THE PUBLIC FINANCE SECTOR DEBT MANAGEMENT STRATEGY

in the years 2025-2028

Ministry of Finance

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1. Introduction

Pursuant to Article 75 of the Public Finance Act of 27 August 2009 (Journal of Laws of 2023, item 1270, as amended, hereinafter referred to as the Public Finance Act) the Minister of Finance is obliged to develop annually a 4-year strategy on managing the State Treasury (ST) debt and affecting 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, along with the justification for the draft Budget Act.

Public debt management is conducted at two levels:

- in a broader sense, it is 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 will be (this aspect is discussed in documents dedicated to the government economic program, especially in the justification for the draft Budget Act, updated on an annual basis, and, in the current year, in the medium-term fiscal-structural plan that, once adopted by the Council of Ministers, will be submitted to the European Commission and the Ecofin Council by 15 October this year);
- 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.

Table 1. Public debt– summary of the Strategy forecasts

Item	2023	2024	2025 deficit limit	2025	2026	2027	2028
1. Public debt							
GDP %	38.9%	43.3%	47.9%	47.1%	48.1%	48.6%	48.3%
2. The amount specified in the article 38a (3) of the Public Finance Act*							
GDP %	36.4%	40.7%	46.7%	45.8%	47.0%	47.5%	47.2%
3. General government debt							
GDP %	49.6%	54.6%	59.8%	58.4%	60.9%	61.3%	61.2%

**) 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.*

The forecast for 2025-2028 was prepared assuming an annual fiscal adjustment enabling compliance with the established net expenditure path in accordance with the requirements of the EU regulation on medium-term fiscal-structural plans and the assumptions of the medium-term fiscal-structural plan.

Under the adopted assumptions, the public debt-to-GDP ratio will be 43.3% in 2024 and 47.1% in 2025, then it will increase to 48.6% in 2027, to decline to 48.3% in the last year covered by the forecast. In the timeframe of the *Strategy*, the public debt-to-GDP ratio will remain safely below the prudential threshold of 55% set forth in the Public Finance Act.

The forecasted ratio of general government debt (EDP debt; according to the EU definition) to GDP will be 54.6% in 2024 and 58.4% in 2025, then it will increase to 61.3% in 2027, to

decrease to 61.2% in 2028. The 60% reference value of the EDP debt-to-GDP ratio is expected to be exceeded in 2026.

Assuming that the deficit limit set out in the draft Budget Act for 2025 will be fully met, in 2025, the public finance sector debt-to-GDP ratio would be 47.9% and the general government debt-to-GDP ratio would be 59.8%.

Table 2. State Treasury debt servicing costs – summary of the Strategy forecasts

Item	2023	2024	2025	2026	2027	2028
State Treasury debt servicing costs (cash basis)*						
a) PLN bn	61.7	66.5	75.5	90.6 – 91.8	102.5 – 103.9	106.8 – 108.2
b) GDP %	1.81%	1.83%	1.90%	2.14% - 2.16%	2.29% - 2.32%	2.26% - 2.29%

**) Forecasts of debt servicing costs for 2026-28 are presented in ranges, including a provision for exchange rate risk.*

The limit of ST debt servicing costs assumed in the draft Budget Act for 2025 is PLN 75.5 billion, i.e. 1.9% of GDP. The *Strategy* provides that debt servicing costs will increase to approx. 2.3% of GDP in 2027-2028.

This *Strategy* is a continuation of the previous documents. The objective of minimizing the debt servicing costs subject to risk constraints has been maintained, but it has been reformulated to refer directly to financing the planned borrowing requirements of the State budget, which is an overarching aspect of debt management. Currently, the *Strategy* objective has been formulated as financing the borrowing requirements of the State budget in a way that ensures minimizing debt service costs in the long term with the adopted risk constraints. The tasks aimed at the implementation of the *Strategy* objective, related to 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 2025-2028:

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

The Strategy comprises four annexes, including a glossary of selected abbreviations.

2. Volume of public debt and costs of its servicing

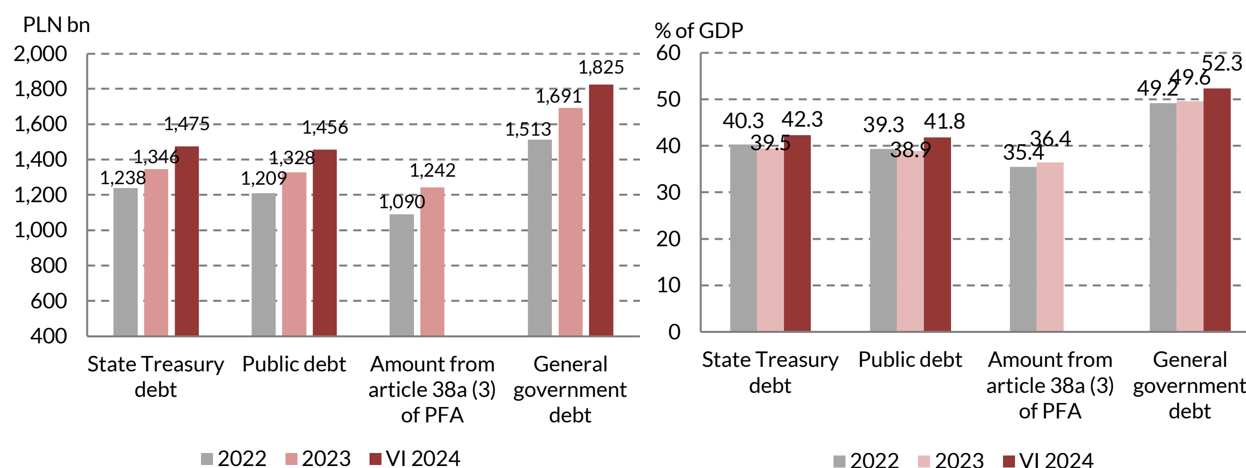
In 2023, the public debt (i.e. public debt according to the domestic definition) amounted to PLN 1,328.1 billion, which meant an increase of PLN 118.6 billion compared to the end of 2022. The general government debt (i.e. public debt according to the EU definition) amounted to PLN 1,691.2 billion and was PLN 178.4 billion higher than as at the end of 2022.

The public debt-to-GDP ratios in 2023:

- the public debt-to-GDP ratio was 38.9% compared to 39.3% as at the end of 2022 (a decrease of 0.4 pp);
- the ratio of the amount specified in the 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) to GDP was 36.4%, compared to 35.4% as at the end of 2022;
- the general government debt-to-GDP ratio amounted to 49.6% compared to 49.2% as at the end of 2022 (an increase of 0.4 pp) and was much lower than that for the entire European Union (81.7%) and the euro area (88.6%)[1].

In the first half of 2024, the public debt-to-GDP and EDP debt-to-GDP ratios increased by 2.8 pp and 2.7 pp to 41.8% and 52.3%, respectively.

Chart 1. Volume of public debt



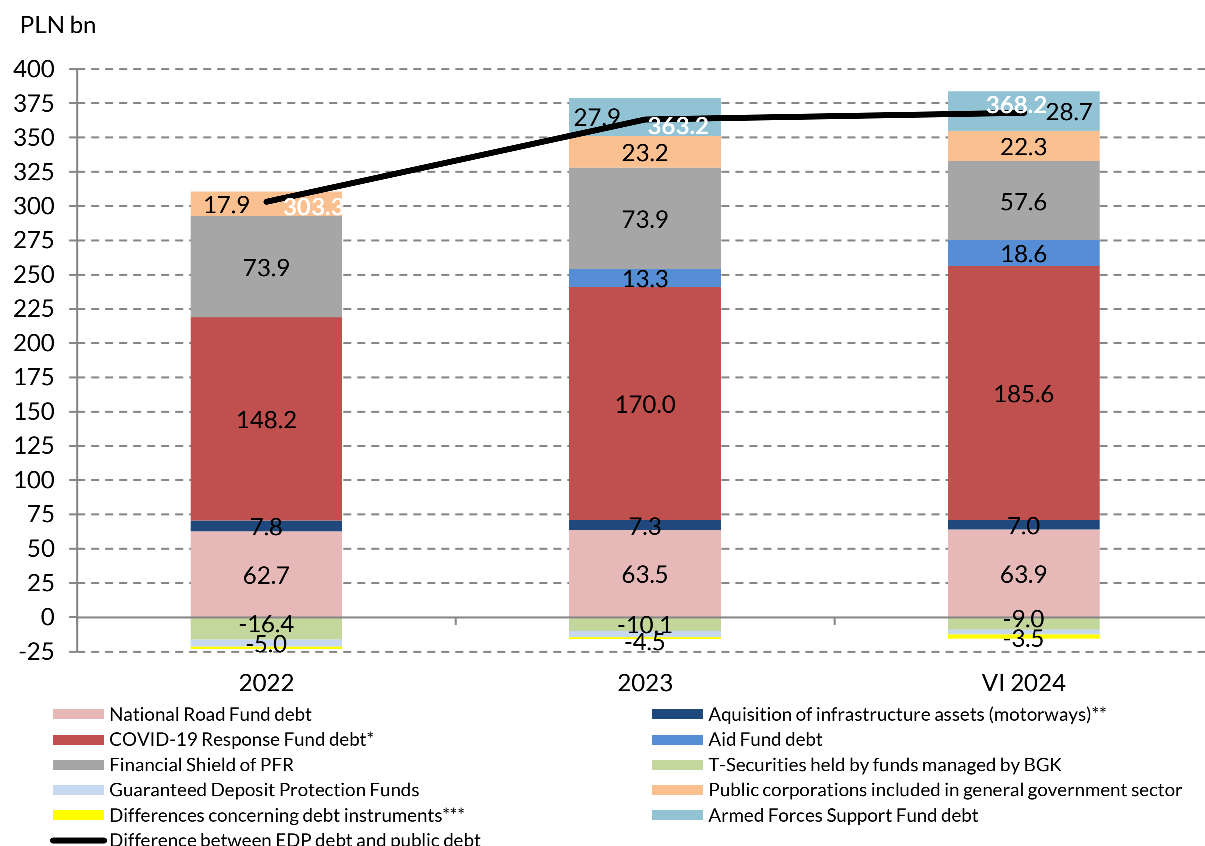
The differences between public debt and general government debt are due to the following factors:

- 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;

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

- rerouting of 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 the 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.*

****) Matured payables, debt assumption as a result of guarantee activation, CIRS transactions, restructured/refinanced trade credits, sale and lease-back operations and other.*

The detailed description of differences between the public debt according to the domestic and the EU definitions 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 the Aid Fund, incurring liabilities for the Armed Forces Support Fund, as well as the redemption of bonds issued by the Polish Development Fund to finance the Financial Shield.

The increase in ST debt of PLN 107.7 billion in 2023 resulted mainly from:

- net borrowing requirements of the State budget (PLN +137.6 billion), mainly as a result of the State budget deficit of PLN 85.6 billion, liquidity management consolidation (PLN +38.2 billion), and EU fund management (PLN +14.3 billion);
- decrease in the balance of funds in budget accounts (PLN -17,7 billion);
- transfer of bonds under acts other than the Public Finance Act (PLN +21.6 billion);
- FX rates movements (PLN -24.5 billion);
- change in the other ST debt (PLN -14.8 billion), including: a decrease in deposits of public finance sector entities (PLN -14.3 billion) and general government entities (PLN -6.7 billion) as part of liquidity management consolidation with an increase in loans granted by public finance sector entities (PLN +5.0 billion).

In the first half of 2024, the increase in ST debt of PLN 128.8 billion was mainly due to:

- net borrowing requirements of the State budget (PLN +61.3 billion), mainly as a result of the State budget deficit of PLN 69.9 billion, financing of the EU funds budget deficit (PLN +3.0 billion), the balance of loans granted (PLN +3.0 billion), as well as liquidity management consolidation (PLN -4.4 billion) and EU funds management (PLN -9.9 billion);
- increase in the balance of funds in budget accounts (PLN +54.9 billion);
- transfer of bonds (PLN +6.8 billion);
- FX rates movements (PLN -0.5 billion);
- change in the remaining ST debt (PLN -1.8 billion), including a decrease in deposits of public finance sector entities (PLN -1.3 billion) and general government entities (PLN -0.6 billion) as part of liquidity management consolidation.

As at 13 September 2024, the gross borrowing requirements for 2024 assumed in the Budget Act were financed in approx. 90%, and according to the projected 2024 execution in the draft Budget Act for 2025, the level of this financing was approx. 95%.

Table 3. Factors affecting change in ST debt in 2023 and the first half of 2024 (PLN billion)

Item	2023	I-VI 2024
Change in ST debt	**107.7**	**128.8**
1. State budget borrowing requirements:	**137.6**	**61.3**
1.1. State budget deficit	85.6	69.9
1.2. EU funds budget deficit	-1.0	3.0
1.3. Liquidity management consolidation	38.2	-4.4
1.4. European funds management	14.3	-9.9
1.5. Granted loans	0.0	3.0
1.6. Other borrowing requirements [1)]	0.4	-0.4
2. Other changes:	**-29.8**	**67.6**
2.1. FX rates movements	-24.5	-0.5
2.2. Changes in budget accounts balance	-17.7	54.9
2.3. Transfer of TS	21.6	6.8
2.4. TS discount, TS indexation	5.6	8.2

2.5. Change in the other State Treasury debt	-14.8	-1.8
• Deposits of PFS entities [2)]	-14.3	-1.3
• Deposits of GG entities [3)]	-6.7	-0.6
• Other deposits [4)]	1.2	0.1
• Loans granted by PFS entities [5)]	5.0	0.0
• Other ST debt	-0.1	0.0

1) Pre-financing balance of tasks co-financed with EU funds, shares in international financial institutions (IFI), and other domestic and foreign settlements.

2) Deposits from PFS entities with legal personality and court and prosecutor's office deposits from PFS entities with legal personality, with no impact on public finance sector debt due to the elimination of mutual liabilities of PFS entities.

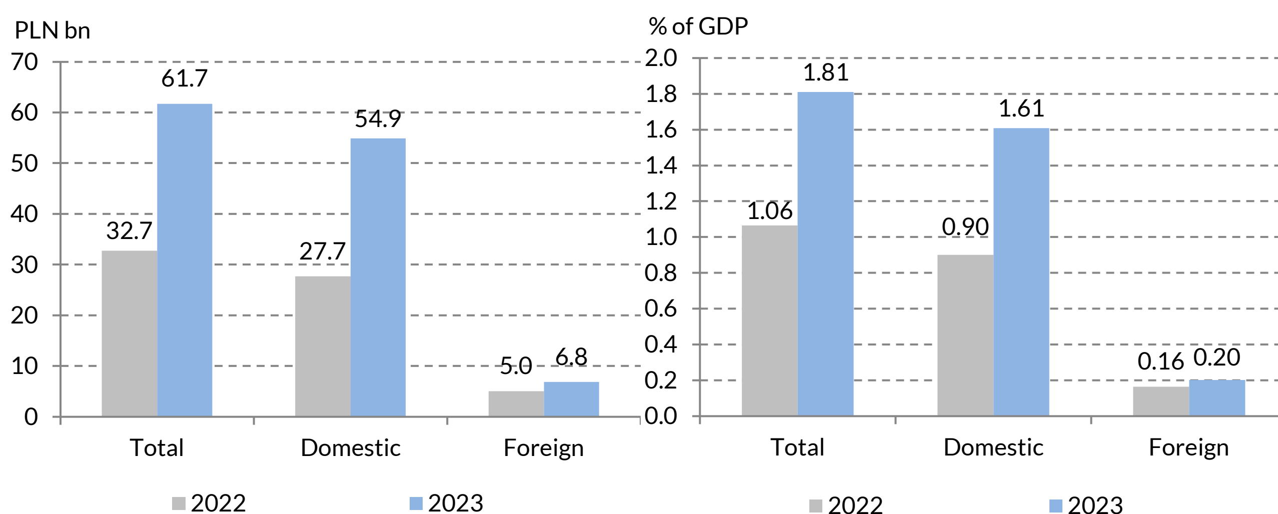
3) Deposits from non-PFS general government entities, with no impact on the EDP debt (EU definition).

