



Ministry  
of Finance

Republic  
of Poland

# The Public Finance Sector Debt Management Strategy in the years 2015-18

12 Świętokrzyska St.  
00-916 Warsaw

tel.: +48 22 694 50 00  
fax :+48 22 694 50 08

[www.mf.gov.pl](http://www.mf.gov.pl)

**Ministry of Finance**  
**September 2014**

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Macroeconomic assumptions

Item	2013	2014	2015	2016	2017	2018
Real GDP growth (%)	1.6	3.3	3.4	3.7	3.9	4.0
GDP in current prices (PLN bn)	1,635.7	1,693.6	1,771.2	1,876.3	1,988.6	2,119.0
CPI annual average (%)	0.9	0.1	1.2	2.3	2.1	2.5
USD/PLN (end of year)	3.01	3.01	2.87	2.68	2.60	2.59
EUR/PLN (end of year)	4.15	4.08	3.90	3.65	3.54	3.52

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## 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 2015-2018

## Flexible approach to financing structure

### DOMESTIC FINANCING

- main source of financing the borrowing requirements of the budget

### FOREIGN FINANCING

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

## The Public Finance Sector Debt Management Strategy in the years 2015-2018

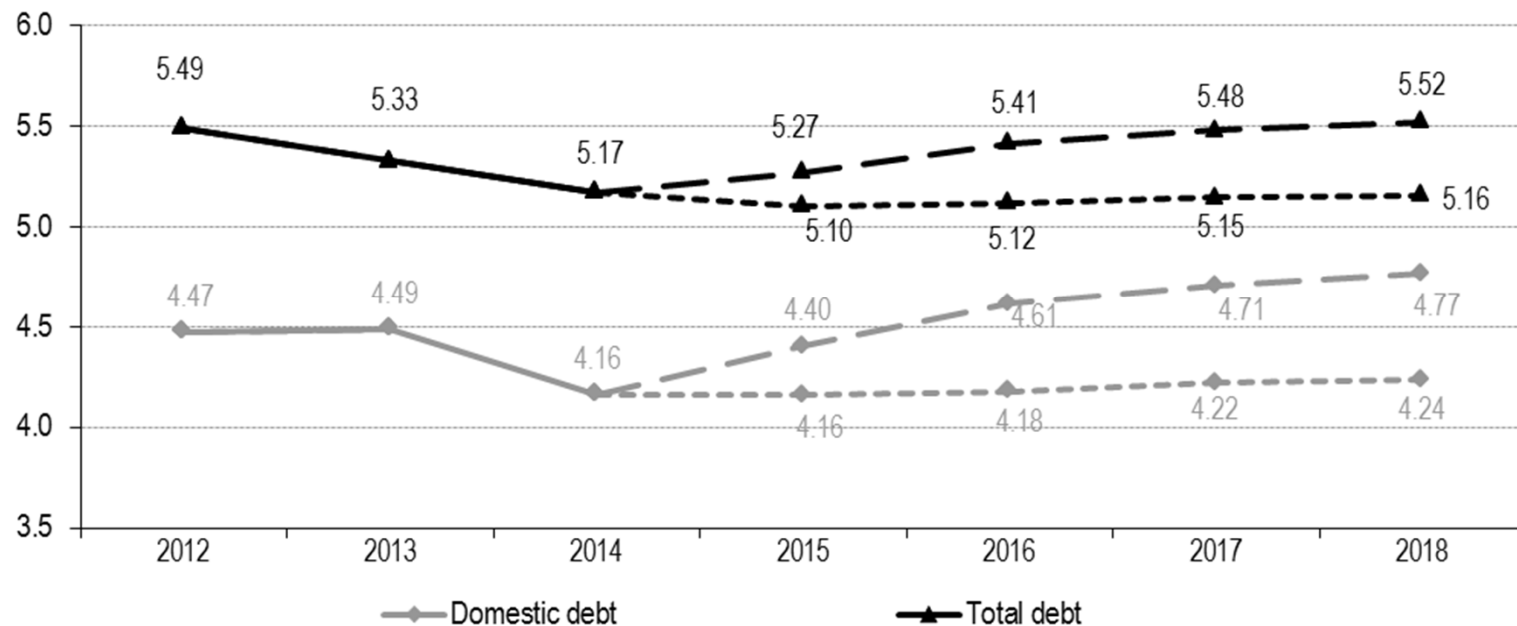
### Risk constraints of the Strategy's objective: refinancing risk (1)

- aiming at increasing the role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – at a pace dependent on investors' demand
- aiming at even distribution of redemptions and interest payments of domestic and foreign debt
- reaching and maintaining the average term to maturity (ATM) of domestic debt at about 4.5 years if the demand and the term structure of interest rates makes it possible
- maintaining the ATM of State Treasury debt  $\geq 5.0$  years

