THE PUBLIC FINANCE SECTOR DEBT MANAGEMENT STRATEGY

in the years 2024-2027

Ministry of Finance

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1. 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 for 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 expenditure 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, dedicated to the government economic programme, especially in the justification for the draft Budget Act and the Convergence Programme Update);
- in a narrower sense, debt management means the way of financing the State borrowing requirements and designing the debt structure, in particular 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 2024.

Table 1. Public debt and debt servicing costs – summary of the Strategy forecasts

Item	2022	2023	2024	2025	2026	2027
1. Public debt						
GDP %	39.3%	37.9%	41.6%	43.0%	44.3%	44.3%
2. The amount specified in the article 38a (3) of the Public Finance Act*						
GDP %	35.4%	36.5%	40.3%	41.7%	43.1%	43.2%
3. General government debt						
GDP %	49.1%	49.3%	53.9%	55.1%	58.3%	58.7%
4. State Treasury debt servicing costs**						
a) PLN bn	32.7	62.0	66.5	69.7 - 70.7	80.7 - 81.8	91.0 - 92.2
b) GDP %	1.06%	1.80%	1.76%	1.72% - 1.75%	1.88% - 1.91%	2.01% - 2.04%

**) The amount of public debt recalculated using the yearly arithmetic average of foreign currency exchange rates announced by the National Bank of Poland for the year concerned and reduced by the amount of liquid funds for financing the borrowing requirements of the State budget in the following fiscal year.*
***) Forecasts of the debt servicing costs for 2025-2027 are presented in ranges, taking into account the foreign exchange risk provision.*

Under the adopted assumptions, at the end of 2023, the public debt-to-GDP ratio will decline to 37.9%, and then increase reaching 44.3% in 2027, remaining safely below the prudential threshold of 55% set forth in the Public Finance Act.

In 2023, the ratio of general government debt (according to the EU definition) will rise to 49.3% in 2023, followed by an increase to 58.7% over the *Strategy* forecast period. This means that the 60% reference value of the EDP debt-to-GDP ratio will not be exceeded in the *Strategy* timeframe.

In 2025-2027, annual fiscal adjustment referred to in Article 112a[1] of the Public Finance Act of 1 percentage point was assumed. Additionally, on the basis of historical data, it was assumed that expenditure execution would be 1.1% of GDP below the maximum limits (so-called natural savings).

The limit of ST debt servicing costs as assumed in the draft Budget Act for 2024 is PLN 66.5 billion, i.e. 1.76% of GDP. The *Strategy* assumes that debt servicing costs will slightly exceed 2% of GDP in 2027.

This *Strategy* is a continuation of the *Strategies* developed so far. Its objective, i.e. minimizing the long-term debt servicing costs, subject to the adopted risk constraints, has remained unchanged. The tasks aimed at implementation of the *Strategy* objective, associated with the development of the financial market, i.e. ensuring liquidity, efficiency and transparency of the Treasury Securities (TS) market, as well as the task related to the effective management of the State budget liquidity have been maintained.

The following has been assumed for the accomplishment of the *Strategy* objective in 2024-2027:

- the flexible approach towards shaping the financing structure in terms of selecting the market, currency and instruments shall be maintained, to the extent that it contributes to debt servicing cost minimization, subject to the assumed risk level limitations;
- the domestic market shall remain the main source of financing the State budget borrowing requirements;
- the share of foreign currency debt in total ST debt will be maintained below 25%, subject to temporary deviations due to market or budgetary developments;
- building large and liquid fixed rate issues, both in the domestic, as well as the euro and US dollar markets, shall be a priority of the issuance policy;
- the average maturity of the domestic ST debt shall be maintained around 4.5 years, and that of the total ST debt at minimum of 5 years, subject to possible temporary deviations resulting from market or budgetary conditions.

The *Strategy* contains four annexes, including the glossary of selected abbreviations.

2. Volume of public debt and costs of its servicing

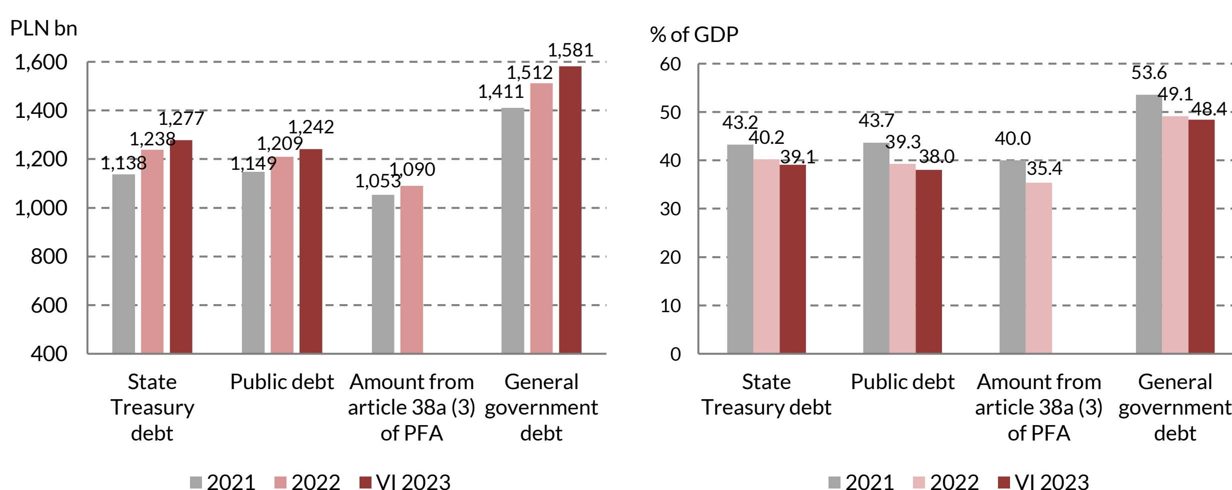
In 2022, the public debt (i.e. public debt according to the domestic definition) amounted to PLN 1,209.5 billion, which represented an increase of PLN 60.9 billion compared to the end of 2021. General government debt (EDP debt, i.e. public debt according to the EU definition) amounted to PLN 1,512.2 billion and was higher by PLN 101.6 billion compared to the end of 2021.

In 2022 the debt-to-GDP ratio decreased:

- the public debt-to-GDP ratio amounted to 39.3% compared to 43.7% at the end of 2021 (a decrease by 4.4 pp);
- the ratio of the amount specified in Article 38a(3) of the Public Finance Act (the public debt recalculated using the yearly arithmetic average of foreign currency exchange rates announced by the National Bank of Poland for the year concerned and reduced by the amount of liquid funds for financing the borrowing requirements of the State budget in the following fiscal year) stood at 35.4% of GDP at the end of 2022, as compared to 40.0% of GDP at the end of 2021;
- the general government debt-to-GDP ratio amounted to 49.1% compared to 53.6% at the end of 2021 (a decrease of 4.5 pp), and was considerably lower than the ratio for the European Union (84.0% of GDP) and for the euro area (91.5% of GDP), also the reduction in the debt-to-GDP ratio was greater than in the EU as a whole (4.0 pp) and in the euro area (3.9 pp)[1].

In the first half of 2023, the public debt-to-GDP and EDP debt-to-GDP ratios decreased further, by 1.3 pp and 0.7 pp respectively, and amounted to 38.0% and 48.4%.

Chart 1. Volume of public debt

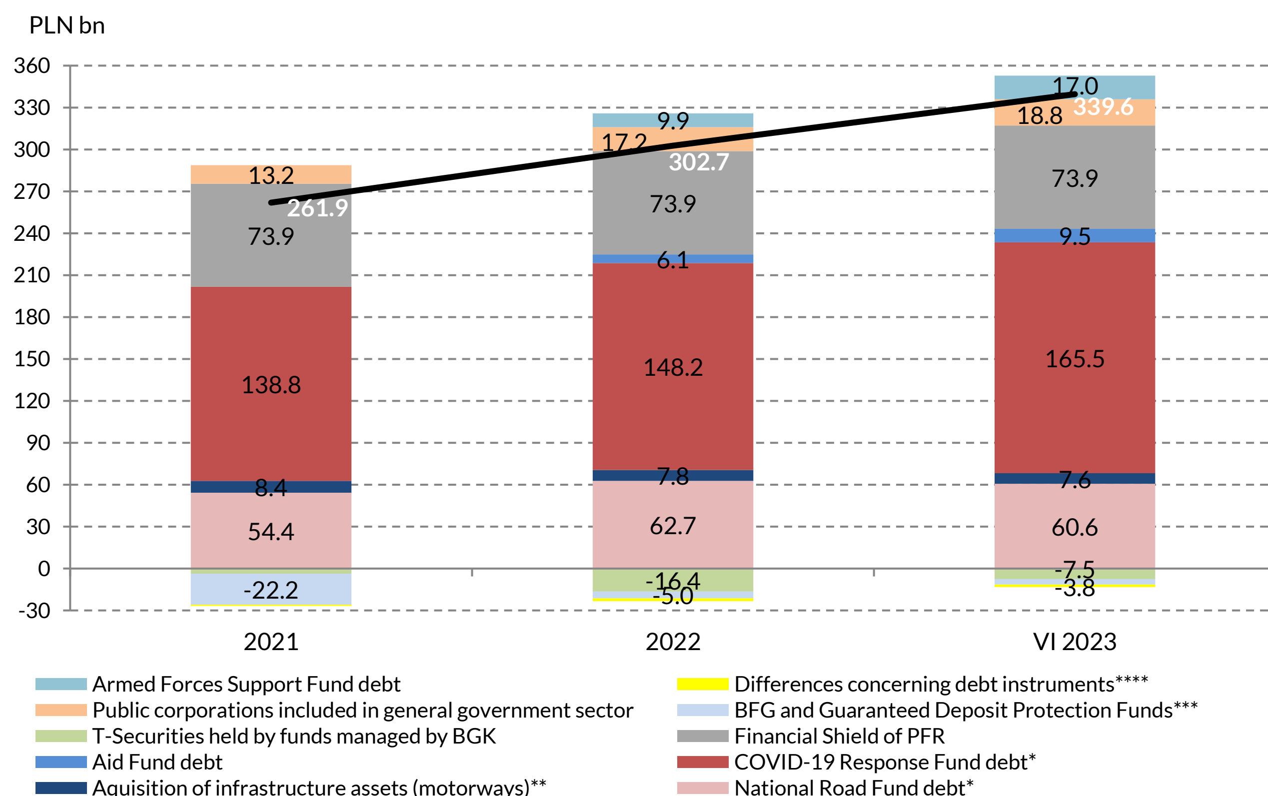


[1] Net lending (+)/net borrowing (-) and the general government debt for EU Member States are presented in Annex 4.

The differences between public debt and general government debt are due to the following factors:

- the different scope of units included in the public finance sector, i.e. recognising the National Road Fund (KFD) and the COVID-19 Response Fund (FPC) and the Armed Forces Support Fund (FWSZ) in the sector according to the EU definition, whose debt increases the debt of the sector;
- rerouting transactions to the general government sector, including the Financial Shield of the Polish Development Fund (PFR) - the bonds issued to finance the Shield increase the EDP debt;
- differences related to liabilities, mainly matured payables, that are treated as public debt according to the domestic definition but are not included therein according to the EU definition.

Chart 2. Differences between general government debt (EDP debt) and public debt



**) Debt consolidated within general government sector, i.e. decreased by the face value of bonds issued by KFD and FPC held by other general government units.*

***) In compliance with Eurostat guidelines on sector classification of motorway construction projects, general government debt includes the governmental liabilities related to the construction of certain motorway sections.*

****) On 1 January 2022, the Bank Guarantee Fund (BFG) was included in the public finance sector, which resulted in a reduction in public debt due to the consolidation of TSs held by the BFG. Assets of Guaranteed Deposit Protection Funds created by entities covered by the guarantee system remain outside of the public finance sector, but within the general government sector.*

*****) Matured payables, debt assumption – activation of guarantee, CIRS transactions, restructured/refinanced trade credits, sale-lease-back operations.*

The detailed description of differences between the public debt according to the domestic and the EU definition is included in Annex 3.

Changes in the volume of public debt were mainly due to changes in the ST debt that accounts for ca. 92% of the public debt, while those in the general government debt were additionally due to issuing bonds for the COVID-19 Response Fund and incurring liabilities for the Armed Forces Support Fund.

The increase in ST debt of PLN 100.4 billion in 2022 was mainly a result of:

- negative net borrowing requirements (PLN -5.6 billion), including the State budget deficit of PLN 12.6 billion, and items reducing the borrowing requirements: the EU funds management (PLN -12.4 billion), and the liquidity management of the public finance sector (PLN -6.1 billion);
- increase in the balance of budget accounts (PLN +27.8 billion);
- transfer of bonds under acts other than the Public Finance Act (PLN +28.8 billion) – the total face value of the transferred TSs amounted to PLN 25.8 billion. Additionally, under the instruction of the Chancellery of the Prime Minister authorized by the Prime Minister, the Reprivatisation Fund (FR) transferred PLN 3.0 billion from the TS pool received in 2021 to GAZ-SYSTEM;
- FX rates movements (PLN +5.8 billion);
- changes in the other ST debt (PLN + 27.8 billion), including: increase in the deposits from public finance sector entities (PLN +13.7 billion) and general government units (PLN +12.1 billion) as part of liquidity management consolidation.

During the first half of 2023, the increase in ST debt of PLN 39.0 billion was mainly due to:

- net borrowing requirements of the State budget (PLN +27.4 billion), including the State budget deficit of PLN 12.7 billion, liquidity management consolidation (PLN +19.8 billion), the balance of loans granted (PLN +4.3 billion) and reducing borrowing requirements: EU fund management (PLN -9.3 billion);
- increase in the balance of budget accounts (PLN +20.7 billion);
- transfer of bonds (PLN +9.9 billion);
- FX rates movements (PLN -17.2 billion);
- changes in the other debt of the State Treasury (PLN -5.6 billion), including a decrease in deposits of public finance sector entities (PLN -2.2 billion) and general government units (PLN -8.9 billion) as part of liquidity management consolidation and an increase in loans granted by public finance sector entities (PLN +5.0 billion).

As at 21 September 2023, the gross borrowing requirements for 2023 assumed in the amended Budget Act for 2023 were financed in 95%.

Table 2. Factors affecting change in ST debt in 2022 and the first half of 2023 (PLN billion)

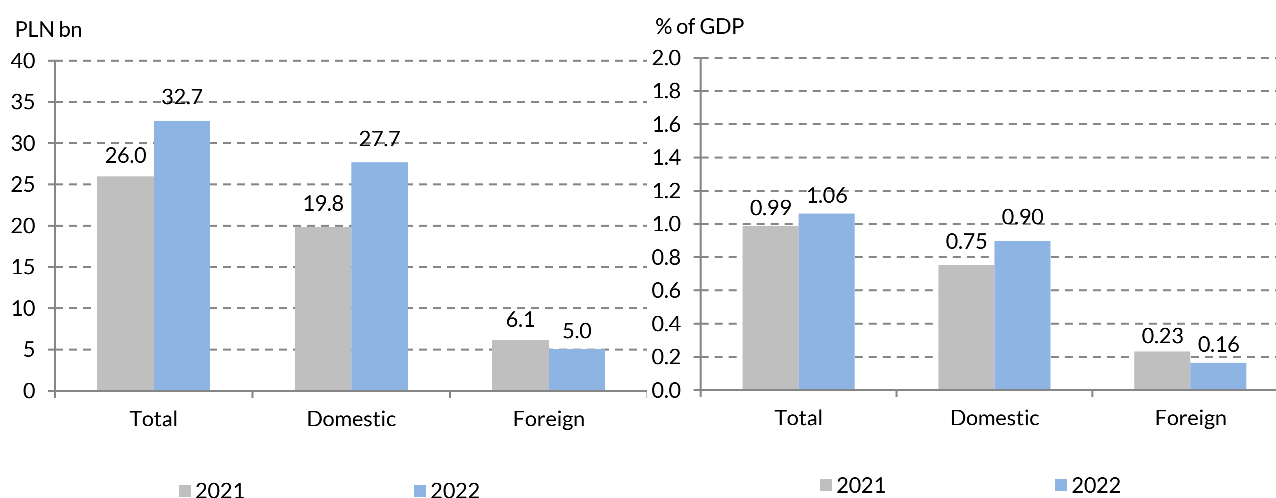
Item	2022	I-VI 2023
Change in ST debt	**100.4**	**39.0**
1. State budget borrowing requirements:	**-5.6**	**27.4**
1.1. State budget deficit	12.6	12.7
1.2. EU funds budget deficit	1.4	0.0
1.3. Liquidity management consolidation	-6.1	19.8

1.4. European funds management	-12.4	-9.3
1.5. Granted loans	0.0	4.3
1.6. Other borrowing requirements [1)]	-1.0	0.0
2. Other changes:	**106.0**	**11.6**
2.1. FX rates movements	5.8	-17.2
2.2. Changes in budget accounts balance	27.8	20.7
2.3. Transfer of TS	28.8	9.9
2.4. TS discount, TS indexation	15.8	3.8
2.5. Change in the other State Treasury debt	27.8	-5.6
• Deposits of PFS entities [2)]	13.7	-2.2
• Deposits of GG entities [3)]	12.1	-8.9
• Other deposits [4)]	1.9	0.6
• Loans granted by PFS entities [5)]	0.0	5.0
• Other ST debt	0.1	-0.1

1) Pre-financing balance of tasks co-financed with EU funds, shares in international financial institutions (IFIs) and other domestic and foreign settlements.
2) Deposits from PFS entities with legal personality, including court and prosecutors' offices deposits from PFS entities - with no impact on public debt due to elimination of mutual liabilities of the public finance sector entities.
3) Deposits from non-PFS general government entities, with no impact on EDP debt (EU definition).
4) Court and prosecutors' offices deposits from entities outside the PFS and collateral deposits connected with CSA agreements.
5) Loans granted to the Solidarity Fund by the Demographic Reserve Fund, with no impact on the public debt due to elimination of mutual liabilities of the public finance sector entities.

