THE STATE TREASURY OF

THE REPUBLIC OF POLAND

Represented by

THE MINISTER OF FINANCE

€750,000,000

5.5 per cent. Notes due 2011

Issue Price: 98.95 per cent.

The €750,000,000 5.5 per cent. Notes due 2011 (the "**Notes**") of the State Treasury of the Republic of Poland represented by the Minister of Finance ("**Poland**" or the "**Republic**") will, unless previously redeemed or cancelled, be redeemed at their principal amount on 14 February 2011. See "Terms and Conditions of the Notes – Redemption and Purchase".

The Notes will bear interest from 12 February 2001 at the rate of 5.5 per cent. per annum payable annually in arrear on 14 February each year. The first payment of interest will be made on 14 February 2002 for the period from and including 12 February 2001 to but excluding 14 February 2002. Payments on the Notes will be made in euro without deduction for or on account of any Polish withholding taxes and the Republic will pay additional amounts in respect of such taxes as described under "**Terms and Conditions of the Notes – Taxation**".

Application has been made to list the Notes on the Luxembourg Stock Exchange and an application will be made to list the Notes on the Frankfurt Stock Exchange.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denominations of €1,000, €10,000 and €100,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 12 February 2001 (the "**Closing Date**") with Clearstream Banking AG, Frankfurt am Main ("**CBF**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

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UBM-UNICREDIT BANCA MOBILIARE **UBS WARBURG**

Offering Circular dated 8 February 2001

The Republic, having made all reasonable enquiries, confirms that this Offering Circular contains all information regarding the Republic and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; and this Offering Circular does not omit to state any material fact necessary to make such information not misleading in any material respect. The Republic accepts responsibility for the information contained in this document.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or political) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "Subscription and Sale".

In this Offering Circular, unless otherwise specified, references to "U.S. dollars", "dollars" and "U.S.$" are to the lawful currency for the time being of the United States of America, references to "zloty" and "PLN" are to the lawful currency for the time being of the Republic of Poland and references to "€" or "euro" are to the single currency introduced in the member states of the European Community which adopted such single currency at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union. Translations of amounts from zloty to U.S. dollars or euro are solely for the convenience of the reader and, unless otherwise stated, are made at year end exchange rates. No representation is made that zloty, U.S. dollar or euro amounts referred to herein could have been or could be converted into dollars, euros or zloty, as the case may be, at any particular rate at all. The National Bank of Poland's foreign exchange rate for U.S. dollars on 2 February 2001 was PLN 4.0205 = U.S.$1.00, whilst the National Bank of Poland's foreign exchange rate for euro on the same date was PLN 3.7795 = €1.00.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years.

The Republic is party to the 1958 New York Convention on recognition and enforcement of arbitration awards and the 1988 Lugano Convention on jurisdiction and enforcement of judgements in civil and commercial matters (together the "Conventions"); the foreign arbitration awards and foreign court judgement made in the countries party to the respective Conventions are generally recognised and enforceable in the Republic provided that the conditions of enforcement set out in the respective Conventions are met (subject to the exceptions concerning judgements relating to the lease of real property made in the Republic's ratification document in relation to the Lugano Convention). Foreign court judgements made in the countries which are not party to the Lugano Convention are enforceable in the Republic only: (a) if their enforceability is envisaged in a relevant international treaty (bilateral or multilateral) to which the Republic of Poland is a party, or (b) on the condition of reciprocity, and provided that certain further conditions are satisfied.

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Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with this issue, Deutsche Bank AG London may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each note in definitive form:

The €750,000,000 5.5 per cent. Notes due 2011 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 and forming a single series therewith) of the State Treasury of the Republic of Poland represented by the Minister of Finance (the "**Republic**") are the subject of a fiscal agency agreement dated 12 February 2001 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between Deutsche Bank AG London as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are in bearer form in the denominations of €1,000, €10,000 and €100,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes will pass by delivery. The holder of any Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Notes constitute direct, general and unconditional obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of all the Republic's other obligations under the Notes. The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic, save only for any obligation which may be preferred by mandatory provisions of applicable law.

3. Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Republic shall not, and shall not permit (to the extent the Republic has the power to refuse such permission) any Agency to, create or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon any of the Republic's assets or revenues, present or future, to secure any Public External Indebtedness of the Republic or of any other Person or any guarantee or indemnity of the Republic in respect of Public External Indebtedness of any other Person unless, at the same time or prior thereto, the Republic's obligations under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of Noteholders.

In these Conditions:

"**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic of Poland or the government thereof (whether or not such statutory corporation is autonomous) and any corporation or other entity (but not any commercial corporation or other commercial entity) which is directly or indirectly controlled (whether by reason of whole or partial ownership, control over voting or other relevant decision making power to direct management, the composition of management or otherwise) by the Republic of Poland or the government thereof and/or one or more Agencies.

"**Permitted Security Interest**" means:

(i) any Security Interest which secures the Republic's U.S.$934.67 million Collateralised Par Bonds due 2024 and U.S.$891.07 million Collateralised RSTA Bonds due 2024 each issued (in part) on 27 October 1994 and which is either existing on the date hereof or contemplated by the terms of such bonds;or

(ii) any Security Interest upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or

(iii) any Security Interest existing on property at the time of its acquisition; or

(iv) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or

(v) any Security Interest securing or providing for the payment of Public External Indebtedness incurred in connection with any Project Financing provided that such Security Interest applies to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties; or

(vi) the renewal or extension of any Security Interest described in subparagraphs (i) to (v) above, provided that the principal amount of the Public External Indebtedness secured thereby is not increased.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other jurisdiction or entity, including, without limitation, state or agency of a state or other entity, whether or not having separate legal personality.

"**Project Financing**" means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and the revenues (including insurance proceeds) generated by such project.

"**Public External Indebtedness**" means any obligation for borrowed money (A) evidenced by bonds, notes or other securities which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market and (B) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Republic.

"**Security Interest**" means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of the Republic or any other type of preferential arrangement having similar effect over any assets or revenues of the Republic.

4. Interest

The Notes bear interest from 12 February 2001 (the "**Issue Date**") at the rate of 5.5 per cent. per annum, payable in arrear on 14 February in each year (each an "**Interest Payment Date**"), subject as provided in Condition 6. The first Interest Payment Date will be 14 February 2002 (for the period from and including 12 February 2001 to but excluding 14 February 2002).

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (as well after as before judgment) up to, but excluding, whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

If interest is to be calculated for a period other than a year it will be calculated on the following basis:

(i) If the relevant period is equal to or shorter than the Determination Period during which it falls, the basis will be the number of days in the relevant period divided by the number of days in such Determination Period; and

(ii) If the relevant period is longer than one Determination Period, the basis will be the sum of:

  (A) the number of days in the relevant period falling in the Determination Period in which it begins divided by the number of days in such Determination Period; and

  (B) the number of days in the relevant period falling in the next Determination Period divided by the number of days in such Determination Period,

where "**Determination Period**" means the period from and including 14 February in any year to but excluding the next 14 February and the number of days in any period is calculated from and including the first day in such period to but excluding the last day in such period.

5. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 14 February 2011, subject as provided in Condition 6.

(b) *Purchase and Cancellation:* The Republic and its Agencies may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any Notes so purchased, while held by or on behalf of the Republic or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so cancelled will not be reissued.

(c) *Notification:* Following any such redemption or cancellation, the Republic will promptly notify the Luxembourg Stock Exchange or any other stock exchange where Notes are listed if such exchange so requires of the amount of Notes so redeemed and/or cancelled and of the amount of Notes outstanding following such redemption and/or cancellation.

6. Payments

(a) *Principal and Interest:* Payments of principal and interest shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States in euro by cheque drawn on, or by transfer to an account to which euro may be credited or transferred specified by the payee. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and surrender of the relevant Note.

