



Ministry
of Finance

Republic
of Poland

The Public Finance Sector Debt Management Strategy in the years 2023-2026

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Ministry of Finance
September 2022

The Public Finance Sector Debt Management Strategy in the years 2023-2026

Macroeconomic assumptions

| Item | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|--------------------------------|---------|---------|---------|---------|---------|---------|
| Real GDP growth (%) | 5.9 | 4.6 | 1.7 | 3.1 | 3.1 | 2.9 |
| GDP in current prices (PLN bn) | 2 622.2 | 3 017.8 | 3 317.7 | 3 577.7 | 3 811.5 | 4 025.2 |
| CPI annual average (%) | 5.1 | 13.5 | 9.8 | 4.8 | 3.1 | 2.5 |
| EUR/PLN (end of year) | 4.60 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 |
| USD/PLN (end of year) | 4.06 | 4.43 | 4.43 | 4.43 | 4.43 | 4.43 |

The Public Finance Sector Debt Management Strategy in the years 2023-2026

Objective of the Strategy

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

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

Two aspects of the Strategy's objective:

- choice of instruments
- ensuring efficiency of the TS market

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Flexible approach to financing structure

DOMESTIC FINANCING

- main source of financing the State budget borrowing requirements

FOREIGN FINANCING

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

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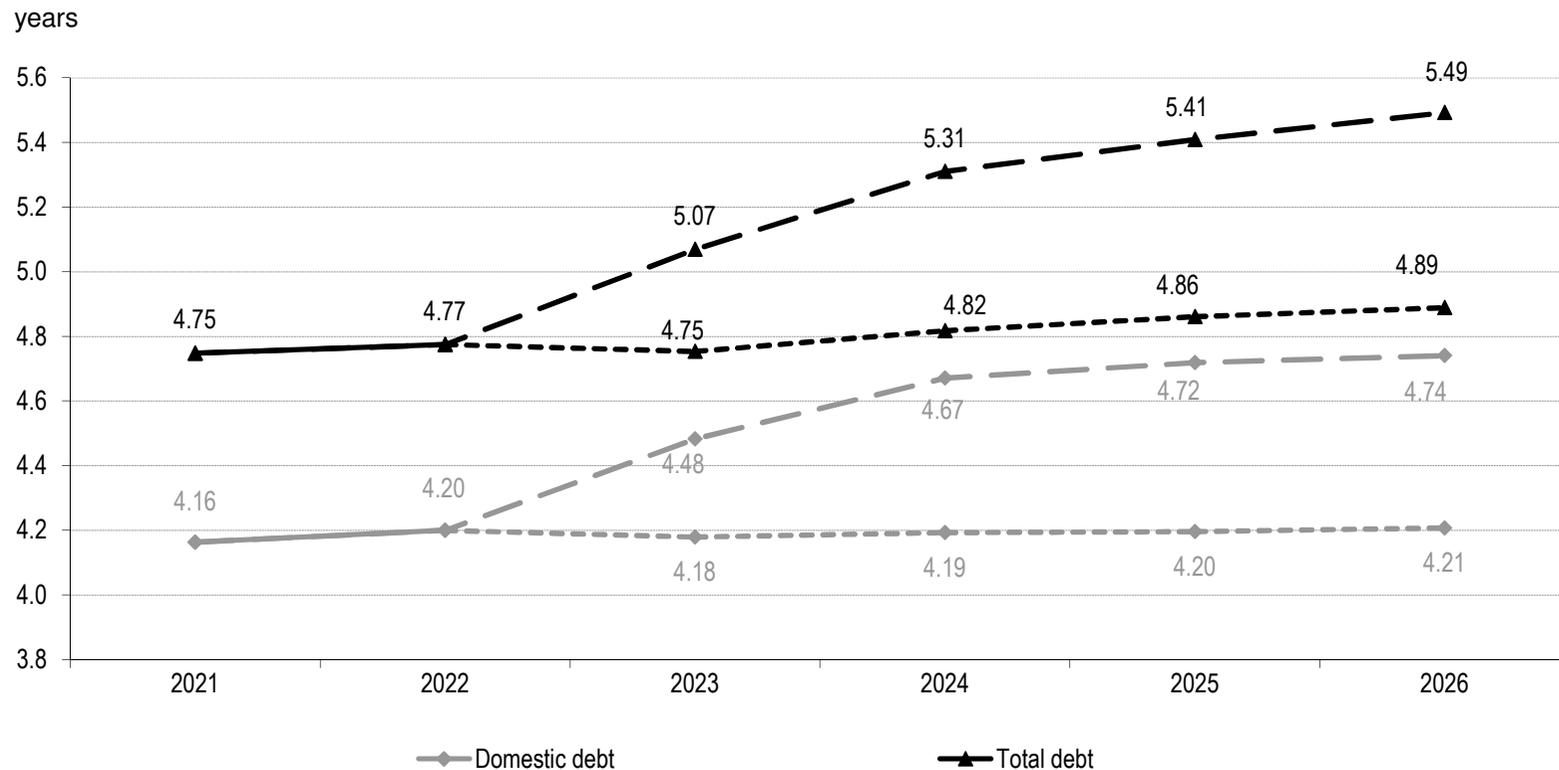
Risk constraints of the Strategy's objective: refinancing risk (1)