In 2022, the ST debt servicing costs increased in nominal terms from PLN 26.0 billion in 2021 to PLN 32.7 billion (including the increase in the domestic debt servicing costs from PLN 19.8 billion to PLN 27.7 billion), with a simultaneous decline in revenue from TS issuance (premium and interest) from PLN 1.5 billion in 2021 to PLN 1.3 billion in 2022. The debt servicing cost-to-GDP ratio also increased from 0.99% in 2021 to 1.06% in 2022. Foreign debt servicing costs were lower than those of domestic debt, which was due to a smaller share of foreign debt in ST debt and lower interest rates.

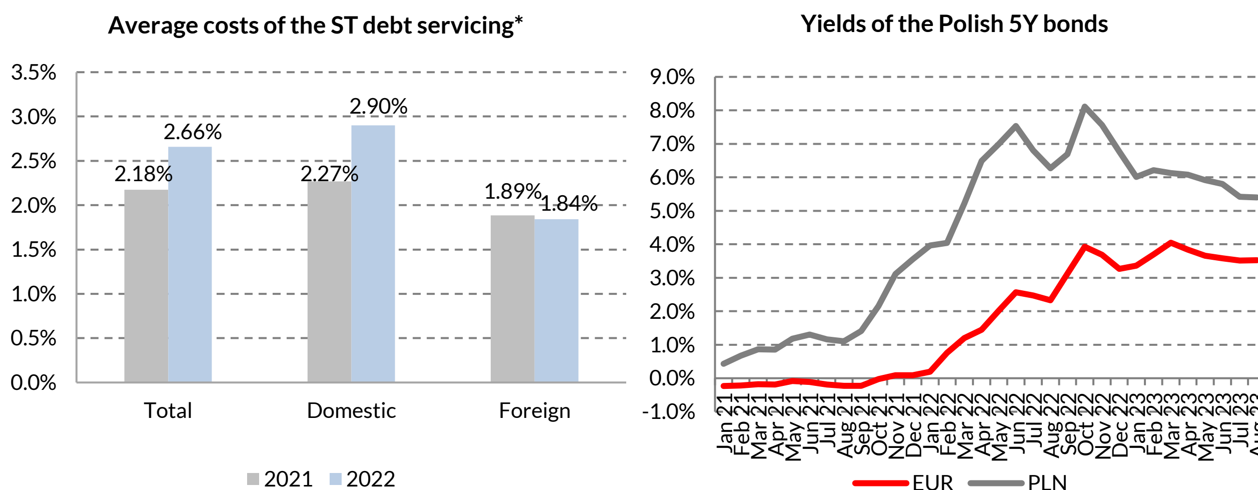
Chart 3. ST debt servicing costs



The average debt servicing costs (including revenue from the sale of TSs) increased from 2.18% in 2021 to 2.66% in 2022, with a decrease in foreign debt servicing costs (from 1.89%

to 1.84%), due to the increase in the current market financing cost and the level of service costs of debt incurred in the past.

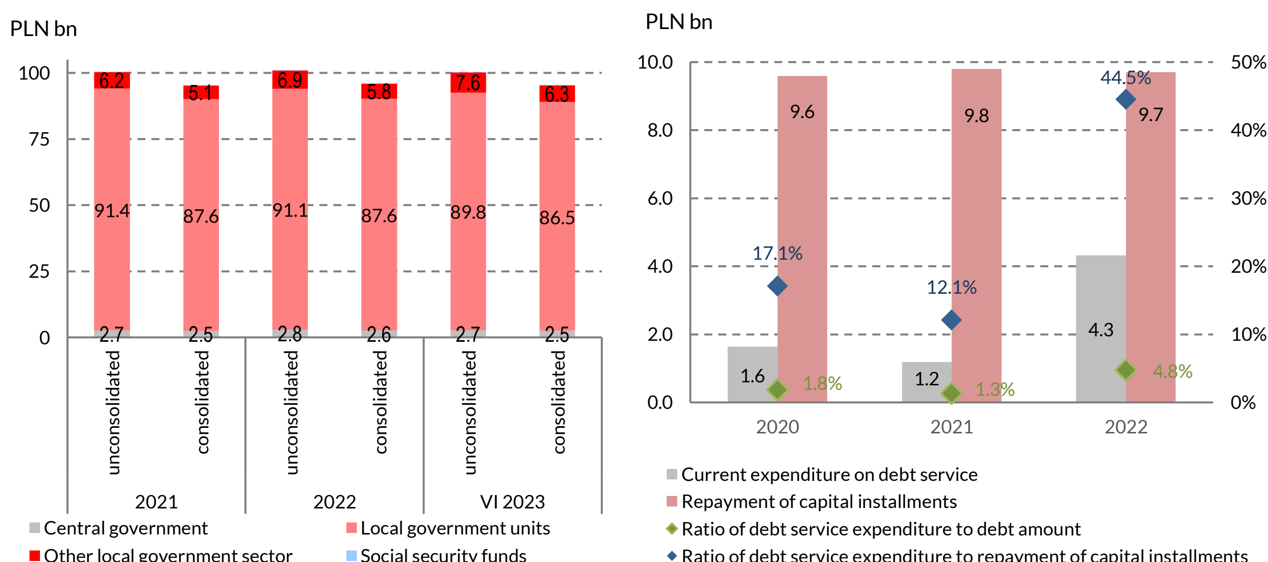
Chart 4. Market interest rates and average ST debt servicing costs



**) Average debt servicing costs were calculated as a ratio of the difference between debt servicing expenditure and revenue in a particular year to the arithmetic mean of the ST debt volume at the end of 13 consecutive months.*

The debt of the local government sector, in particular, the debt of local government units (LGU) and their associations, accounted for the largest share of the debt of public finance sector entities other than the ST. In 2022, the non-consolidated debt of LGUs and their associations decreased by PLN 0.3 billion and amounted to PLN 91.1 billion. The debt of these units consolidated within the public finance sector remained at PLN 87.6. In the first half of 2023, the debt of LGUs and their associations prior to and after consolidation decreased by PLN 1.3 billion and PLN 1.1 billion, respectively.

Chart 5. Volume of debt of public finance sector entities other than the ST prior to and after consolidation and indicators relating to the financial situation of local government units



3. Evaluation of implementation of the *Strategy* objective in 2022 and in the first half of 2023

In 2022 and in the first half of 2023, ST debt management was conducted in accordance with the *Public Finance Sector Debt Management Strategy in the years 2022-2025*, adopted by the Council of Ministers in September 2021, and the *Public Finance Sector Debt Management Strategy in the years 2023-2026*, adopted by the Council of Ministers in September 2022.

Both documents defined the same debt management objective, i.e. long-term minimization of debt servicing costs, with the adopted constraints related to risk levels. Minimization of debt servicing costs was understood in terms of two aspects: selection of instruments and ensuring the effectiveness of the TS market.

3.1. Minimization of debt servicing costs - selection of instruments

In line with the Strategy assumptions, the domestic market remained the main source of financing the State budget borrowing requirements. In 2022, TSs with a face value of PLN 161.3 billion were issued in the domestic market. Liabilities with a face value of PLN 45.1 billion were incurred in foreign markets, including PLN 22.8 billion from bond issue, PLN 14.2 billion from the EU to deal with the effects of the COVID 19-pandemic (a loan from the European temporary Support to mitigate Unemployment Risks in an Emergency - SURE), and loans for PLN 8.1 billion drawn from international financial institutions.

In the first half of 2023, TSs with a face value of PLN 96.1 billion were issued in the domestic market, while the liabilities incurred in foreign markets reached PLN 39.1 billion (including mainly foreign issues).

Table 3. TS sale in the domestic and foreign markets and loans from IFIs at face value

Instruments	2021		2022		January - June 2023	
	PLN bilion	%	PLN billion	%	PLN billion	%
Domestic TS	153.2	81.3	161.3	78.1	96.1	71.1
Foreign TS	1.8	1.0	22.8	11.1	38.2	28.2
IFIs loans	0.5	0.2	8.1	3.9	0.9	0.7
UE loans	32.9	17.5	14.2	6.9	0.0	0.0

Among the instruments issued in the domestic market, wholesale securities intended for institutional investors prevailed (in 2022, these accounted for 64.6% of the total sales value, and in the first half of 2023, this figure was 81.1%), while the share of savings bonds, following an increase in 2022 (to 35.4%), fell to 18.9% in mid-2023.

Medium- and long-term securities (with maturities of over 4 years) prevailed in the sales structure of marketable TS offered on the primary market in 2022 and in the first half of 2023. The share of these securities increased from 87.4% in 2021 to 90.1% in mid-2023, with a significant increase in the share of medium-term securities (from 46.1% in 2021 to

69.3% in mid-2023). As for savings bonds, the largest share in their sale was attributable to short- and medium-term securities (with maturities of up to 4 years), although the share of bonds with maturities of over 4 years increased significantly during the first half of 2023.

Table 4. Sales of TSs in the domestic market by maturity

Instruments	2021	2022	January - June 2023
Marketable TSs	**100%**	**100%**	**100%**
T-bills	0.0%	0.0%	0.0%
T-bonds with maturities up to 4 years	12.6%	10.4%	9.9%
T-bonds with maturities over 4 years up to 6 years (incl.)	46.1%	55.2%	69.3%
T-bonds with maturities over 6 years	41.3%	34.4%	20.9%
Savings bonds	**100%**	**100%**	**100%**
T-bonds with maturities up to 2 years	59.1%	44.4%	29.1%
T-bonds with maturities over 2 years up to 4 years (incl.)	33.2%	44.3%	56.0%
T-bonds with maturities over 4 years	7.7%	11.2%	14.9%

Fixed-rate securities maintained the largest share in the structure of domestic TSs sales in the wholesale market, with a relatively high share of floating-rate instruments (an increase from 34.6% in 2021 to 37.1% in the first half of 2023) and an increasing share of zero-coupon bonds (from 5.0% in 2021 to 9.9% in mid-2023). As for savings bonds, the first half of 2023 saw a consolidation in the preferences of buyers of these bonds, which was reflected in a further increase in the share of floating-rate bonds in the sales structure (from 40.9% in 2021 to 90.0%).

Table 5. Sales of TSs in the domestic market by type of interest rate

Instruments	2021	2022	January - June 2023
Marketable TS	**100%**	**100%**	**100%**
Fixed-rate bonds	60.3%	62.8%	53.1%
Zero-coupon bonds	5.0%	6.3%	9.9%
Floating-rate bonds	34.6%	30.8%	37.1%
Inflation-linked bonds	0.0%	0.0%	0,0%
T-bills	0.0%	0.0%	0,0%
Savings bonds	**100%**	**100%**	**100%**
Fixed-rate bonds	59.1%	18.3%	10.0%
Inflation-linked floating -rate bonds	40.5%	53.5%	63.3%
Other floating-rate bonds	0.4%	28.2%	26.7%

In foreign markets, in the analysed period, there were three issues in the euro market with a total value of EUR 5.5 billion and four issues on the American market with a total value of USD 8.0 billion. In 2022, a 10-year benchmark bond denominated in EUR with a face value of PLN 2.0 billion and 5- and 10-year bonds denominated in USD with a face value of USD 1.5 billion each were issued. In the first half of 2023, 10- and 20-year bonds denominated in EUR with a face value of EUR 2.25 billion and EUR 1.25 billion, respectively, were issued.

There were also two USD issues of 10- and 30-year bonds with a face value of USD 2.5 billion each.

Table 6. Issues of bonds in foreign markets in 2022 and in the first half of 2023

Period	Maturity (years)	Currency	Face value of issue (million)	Yield
2022	10	EUR	2 000	2.850%
	5	USD	1 500	5.619%
	10	USD	1 500	5.890%
January – June 2023	10	EUR	2 250	3.945%
	20	EUR	1 250	4.272%
	10	USD	2 500	4.968%
	30	USD	2 500	5.585%

In 2022 and in the first half of 2023, loans with a total value of EUR 1.92 billion were drawn from IFIs.
Moreover, in 2020, low-interest EU loans as part of the SURE Facility, designed to support the Member States in connection with the COVID-19 pandemic, started to be used. The program has a total budget of EUR 100 billion, of which EUR 11.2 billion is allocated to Poland. In 2022, Poland benefited from loans with a total value of EUR 3.0 billion, and starting from the launch of the program – with a total value of EUR 11.2 billion.

The main factors that influenced the course and structure of financing borrowing requirements in 2022 and in the first half of 2023 included:

1) local factors, in particular:

- monetary policy of the Monetary Policy Council (MPC) and the situation in the financial market, including:
  - further tightening of the monetary policy to curb inflation down to the target of the National Bank of Poland in mid-term: in 2022, the MPC increased interest rates 8 times, including the repo rate by a total of 500 bps from 1.75% to 6.75%, the Lombard rate by 500 bps from 2.25% to 7.25%, and the deposit rate by 500 bps from 1.25% to 6.25%. It also increased the required reserve rate from 2.0% to 3.5%. In October 2022, the Council suspended the cycle of interest rate increases to assess the impact of the tightening of the monetary policy on inflation, and informed that further decisions regarding the rates would depend on information on the outlook for inflation and economic activity;
  - maintaining unchanged Poland's credit rating by the main rating agencies (A – by S&P and Fitch and A2 by Moody's) with a stable rating outlook;
  - increased flows of foreign capital in the domestic TS market (inflow of PLN 21.6 billion in 2022 and an outflow of PLN 11.3 billion in the first half of 2023) as a

result of, among others, a sharp increase in the yields of domestic TSs from October 2021 in the conditions of the launch of the cycle of interest rate increases by the MPC, followed by an increase in the demand for assets in the core debt markets in the conditions of volatility in the financial markets and in the face of a decisive shift in the monetary policy of the Fed and the ECB to curb inflation;

- significant depreciation of the Polish zloty against the euro in 2022 and its appreciation in the first half of 2023, accompanied by a high volatility of the foreign exchange rate (the volatility of the EUR/PLN exchange rate was 8.8% and 3.9%, respectively, compared to 5.3% in 2021, the foreign exchange rate ranged between 4.49-4.97 and 4.42-4.79, respectively, compared to 4.45-4.71 in 2021, and on average amounted to 4.68 and 4.62 compared to 4.56 in 2021), and a significant depreciation of the Polish zloty against the US dollar in 2022 and its significant appreciation in the first half of 2023, accompanied by a very high volatility of the foreign exchange rate (the volatility of the USD/PLN exchange rate was 15.6% and 7.5%, respectively, compared to 8.5% in 2021, the foreign exchange rate ranged between 3.93-5.00 and 4.03-4.48 compared to 3.65-4.18 in 2021, and the average foreign exchange rate was 4.45 and 4.28 compared to 3.86 in 2021;
- high volatility in the domestic T-bond market throughout the analysed period, with a strong increase in yields along the entire yield curve: the average yields on 2-, 5- and 10-year bonds in 2022 were 6.36%, (0.82% in 2021), 6.38% (1.50%) and 6.10% (2.0%), respectively, and in the first half of 2023, these figures were 6.06%, 6.02% and 6.08%, respectively);

- steps taken by the Polish government with the aim of:
  - mitigating the negative effects of the pandemic through further issues of BGK bonds guaranteed by the State Treasury to supply the COVID-19 Response Fund. In 2022, BGK issued a total of PLN 7.8 billion in bonds with maturities from 5 to 18 years, and 3-year bonds in foreign markets with a face value of EUR 0.4 billion. In the first half of 2023, BGK placed PLN 6.5 billion in bonds with maturities from 5 to 19 years in the domestic market, and 3- and 10-year bonds with a total value of EUR 0.9 billion and 10-year bonds worth USD 1.75 billion in foreign markets;
  - supporting refugees from Ukraine who found shelter in Poland. For this purpose, an Assistance Fund was established at BGK. To implement the Fund's tasks, BGK issued bonds guaranteed by the State Treasury with a total value of EUR 1.3 billion in 2022 and with a value of EUR 0.25 billion and JPY 93 billion in the first half of 2023;
- introducing the so-called loan holidays, authorizing borrowers' exemption from paying loan instalments (four in 2022 and four in 2023) and postponing their payment until the end of the loan period;
- adopting the Budget Act for 2023 by the Sejm, allowing for the State budget deficit of PLN 68.0 billion, the deficit of the general government sector of ca. 4.5% of GDP and the debt of this sector of 53.3% GDP, followed by the adoption of an amendment to the

Budget Act for 2023 by the Council of Ministers in June 2022, in which the State budget deficit was increased by PLN 24.0 billion to PLN 92.0 billion);

- announcement of the extension of the government social programs.

