PRACE NAUKOWE
Uniwersytetu Ekonomicznego we Wrocławiu
RESEARCH PAPERS
of Wrocław University of Economics

271

Zarządzanie finansami firm – teoria i praktyka

Tom 1

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Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu
Wrocław 2012

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Projekt okładki: Beata Dębska

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ISSN 1899-3192
ISBN 978-83-7695-219-2 (całość)
ISBN 978-83-7695-223-9 t. 1

Wersja pierwotna: publikacja drukowana

Druk: Drukarnia TOTEM

Spis treści

Summaries

PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS nr 271 • 2012

Zarządzanie finansami firm – teoria i praktyka ISSN 1899-3192

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MODEL OF PUBLIC DEBT MANAGEMENT INSTITUTIONS IN POLAND AND THE MODELS FUNCTIONING WITHIN THE EUROPEAN UNION

Summary: Public debt has always been a subject of discussion relating to the sustaining of a greater discipline of public finances in such a way that the problem of insolvency would not occur. In the last few years this issue became even more significant. The financial crisis caused a rapid increase of the public debt in most of the EU states. There is a chance that the problem is not only the lack of discipline of public finances in given states but also the models of the institutions managing the public debt. The aim of the paper is to present the forming of the public debt in the first decade of the present century and to characterise the models of public debt management institutions which function in Poland and the European Union member states.

Keywords: public debt, model of public debt management institutions, European Union.

1. Introduction

Public debt management involves adequate actions aiming at ensuring of financing the borrowing requirements of the public authorities in the financial market at the lowest costs. In the European Union member countries a few models of public debt management and the State Treasury debt in particular function. A bank model, a ministerial one and an agency one are in use. The functioning rules of those models differ. In Poland a selected department of the Ministry of Finance is responsible for public debt management. The aim of the paper is to present the forming of the public debt in the first decade of the present century and to characterise the models of public debt management institutions which function in Poland and the European Union member states.

2. Public debt in Poland and the European Union member states

Over the last few years the subject literature has very often pointed towards the occurrence of a debt crisis. In the year 2011 the news broke relating to the bankruptcy

