



Ministry  
of Finance

Republic  
of Poland

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

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Ministry of Finance  
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# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Macroeconomic assumptions

Item	2018	2019	2020	2021	2022	2023
Real GDP growth (%)	4.1	-4.6	4.0	3.4	3.0	3.0
GDP in current prices (PLN bn)	2 273.6	2 234.6	2 356.1	2 490.5	2 625.5	2 772.3
CPI annual average (%)	2.3	3.3	1.8	2.2	2.4	2.5
USD/PLN (end of year)	3.7977	3.9603	3.9603	3.9603	3.9603	3.9603
EUR/PLN (end of year)	4.2585	4.4545	4.4545	4.4545	4.4545	4.4545

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Objective of the Strategy

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

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

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

- choice of instruments
- ensuring efficiency of the TS market

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Flexible approach to financing structure

### DOMESTIC FINANCING

- main source of financing the State budget borrowing requirements

### FOREIGN FINANCING

- taking into account foreign currency borrowing requirements and the inflow of EU funds
- ensuring diversification of sources by ensuring access to the investor base in major financial markets
- maintaining Poland's position in the euro market
- stabilising domestic market by adjusting the structure of financing to market situation
- including financial instruments offered by EU in order to fight effects of COVID-19 pandemic
- utilizing an attractive financing in international financial institutions
- including sale of foreign currencies (in the NBP or on the financial market) as a currency management instrument, while taking into account monetary, economic and budgetary policy.

## The Public Finance Sector Debt Management Strategy in the years 2021-2024

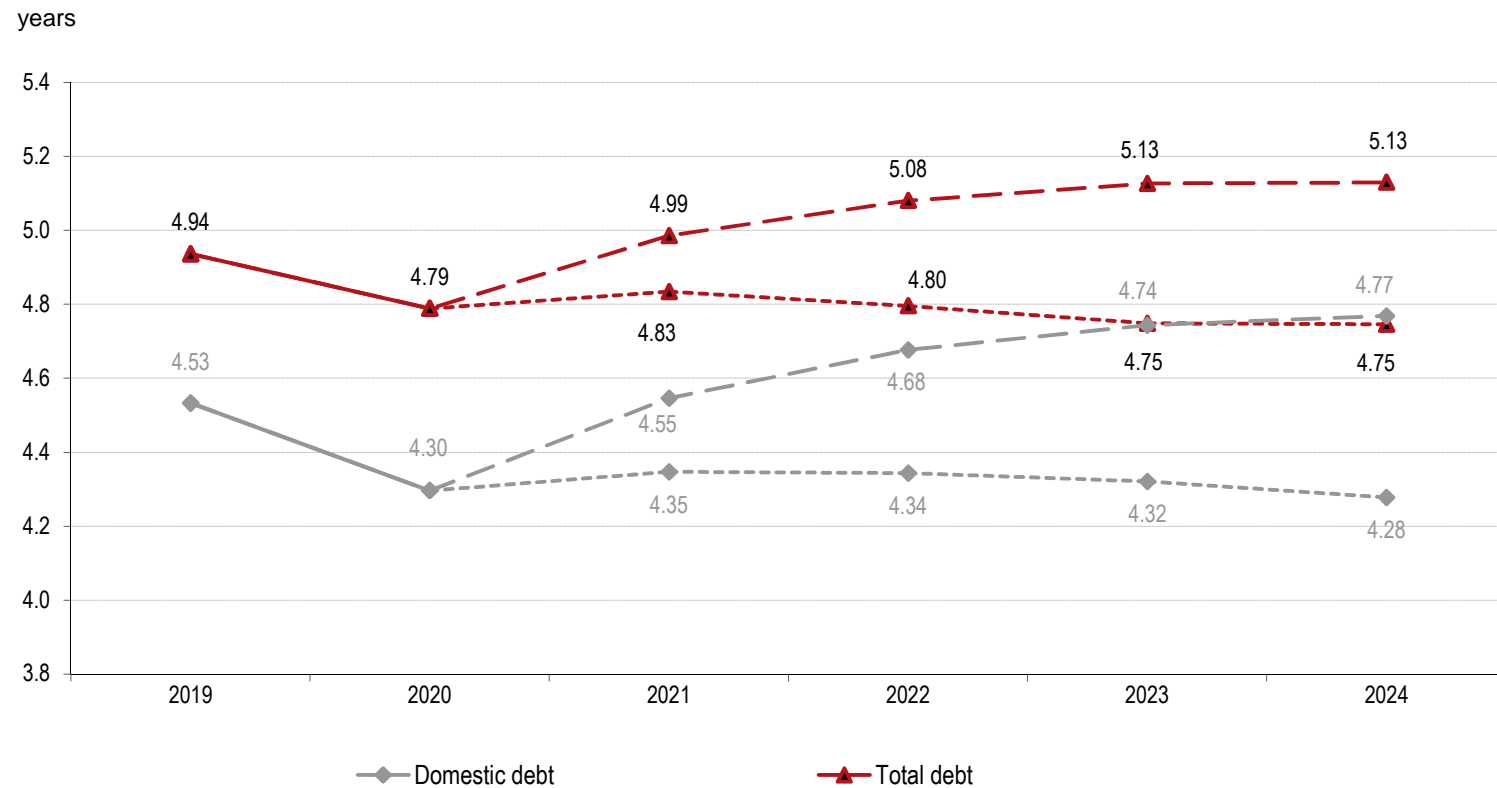
### Risk constraints of the Strategy's objective: refinancing risk (1)