4) Court and prosecutor's office deposits from non-PFS entities and collateral deposits resulting from CSA agreements.

5) Solidarity Fund loan from the Demographic Reserve Fund, with no impact on public finance sector debt due to the elimination of mutual liabilities of PFS entities.

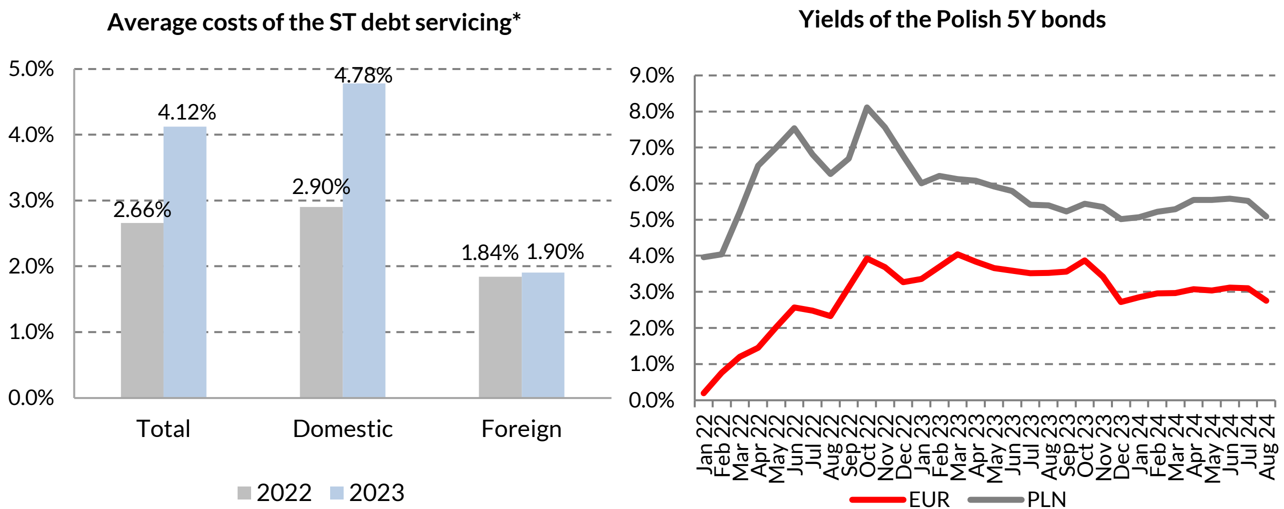
In 2023, the ST debt servicing costs on a cash basis increased in nominal terms from PLN 32.7 billion in 2022 to PLN 61.7 billion (including the increase in the domestic debt servicing costs from PLN 27.7 billion to PLN 54.9 billion), with a simultaneous increase in revenue from debt issue (premium and interest) from PLN 1.3 billion in 2022 to PLN 9.3 billion in 2023. The debt servicing cost-to-GDP ratio also increased from 1.06% in 2022 to 1.81% in 2023. 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 a lower interest rates.

Chart 3. ST debt servicing costs



The average debt servicing costs (including revenue from the sale of TS) increased from 2.66% in 2022 to 4.12% in 2023, including those of domestic debt (from 2.90% to 4.78%), due to the increase in the current market financing cost and the level of servicing costs of debt incurred in the past.

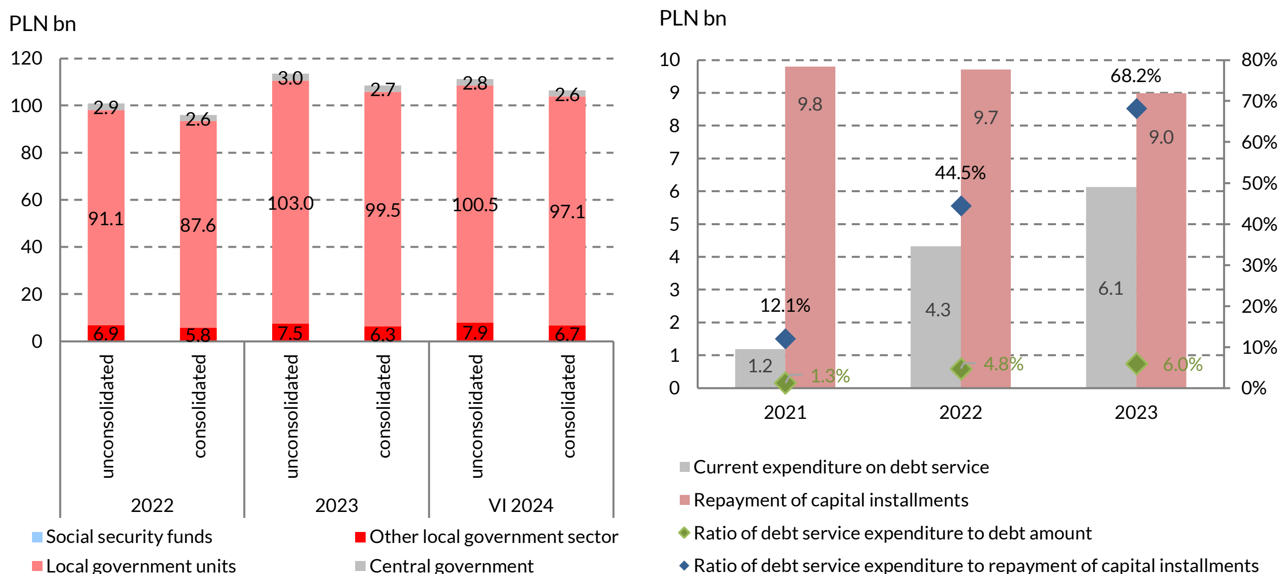
Chart 4. Market interest rates and average ST debt servicing costs



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

The debt of the local government sector, in particular that of local government units (LGU) and their associations, accounted for the largest share in the debt of public finance sector entities other than ST. In 2023, the non-consolidated debt of local government units and their associations increased by PLN 11.9 billion and amounted to PLN 103.0 billion. The debt of these units consolidated within the public finance sector increased to PLN 99.5 billion. In the first half of 2024, the debt of local government units and their associations prior to and after consolidation decreased by PLN 2.5 billion and PLN 2.3 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 2023 and in the first half of 2024

In 2023 and in the first half of 2024 ST debt management was conducted in accordance with the *Public Finance Sector Debt Management Strategy in the years 2023-2026*, adopted by the Council of Ministers in September 2022, and the *Public Finance Sector Debt Management Strategy in the years 2024-2027*, adopted by the Council of Ministers in September 2023 and its update adopted by the Council of Ministers in December 2023.

Both documents defined the same objective of ST debt management, 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 2023, TS with a face value of PLN 218.6 billion were issued in the domestic market. Liabilities with a face value of PLN 66.5 billion were incurred in foreign markets, including PLN 45.9 billion under bond issue, PLN 1.1 billion in loans drawn from international financial institutions (IFI), and PLN 19.5 billion received as part of a long-term loan from the EU.

In the first half of 2024, TS with a face value of PLN 178.4 billion were issued in the domestic market, while the liabilities incurred in foreign markets amounted to PLN 63.4 billion (including mainly foreign issues).

Table 4. TS sale in the domestic and foreign markets and loans at face value

Instruments	**2022**		**2023**		**January - June 2024**	
	PLN billion	**%**	**PLN billion**	**%**	**PLN billion**	**%**
Domestic TS	161.3	78.1	218.6	76.7	178.4	73.8
Foreign TS	22.8	11.1	45.9	16.1	47.6	19.7
IFIs loans	8.1	3.9	1.1	0.4	0.3	0.1
UE loans	14.2	6.9	19.5	6.8	15.5	6.4

Among the instruments issued in the domestic market, wholesale securities intended for institutional investors prevailed (in 2023, these accounted for 77.7% of the total sales value, and in the first half of 2024, this figure was 78.3%), with a significant share of savings bonds (22.3% in 2023 and 21.7% in the first half of 2024).

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 2023 and in the first half of 2024,though the share of these securities in sales decreased from 89.6% in 2022 to 84.1% in the first half of 2024. 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), whereby the share of

bonds with maturities of 2-4 years increased further in the first half of 2024 to 64.1% (44.3% in 2022).

Table 5. Sales of TS in the domestic market by maturity

Instruments	2022	2023	January - June 2024
Marketable TS	**100%**	**100%**	**100%**
T-bills	0.0%	0.0%	0.0%
T-bonds with maturities up to 4 years	10.4%	12.8%	15.9%
T-bonds with maturities over 4 years up to 6 years (incl.)	55.2%	66.1%	56.0%
T-bonds with maturities over 6 years	34.4%	21.1%	28.1%
Savings bonds	**100%**	**100%**	**100%**
T-bonds with maturities up to 2 years	44.4%	27.0%	26.8%
T-bonds with maturities over 2 years up to 4 years (incl.)	44.3%	60.0%	64.1%
T-bonds with maturities over 4 years	11.2%	13.0%	9.1%

Fixed-rate securities maintained the largest share in the structure of domestic TS sales on the wholesale market in terms of interest rate, with a relatively high, though decreasing, share of floating rate instruments (a decrease from 30.8% in 2022 to 27.1% in the first half of 2024). As a result of considerable interest in the new issue of inflation-linked bonds on the wholesale market (the first issue of IZ0836 bonds was carried out in June this year), as at the end of the first half of 2024, the share of these securities was 1.7%. As for savings bonds, the first half of 2024 saw a change in the previous preferences of buyers of these bonds, which was reflected in an increase in the share of fixed-rate bonds in the sales structure (to 44.1% from 18.3% in 2022) at the expense of a decrease in the share of floating-rate inflation-linked bonds (to 30.6% from 53.5% in 2022).

Table 6. Sales of TS in the domestic market by type of interest rate

Instruments	2022	2023	January - June 2024
Marketable TS	**100%**	**100%**	**100%**
Fixed-rate bonds	62.8%	57.7%	62.1%
Zero-coupon bonds	6.3%	12.3%	9.0%
Floating-rate bonds	30.8%	30.1%	27.1%
Inflation-linked bonds	0.0%	0.0%	1.7%
T-bills	0.0%	0.0%	0.0%
Savings bonds	**100%**	**100%**	**100%**
Fixed-rate bonds	18.3%	20.1%	44.1%
Inflation-linked floating -rate bonds	53.5%	54.6%	30.6%
Other floating-rate bonds	28.2%	25.3%	25.2%

In foreign markets, in the analysed period, there were five benchmark issues in the euro market with a total face value of EUR 8.5 billion and five issues in the US market with a total face value of USD 13.0 billion.

Moreover, in November 2023, the first issue of JPY-denominated bonds in 10 years was carried out in the Japanese market. Three series of bonds with a total face value of JPY 85.4 billion were issued. The main determinants of the issue in the Japanese market included:

- the regularly demonstrated interest of Japanese investors in the issue in their currency,
- maintaining and expanding the base of those investing in bonds issued in the domestic market (Japanese investors constitute the largest group among non-residents holding domestic TS).

Table 7. Issues of bonds in foreign markets in 2023 and in the first half of 2024

Period	Maturity (years)	Currency	Face value of issue (million)	Yield
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%
	3	JPY	66 500	0.930%
	10	JPY	10 200	1.750%
	20	JPY	8 700	2.410%
	7	EUR	1 250	3.721%
January – June 2024	10	EUR	2 500	3.716%
	20	EUR	1 250	4.175%
	5	USD	1 500	4.797%
	10	USD	3 000	5.162%
	30	USD	3 500	5.580%

In 2023 and in the first half of 2024, loans with a total value of EUR 0.3 billion were drawn from IFIs.
In December 2023, EU loans under the Recovery and Resilience Facility (RRF) created to restore the European economy after the Covid-19 pandemic began to be used. The RRF consists in the issuance of bonds by the European Commission for the benefit of the EU, the funds from which are transferred to Member States in the form of preferential loans and grants. By mid-2024, Poland had received a total of EUR 8.1 billion in loans to implement the National Recovery and Resilience Plan.

The main factors that influenced the course and structure of financing borrowing requirements in 2023 and in the first half of 2024 included:

1) local factors, in particular:

- monetary policy of the Monetary Policy Council (RPP) and the situation in the financial market, including:

– two interest rate cuts: by 75 bps in September 2023 and another one by 25 bps in October 2023. As a result of these decisions, the reference rate was reduced from 6.75% to 5.75%, the Lombard rate from 7.25% to 6.25%, and the deposit rate from 6.25% to 5.25%. The Monetary Policy Council pointed out that the decisions to adjust interest rates were based on an assessment of incoming data, indicating a significant reduction in demand pressure and a reduction in inflationary pressure. According to the Council, this rate adjustment will be conducive to bringing inflation to the target in the medium term. Until the end of the first half of 2024, the Council kept interest rates unchanged, indicating that further decisions as to interest rates would depend on incoming data regarding the outlook for inflation and economic activity. The Council did not change the mandatory reserve rate (3.5%) or its interest rate (at the reference rate level) either;
– reduction in high inflationary pressure – following an increase to 18.4% y/y in February 2023, inflation has been on a downward trend since March 2023, reaching 2.0% y/y in March 2024, to increase again in the following months (2.6% y/y in June this year), which was due to, among others, restoring the 5% VAT rate on food (from April 2024); according to the Monetary Policy Council, the development of inflation in the coming quarters is subject to significant uncertainty related, among others, to the impact of fiscal and regulatory policy on pricing processes;
– 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;
– foreign capital flows in the domestic TS (outflow of PLN 14.0 billion in 2023 and inflow of PLN 5.4 billion in the first half of 2024), among others due to a reduction in the disparity between interest rates in Poland and those in the core debt markets in the conditions of volatility on financial markets and in the face of a decisive shift in the monetary policy of the Fed and the ECB to curb inflation;
– appreciation of the Polish zloty against the euro in 2023 and in the first half of 2024, with lower exchange rate volatility (the volatility of the EUR/PLN exchange rate was 6.4% and 4.1%, respectively, compared to 8.8% in 2022, the exchange rate fluctuated within the range of 4.30-4.79 and 4.24-4.39, respectively, compared to 4.49-4.97 in 2022, and the average rate was 4.54 and 4.31, compared to 4.68 in 2022) and a significant appreciation of the Polish zloty against the dollar in 2023 and in the first half of 2024, with high exchange rate volatility (the volatility of the USD/PLN exchange rate was 11.0% and 6.7%, respectively, compared to 15.6% in 2022, the exchange rate fluctuated within the range of 3.89-4.48 and 3.91-4.11, respectively, compared to 3.93-5.00 in 2022, and the average rate was 4.20 and 3.99 compared to 4.45 in 2022);
– significant volatility in the domestic T-bond market throughout the analysed period, with a decrease in yields along the entire yield curve: average yields on 2-, 5- and 10-year bonds in 2023 were 5.67% (6.36% in 2022), 5.67% (6.38%) and 5.84% (6.10%),

respectively, and in the first half of 2024, these were 5.18%, 5.37% and 5.54%, respectively;

