Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS
PUBLIC DEBT MANAGEMENT UNIT

Room Document No 7

12th OECD-WORLD BANK GROUP-IMF GLOBAL BOND MARKET FORUM

SESSION I: ASSURING DURABLE MARKET ACCESS: POLAND'S EXPERIENCE

Prepared by POLAND

This document is circulated as a background paper to the 12th OECD-WB-IMF Global Bond Market Forum, beginning on 5th May 2011 at 9.00am. Questions concerning this document can be addressed to Hans J. Blommestein, Co-ordinator of the OECD Working Party on Debt Management; mailto:hans.blommestein@oecd.org.

Assuring Durable Market Access: Poland's experience

Marek Szczerbak

Ministry of Finance

REPUBLIC OF POLAND

12th Annual OECD-WBG-IMF Global Bond Market Forum

Paris, 5-6 May, 2011

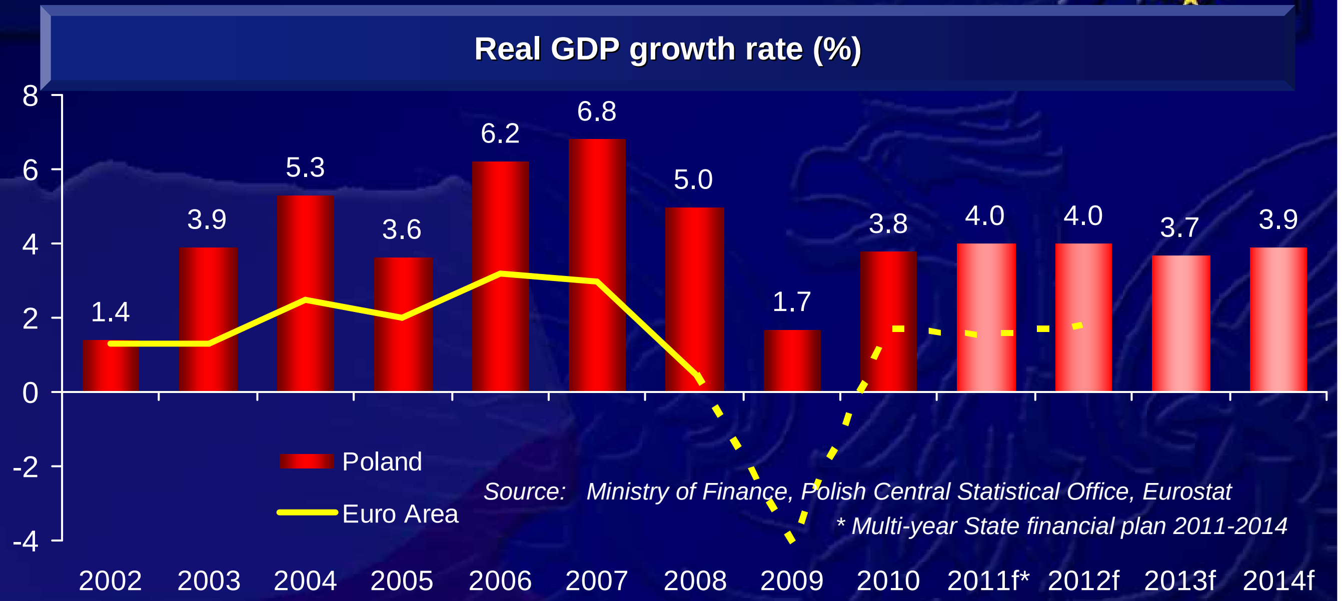
Poland: quite old and frequent issuer

- Well-developed domestic market (main source of financing)
- regular T-bills issuance since 1991
- regular fixed income T-bonds issuance since 1994
- Regular issuance on international markets:
- first foreign bond issue in 1995
- diversification of sources - access to investor base in major financial markets
- strengthening Poland's position in the euro market (future domestic currency)

Year	Markets and tenors					
	USD	DEM	EUR	GBP	JPY	CHF
1995	5					
1996		5				
1997	7, 20					
2000			10			
2001			10			
2002	10		10	8		
2003	7, 10		3, 10		7	
2004			5, 10		5, 30	5
2005	10, 30		15, 30, 50		7, 15	5, 10
2006			10		10, 20	
2007			15		30	5, 12
2008			10		30	5, 9
2009	10		5; 10; 15		3; 5	5
2010	5		7; 10; 15			4
2011	10		10		15	5