- maintaining the dominant role of medium- and long-term instruments in financing the State budget borrowing requirements on domestic market – taking into account market situation
- maintaining the average time to maturity (ATM) of the domestic debt close to 4.5 years, with possible temporary deviations resulting from market and budgetary conditions related to effects of COVID-19 epidemic
- maintaining the ATM of State Treasury debt close to 5 years, with possible temporary deviations resulting from market and budgetary conditions related to effects of COVID-19 epidemic
- aiming for 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



## The Public Finance Sector Debt Management Strategy in the years 2021-2024

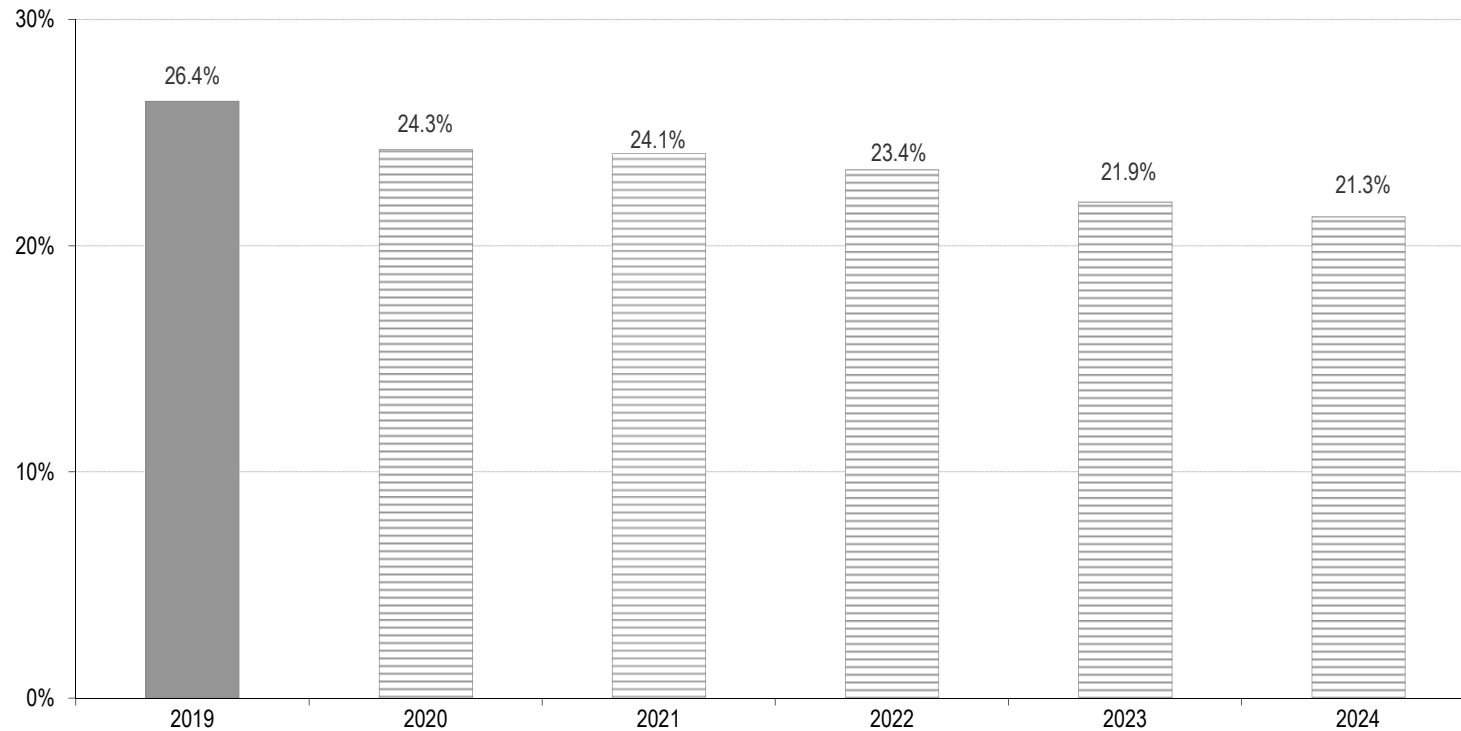
### Risk constraints of the Strategy's objective: exchange rate risk (1)