- the coalition parties win in the October parliamentary elections and the formation of a coalition government in December 2023;
- continued financing of the expenditures under funds formed within BGK (National Development Bank) in debt markets:
  - for the COVID-19 Response Fund, in 2023, BGK issued bonds guaranteed by the State Treasury worth PLN 11.7 billion with maturities from 5 to 19 years and three bond issues in foreign markets with a total face value of EUR 0.9 billion and USD 1.75 billion and maturities of 2 and 10 years. In the first half of 2024, BGK placed PLN 6.0 billion in bonds with maturities from 4 to 18 years in the domestic market, and 8- and 15-year bonds with a total value of EUR 2.2 billion in foreign markets;
  - for the Aid Fund, BGK issued bonds guaranteed by the State Treasury with a total value of EUR 1.175 billion and JPY 93 billion in 2023 and with a value of EUR 1.3 billion in the first half of 2024;
  - for the Armed Forces Support Fund, in 2023, BGK issued bonds guaranteed by the State Treasury with a value of USD 3.0 billion; the increase in the other debt of the Fund resulted from drawn loans;
- adoption of the Budget Act for 2024 by the Sejm, in which State budget revenue of PLN 682.4 billion, an expenditure limit of PLN 866.4 billion, and an allowable State budget deficit of PLN 184.0 billion were assumed;
- adoption of the Act amending the Public Finance Act and certain other acts (of 28 June 2024) introducing amendments to the stabilizing expenditure rule (SER). The amendments concern in particular the extension of the subjective scope of the SER, ensuring consistence of the exclusions from the application of the SER with EU regulations, the escape clause and the algorithm used to calculate the amount expenditure in accordance with the SER. The amendments adapt the national fiscal framework to the new EU regulations that entered into force on 30 April this year and take into account the conclusions from the review of the stabilizing expenditure rule conducted in cooperation with the International Monetary Fund and the post-audit conclusions of the Supreme Audit Office regarding the operation of the SER.

2) external factors, in particular:

- monetary policy pursued by the main central banks, including:
  - **in the USA:** continuation of restrictive monetary policy (since March 2022) in the face of inflation remaining above the long-term inflation target: in 2023, the Fed carried out four interest rate increases by a total of 100 bps, as a result of which the federal funds rate was in the range of 5.25-5.50%, and until June this year, it kept the rates unchanged; continuation of the Fed's total balance sheet reduction program (through no reinvestment of capital from maturing Treasury securities); at its meeting in June this year, the Fed presented new interest rate projections that turned out to be higher

compared to the projection from March this year – in 2024, one interest rate cut by 25 bps is expected (compared to three ones in the March projection), as at the end of 2025, the main rate is to be in the range of 4.00-4.25% (a cut of 100 bps – in the March projection it was assumed to be 25 bps lower), and as at the end of 2026, the range was maintained at 3.00-3.25%;

- **in the euro area:** normalization of monetary policy: an increase in interest rates by a total of 200 bps (two increases of 50 bps and four increases of 25 bps) by September 2023, as a result of these decisions the repo rate was reduced to 4.50% and the deposit rate to 4.00%; reducing the APP portfolio by an average of EUR 15 billion per month until the end of June 2023 under the partial reinvestment of maturing securities and discontinuation of these reinvestments from July 2023 further reinvestment of capital from maturing securities under the PEPP until the end of 2024; in June 2024, the ECB cut interest rates by 25 bps (the repo rate fell to 4.25% and the deposit rate to 3.75%), thus ending a 9-month period of their stabilization at a record high level - the rate cut was substantiated mainly by the significant progress in reducing inflation and the ECB's growing conviction that inflation would return to the target in the medium term; moreover, the central bank confirmed that in the second half of the year, it would reduce its holdings of securities purchased under the PEPP by an average of EUR 7.5 billion per month and would phase out the reinvestment of capital from this program at the end of 2024;
- **in Japan:** maintaining the key interest rate at a negative level of -0.1% to 0.0% (until February this year), at its meeting in March, the central bank raised the range for the key interest rate to 0.0-0.1%; yield curve control (the target yield level for 10-year bonds at approx. 0.0%), raising the upper limit of the 10-year benchmark yield fluctuation range from 0.50% to 1.00% as part of the yield curve control, interventions in the currency market to stop the strong depreciation of the yen against the dollar; announcement of a reduction in bond buyback (details at the July meeting);
- **in Switzerland:** continuation of restrictive monetary policy in 2023: two interest rate hikes by a total of 75 bps (by 50 bps and 25 bps), as a result of which the reference rate increased to 1.75%, and the announcement of possible further rate hikes and interventions in the currency market to stabilize inflation; in March and June this year, the SNB lowered interest rates by 25 bps, as a result of which the main rate was lowered to 1.25%;

- maintaining restrictive monetary policy in most European countries and the commencement of rate cuts by some central banks already at the end of 2023 and in 2024 in response to the current economic situation and the decline in inflation (including Hungary, the Czech Republic, Sweden, Denmark);
- geopolitical situation in the world affecting the level of risk appetite in the global financial market, including:

- – the Russian invasion of Ukraine lasting since 24 February 2022 that has turned into a devastating war for Ukraine, and has caused an increase in tensions worldwide, especially in the Central and Eastern European region;
  - – maintaining and introducing new economic, political and financial sanctions against Russia, including, among others, freezing Russian assets or blocking or restricting trade with Russia;
  - – increasing tension in the Middle East related to Israel's decisive military response to terrorist attacks by Hamas;
  - – dissolution of the parliament and announcement of early elections in France (first round on 30 June this year) by President E. Macron after the announcement of the results of the elections to the European Parliament won by the far-right National Rally associated with Marine Le Pen;
- concerns about global economic growth related primarily to the geopolitical situation, inflation prospects and the impact of monetary policy.

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

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

- issuance policy assuming building liquid benchmark bond series in the domestic market. In mid-2024, 21 bond issues exceeded PLN 25 billion (compared to 18 as at the end of 2022), of which 16 issues were larger than PLN 30 billion (compared to 12 such issues as at the end of 2022). Issues with a face value of more than PLN 30 billion accounted for 89.1% of the face value of fixed-rate medium- and long-term bonds, compared to 88.6% as at the end of 2023. The adequately high value of issues has a significant effect on liquidity in the secondary market;
- return to the issuance of inflation-linked bonds in the wholesale market. In June this year, after almost 8 years from the last issue, a new 12-year inflation-indexed IZ0836 bond with a 2% coupon was issued. The determinants of the issue of these bonds included the need to expand the bond offer in the wholesale market in the conditions of a significant decline in inflation to a level close to the inflation target and the interest in this instrument reported by investors from the non-banking sector and foreign investors. As a result of high demand from buyers at two auctions in June, these bonds totalling PLN 2.4 billion were sold;
- issues of bonds in the euro market and the US dollar market with a value ensuring liquidity of a given series (in 2023 and in the first half of 2024, a total of five issues of bonds with a value exceeding EUR 1 billion and the same number of bonds with a value exceeding USD 1 billion were carried out);
- adapting the level and structure of the TS supply to the current market situation;

- 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 2023 and in the first half of 2024, transactions with a face value of PLN 16.1 billion, accounting for 0.2% of all SBB transactions in the TS market, were concluded;
- granting the State Treasury (Minister of Finance) the status of a Public Investor in the Treasury BondSpot Poland market (TBSP), which enabled the Minister of Finance to conclude, from April 2, 2024, repo transactions not only on the OTC market, but also on the ASO – TBSP market, with banks having the Market Maker status. In the first half of 2024, transactions worth PLN 42.1 billion were concluded;
- extension of the stabilizing expenditure rule (SER) to include Treasury securities transferred free of charge by entities and bodies covered by the SER to entities of the general government sector. This change results directly from the recommendation of the Supreme Audit Office and was made under the Act of 28 June 2024 amending the Public Finance Act and certain other acts (Journal of Laws item 1089);
- conversion of savings bonds at a preferential price:
  - in June, July and August 2023, 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) in connection with the redemption of savings bonds with a total value of nearly PLN 12.2 billion (including the redemption of the first issues of one-year ROR bonds for PLN 10.2 billion). The lower conversion price was intended to encourage holders of bonds maturing in June – August 2023 to reinvest funds from the redemption of these instruments;
  - in June, July and August 2024, a lower conversion price was set for 2-year bonds (DOR), 3-year bonds (TOS), 4-year bonds (COI) and 10-year bonds (EDO) in connection with the redemption of savings bonds with a total value of nearly PLN 10.3 billion (including the redemption of one-year ROR bonds and the first issues of DOR bonds totalling nearly PLN 8.3 billion). As in 2023, the lower conversion price was intended to encourage holders of bonds maturing in June-August 2024 to reinvest funds from their redemption.

3.3. Constraints on the risk level

Table 8. Assessment of the implementation of the Strategy objective constraints related to the risk level

<table>
<tr><th colspan="7">Constraints on the Strategy objective</th></tr>
<tr><th rowspan="2">Constraint</th><th rowspan="2">Implementation level*</th><th rowspan="2">Implementation method</th><th rowspan="2">Measure</th><th colspan="3">Value</th></tr>
<tr><th>2022</th><th>2023</th><th>June 2024</th></tr>
<tr><td rowspan="4">Refinancing risk</td><td rowspan="4">Satisfactory</td><td rowspan="4">• Slight decrease in the share of medium- and long-term bonds in total sales of wholesale bonds in the domestic market in 2023 and in the first half of 2024 (87.2% and 84.1%, respectively, compared to 89.6% in 2022, with a declining share of medium-term bonds: 66.1% and 56.0%, respectively, in sales);
• Important role of switching auctions:
- 33.5% of the initial debt in bonds maturing in the period from January 2023 to June 2024 was bought back;
- in the period from the beginning of 2023 to mid-2024, bonds with a total face value of PLN 80.3 billion were bought back, compared to bonds with a total face value of PLN 51.8 billion bought back in the period from the beginning of 2022 to mid-2023;
• Maintaining the average maturity of domestic debt below 4.5 years as set in the Strategy, due to the persistence of market conditions in the structure of demand and debt aging, and at the same time, in accordance with the Strategy assumptions, an increase in the average maturity of total debt above 5 years from 2023 (mainly as a result of large issues of long-term bonds in foreign markets and loans from the EU). The Strategy adopted in September 2023 allows for temporary deviations in average maturity from target levels, resulting from market or budget conditions.</td><td>Debt ATM** (in years)</td><td></td><td></td><td></td></tr>
<tr><td>- domestic
- foreign
- total</td><td>4.11
6.81
4.84</td><td>4.08
8.63
5.25</td><td>4.22
10.26
5.87</td></tr>
<tr><td>Share in domestic TSs:</td><td></td><td></td><td></td></tr>
<tr><td>- TSs up to 1 year
- T-bills</td><td>11.4%
0.0%</td><td>13.3%
0.0%</td><td>10.7%
0.0%</td></tr>
<tr><td rowspan="2">Foreign exchange risk</td><td rowspan="2">High</td><td rowspan="2">• 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 transactions in derivative instruments into account) above the minimum level set in the Strategy (70%).</td><td>Share of foreign debt in the ST debt</td><td>23.3%</td><td>22.6%</td><td>23.5%</td></tr>
<tr><td>Share of EUR-denominated debt in foreign debt</td><td>86.9%</td><td>88.8%</td><td>83.3%</td></tr>
<tr><td rowspan="5">Interest rate risk</td><td rowspan="5">High</td><td rowspan="5">• Maintaining the ATR of domestic debt in the assumed range of 2.6-3.6 years;
• In accordance with the Strategy, the dominant share of fixed-rate instruments in the debt denominated in foreign currencies was maintained.</td><td>Debt ATR (in years)**</td><td></td><td></td><td></td></tr>
<tr><td>- domestic
- foreign
- total</td><td>2.98
6.05
3.80</td><td>3.02
6.75
3.99</td><td>3.14
7.85
4.42</td></tr>
<tr><td>Debt duration ** (in years)
- domestic
- foreign
- total</td><td>2.51
4.95
3.18</td><td>2.65
5.31
3.31</td><td>2.60
6.56
3.67</td></tr>
<tr><td>Share of floating-rate debt in the ST debt</td><td>27.3%</td><td>30.5%</td><td>29.1%</td></tr>
<tr><td>Share of floating-rate debt in domestic debt</td><td>32.7%</td><td>35.2%</td><td>32.9%</td></tr>
</table>

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 with the NBP – deposits with a total value of PLN 261.2 billion were made in 2023, while those made in the first half of 2024 amounted to PLN 119.5 billion; • PLN denominated deposits made through BGK – in 2023, transactions with a total value of PLN 1,795.8 billion were concluded, whereas those concluded in the first half of 2024 amounted to PLN 918.0 billion; • PLN-denominated buy-sell-back (BSB) deposits hedged with Treasury securities – in 2023, transactions with a total value of PLN 256.4 billion were concluded, whereas those concluded in the first half of 2024 amounted to PLN 117.2 billion; • foreign currency deposits – in 2023, deposits for an amount equivalent to EUR 26.3 billion were made, whereas those made in the first half of 2024 amounted to an equivalent of EUR 51.5 billion; • exchange of consolidated foreign currency funds at the National Bank of Poland (NBP) and on the market; in 2023, foreign currencies equivalent to EUR 15.5 billion were sold at the NBP and foreign currencies equivalent to EUR 4.5 billion were sold on the market, in the first half of 2024, currencies equivalent to EUR 9.5 billion were sold at the NBP and currencies equivalent to EUR 1.3 billion were sold on the market; • cross currency swaps (CIRS) intended to exchange the currency of flows resulting from the issue of bonds in USD for EUR – in 2023, these were concluded for a total of USD 3.5 billion, and in the first half of 2024 – for USD 2.8 billion; • interest rate swaps (IRS) concluded in order to spread debt servicing expenses over time – in 2023, these were concluded for a total face value of PLN 64 billion. As at the end of 2023, the balance of funds as part of liquidity management consolidation was PLN 93.1 billion, and as at the end of June 2024, this figure was PLN 97.4 billion. The level of State budget liquid assets in 2023 and in the first half of 2024 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 transactions involving derivatives is limited by selection of partners with high credit rating; • A system of collateral on transactions involving derivatives 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 transactions involving derivatives 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	High	• Coupons of new issues were set at a level slightly below their forecasted yields. • The amount of debt servicing costs was also affected by swap transactions concluded in 2023 to spread these costs between 2023 and 2024. As a result of these transactions, these costs increased by PLN 5.2 billion in 2023 and decreased by 5.3 billion in 2024.

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

**) 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 debt and IFI and EU loans. Duration does not additionally include bonds with a face value indexed to inflation.*

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 justification for the draft Budget Act for 2025. Table 9 contains the key macroeconomic assumptions of the *Strategy*, consistent with the assumption of the draft Budget Act.