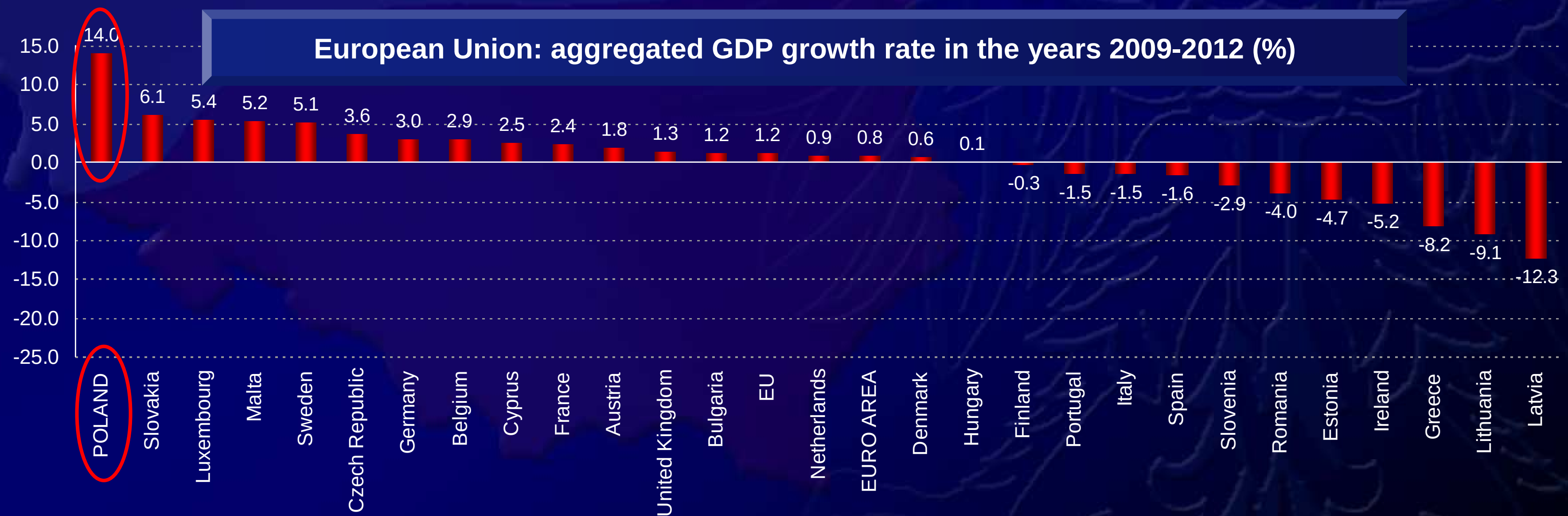
Strong economic fundamentals

- Positive growth rate in 2009 despite substantial deterioration in trading partners situation
- Strong growth in 2010
- Proven resiliency through the global crisis encompassed by **stable government debt ratings (A-/A-/A2)**



Source: Ministry of Finance, Polish Central Statistical Office, Eurostat

** Multi-year State financial plan 2011-2014*

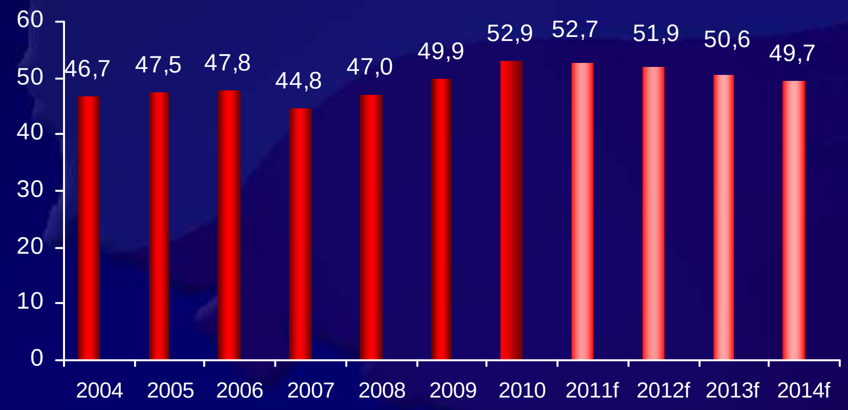


Source: European Commission's data and forecasts, calculations by Ministry of Finance

General government debt

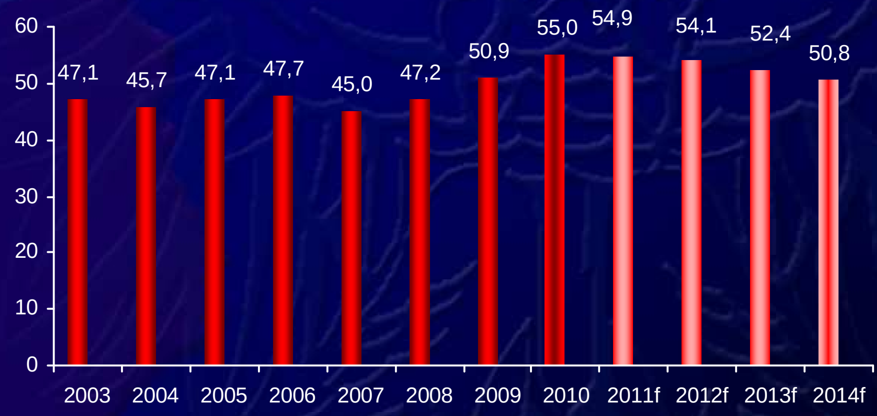
- Debt increasing only moderately when compared with other European countries
- 60% limit on public debt to GDP ratio (domestic methodology) written in the Constitution
- Prudential and remedial procedures written in public finance law if public debt to GDP ratio exceeds 50%, 55% and 60% (domestic methodology)
- Government focused on not surpassing 55% threshold