2) external factors, in particular:

- the monetary policy pursued by the main central banks, including:
  - **in the USA:** tightening of the monetary policy (from March 2022) in response to the increase and persistence of inflation well above the long-term inflation target: until June this year, the Fed carried out ten rate increases by a total of 500 bps, as a result of which the federal funds rate was in the range of 5.00-5.25%; completion of the asset purchase program in March 2022 and a reduction in the Fed's total balance sheet starting from June 2022);
  - **in the euro area:** keeping interest rates unchanged until June 2022 and starting – from July 2022 – to normalise the monetary policy with a larger-than-expected rate increase (by 50 bps); by June 2023, the ECB increased the rates 8 times by a total of 400 bps (the repo rate increased to 4.00% and the deposit rate – to 3.50%); extending the ultra-cheap bank loan program (worth EUR 109 billion) until June 2022; discontinuing the asset purchase program (PEPP) of EUR 1.85 trillion in March 2022, while reinvesting capital repayments until the end of 2024; limiting the purchase of net assets under the APP to EUR 20 billion in June 2022 to discontinue the program on 1 July 2022; declaring that the capital repayments under the due securities purchased as part of the APP would be reinvested in total as long as necessary to maintain adequate liquidity conditions (in June 2022), and then gradually reducing the scale of reinvesting under this program until June 2023 to discontinue reinvesting from July 2023;
  - **in China:** three cuts in the one-year interest rate on corporate credits by a total of 35 bps to 3.55% (in January and August 2022 and in June this year), four cuts in the 5-year mortgage lending rate by 45 bps to 4.20% (in January, May and August 2022 and in June this year), three cuts (in January and August 2022 and in June this year) in the interest rate on one-year MLF credits (cost of medium-term funding for financial institutions) by a total of 30 bps to 2.65% (the record lowest level), and three cuts in the 7-day reverse repo interest rate by a total of 30 bps (in January and August 2022 and in June this year) to 1.90%. Thus, the Bank confirmed that the monetary policy would be further loosened in the light of the economic slowdown;
  - **in Japan:** maintaining the key interest rate at -0.1%, yield curve control, increasing the upper limit of the 10-year benchmark yield fluctuation range by 25 bps to 0.50% as part of yield curve control, interventions in the currency market to stop the strong depreciation of the yen against the US dollar;
  - **in Switzerland:** shift in the monetary policy from June 2022 with an unexpected increase in interest rates (for the first time since 2007) to prevent a further increase in inflation; by June 2023, the SNB increased the interest rates 5 times by a total of

250 bps, as a result of which the reference rate increased from -0.75% to 1.75%. The Bank did not rule out further increases in the interest rates and interventions in the currency market to stabilise inflation;

- tightening of monetary policy by some regional and European central banks in response to the strong increase in inflation;
- geopolitical situation in the world affecting the level of risk appetite in the global financial market, including:
  - Russia's invasion of Ukraine lasting since 24 February 2022 that has turned into a war devastating Ukraine, and actions taken by the international community in the form of unprecedented economic, political and financial sanctions imposed on Russia for violating international law and Ukraine's sovereignty. Russia's aggression against Ukraine has caused an abrupt reaction in financial markets and an intensified risk aversion (a decrease in yields in the core markets and their increase in the emerging markets, the appreciation of USD and CHF, the depreciation of the currencies of developing countries, an increase in oil prices);
  - concerns about the condition of European banks due to the turmoil in the American banking sector triggered by the collapse of Silicon Valley Bank. Despite the takeover of Credit Suisse by UBS with the support of the Swiss central bank and the coordinated actions taken by the main central banks to increase liquidity in the banking system, there was an increase in investors' risk aversion, which was reflected in the increased yields of government bonds in the core markets and the depreciation of the euro against the US dollar;
  - concerns about the impact of the lack of political agreement as to increasing the debt limit in the USA on financial markets. Finally, at the end of May, President J. Biden and Republicans reached an agreement that suspends the debt limit until 1 January 2025. The agreement also limits budget spending for 2024-2025, accelerates the issuance of permits for certain energy projects, and introduces additional requirements for Americans receiving aid benefits;
- concerns about global economic growth in the light of strong inflationary pressure, the impact of the geopolitical situation on inflation, the situation in raw material markets, and the effects of tightening monetary policy by most central banks.

3.2. Minimization of debt servicing costs – ensuring the effectiveness of the TS market

The main measures aimed at minimizing debt servicing costs in terms of ensuring the effectiveness of the Treasury securities market, include:

- issuance policy assuming building liquid benchmark bond series. In mid-2023, the value of 18 issues exceeded PLN 25 billion (the same number of issues was recorded at the end of 2022 and 2021), of which 14 issues were larger than PLN 30 billion (at the end of 2021, there were 12 such issues). Issues with a face value of more than PLN 25 billion

accounted for 90.4% of the face value of fixed-rate medium- and long-term bonds, compared to 90.6% at the end of 2022. The adequately high value of issues has a significant effect on liquidity in the secondary market;

- issues of bonds in the euro market with a value ensuring liquidity of a given series (in 2022 and in the first half of 2023, there were three issues of bonds with a value exceeding EUR 1 billion);
- aligning the TS sale volume and structure with the current market situation and affecting this situation through an information policy;
- sell-buy-back (SBB) transactions between TS primary dealers (PD) and PD candidates on the one side and BGK on the other side under special terms (the mechanism was introduced in February 2014 in order to support clearing in the circumstances of temporary and significantly limited availability of bonds of a given series in the secondary market). In 2022 and in the first half of 2023, transactions with a face value of PLN 19.5 billion, accounting for 0.2% of all SBB transactions in the TS market, were concluded;
- extension of the offer of savings bonds:
  - third issue of premium bonds (POS) in March 2022. These are fixed-rate securities with a premium that can be won by drawing;
  - in June 2022, the regular offer was extended by adding one-year (ROR) and two-year (DOR) bonds with a floating-rate based on the NBP reference rate. The interest rate structure ensures regular monthly interest payments. The ROR and DOR interest rates in particular monthly interest periods are determined based on the NBP reference rate.
  - introduction of three-year fixed-rate bonds (TOS) to the retail bond offer from August 2022, that replaced floating-rate bonds (TOZ). The savings bonds distributed through the retail network are aimed at building a stable investor base, while contributing to the *Strategy* objective, and are issued as part of the activities promoting the culture of saving and the protection of savings against high inflation;
- extension of the retail bond sales and service network:
  - in October 2022, the retail bond sales and service network was extended to include a second entity – Bank Pekao S.A.;
- conversion of savings bonds at a preferential price:
  - in June, July and August 2023, in connection with the redemption of savings bonds with a total value of nearly PLN 12.4 billion (including the redemption of the first issues of one-year ROR bonds in the amount of PLN 10.3 billion), a lower conversion price was set for the one-year bonds (ROR), 2-year bonds (DOR), 3-year bonds (TOS), 4-year bonds (COI) and 10-year bonds (EDO). The lower conversion price was intended to encourage holders of bonds maturing in June – August to reinvest funds from the redemption of these securities.

3.3. Constraints on the risk level

Table 7. Assessment of the implementation of the Strategy objective constraints related to the risk level

Constraints on the *Strategy* objective						
Constraint	Implementation level*	Implementation method	Measure	Value		
				2021	2022	June 2023
Refinancing risk	Moderate	• Increase in the share of medium- and long-term bonds in total sales of marketable bonds in the domestic market in 2022 and in the first half of 2023 (89.6% and 90.1% of TS marketable sales, respectively, with a growing share on medium-term bonds: 55.2% and 69.3%, respectively, in sales); • Important role of switching auctions: - 25.4% of the initial debt in bonds maturing in the period from January 2022 to June 2023 was bought back; - in the period from the beginning of 2022 to mid-2023, bonds with a total face value of PLN 51.8 billion were bought back, compared to bonds with a total face value of PLN 67.4 billion bought back in the period from the beginning of 2021 to mid-2022; • Transfer of bonds with a face value of PLN 35.7 billion to authorized entities under other laws; starting from 2022, the bonds transferred have been corresponding to the structure of bonds sold at auctions, i.e. from 2 to 10 years; • Maintaining the average maturity of domestic debt below 4.5 years as set in the *Strategy*, due to changes in market conditions (the start of a cycle of interest rate increases by the Monetary Policy Council), including the debt demand structure and the debt aging , with a simultaneous increase in the average maturity of total debt in mid-2023 above the target level of 5 years (mainly as a result of large issues of long-term bonds in foreign markets). The *Strategy adopted* in September 2022 allows for temporary deviations in average maturity from target levels, resulting from market or budgetary conditions.	Debt ATM** (in years)			
			- domestic - foreign - total	4.16 6.43 4.75	4.11 6.81 4.84	4.13 8.05 5.17
			Share in domestic TSs:			
			- TSs up to 1 year - T-bills	14.0% 0.0%	11.4% 0.0%	14.1% 0.0%
Foreign exchange risk	High	• Maintaining the share of debt in foreign currencies in the ST debt below 25%, i.e. as assumed in the *Strategy*; • Maintaining an effective share of EUR-denominated debt in foreign debt (taking into account transactions in derivative instruments) above the minimum level set in the *Strategy* (70%).	Share of foreign debt in the ST debt	23.3%	23.3%	22.9%
			Share of EUR-denominated debt in foreign debt	85.8%	86.9%	83.9%
Interest rate risk	Satisfactory	• Maintaining the ATR of domestic debt within the set range of 2.8-3.6 years (for the *Strategy* announced in September 2021) and 2.6-3.6 years (for the *Strategy* announced in September 2022); • In accordance with the *Strategy*, the dominant share of fixed-rate instruments in the debt denominated in foreign currencies was maintained; • Increase in the share of floating-rate instruments in the ST debt, as a result of an increase in the issue of these instruments in the domestic market.	Debt ATR (in years)**			
			- domestic - foreign - total	3.00 5.55 3.66	2.98 6.05 3.80	3.00 7.36 4.15
			Debt duration ** (in years) - domestic - foreign - total	2.87 5.31 3.55	2.51 4.95 3.18	2.60 6.56 3.67
			Share of floating-rate debt in the ST debt	25.6%	27.3%	29.2%
			Share of floating-rate debt in domestic debt	30.0%	32.7%	35.3%

Constraints on the *Strategy* objective		
Constraint	Implementation level*	Implementation method
Liquidity risk	High	The main instruments used in liquidity risk management included: • interest-bearing PLN-denominated deposits at the NBP – deposits with a total value of PLN 236.1 billion were made in 2022, while those made in the first half of 2023 amounted to PLN 141.9 billion; • PLN-denominated deposits made through BGK – in 2022, transactions with a total value of PLN 3,130.7 billion were concluded, whereas those concluded in the first half of 2023 amounted to PLN 645.4billion; • PLN-denominated buy-sell-back (BSB) deposits hedged with Treasury securities – in 2022, transactions with a total value of PLN 575.6 billion were concluded, whereas those concluded in the first half of 2023 amounted to PLN 163.8 billion; • foreign currency deposits – in 2022, deposits for an amount equivalent to EUR 6.1 billion were made, whereas those made in the first half of 2023 amounted to an equivalent of EUR 16.0 billion; • exchange of consolidated funds in foreign currencies at the National Bank of Poland and in the market; in 2022, foreign currencies equivalent of EUR 10.3 billion were sold at the NBP, while those sold in the market amounted to EUR 7.4 billion; in the first half of 2023, EUR 9.8 billion was exchanged at the NBP and the equivalent of EUR 2.2 billion was exchanged in the market. As part of the consolidation of liquidity management, the deposits in the accounts of the Minister of Finance with BGK amounted to PLN 131.3 billion at the end of 2022 and PLN 111.5 billion at the end of June 2023. The level of State budget liquid assets in 2022 and in the first half of 2023 ensured the smooth execution of budgetary flows.
Credit risk	High	• PLN-denominated BSB deposits hedged with Treasury securities did not generate any credit risk; • For unsecured deposits with BGK and derivative transactions , a system of credit limits is in place; • Risk connected with derivative transactions is limited due to selection of counterparties with high credit rating; • A system of collateral on derivative transactions through blocking TSs and mutual collateral in the form of cash deposit is in place. Collateralized transactions do not generate credit risk; • Credit risk generated by uncollateralized derivative transactions is diversified through limits imposed on the total value of transactions made with particular partners. Creditworthiness of potential partners is monitored on an on-going basis.
Operational Risk	High	• Adequate technical infrastructure for concluding market transactions, security of data and information related to debt management, and the integrated ST debt database help maintain operational risk at a safe level; • Adequate technical infrastructure enables remote working.
Distribution of debt servicing costs over time	Satisfactory	• Coupons of new issues were set at a level slightly below their forecasted yields. • As a result of a significant increase in yields during 2022, bonds with previously set coupons were sold with a significant discount, which will result in an increase in budget expenditure on this account on their maturity dates. The amount of debt servicing costs was also affected by swap transactions concluded in 2021 to spread these costs between 2021 and 2022. As a result of these transactions, 2022 costs decreased by PLN 3.39 billion.

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

***) ATM and ATR parameters for domestic debt are calculated for the market ST debt, while the parameters for the ST debt are calculated for domestic and foreign marketable debt and IFI and EU loans. Duration does not additionally take into account inflation-linked bonds.*

4. 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 possible developments in the major international markets, the role of both domestic and foreign investors in the domestic TS market, as well as the course of the reform of benchmark indices.

4.1. Macroeconomic assumptions of the *Strategy*

The assessment of the macroeconomic situation and directions of the fiscal policy was presented in the rationale for the draft Budget Act for 2024. Table 8 contains the key macroeconomic assumptions of the *Strategy*, consistent with the assumption of the draft Budget Act.

Table 8. Macroeconomic assumptions adopted in the Strategy

Item	2022	2023	2024	2025	2026	2027
Real GDP growth (%)	5.1	0.9	3.0	3.4	3.1	3.0
GDP at current prices (PLN billion)	3,078.3	3,444.4	3,770.9	4,048.1	4,292.9	4,528.2
Average CPI (%)	14.4	12.0	6.6	4.1	3.1	2.5
EUR/PLN - end of period	4.69	4.45	4.45	4.45	4.45	4.45
USD/PLN - end of period	4.40	4.08	4.08	4.08	4.08	4.08

The monetary policy was also affected by the unexpected cut in interest rates by the Monetary Policy Council by 75 bps in September, as a result of which the reference rate dropped to 6.00% and the Lombard rate – to 6.50%. According to the Monetary Policy Council's position, further decisions as to interest rates will depend on the incoming information regarding the outlook for inflation and economic activity.

4.2. International conditions

The most important international conditions in terms of ST debt management include:

- economic performance of the EU countries – according to the European Commission's September forecast, GDP in the EU will increase by 0.8% in 2023 (following an increase by 3.7% a year earlier), to increase by 1.4% in 2024;
- as of 2024, EU countries will return to budgetary policy pursued in line with EU rules (3% threshold for the general government deficit and 60% threshold for this sector's debt). Member States, including Poland, are also likely to be covered by the excessive deficit procedure based on the execution of the deficit or debt in 2023; a country with a deficit above 3% would normally have one year to reduce the deficit below this threshold. At the same time, there is an ongoing discussion in the EU on ways to ensure sound public finance in EU countries, that may lead to a change in EU regulations regarding the supervision of Member States' public finance. The Commission has proposed maintaining the thresholds for the headline deficit and the sector debt, while Member States could limit excessive deficits over a longer period;

- actions taken by major central banks and the situation in the interest rate markets for the currencies in which liabilities may be incurred, mainly in the euro market:
  - continuation of the normalization of monetary policy by the ECB; in July and September, the central bank increased interest rates by a total of 50 bps (including the main interest rate to 4.50% and the deposit rate to 4.00%) and reduced the reserve requirement interest rate to 0% (in July). According to the ECB, interest rates have reached a level that, if maintained long enough, will allow inflation to return to its target level. It was emphasized that subsequent decisions would depend on incoming data. According to President Ch. Lagarde the ECB rates have not reached their target levels. The Bank's new forecasts showed a lower economic growth rate for 2023 (0.7% compared to 0.9% in the previous forecast) and for 2024 (1.0% compared to 1.5%) as well as a higher inflation forecast: 5.6 % in 2023 (5.4%) and 3.2% in 2024 (3.0%);
  - continuation of the tightening of the Fed monetary policy – at its meeting in July this year, the Fed increased interest rates by 25 bps, as a result of which the main interest rate was in the range of 5.25-5.50%. Forecasts released at the September meeting show that most Fed members expect one more interest rate hike in 2023, while the 2024 interest rate target was raised to 5.1% from 4.6% in the June forecast. This means a smaller scale of interest rate cuts next year (by 50 bps compared to 100 bps in the June forecast);
  - continuation by the Bank of Japan of its ultra-soft monetary policy for as long as necessary to achieve and maintain the inflation target at a stable level of 2%, including: control of the yield curve, maintaining a negative benchmark interest rate, and interventions in the currency market in order to stop the strong depreciation of the yen against the US dollar;
  - tightening of the monetary policy of the Swiss National Bank: the June forecast of the Bank assumes higher inflation from 2024 compared to the forecast from March 2023 and, according to the Bank, another increase in interest rates is necessary to reduce inflation to a range ensuring price stability in the medium term. The Bank did not rule out either further tightening of its monetary policy and emphasized that the significant liquidity assistance that the SNB granted to Credit Suisse in March had no impact on its stance in monetary policy;
  - continuation of easing monetary policy by the People's Bank of China: in August, the Bank injected CNY 757 billion (ca. USD 104 billion) into the banking system and reduced the interest rate on one-year MLF creditsby 15 bps to 2.50% (although no change was expected) and the interest rate on one-year corporate bank loans by 10 bps to 3.45% to stimulate the weakening economy; at the same time, in order to defend its currency, the Bank set a daily target rate at CNY 7.2006 per US dollar (much below market expectations, i.e. 7.3047) with an accepted deviation range of +/- 2%;
- perception of Poland's credit risk and liquidity preferences of Polish bonds' buyers operating in global markets, affecting the amount of the premium relative to core markets;

- concerns about economic growth mainly in view of the geopolitical situation, price increases in the markets for raw materials, inflation forecasts, and the impacts of the tightening the monetary policy by the central banks.

4.3. Domestic TS market

The level of development of the domestic financial market, including the domestic investor base, as well as the involvement of foreign investors in this market, is significant determinant of debt management. In the circumstances of free capital flow, a well-developed and deep domestic market allows for absorption of external shocks and outflows of foreign capital. On the other hand, a well-developed and deep market attracts foreign capital.

Entities investing in the domestic TS market can be divided into three main groups: the domestic banking sector, domestic non-banking sector and foreign investors. From the end of 2021 until the first half of 2023, the following changes in the holders' structure of domestic TS debt were observed:

- maintaining the dominant share of the banking sector's debt in the debt holders structure (51.1% at the end of June 2023), in nominal terms their exposure increased by PLN 14.8 billion, as a result of an increase for commercial banks by PLN 23.3 billion and a decrease for the National Bank of Poland (NBP) by PLN 8.5 billion;
- a significant increase in the involvement of domestic non-banking investors by a total of PLN 62.0 billion, with an increase in their share in the debt holders' structure to 34.0% (by 3.9 pp);
- a moderate increase in the exposure of foreign investors in domestic TSs by a total of PLN 10.4 billion, as a result of which their share was 14.9%, i.e. declined by 0.3 pp.