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

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

ATM of the State Treasury debt



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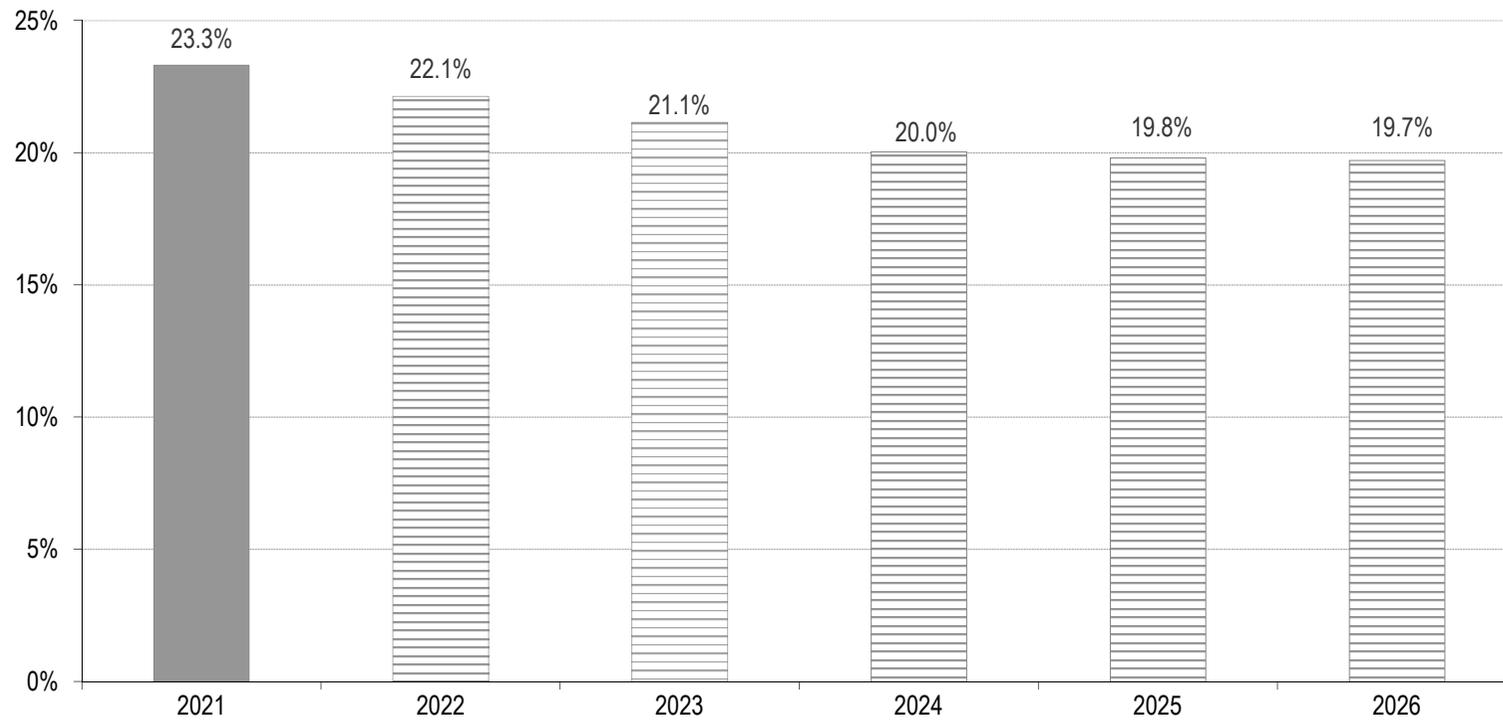
Risk constraints of the Strategy's objective: exchange rate risk (1)

