Ministry
of Finance

Republic
of Poland

The Public Finance Sector Debt Management Strategy in the years 2020-2023

Ministry of Finance
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Macroeconomic assumptions

Item	2018	2019	2020	2021	2022	2023
Real GDP growth (%)	5.1	4.0	3.7	3.4	3.3	3.1
GDP in current prices (PLN bn)	2,115.7	2,236.5	2,373.3	2.514,8	2,662.0	2,809.6
CPI annual average (%)	1.6	1.8	2.5	2.5	2.5	2.5
USD/PLN (end of year)	3.7597	3.80	3.80	3.80	3.80	3.80
EUR/PLN (end of year)	4.3000	4.2955	4.2955	4.2955	4.2955	4.2955

Objective of the Strategy

<u>minimisation of the long term debt servicing costs subject to constraints on the level of</u>:

- 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 by ensuring access to the investor base in major financial markets
- maintaining Poland’s position in the euro market
- Stabilising domestic market by adjusting the structure of financing to market situation
- utilizing an attractive financing in international financial institutions
- possible sale of foreign currencies (in the NBP or on the financial market) as instrument of financing of the borrowing requirements and currency management, while taking into account monetary, economic and budgetary policy.

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

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

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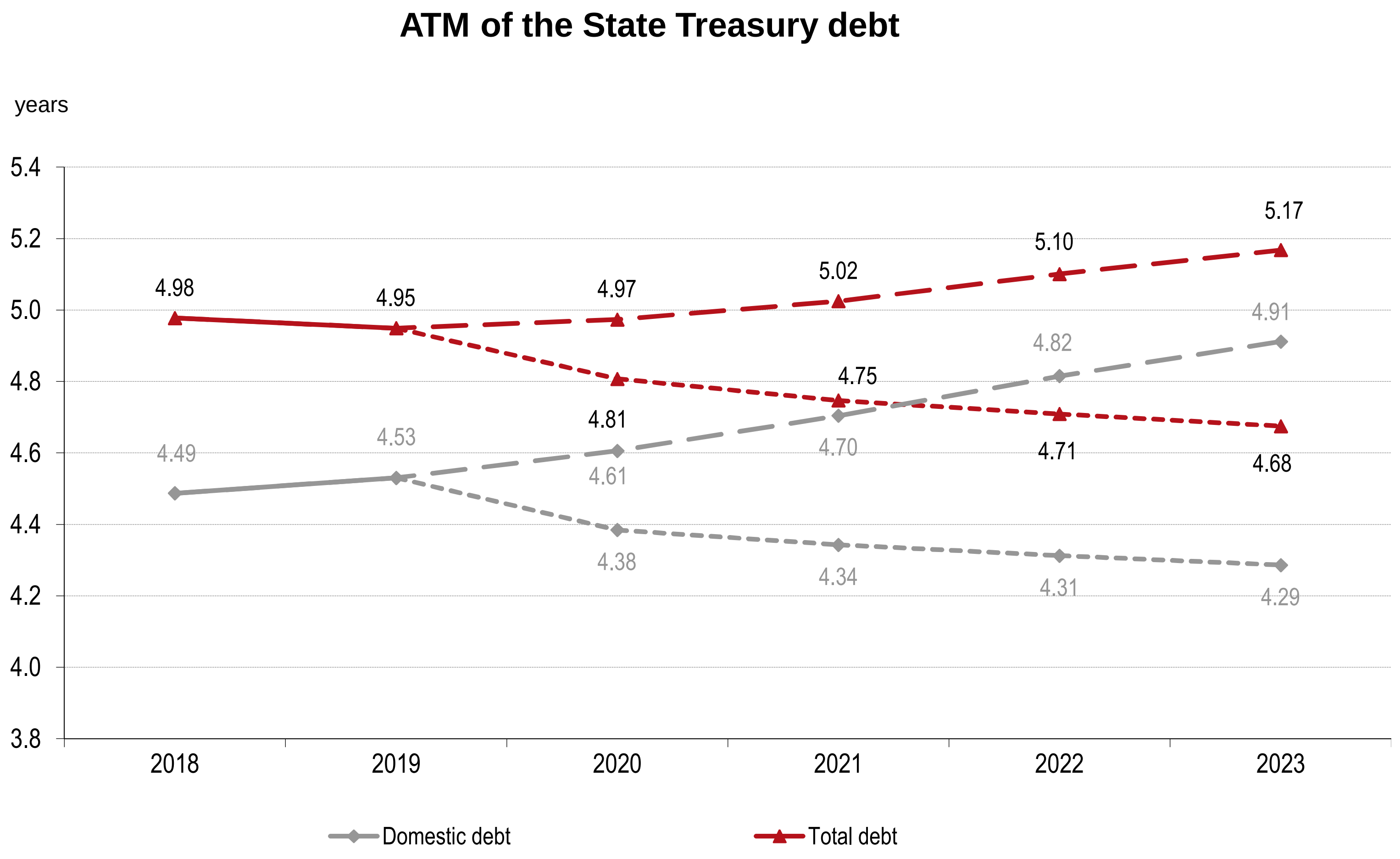
Risk constraints of the Strategy's objective: refinancing risk (2)