*Chart 6. Structure of domestic TS portfolios held by main groups of investors**

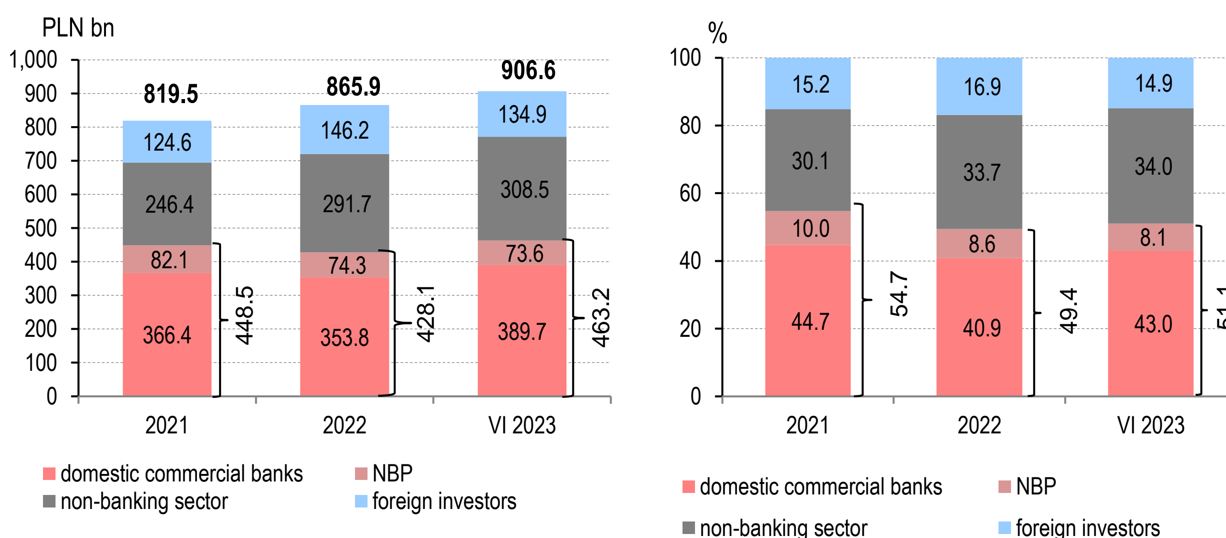
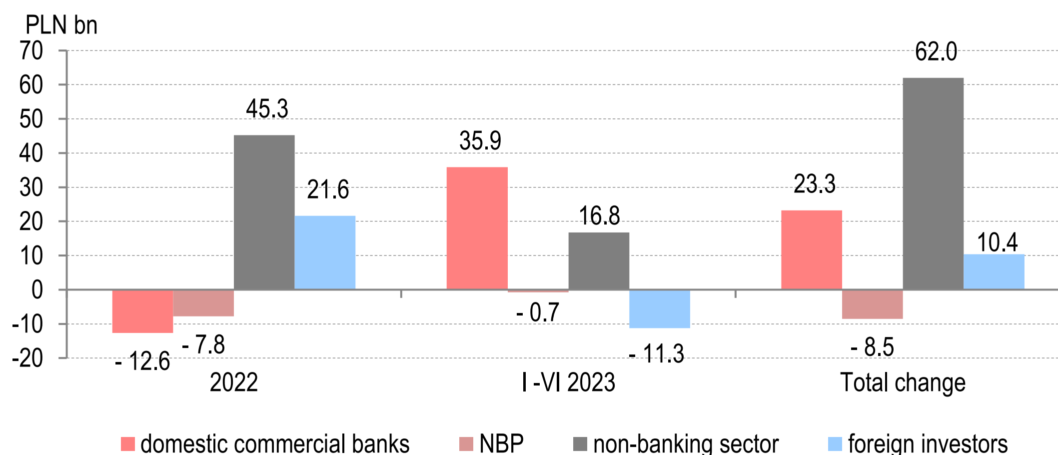


*Chart 7. Changes in domestic TS portfolios held by main groups of investors**



**) At face value, the data on the TSs include conditional transactions.*

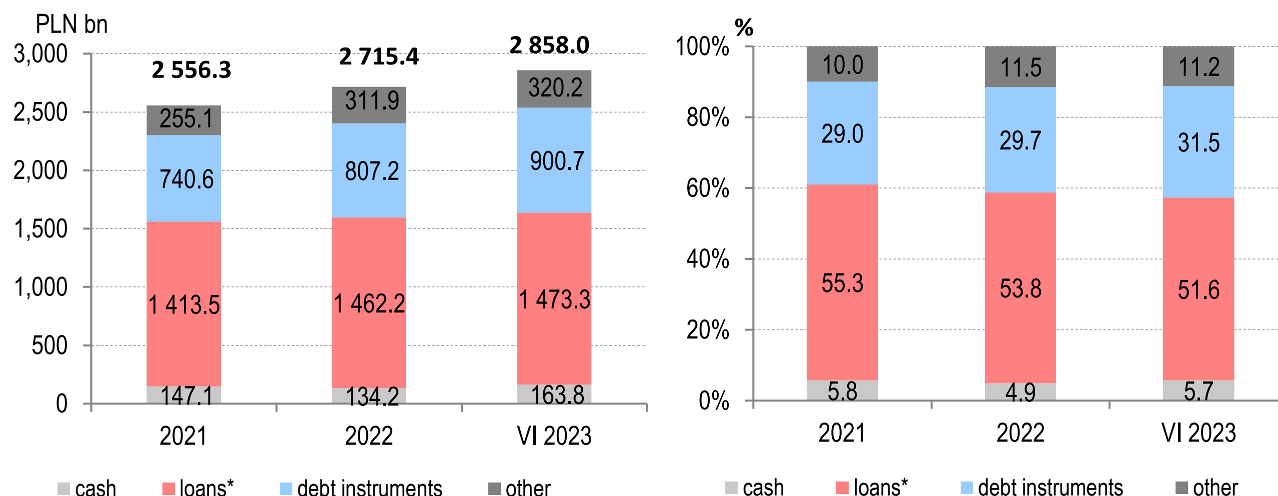
As at the end of June 2023, domestic investors held 85.1% of domestic TS debt, which represented an increase by 0.3 pp compared to the end of 2021. From the end of 2021, their exposure increased by PLN 76.8 billion (i.e. by 11.0%).

4.3.1. Domestic banks

As at the end of June 2023, assets of domestic commercial banks amounted to PLN 2.9 trillion (an increase by 11.8% compared to the end of 2021), with the dominant share of loans and other receivables from domestic entities (51.6%). Debt instruments were the second largest component of assets – as at the end of June 2023, their share was 31.5%. In the structure of debt instruments, Treasury securities (47.2%) and NBP money bills (31.5%) continued to prevail.

As at the end of June 2023, the exposure of domestic commercial banks in domestic TSs amounted, at face value, to PLN 389.7 billion (an increase of 6.3% compared to the end of 2021). As at the end of 2023, the exposure of the National Bank of Poland in domestic TSs (purchased in the secondary market as part of structural open market operations) declined by 10.4% compared to the end of 2021, and was, at face value, PLN 73.6 billion, which was due to the redemption of maturing bonds in the portfolio of the NBP and the lack of reinvestment and new purchases.

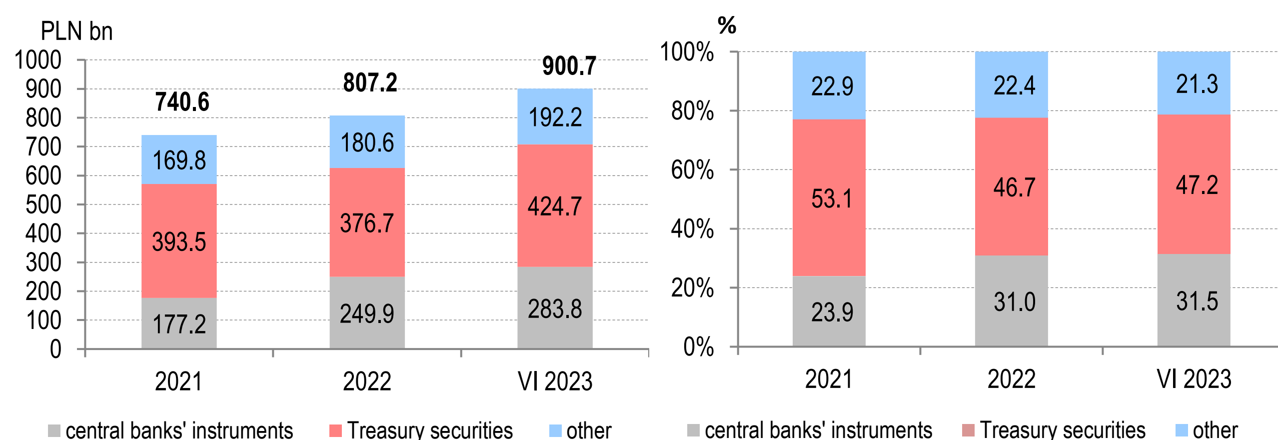
Chart 8. Structure of assets held by domestic commercial banks



** loans and other receivables from domestic entities*

Source: National Bank of Poland, in accordance with the applicable measurement methods.

Chart 9. Debt instruments in assets of domestic commercial banks



Source: National Bank of Poland, in accordance with the applicable measurement methods.

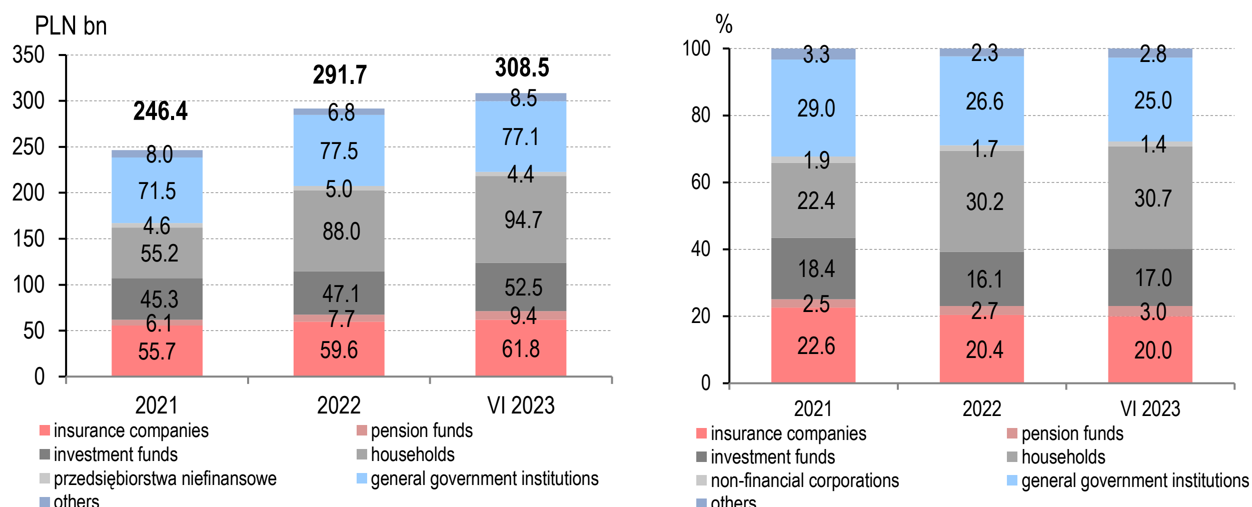
The most significant factors to affect banks' demand for domestic TS in the *Strategy* timeframe include:

- development of the economic situation, affecting the size and structure of assets held by banks;
- policy of the central bank, including with regard to the level of interest rates;
- level of over liquidity of the banking sector;
- formal and legal conditions, including the transition of the WIBOR rates to the new WIRON benchmark rate.

4.3.2. Domestic non-banking investors

Domestic non-banking investors include institutional entities that operate in the financial market, in particular insurance companies and investment funds, and other domestic non-banking investors, mainly households and general government institutions.

*Chart 10. Structure of the portfolio of domestic TSs held by the non-banking sector **



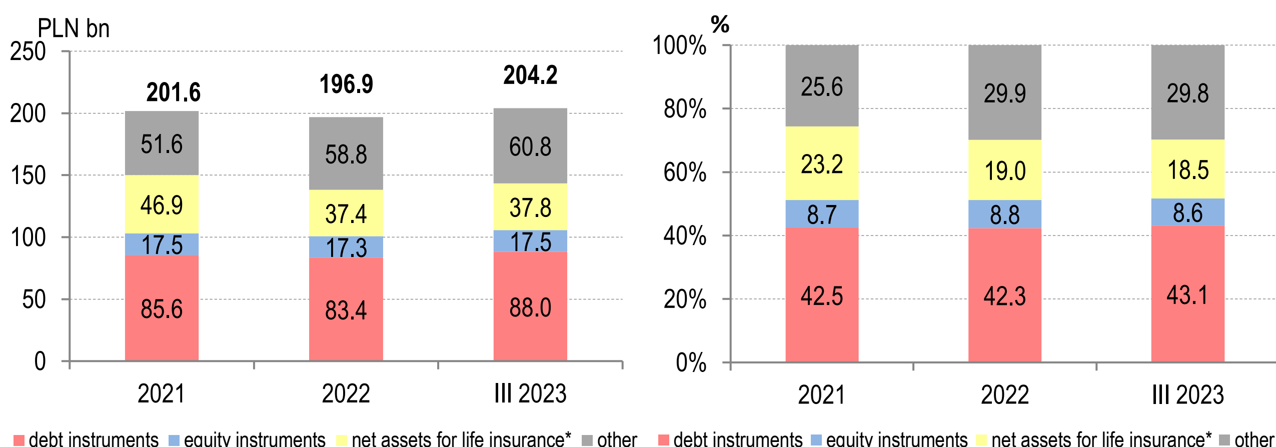
** At face value. The data on the TSs include conditional transactions.*

Although institutional investors play an important role among domestic non-banking investors, in recent years, the highest growth rate has been recorded in the value of TS portfolios held by households. Since the end of 2021, their involvement has increased by PLN 39.5 billion (i.e. by 71.5%) to PLN 94.7 billion, which resulted mainly from growing interest in the savings bond offer that was adapted to the current market conditions.

As at the end of June 2023, insurance companies held 6.8% of domestic TSs (no change compared to the end of 2021), investment funds held was 5.8% (an increase by 0.3 pp) and that of other domestic non-banking investors was 21.4% (an increase by 3.7 pp). The main factors affecting the value of the TS portfolio held by insurance companies and investment funds include the value of assets and the investment policy pursued by those entities.

Assets held by insurance companies as at the end of March 2023 amounted to PLN 204.2 billion, which represents an increase by PLN 2.5 billion compared to the end of 2021, i.e. by 1.3%.

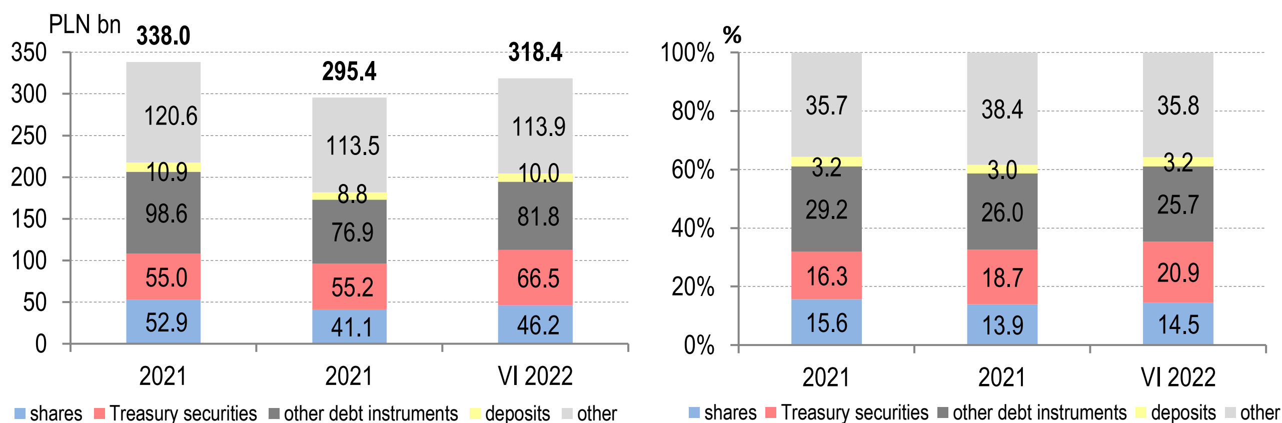
Chart 11. Structure of assets held by insurance companies



** net assets for life insurance - life insurance net assets where the investment risk is borne by the policyholder.*
Source: Polish Financial Supervision Authority, in accordance with the applicable measurement methods.

As at the end of June 2023, assets held by investment funds decreased to PLN 318.4 billion, i.e. by PLN 19.6 billion (5.8%) compared to the end of 2021. The value of T-bonds (issued in the domestic and foreign markets) held by investment funds decreased during this period by PLN 11.5 billion and their share in assets increased by 4.6 pp.

Chart 12. Structure of assets held by investment funds



Source: National Bank of Poland, in accordance with the applicable measurement methods.

The main factors to determine the value of the TS portfolio in assets managed by non-banking financial institutions in the forthcoming years include:

- further development of the insurance and investment funds markets, particularly in the context of developments in equity markets and the levels of yields on Treasury securities, as reflected in the structure of these institutions' assets;
- the level of interest rates and inflation that indirectly affects also the investment behaviour of households and non-financial enterprises, encouraging them to seek alternative investments to protect the capital;
- increasing the scale of households' long-term savings to be paid after the end of professional activity, including an increase in the assets of Employee Equity Schemes (PPK).

4.3.3. Foreign investors

As at the end of June 2023, the share of foreign investors in domestic TS debt was 14.9% and decreased by 0.3 pp compared to the end of 2021. In 2022 and in the first half of 2023, foreign investors increased their holdings of domestic TSs by a total of PLN 10.4 billion, as a result of an increase in the exposure of non-residents by PLN 21.6 billion in 2022 and its decrease by PLN 11.3 billion in the first half of 2023. The share of non-residents was affected, among others, by the monetary policy of the major central banks and changes in the interest rate disparity.

The foreign investors' demand depends, to a large extent, on the international situation, thus, it is highly volatile. The risk of a negative impact of outflow of foreign capital from Poland on the TS market is, however, limited due to the dominant role of domestic investors and the diversification of the non-residents' structure both in institutional and geographical

terms. Institutional investors, i.e. central banks and public institutions, investment funds, pension funds and insurance companies, play an important role in the structure of debt owed to by non-residents. The geographical structure of domestic TS holders is diversified as well – as at the end of June 2023, they were held in the portfolios of investors from 65 countries.

The most important factors to affect non-residents' demand for Polish TS in the *Strategy* timeframe include:

- actions undertaken by central banks;
- economic developments and the stability of financial markets in the world, which will be significantly affected by the development of the geopolitical situation, including the course of the war in Ukraine;
- Poland's economic foundations and the assessment of Poland's credit risk;
- operation of a large liquid financial market in Poland (in particular, the TS market) and its adequate infrastructure (the implementation of the Capital Market Development Strategy is to support the development of the Polish capital market), as well as the process of transition of WIBOR rates to the new WIRON transaction index (cf. Chapter 4.4).