- maintaining the share of the foreign currency denominated debt in the State Treasury debt below 25%
- possible use of derivatives to shape desired structure of the debt
- maintaining an effective share of the euro in the foreign currency debt at  $\geq 70\%$

## The Public Finance Sector Debt Management Strategy in the years 2021-2024

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

Share of foreign currency debt in the State Treasury debt





## The Public Finance Sector Debt Management Strategy in the years 2021-2024

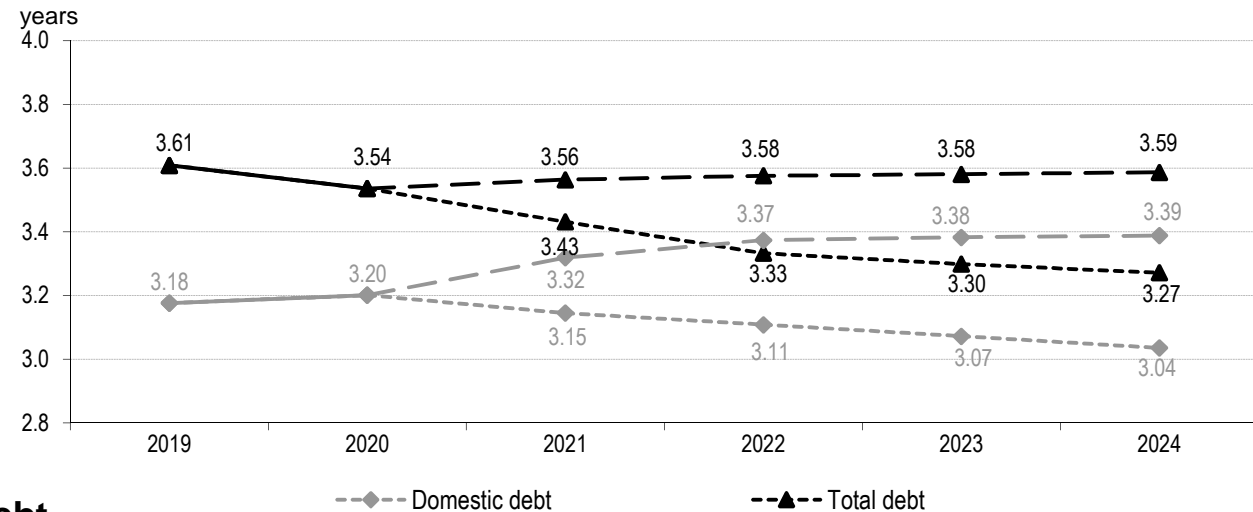
### Risk constraints of the Strategy's objective: interest rate risk (1)

- maintaining average time to re-fixing (ATR) of the domestic debt in the range of 2.8-3.6 years
- separating management of interest rate and refinancing risk by:
  - using floating rate bonds and inflation-linked bonds
  - possible use of derivatives
- maintaining the dominant share of fixed rate instruments in State Treasury debt denominated in foreign currencies

