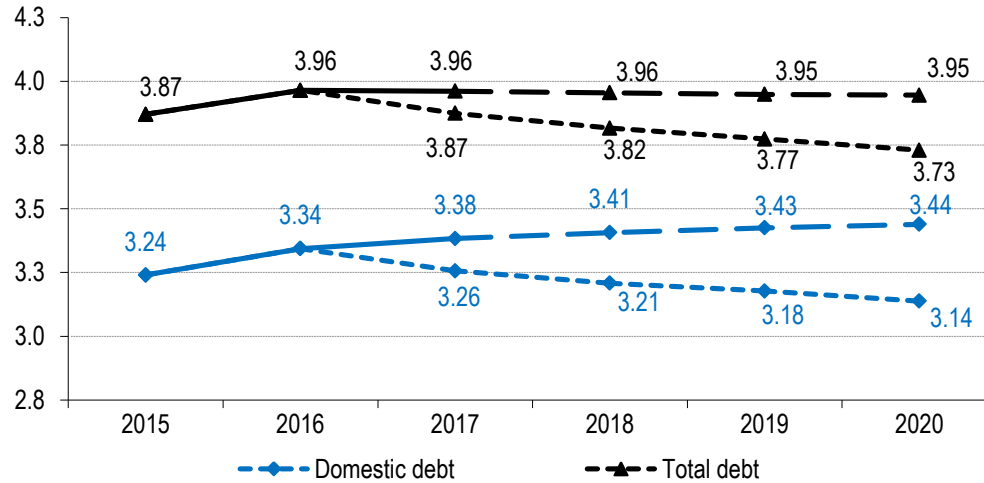
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## **Risk constraints of the Strategy's objective: interest rate risk (1)**

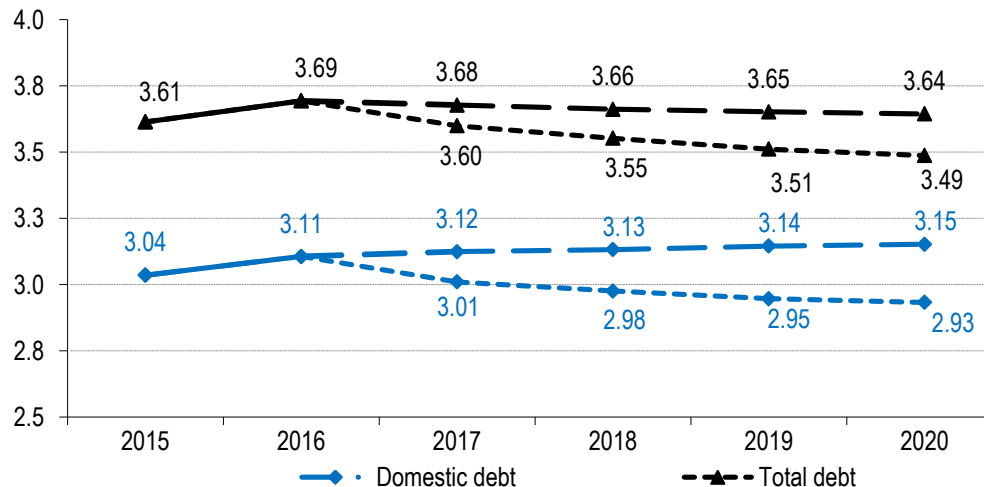
- maintaining average time to re-fixing (ATR) of the domestic debt in the range of 2.8-3.8 years
- separating management of interest rate and refinancing risks by using floating rate bonds and inflation-linked bonds, and possible use of derivatives
- current level of risk of the foreign currency debt does not pose a threat to the cost minimization objective: in mid 2016 ATR amounted to 5.4 years

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

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



*ATR of the ST debt*



*Duration of the ST debt*

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Strategy tasks (1)

### 1. Ensuring liquidity of the TS market

- issuing medium and long term fixed rate benchmark bonds (at least PLN 25bn) on the domestic market, while aiming at smoothing distribution of debt redemptions
- large liquid issues in the euro market and, depending on market circumstances, on the US dollar market
- adapting issuance policy to market circumstances

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Strategy tasks (2)