Due to the free flow of foreign capital, the non-residents' investment in domestic TS, as well as raising funds in international markets, may be a source of exchange rate risk for the ST debt. Therefore, this factor determines a flexible approach to shaping the financing structure in terms of selection of the market and currency.

4.4. Benchmark indices reform

The benchmark indices reform initiated in 2022 consists in replacing the use of the WIBOR index in financial instruments with a new risk free rate (RFR). In order to effectively carry out the implementation of the new benchmark index, a National Working Group on Benchmark Reform was established in July 2022. The Steering Committee of the National Working Group selected WIRON as the recommended benchmark index replacing WIBOR. WIRON is developed on the basis of O/N deposit transactions concluded by entities transmitting data with financial institutions and large enterprises. In accordance with the announcement of 13 February 2023 posted on the website of the Polish Financial Supervision Authority, WIRON has become the interest rate benchmark.

The Roadmap for the process assumes preparedness to discontinue the development and publication of the WIBOR and WIBID indices from the beginning of 2025, while the implementation of a new offer of financial products using the WIRON benchmark is planned for 2023 and 2024. The Steering Committee of the National Working Group adopted recommendations for the use of the WIRON benchmark (or benchmark indices from the WIRON Compound Index Family) in new banking, leasing and factoring products as well as bonds and derivatives. As for the legacy portfolio:

- a recommendation presenting the recommended method of replacing WIBOR with an alternative benchmark index in interest rate derivatives in the case of a permanent

regulatory event was developed and adopted by the Steering Committee of the National Working Group,

- a draft recommendation regarding the principles and methods of converting existing debt securities in which WIBOR is used was developed and submitted for consultation, whereby the recommendation concerns non-Treasury debt securities.

The Ministry of Finance amended the regulation of the Minister of Finance on the conditions for issuing T-bonds offered for wholesale and developed technical and organizational infrastructure enabling the issue of bonds with floating interest rates based on WIRON. The pilot issuance is planned to be carried out at the turn of September and October 2023. The abandonment of issuing WIBOR-indexed bonds and the full transition of new issues with floating interest rates to the WIRON benchmark will be carried out in consultation with market participants on a date depending on market conditions, primarily on the development of the demand for bonds based on the new benchmark. At the same time, rules for converting the existing portfolio of bonds with interest rates based on the WIBOR benchmark will be developed.

Detailed information on the transition of benchmark rates can be found on the GPW Benchmark website: https://gpwbenchmark.pl/. The Roadmap for the benchmark replacing process and recommendations for the use of WIRON are available on the website of the Polish Financial Supervision Authority: https://www.knf.gov.pl/.

5. Objective of the *Strategy*

The objective of the Strategy will remain the minimization of debt servicing costs in the long term horizon, 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 and operational risks;
6) the distribution of debt servicing costs over time.

This objective, determining the debt management, is understood in terms of two aspects as:

- **selection of instruments,** aimed at cost minimization within the timeframe defined by maturity dates of the longest maturity instruments and a significant share in debt, through the adequate selection of markets, debt management instruments, structure for financing borrowing requirements and issuance dates;
- **ensuring the efficiency of the TS market,** contributing to the lowering of TS yields. This means striving to eliminate or limit any unfavourable factors in market organization and infrastructure.

The approach to the accomplishment of the objective of minimizing debt servicing costs has not changed relative to the previous years' Strategies. This means there is flexibility in shaping the financing structure in terms of selection of the market, issuance method, currency and type of instruments, also with the use of derivative instruments. The selection of this structure should result from an assessment of market conditions (the level of demand, interest rates and the shape of the yield curve in particular markets) and the financing cost in the long term, while taking into considerations constraints resulting from the acceptable risk levels.

Experiences as regards debt management indicate a significant role of flexibility and diversification of sources of financing borrowing requirements, subject to the market situation. This contributes both to ensuring the security of financing the State budget borrowing requirements and to reducing the cost of the capital raised, which is particularly important in the period of disruptions in financial markets.

The domestic market will remain the main source of financing the State budget borrowing requirements. The supply of instruments in this market will be developed in a flexible manner, adapted to the current market situation, i.e. the reported demand level, so that the impact of TS supply on the yields can be minimized. Financing in international markets will supplement domestic financing and its level should:

- account for the budget borrowing requirements in foreign currencies as well as the inflow of EU funds;

- ensure diversification of funding sources through Poland's access to the investor base in major financial markets;
- maintain Poland's position in the euro and US dollar markets;
- stabilize the domestic market through the ability to adapt the structure of financing the State budget borrowing requirements to the market situation;
- account for the financial instruments offered by the EU;
- take advantage of attractive financing in international financial institutions;
- allow for selling currencies at the NBP and in the financial market as an instrument to manage funds in foreign currencies and the State budget liquidity, while taking monetary, economic and budgetary policy considerations into account.

The minimization of debt servicing costs in the long term will be subject to constraints related to the ST debt structure. Therefore, the following assumptions have been made with respect to:

1) refinancing risk

- maintaining of the dominant role of medium- and long-term instruments in financing the State budget borrowing requirements in the domestic market, subject to the market situation;
- striving to maintain the average maturity of domestic debt* at the level close to 4.5 years, subject to possible temporary deviations resulting from market and budget conditions;
- striving to maintain the average maturity of the ST debt* at the level of at least 5 years, subject to possible temporary deviations resulting from market and budget conditions;
- striving for an even distribution of redemptions over time;

2) exchange rate risk

- maintaining the share of foreign currency debt in ST debt below 25%, subject to possible temporary deviations due to market or budgetary conditions;
- possibility to use derivative instruments to develop an adequate debt currency structure;
- maintaining an effective (i.e. taking into account derivative transactions) share of the euro in foreign currency debt of at least 70% in the *Strategy* timeframe;

3) interest rate risk

- maintaining the average time to re-fixing (ATR) of domestic debt* in the range of 2.6-3.6 years;
- separating interest rate risk management from refinancing risk management by using floating-rate bonds, including those based on the new reference index, and the possibility to use derivatives and inflation-linked bonds;

- maintaining the dominant share of fixed-rate instruments in ST debt denominated in foreign currencies;

4) State budget liquidity risk

- maintaining the safe level of State budget liquidity while managing liquid assets in an effective way through deposits in Polish zloty and foreign currencies and transactions in foreign currencies (including sales of FX funds, derivatives). The level of liquid funds will be determined by ongoing budgetary and market situation, including budget seasonality and smoothing of TS supply over the year. The adequate level of liquid assets results in State budget's resilience to market volatility and improves TS valuation on the primary market;

5) other risks, in particular credit and operational risk

- concluding derivative transactions with entities with high creditworthiness;
- mitigation of credit risk (through collateral agreements) and its diversification while concluding derivative transactions. In the *Strategy* timeframe, it is possible to conclude further collateral agreements that are in line with the current best market practices and enable concluding transactions without bearing credit risk on more favourable terms;
- diversification of credit risk generated by uncollateralized transactions;
- assuring technical infrastructure allowing for running debt management processes remotely;

6) distribution of debt servicing costs over time

- aiming at an even distribution of debt servicing costs in particular years, including the use of derivative instruments;
- setting bond coupons at a level slightly below their forecasted yield in the issuance period.

**) ATM and ATR parameters for domestic debt are calculated for the domestic marketable ST debt, while the parameters for the ST debt are calculated for domestic and foreign marketable ST debt and IFI and EU loans.*

6. Tasks of the *Strategy*

The following tasks have been recognized 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;
4) effective State budget liquidity management.

The tasks provided for in the *Strategy* with respect to TS market development are long-term and cover measures implemented on a continuous basis. These tasks are to a large extent interdependent, i.e. particular measures may contribute to the implementation of more than one task at a time. Accordingly, undertaken measures 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.

The measures aimed at effective management of the State budget liquidity have been distinguished as an independent task.

6.1. Ensuring liquidity of the TS market

This task relates to liquidity of both the entire TS market and particular issues, and is associated with striving to eliminate the premium for insufficient liquidity and to increase the demand of investors interested only in liquid issues. Both these factors contribute to decreasing TS yields and, accordingly, to the minimization of ST debt servicing costs. In the *Strategy* timeframe, it is planned to continue the existing policy providing for:

- building large issues of bonds (benchmarks) in the domestic market – in the case of medium- and long-term bonds with a fixed interest rate their value, currently amounting to at least PLN 25 billion, will ultimately increase to at least PLN 30 billion, while striving to ensure an even distribution of redemption over time;
- large liquid bond issues in the euro and US dollar markets;
- adapting the issuance policy, including sale, switching and buy-back auctions, to market circumstances.

In connection with the ongoing benchmark rate reform, it is planned to develop a liquid market for floating-rate bonds based on the new benchmark index, taking into account the overarching objective of minimizing debt servicing costs in the long term, at a pace depending on the market participants' demand as well as their organizational and technical conditions.

6.2. Ensuring efficiency of the TS market

This task is aimed at minimizing debt servicing costs in the second out of the two aspects of implementation of this objective, discussed in Chapter 5, and covers the following measures in the primary and secondary markets:

- adjusting the issuance schedule in the domestic and foreign market to the market and budgetary conditions;
- strengthening the role of the TSD system in the development of the TS market and in debt management operations - in the areas where participants of the TSD 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;
- sustaining relations with domestic and foreign investors, including through:
  - regular meetings with banks participating in the TSD system (within the TS Market Participants' Board),
  - contacts with non-banking sector entities,
  - contacts with foreign investors and foreign banks,
  - ongoing communication with investors;
- broadening the investor base, including regular contacts with foreign investors, in order to promote TS issued on both domestic and foreign markets;
- active participation in conferences and seminars with investors.

6.3. Ensuring transparency of the TS market

This task is aimed at limiting the uncertainty connected with TS market operation and enables its participants to receive reliable information on current market prices and to formulate expectations concerning developments regarding the TS market. Both predictability of the issuance policy and transparent operation of the secondary market contribute to the transparency of the market. In this respect, the following activities will be continued:

- maintaining transparent communication on the issuance plans during the current year, quarter and month;
- promoting the electronic market through:
  - adequate regulations in TSD system that ensure competitiveness and transparency, in particular with regard to PD duties related to TS quotations, sustaining adequate spread levels and the share in TS fixing,
  - adapting the rules for performing the TSD function to current requirements stemming from the regulations.

6.4. Effective State budget liquidity management

This task includes, on the one hand, acquiring and maintaining funds at a level ensuring timely execution of the State's tasks as well as budget resilience to the changing market situation and, on the other hand, investing these funds, so that the net cost of their maintaining is as low as possible. These measures are performed taking into consideration the budgetary and market conditions and constraints related to risk, including credit and operational risk.

Maintaining an adequate level of liquidity causes direct cost resulting from higher yields of TS sold at auctions in relation to income earned on short-term deposits. However, maintaining the adequate level of liquid funds allows for indirect savings arising from the fact that the issuer has a possibility to adjust the TS sale to the market condition without increasing liquidity risk and debt servicing costs.

The following instruments will support the implementation of the task:

- PLN and FX deposits in the NBP and in the financial market via BGK (the State development bank);
- *buy-sell-back* transactions concluded directly in the financial market, as an instrument of depositing budgetary funds without bearing credit risk;
- FX funds sale in the NBP and in the FX market;
- FX swap transactions allowing for shaping the currency structure of liquid funds;
- short-term loans in the interbank market.

Moreover, as part of the public finance sector liquidity management, liquid funds of general government units and court and prosecutor offices deposits are allocated on the Minister of Finance account with BGK, reducing net borrowing requirements of the State budget.

7. Impact on the public finance sector debt

Pursuant to Article 74 of the Public Finance Act of 27 August 2009, the Minister of Finance exercises control over the public finance sector as regards the rule 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, which are autonomous in incurring liabilities, the influence on their debt level is indirect and is derived from the provisions of the Public Finance Act. These provisions primarily include constraints imposed on the manner of incurring liabilities by LGUs as well as the prudential and remedial procedures applicable to public finance sector entities, where both the public debt-to-GDP ratio and the ratio of the amount referred to in Article 38a(3) of this Act to GDP exceed 55%.

The stabilizing expenditure rule provided for in the Public Finance Act refers to the reference values for the general government net lending/net borrowing (-3% of GDP) and the public debt (60% of GDP), related to the EU excessive deficit procedure. Exceeding at least one of these reference values triggers an automatic correction mechanism limiting the rate of growth of expenditure for a specific fiscal year[2].

Annex 3 presents constraints related to incurring public debt, provided in the Public Finance Act (arising from prudential and remedial procedures and rules of incurring liabilities by the LGUs), as well as the correction mechanism of the expenditure rule.

7.1. Changes in regulations regarding incurring liabilities by local government units and public finance sector entities supervised or managed by them

Up to and including 2025, transitional regulations on the fiscal rules applicable to the local government units, introduced in connection with the COVID-19 pandemic and the armed conflict in Ukraine, will apply.

With regard to the rule for balancing the current part of the LGU budget (Article 242 of the Public Finance Act) for 2022-2025, the approach to settling for this rule has been changed; from one-year to medium-term settlement. This means that a LGU may, in a given fiscal year, exceed the ratio referred to in Article 242(1) and (2), provided that in 2022-2025 the sum of exceedances of this ratio in particular years will not be higher than the sum of surpluses resulting from this ratio in particular years.[3]

Moreover, when determining the ratio for balancing the current part of the budget for 2023-2025, current revenue may be additionally increased by available funds, understood as a surplus of funds in the current account of the LGU budget other than those specified in

[2] Except for years in which the escape clause is in force and for times of severe economic downturn ("bad times").

[3] Article 9(2) of the Act of 14 October 2021 amending the Act on the income of local government units and certain other acts (Journal of Laws, item 1927, as amended).

Article 217(2)(5) and (8) of the Public Finance Act, including those from settlements of issued securities and loans from previous years.[4]

With regard to the limits determining the ability to repay liabilities of a LGUs in the transitional period (until 2025 inclusive), the individual debt ratio will be based on the arithmetic mean of the ratio of current revenue, increased by income from the sale of assets and reduced by current expenditure, to current revenue in the LGU budget, calculated for the last three or seven years (depending on the decision made by the executive body of the LGU by 31 December 2021).[5]

Considering the aid provided by LGUs to Ukrainian citizens in connection with the armed conflict in the territory of their country, the fiscal rules applicable to LGUs provide for solutions relaxing the LGU financial management requirements specified in Article 242 and Article 243 of the Public Finance Act. When determining the ratio for balancing the current part of the local government budget and the ratio limiting the debt repayment amount, the LGU reduces its current expenditure by deducting the expenditure incurred to support the Ukrainian citizens in connection with the armed conflict in the territory of their country, to the extent that they are not financed with public funds received by this unit for this purpose.[6]

Pursuant to the Act of 5 August 2022 on the coal allowance, until 2025 inclusive, when determining the ratio referred to in Article 243(1) of the Public Finance Act, potential repayments of amounts resulting from sureties and guarantees granted by LGUs are not taken into account.[7]

Moreover, in 2023-2025, the LGU is allowed not to meet the ratio limiting the debt repayment, provided that the total amount of the LGU debt at the end of a given year does not exceed 100% of the total revenue in this budget year, reduced by the amounts of received subsidies and funds of a similar nature and increased by revenues specified in Article 217(2)(4)-(8) of the Public Finance Act, not intended to finance the budget deficit.[8]

Furthermore, to facilitate the investments co-financed from the Government Fund "Polish Deal": Strategic Investment Programme, a solution has been introduced that allows LGUs to incur loans and issue securities intended for pre-financing activities financed under this program[9]. Solutions have also been introduced to temporarily exclude the following items from the limit on repayment of LGUs liabilities: redemption of securities, repayment of loan instalments with due interest and discount and repayment of instalments of other debt

[4] Article 6 of the Act of 15 September 2022 amending the Act on the income of local government units and certain other acts (Journal of Laws, item 1964).
[5] Article 9 of the Act of 14 December 2018 amending the Public Finance Act and certain other acts (Journal of Laws of 2018, item 2500, as amended).
[6] Article 110 of the Act of 12 March 2022 on assistance to citizens of Ukraine in connection with an armed conflict on the territory of this country (Journal of Laws of 2023, item 103, as amended).
[7] Article 28 of the Act of 5 August 2022 on the coal allowance (Journal of Laws of 2023, item 141, as amended).
[8] Article 7 of the Act of 15 September 2022 amending the Act on the income of local government units and certain other acts (Journal of Laws, item 1964).
[9] Established pursuant to Article 65(28) of the Act of 31 March 2020 amending the Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and crisis situations caused by them, and certain other acts (Journal of Laws, item 568, as amended).

liabilities, as specified in Article 72(1)(2) of the Public Finance Act, with current expenses for servicing such liabilities, issued or incurred, respectively, to implement an investment task co-financed from the aforementioned Fund.[10]

7.2. Stabilising expenditure rule

After years when the EU general escape clause was in force (2020-2023), when Member States enjoyed greater fiscal freedom in responding to emerging shocks, standard fiscal rules are to be restored in the EU in 2024. It was therefore necessary to ensure coherence of the requirements for fiscal policy resulting from the EU rules and the Polish expenditure rule. Moreover, in the face of the Russian invasion of Ukraine, expanding the defence potential of the Polish state remains a significant challenge that requires above-average capital expenditure.

Due to the above, changes have been made to the stabilising expenditure rule (SER)[11]. In its previous form, the SER would imply much deeper consolidation than that required under the EU rules, which would threatened Poland's macroeconomic stability.

The first change concerns the correction mechanism of the SER. The amended correction mechanism utilises a more direct reference to the EU reference values of general government deficit and debt. With this solution, if the European Commission forecasts that the reference value for the general government net borrowing (-3% of GDP) or debt (60% of GDP) in Poland will be exceeded in one of n or n-1 years, the level of expenditure in the next budget year will be automatically adjusted. The level of consolidation will be at least 0.5 pp of GDP, unless the EU Council recommends a lower fiscal effort. However, fiscal adjustment will not be applied at the time of severe economic downturn ("bad times"), i.e. when the real GDP growth rate forecasted for the next year is lower by more than 2 pp from the medium-term real GDP growth rate.