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

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

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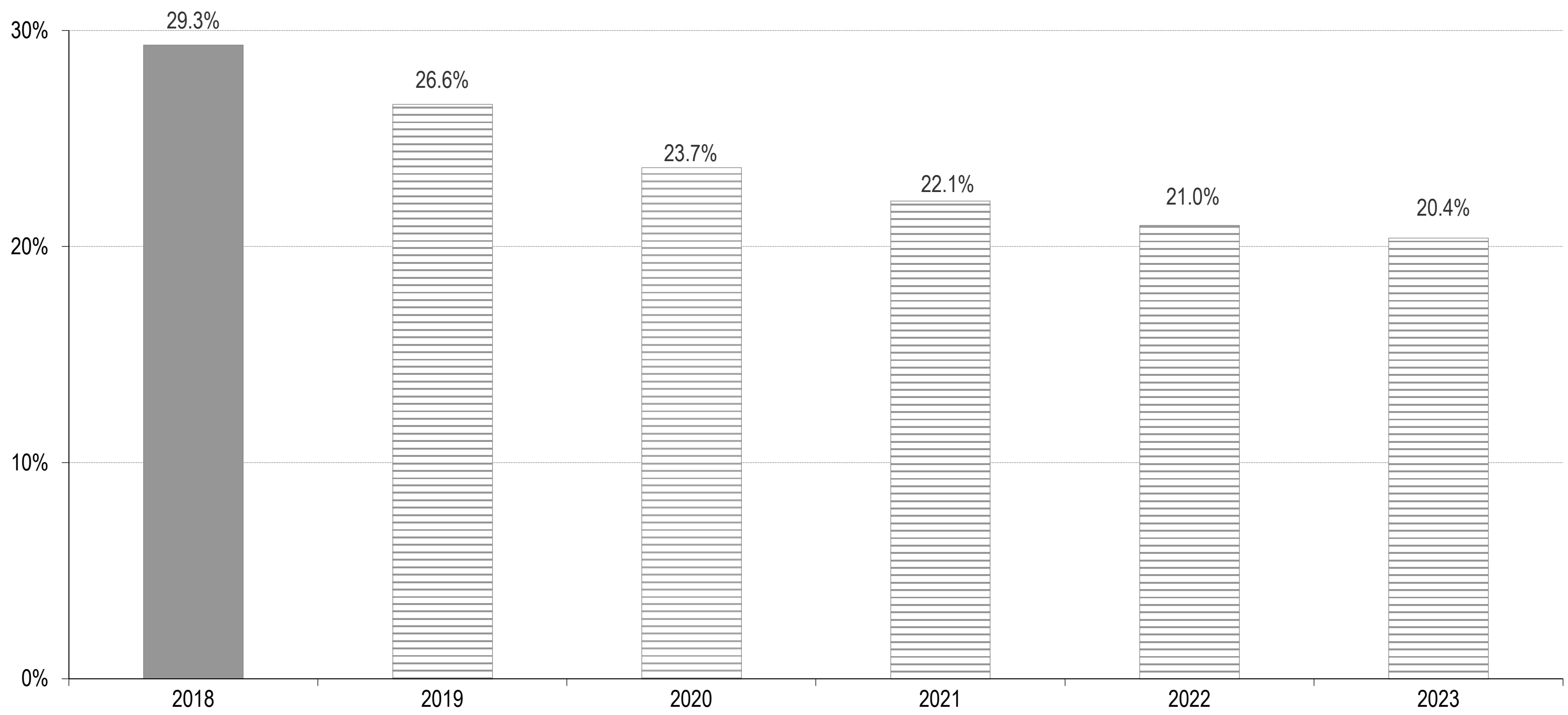
Risk constraints of the Strategy’s objective: exchange rate risk (2)