## The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

ATM of the State Treasury debt (in years)



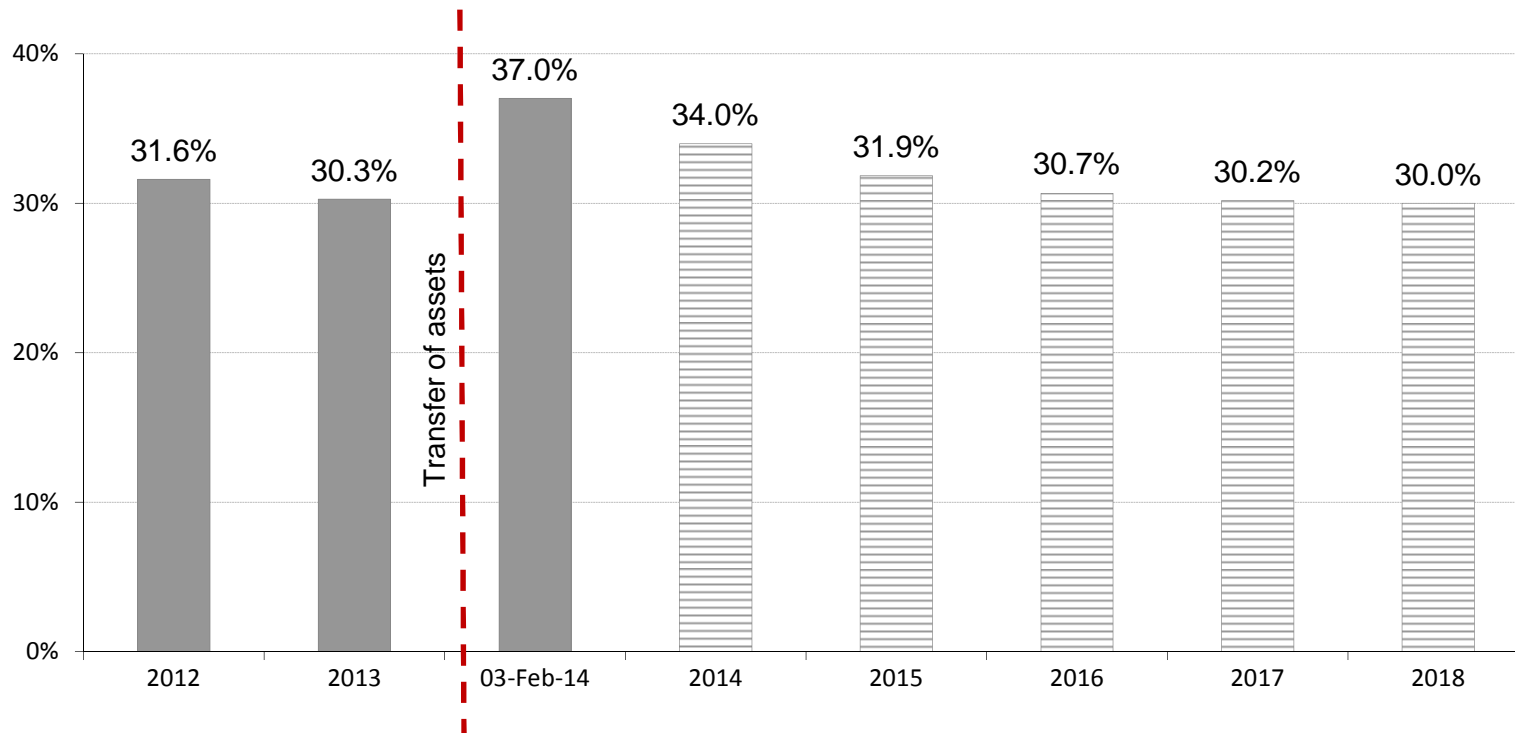
## The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

- reducing the share of foreign currency denominated debt in State Treasury debt to the target share of 30% (depending on the market conditions) after its temporary increase resulting from the cancellation of the part of domestic Treasury Securities in 2014
- possible use of derivatives to shape optimal structure of debt and financing of State budget borrowing requirements
- maintaining an effective share of the euro in foreign currency debt at  $\geq 70\%$ , with possible temporary deviations in case of limited access to euro market, its ineffectiveness or unfavorable situation in the derivatives market

## The Public Finance Sector Debt Management Strategy in the years 2015-2018

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



# The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

### DOMESTIC DEBT

- maintaining average time to refixing (ATR) in the range of 2.8-3.8 years
- possible separation of interest rate and refinancing risks management by using floating rate bonds, inflation-linked bonds and derivatives