- maintaining the share of the foreign currency denominated debt in the State Treasury debt below 25%, with possible temporary deviations resulting from market and budgetary conditions
- possible use of derivatives to shape desired structure of the debt
- maintaining an effective share of the euro in the foreign currency debt at $\geq 70\%$

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

Share of foreign currency debt in the State Treasury debt



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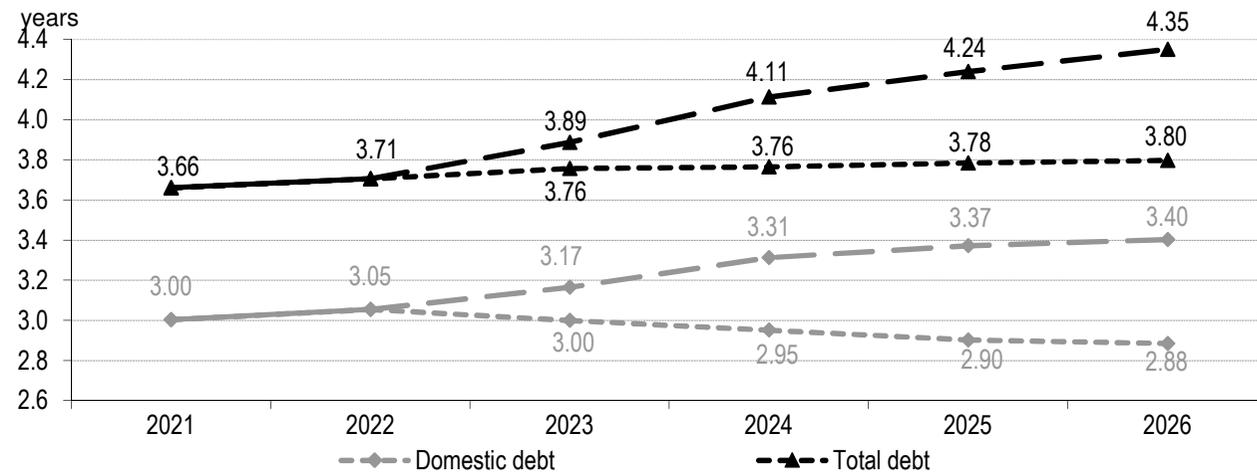
Risk constraints of the Strategy's objective: interest rate risk (1)

- maintaining average time to re-fixing (ATR) of the domestic debt in the range of 2.6-3.6 years
- separating management of interest rate and refinancing risk by:
 - using floating rate bonds
 - possible use of derivatives and inflation-linked bonds
- maintaining the dominant share of fixed rate instruments in State Treasury debt denominated in foreign currencies

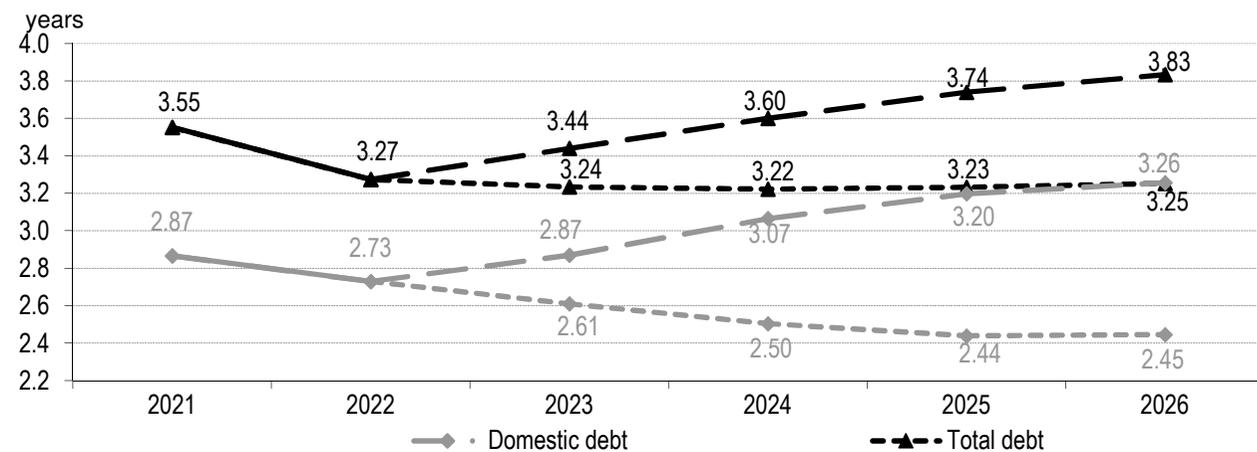
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Risk constraints of the Strategy's objective: interest rate risk (2)