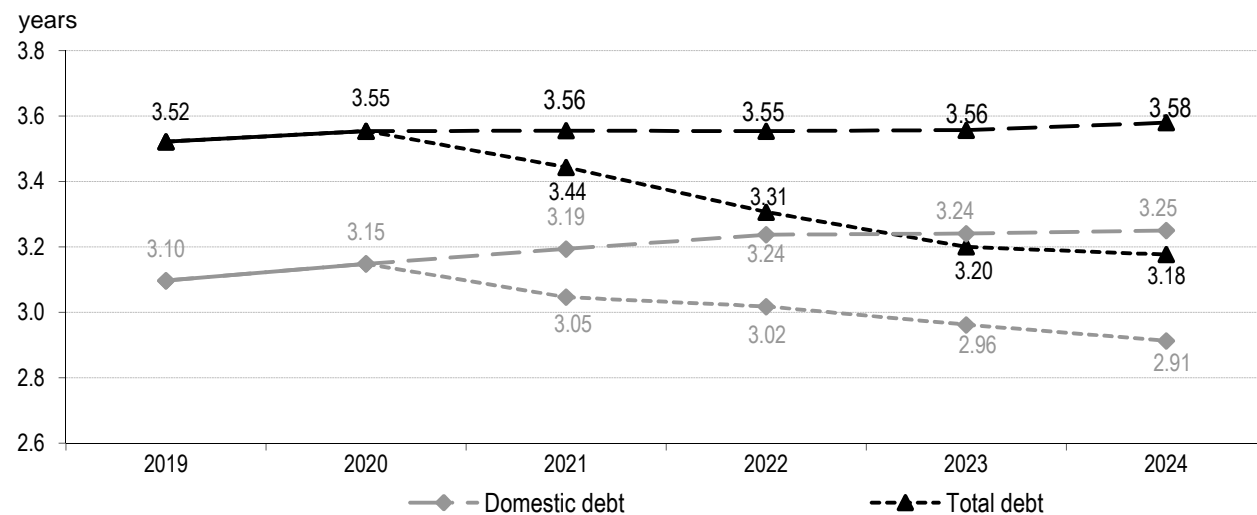
## The Public Finance Sector Debt Management Strategy in the years 2021-2024

### 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 2021-2024

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

- Maintaining a safe level of the State budget liquidity and effective management of liquid assets through FX transactions (including sales and derivatives). The level of liquidity will depend on ongoing budgetary and market situation, including budget seasonality and smoothing the supply of TS over the year. The adequate level of liquid assets assures the State budget's resilience to volatility on the markets and improves market valuations of the TS.

## The Public Finance Sector Debt Management Strategy in the years 2021-2024

### **Risk constraints of the Strategy's objective: other types of risk (in particular credit and operational risk)**

- concluding derivative transactions with high creditworthiness entities
- credit risk mitigation (collateral agreements) and diversification while concluding derivative transactions; subsequent collateral agreements that are in line with current market best practices and enable concluding transactions without bearing credit risk on more favorable terms are possible
- diversification of credit risk generated by uncollateralized transactions
- process approach to management of the unit responsible for debt management
- assuring technical infrastructure allowing for running debt management processes from outside of the MoF's building, if needed

## The Public Finance Sector Debt Management Strategy in the years 2021-2024

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

- aiming for even distribution of debt servicing costs, including the use of derivative instruments for this purpose
- setting bond coupons at levels slightly below their forecasted yield in the issuance period

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Strategy tasks (1)

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

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

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Strategy tasks (2)

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

- issuance schedule adjusted to market and budgetary circumstances
- increase and enhancement of the role of the Primary Dealers system in development of the TS market and debt management operations
- sustaining relations with domestic and foreign investors (including tele- and videoconferences during COVID-19 pandemic) by:
  - regular meetings with banks participating in the PD system
  - meetings with domestic non-banking sector
  - meetings with foreign investors and banks
  - ongoing communication with investors
- broadening the investor base, including regular communication with foreign investors, aimed at promoting TS issued on domestic and foreign market
- active participation in conferences and seminars with investors

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Strategy tasks (3)

### 3. Ensuring transparency of the TS market

- transparent issuance policy, including TS issuance calendars in the horizon of current year, quarter and month
- promoting electronic market by:
  - adequate regulations in the PD system that ensure competitiveness and transparency, in particular with regard to PD TS quotations duties, sustaining adequate spread levels and share in the TS fixing
  - adjusting rules of the PD system to current needs arising from regulations



# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Strategy tasks (4)

### 4. Effective management of State budget liquidity

- depositing PLN and FX funds in the NBP or in the market via BGK (the state development bank)
- concluding buy-sell-back transactions directly on the financial market as an instrument of investing budgetary funds without bearing credit risk
- sales of FX funds in NBP or on the FX market
- using FX swap transactions to shape currency structure of liquid funds
- short term loans on interbank market