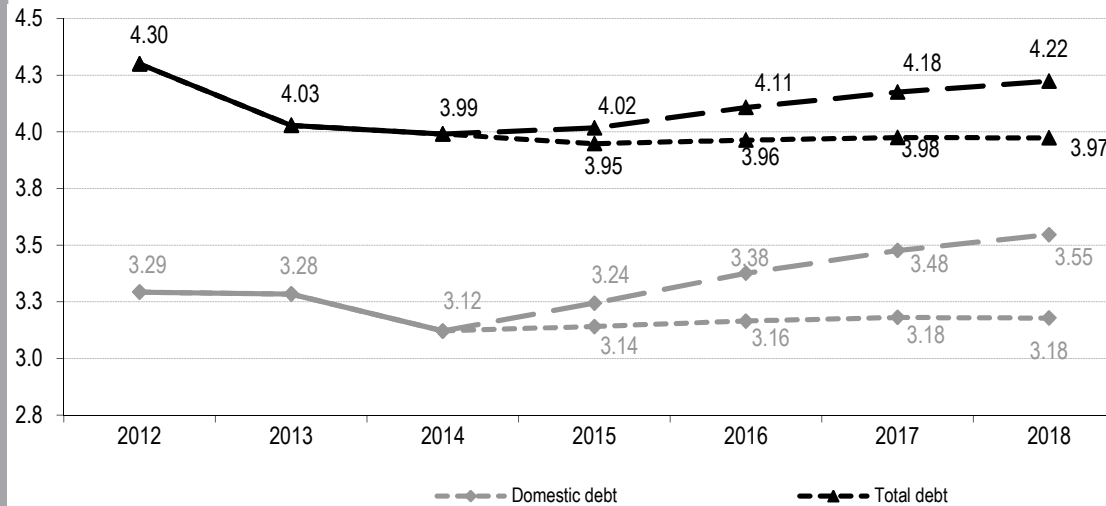
### FOREIGN DEBT

- current level of risk does not pose a threat to the cost minimization objective: in mid 2014 ATR amounted to 5.8 years

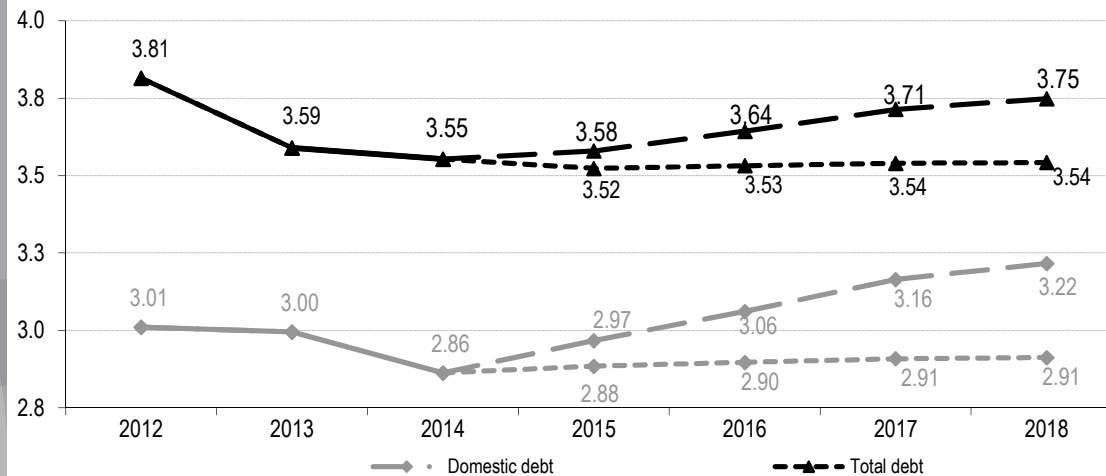
# The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

*ATR of the ST debt (in years)*



*Duration of the ST debt (in years)*



# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Strategy tasks (1)

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

- continuation of issuing medium and long term fixed rate benchmark bonds (at least PLN 20bn) on the domestic market
- neutralizing possible inadequacies in liquidity of certain bond issues by reopening those for which outstanding value significantly decreased as a result of changes in pension system (depending on investors' demand, market and budgetary conditions)
- large liquid issues in the euro and US dollar markets
- adapting issuance policy to market circumstances

### 2. To ensure efficiency of the TS market, including:

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

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Strategy tasks (2)

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

- transparent issuance policy, including TS issuance calendars, supply plans of TS and supply offers for individual auctions
- promoting the electronic market

### 4. To continue broadening of the scope of public finance sector liquidity management consolidation

- adding new groups of entities to the public finance sector units subject to the liquidity management consolidation
- utilisation of court deposits to finance State budget borrowing requirements by placing them with the account of Minister of Finance instead of commercial banks