Public debt (% GDP, domestic methodology)



* *Multi-year State financial plan 2011-2014*

General government debt (% GDP, ESA'95)



* *Convergence Program, April 2011*

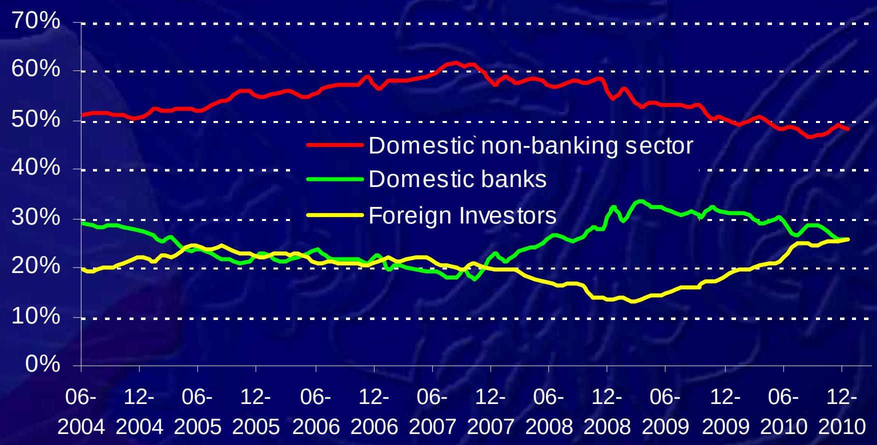
- Difference between debt figures according to Polish methodology and ESA95 being mainly a result of different statistical classification of part of expenditures on infrastructural investment projects

Source: Ministry of Finance, Eurostat

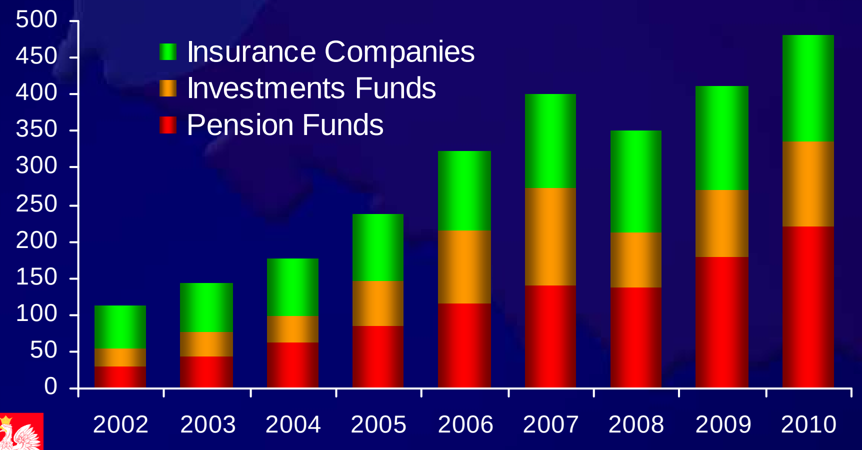
Investor base for domestic securities

- Steady growth of Treasury Securities holdings by stable, long-term domestic investors
- Depth of domestic investor base and huge banking sector overliquidity (90-100 bn PLN) allows for smooth accommodation of foreign capital flows
- Inflow of foreign investors into domestic market in 2009 amounted to PLN 26bn; continued in 2010 (PLN 46bn) and 2011 (further PLN 18bn so far)
- Holdings of non-residents at a record high levels of above PLN 146bn (although share in domestic debt at moderate 27%)

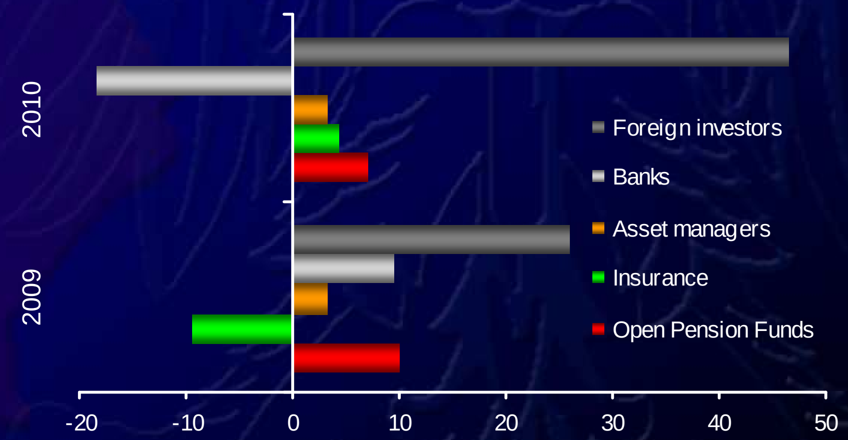
Holders of domestic State Treasury debt



AUM of main domestic non-banking investors (PLN bn)