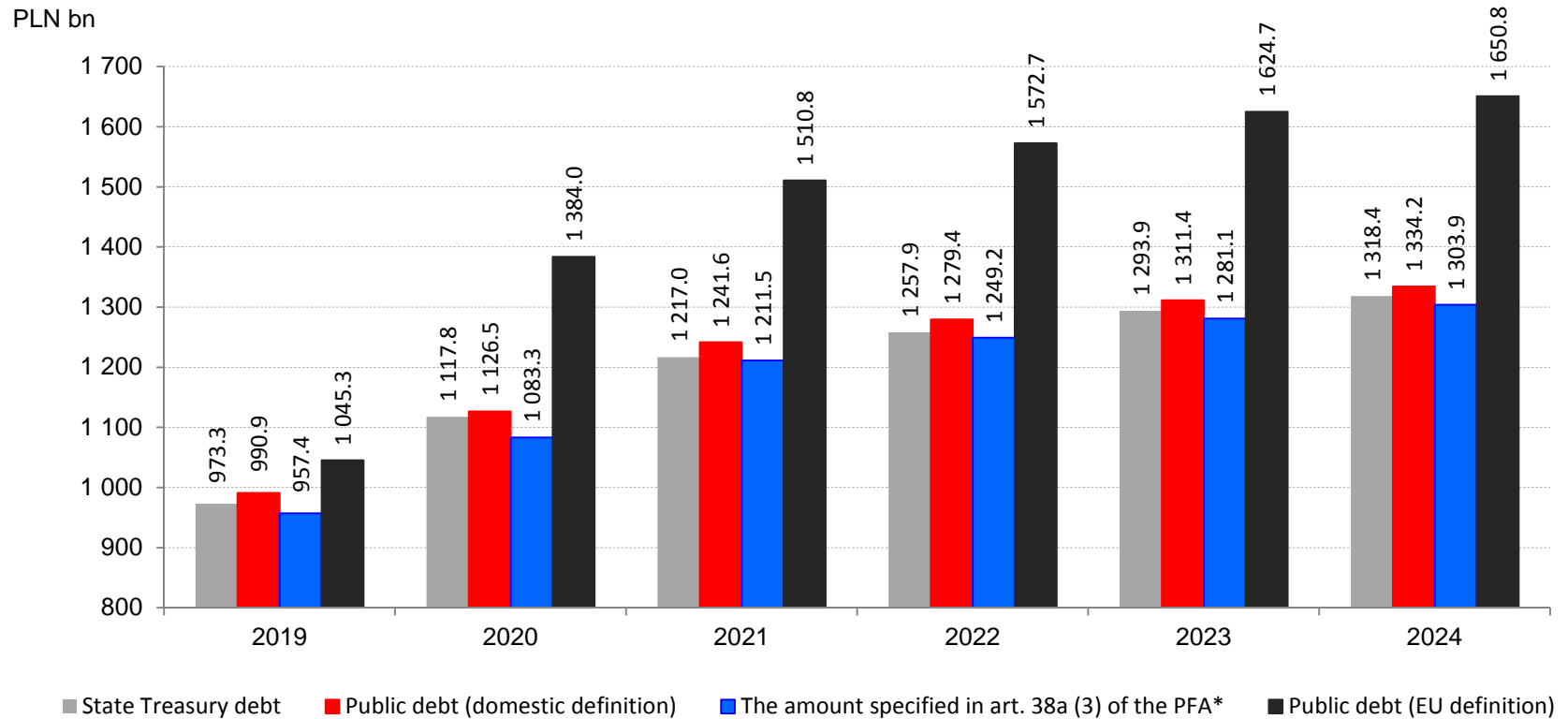
Additionally, the management of the liquidity of the public finance sector takes place, with liquid funds on the Minister of Finance account deposited by:

- public finance sector units
- other *general government* units
- courts

in order to reduce the net borrowing requirements of the State budget.