(b) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) *Deduction for unmatured Coupons:* If a Note is presented without all unmatured Coupons relating thereto, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the principal amount of such Note, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the principal amount of such Note. Each sum of principal so deducted shall be paid in the manner provided in Condition 6(a) against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(d) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a euro account as referred to above, on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System or any successor thereto is operating.

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. In that event, the Republic shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by a holder which is liable to such Taxes in respect of such Note or Coupon by reason of its having some connection with the Republic of Poland other than the mere holding of such Note or Coupon; or

(b) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent as provided in the Fiscal Agency Agreement on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7.

8. Events of Default

If any of the following events occurs and is continuing:

(a) any amount of interest in respect of the Notes is not paid within 30 days of the due date for payment thereof; or

(b) the Republic fails duly to perform or observe any of its material obligations under or in respect of the Notes which failure continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Republic at the Specified Office of the Fiscal Agent; or

(c) (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public External Indebtedness of the Republic, (ii) the Republic defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable, and such default continues for more than the period of grace, if any, originally applicable thereto or (iii) the Republic defaults in the payment when due and called upon (after the expiry of the period of grace, if any, originally applicable thereto) of any guarantee or indemnity of the Republic in respect of any Public External Indebtedness of any other Person; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.$50,000,000 or its equivalent; or

(d) a moratorium on the payment of principal of, or interest on the Public External Indebtedness of the Republic is declared by the Republic; or

(e) the Republic ceases to be a member of the International Monetary Fund ("**IMF**") or to be eligible to use the general resources of the IMF and such situation continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Republic at the Specified Office of the Fiscal Agent; or

(f) the validity of the Notes is contested by the Republic or the Republic shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it shall be or become unlawful for the Republic to perform or comply with all or any of its obligations set out in the Notes or any such obligations shall be or become unenforceable or invalid, in each case as a result of any law or regulation in the Republic or any ruling of any court in the Republic whose decision is final and unappealable;

then (i) in the case of an event referred to in (a) or (d) above, any Noteholder may, by notice in writing to the Republic at the Specified Office of the Fiscal Agent, declare such Note to be immediately due and payable and (ii) in the case of any event referred to in (b), (c), (e) or (f) above, the Fiscal Agent shall, upon receipt of written requests to the Republic at the specified office of the Fiscal Agent from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Notes, declare the Notes due and payable, in each case at their principal amount together with accrued interest without further formality. After any such declaration by the Fiscal Agent, if all amounts then due with respect to the Notes are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Notes are cured, such declaration may be annulled and rescinded by Noteholders holding not less than 50 per cent. in aggregate outstanding principal amount of the Notes (the "**Required Percentage**") by a written notice thereof to the Republic at the Specified Office of the Fiscal Agent or by the passing of a resolution by Noteholders holding not less than the Required Percentage.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Paying Agents

In acting under the Fiscal Agency Agreement and in connection with the Notes and Coupons, the Paying Agents act solely as agents of the Republic and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Republic reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however, that* the Republic shall at all times maintain a paying agent in Luxembourg (which may be the Fiscal Agent) and so long as the Notes are listed on the Frankfurt Stock Exchange and applicable laws and listing rules so require, a paying agent in Germany, and a fiscal agent and, in the event of the Proposed EU Withholding Tax Directive (as defined in the Fiscal Agency Agreement) being adopted, a paying agent outside the European Union. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 below.

12. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders:* The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Republic and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

(b) *Modification:* The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Republic shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13. Further Issues

The Republic may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14. Notices

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe; provided, however, that as long as the Notes are listed on the Frankfurt Stock Exchange, notices shall be published in at least one leading daily newspaper designated by the Frankfurt Stock Exchange for such notices. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. Currency Indemnity

If any sum due from the Republic in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from euro into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Republic, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Republic shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from euro into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase euro with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Republic and shall give rise to a separate and independent cause of action.

16. Governing Law

The Notes are governed by, and shall be construed in accordance with, English law.