In addition, the amendment has introduced a defence clause, allowing for special treatment of defence expenditure. The difference between the planned expenditure (on a cash basis) and the planned value of equipment deliveries in a given year will increase the limit of expenditure under the SER (if the value of payments is greater than the value of equipment deliveries) or will reduce this limit (if the value of equipment deliveries is greater). The solution proposed in the Act is to prevent excessive consolidation resulting from long periods of execution of arms contracts and to ensure that increased defence spending does not limit fiscal space for other purposes. The defence clause is neutral for the level of expenditure in the long and medium term, but it affects its distribution over time. In the long term, the accumulated defence clause is 0 and is neutral for net lending/net borrowing of the general government calculated according to the ESA2010 methodology.

Moreover, the amendment proposes to recalculate the amount of expenditure under the SER for 2023, intended to serve as a starting point for calculating the amount of expenditure

[10] Article 35 of the Act of 9 June 2022 on personal income tax and certain other acts (Journal of Laws, item 1265, as amended).
[11] Act of 13 July 2023 amending the Public Finance Act and certain other acts (Journal of Laws, item 1641).

for 2024. This will make the amount of expenditure for 2024 more realistic, as it will take into account the increased expenditure in the years when the EU general escape clause (GEC) was in force. Adjusting the aforementioned starting amount in the SER will ensure consistency with the approach used in EU regulations in which the last year of application of the GEC (2023) is used as the reference point.

8. Expected effects of the *Strategy* implementation

Expected effects of the *Strategy* implementation include forecasts of:

- the volume of public debt and the costs of its servicing;
- risk parameters of the State Treasury debt;
- the volume of debt of public finance sector entities other than the ST.

These are the expected results of the implementation of the *Strategy* objectives under the adopted macroeconomic, budget and market assumptions. The major threats to the implementation of the *Strategy* objectives are also presented in subchapter 8.4.

8.1. Debt volume and its servicing costs

Table 9. Forecasts of the level of debt and debt servicing costs

Item	2022	2023	2024	2025	2026	2027
1. State Treasury debt*						
a) PLN bn	1,238.5	1,324.7	1,595.8	1,776.3	1,948.5	2,065.1
- domestic	949.8	1,040.7	1,246.8	1,396.3	1,539.6	1,637.6
- foreign	288.7	284.0	349.1	379.9	408.9	427.5
b) GDP%	**40.2%**	**38.5%**	**42.3%**	**43.9%**	**45.4%**	**45.6%**
2. Public debt						
a) PLN bn	1,209.5	1,304.9	1,568.6	1,739.5	1,900.8	2,008.1
b) GDP%	**39.3%**	**37.9%**	**41.6%**	**43.0%**	**44.3%**	**44.3%**
3. The amount specified in the article 38a (3) of the Public Finance Act**						
a) PLN bn	1,090.0	1,258.9	1,518.4	1,688.9	1,850.5	1,957.2
b) GDP%	**35.4%**	**36.5%**	**40.3%**	**41.7%**	**43.1%**	**43.2%**
4. General government debt						
a) PLN bn	1,512.2	1,699.5	2,033.8	2,230.6	2,500.8	2,659.5
b) GDP%	**49.1%**	**49.3%**	**53.9%**	**55.1%**	**58.3%**	**58.7%**
5. State Treasury debt servicing costs (cash basis)***						
a) PLN bn	32.7	62.0	66.5	69.7 - 70.7	80.7 - 81.8	91.0 - 92.2
- domestic	27.7	54.7	57.5	59.1	68.9	77.6
- foreign	5.0	7.3	9.0	10.7 - 11.6	11.8 - 12.9	13.4 - 14.6
b) GDP%	**1.06%**	**1.80%**	**1.76%**	**1.72% - 1.75%**	**1.88% - 1.91%**	**2.01% - 2.04%**

**) The State Treasury debt includes, in accordance with the financial plan of the Solidarity Fund, the liabilities of the Fund which do not affect the public debt due to the elimination of mutual liabilities of entities belonging to the sector.*
***) The amount of public debt recalculated using the yearly arithmetic average of foreign currency exchange rates announced by the National Bank of Poland for the year concerned and reduced by the amount of liquid funds for financing the borrowing requirements of the State budget in the following fiscal year.*
****) Forecasts of the debt servicing costs for 2025-2027 are presented in ranges, taking into account the foreign exchange risk provision.*

Under the adopted assumptions, at the end of 2023, the public debt-to-GDP ratio will decline to 37.9%, and then increase to 44.3% in 2027, remaining safely below the prudential threshold of 55% set forth in the Public Finance Act.

In 2023, the ratio of general government debt (according to the EU definition) will rise to 49.3% in 2023, followed by an increase to 58.7% over the Strategy forecast period. This means that the 60% reference value of the EDP debt-to-GDP ratio will not be exceeded in the Strategy timeframe.

In 2025-2027, annual fiscal adjustment referred to in Article 112a[1] of the Public Finance Act of 1 pp was assumed. Additionally annual savings of ca. 1.1% of GDP were also assumed[12].

Chart 13. Debt-to-GDP ratio

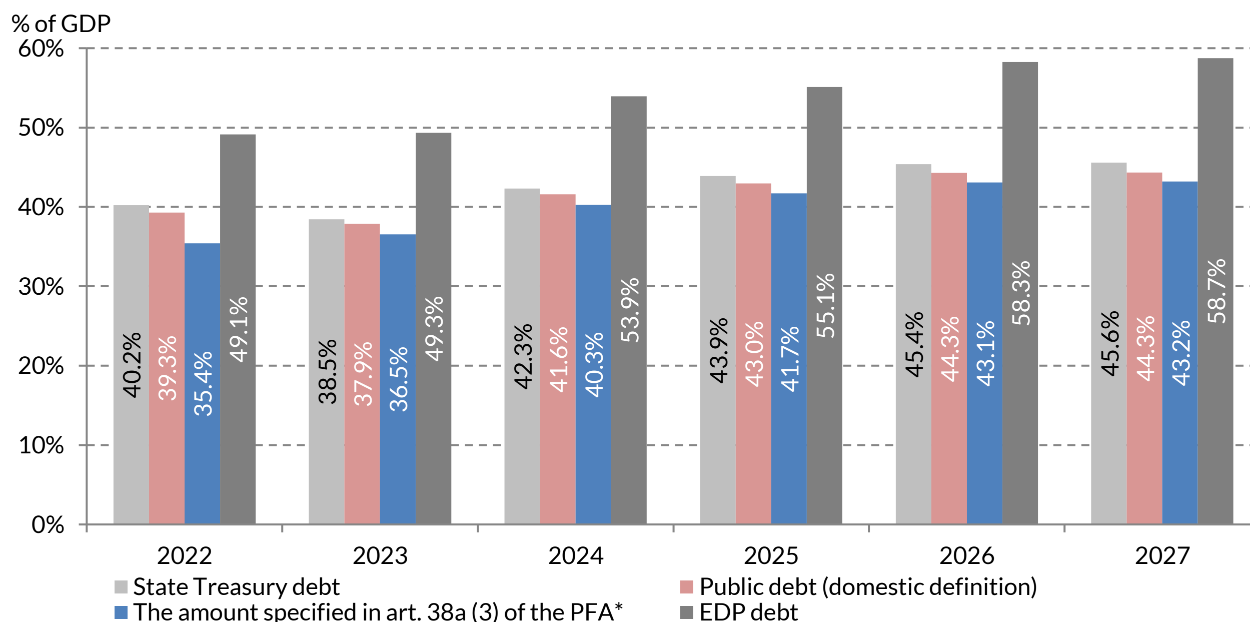
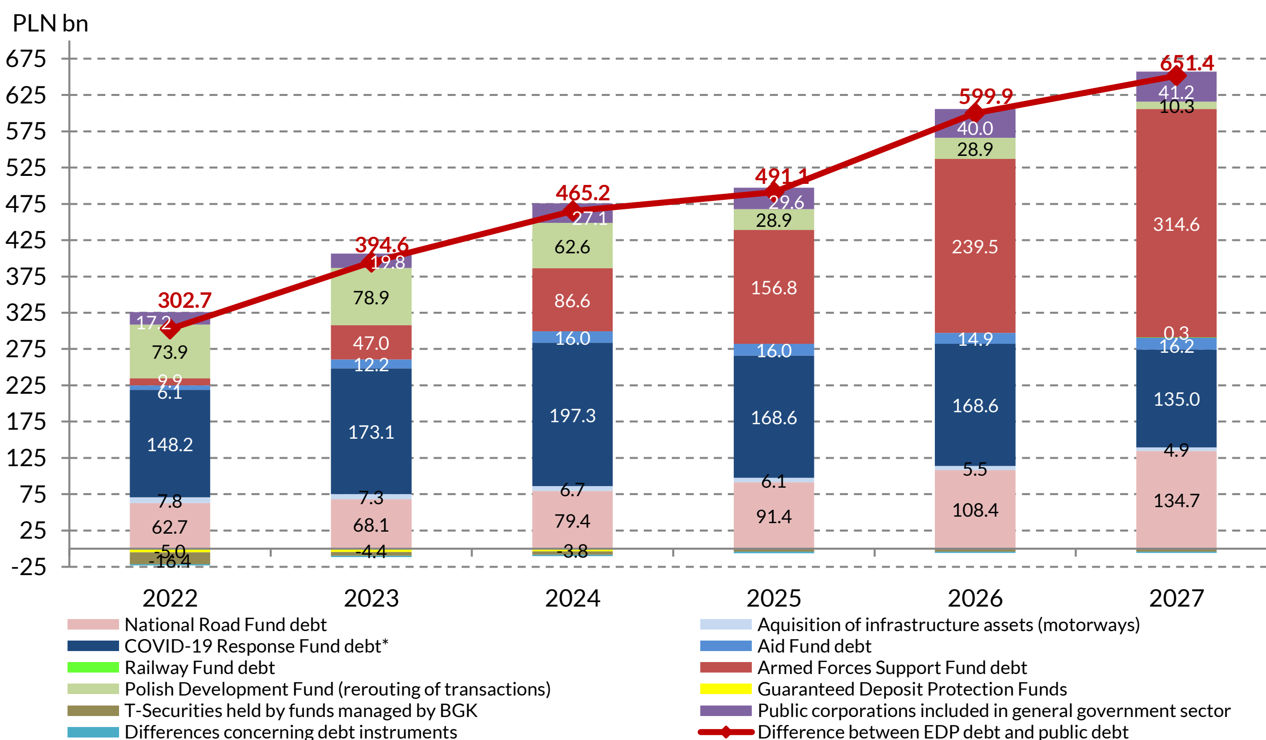


Chart 14. Differences between EDP debt and public debt



**) FPC includes the payments for co-financing the investments under the Government Fund 'The Polish Deal': Strategic Investments Programme.*

[12] Historically, the planned expenditure limits of the general government sector in relation to GDP have consistently exceeded their actual execution in each year. Due to the reliance on expenditure limits, the average difference between the forecast (limits) and its execution in 2016–2022 was 1.4% of GDP; except for crisis years, i.e. 2016–2019, when this difference was 1.1% of GDP. In order to make the macro-fiscal scenario in 2025-2027 more realistic, an adjusted sector expenditure path of 1.1% of GDP in relation to the limits was adopted.

The limit of ST debt servicing costs as assumed in the draft Budget Act for 2024 is PLN 66.5 billion, i.e. 1.76% of GDP. The *Strategy* assumes that debt servicing costs will slightly exceed 2% of GDP in 2027.

Chart 15. ST debt servicing costs-to-GDP ratio

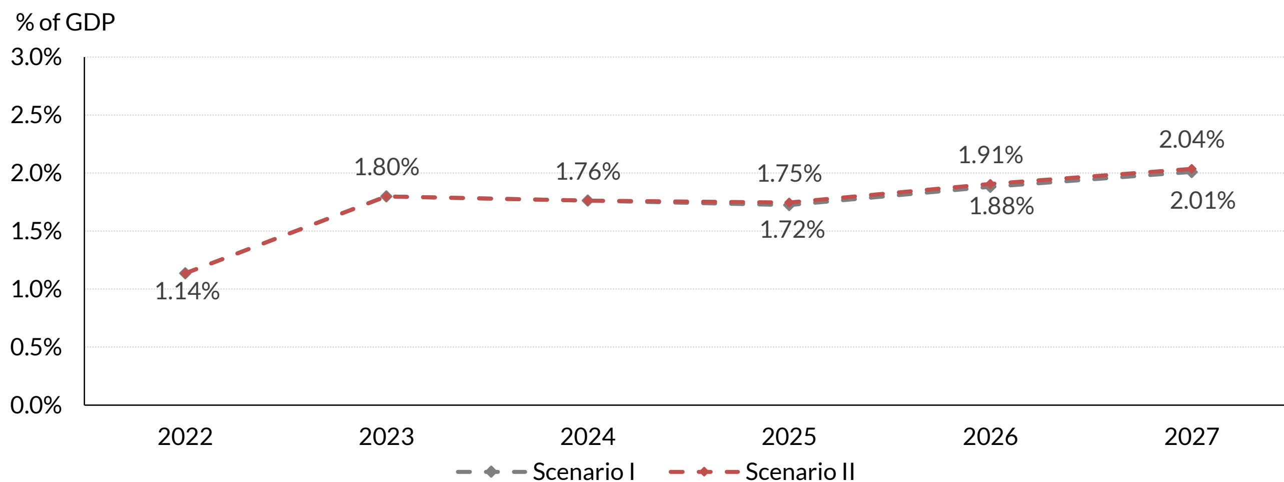
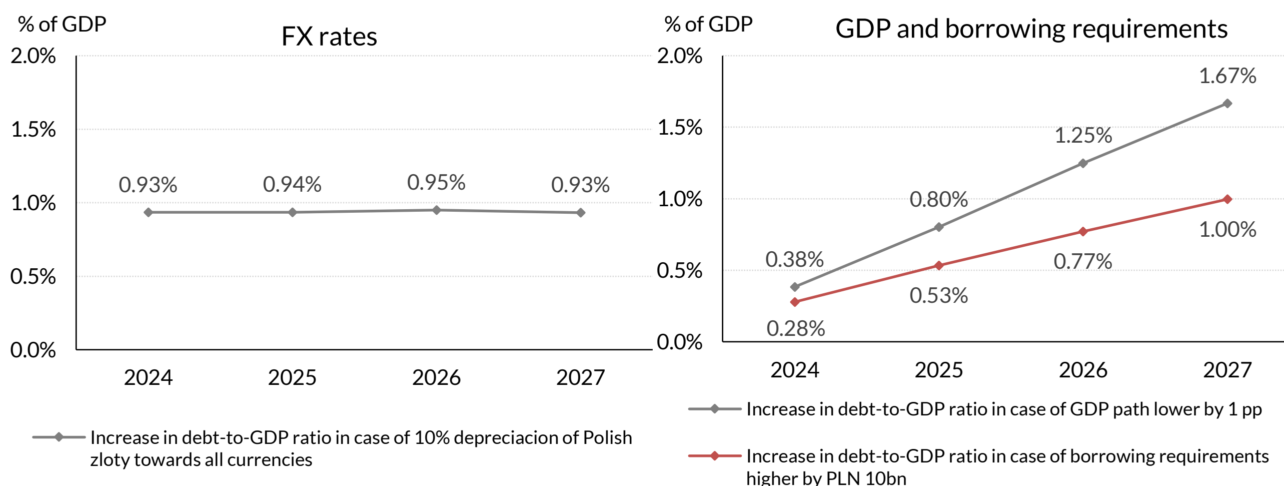
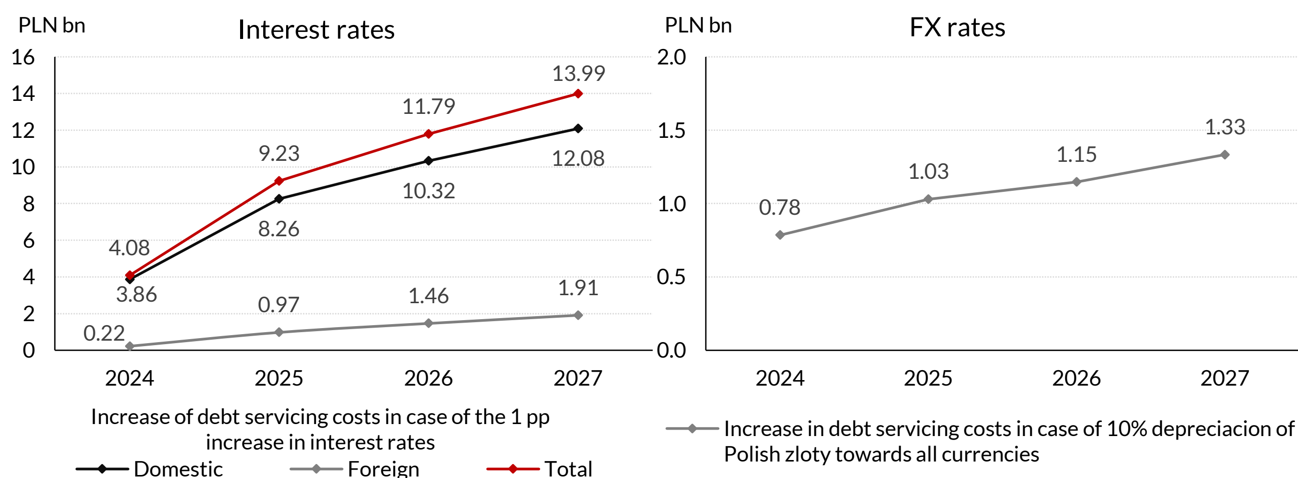


*Chart 16. Sensitivity of public debt-to-GDP ratio to changes in assumptions**



**) Assuming a change of paths from 2024, partial sensitivities without changes in other assumptions.*

Chart 17. Sensitivity of ST debt servicing costs-to-GDP ratio to changes in assumptions



8.2. 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 average time to maturity of domestic TSs will depend on market conditions, the average maturity in 2027 may be in the range of 4.2-4.6 years, and that of the total ST debt – 5.1-5.5 years compared to ca. 4.1 and ca. 5.1 years, respectively, at the end of 2023;
- 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. 3.0-3.7 years compared to ca. 3.0 at the end of 2023, and for the total debt - ca. 4.1-4.6 years compared to ca. 4.0 years at the end of 2023, whereas the *duration* of the domestic marketable debt will be in the rage of ca. 2.5-3.3 years compared to ca. 2.6 years at the end of 2023, and that of the total debt – in the range of ca. 3.6-4.2 years compared to ca. 3.5 years at the end of 2023;
- the share of FX debt will be reduced, and it will fall in the *Strategy* timeframe to ca. 20.7% in 2027.