Share of foreign currency debt in the State Treasury debt



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

- maintaining average time to re-fixing (ATR) of the domestic debt in the range of 2.8-3.6 years
- separating management of interest rate and refinancing risk by:
  - using floating rate bonds and inflation-linked bonds
  - possible use of derivatives
- current level of risk of the foreign currency debt does not pose a limitation to the cost minimization objective due to declinig share of foreign debt, which is primarily fixed rate

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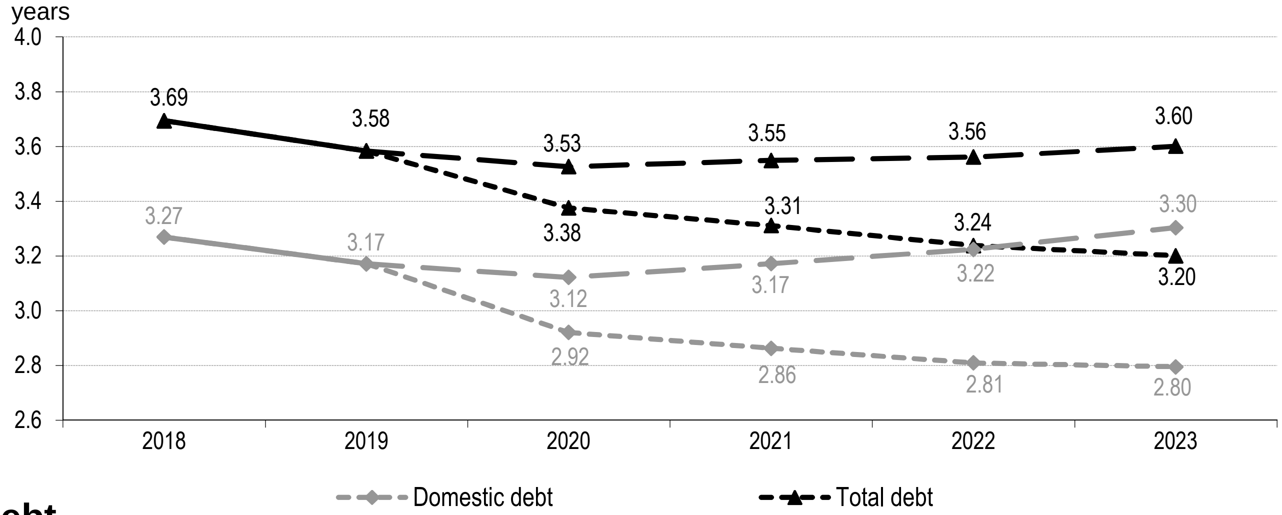
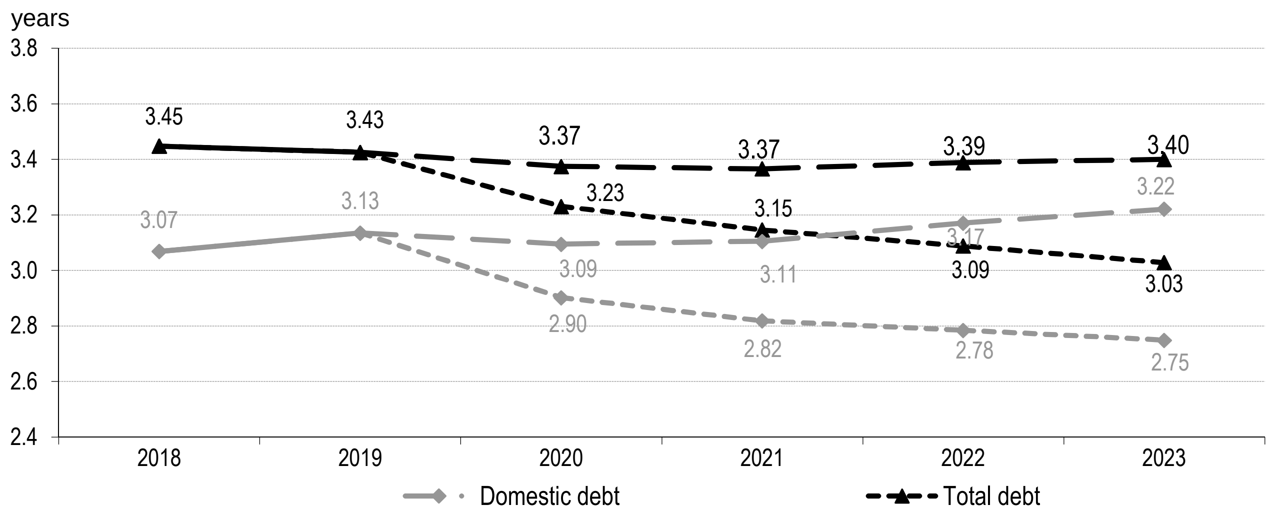
Risk constraints of the Strategy's objective: interest rate risk (2)