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Debt forecasts

Item	2013	2014	2015*	2016	2017	2018
	(execution)					
<b>1. Public debt</b>						
a) bn PLN	882.3	807.5	850.0	880.1	915.2	943.1
b) GDP %	53.9%	47.7%	48.0%	46.9%	46.0%	44.5%
<b>2. The amount specified in article 38a point 3 of the Public Finance Act**</b>						
a) bn PLN	864.8	788.1	840.2	873.2	901.9	929.2
b) GDP %	52.9%	46.5%	47.4%	46.5%	45.4%	43.9%
<b>3. General government debt</b>						
a) bn PLN	934.6	848.5	899.3	940.5	985.3	1028.6
b) GDP %	57.1%	50.1%	50.8%	50.1%	49.5%	48.5%
<b>4. State Treasury debt servicing costs***</b>						
a) bn PLN	42.5	36.2	32.3	31.7 - 33.1	32.5 - 33.8	33.6 - 35.0
b) GDP %	2.6%	2.1%	1.8%	1.69% - 1.76%	1.63% - 1.70%	1.58% - 1.65%

\*Forecast for the year 2015 is based on the assumption that the execution of the budget deficit in this year will be equal to the limit from the Budget Act. It is expected that lower actual execution will lead to the lower increase in public debt.

\*\*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.

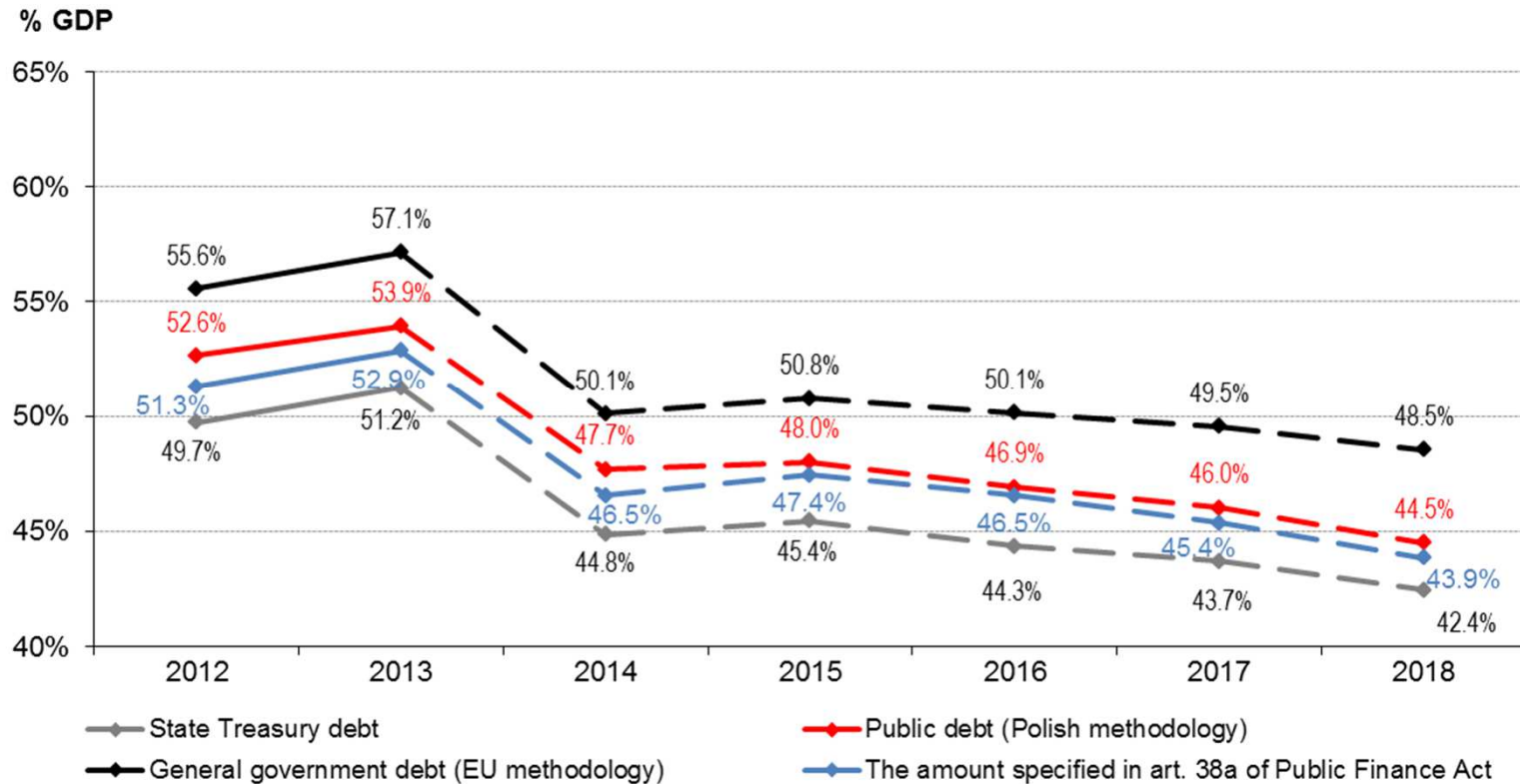
\*\*\*Forecasts of the debt servicing costs for the years 2016-2018 account for the exchange rate risk provisions