ATR of the ST debt



Duration of the ST debt



The Public Finance Sector Debt Management Strategy in the years 2023-2026

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

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

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Risk constraints of the Strategy's objective: other types of risk (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 additional collateral agreements that are in line with the current market best practices and enable concluding transactions on more favourable terms without bearing credit risk
- diversification of credit risk generated by uncollateralized transactions
- assuring technical infrastructure allowing for running debt management processes from outside of the MoF's headquarters, if needed

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

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

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Strategy tasks (1)

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

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

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Strategy tasks (2)

2. Ensuring efficiency of the TS market:

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

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Strategy tasks (3)

3. Ensuring transparency of the TS market

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

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Strategy tasks (4)

4. Effective management of State budget liquidity

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

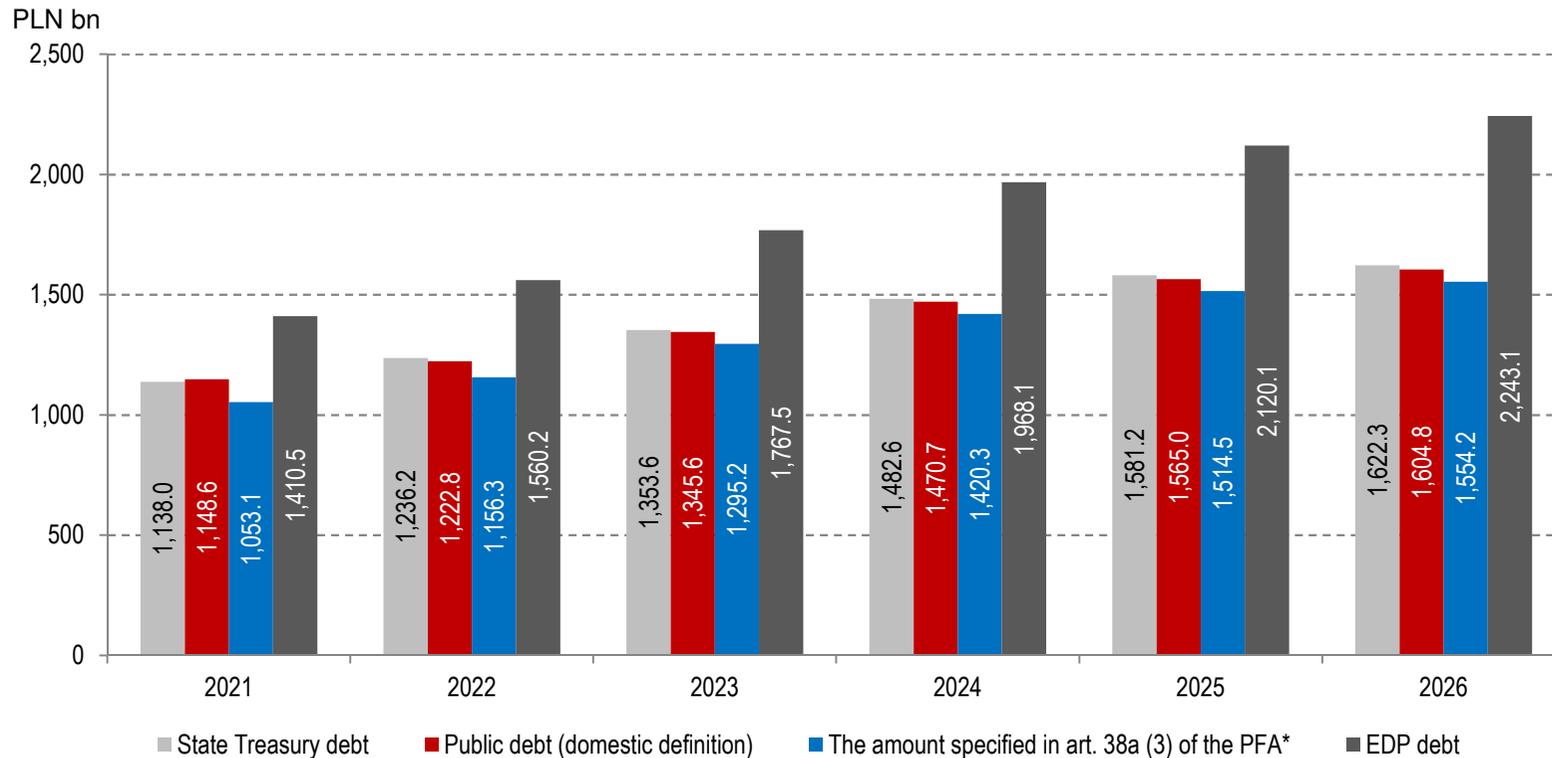
Additionally, the management of the liquidity of the public finance sector takes place, with liquid funds on the Minister of Finance account deposited by:

- *general government* units
- courts and prosecutors offices

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

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Public debt forecast



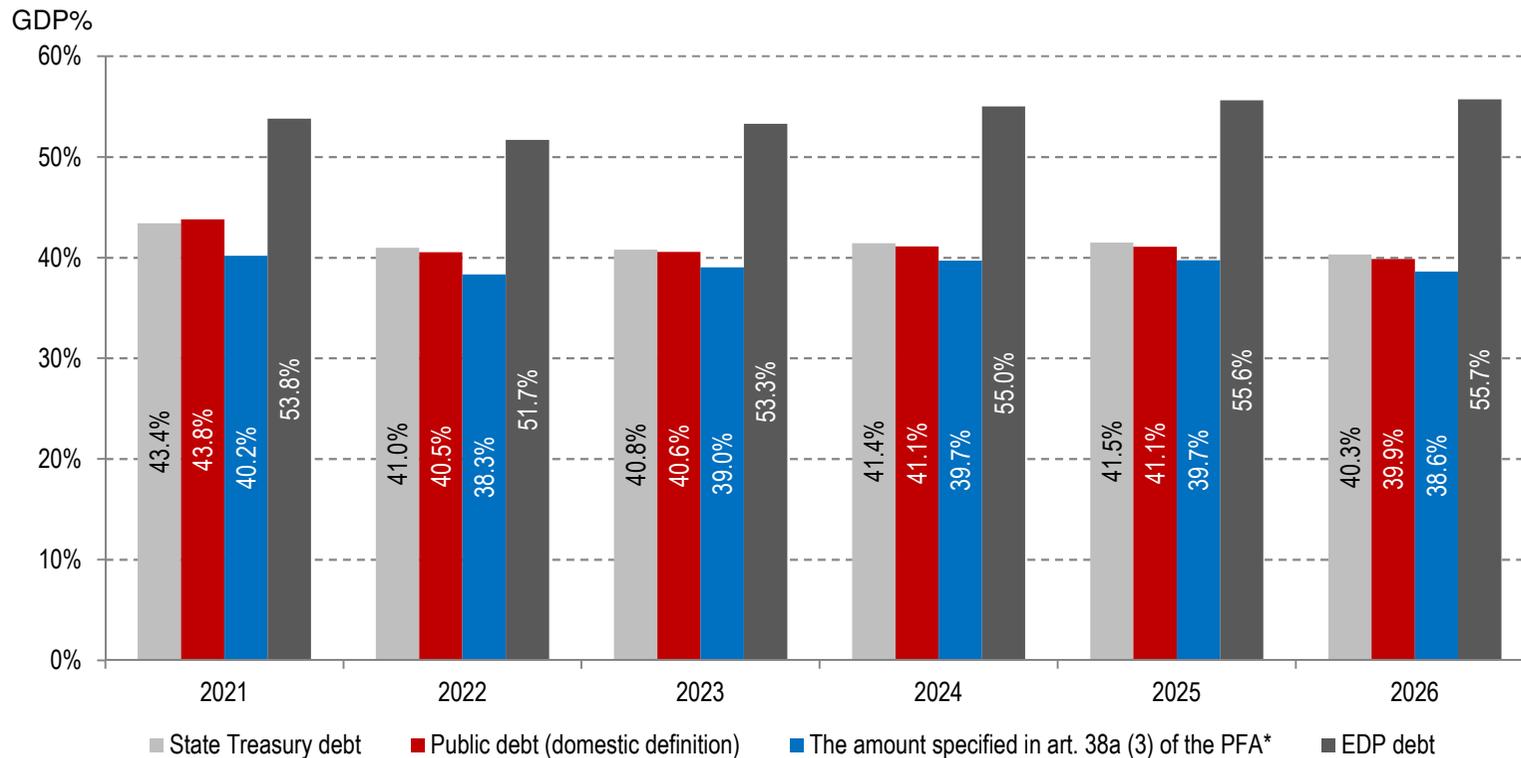
**The amount of public debt recalculated using the yearly average of foreign currency exchange rates for the year concerned and reduced by the value of State budget liquid funds raised to finance the borrowing requirements for the following budget year.*