Chart 18. ATM of the ST debt

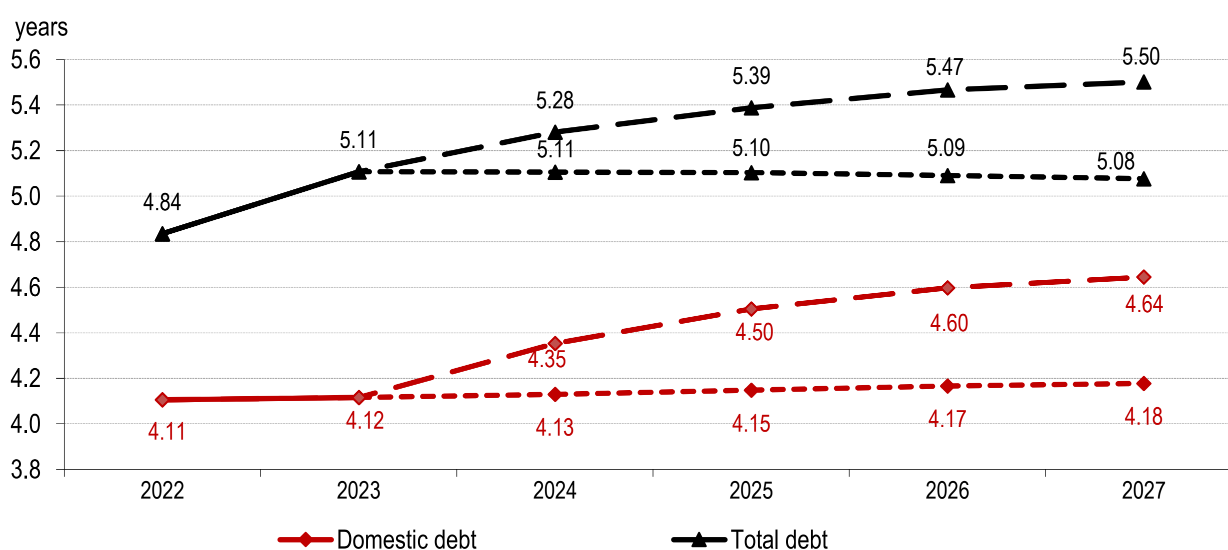


Chart 19. ATR of the ST debt

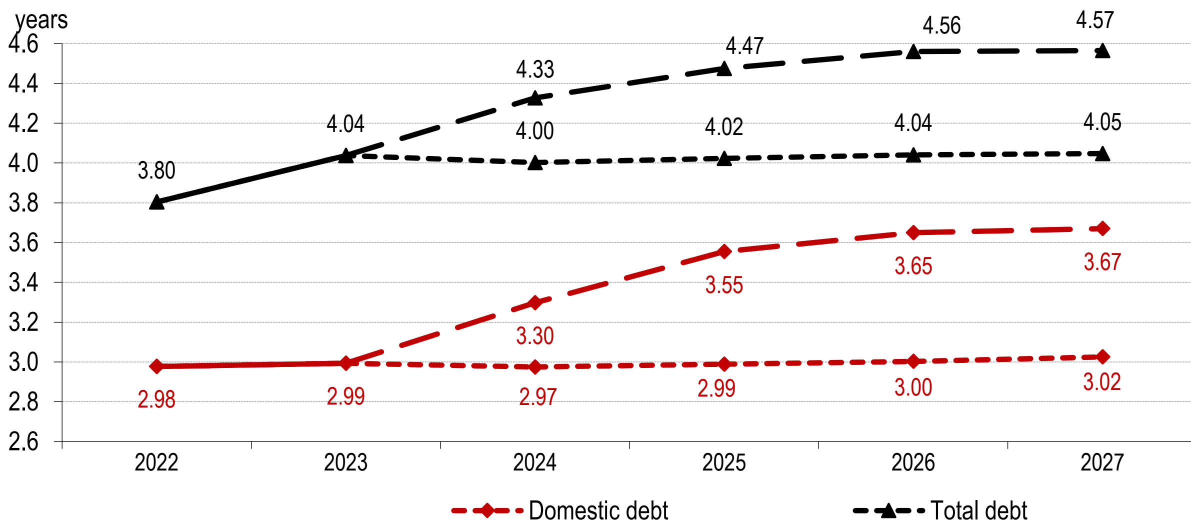


Chart 20. Duration of the ST debt

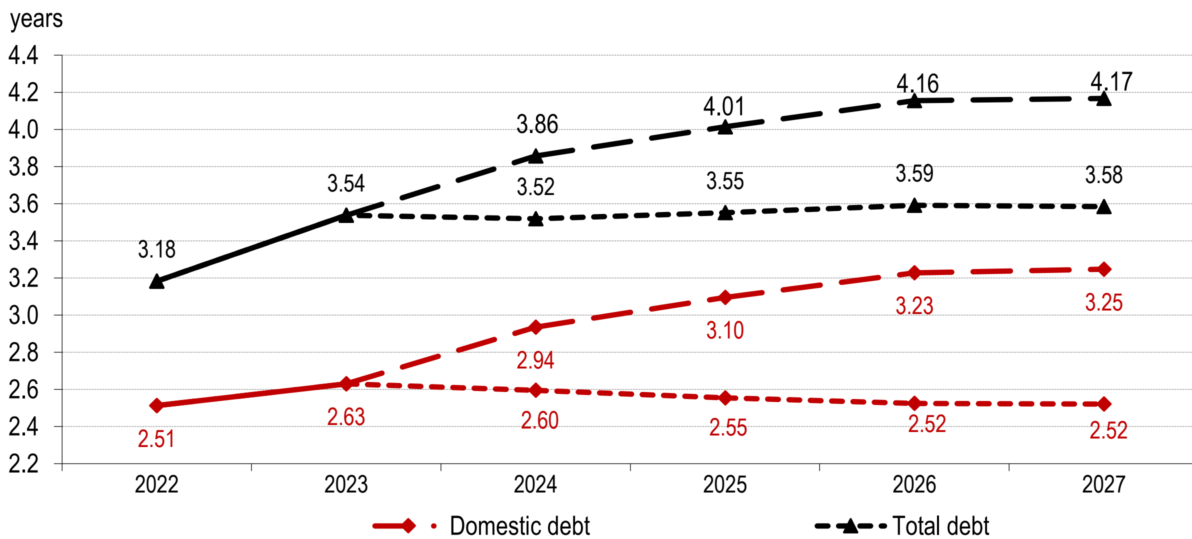
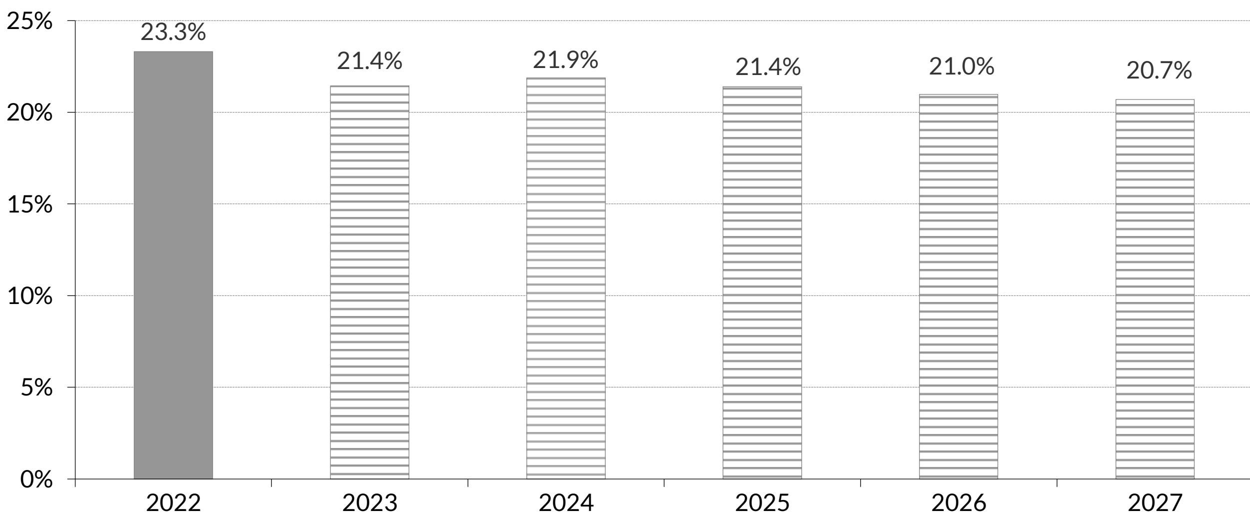


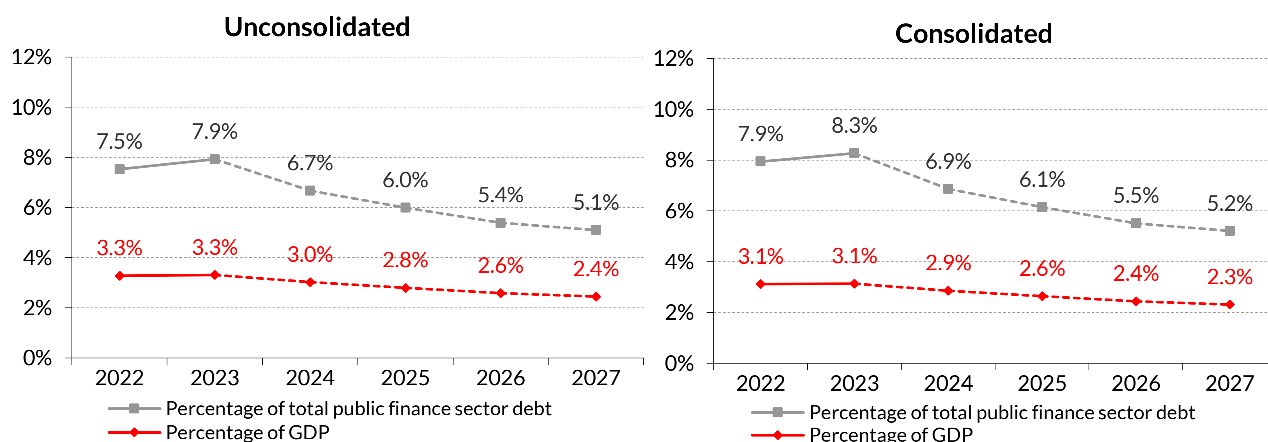
Chart 21. Share of foreign currency debt in the total ST debt



8.3. Debt of public finance sector entities other than the State Treasury

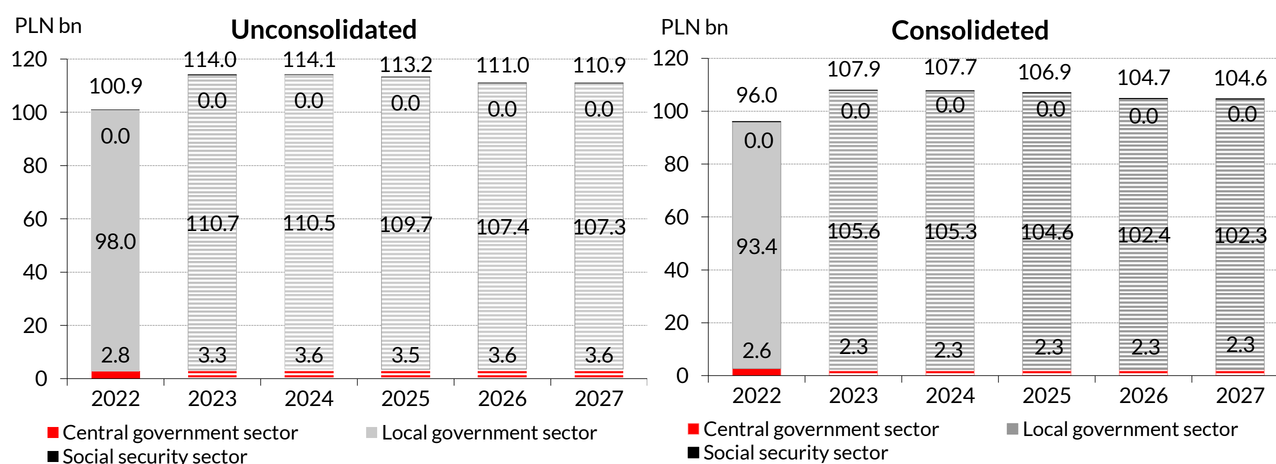
Under the adopted assumptions, in the *Strategy* timeframe, the unconsolidated-debt-to-GDP ratio of the remaining PFS entities will decrease from 3.3% to 2.4%, and the consolidated one – from 3.1% to 2.3%. The share of this group of entities in the consolidated public finance sector debt will decrease from 8.3% in 2023 to 4.9% in 2027.

Chart 22. Unconsolidated and consolidated debt of public finance sector entities other than the State Treasury – in relation to GDP and as a share of the total public finance sector debt



The nominal unconsolidated debt of public finance sector entities other than ST will decrease from PLN 114.0 billion in 2023 to PLN 110.9 billion in 2027. This trend will be derived mainly from the debt of local government units and their associations. The level of the debt of LGUs will be affected by the rules for incurring liabilities by those entities, including the individual debt ratio.

Chart 23. Debt of public finance sector entities other than the State Treasury before and after consolidation by sector



8.4. Threats to the *Strategy* implementation

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

- different than assumed macroeconomic and budgetary scenario in Poland, in particular due to inflation development, the level of interest rates and foreign exchange rates, etc.;
- international conditions, including:
  - slower than expected growth rate in the global economy, resulting from, among others, the geopolitical situation, in particular the war in Ukraine;
  - monetary policy of major central banks, including the ECB and the Fed;
  - capital outflow towards core or other markets;
- the risk of excessive growth of the public debt-to-GDP ratio, due to:
  - higher State budget borrowing requirements, depending, among others, on the situation in Polish economy;
  - a higher-than-expected increase in the debt of general government units other than the State Treasury, in particular funds deposited with BGK;
  - depreciation of the Polish zloty relative to the level assumed in the Strategy;
  - issuance of TS and their transfer on the basis of acts other than the Public Finance Act;
  - obligation to execute sureties or guarantees by public finance sector entities.

9. Guarantees and sureties granted by public finance sector entities

9.1. Assumptions of the *Strategy* of granting guarantees and sureties

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

- granting sureties and guarantees to support development-oriented projects, among others, in the area of infrastructure, environmental protection, job creation and regional development, implemented also with the EU funds, and to support other investment tasks arising from any new support programs stipulating granting sureties and guarantees, and
- possible continuation, in so far as necessary, of the use of guarantees and sureties to counteract the economic effects of the COVID-19 pandemic and the Russian invasion of Ukraine.

Recently, there has been a significant change in geopolitical and economic conditions, which has caused disruptions in the fuel market, an influx of war refugees, and the need for increased development of the armed forces. Due to the new challenges, it is planned, in particular, to continue granting new guarantees to finance the Armed Forces Support Fund and energy transformation. Along with the continuation of infrastructure investment programs (financing of the National Road Fund and railway investments), these new factors mean that a significant increase in potential liabilities under guarantees and sureties granted by the State Treasury is forecasted for the coming years.

Moreover, as in previous years, the annual budget ceiling provides for the possibility of providing guarantees relating to any actions that may be taken if the operating conditions of the Polish financial system deteriorate. So far, it has not been necessary to provide these guarantees to any significant extent.

9.2. Analysis and forecasts of the level of guarantees and sureties

Contingent (undue) liabilities under guarantees and sureties granted by public finance sector entities as at the end of the first half of 2023 amounted to PLN 470.7 billion (13.7% of GDP forecasted for the end of 2023), compared to PLN 455.9 billion as at the end of 2022 (14.8% of GDP) and PLN 360.5 billion as at the end of 2021 (13.7% of GDP).

Among the contingent liabilities, liabilities under guarantees and sureties granted by the ST prevailed. As at the end of the first half of 2023, these liabilities amounted to PLN 447.8 billion (ca. 13% of GDP forecasted for the end of 2023), compared to PLN 432.8 billion as at the end of 2022 (14.1% of GDP) and PLN 356.3 billion as at the end of 2021 (13.5% of GDP). An increase in the above-mentioned contingent liabilities is mainly due to granting guarantees related to counteracting the effects of COVID-19. As at the end of the first half of 2023, these guarantees amounted to PLN 275.0 billion.

The current portfolio does not pose significant threats to ST sureties and guarantees. As at the end of 2022 and the end of the first half of 2023, 95% of contingent liabilities under ST sureties and guarantees were classified as posing low risk. In particular, the structure of financing guarantees related to COVID-19 minimizes the risk of payments under these guarantees. As for newly forecasted guarantees, neither the admissible manner for supplying the Funds nor the forecasted condition of the entities causes now a significant increase in the forecasted payments under guarantees and sureties.