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Public debt volume

Under the adopted assumptions in the *Strategy* timeframe the debt-to-GDP ratio will decrease:

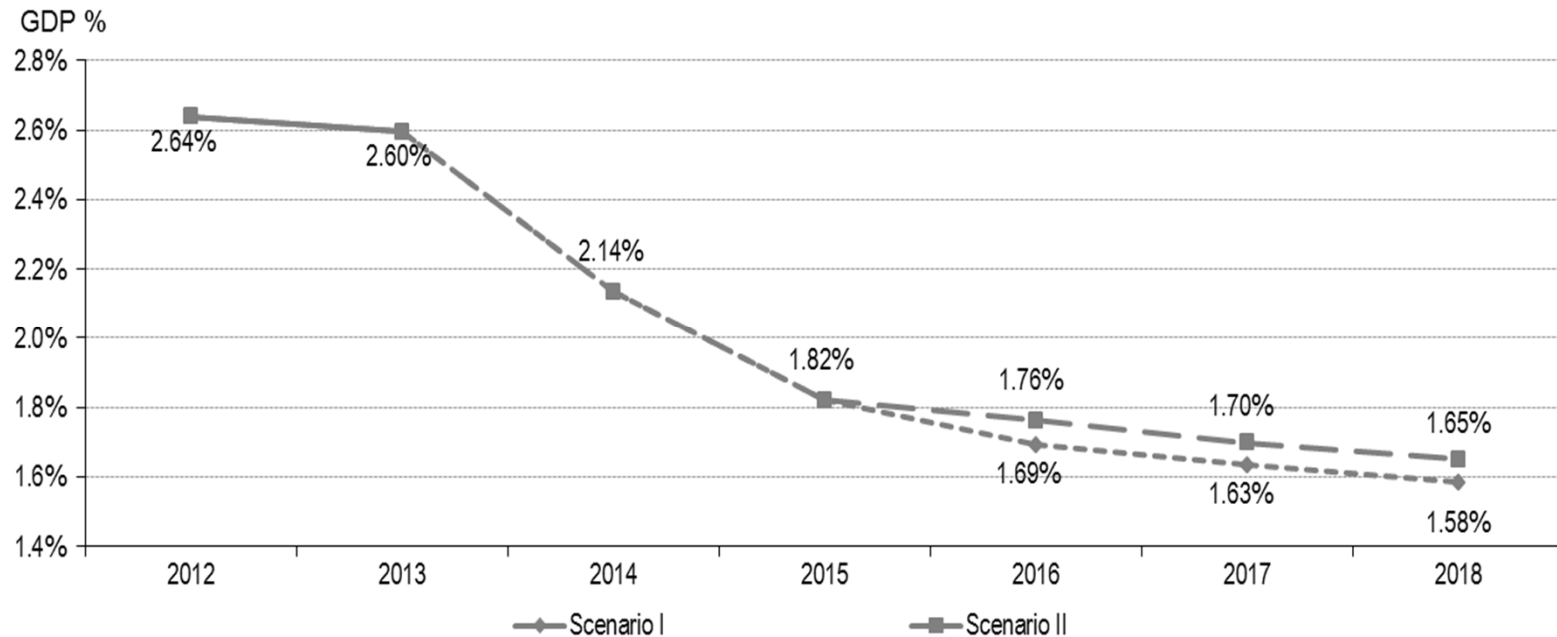
- to 44.5% according to Polish methodology
- to 48.5% according to EU methodology



# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Debt servicing costs

From 2014 on, the debt servicing costs-to-GDP ratio will decrease to 1.6-1.7%, depending on the exchange rate.