Net purchases of TS by investor groups (PLN bn)



Source: Ministry of Finance

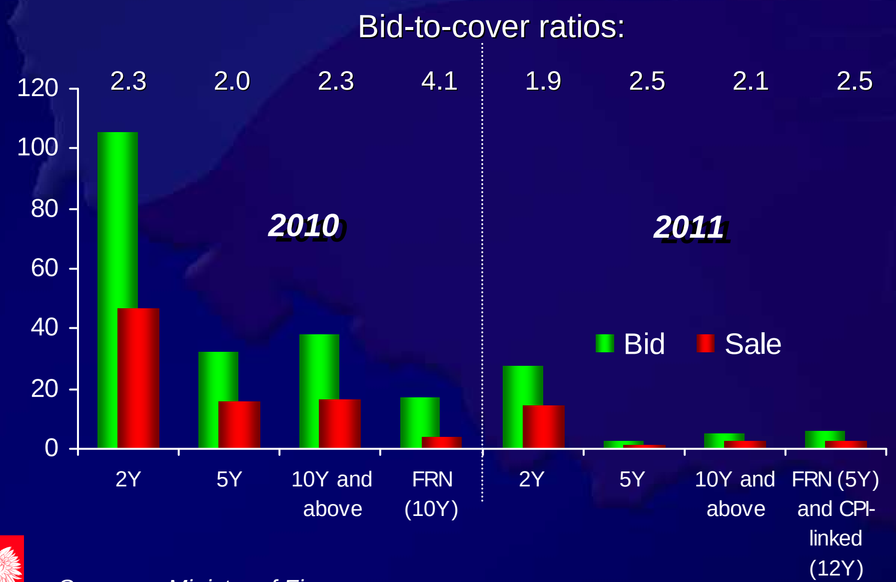
Strong demand for Polish bonds in 2010 and 2011

- Average bid-to-cover ratio on domestic T-bonds auctions 2.4 in 2010 and 2.1 in 2011 (YTD)
- Average maturity of TS sold in 2010 on domestic market 5.29 years
- Long-term instruments offered in 2010 made average time to maturity of domestic and foreign debt to increase (vs. end-2009 figures)
- 6 visits to international markets in 2010, in 2011 so far 4

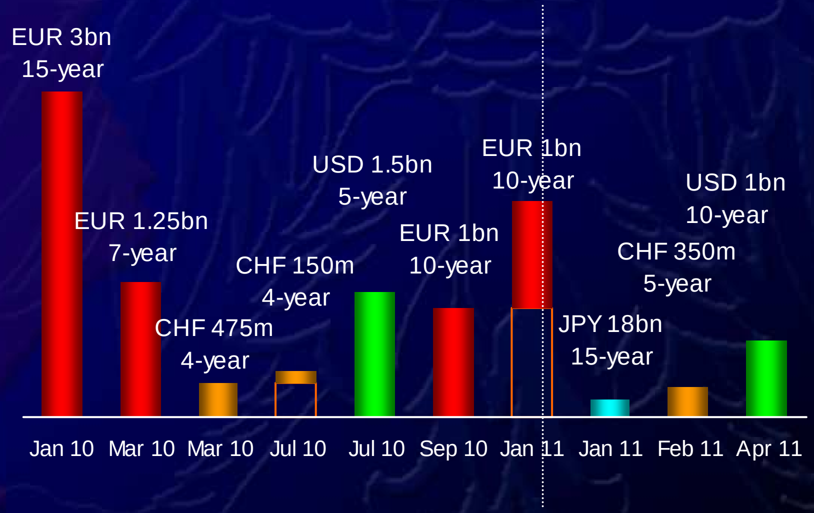
Average time to maturity (in years)

	31 December 2009	31 December 2010
domestic debt	4.08	4.30
foreign debt	8.27	8.13
TOTAL DEBT	**5.22**	**5.38**

Domestic T-bonds sale in 2010 and 2011 (PLN bn)