Table 9. Macroeconomic assumptions adopted in the Strategy

Item	2023	2024	2025	2026	2027	2028
Real GDP growth (%)	0.2	3.1	3.9	3.5	3.1	2.8
GDP at current prices (PLN billion)	3,410.1	3,641.0	3,973.1	4,239.0	4,482.7	4,723.8
Average CPI (%)	11.4	3.7	5.0	3.1	2.6	2.5
EUR/PLN - end of period*	4.3480	4.2769	4.2769	4.2769	4.2769	4.2769
USD/PLN - end of period*	3.9350	3.8453	3.8453	3.8453	3.8453	3.8453

**For 2024-2028, the NBP fixing as at 23 August 2024 was adopted.*

4.2. International conditions

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

- return in 2024 by the EU Member States to conducting budgetary policy in line with EU budgetary rules (a threshold of 3% of GDP for the headline deficit of the general government sector and a threshold of 60% of GDP for the debt of the general government sector) and the extension of the excessive deficit procedure to cover seven Member States, including Poland. At the same time, in accordance with the new rules of EU economic governance, Member States should submit medium-term budget-structural plans to the EU every 4 years – for the first time in autumn 2024 – and present a path to reducing the deficit. After the plans have been assessed by the European Commission, the EU Council will recommend spending paths to Member States. The recommended paths will be binding for at least four subsequent budget acts;
- 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:
  - continued normalization of monetary policy by the ECB; in July, the members of the Governing Council unanimously decided to keep interest rates unchanged and agreed that further decisions would be taken on an ongoing basis, taking incoming data into account. The central bank does not have a set path for rates, but there are downside risks to economic growth and the risk of higher-than-expected inflation. In September, the ECB lowered the deposit rate by 25 bps to 3.50% and the repo rate by 60 bps to

3.65%, due to lower inflation and economic slowdown. The bank's new forecasts showed a lower economic growth path for 2024 (0.8% vs. 0.9% in the previous forecast) and for 2025 (1.3% vs. 1.4%), while the inflation path remained unchanged compared to the June forecast, confirming the scenario of inflation returning to the target by 2026;

- continuation of the Fed's wait-and-see policy – at its meeting in July this year, the central bank did not change the range for the federal funds rate (5.25-5.50%) and stated that lowering interest rates was not appropriate until it was more certain that inflation was heading towards the 2% target in a sustainable manner. The Fed will continue to monitor incoming data for its impact on the economy. In September, the central bank lowered interest rates by 50 bps (the federal funds rate was in the range of 4.75%-5.00%), thus starting a cycle of interest rate cuts. According to forecasts published at the September meeting, most Fed members expect interest rates to be cut by another 50 bps by the end of this year and by further 100 bps in 2025. In 2026, rates would fall by a further 50 bps to 2.9% (2.8% in the June projection);
- accommodative monetary policy conducted by the Bank of Japan for as long as necessary to achieve and maintain the inflation target at a stable level of 2%, including: raising the short-term interest rate to 0.25% (from 0.0-0.1%) at the July meeting; long-term rates will generally be set in financial markets, but in case of a sharp increase in rates, the central bank will respond flexibly by increasing the scale of purchases of Treasury bonds; presentation of an asset purchase reduction plan by March 2026 – reducing the volume of monthly purchases of government bonds by around JPY 400 billion each quarter until reaching JPY 2.9 trillion in March 2026;
- easing the monetary policy by the Swiss National Bank: in June this year, the SNB lowered interest rates for the second time this year due to reduced inflationary pressures compared to the previous quarter, and assessed that by reducing the key interest rate (by 25 bps to 1.25%) it would be able to maintain adequate monetary conditions. The Bank will continue to closely monitor inflation developments and, if necessary, adapt its policy to ensure that inflation remains within a range that ensures price stability in the medium term, and will also intervene in the currency market if necessary;

- 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;
- uncertainty related to the geopolitical situation, the economic and inflation prospects, and the impact of monetary policy on economic growth.

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 are significant determinants 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 2022 until the first half of 2024, 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 (51.7% as at the end of June 2024), in nominal terms the exposure increased by PLN 121.0 billion, as a result of an increase in the exposure of commercial banks by PLN 122.3 billion and a decrease in that of the NBP by PLN 1.2 billion;
- an increase in the exposure of domestic non-banking investors by a total of PLN 83.6 billion, with an increase in their share in the debt holders' structure to 35.3% (by 1.7 pp);
- a decrease in the exposure in domestic TS by foreign investors by a total of PLN 8.6 billion, as a result of which their share was 13.0%, i.e. declined by 3.9 pp.

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

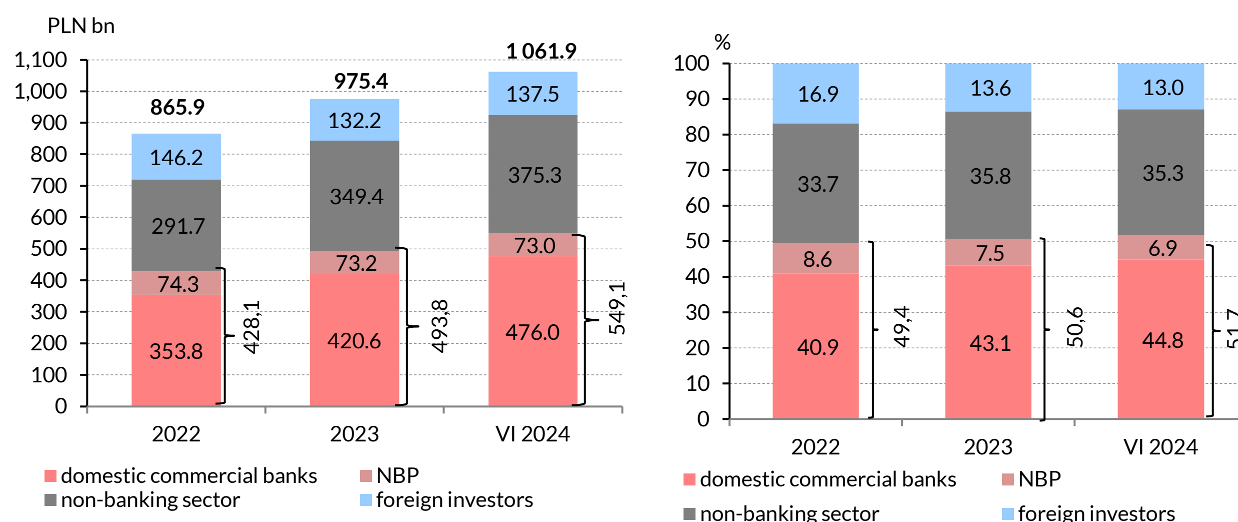
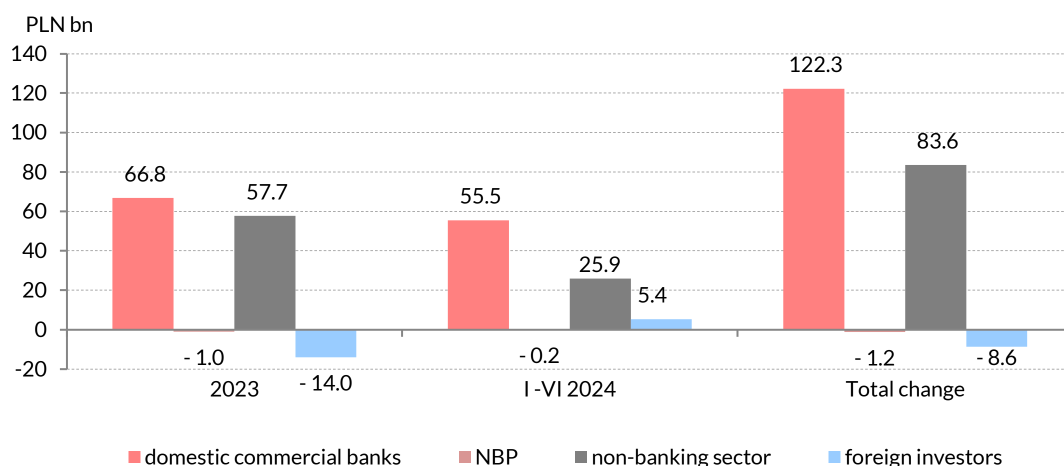


*Chart 7. Changes in domestic TS portfolios held by main groups of investors**



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

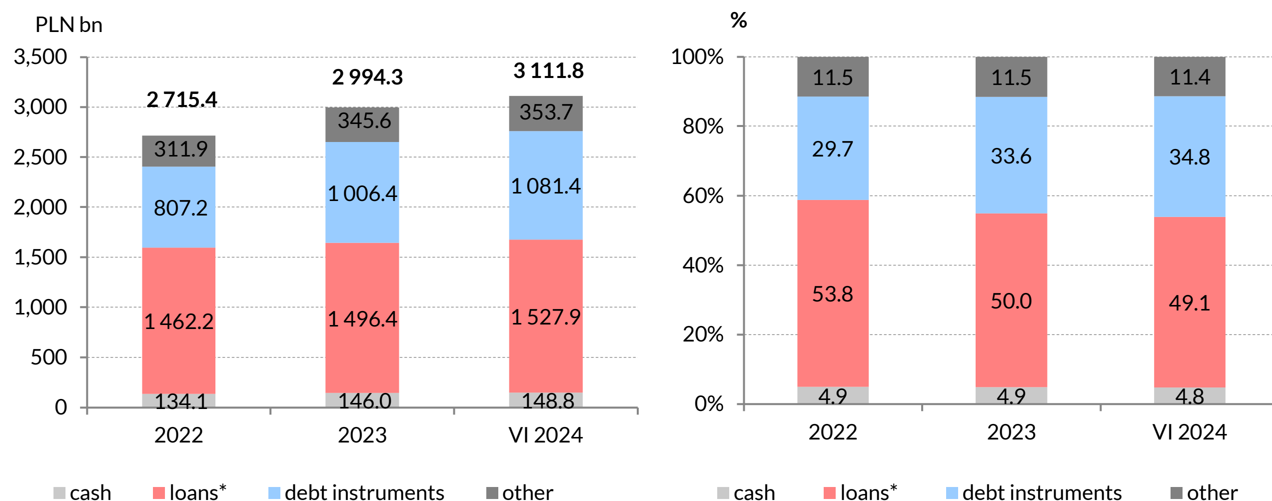
As at the end of June 2024, domestic investors held 87.0% of domestic TS debt, which meant an increase by 3.9 pp compared to the end of 2022. From the end of 2022, their exposure increased by PLN 204.7 billion (i.e. by 28.4%).

4.3.1. Domestic banks

As at the end of June 2024, assets of domestic commercial banks amounted to PLN 3.1 trillion (an increase by 14.6% compared to the end of 2022), with the dominant share of loans and other receivables from domestic entities (49.1%). Debt instruments were the second largest component of assets – as at the end of June 2024, their share was 34.8%. In the structure of debt instruments, Treasury securities (49.1%) and NBP money bills (29.9%) continued to prevail.

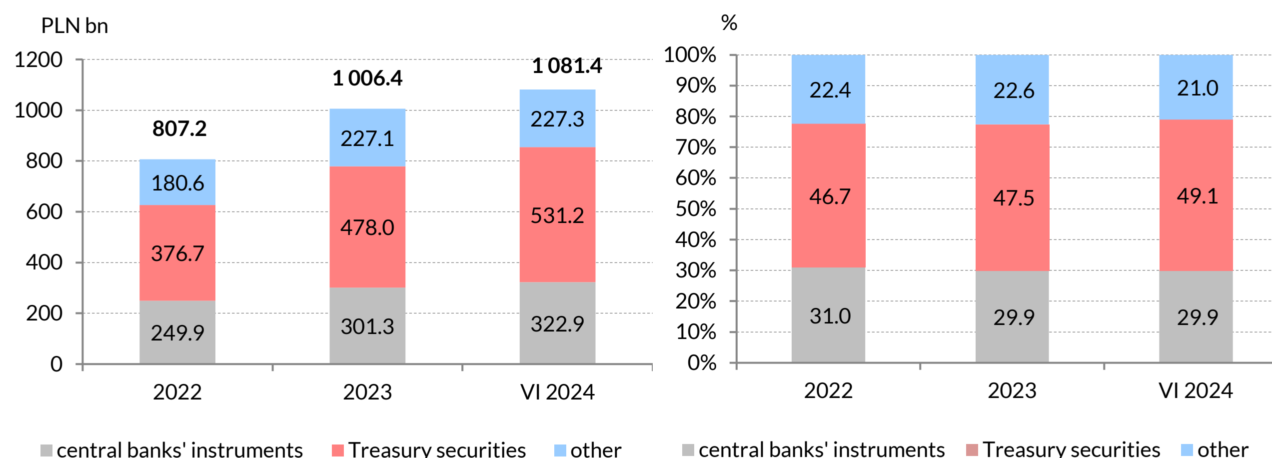
As at the end of June 2024, the exposure of domestic commercial banks in domestic TS amounted, at face value, to PLN 476.0 billion (an increase of 34.6% compared to the end of 2022). As at the end of June 2024, the exposure of the National Bank of Poland in domestic TS (purchased in the secondary market as part of structural open market operations) declined by 1.7% compared to the end of 2022, and was, at face value, PLN 73.0 billion, which was due to the redemption of maturing bonds in the portfolio of the NBP and the lack of their reinvestment and 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.