## The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

Item	2015	2016	2017	2018
<b>GDP and borrowing requirements (GDP %)</b>				
- growth path of GDP lower by 1 p.p.	0.46%	0.90%	1.33%	1.72%
- borrowing requirements higher by PLN 1bn a year	0.06%	0.11%	0.16%	0.20%
<b>Exchange rates (GDP %)</b>				
- PLN depreciation by 10% towards all currencies	1.49%	1.40%	1.35%	1.30%

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

Item	2015	2016	2017	2018
<b>Interest rates - increase by 1 p.p.</b>				
- domestic debt	1.0	2.7	4.1	4.7
- foreign debt	0.3	0.7	0.9	1.2
- total debt	1.3	3.4	5.0	5.9
<b>Exchange rates</b>				
- PLN depreciation by 1% towards all currencies	93.9	94.8	96.4	106.9

## The Public Finance Sector Debt Management Strategy in the years 2015-2018

### Transfer of assets from open pension funds - influence on public debt

#### Influence on debt level

- Public debt (national definition) reduced by ca. **GDP 7.7%**
- General government debt (EU definition) by ca. **GDP 8.6%**

#### Influence on risk parameters (end of February vs. end of January 2014)

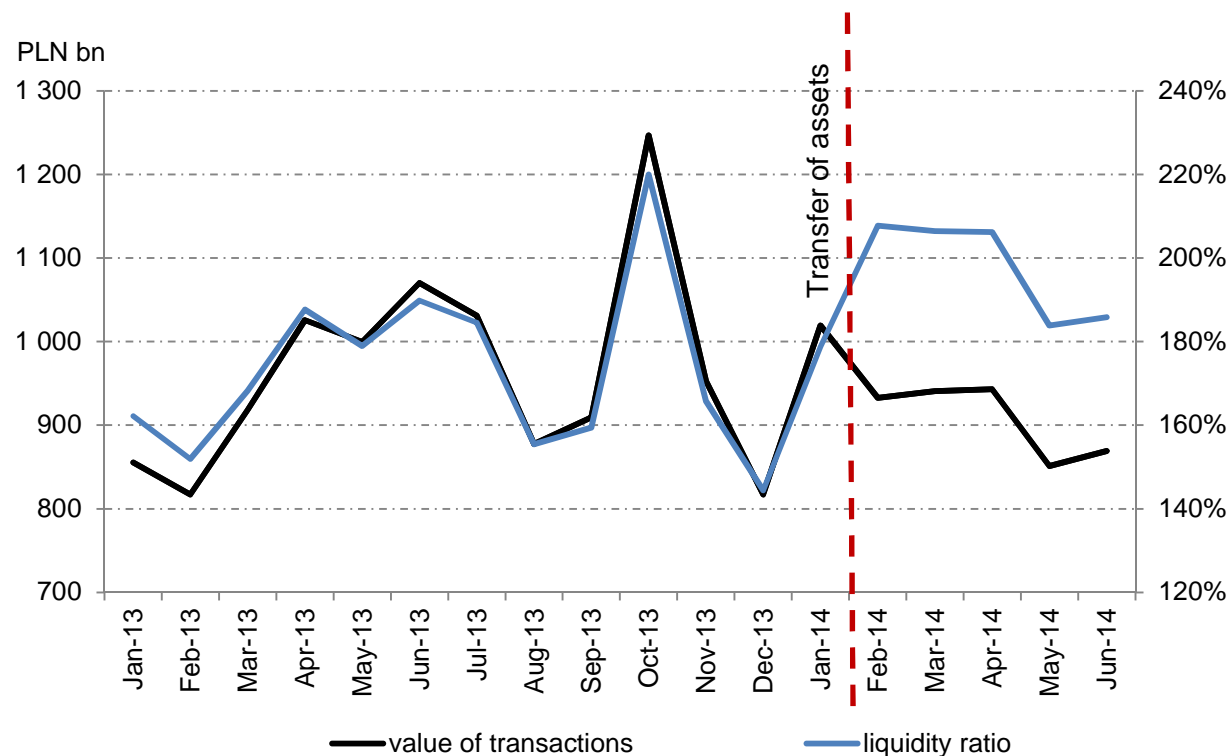
- ATM of domestic debt decreased from 4.6 years to 4.3 years as a result of the cancellation of the part of domestic debt. There was no increase in short term debt issuance, thus **refinancing risk remained unchanged**
- **Neutral** from the point of view of **interest rate risk**. ATR of domestic debt remained at the level of 3.4 years after cancellation.
- Increase in:
  - foreign debt share in State Treasury debt from 31.8% to 36.1%
  - foreign investors' share in domestic debt from 32.2% to 41.2%

Lower borrowing requirements resulting in lower need for foreign financing shall reduce both ratios in the long term.