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Public debt forecast

In the timeframe of the Strategy and under adopted assumptions the debt-to-GDP ratio:

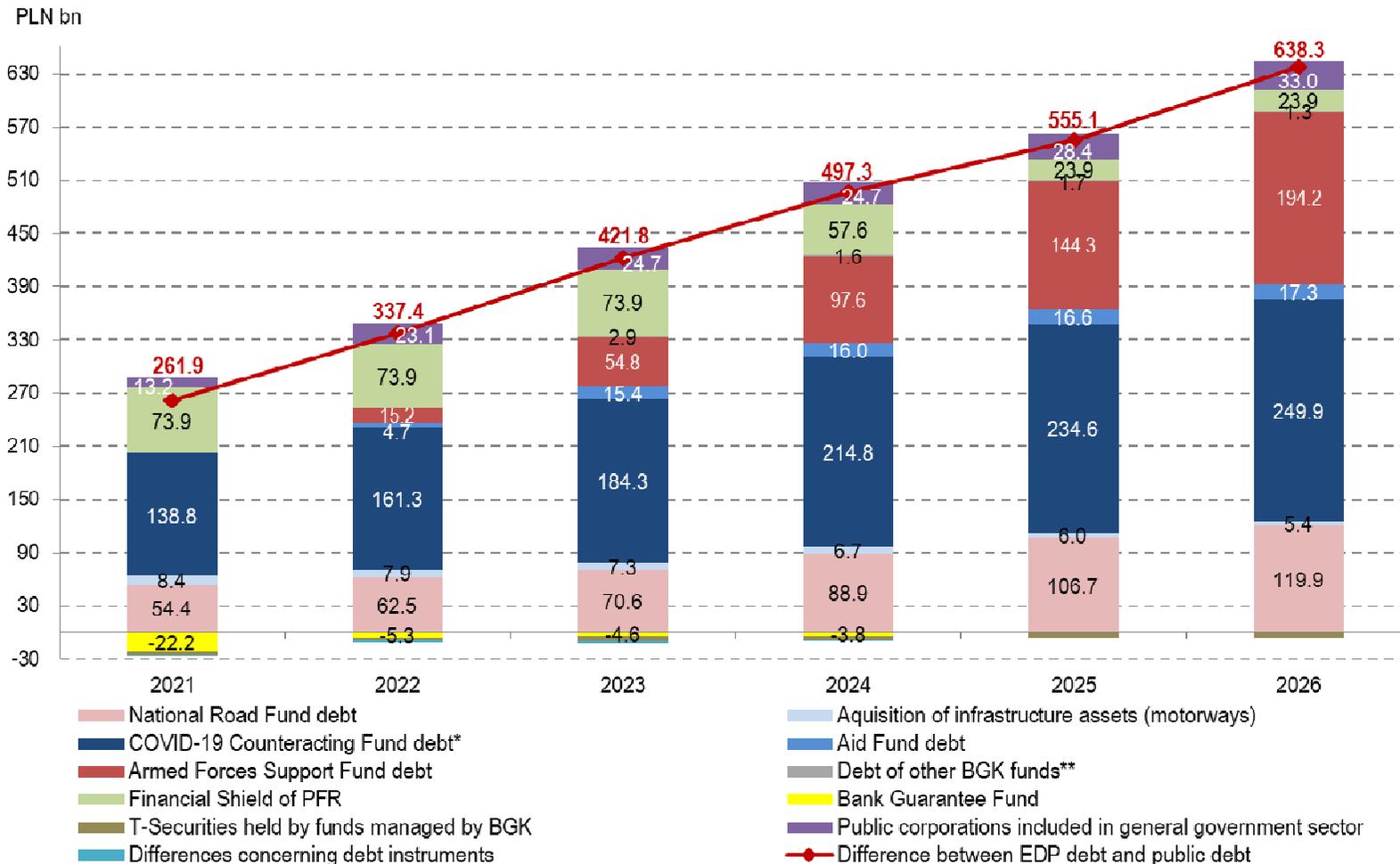
- (domestic definition) will decline to 39.9% in 2026 (in line with debt rules)
- (EU definition) will reach 55.7% in 2026 (below the 60% reference threshold).