17. Arbitration

(a) *Arbitration:* The Republic agrees that, in relation to any claim by any Noteholder in respect of any dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a dispute or difference as to the breach, existence or validity of the Notes) (each a "**Dispute**"), such Noteholder may elect, by notice in writing to the Republic to settle such claim by arbitration in accordance with the provisions of Condition 17(a).

(b) *London Court of International Arbitration Rules:* The Republic hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the London Court of International Arbitration Rules (the "**Rules**") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English.

(c) *Written Notice:* In the absence of any written notice as contemplated by Condition 17(a), the provisions of Condition 18 shall apply.

18. Jurisdiction

(a) *Jurisdiction:* The Republic agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings which may arise out of or in connection with the Notes ("**Proceedings**") and to settle any Disputes and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(b) *Appropriate forum:* The Republic irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

(c) *Service of process:* The Republic irrevocably appoints Fleetside Legal Representative Services Limited, 9 Cheapside, London EC2V 6AD, England as its authorised agent for the service of process in England. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(d) *Non-exclusivity:* The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) *Consent to enforcement etc:* For the purposes of the State Immunity Act 1978, the Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

(f) *Waiver of immunity:* To the extent that the Republic may in any jurisdiction claim for itself or its properties, assets or revenues immunity (whether sovereign, diplomatic or other) from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its properties, assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction *provided however,* that immunity is not waived in respect of present or future "premises of the mission" as such term is defined in the Vienna Covention on Diplomatic Relations signed in 1961, or "Consular premises" as such term is defined in the Vienna Convention in Consular Relations signed in 1963 or military property or military assets of the Republic related thereto.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to €739,687,500, will be used to finance the Republic's state budget borrowing requirements.

SUMMARY OF PROVISIONS
RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with CBF. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denominations of €1,000, €10,000 and €100,000 at the request of the bearer of the Permanent Global Note if (a) CBF is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce an intention permanently to cease business and no successor clearing system is available or (b) any of the circumstances described in Condition 8 occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes or (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case referred to in this sub-paragraph (b), payment in full of the amount of principal falling due together with all accrued interest thereon has not been paid to the Fiscal Agent in accordance with the Fiscal Agency Agreement on the due date for payment thereof then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 12 February 2001 (the "**Deed of Covenant**") executed by the Republic). Under the Deed of Covenant, persons shown in the records of CBF as being entitled to an interest in the Permanent Global Note will acquire directly against the Republic all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of CBF at that time.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Republic in respect of the Notes.

Notices: Notwithstanding Condition 14, while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with CBF, notices to Noteholders may be given by delivery of the relevant notice to CBF and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 on the date of delivery to CBF; *provided, however, that* so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and so long as the Notes are listed on the Frankfurt Stock Exchange, notices shall be published in at least one leading daily newspaper designated by the Frankfurt Stock Exchange for such notices.

THE REPUBLIC OF POLAND

Overview

Poland is one of the largest countries in Central Europe with a total land area of 322,577 square kilometres. Situated on the Baltic Sea, Poland has a coastline of 788 kilometres and is bordered by Germany, the Czech Republic, the Slovak Republic, the Ukraine, Belarus, Lithuania and the Russian Federation. Poland's terrain is comprised largely of lowlands, traversed by its main river, the Vistula, with lakes, rivers and marshes throughout the northern and central regions and several mountain ranges, including the Tatras, in the south. Poland has approximately 90,000 square kilometres of forest and 185,000 square kilometres of arable land.

Poland is also one of the most populous countries in Central Europe having a population estimated to be approximately 38.7 million. Population density is estimated at approximately 124 persons per square kilometre, with approximately 62 per cent. of the population living in urban areas. Warsaw, the capital of Poland and its largest city, has an estimated population of over 1.6 million. Twenty urban centres each have populations in excess of 200,000.

In Poland, education is compulsory and free for children between the ages of 7 and 18. At present, approximately 97 per cent. of children continue their education at the secondary school level. The adult literacy rate is estimated to exceed 98 per cent.