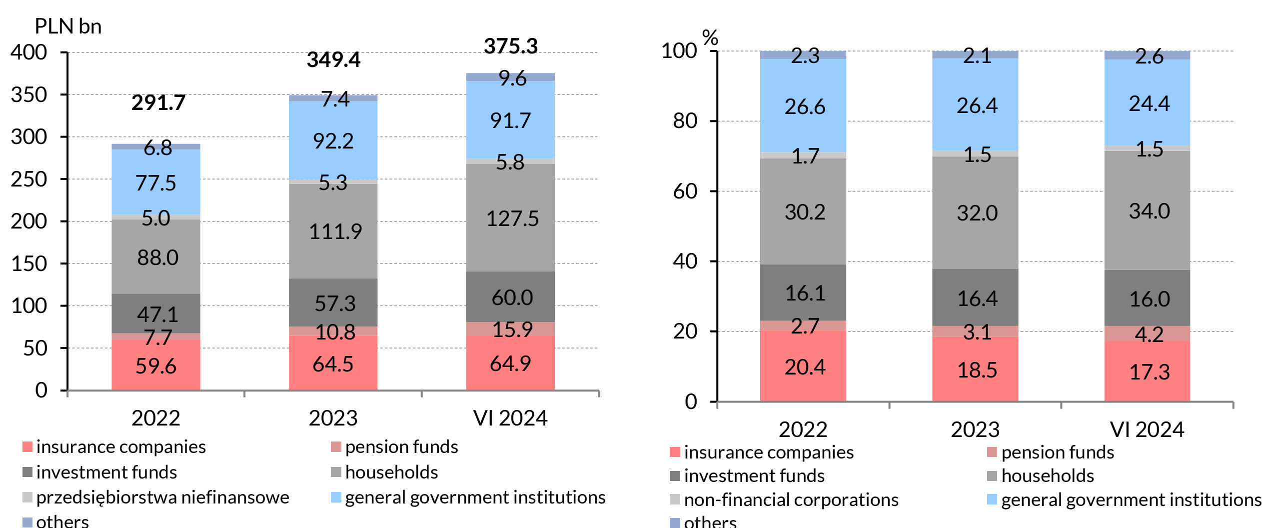
The most significant factors to affect banks' demand for domestic TS in the *Strategy* timeframe include:

- development of the economic situation, affecting the size and structure of assets held by banks;
- policy of the central bank, including that 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 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, 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 **



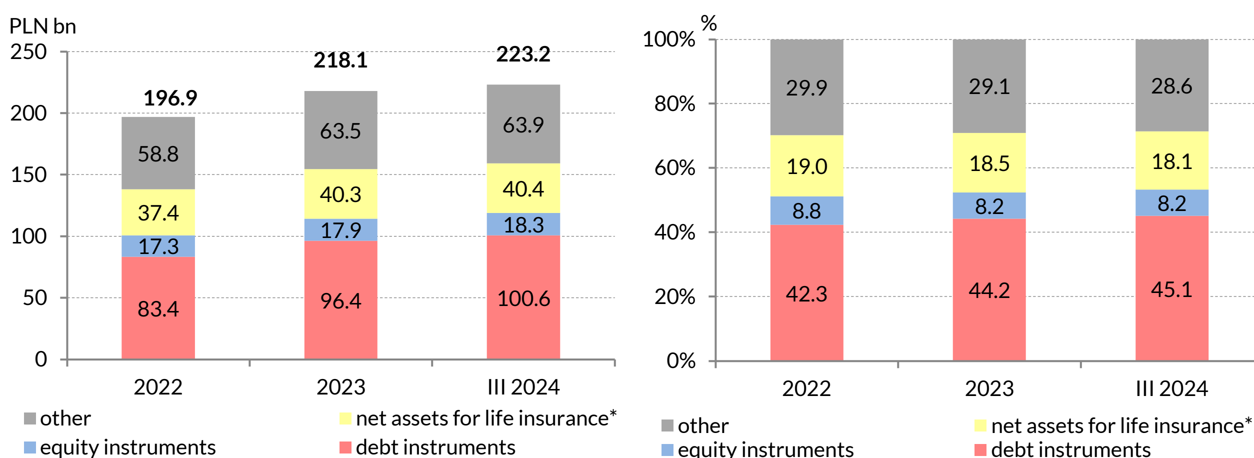
** At face value. The data on the TSs include conditional transactions.*

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 2022, their holding has increased by PLN 39.4 billion (i.e. by 44.8%) to PLN 127.5 billion, which resulted mainly from growing interest in the savings bonds offer that was adapted to the current conditions and private investors' expectations.

As at the end of June 2024, insurance companies held 6.1% of domestic TS (a decrease of 0.8 pp compared to the end of 2022), investment funds' holding was 5.7% (an increase by 0.2 pp) and that of other domestic non-banking investors was 23.6% (an increase by 2.2 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 of insurance companies as at the end of March 2024 amounted to PLN 223.2 billion, which meant an increase of PLN 26.3 billion compared to the end of 2022, i.e. by 13.4%.

Chart 11. Structure of assets held by insurance companies

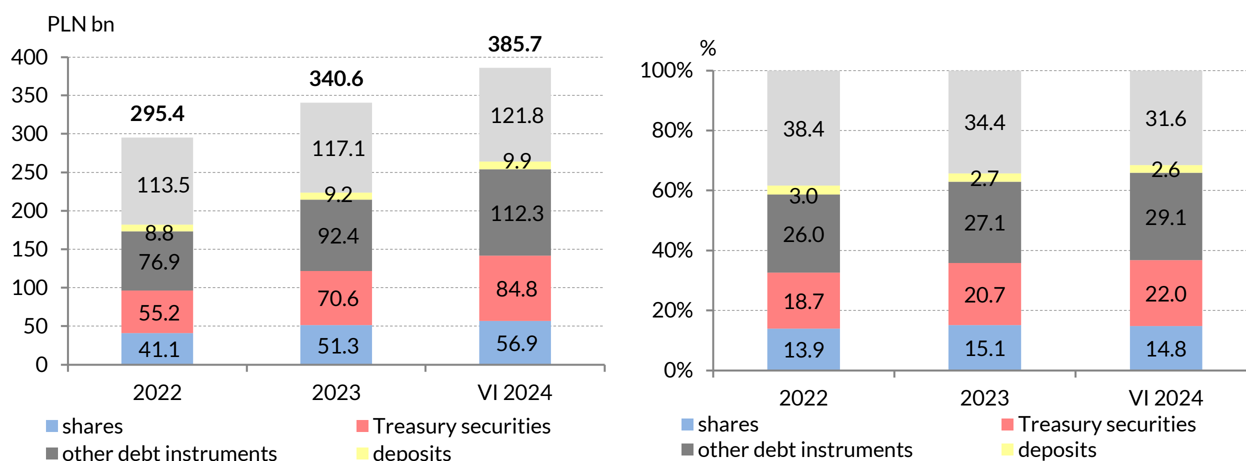


** net assets for life insurance - life insurance net assets where the investment risk is borne by the policyholder.*

Source: Polish Financial Supervision Authority, in accordance with the applicable measurement methods.

As at the end of June 2024, assets of investment funds increased to PLN 385.7 billion, i.e. by PLN 90.3 billion (30.6%) compared to the end of 2022. The value of T-bonds (issued in the domestic and foreign markets) held by investment funds increased during this period by PLN 29.7 billion and their share in assets increased by 3.3 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 2024, the share of foreign investors in domestic TS debt was 13.0% and decreased by 3.9 pp compared to the end of 2022. In 2023 and in the first half of 2024, foreign investors decreased their holdings of domestic TSs by a total of PLN 8.6 billion, as a result of a decrease in the holding of non-residents by PLN 14.0 billion in 2023 and its increase by PLN 5.4 billion in the first half of 2024. 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. An important role in the structure of entities with debt to non-residents is played by institutional investors: central banks and public institutions, investment funds, pension funds and insurance companies. The geographical structure of domestic TS holders is diversified as well – as at the end of June 2024, TSs were held by investors from 67 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 fundamentals 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, as well as the process of the transition of WIBOR rates to the new transaction index (see Chapter).

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 assumes replacing the use of the WIBOR and WIBID indices in agreements and 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 Indices Reform (NWG) was established in July 2022. The NWG Steering Committee selected WIRON[2] as the recommended index replacing WIBOR. In accordance with the announcement of 13 February 2023 posted on the website of the Polish Financial Supervision Authority (KNF), WIRON has become the interest rate benchmark index.

The Roadmap assumptions indicated preparedness to discontinue the development and publication of the WIBOR and WIBID benchmarks indices from the beginning of 2025. In October 2023, the NWG Steering Committee decided to change the maximum deadlines for the implementation of the Roadmap in which a bottom-up departure of the financial sector from the use of WIBOR in favour of newly concluded agreements and financial instruments using a fixed interest rate or new RFR benchmarks is assumed. The NWG Steering Committee has set the final conversion date at the end of 2027.

[2] WIRON is developed based on O/N deposit transactions concluded by entities transmitting data with financial institutions and large enterprises.

In March 2024, at the request of the Ministry of Finance, the NWG Steering Committee decided to start a review and analysis of alternatives to WIBOR. The review includes both WIRON and other possible indices. Its purpose is to verify the NWG Steering Committee's decision of September 2022 to select the WIRON index, based on a broader range of market information in the dynamically changing macroeconomic environment of the Polish economy.

The review also includes public consultations whose result will be taken into account in the decision to select the final benchmark index alternative to WIBOR. On 1 July 2024, collecting opinions submitted by the consultation participants to whom five alternative indices were presented (WIRON, WIRON+, WIRF, WIRF+ and WRR[3]) was completed.

Depending on the final decisions, it may be necessary to develop an updated Roadmap for the reform of benchmark indices in Poland, including actions required for the further development of the domestic financial market. Decisions in this regard are to be taken by the NWG Steering Committee and will be communicated separately after the review completion.

All material changes and decisions regarding further stages of work and the ultimately selected substitute index, as well as possible modifications to the Roadmap for the process of substituting WIBOR and WIBID benchmark indices with the RFR index (including the expected schedule and scope of necessary actions) will be published on the KNF website: https://www.knf.gov.pl/dla_rynku/Wskazniki_referencyjne/prace_grupy.

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[3] https://www.knf.gov.pl/dla_rynku/Wskazniki_referencyjne?articleId=89387&p_id=18

5. Objective of the *Strategy*

The *Strategy* objective is to finance the borrowing requirements of the State budget in a way that ensures minimization of debt servicing costs in the long term, with the adopted constraints regarding 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.

With this approach to the implementation of the objective it is possible to flexibly shape the financing structure in terms of the 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 situation (the level of demand, interest rates and the shape of the yield curve in particular markets) and the financing cost in the long term, taking constraints resulting from the acceptable risk level into account.

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 funds in foreign currency within the EU budget and financial instruments offered by the EU;

- 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;
- 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 achieve 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;
- maintaining 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;
- maintaining a dominant share of fixed-rate instruments in domestic debt while using floating-rate bonds, including those based on the new benchmark index, and inflation-linked bonds;
- the possible use of derivatives to separate interest rate risk management from refinancing risk management;

- 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 should be at least PLN 40 billion, while striving to ensure an even distribution of redemptions 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 to generate the highest possible income 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 and repo transactions concluded directly in the financial market 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.

As part of the State budget liquidity management, liquid funds of general government units and funds from court and prosecutor office deposits are actively used, thus 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 stabilising 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 general government debt (60% of GDP), related to the EU excessive deficit procedure. Exceeding these values and fulfilment of additional conditions defined in the Act triggers an automatic correction mechanism limiting the rate of growth of expenditure for a given fiscal year (subject to the years covered by the escape clause). The detailed description of the correction mechanism is included in Annex 3.

Public debt according to the EU definition, i.e. the debt of the general government sector, is additionally significantly affected by the volume of the debt attributable to funds formed with BGK that are included in this sector; for details see subchapter 7.3.

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).

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

In accordance with applicable laws, transitional regulations regarding fiscal rules applicable to local government units, introduced to mitigate the effects of the pandemic and the armed conflict in Ukraine, shall be in force until 2025 (inclusive).

With regard to the rule of balancing the current side of the budget of LGU (Article 242 of the Public Finance Act) for 2022-2025, the approach to the settlement of this rule has been changed - from annual to medium-term settlement. This means that LGU may in a given fiscal year exceed the ratio referred to in Article 242(1) and Article 242(2), provided that in 2022-2025 the sum of excesses of this ratio in individual years will not be higher than the sum of surpluses resulting from this ratio in individual years.[4]

[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).

Moreover, when determining a ratio for balancing the current part of the budget for 2023-2025, current revenues 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 Article 217(2)(5) and (8) of the Public Finance Act, including those resulting from settlements of issued securities and loans from previous years.[5]

With regard to the limits determining the ability to repay liabilities of LGU 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).[6]

Considering the aid provided by LGU to Ukrainian citizens in connection with the armed conflict in the territory of their country, the fiscal rules applicable to LGU include 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 current the expenditure incurred to support 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.[7]

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 shall not be taken into account.[8]

Moreover, in 2023-2025, the LGU is allowed not to meet the ratio limiting the debt repayment amount, provided that the total amount of the LGU debt as at the end of a given year does not exceed 100% of the total income of this unit in this fiscal year, reduced by the amounts of received subsidies and funds of a similar nature and increased by revenue specified in Article 217(2)(4)-(8) of the Public Finance Act, not intended to finance the budget deficit.[9]

Furthermore, to facilitate investments co-financed from the Government Fund "Polish Deal": Strategic Investments Program[10], a solution that allows LGU to incur loans and issue

[5] 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).
[6] Article 9 of the Act of 14 December 2018 amending the Public Finance Act and certain other acts (Journal of Laws, item 2500, as amended).
[7] 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 2024, item 167, as amended).
[8] Article 28 of the Act of 5 August 2022 on the coal allowance (Journal of Laws of 2024, item 1207).
[9] 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).
[10] 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).

securities intended for the pre-financing of activities financed under this program has been introduced. 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 as well as repayment of instalments of other debt 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.[11]

However, work is underway to temporarily modify, by 2029, the fiscal rules applicable to LGU. The planned changes would aim to extend the currently applicable (until 2025 inclusive) temporary flexibility of the rules contained in the Public Finance Act. This would concern preferences regarding the principle of balancing the current part of the LGU's budget and the individual limit on repayment of liabilities.

7.2. Stabilising expenditure rule

As of 23 July 2024, the Act of 28 June 2024 amending the Public Finance Act and certain other acts introducing amendments to the stabilising expenditure rule (SER) entered into force. As part of this amendment, a number of changes were proposed in response to the need to adapt the Polish fiscal framework to the new requirements and solutions provided for in the reform of economic governance in the European Union. The new regulations also take into account the conclusions from the SER review conducted by the Ministry of Finance in cooperation with the International Monetary Fund as well as the post-audit conclusions of the Supreme Audit Office regarding the operation of the SER.

As part of the amendments, the range of entities covered by the SER was extended, with the result that all units whose financial plans are included in the Budget Law in the form of annexes were covered by the SER. These are institutions of budgetary management, executive agencies, Social Security Institution (ZUS) and state legal entities referred to in Article 9(14) of the Public Finance Act. The scope of the SER has also covered Treasury securities transferred free of charge by entities and bodies covered by the SER to general government sector entities. However, the amount of and limit on expenditure covered by the SER does not include co-financing of programs financed with non-repayable EU aid. This solution is consistent with the changes introduced in the EU fiscal rules and is analogous to the solution regarding expenditure financed with non-repayable EU aid funds, that is currently used as part of the SER.

The amended Public Finance Act has also introduced a number of changes concerning the algorithm determining the expenditure of entities and bodies covered by the SER, including:

- correction of the error in forecasts of real GDP growth dynamics was introduced to mitigate the impact of the forecast error on the level of SRW expenditure;

[11] Article 35 of the Act of 9 June 2022 amending the Personal Income Tax Act and certain other acts (Journal of Laws, item 1265, as amended).

- in the expenditure amount formula, the previously used average annual index of prices of goods and services has been replaced with the GDP deflator;
- the mechanism determining the level of fiscal adjustment to new EU solutions has been adjusted

and the definition of discretionary measures as well as one-off and temporary revenue measures included in the SER has been changed.

Changes have also been introduced in the SER escape clause, regarding stand-alone factors triggering the SER suspension in case of the introduction of one of the states of emergency or significant economic slowdown.

As a result of these changes, the amount of SER expenditure for 2024, that is to be the starting point for calculating the amount of 2025 expenditure, was recalculated. This recalculation will allow for including all changes regarding the SER scope in the amount of expenditure for 2025.

7.3. Funds managed by Bank Gospodarstwa Krajowego included in the general government sector

Funds within BGK were formed under other acts from 1998 to 2023. According to the original assumptions, these funds were to provide financing for the implementation of tasks important from the point of view of the government's economic policy. Later, the funds were treated as a flexible tool for the implementation of tasks and goals resulting from the extraordinary economic and political situation, e.g. the COVID-19 pandemic or Russia's aggression against Ukraine.