### 2. Ensuring efficiency of the TS market:

- issuance schedule adjusted to market and budgetary circumstances
- increasing the role of the participants of the Primary Dealers system
- removing technical and legal obstacles
- direct meetings with investors and consultations with market participants
- broadening the investor base, including non-deal roadshows in the key foreign markets
- active participation in conferences and seminars with investors
- improving electronic communication channels with both foreign and domestic investors

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Strategy tasks (3)

### 3. Ensuring transparency of the TS market

- promoting electronic market by adequate regulations in Primary Dealers system that ensure competitiveness and transparency
- transparent issuance policy, including TS issuance calendars in the horizon of current year, quarter and month

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Debt forecasts

Item	2015	2016	2017	2018	2019	2020
	(execution)					
<b>1. Public debt</b>						
a) PLN bn	877.3	953.9	1,021.4	1,069.6	1,122.7	1,158.8
b) GDP%	49.0	51.4	52.3	51.7	51.1	49.5
<b>2. Amount specified in the article 38 of the Public Finance Act*</b>						
a) PLN bn	847.1	925.4	998.3	1,046.8	1,098.2	1,134.2
b) GDP%	47.3	49.8	51.1	50.6	50.0	48.4
<b>3. General government debt</b>						
a) PLN bn	920.1	997.2	1,075.3	1,138.4	1,198.7	1,241.0
b) GDP%	51.4	53.7	55.0	55.0	54.6	53.0
<b>4. State Treasury debt servicing cost**</b>						
a) PLN bn	29.2	31.8	30.4	31.0 - 32.1	30.8 - 31.8	32.4 - 33.4
b) GDP%	1.63	1.71	1.56	1.50 - 1.55	1.40 - 1.45	1.38 - 1.43

*\*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.*

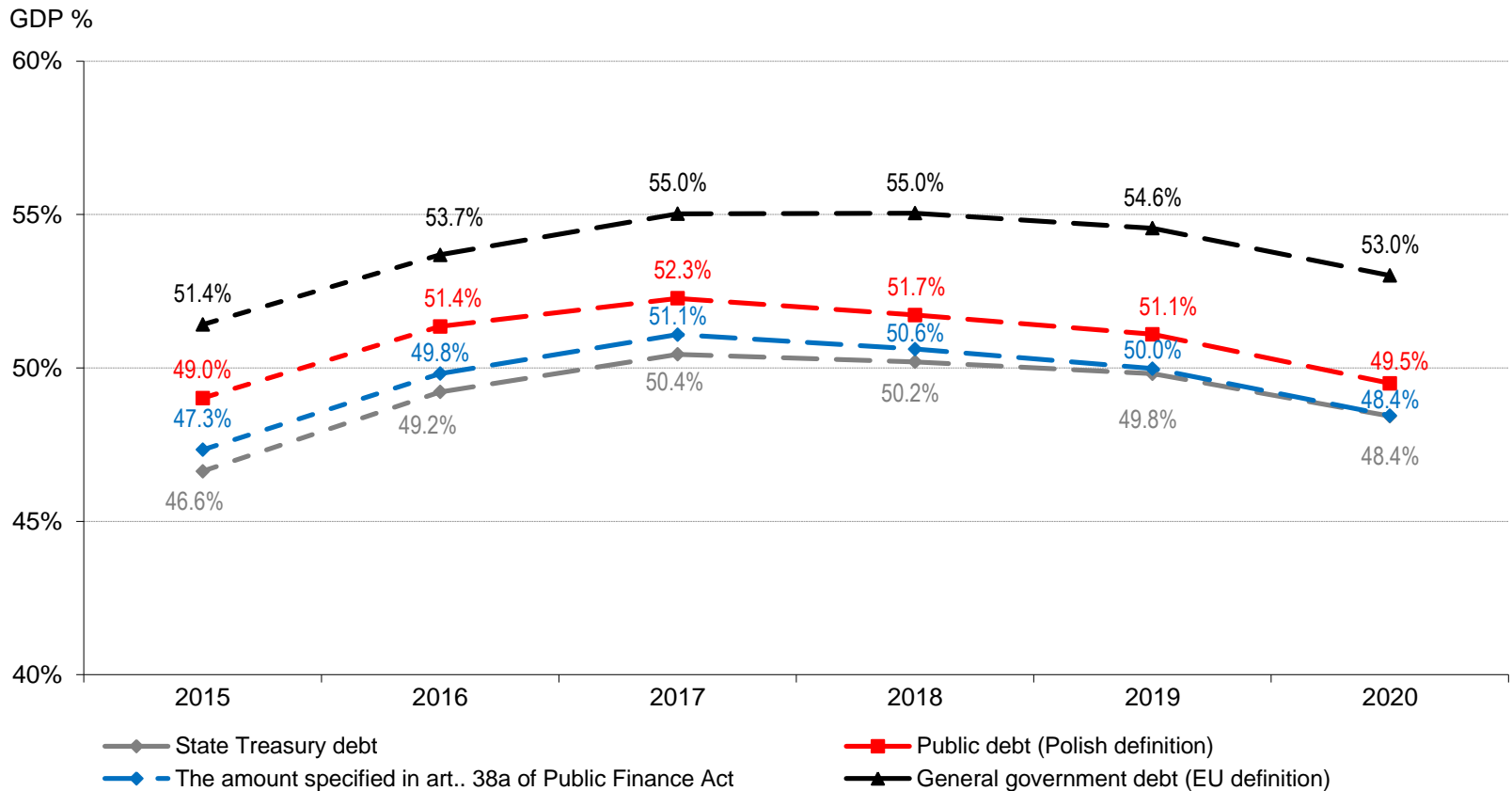
*\*\*Forecasts of the debt servicing costs for the years 2018-2020 account for the exchange rate risk provisions*