The largest amounts of ST contingent liabilities (as at 30 June 2023) were due to:

- guarantees granted for Bank Gospodarstwa Krajowego — PLN 318.4 billion

of which:

- to supply the COVID-19 Response Fund — PLN 197.9 billion
- to supply the National Road Fund — PLN 84.9 billion
- to supply the Armed Forces Support Fund — PLN 23.4 billion
- to supply the Aid Fund – Ukraine — PLN 11.9 billion
- other guarantees (National Housing Fund, infrastructure) — PLN 0.3 billion

- guarantees granted for Polski Fundusz Rozwoju S.A. for the implementation of government programs under the PFR Financial Shield to counteract the effects of COVID-19 — PLN 77.1 billion
- guarantees granted for PKP Polskie Linie Kolejowe S.A. — PLN 17.9 billion
- guarantees granted for PGE S.A. — PLN 5.7 billion
- guarantees of payments from the National Road Fund for Gdańsk Transport Company S.A. — PLN 5.7 billion
- guarantees granted for PGE Paliwa sp. z o.o. — PLN 5.3 billion
- guarantees of payments from the National Road Fund for Autostrada Wielkopolska II S.A. — PLN 5.1 billion
- guarantees granted for PKN Orlen S.A. (former PGNiG) — PLN 5.0 billion
- guarantee granted for Węglokoks S.A. — PLN 4.9 billion
- guarantees granted for PKP Intercity S.A. — PLN 2.0 billion

Table 10. Contingent liabilities under guaranties and sureties granted by the ST and the public finance sector units

	2021	2022	2023	2024	2025	2026	2027
Contingent liabilities under guarantees and sureties granted by:							
a) Public finance sector							
- PLN bn	360.5	455.9	627.7	913.5	996.3	1 034.6	1 072.6
- in relation to GDP	13.7%	14.8%	18.2%	24.2%	24.6%	24.0%	23.6%
b) State Treasury							
- PLN bn	356.3	432.8	603.1	887.4	968.7	1 005.3	1 041.5
- in relation to GDP	13.6%	14.1%	17.5%	23.5%	23.9%	23.4%	23.0%
including for general government sector entities	354.3	406.2	500.3	799.3	889.3	936.4	972.5
in relation to GDP	*13.6%*	13.2%	14.5%	21.2%	21.9%	21.8%	21.4%

Annex 1. Abbreviations and glossary

A. Abbreviations used in the Strategy

ATM – average time to maturity
ATR – average time to refixing
BGF – the Bank Guarantee Fund
BGK – Bank Gospodarstwa Krajowego
CIRS – *currency interest rate swap*
EC – European Commission
ECB – European Central Bank
Fed – the Federal Reserve System in the USA
FPC - the COVID-19 Response Fund
FWSZ – the Armed Forces Support Fund
IFIs – international financial institutions
KFD – the National Road Fund
LGUs – local government units
MPC – Monetary Policy Council
NBP – National Bank of Poland
PFR – the Polish Development Fund
PFS – public finance sector
PFS entities – public finance sector entities
SER – stabilising expenditure rule
ST – State Treasury
TS – Treasury securities
TSD – Treasury Securities Dealers
WIRON – risk-free rate benchmark

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 would 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 TS $I_0 = 1$).

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. The *ATR* of domestic marketable TS is calculated according to the following formula:

$$ATR = \frac{\sum_{r \in R} rNZ_r + \sum_{t \in T} tNS_t + \sum_{j \in J} \frac{1}{12} NI_j I_0}{\sum_{r \in R} NZ_r + \sum_{t \in T} NS_t + \sum_{j \in J} NI_j I_0}$$

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 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 of at least one year and total face value of at least PLN 10 billion or on-the-run issues with total face value of at least PLN 2 billion. When setting benchmarks on the Polish yield curve in Refinitiv 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-sell-back – 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 with receivables. For the debt management unit such a situation occurs with financial transactions on derivatives. Credit risk also occurs in management of liquid assets, 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 size of transaction for partners, which depend on their 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 of ST debt in a given currency is calculated according to the following formula:

$$Duration = \frac{\sum_{r \in R}\left[r \sum_{s \in S|_r} \frac{CFZ_s}{(1+i_s)^s} \right] + \sum_{s \in S} \frac{sCFS_s}{(1+i_s)^s}}{\sum_{s \in S} \frac{CFZ_s}{(1+i_s)^s} + \sum_{s \in S} \frac{CFS_s}{(1+i_s)^s}}$$

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 maturity is r,
CFZ_s - payment (of interest or face value) for floating rate instruments for term s,
CFS_s – payment (of interest or face value) for fixed rate instruments for term s,
i_s – zero-coupon interest rate for term s.

Duration of total debt of ST is a weighted average of appropriate duration coefficients for each currency, where weights are market value of debt in particular currencies.

Exchange rate risk – arises from the vulnerability of the foreign currency denominated debt level and its servicing costs to exchange rate fluctuations. The Polish zloty appreciation or depreciation against a given foreign currency results in a proportional increase or decrease (in the Polish zloty terms) of debt volume and debt servicing costs denominated in this currency.

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 arising from the threat that the costs related to the debt management or to the level of other types of risk will increase due to infrastructure, organization and supervision of the debt management, that is inadequate to the scope of tasks. Operational risk is the most difficult risk to be measured.

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.

Treasury Securities Dealers – a group of institutions (banks) selected through a competition that has 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.

Refinancing risk – associated with debt issuance in order to finance 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. Refinancing risk is influenced by the level of outstanding debt and its maturity profile. An extension of the debt maturity and an 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 and foreign debt, according to which the domestic debt is the debt to domestic investors (i.e. investors with the place of residence or registered seat in Poland).

Spread – the difference between yields of two debt securities. In narrower sense credit spread (also credit margin) is the difference between yields of two securities with all the characteristics (especially maturity date) except for issuer identical (or almost identical). 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 disruptions 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 appropriate level (by improving the process of State budget liquidity planning and monitoring) and on the other hand, by the management of liquid assets in such a way that they generate budget revenues that at the highest possible level compensate for the costs of maintaining a given and safe level of liquidity.

Swap – a contract through which two parties exchange cash flows based on a notional principal amount with rules of calculating their value specified in advance. Swap is a financial instrument classified as derivatives.

Annex 2. Cyclical publications of the Ministry of Finance regarding public debt and TS market

- Annual report
- State Treasury debt, monthly bulletin
- Public debt, quarterly bulletin
- Monthly information on TS supply and its background
- Monthly information on investors structure on domestic TS market
- Monthly information on transaction on secondary TS market

Publications available on the Ministry of Finance website:
https://www.gov.pl/web/finance/public-debt

Annex 3. 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 guaranties 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 (EC) No 479/2009 of 25 May 2009 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 specified in the 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 Audit Office (NIK), Supreme Court, Primary Administration Court, The National Council Of The Judiciary, common courts of law and provincial administration courts, Spokesman of Citizen Rights, Spokesman of Child Rights, National Board of Radio and Television, President of the Personal Data Protection Office, 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;

Public Finance Act

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,

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 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 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 increased by the revenue arising from:
- repayment of loans granted in previous years;
- the LGUs' budget surplus from previous years, less the funds indicated below;
- unused cash in the current account of the budget, resulting from the settlement of revenue and expenditure financed by linked to specific budget execution rules laid down in separate acts and resulting from the settlement of funds from the EU budget and non-returnable funds from aid granted by the EFTA member States and grants for the implementation of a programme, project or task financed with these funds;

b) executed current expenditures can be higher than executed current revenues increased by budgetary surpluses from previous years only by amounts linked to the current tasks co-financed from EU funds or non-returnable financial aid provided by EFTA member countries if these funds were not forwarded in specified year;

c) Local government units can incur loans and issue securities for:
- repayment of previously incurred liabilities resulting from securities and loans;
- covering transitional budget deficit of local government within the fiscal year;
- financing of planned budget deficits;
- financing in advance of the tasks co-financed from EU 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 forbidden;

f) For a local government unit, the total ratio of:
- instalments of loans and interest payable in a given fiscal year;
- redemption of securities and interest (including discount) payable on them;
- repayment of instalments of liabilities that have economic effects similar to those of a loan and interest payable in a given year;
- potential payments resulting from sureties and guarantees granted

Public Finance Act
to planned current revenues cannot exceed in the budgetary year and any other year following the budgetary year the arithmetical average for last seven years of current revenues minus current expenditures to total revenues ratio; **The above rule will apply in its entirety from 2026. Changes to the current rule and transitional provisions are described in Chapter VII.1.**
g) Limitations on debt repayments of local government do not apply to: • instalments and interest payable on loans drawn in connection with a programme, project or task co-financed with the EU funds; • redemption and interest (including discount) payable on securities issued in connection with a programme, project or task co-financed with the EU funds; • guarantees and sureties granted to self-government legal persons performing tasks of self-government units within the framework of programmes financed with the participation of funds coming from the EU budget and not subject to reimbursement from the aid granted by the EFTA States. – but no later than 90 days after the end of the programme, project or task and receiving a refund; this cut-off date does not apply to liabilities incurred for national contribution; • instalments 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 50%.
h) the restrictions on the repayment of the debt of territorial self-government units shall not apply either to early repayment of liabilities occurring after the financial year for which the budget was adopted and occurring exclusively in the financial year for which the budget was adopted: • resources from a new commitment if this reduces the total cost of servicing the debt over the entire repayment period, • resulting from the possession of free funds as surplus cash on the current account of the local government budget, resulting from the settlement of issued securities, loans and borrowings from previous years, and funds on this account, • funds from other than those mentioned above, in particular from revenues from privatisation of territorial self-government units' assets and repayment of loans granted in previous years, if the entity does not incur liabilities to finance the planned budget deficit.

Table 3. Correction mechanism of the stabilising expenditure rule.

Act of August 27, 2009 on public finance	
The correction amounts of the stabilising expenditure rule pursuant to Article 112aa(4):	
The correction amount is expressed in thousands of zlotys. The correction amount (C_n) is determined by the formula:	
$C_n = -FA_n * E_n(GDP_n^{CP})$ where FA_n is the fiscal adjustment; $E_n(GDP_n^{CP})$ is the gross domestic product at current prices in year *n* projected in the justification for the draft budget act for year *n* submitted to the Parliament, *n* is the year for which the amount of expenditure is calculated	
The fiscal adjustment, pursuant to Article 112a[1] amounts to:	
1.	0.5 percentage points if:
	a) the value of the general government net borrowing for Poland, as projected by the European Commission, exceeds the reference value (-3% of GDP), in one of the years n or n-1 (and there are no "bad times"*) or
	b) the value of the general government debt for Poland, as projected by the European Commission, exceeds the reference value (60% of GDP), in one of years n or n-1 (and there are no "bad times"*).
2.	zero percentage points if:

Act of August 27, 2009 on public finance
The correction amounts of the stabilising expenditure rule pursuant to Article 112aa(4):
a) the value of the general government net lending/net borrowing for Poland, as projected by the European Commission, does not exceed the reference value (-3% of GDP), in one of the years n or n-1, or exceeds this value, but there are "bad times"*;
b) the value of the general government debt for Poland, as projected by the European Commission, does not exceed the reference value (60% of GDP), in one of the years n or n-1, or exceeds this value, but there are "bad times"*.
* "Bad times" means a situation where next year's projected real GDP growth rate is lower by at least 2 percentage points than the medium-term real GDP growth rate**.
The escape clause
The provisions of the stabilising expenditure rule do not apply in the case of: • the introduction of martial law; • the introduction of a state of emergency on the entire territory of the Republic of Poland; • introducing a state of natural disaster on the entire territory of the Republic of Poland; • declaration of a state of epidemic on the entire territory of the Republic of Poland - if the annual growth rate of the gross domestic product at constant prices, as projected in the justification for the draft budget act or in the justification for the draft act amending the budget act for the year for which the amount of expenditure is calculated, is more than two percentage points lower than the medium-term growth rate of GDP at constant prices specified in the justification for draft budget act for the last year submitted to the Sejm, in which the conditions specified above were not met.
** the medium-term real GDP growth rate at constant prices is an eight-year geometric mean of real annual GDP growth rates. For the year for which the amount of expenditure is calculated and the year preceding that year the values of budget forecasts are assumed. For the remaining years the amount is derived from the announcement of the President of the Statistics Poland. If the period covered by this indicator includes the year in which the application of the stabilizing expenditure rule was suspended or the year under the return clause after temporary suspension of the stabilizing expenditure rule, calculating this rate, the annual dynamics of the real GDP in constant prices in the year of suspension of the stabilizing expenditure rule and in the years of the return clause to the standard formula of the expenditure rule, shall be replaced with the medium-term real GDP growth rate at constant prices, as specified in the draft budget bill for the last year in which the conditions for suspending of the stabilizing expenditure rule were not fulfilled and submitted to the Sejm.

Table 4. Differences between public debt (Polish definition) and general government debt (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, i.e.: – 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; – metropolitan associations; – budgetary units; – local government budgetary entities; – executive agencies; – institutions of budgetary management; – state special-purpose funds; – Social Security Institution and funds under its management; – Agricultural Social Insurance Fund (KRUS) and funds under management of the President of KRUS;	• scope of *general government*[1)] sector is defined in ESA 2010[2)]; no limited catalogue of units is defined;

Polish regulations	EU regulations
public debt	**general government debt**
– 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; – other state or local government legal persons founded under separated acts in order to execute public tasks, excluding enterprises, research institutes, institutes operating within the framework of the Lukasiewicz Research Network, banks and commercial companies; – Bank Guarantee Fund.	
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 COVID-19 Response Fund (FPC), the Armed Forces Support Fund (FWSZ)	
• 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 PLK S.A., Centralny Port Komunikacyjny sp. z o. o., Port Lotniczy Łódź, health care institutions)	
• are excluded from the public finance sector;	• are included in the general government sector;
c) rerouting of transactions to the general government sector - transactions carried out by entities not belonging to the general government sector may be treated as a separate, commissioned activity carried out on behalf of the government, which results in the disclosure of these transactions in the accounts of the general government sector, e.g. Financial Shield of the Polish Development Fund	
• are excluded from the public finance;	• are included in the general government;
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 of each period.	• liabilities denominated in a foreign currency, or exchanged from one foreign currency through contractual agreements to one or more other foreign currencies shall 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 contingent liabilities should be treated as debt assumed by the entity which issued surety or guarantee;

1) The Statistics Poland (GUS) is responsible for the scope of general government sector (in line with EU regulations). The list of general government sector entities is available on the internet website of GUS: https://stat.gov.pl/download/gfx/portalinformacyjny/pl/defaultaktualnosci/5483/6/8/1/lista_jednostek_sektora_instytucji_rzadowych_i_samorzadowych_s.13.xlsx
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 is checked notably through the usual quantitative criterion, i.e. if the ratio of sales revenues to production costs is above 50% , the unit is in principle deemed 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.
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 4. Selected statistical data concerning public finance and credit rating in Poland and EU

Table 5. General government deficit, debt[1)] and yields on 10-year bonds[2)] in the EU countries in 2021-2022

	2021			2022		
	GG balance	GG debt	10Y interest rate	GG balance	GG debt	10Y interest rate
	% PKB	% PKB	%	% PKB	% PKB	%
Greece	-7.1	194.6	0.88	-2.3	171.3	3.49
Italy	-9.0	149.9	0.81	-8.0	144.4	3.16
Portugal	-2.9	125.4	0.30	-0.4	113.9	2.17
Spain	-6.9	118.3	0.35	-4.8	113.2	2.18
France	-6.5	112.9	0.01	-4.7	111.6	1.70
Belgium	-5.5	109.1	-0.01	-3.9	105.1	1.73
Cyprus	-2.0	101.2	0.37	2.1	86.5	2.96
Euro area	**-5.3**	**95.4**	**0.06**	**-3.6**	**91.5**	**1.86**
European Union	**-4.8**	**88.0**	**0.39**	**-3.4**	**84.0**	**2.44**
Austria	-5.8	82.3	-0.09	-3.2	78.4	1.71
Croatia	-2.5	78.4	0.45	0.4	68.4	2.70
Hungary	-7.1	76.6	3.06	-6.2	73.3	7.57
Slovenia	-4.6	74.5	0.07	-3.0	69.9	1.89
Finland	-2.8	72.6	-0.09	-0.9	73.0	1.69
Germany	-3.7	69.3	-0.37	-2.6	66.3	1.14
Slovakia	-5.4	61.0	-0.08	-2.0	57.8	2.07
Ireland	-1.6	55.4	0.06	1.6	44.7	1.75
Malta	-7.8	55.1	0.50	-5.8	53.4	2.41
Poland	**-1.8**	**53.6**	**1.95**	**-3.7**	**49.1**	**6.05**
Netherlands	-2.4	52.5	-0.33	0.0	51.0	1.38
Romania	-7.1	48.6	3.62	-6.2	47.3	7.48
Latvia	-7.1	43.7	0.00	-4.4	40.8	2.27
Lithuania	-1.2	43.7	0.16	-0.6	38.4	0.61
Czechia	-5.1	42.0	1.90	-3.6	44.1	4.33
Denmark	3.6	36.7	-0.06	3.3	30.1	1.48
Sweden	0.0	36.5	0.27	0.7	33.0	1.53
Luxembourg	0.7	24.5	-0.36	0.2	24.6	1.73
Bulgaria	-3.9	23.9	0.19	-2.8	22.9	1.53
Estonia	-2.4	17.6	0.06	-0.9	18.4	2.29

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

[2)] *10-year interest rate – average of average monthly 10-year T-bond yields from last twelve months from January to December; Eurostat.*

Table 6. Long-term government debt rating in foreign currency of EU Member State as of September 18. 2023

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

Source: Refinitiv

Table 7. Public debt in 2012 – VI 2023

Item	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	VI 2023
1. State Treasury debt												
a) PLN bn	793.9	838	779.9	834.6	928.7	928.5	954.3	973.3	1,097.5	1,138.0	1,238.5	1,277.5
domestic *	543.0	584.3	503.1	543.3	609.2	644.5	674.4	716.5	831.5	872.7	949.8	984.9
foreign *	250.9	253.8	276.9	291.3	319.5	283.9	279.8	256.9	266.0	265.4	288.7	292.6
b) GDP %	48.9%	50.9%	45.6%	46.3%	49.8%	46.7%	44.9%	42.5%	46.9%	43.2%	40.2%	39.1%
2. Public debt (domestic definition)												
a) PLN bn	840.5	882.3	826.8	877.3	965.2	961.8	984.3	990.9	1,111.8	1,148.6	1,209.5	1,241.6
b) GDP %	51.8%	53.6%	48.3%	48.7%	51.8%	48.3%	46.3%	43.3%	47.6%	43.7%	39.3%	38.0%
3. General government debt (EU definition)												
a) PLN bn	883.5	931.1	873.9	923.4	1,010.0	1,007.2	1,035.8	1,046.0	1,336.6	1,410.5	1,512.2	1,581.2
b) GDP %	54.4%	56.5%	51.1%	51.3%	54.2%	50.6%	48.7%	45.7%	57.2%	53.6%	49.1%	48.4%

**) place of issue criterion*

Table 8. GDP and exchange rates in 2012 – VI 2023

Item	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	VI 2023
1. Gross Domestic Product												
PLN bn	1,612.7	1,630.1	1,700.6	1,798.5	1,853.2	1,982.8	2,126.5	2,288.5	2,337.7	2,631.3	3,078.3	3,265.8
2. Exchange rate (end of period)												
a) EUR	4.09	4.15	4.26	4.26	4.42	4.17	4.30	4.26	4.61	4.60	4.69	4.45
b) USD	3.10	3.01	3.51	3.90	4.18	3.48	3.76	3.80	3.76	4.06	4.40	4.11

Source: Statistics Poland, NBP