Table 1. Public debt in the EU member states in the years 2002-2010

States	Value in 2010		Value in relation to GDP								
	Million euro	%	2002	2003	2004	2005	2006	2007	2008	2009	2010
European Union (27)	9553.2	100	60.4	61.8	62.2	62.7	61.3	58.7	61.5	73.0	79.3
Euro zone (16)	7704.0	80.64	68.0	69.1	69.5	70.1	68.3	66.00	69.3	78.2	84.0
Austria	207.8	2.18	66.5	65.5	64.8	63.2	62.2	59.5	62.6	69.1	73.9
Belgium	349.7	3.66	103.5	98.5	94.2	92.1	88.1	84.2	89.8	97.2	101.2
Cyprus	10.5	0.11	64.6	68.9	70.2	69.1	64.6	58.3	48.4	5.2	58.6
Finland	85.3	0.89	41.4	44.4	44.4	41.8	39.3	35.2	34.1	41.3	47.4
France	1643.3	17.20	58.8	62.9	64.9	66.4	63.7	63.8	67.4	76.1	82.5
Greece	303.8	3.18	101.7	97.4	98.6	100.0	97.1	95.6	99.2	112.6	124.9
Spain	693.0	7.25	52.5	48.7	46.2	43.0	39.6	36.1	39.7	54.3	66.3
The Nether-lands	381.5	3.99	50.5	52.0	52.4	51.8	47.4	45.5	58.2	59.8	65.6
Ireland	133.1	1.39	32.2	31.0	29.7	27.6	25.0	25.1	44.1	65.8	82.9
Luxemburg	6.4	0.01	6.3	6.1	6.3	6.1	6.6	6.6	13.5	15.00	16.4
Malta	4.1	0.04	60..1	69..3	72..1	70.2	6.6	62.0	63.8	68.5	70.9
Germany	1868.9	19..56	60..4	63..9	65..7	68.0	67.6	65.00	65.9	7.1	76.7
Portugal	18.8	1.45	55..6	56..9	58..3	63.6	64.7	63.6	66.3	77.4	84.6
Slovakia	27.3	0.29	43.4	42.4	41.5	34.2	30.5	29.3	27.7	34.6	39.2
Slovenia	15.6	0.16	28.0	27.5	27.2	27.0	26.7	23.3	22.5	35.1	42.8
Italy	1835.0	19.21	105.7	104.4	103.8	105.8	106.5	103.5	105.8	114.6	116.7
Other EU states	1849.2	19.36	34.9	34.6	33.4	31.8	30.1	28.4	31.0	38.1	43.7
Bulgaria	5.4	0.06	53.6	45.9	37.9	29.2	22.7	18.2	14.1	15.1	16.2
Czech Republic	57.3	0.60	28.2	29.8	30.1	29.7	29.4	29.0	30.0	36.5	40.6
Denmark	81.4	0.85	48.3	45.8	44.5	37.1	1.3	26.8	33.5	33.7	35.3
Estonia*	1.5	0.02	5.7	5.6	5.0	4.6	4.5	3.8	4.6	7.4	10.9
Lithuania	10.1	0.11	22.3	21.1	19.4	18.4	18.0	16.9	15.6	29.9	40.7
Latvia	8.2	0.09	13.5	14.6	14.9	12.4	10.7	9.0	19.5	33.2	48.6
Poland	186.2	1.94	42.2	47.1	45.7	47.1	47.7	45.0	47.2	51.7	57.0
Romania	33.6	0.35	24.9	21.5	18.7	15.8	12.4	12.6	13.6	21.8	27.4
Sweden	136.3	1.43	52.6	52.3	51.3	51.0	45.9	40.5	38.0	42.1	43.6
Hungary	78.2	0.82	55.6	58.4	59.1	61.8	65.6	65.9	72.9	79.1	79.8
United Kingdom	1251.1	13.1	37.5	38.7	40.6	42..2	43.2	44.2	52.0	68.6	80.3

* Estonia became a member of the euro-zone in 2011.

Source: author's own study based on the data obtained from European economics statistics, Eurostat, European Commission 2010, p. 168-169.

of Greece[1], and many other states struggled with their financial difficulties (Italy, Belgium, Ireland). It is worth pointing out that never before (apart from the periods

[1] The controlled bankruptcy of Greece and its potential exit from the Euro-zone is widely commented on. Nevertheless Germany, as a state leading in the euro-zone opposes this fact, because the

of war) had the public debt reached such a size as nowadays, both in real terms and in its relation to the GDP. Also, never before had public debt been a threat to political systems and the citizens' standard of living. The debt cannot grow without causing "tremendous catastrophes" [Attali 2011, p. 64]. Looking at Poland, the present debt may not cause a catastrophe yet, but the lack of radical changes in this area can surely lead to one. In case of Greece such a situation may happen, as the ineffective economy of this state requires a significant reduction of debt.[2]

Table 1 presents the public debt in the EU member states in the years 2002––2010.

The data in Table 1 clearly show the increasing problem of public debt in the EU member states. During the examined period the significant deterioration of public finances in many states of the euro-zone is visible. The average indicator of the relation of the debt to the GDP in the years 2000-2010 showed a clear increasing trend. The states with the highest indicators were Greece, Italy, Belgium, Portugal, Ireland and France. On the other hand, the states from outside the euro-zone show more stability in public finances when it comes to the issue of public debt. The average indicator of debt in relation to GDP of those states in the examined period was much lower than 60% of GDP and had values between 28.4% of GDP (2007) and 43,.7% of GDP (2010). The highest indicators in this group of states were reached by the United Kingdom and Hungary. At the same time it can be observed that out of the euro-zone states the highest public debt was generated by three countries, namely Germany, Italy and France. Added up, the debt of those states in 2010 constituted almost 56% of the public debt of all EU member states. Other states (from outside the euro-zone) showed debt on a slightly lower level than the key debtor of the euro-zone, i.e. Germany (19.36% versus 19.56%).