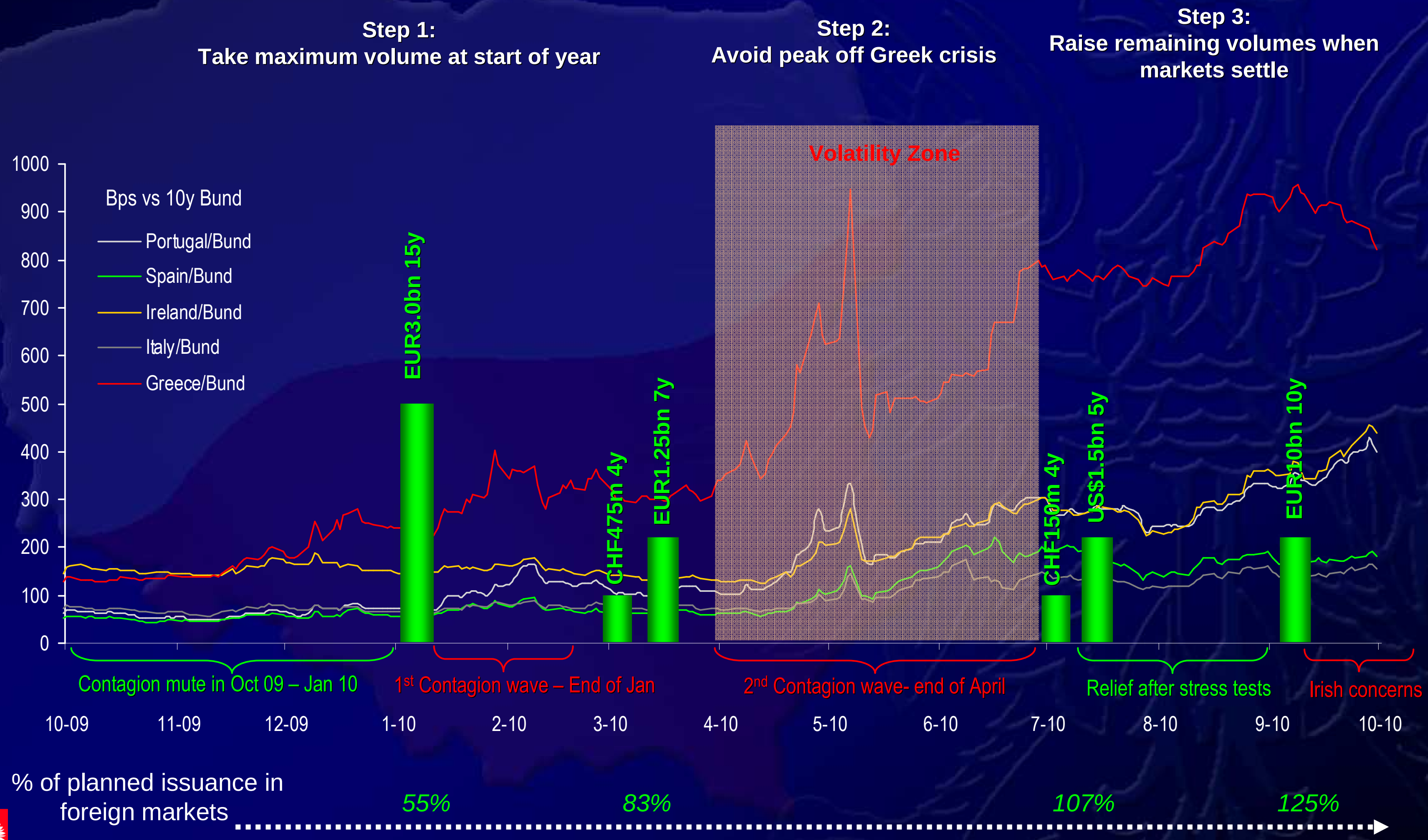
International T-bonds issued in 2010 and 2011



Source: Ministry of Finance

Polish experience in international markets in 2010

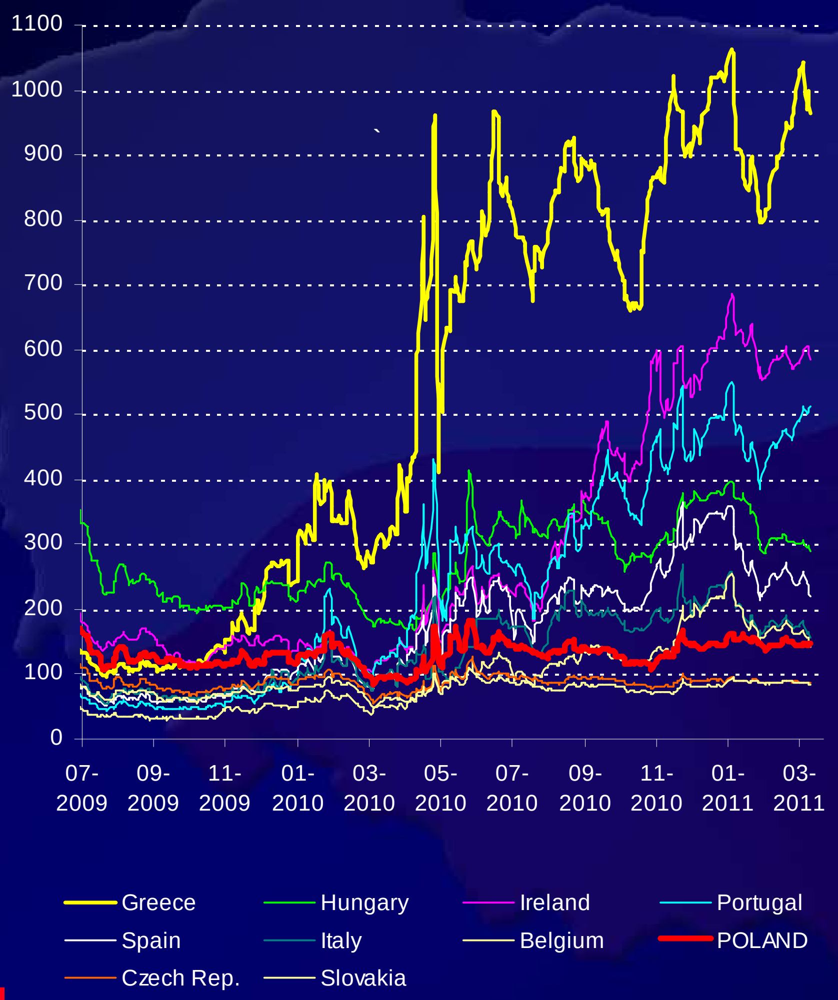
- **Fully-prepared to face market "shutdown" such as the Greece-induced crisis in Spring/Summer 2010**