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Public debt forecast



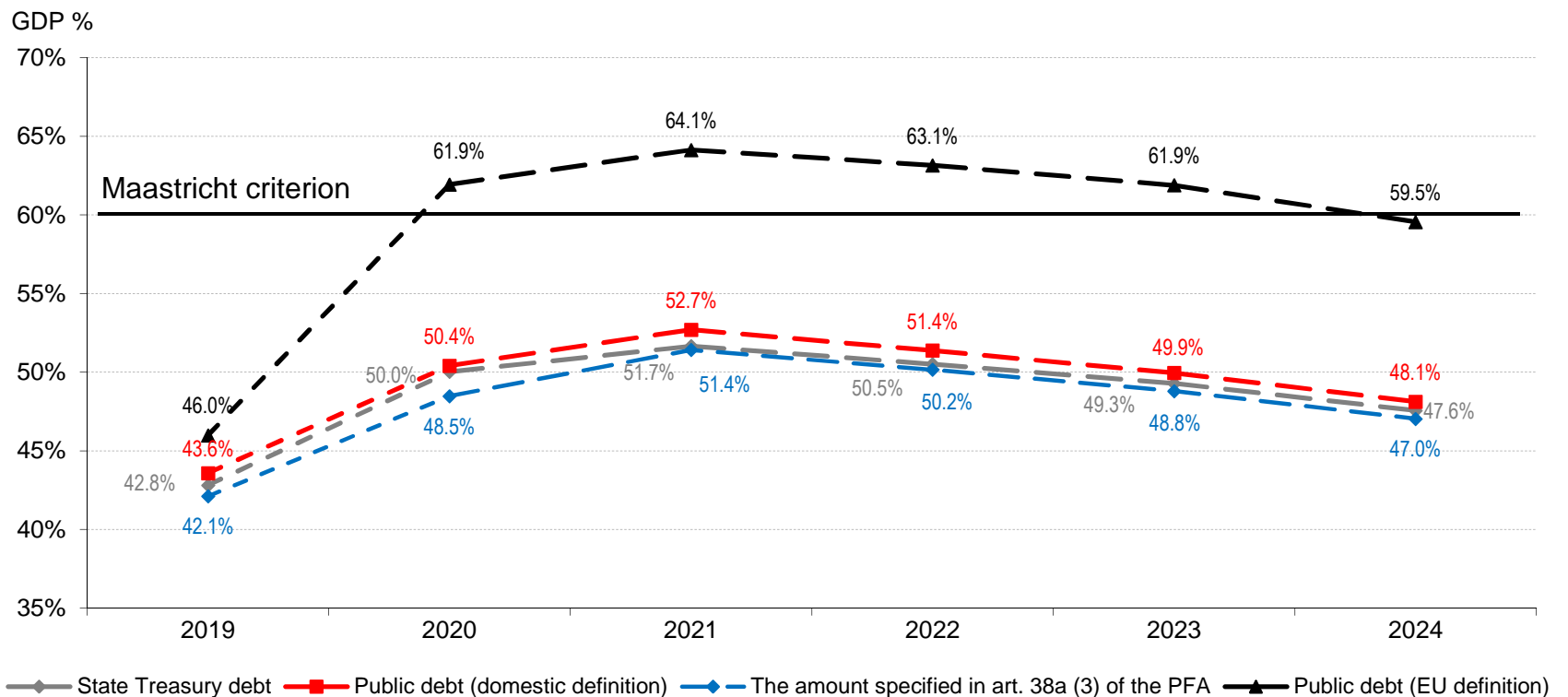
*\*The amount of public debt recalculated using the yearly average of foreign currency exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year.*

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## Public debt forecast

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

- (domestic definition) will peak at 52.7% in 2021 and decline in the subsequent years, reaching 48.1% in 2024
- (EU definition) will peak at 64.1% in 2021 and decline to 59.5% in 2024.