3. Models of public debt management institutions in the European Union

The essence of managing public debt is the realisation of set aims. These include financing loan demands of the state, including budget insufficiencies and reduction of the costs of servicing the debt. An important objective is also stimulating the development of the government securities' market.

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exit of any state from the euro-zone could lead to subsequent "exits" of other states, especially the so-called PIIGS states. Futhermore, "exit" of one of the states would prove the weakness of the euro-zone. See: http://wiadomosci.wp.pl/title,Grecji-grozi-bankructwo-unia-pomoze,wid,13159272,wiadomosc.html?ticaid=1dc62(20.01.2012); http://www.biznes.banzaj.pl/Grecja-coraz-blizej-bankructwa-29213.html (20.01.2012); http://gospodarka.dziennik.pl/news/artykuly/343166,bruksela-grozi-grecji-albo-oszczednosci-albo-bankructwo.html (20.01.2012); http://www.tygodnikforum.pl/forum/index.jsp?place=Lead10&news_cat_id=249&news_id=8563&layout=1&forum_id=6566&page=text (20.01.2012); http://www.wprost.pl/ar/261264/Bedzie-kontrolowane-bankructwo-Grecji/ (20.01.2012).

[2] Furthermore, as presented in many publications, the sudden exit from the euro-zone could prove to be a catastrophe for Greece [Co z tą Grecją… 2012, p. B9].

Nevertheless, in practice we can come across diverse interpretations of the concept of "management of public debt"; yet in most of the cases a common part can be found, namely its operational dimension, see [Gołębiowski, Marchewka-Bartkowiak 2005]. This dimension is most often realised on the basis of an appointed multi-annual[3] strategy which is updated every year.

An important issue is also the optimal organisation of the institution which handles the management of the public debt in a given state.[4]

The subject literature points towards many models of public debt management institutions, see: [Marchewka-Bartkowiak 2003]. It is worth emphasizing three main organisational concepts in which a separate unit taking care of managing the treasury's debt has its place. These are: the banking model, the governmental model and the agency model, see: [*Strategia zarządzania…* 2009, p. 47].

3.1. The banking model

In case of the banking model the dominant position is held by the central bank of a given state, which manages the public debt. However, there is a slight contradiction which may occur between the performed monetary policy which is a domain of the central bank, and management of the public debt. Therefore this model is very often subject to criticism. It is often emphasized that there can be a sort of instrumental approach of the central bank towards debt management. It can focus mostly on the aims of the monetary policy and be less keen on increasing the interest rates in a case of an inflation threat, or even influence the level of interest rates or increase the market's liquidity just before an auction of treasury bonds in order to obtain better prices and lower financing costs. As it is presented in many papers, in each of the above mentioned cases the realisation of the central bank's tasks is far from optimal. Also, the propositions of dividing the actions relating to performing the monetary policy and the management of public debt in different departments, together with using the tactics of so-called "Chinese Wall", can prove to be ineffective. There can be suspicions of using, in the debt management, information which is yet unknown to the market and can relate to the value of interest rates, which can lead to a decrease of trust to the issuer, and the purchasers of treasury bonds demanding additional premium for the risk.

On the other hand, those in favour of such a solution (management of debt in the central bank) point out that the central bank is the most adequate institution for such actions. The emphasis is put on better preparation of this institution for functioning on the financial market. Therefore the management of debt could be more effective.

[3] In Poland until 2010 the Strategies of Public Debt Management were referring to a three-year period, in 2011 a change took place and the Strategies are prepared for four-year periods.

[4] This relates to the status, scope of actions, internal organisational structure, and the place of the hierarchy of the institutions acting on behalf of the state.

3.2. The governmental (ministerial) model

The governmental model is based on appointing a department from the government structures which would take over actions relating to debt management. It realises most of all the actions in the scope of managing the debt and risks relating to the treasury debt, financing loan demands of the state's budget and emission of the treasury securities.

It is worth stressing that the governmental model is very effective especially in the conditions particular for "developing" economies or economies subject to transition, though it is also used elsewhere. This is because it allows the government to influence the creation of adequate legal and institutional infrastructure which is needed for the effective functioning of the financial market.