As at the end of June 2024, BGK operated twenty funds included in the general government sector according to the ESA2010 methodology. In accordance with Polish law, these funds are not part of the domestic public finance sector. This means that the debt of the funds increases the debt according to the EU definition, but has no impact on the public finance sector debt according to the domestic definition. Data on the debt of the general government sector, including the debt of entities included in this sector that finance state tasks, among others funds within BGK, is published on a quarterly basis by the Ministry of Finance in the statistical bulletin "Public finance sector debt". Forecasts for the end of a given year and for the next four years are presented in the Public finance sector debt management strategy (Chapter 8. Expected effects of the Strategy implementation).

In accordance with the provisions of the acts establishing the funds, BGK may incur debt for nine funds. In practice, according to data as of the end of June 2024, the debt was incurred for the following four funds: the National Road Fund, the COVID-19 Response Fund, the Aid Fund and the Armed Forces Support Fund.

In accordance with statutory provisions, the Minister of Finance accepts the terms and conditions of issuance of bond for the funds, and in the case of the Armed Forces Support Fund, additionally accepts the economic parameters of the loans taken out and approves the incurring of other financial liabilities related to obtaining repayable funds. The schedules of

bond issuances for the funds are set taking into account the calendar of TS auctions on the domestic and foreign markets, and the maturity dates of the funds' bonds are determined taking the TS redemption schedules into account.

The funds' draft financial plans and amendments thereto are agreed with the Minister of Finance. From 1 July 2024, due to the fact the Minister of Finance has taken over supervision of the Covid-19 Response Fund and the Aid Fund, the draft financial plans of these funds and amendments thereto shall be approved by the Minister of Finance. Starting from the second quarter of 2024, BGK shall publish the financial plans of the funds and current data on their implementation. The plans of these funds for the next year, starting with the draft Budget Act for 2025, shall be presented together with the budget (they are attached to the justification for the draft Budget Act).

According to the information provided by BGK, detailed rules for the management of the funds' debt will be included in a strategy developed by BGK, taking the Public debt management strategy into account. In the near term, the key objective of the debt management strategy of the funds established within BGK will be to ensure financing for the smooth implementation of the funds' statutory objectives, taking into account considerations as:

- minimizing the costs of servicing the funds' liabilities;
- the policy of the Ministry of Finance regarding the public debt servicing costs;
- distribution of debt redemptions over time;
- coordination of funds' bond issuances with the issuances of Treasury bonds on the domestic and foreign markets;
- available types of debt instruments adjusted to the needs of individual funds;
- parameters of the State Treasury guarantees for debt liabilities incurred for the funds.

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 10. Forecasts of the level of debt and general government debt servicing costs

Item	2023	2024	2025 deficit limit	2025	2026	2027	2028
1. State Treasury debt							
a) PLN bn	1,346.2	1,594.9	1,938.0	1,904.1	2,087.3	2,236.3	2,348.5
- domestic	1,042.4	1,232.8	1,511.3	1,477.4	1,607.2	1,746.7	1,852.5
- foreign	303.8	362.1	426.7	426.7	480.1	489.6	496.0
b) GDP%	39.5%	43.8%	48.8%	47.9%	49.2%	49.9%	49.7%
2. Public debt							
a) PLN bn	1,328.1	1,577.3	1,905.0	1,871.1	2,040.7	2,179.0	2,282.5
b) GDP%	38.9%	43.3%	47.9%	47.1%	48.1%	48.6%	48.3%
3. The amount specified in the article 38a (3) of the Public Finance Act*							
a) PLN bn	1,242.0	1,481.1	1,854.6	1,820.8	1,990.3	2,128.3	2,231.9
b) GDP%	36.4%	40.7%	46.7%	45.8%	47.0%	47.5%	47.2%
4. General government debt							
a) PLN bn	1,691.2	1,986.3	2,376.8	2,321.4	2,582.6	2,750.1	2,888.6
b) GDP%	49.6%	54.6%	59.8%	58.4%	60.9%	61.3%	61.2%
5. General government debt servicing costs (accrual basis)							
b) GDP%	2,1%	2,3%	-	2,6%	2,5%	2,6%	2,6%

**) 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.*

The forecast for 2025-2028 was prepared assuming an annual fiscal adjustment enabling compliance with the established net expenditure path in accordance with the requirements of the EU regulation on medium-term fiscal-structural plans[12] and the assumptions of the medium-term fiscal-structural plan. This path allows for the elimination of the excessive deficit (EDP[13]) by 2028 and ensures that, in the absence of further fiscal measures, the criteria of the debt sustainability analysis (DSA) are met with respect to maintaining the deficit below 3% of GDP over the medium-term and a decline in the debt-to-GDP ratio below 60% in the baseline scenario as well as in three alternative scenarios[14] that assume: (1) a one-year increase of 1 pp in the short and long interest rate;

[12] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.
[13] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.
[14] The DSA methodology is described in Debt Sustainability Monitor 2023, Institutional Paper 271, March 2024, Brussels.

(2) permanent deterioration in the ratio of real economic growth to interest rates by 1 pp;
(3) permanent deterioration in the structural primary balance by 0.5 pp of GDP in the simulation timeframe.

Under the adopted assumptions, the public debt-to-GDP ratio will be 43.3% in 2024 and 47.1% in 2025, then it will increase to 48.6% in 2027, to decline to 48.3% in the last year covered by the forecast. In the *Strategy* timeframe, the public debt-to-GDP ratio will remain safely below the prudential threshold of 55% set forth in the Public Finance Act.

The forecasted ratio of general government debt (according to the EU definition) to GDP will be 54.6% in 2024 and 58.4% in 2025, then it will increase to 61.3% in 2027, to decrease to 61.2% in 2018. The 60% reference value of the EDP debt-to-GDP ratio is expected to be exceeded in 2026.

Assuming that the deficit limit set out in the draft Budget Act for 2025 will be met fully, in 2025, the public finance sector debt-to-GDP ratio would be 47.9% and the general government debt-to-GDP ratio would be 59.8%.

Chart 13. Debt-to-GDP ratio

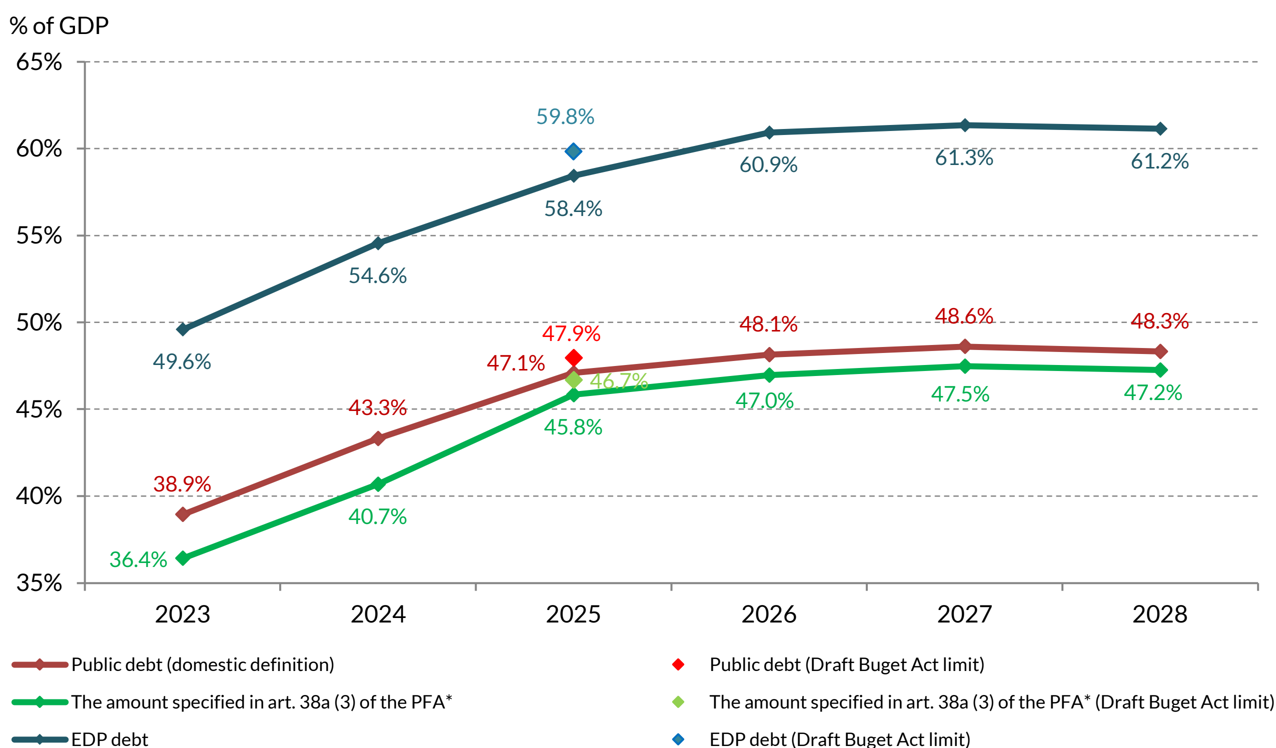
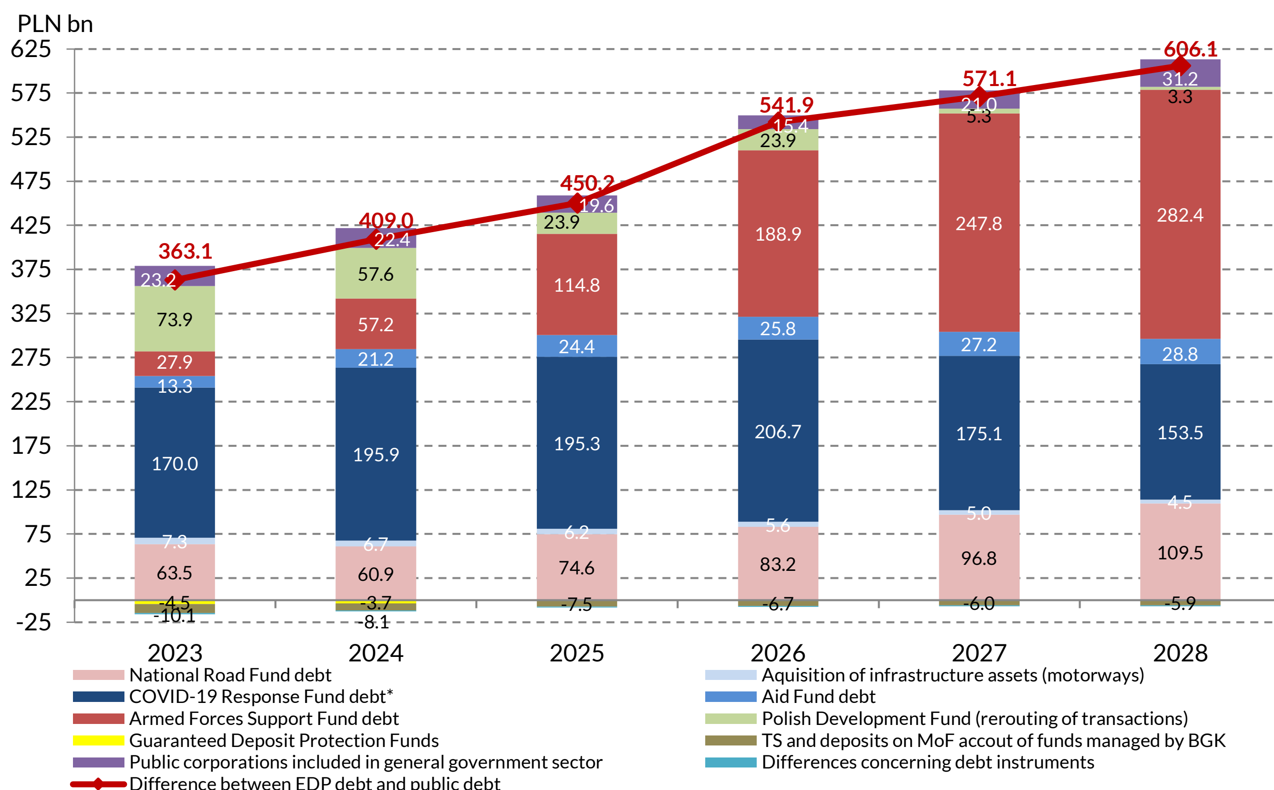


Chart 14. Differences between EDP debt and public debt



The limit of ST debt servicing costs assumed in the draft Budget Act for 2025 is PLN 75.5 billion, i.e. 1.9% of GDP. According to the *Strategy* debt servicing costs will increase to approx. 2.3% of GDP in 2027-2028.

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

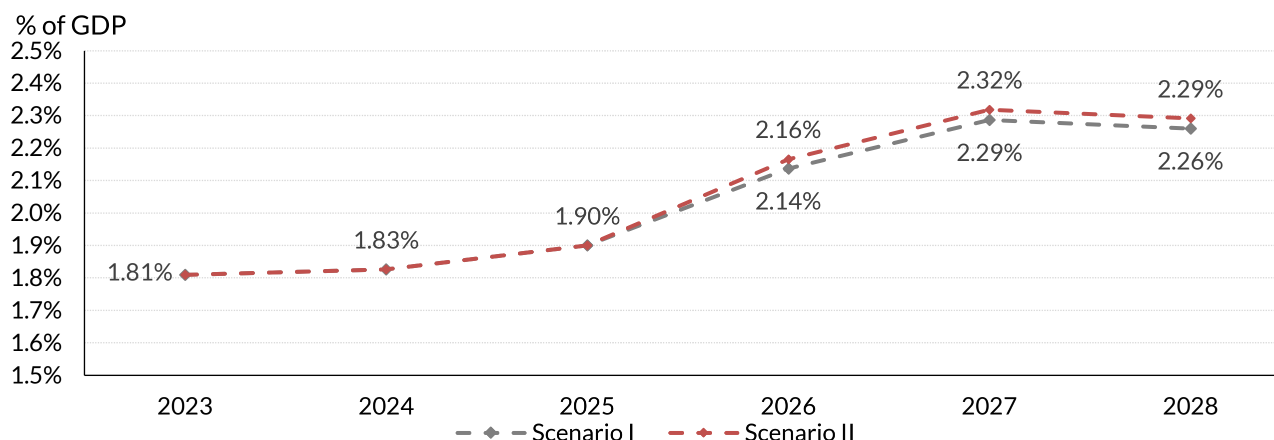
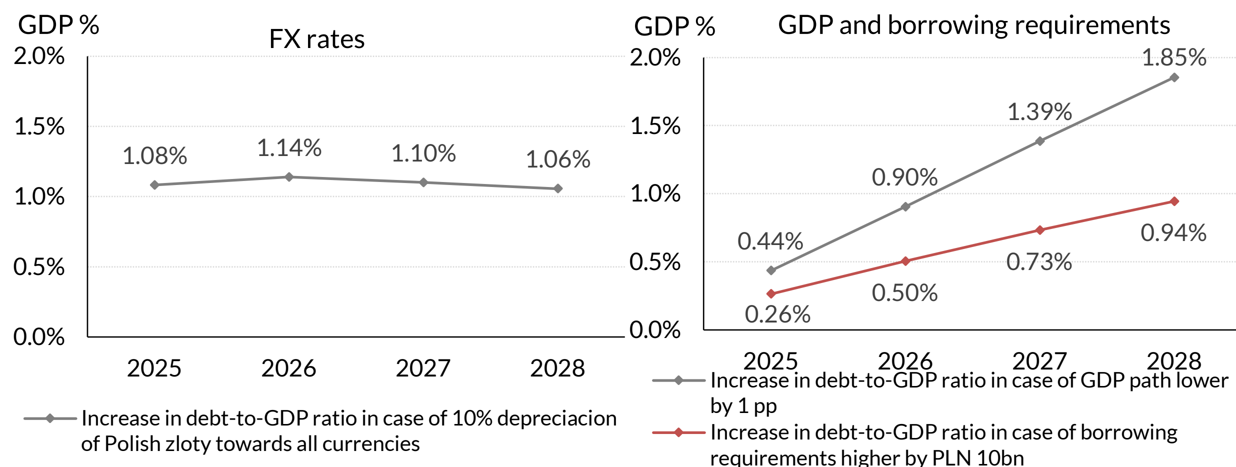