## The Public Finance Sector Debt Management Strategy in the years 2021-2024

### General government debt

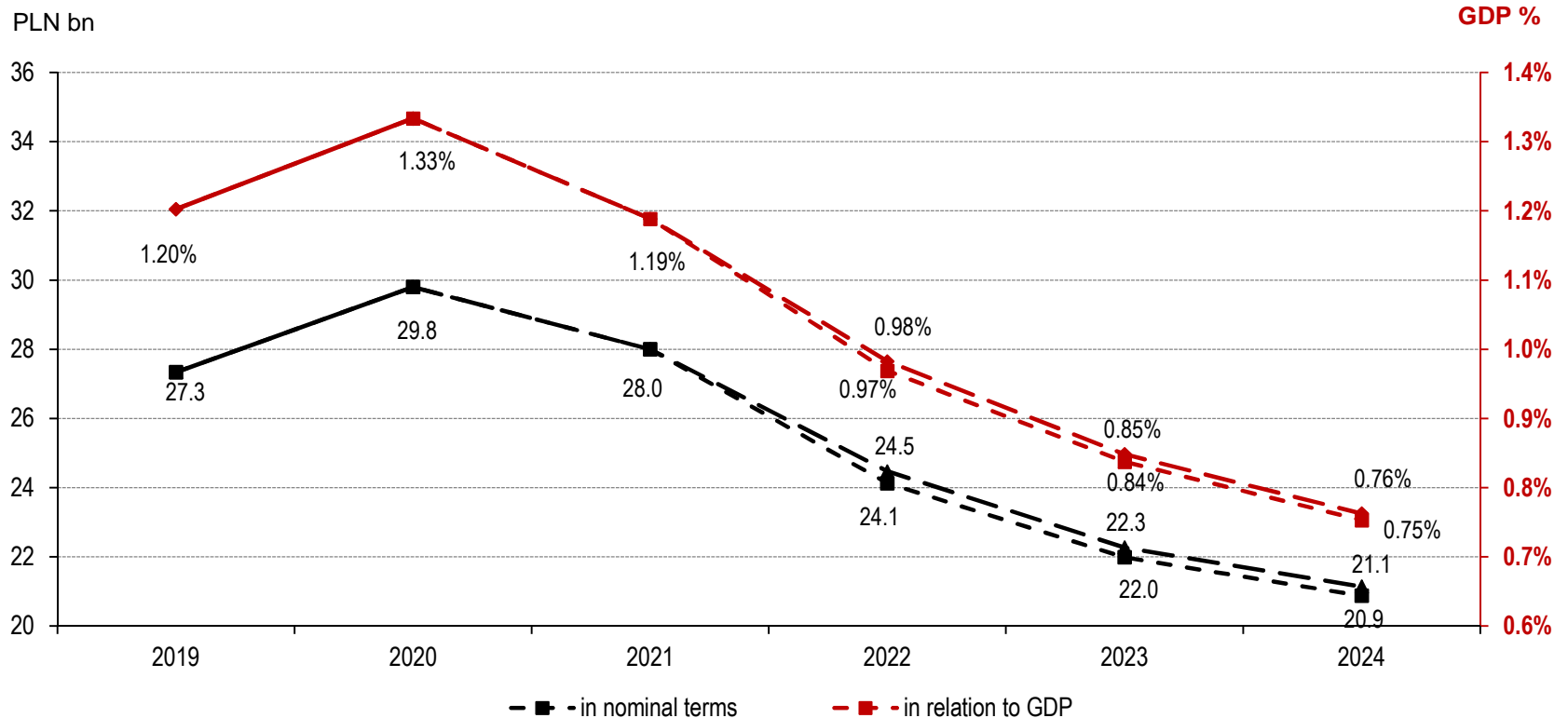
According to forecasts in the years 2020-2023 the general government to GDP ratio will exceed the Maastricht Treaty reference value of 60%. However, due to the serious economic slowdown observed throughout the EU caused by the coronavirus pandemic, **the European Commission launched the so-called general exit clause**, provided for in the Stability and Growth Pact. The clause allows Member States to temporarily depart from the recommendations of the Ecofin Council on the MTO. The EU's flexible approach does not suspend the EU's fiscal rules or exclude the excessive deficit procedure, but is intended to facilitate a coordinated response of countries to the crisis.

**The increase in general government debt**, apart from factors influencing the increase of the (domestic definition) public debt, **results primarily from the financing of the government programs to fight the COVID-19 epidemic** by the COVID-19 Counteraction Fund established in Bank Gospodarstwa Krajowego and the Polish Development Fund. The COVID-19 Counteraction Fund and the Financial Shield implemented by the Polish Development Fund have been included in the general government sector but are not included in the public finance sector as defined in the Public Finance Act.

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## State Treasury debt servicing costs

The State Treasury debt servicing costs-to-GDP ratio on a decreasing path from 2020 on, reaching (depending on exchange rates) 0.75% - 0.76% by 2024



*Forecasts of the debt servicing costs for the years 2022-2024 account for the exchange rate risk provisions*