Poland is an ethnically and religiously homogeneous country. Approximately 98 per cent. of the population are ethnically Polish and speak Polish as a first language. Germans constitute the largest minority group of approximately 350,000 persons concentrated in Silesia. Smaller ethnic and national groups have cultural ties to such neighbouring states as Ukraine, Belarus and Lithuania. It is estimated that approximately 90 per cent. of the population are Roman Catholic.

Constitution, Government and Political Parties

Background

After being partitioned by Russia, Prussia and the Austro-Hungarian Empire from the late eighteenth to the early twentieth century, Poland re-emerged as an independent, democratic state after World War I. In September 1939, the German invasion of Poland commenced six years of military, social and economic devastation. At the conclusion of World War II, the Yalta and Potsdam Agreements resulted in the subordination of Poland to the Soviet Union.

For the next 45 years, the Communist Party dominated the Polish government. In 1952, Poland adopted a constitution that institutionalised a Stalinist system of de facto one-party rule by the Communist Party. Government policy during this period was guided by a programme of nationalisation of industry, expropriation of large landholdings, central planning of the economy and the suppression of political dissent. Frequent political and economic crises occurred in the 1960s and 1970s.

Solidarity, the first independent trade union in the Soviet bloc, was formed in 1980 and soon consolidated the growing popular discontent with the communist government. On 13 December 1981 in reaction to the threat of general strikes, the Government declared martial law and outlawed Solidarity. Martial law continued for 18 months until July 1983. In the following years, the Government attempted to implement incremental political liberalisation (although Solidarity remained banned) and economic austerity, but the economy continued to falter.

In April 1989, the communist government and the democratic opposition led by Solidarity agreed to a power sharing arrangement and competitive elections to a bicameral Parliament. In June 1989, the overwhelming victory of Solidarity candidates in elections for available seats in the Parliament signalled the end of the political monopoly of the Communist Party. In May 1990, local elections were held in which Solidarity achieved a similar victory. In November 1990, the first free national election for President in the post World War II era resulted in the election of Lech Walesa, who had played a historic role in the formation and leadership of Solidarity. In October 1991, the first free election for the entire Parliament was held. The last Russian troops, units of which had been stationed in Poland since the end of World War II, were withdrawn in 1993.

The Constitution and Political System

A new constitution (the "**Constitution**") was approved by Parliament in April 1997 and by a national referendum on 25 May 1997. The Constitution extends compulsory free basic education to children up to 18 years old, guarantees health care and a minimum wage, and obliges the public authorities to act to curb unemployment and stimulate housing construction. It also slightly weakens the presidency, with Parliament being able to overrule the President's veto by a three-fifths rather than the previous two-thirds majority. Under the Constitution, fascist, communist and racist political parties are banned. The Constitution also confirms the independence of the National Bank of Poland ("**NBP**"), Poland's central bank, which is charged with responsibility for maintaining the value of the national currency, and grants to the NBP the exclusive power of setting and implementing monetary policy. Under the Constitution, the government is prohibited from incurring loans or issuing guarantees or sureties as a result of which public debt would exceed three-fifths of the annual Gross Domestic Product ("**GDP**"). In addition, under the Constitution a budget act cannot provide for financing of the budget deficit by the NBP after the 1999 Budget Act. These limitations are intended to safeguard the fiscal health of the economy. Currently the Republic's public debt is well below the Constitutional limit.

Under the Constitution, a bicameral Parliament (comprising an upper chamber (the "**Senate**") and a lower chamber (the "**Sejm**")) is elected by general proportional election for a four-year term. The Sejm consists of 460 members and the Senate consists of 100 members. Generally, electoral rules for the Sejm stipulate that a minimum 5 per cent. share of the popular vote must be gained by a party (8 per cent. for party coalitions) to gain seats. All legislation must be approved by the Sejm and the Senate and signed by the President. The Sejm also has the power to overrule the Senate by a simple majority vote. The President (with the approval of the Senate) or the Sejm may call a referendum on matters of extreme importance to the country.