In developed stable economies in which such a model is functioning, more and more of its flaws become visible. What is most often pointed out is the risk of focusing on short-term budget objectives rather than on long-term objectives of public debt management, which can lead to an increase of both the risk linked to the debt's structure and the long-run costs of the debt's servicing. Furthermore one can come across a situation of an insufficient elasticity and the possibility of reacting quickly to the changes of market conditions (which is particularly important in cases of using derivatives in debt management), which can be a result of a significant level of bureaucratisation of administrative structures. There can also be severe difficulties relating to obtaining and keeping adequate specialists, which is a result of relatively uncompetitive work conditions in public administration, as opposed to companies in the financial sector (banks, investment funds, investment funds societies, and similar financial institutions).

3.3. The agency (institutional) model

The agency model is dominant in the member states of the European Union. The concept "agency" is, however, a certain generalisation. The specialised institutions which handle debt management in various EU states differ significantly when it comes to the scope of their actions and the level of institutional independence. Their common feature is the high level of autonomy when it comes to deciding on the means of realisation of the tasks they are ordered to fulfil. Among the advantages of passing the debt management onto a specialised institution the ones most often named are [*Strategia zarządzania…* 2009, p. 47]:

- Possibility of choosing the optimal solutions and realisation of long-term debt management objectives.
- Assuring a greater transparency of debt management.
- Need of preparing procedures which allow taking swift decisions regarding market transactions.
- Possibility of obtaining and keeping high-class specialists in a given area.

Surely the task of an agency is to realise the guidelines of the government, often the Ministry of Finance, and its actions are subject to auditing. Because of that it is needed to prepare adequate legislative and organisational solutions which assure a good cooperation of the Ministry of Finance and the agency.

In the year 2011, out of the 27 EU member states, the agency model was used in 14 (10 out of 17 euro-zone states). Those issues are presented in Table 2.

Table 2. Models of public debt management institutions in Poland and other states of the European Union

States	State	Model
Euro-zone states	Austria	Agency
	Belgium	
	Finland	
	France	
	The Netherlands	
	Ireland	
	Malta	
	Germany	
	Portugal	
	Slovakia	
	Cyprus	Banking
	Estonia	Governmental
	Greece	
	Spain	
	Luxemburg	
	Slovenia	
	Italy	
Other EU Member States	Latvia	Agency
	Sweden	
	Hungary	
	United Kingdom	
	Dania	Banking
	Bulgaria	Governmental
	Czech Republic	
	Lithuania	
	Poland	
	Romania	

Source: author's own study based on: Strategia zarządzania długiem…, p. 48.

Poland has a typical governmental (ministerial) model of managing the public debt. The methodology of calculating the public debt, which is regulated by a legal act, causes that the area of managerial tasks includes not only the typical positions such as: national debt, foreign debt, management of liquidity and due amounts, but also the so-called potential debt, i.e. sureties and governmental guarantees. At present the structure of the Ministry of Finance divides each of the tasks between specialised departments, e.g. the Department of Public Debt[5] and the Department of Sureties and Guarantees.[6] However, it is the first one which deals strictly speaking with the tasks relating to managing the public debt.

The basic factor which limits the possibilities of introducing a separate public debt management institution in Poland (outside of the governmental structures) seems to be the high level of politicising of the actions of the present mangers. Due to this fact there is a weak realisation of the basic objectives of public debt management, i.e. keeping the debt at a steady level and minimising the costs of its servicing. Despite clear declarations in the subsequent strategies the execution of those objectives is limited by annual changes of governmental plans. What can also be observed is the *ad hoc* approach to debt management and short-term actions taken mostly by rating agencies in order not to allow for the rating to decrease. This is an issue not only in Poland, but in most of the European Union member states, including the ones in the euro-zone.