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Public debt volume

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

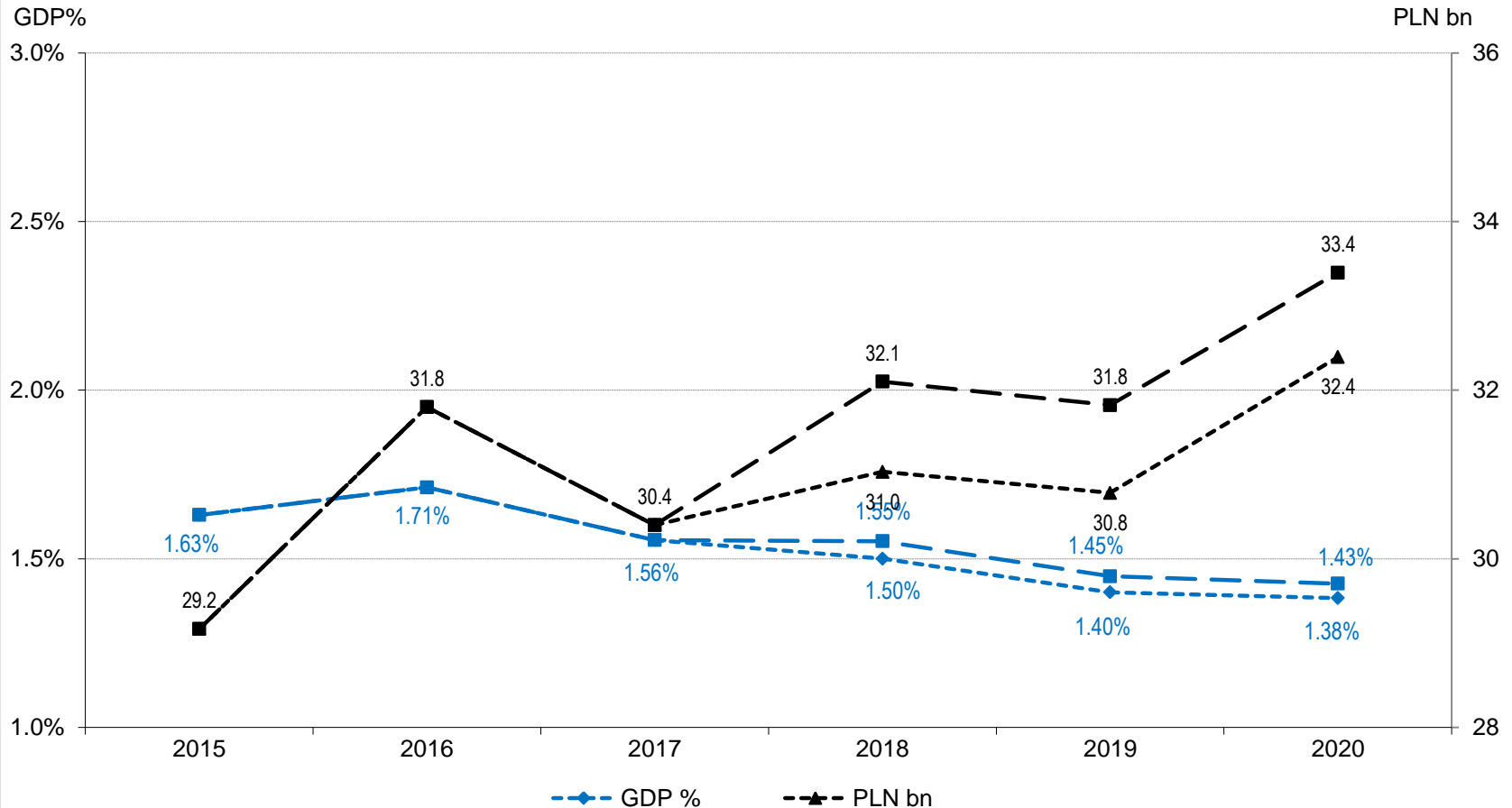
- peak at 52.3% in 2017 and decrease to 49.5% by 2020 (domestic definition)
- peak at 55.0% in 2017-18 and decrease to 53.0% by 2020 (EU definition)



# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## Debt servicing costs

The debt servicing costs-to-GDP ratio on a decreasing path from 2016 on, reaching 1.38%-1.43% by 2020 (depending on the exchange rate)



# The Public Finance Sector Debt Management Strategy in the years 2017-2020

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

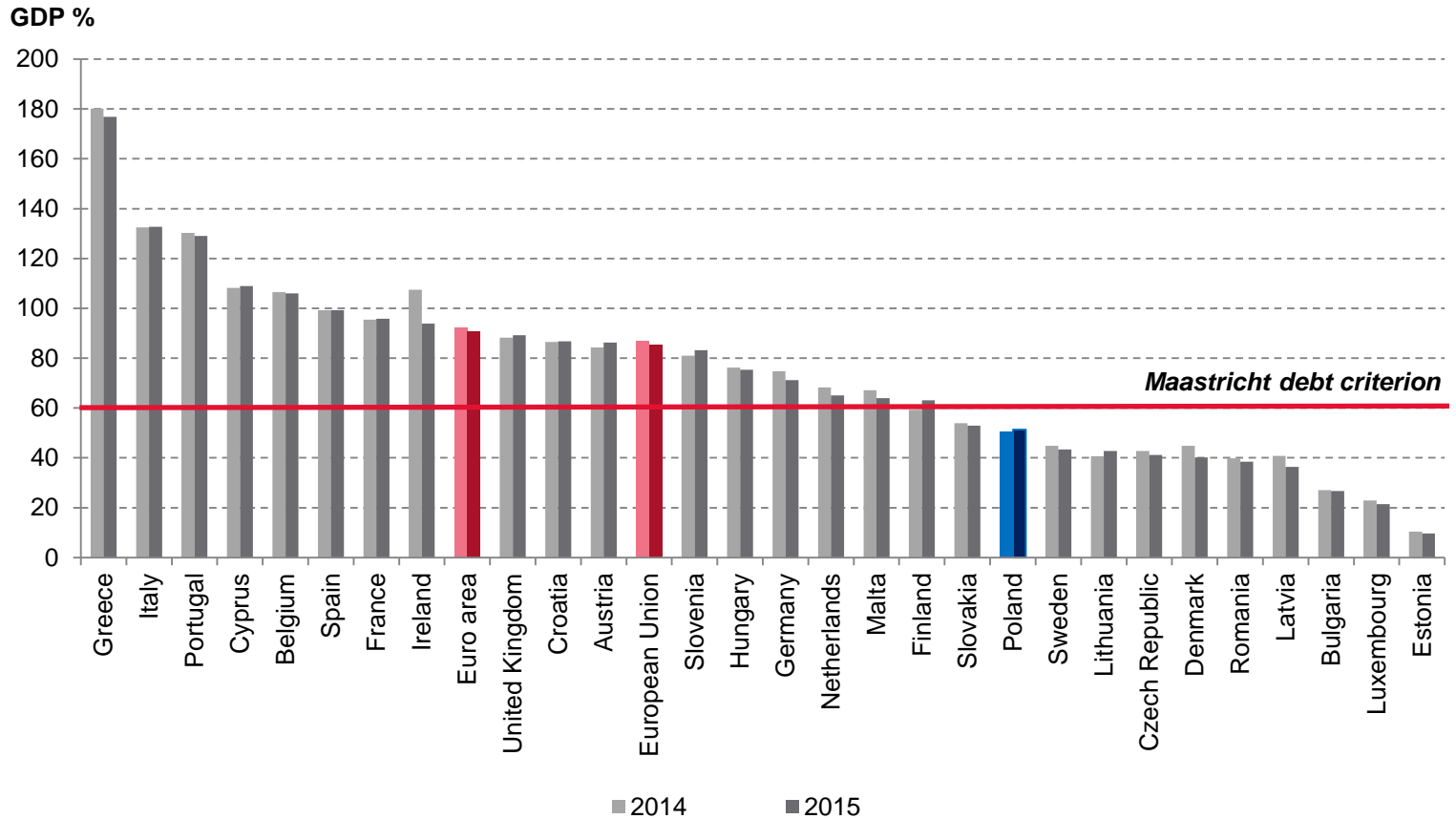
Item	2017	2018	2019	2020
<b>GDP and borrowing requirements</b>				
- GDP growth path lower by 1 p.p.	0.50%	0.99%	1.48%	1.91%
- borrowing requirements higher by PLN 10bn yearly	0.52%	1.01%	1.44%	1.82%
<b>FX rates</b>				
- 10 p.p. depreciation of PLN towards all currencies	1.63%	1.56%	1.49%	1.42%

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

Item	2017	2018	2019	2020
<b>1 p.p. increase in interest rates</b>				
- domestic debt (PLN bn)	1.7	3.4	4.2	5.6
- foreign debt (PLN bn)	0.5	0.9	1.1	1.5
- total debt (PLN bn)	2.2	4.2	5.2	7.1
<b>FX rates</b>				