***ATR* of the ST debt**



***Duration* of the ST debt**



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

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

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

- concluding derivative transactions with high creditworthiness entities
- credit risk mitigation (collateral agreements) and diversification while concluding derivative transactions; subsequent collateral agreements are planned that are in line with current best practices in the market and enable concluding transactions on more favorable terms without bearing credit risk
- diversification of credit risk generated by uncollateralized transactions
- process approach to management of the unit responsible for debt management

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

Strategy tasks (1)

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

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

Strategy tasks (2)

2. Ensuring efficiency of the TS market:

- issuance schedule adjusted to market and budgetary circumstances
- increase and enhancement of the role of the Primary Dealers system in development of the TS market and debt management operations
- sustaining relations with domestic and foreign investors 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 meetings with foreign investors on key international financial markets, aimed at promoting TS issued on domestic and foreign market
- active participation in conferences and seminars with investors

Strategy tasks (3)

3. Ensuring transparency of the TS market

- transparent issuance policy, including TS issuance calendars in the horizon of current year, quarter and month

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

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
- use of liquid assets available from:
  - deposits of public finance sector units
  - deposits of other *general government* units
  - court deposits
- using FX swap transactions to shape currency structure of liquid funds
- short term loans on interbank market

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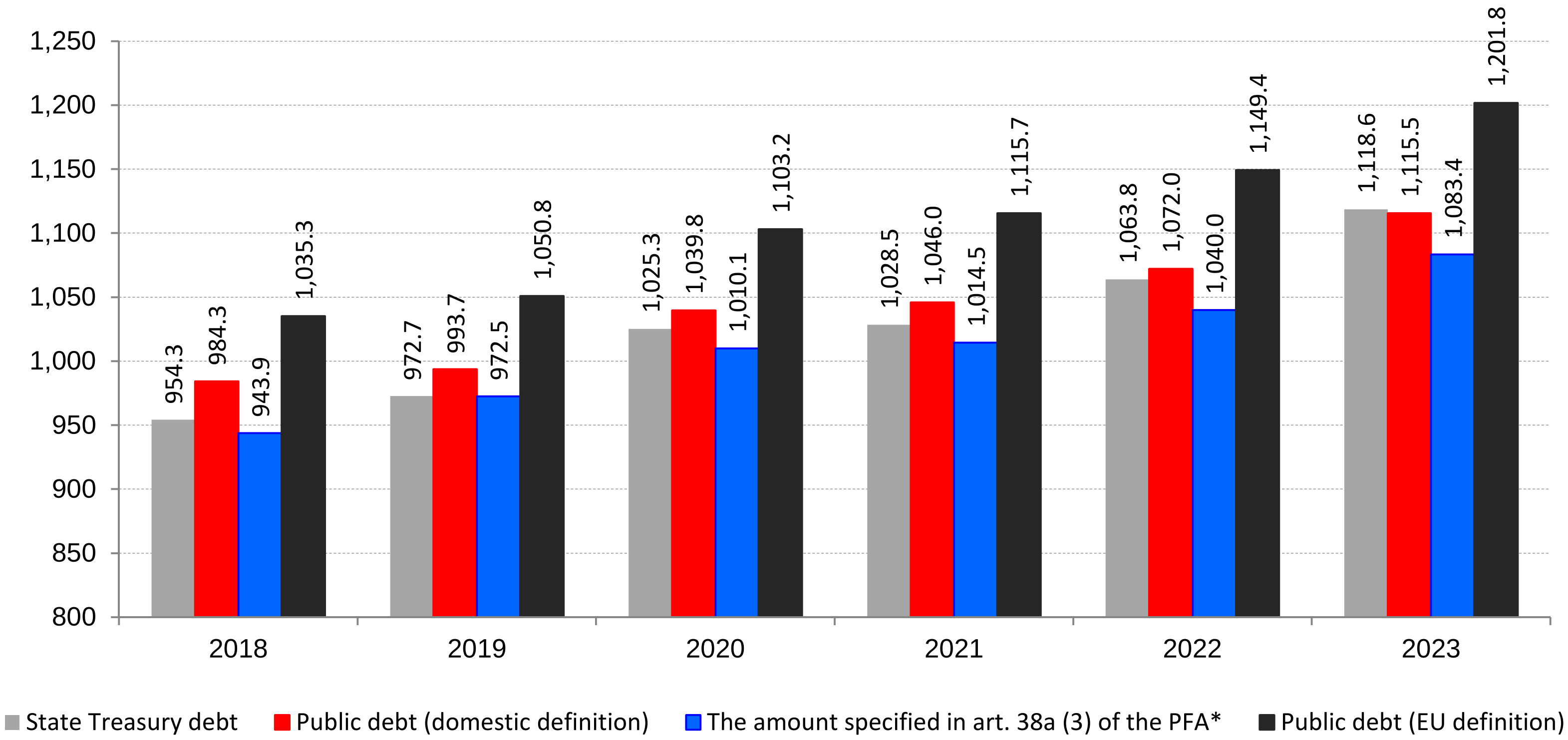
Debt forecasts