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

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Debt forecast: Difference between EDP debt and public debt



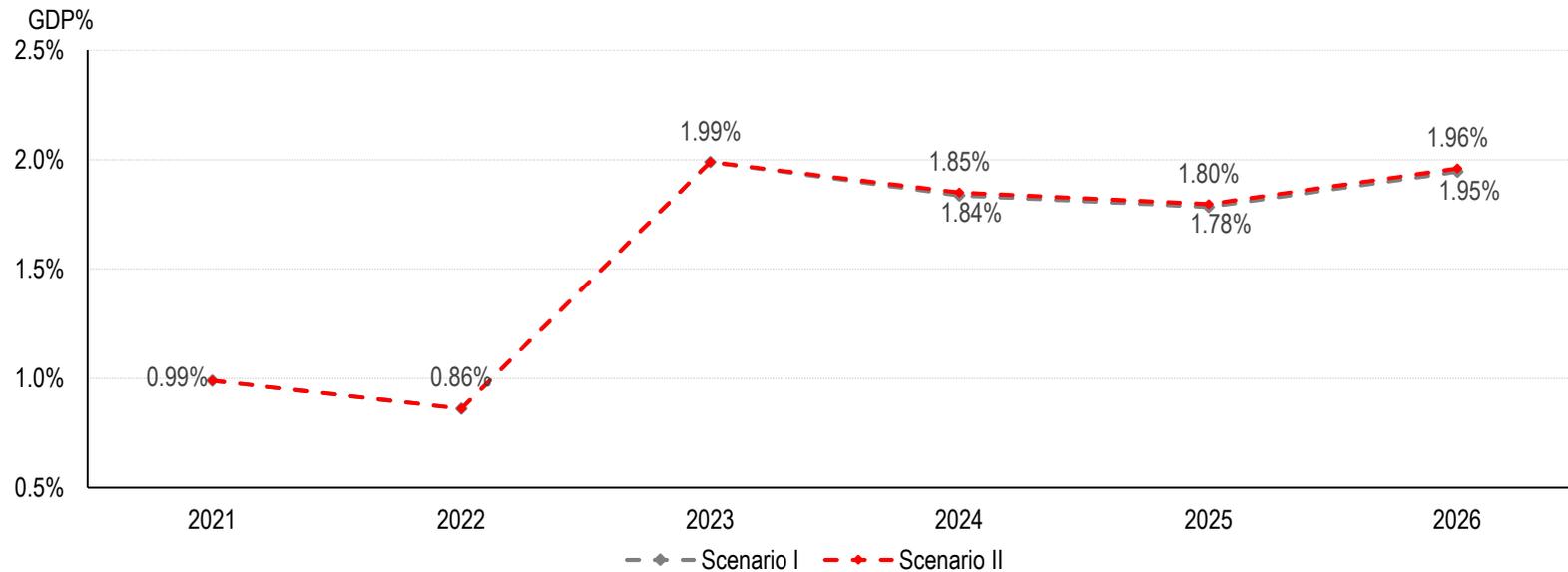
*) includes investment subsidies from the Government's Strategic Investment Programme

***) National Guarantee Fund, Liquidity Guarantee Fund, Crisis Guarantee Fund, Railway Fund

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State Treasury debt servicing costs

The State Treasury debt servicing costs-to-GDP will remain below 2% of GDP.



| Debt servicing costs | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|----------------------|------|------|------|-------------|-------------|-------------|
| PLN bn | 26.0 | 26.0 | 66.0 | 65.7 – 66.2 | 68.0 – 68.5 | 78.3 – 78.9 |

Forecasts of the debt servicing costs for the years 2023-2026 account for the exchange rate risk provisions