- 1 p.p. depreciation of PLN towards all currencies (PLN m)	91.8	89.1	86.7	83.4

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

## General government debt in the EU member states



Source: Eurostat, data for Poland MoF

# The Public Finance Sector Debt Management Strategy in the years 2017-2020

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

	Standard&Poor's	Fitch	Moody's
Austria	AA+	AA+	Aa1
Belgium	AA	AA	Aa3
Bulgaria	BB+	BBB-	Baa2
Croatia	BB	BB	Ba2
Cyprus	BB	B+	B1
Czech Republic	AA-	A+	A1
Denmark	AAA	AAA	Aaa
Estonia	AA-	A+	A1
Finland	AA+	AA+	Aa1
France	AA	AA	Aa2
Germany	AAA	AAA	Aaa
Greece	B-	CCC	Caa3
Hungary	BBB-	BBB-	Ba1
Ireland	A+	A	A3
Italy	BBB-	BBB+	Baa2
Latvia	A-	A-	A3
Lithuania	A-	A-	Baa1
Luxembourg	AAA	AAA	Aaa
Malta	BBB+	A	A3
Netherlands	AAA	AAA	Aaa
<b>Poland</b>	<b>BBB+</b>	<b>A-</b>	<b>A2</b>
Portugal	BB+	BB+	Ba1
Romania	BBB-	BBB-	Baa3
Slovakia	A+	A+	A2
Slovenia	A	BBB+	Baa3
Spain	BBB+	BBB+	Baa2
Sweden	AAA	AAA	Aaa
United Kingdom	AA	AA	Aa1