PLN bn



**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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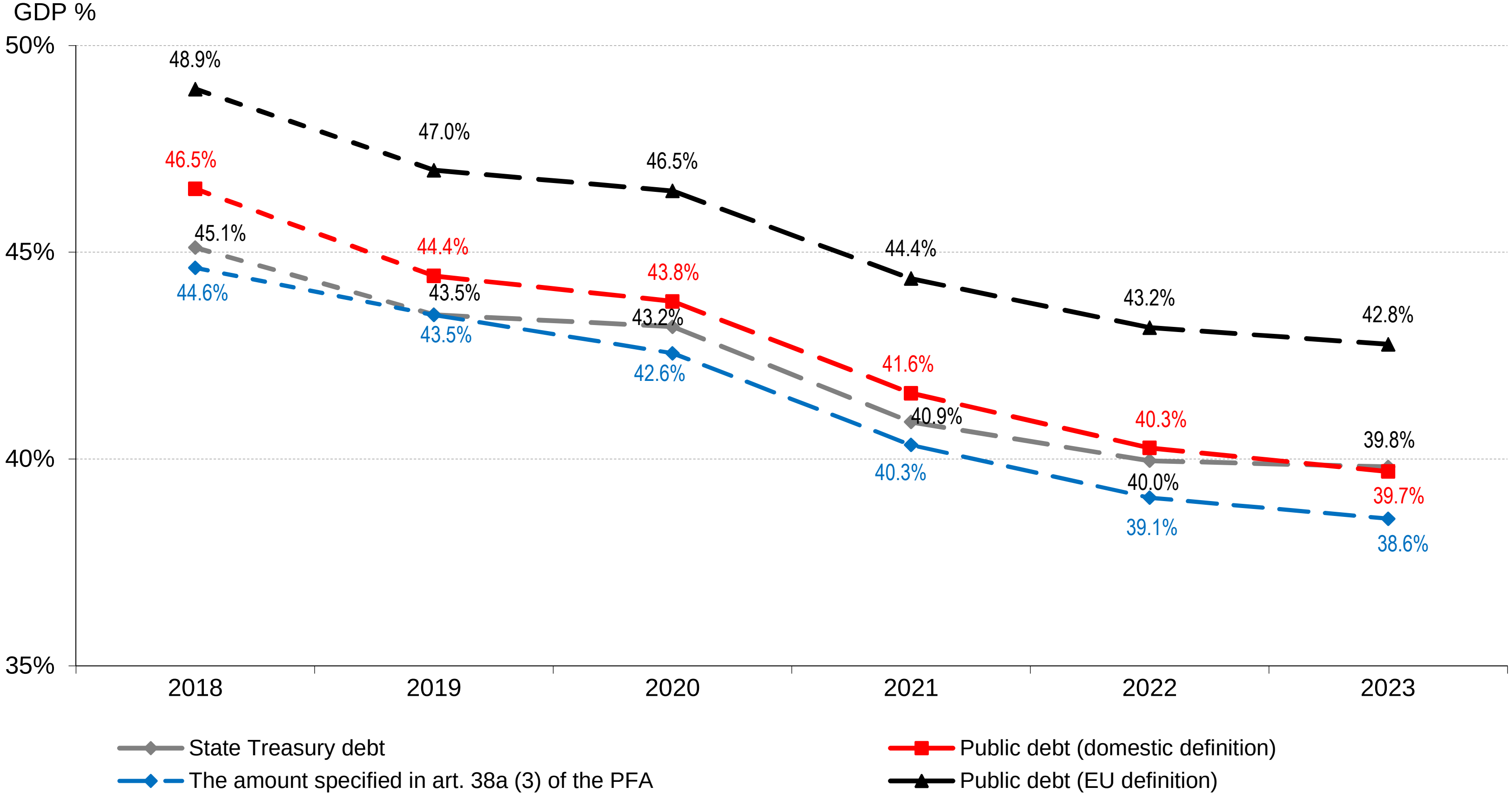
Public debt forecast

Under the adopted assumptions the debt-to-GDP ratio will decrease by 2023:

- to 39.7% (domestic definition)
- to 42.8% (EU definition)