Table 11. State Treasury debt servicing costs

Item	2023	2024	2025	2026	2027	2028
State Treasury debt servicing costs* (cash basis)*						
a) PLN bn	61.7	66.5	75.5	90.6 – 91.8	102.5 – 103.9	106.8 – 108.2
- domestic debt	54.9	57.0	62.5	76.9	86.4	90.2
- foreign debt	6.8	9.5	13.0	13.7 – 14.9	16.1 – 17.5	16.6 – 18.1
b) GDP %	1.81%	1.83%	1.90%	2.14% - 2.16%	2.29% - 2.32%	2.26% - 2.29%

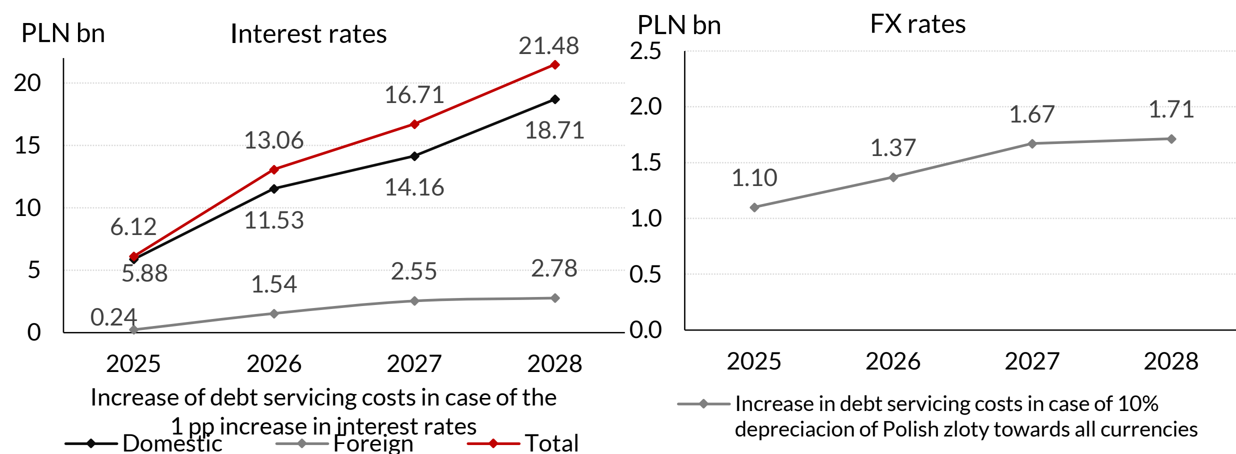
****) Forecasts of the debt servicing costs for 2026-2028 are presented in ranges, taking into account the foreign exchange risk provision.*

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



) Assuming a change of paths from 2025, 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 *Strategy* timeframe:

- regarding the refinancing risk – the direction of changes in the average time to maturity of domestic TS will depend on market conditions; the average maturity in 2028 may be in the range of 4.2-4.7 years, and that of the total ST debt – 5.6-6.2 years compared to ca. 4.3 and ca. 5.8 years, respectively, at the end of 2024;
- 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. 3.2 years as at the end of 2024, and that of the total debt – ca. 3.6-4.1 years compared to ca. 4.1 years as at the end of 2024, whereas the duration of the domestic marketable debt will be in the range of ca. 2.6-3.3 years compared to ca. 2.7 years as at the end of 2024, while that of the total debt – in the range of ca. 3.4-4.0 years compared to 3.6 years as at the end of 2024;
- the share of FX debt will be maintained below 25%, in the baseline scenario, it will be ca. 22.4% as at the end of 2025 and ca. 21.1% in 2028.

Chart 18. ATM of the ST debt

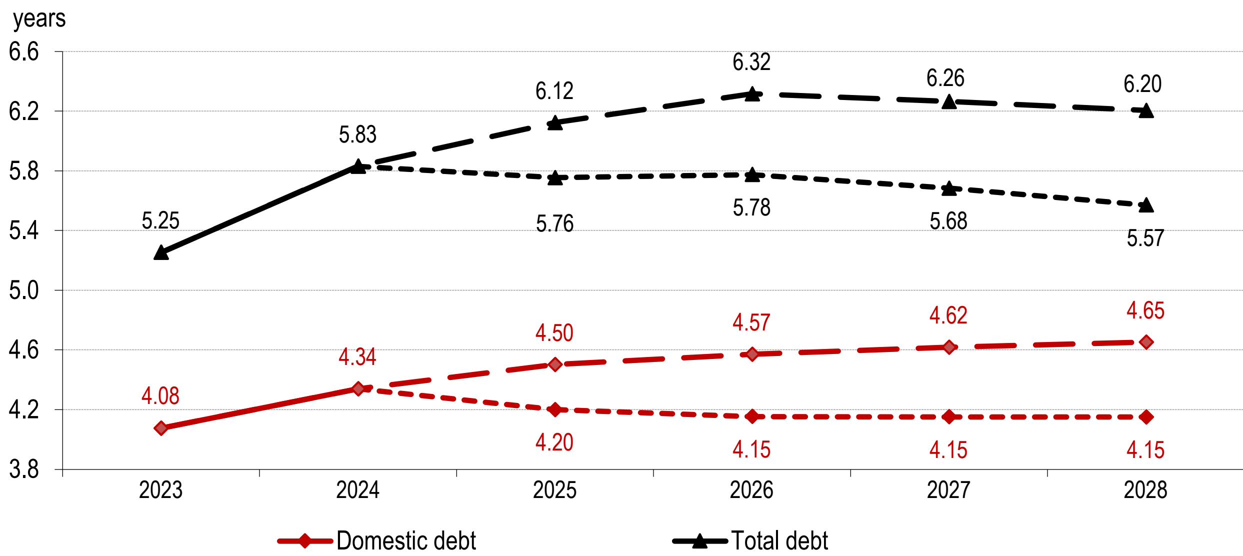


Chart 19. ATR of the ST debt

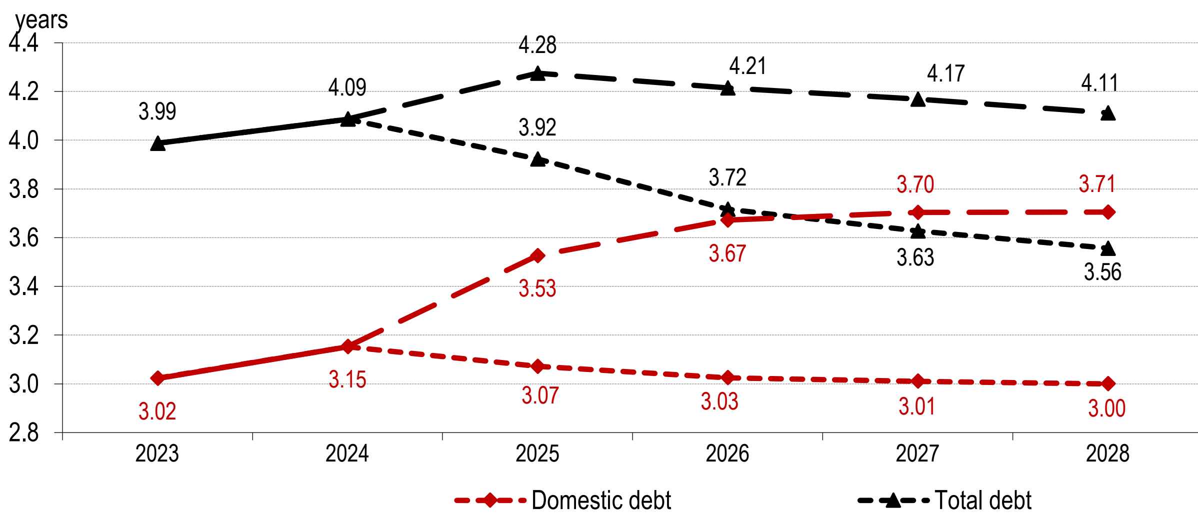


Chart 20. Duration of the ST debt

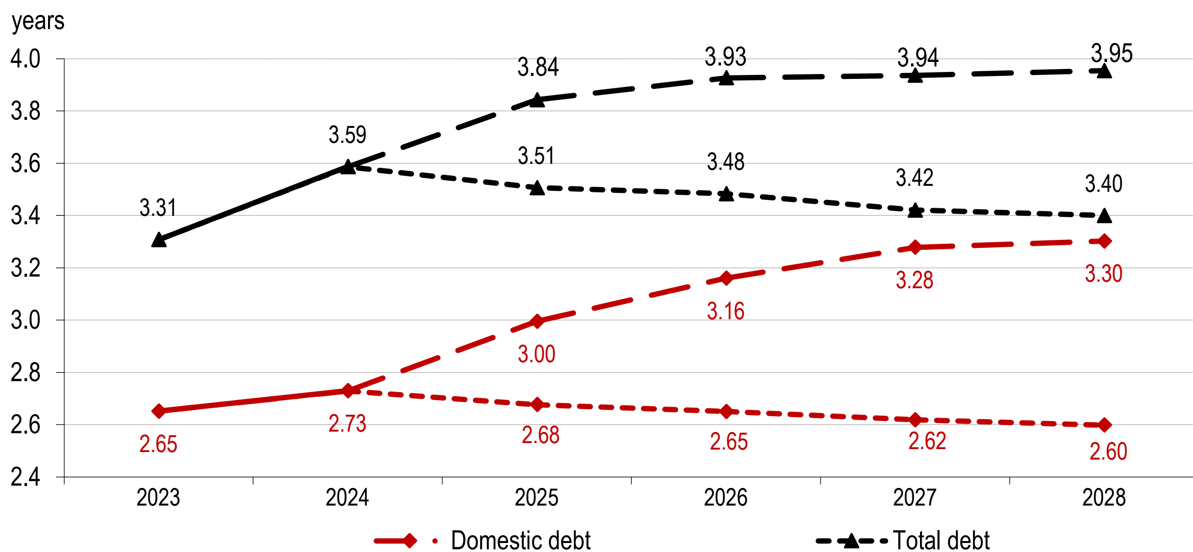
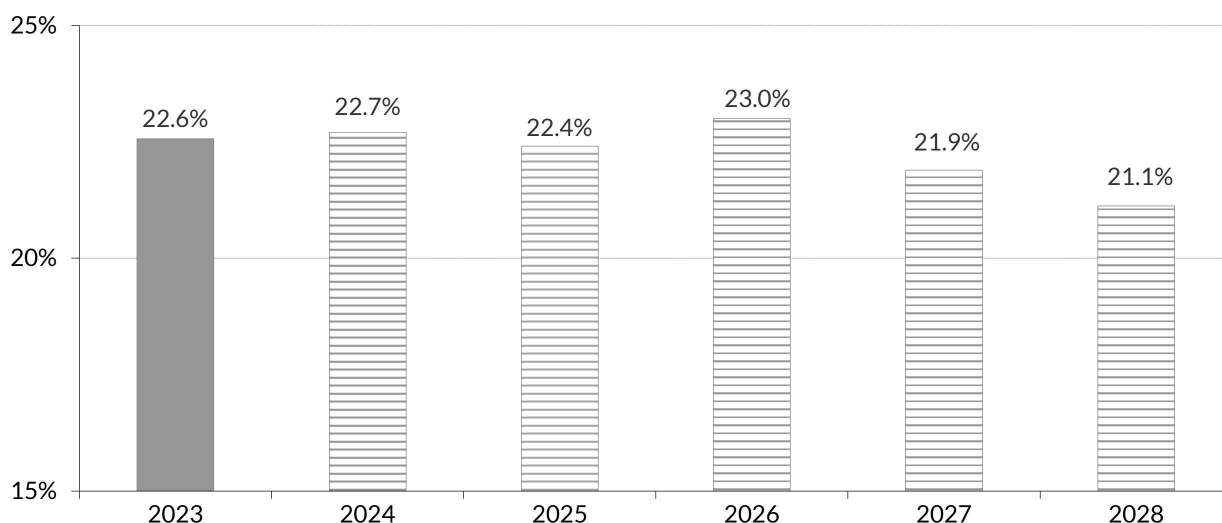


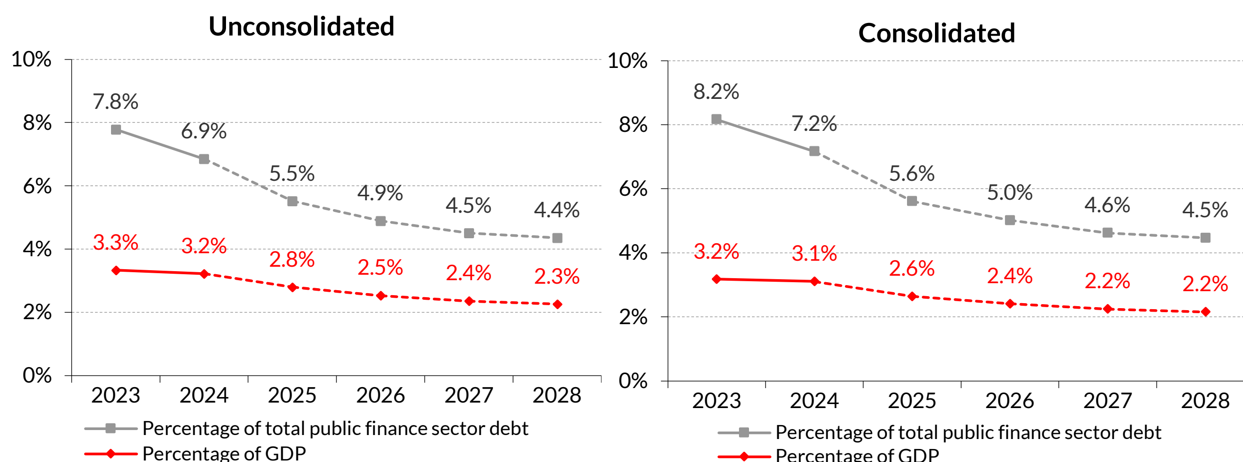
Chart 21. Share of foreign currency debt in the total ST debt



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

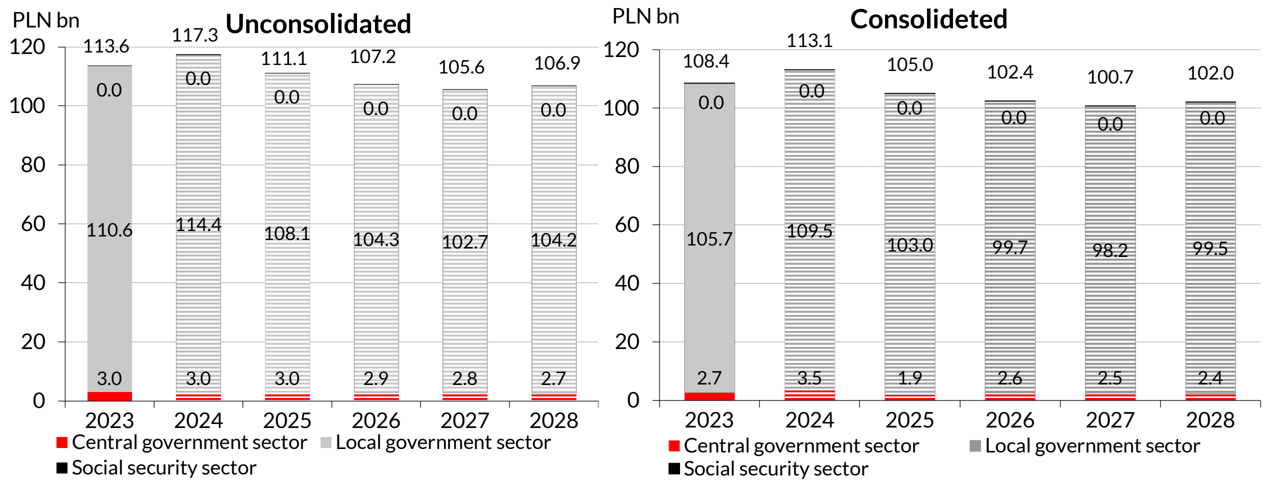
Under the adopted assumptions, in the *Strategy* timeframe, the unconsolidated-debt-to-GDP ratio of the remaining sector entities will decrease from 3.7% to 2.4%, and the consolidated one – from 3.5% to 2.3%. The share of this group of entities in the consolidated public finance sector debt will decrease from 8.2% in 2023 to 4.5% in 2028.