Furthermore, we are facing the lack of awareness as to the specificity and the high-level of specialisation of managerial operations made by separate non-public institutions (agencies). In the subject literature it was very often underlined that despite many analyses and postulates of various groups of stakeholders, subsequent governments did not relate to this matter. What also has no influence on the change of the government's mindset is very often the problem of a significant public debt and the increase of its service expenditures in Poland, and through that – a threat of the public finance crisis, see [Gołębiowski, Marchewka-Bartkowiak 2005, p. 4].

4. Actions taken as a part of the debt management strategy in Poland

Analysing the actions taken as a part of the subsequent strategies of public debt management it needs to be emphasised that in the whole examined period the basic market of financing the loan demands of the Treasury was the national market. The offered instruments on the national market were shaped in such a way that the supplies in the given segments of the profitability curve would not cause an excessive increase of their profitability. The issues on foreign markets were especially required to:

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[5] In Poland the Department of Public Debt is realising the actions in the area of debt management and managing the risk related to servicing the Treasury's debt, financing loan demands of the Treasury and issuing of securities on national and foreign markets.

See:http://www.mofnet.gov.pl/dokument.php?const=1&dzial=9&id=125&typ=news (20.01.2012).

[6] In Poland this department realises tasks in the areas of sureties and the guaranties of the Treasury, few particular legal entities, the *Bank Gospodarstwa Krajowego* as a part of governmental programmes and loans from the national budget for local authorities as a part of corrective and preventative actions. See: http://www.mofnet.gov.pl/dokument.php?const=1&dzial=9&id=131&typ=news (20.01.2012).

- Consider the loan needs of the Treasury in foreign currencies.
- Strengthen Poland's position of the euro market.
- Assure Poland's access to the base of investors present on other main financial markets.
- Have a stabilising function for the national market.
- Influence the national financial market in the smallest possible way, especially regarding the value of exchange rates.
- Consider the possibility of selling and purchasing of currencies in the National Bank of Poland.

Management of public debt is therefore of significant importance for both the economy and the public finances of a given state.

5. Conclusion

The public debt is a liability of public institutions and is an effect of increasing loan demands of the public sector. Due to the fact that financing those needs can be obtained by using various instruments we are facing their varied impact on the public debt. The practice shows that the most often used instruments are treasury bonds with various maturity times. Therefore it is necessary to manage the debt in subsequent periods. This is of extreme importance to the economy and public finances of a given state. The high level of debt of European member states is mainly due to the policy of excessive deficits, especially over the last few years. In addition to that, the financial crisis (2008-2010) took part in significant deterioration of financial situations in the EU member states. The participation of the public sector debt of the euro-zone states in the last years was as much as 80% of the overall public debt. Out of the EU states the greatest debt is among four states, namely: Germany, Italy, France and the United Kingdom. The debt of those states in 2010 was almost 70% of the overall public debt.

European states differ when it comes to their debt level and also the models of managing the public debt functioning in them. Some of the states use the governmental model, only a few – the banking model, yet in the most states (14) the dominating model is the agency model.

Taking into account the arguments for and against functioning of a given model of public debt management institutions it can be stated that the most effective model may be the agency one, in which the management of public debt is handled by an independent institution.

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MODEL INSTYTUCJI ZARZĄDZANIA DŁUGIEM PUBLICZNYM W POLSCE NA TLE MODELI FUNKCJONUJĄCYCH W UNII EUROPEJSKIEJ

Streszczenie: Dług publiczny zawsze stanowił temat do dyskusji nad koniecznością utrzymywania większej dyscypliny finansów publicznych. W ostatnich latach problem ten nabrał szerszego znaczenia. Kryzys finansowy, w tym kryzys finansów publicznych, przyczynił się do wzmożonego przyrostu długu publicznego w większości krajów UE. Być może problem tkwi nie tylko w braku dyscypliny finansów publicznych, ale także w funkcjonujących modelach zarządzania długiem publicznym. W artykule przedstawiono kształtowanie się długu publicznego w pierwszej dekadzie obecnego stulecia wraz z charakterystyką funkcjonujących modeli instytucji zarządzania długiem publicznym w Polsce i w krajach UE.

Słowa kluczowe: dług publiczny, model instytucji zarządzania długiem publicznym, Unia Europejska.