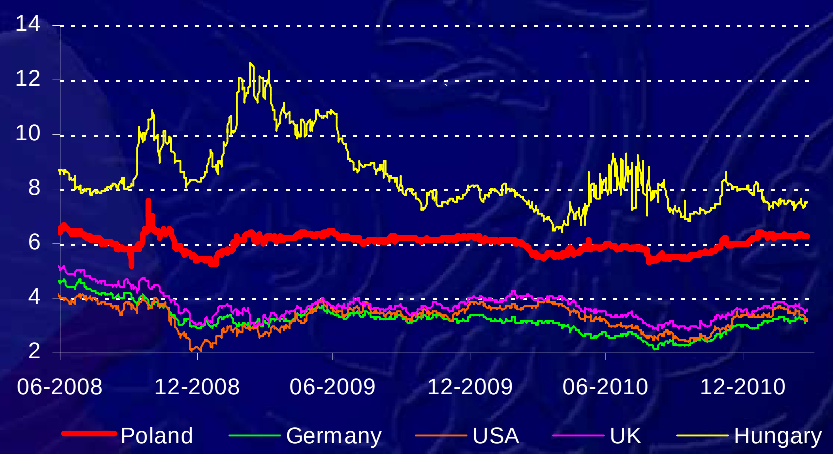
Source: *Ministry of Finance*

Polish T-bonds secondary market performance

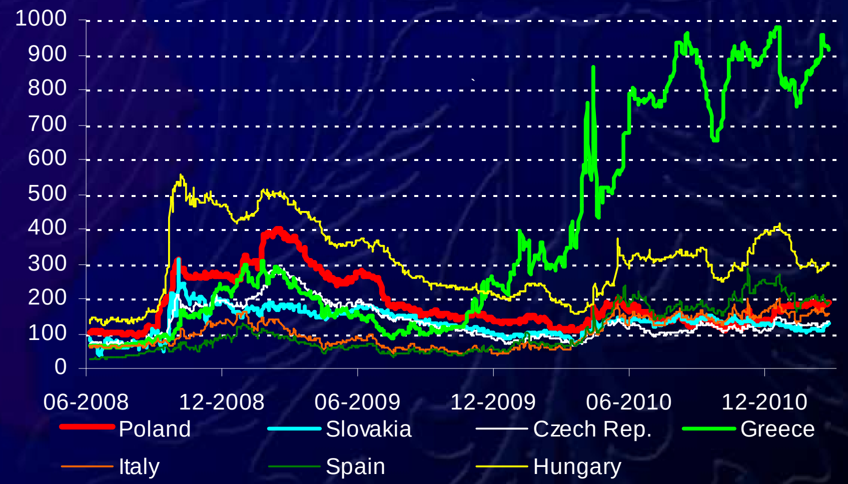
5-year CDS (bps)



Yields of local currency 10-year bonds (%)



Spread to *Bunds* (10-year EUR-denominated bonds. bps)



Source: Ministry of Finance

Public debt management strategy

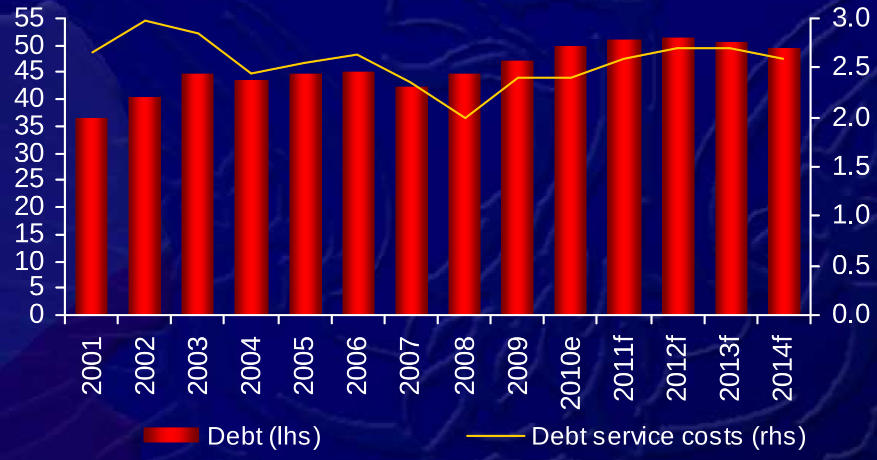
Debt Management Strategy objective:

- To minimize debt servicing costs over a long term horizon within accepted limitations regarding the level of associated risks
- Main focus on:
  - increasing the role of medium- and long-term instruments
  - even distribution of redemptions and interest payments of domestic and foreign debt
  - increasing average term to maturity of domestic debt above 4.5 years
  - maintaining duration in the range of 2.5 – 4.0 years

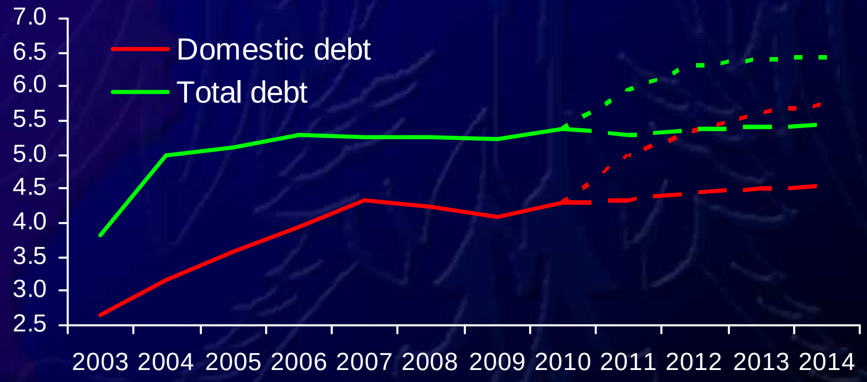
Issuance Strategy goals:

- Broadening the investor base
- Developing liquid benchmark yield curves
- Improving efficiency of domestic Treasury securities market
- Accessing international markets for strategic positioning and funding cost savings

State Treasury debt. i.e. 94% of total public debt (% GDP)



Average time to maturity - scenarios (years)



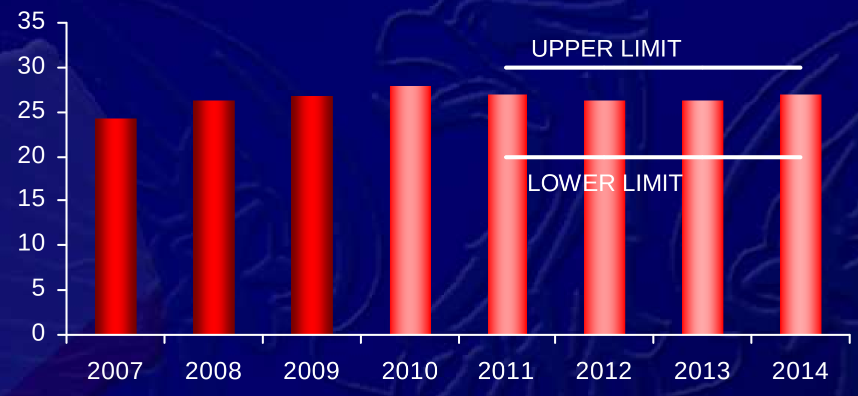
Source: Ministry of Finance „The Public Finance Sector Debt Management Strategy in the years 2011-2014"

Risk constraints of the Strategy's objective (fx)

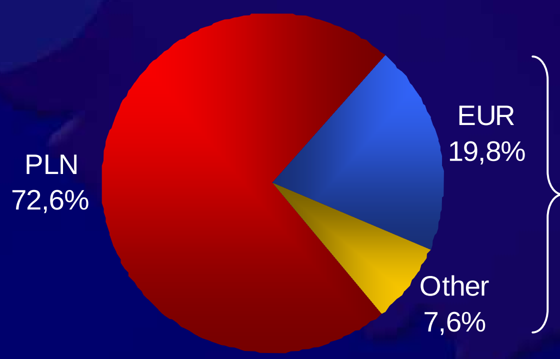
Main focus on:

- flexible approach to choosing markets / currencies
- maintaining the share of foreign currencies debt in total debt to the range of 20-30%
- maintaining an effective share of the euro in foreign currency debt at ≥ 70%
- possible use of derivatives – FX swaps used to manage FX liquidity

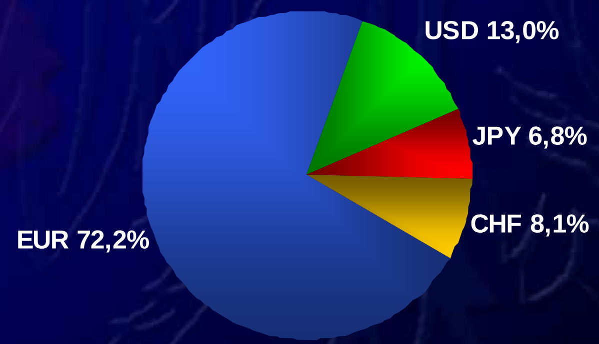
Share of foreign currencies debt (%)