## The Public Finance Sector Debt Management Strategy in the years 2015-2018

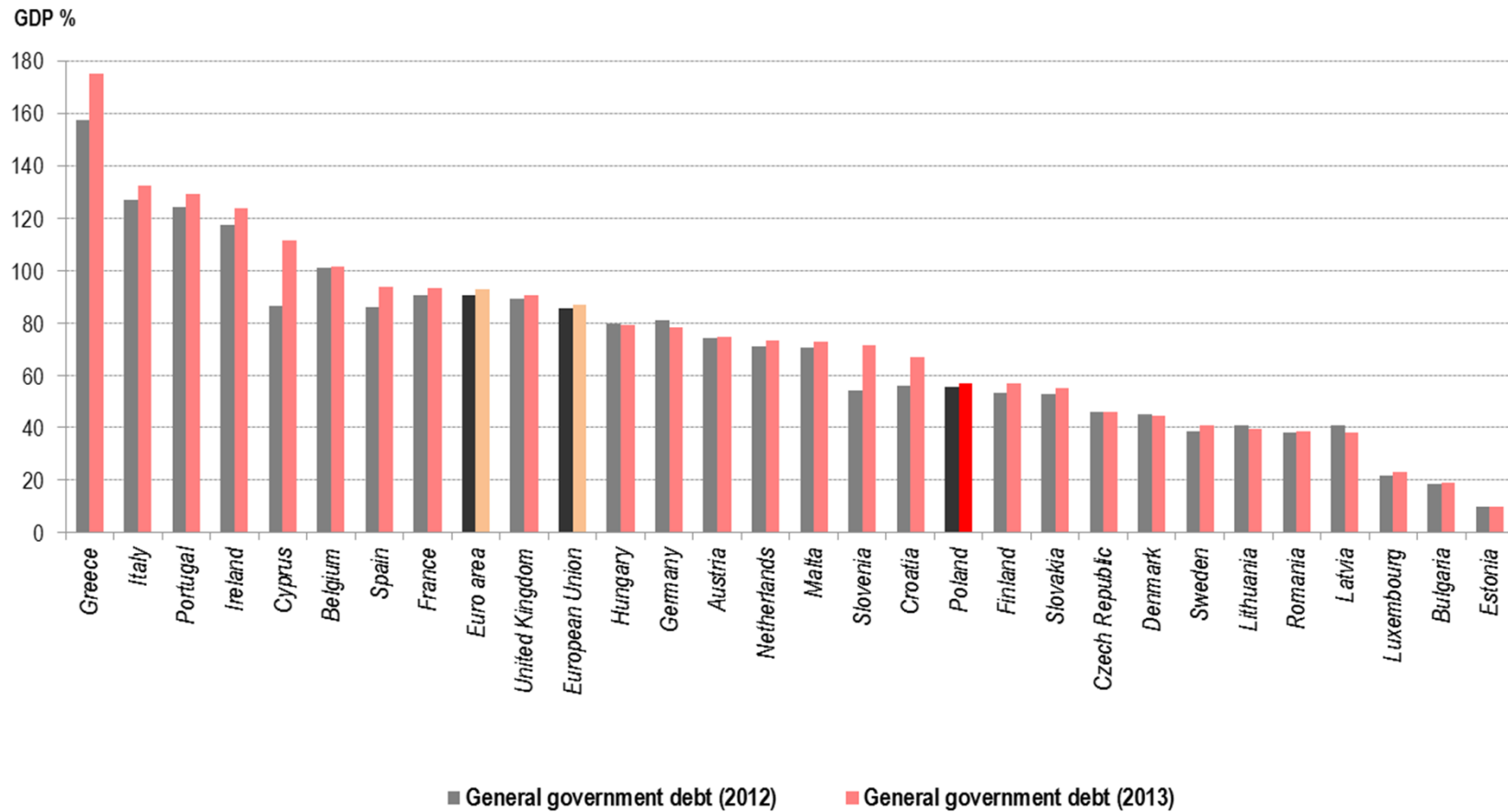
### Transfer of assets from open pension funds - influence on TS market

- OFE was not liquidity provider on domestic market, thus the cancellation of TS held by OFE and the ban of investing in TS had no adverse impact on market liquidity
- In mid 2014 monthly liquidity ratio amounted to 195% (as compared to 172% average for 2013), and the value of transactions decreased slightly by 3.6%.