## The Public Finance Sector Debt Management Strategy in the years 2021-2024

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

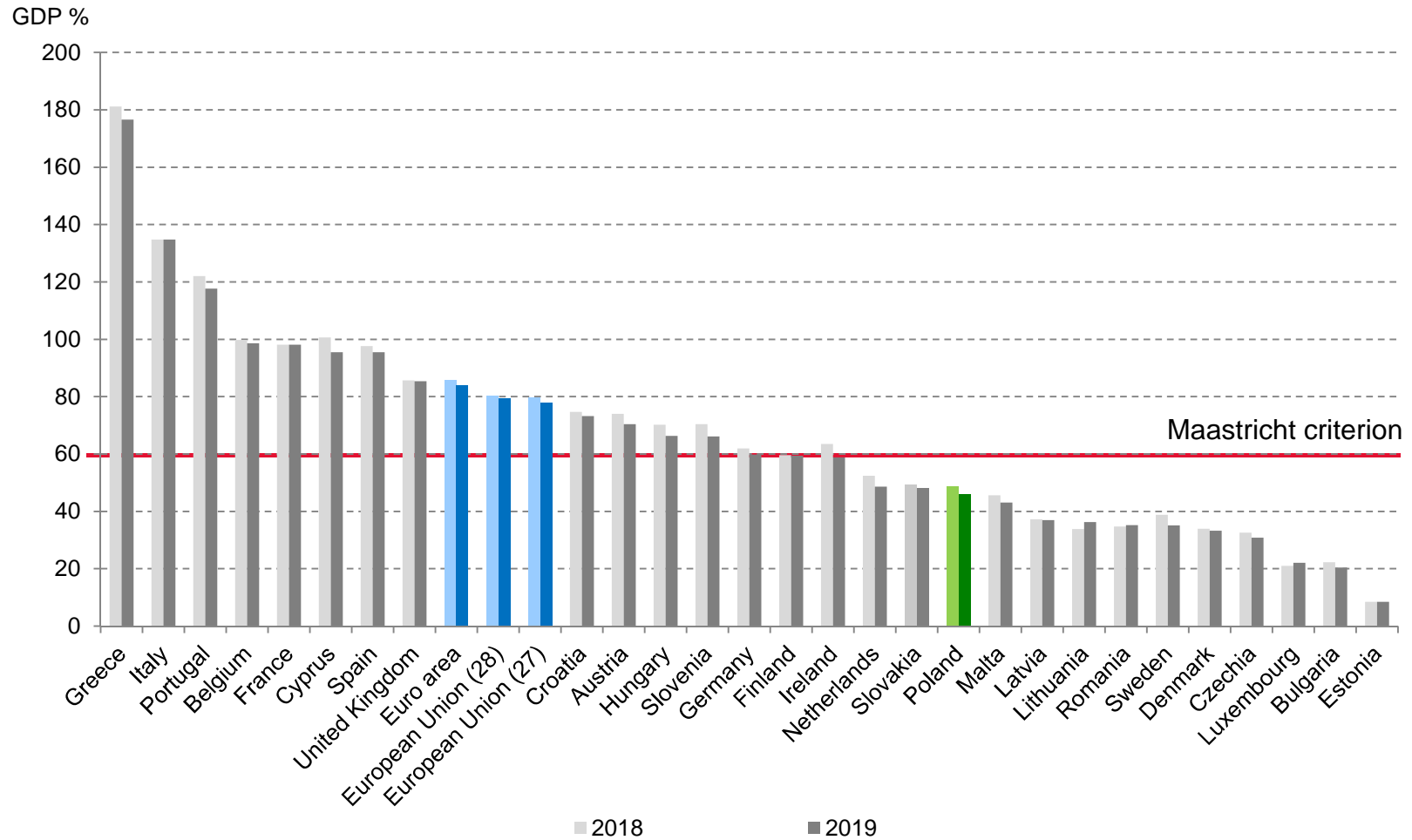
Item	2021	2022	2023	2024
<b>GDP and borrowing requirements</b>				
- GDP growth path lower by 1 p.p.	0.50%	0.99%	1.45%	1.87%
- borrowing requirements higher by PLN 10bn yearly	0.43%	0.81%	1.16%	1.48%
<b>FX rates</b>				
- 10 % depreciation of PLN towards all currencies	1.27%	1.21%	1.11%	1.04%

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

Item	2021	2022	2023	2024
<b>1 p.p. increase in interest rates</b>				
- domestic debt (PLN bn)	1.8	4.6	5.7	6.3
- foreign debt (PLN bn)	0.2	1.0	1.2	1.7
- State Treasury debt (PLN bn)	2.0	5.6	6.9	8.0
<b>FX rates</b>				
- 10 % depreciation of PLN towards all currencies (PLN bn)	0.60	0.49	0.40	0.38

# The Public Finance Sector Debt Management Strategy in the years 2021-2024

## General government debt in the EU member states



Source: Eurostat