Currency structure of total State Treasury debt (February 2011)



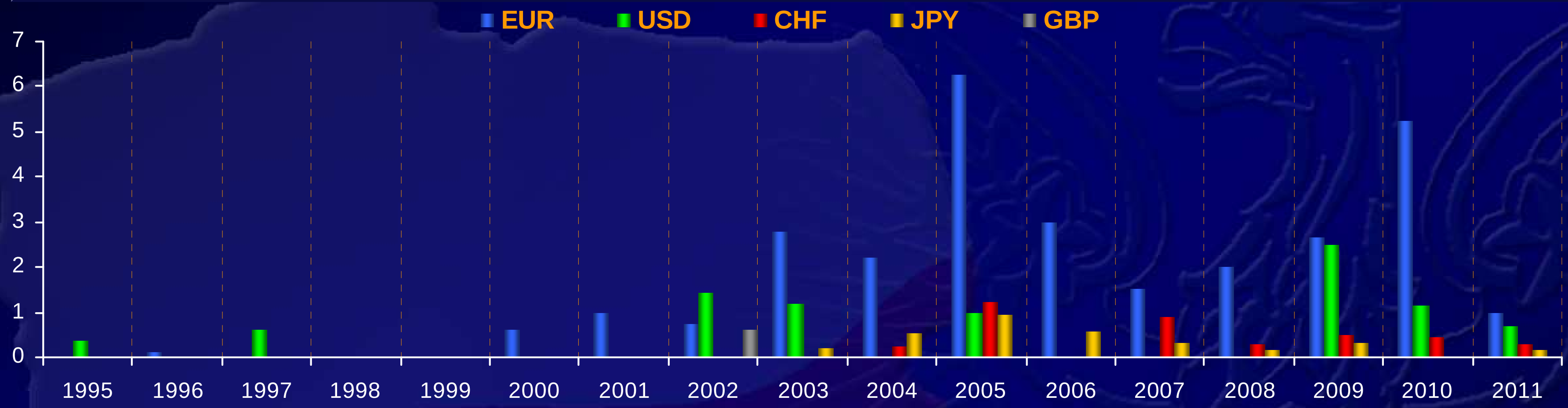
External debt composition by currency (February 2011)



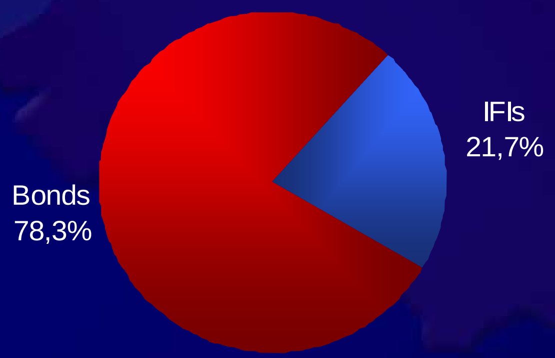
Source: Ministry of Finance „The Public Finance Sector Debt Management Strategy in the years 2011-2014"

External debt developments

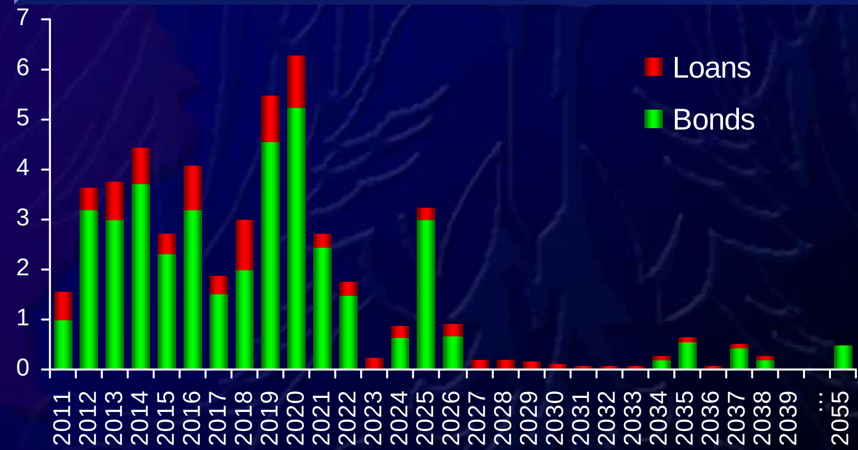
International bond issuance (EUR bn equivalent)



External debt composition by instruments (February 2011)



External debt principal payments (EUR bn, February 2011)



Source: Ministry of Finance

Thank you for your attention

Ministry of Finance

www.mf.gov.pl

Bloomberg: PLMF <GO>

Reuters: PLMINFIN