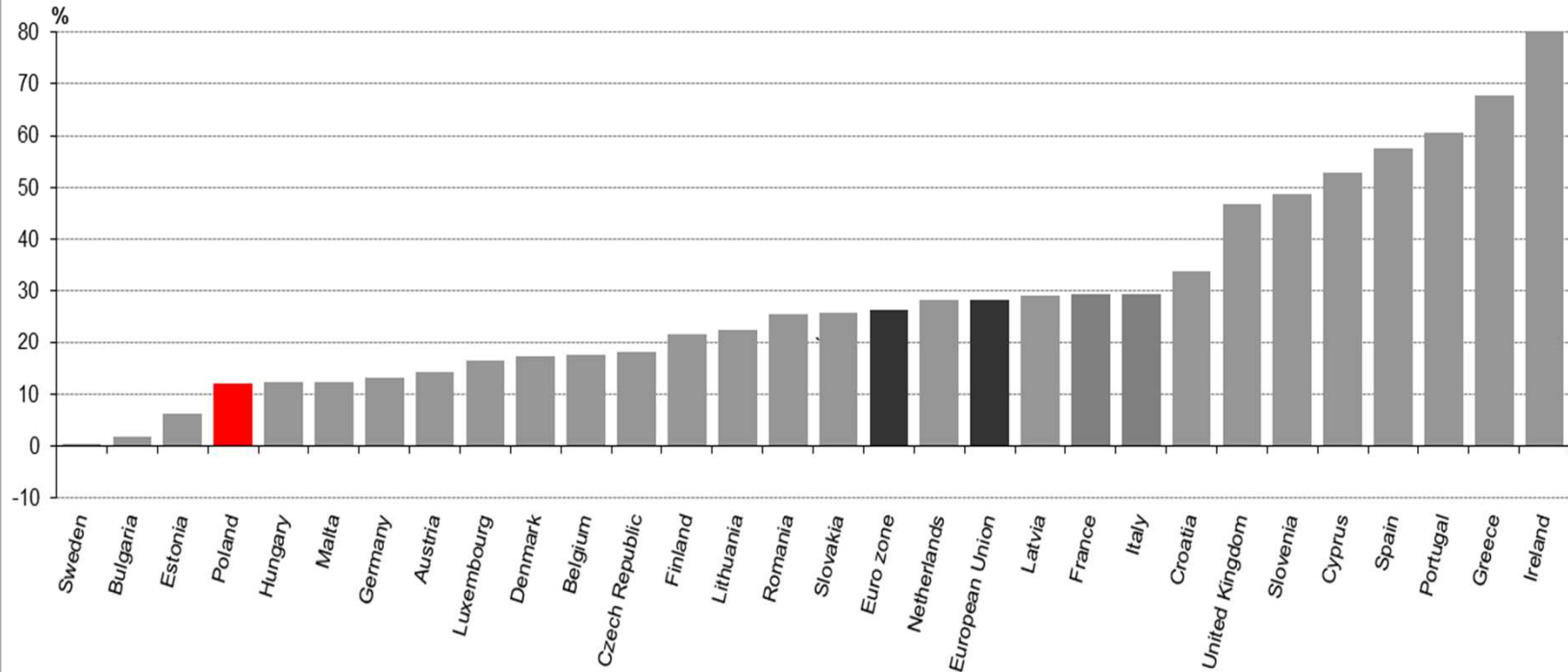
# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## General government debt in the EU member states



# The Public Finance Sector Debt Management Strategy in the years 2015-2018

## Changes in the general government debt to GDP ratios in the EU in the years 2008-2013



\* the difference between debt to GDP relation at the end of 2013 and 2007

# The Public Finance Sector Debt Management Strategy in the years 2015-2018

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

	Standard&Poor's	Fitch	Moody's
Austria	AA+	AAA	Aaa
Belgium	AA	AA	Aa3
Bulgaria	BBB- ↓	BBB-	Baa2
Chroatia	BB+	BBB-	Ba1
Cyprus	B ↑↑	B-	Caa3
Czech Republic	AA-	A+	A1
Denmark	AAA	AAA	Aaa
Estonia	AA-	A+	A1
Finland	AAA	AAA	Aaa
France	AA ↓	AA+ ↓	Aa1
Greece	B ↑	B ↑	Caa1 ↑↑↑↑
Spain	BBB ↑	BBB+ ↑	Baa2 ↑
Netherlands	AA+ ↓	AAA	Aaa
Ireland	A- ↑	A- ↑	Baa1 ↑↑↑
Lithuania	A- ↑↑	A- ↑	Baa1
Luxemburg	AAA	AAA	Aaa
Latvia	A- ↑	A- ↑	Baa1 ↑↑
Malta	BBB+	A	A3
Germany	AAA	AAA	Aaa
<b>Poland</b>	<b>A-</b>	<b>A-</b>	<b>A2</b>
Portugal	BB	BB+	Ba1 ↑↑
Romania	BBB- ↑	BBB-	Baa3
Slovakia	A	A+	A2
Slovenia	A-	BBB+	Ba1
Sweedeen	AAA	AAA	Aaa
Hungary	BB	BB+	Ba1
United Kingdom	AAA	AA+ ↓	Aa1
Italy	BBB	BBB+	Baa2

Source: Reuters, as of September 18, 2014

↑ ↓ - Upgrade or downgrade by one notch in comparison to previous *Strategy* (i.e. September 2013)