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

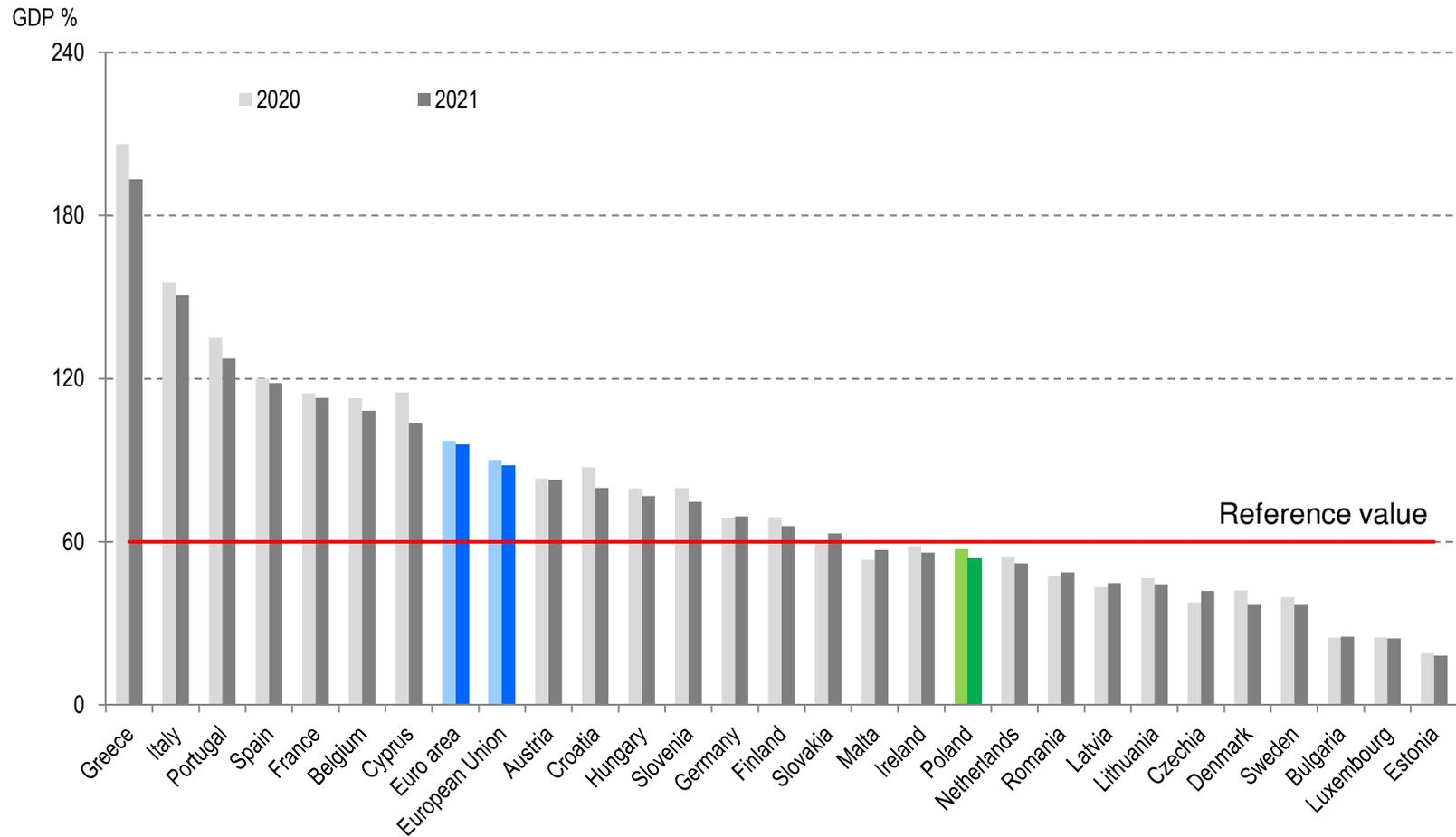
| Item | 2023 | 2024 | 2025 | 2026 |
|--|-------|-------|-------|-------|
| GDP and borrowing requirements | | | | |
| - GDP growth path lower by 1 p.p. | 0.37% | 0.77% | 1.16% | 1.52% |
| - borrowing requirements higher by PLN 10bn yearly | 0.32% | 0.60% | 0.88% | 1.14% |
| FX rates | | | | |
| - 10 % depreciation of PLN towards all currencies | 0.89% | 0.85% | 0.84% | 0.82% |

Sensitivity of the ST debt servicing costs to changes in assumptions

| Item | 2023 | 2024 | 2025 | 2026 |
|--|------|------|------|-------|
| 1 p.p. increase in interest rates | | | | |
| - domestic debt (PLN bn) | 3.27 | 6.45 | 8.50 | 9.56 |
| - foreign debt (PLN bn) | 0.28 | 0.79 | 1.25 | 1.78 |
| - State Treasury debt (PLN bn) | 3.55 | 7.24 | 9.75 | 11.34 |
| FX rates | | | | |
| - 10 % depreciation of PLN towards all currencies (PLN bn) | 0.58 | 0.65 | 0.72 | 0.80 |

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General government debt in the EU member states



Source: Eurostat