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 117.3 billion in 2024 to PLN 106.9 billion in 2028. This trend will mainly result 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, in particular that of Poland's main trading partners;
  - 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-than-expected State budget borrowing requirements, depending, among others, on the situation in Polish economy and the implementation of the fiscal adjustment path;
  - a higher-than-expected increase in the debt of general government units other than the State Treasury, in particular funds within BGK;
  - depreciation of the Polish zloty in relation 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;
- further use of guarantees to increase Poland's defense capabilities;
- supporting Poland's energy transformation with the use of guarantees;
- continuation, in so far as necessary, of support for the Funds counteracting the economic effects of the COVID-19 pandemic and Russia's armed aggression against Ukraine.

Recently, there has been a dramatic 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. Possible use of guarantees to support the financing of energy transformation will also be important. Along with the continuation of infrastructure investment programs (e.g. 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 grant 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 2024 amounted to PLN 555.7 billion (15.1% of GDP forecasted for the end of 2024), compared to PLN 575.8 billion (adjusted data) as at the end of 2023 (16.9% of GDP) and PLN 455.9 billion as at the end of 2022 (14.8% 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 2024, these liabilities amounted to PLN 533.6 billion (ca. 14.5% of GDP forecasted for the end of 2024), compared to PLN 553.6 billion as at the end of 2023 (16.2% of GDP) and PLN 432.8 billion as at the end of 2022 (14.1% of GDP). The increase in contingent liabilities is mainly due to granting guarantees related to counteracting the effects of COVID-19 (contingent liabilities of PLN 283.2 billion as at the

end of the first half of 2024) as well as those resulting from investment in Poland's defense capabilities (contingent liabilities of PLN 103.0 billion).

The current portfolio does not pose material threats to ST sureties and guarantees. As at the end of 2023 and the end of the first half of 2024, 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 mitigates the risk of payments under these guarantees. As for newly forecasted guarantees, neither the admissible manner for supplying the Funds nor the projected 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 2024) were due to:

- guarantees granted for Bank Gospodarstwa Krajowego — PLN 439.0 billion

of which:

- to supply the COVID-19 Response Fund — PLN 223.6 billion
- to supply the Armed Forces Support Fund — PLN 103.0 billion
- to supply National Road Fund — PLN 88.9 billion
- to supply the Aid Fund – Ukraine — PLN 23.4 billion
- other guarantees (National Housing Fund, infrastructure) — PLN 0.1 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 59.6 billion
- guarantees granted for PKP Polskie Linie Kolejowe S.A. — PLN 19.8 billion
- guarantees of payments from the National Road Fund for Gdańsk Transport Company S.A. — PLN 5.1 billion
- guarantees of payments from the National Road Fund for Autostrada Wielkopolska II S.A. — PLN 4.5 billion
- guarantee granted for Węglokoks S.A. — PLN 2.7 billion
- guarantees granted for PKP Intercity S.A. — PLN 2.2 billion

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

	2022	2023	2024	2025	2026	2027	2028
Contingent liabilities under guarantees and sureties granted by:							
a) Public finance sector							
- PLN bn	455,9	575,8*	793,6	939,5	1013,7	1 117,5	1 249,9
- in relation to GDP	14,8%	16,9%	21,5%	23,6%	23,8%	24,9%	26,4%
b) State Treasury							
- PLN bn	432,8	553,6	769,4	913,5	986,0	1 088,2	1 219,0
- in relation to GDP	14,1%	16,2%	20,8%	22,9%	23,2%	24,2%	25,7%
including for general government sector entities	406,2	539,9	755,3	901,3	973,9	1 076,3	1 207,2
in relation to GDP	13,2%	15,8%	20,5%	22,6%	22,9%	24,0%	25,5%

**Updated data*

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
FP – the Aid Fund
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
NBP – National Bank of Poland
PFR – the Polish Development Fund
PFS – public finance sector
PFS entities – public finance sector entities
RPP - Monetary Policy Council
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 LSEG (former Refinitiv, Thomson Reuters) 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

<table>
<tr><th>Polish regulations</th><th>EU regulations</th></tr>
<tr><td>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));</td><td>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);</td></tr>
<tr><td rowspan="3">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.</td><td>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%;</td></tr>
<tr><td>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;</td></tr>
<tr><td>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.</td></tr>
</table>

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

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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. 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; – National Health Fund; – independent public health care units; – public universities;	• 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**
– 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 as of December 31 2021 is available on the internet website of GUS:

https://stat.gov.pl/download/gfx/portalinformacyjny/pl/defaultaktualnosci/5483/6/9/1/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* .

Table 4. 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) and 112ab:
The correction amount is expressed in thousands of zlotys.
The amount of the SER expenditure correction Kn pursuant to Article 112aa(4) of the public finance act is in principle 0, but if the European Commission's forecast is: a) the general government deficit for Poland exceeds the reference value (3% of GDP), in the year n-1 or n; or b) the general government debt for Poland exceeds the reference value (60% of GDP), in the year n-1 or n —the adjustment of SER expenditure Kn has to be not higher than the fiscal adjustment supporting the expenditure target set in the medium-term fiscal-structural plan referred to in the MTP Regulation* and the respect of the reference values set out in Article 126 (2) of the Treaty on the Functioning of the European Union as specified in Article 1 of Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union, calculated by the formula: $DFn = -0{,}5\% * En(PKBnCB)$ where the meaning of the symbols is as follows: DFn — fiscal adjustment in year n $En(PKBnCB)$ — gross domestic product at current prices in year n as projected in the explanatory memorandum for the draft budget act for year n submitted to the Sejm n – year for which the amount of SER expenditure is calculated In the event that the Council of the EU approves the net expenditure path referred to in the MTP Regulation*, the amount of the SER expenditure correction Kn has to correspond to the fiscal effort in line with the net expenditure path approved by the Council of the EU referred to in that Regulation (Article 112ab (1) the public finance act). The amount of the correction of SER expenditure Kn may be different from the one set out above, if this is due to recommendations made by the Council of the EU under Article 121 (2) or (4) or Article 126 (7) of the Treaty on the Functioning of the EU (Article 112ab (2) the public finance act). Amount of the SER expenditure correction for the budget year 2025, in accordance with Article 39(2) of the Act of 28 June 2024 amending the public finance act (Journal Of Laws, item 1089), is 0.
Exclusion of the application of the provisions on the stabilising expenditure rule:
The provisions of the stabilising expenditure rule do not apply in the case of: • the introduction of martial law;

Act of August 27, 2009 on public finance
The correction amounts of the stabilising expenditure rule pursuant to Article 112aa(4) and 112ab:
• the introduction of a state of emergency on the entire territory of the Republic of Poland, • the introduction of a state of natural disaster on the entire territory of the Republic of Poland, • the declaration of a state of epidemic in the entire territory of the Republic of Poland, • there has been a significant economic slowdown. A significant economic slowdown is understood as a situation where, as projected in the explanatory memorandum: (1) the draft of budget act for the year for which the amount of SER expenditure referred to in Article 112aa(1) of the public finance act is calculated submitted to the Sejm, or (2) a draft act amending the budget act for the year for which the amount of SER expenditure referred to in Article 112aa(1)of the public finance act is calculated submitted to the Sejm — the annual growth rate of gross domestic product at constant prices is more than two percentage points lower than the indicator of medium-term growth of gross domestic product at constant prices WPKB** set out in the explanatory memorandum to the draft budget act for the last year for which the amount of SER expenditure was determined in the draft budget act.
* Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. ** the indicator of medium-term dynamics of gross domestic product at constant prices is the eight-year geometric average of real annual GDP dynamics. For the year for which the amount of SER expenditure is calculated and the year preceding that year the values of budget forecasts are assumed.. For the remaining years, this figure results from the announcement by the President of the Statistics Poland. If the period covered by this indicator includes a year in which the application of the stabilising expenditure rule was suspended, or a year under a return clause after the temporary suspension of the application of the stabilising expenditure rule, calculating this indicator, the annual dynamics of the value of gross domestic product at constant prices in the year of suspension of the application of the stabilising expenditure rule and in the years of the return clause to the standard SER formula shall be replaced by an indicator of the medium-term dynamics of the value of gross domestic product at constant prices set out in the draft budget act for the last year in which the conditions for suspending the application of the stabilising expenditure rule have not been met, submitted to the Sejm.

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 2022-2023

	2022			2023		
	GG balance	GG debt	10Y interest rate	GG balance	GG debt	10Y interest rate
	% PKB	% PKB	%	% PKB	% PKB	%
Greece	-2.5	172.7	3.5	-1.6	161.9	4.0
Italy	-8.6	140.5	3.2	-7.4	137.3	4.3
France	-4.8	111.9	1.7	-5.5	110.6	3.0
Spain	-4.7	111.6	2.2	-3.6	107.7	3.5
Belgium	-3.6	104.3	1.7	-4.4	105.2	3.1
Portugal	-0.3	112.4	2.2	1.2	99.1	3.2
Euro area	**-3.7**	**90.8**	**1.9**	**-3.6**	**88.6**	**3.2**
European Union	**-3.4**	**83.4**	**2.5**	**-3.5**	**81.7**	**3.5**
Austria	-3.3	78.4	1.7	-2.7	77.8	3.1
Cyprus	2.7	85.6	3.0	3.1	77.3	3.9
Finland	-0.4	73.5	1.7	-2.7	75.8	3.0
Hungary	-6.2	74.1	7.6	-6.7	73.5	7.5
Slovenia	-3.0	72.5	1.9	-2.5	69.2	3.4
Germany	-2.5	66.1	1.1	-2.5	63.6	2.4
Croatia	0.1	67.8	2.7	-0.7	63.0	3.8
Slovakia	-1.7	57.7	2.1	-4.9	56.0	3.7
Malta	-5.5	51.6	2.4	-4.9	50.4	3.7
Poland	**-3.4**	**49.2**	**6.1**	**-5.1**	**49.6**	**5.8**
Romania	-6.3	47.5	7.5	-6.6	48.8	6.7
Netherlands	-0.1	50.1	1.4	-0.3	46.5	2.8
Czechia	-3.2	44.2	4.3	-3.7	44.0	4.4
Ireland	1.7	44.4	1.8	1.7	43.7	2.9
Latvia	-4.6	41.8	2.3	-2.2	43.6	3.8
Lithuania	-0.6	38.1	0.6	-0.8	38.3	2.9
Sweden	1.2	33.2	1.5	-0.6	31.2	2.5
Denmark	3.3	29.8	1.5	3.1	29.3	2.7
Luxembourg	-0.3	24.7	1.7	-1.3	25.7	3.0
Bulgaria	-2.9	22.6	1.5	-1.9	23.1	3.8
Estonia	-1.0	18.5	2.3	-3.4	19.6	3.9

[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 20. 2024

Country	Standard&Poor's	Fitch	Moody's
Austria	AA+	AA+	Aa1
Belgium	AA	AA-	Aa3
Bulgaria	BBB	BBB	Baa1
Croatia	BBB+	A-	Baa2
Cyprus	BBB	BBB+	Baa2
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	BBB-	BBB-	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+	A-	A3
Romania	BBB-	BBB-	Baa3
Slovakia	A+	A-	A2
Slovenia	AA-	A	A3
Spain	A	A-	Baa1
Sweden	AAA	AAA	Aaa

Source: LSEG

Table 7. Public debt in 2013 – VI 2024

Item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	VI 2024
1. State Treasury debt												
a) PLN bn	838.0	779.9	834.6	928.7	928.5	954.3	973.3	1,097.5	1,138.0	1,238.5	1,346.2	1,475.0
domestic *	584.3	503.1	543.3	609.2	644.5	674.4	716.5	831.5	872.7	949.8	1042.4	1127.6
foreign *	253.8	276.9	291.3	319.5	283.9	279.8	256.9	266.0	265.4	288.7	303.8	347.4
b) GDP %	51.4%	45.9%	46.4%	50.1%	46.8%	44.9%	42.5%	46.9%	43.2%	40.3%	39.5%	42.3%
2. Public debt (domestic definition)												
a) PLN bn	882.3	826.8	877.3	965.2	961.8	984.3	990.9	1,111.8	1,148.6	1,209.5	1,328.1	1,456.3
b) GDP %	54.1%	48.6%	48.8%	52.1%	48.5%	46.3%	43.3%	47.6%	43.7%	39.3%	38.9%	41.8%
3. General government debt (EU definition)												
a) PLN bn	931.2	874.4	923.9	1,010.0	1,007.3	1,035.9	1,046.2	1,337.0	1,411.0	1,512.8	1,691.2	1,824.5
b) GDP %	57.1%	51.4%	51.4%	54.5%	50.8%	48.7%	45.7%	57.2%	53.6%	49.2%	49.6%	52.3%

**) place of issue criterion*

Table 8. GDP and exchange rates in 2013 – VI 2024

Item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	VI 2024
1. Gross Domestic Product												
PLN bn	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	3,074.8	3,410.1	3,486.3
2. Exchange rate (end of period)												
a) EUR	4.15	4.26	4.26	4.42	4.17	4.30	4.26	4.61	4.60	4.69	4.35	4.31
b) USD	3.01	3.51	3.90	4.18	3.48	3.76	3.80	3.76	4.06	4.40	3.94	4.03

Source: Statistics Poland. NBP