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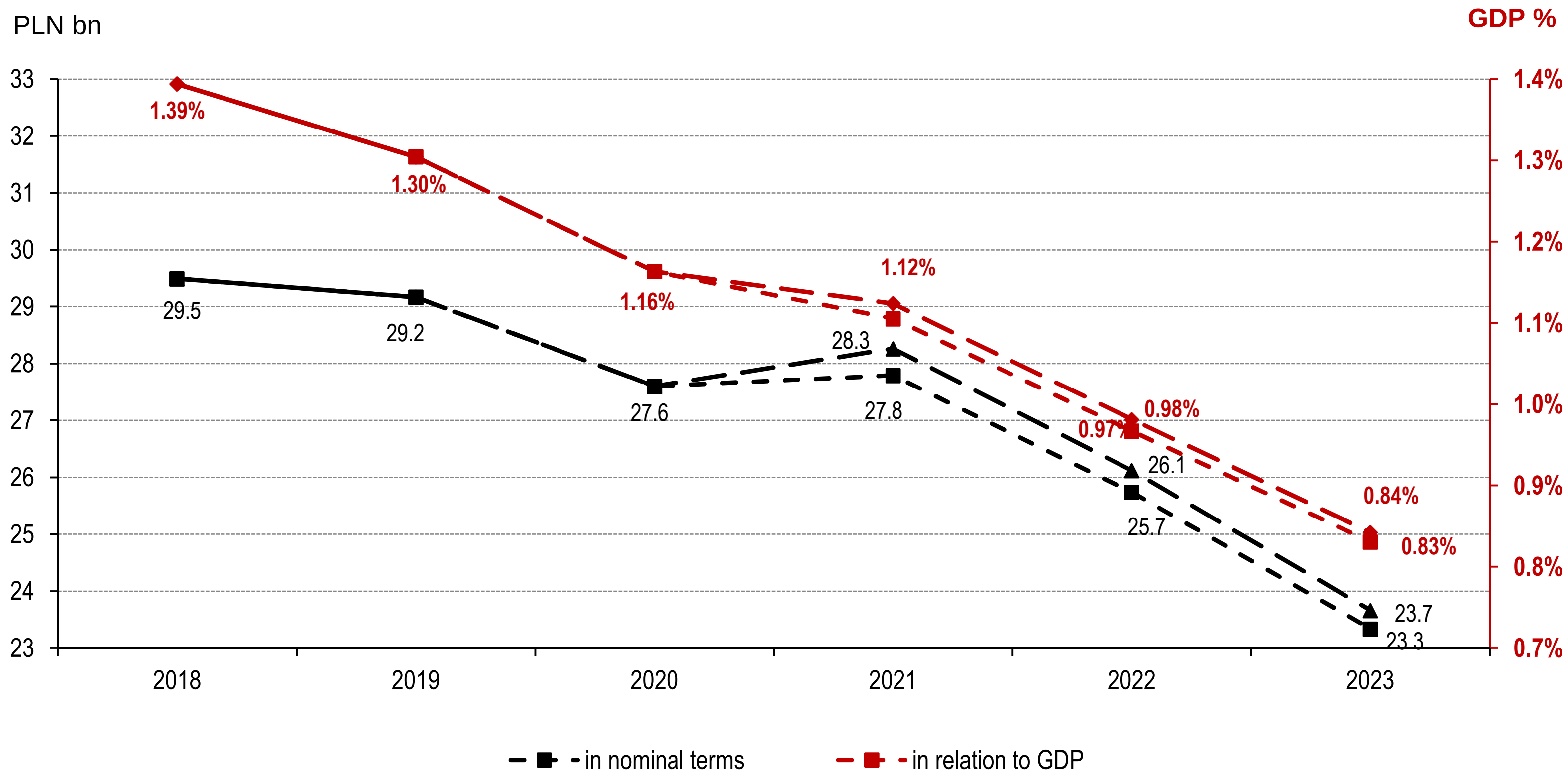
State Treasury debt servicing costs

The State Treasury debt servicing costs-to-GDP ratio will continue to decrease, reaching (depending on exchange rates) 0.83% - 0.84% by 2023



Forecasts of the debt servicing costs for the years 2020-2023 account for the exchange rate risk provisions

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

Item	2020	2021	2022	2023
GDP and borrowing requirements				
- GDP growth path lower by 1 p.p.	0.42%	0.80%	1.16%	1.54%
- borrowing requirements higher by PLN 10bn yearly	0.43%	0.82%	1.17%	1.49%
FX rates				
- 10 % depreciation of PLN towards all currencies	1.05%	0.93%	0.86%	0.83%

Sensitivity of the ST debt servicing costs to changes in assumptions

Item	2020	2021	2022	2023
1 p.p. increase in interest rates				
- domestic debt (PLN bn)	1.0	3.2	4.2	4.9
- foreign debt (PLN bn)	0.2	0.5	0.7	0.8
- State Treasury debt (PLN bn)	1.2	3.7	4.9	5.6
FX rates				
- 10 % depreciation of PLN towards all currencies (PLN bn)	0.67	0.59	0.47	0.40

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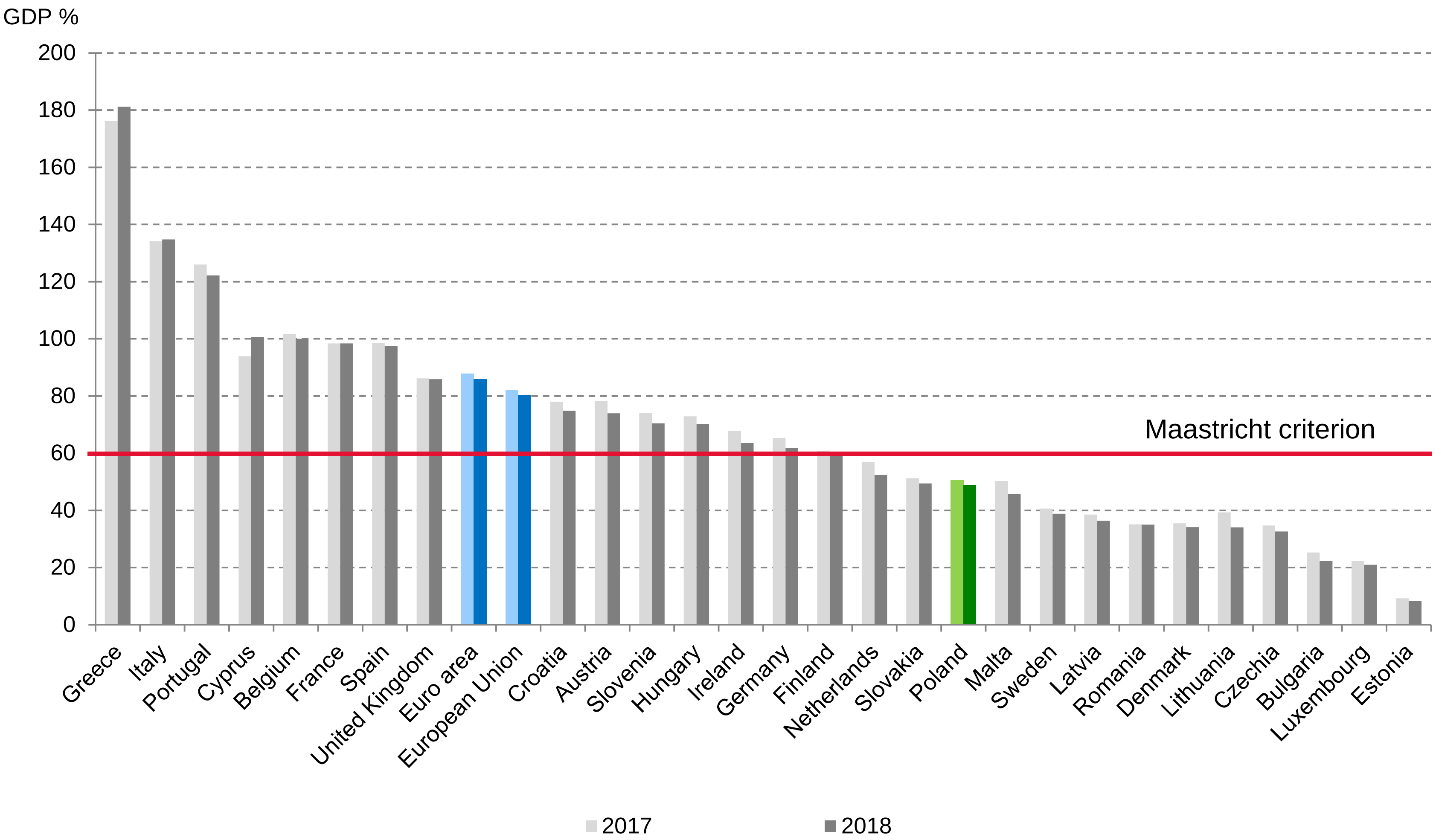
General government debt in the EU member states



Source: Eurostat