Under the Constitution, the President is elected by direct vote for a five-year term and may be re-elected only once. Presidential powers include the right to initiate legislation, veto certain legislative acts and, in certain instances, to dissolve Parliament. The President's power to dissolve Parliament is limited to instances where (i) the Sejm fails to present the annual budget act for the President's signature within four months following receipt thereof from the government, or (ii) the Sejm fails to pass a vote of confidence in the government following the attempts to nominate a government as specified in the Constitution. The President commands the armed forces, represents the state in its foreign relations, appoints the first and other presidents of the Supreme Court and nominates the Prime Minister and the president of the NBP, subject to approval by the Parliament. The current President, Aleksander Kwasniewski, was elected in November 1995 and re-elected in 2000. The next Presidential election will take place during the second half of 2005.

The Prime Minister is the head of the Council of Ministers and, subject to confirmation by the President, is responsible for forming the government, which is comprised of the Council of Ministers and administrative agencies.

On 1 January 1999, regional administration in Poland underwent a major reform. Poland was divided into 16 (previously 49) provinces, known as "**voivodships**", with significant self governing powers. Each voivodship is represented by a provincial governor, or "**voivode**", appointed by the government and who represents the government at a local level. A new intermediate level of local government in the form of 308 counties ("**poviats**") was also introduced in the local government reforms. The basic units of locally elected government, however, are the 2,489 "**gminas**", (including 65 cities with poviat status) which are financially autonomous. The gminas are established pursuant to a special law, and are entitled under the Constitution to exercise such powers as are not designated as powers of other public authorities. The gminas are financed by a share of national taxes and by their own revenues, such as local taxes and fees. The gminas are independent of the central government and the Prime Minister may limit their activities only to the extent in which their actions conflict with national law.

Judicial authority is vested in the Supreme Court and appellate, regional and lower courts. A separate Constitutional Tribunal has jurisdiction over all matters relating to the interpretation of the provisions of the Constitution.

Current Government and Politics

The most recent parliamentary elections were held on 21 September 1997, after which a coalition government, led by Jerzy Buzek, was formed by the Solidarity Electoral Action ("**AWS**") and the Freedom Union ("**UW**"), both right-of-centre parties. The AWS received 33.9 per cent. of the votes in the elections, whereas UW received 13.6 per cent. The AWS and UW hold 39.3 and 12.6 per cent. of the seats in the Sejm respectively. (51 and 7 per cent. of seats in the Senate respectively). After the break-up of the coalition in June 2000 UW ministers left the government and as a result from that time on Mr Buzek heads an AWS minority cabinet. Whilst there are differences between the AWS and UW over the implementation of economic reform, both parties support continued economic reform, privatisation, and the drive for European Union ("**EU**") membership. In addition, the main opposition party, the Democratic Left Alliance, has indicated that it will not oppose issues of EU integration on which it shares a common position with the government thus facilitating the government to pass some of the laws required to ensure Poland meets the EU integration criteria in a timely manner.

The following table shows a breakdown of the distribution of seats in the Sejm and the Senate as of mid January 2001.

Composition of the Sejm (by party)

	Seats
Solidarity Electoral Action (AWS)	181
Democratic Left Alliance (SLD)	161
Freedom Union (UW)	58
Polish Peasants' Party (PSL)	26
Other Parties	17
Un-Affiliated Members	17
Total	460

Composition of the Senate (by parliamentary groups)

	Seats
Solidarity Electoral Action Parliamentary Group (AWS)	50
Democratic Left Alliance Parliamentary Group (SLD)	30
Democratical Group of Senators (UW)	7
Other	7
Un-Affiliated Members	4
Total	98

Of the opposition parties with parliamentary representation, the most significant are the Democratic Left Alliance and Polish Peasants' Party, neither of which has over 36 per cent. of the vote in either chamber. The next parliamentary elections are scheduled for September 2001. According to opinion polls in January 2001, the strongest support is currently given to the Democratic Left Alliance.

International Relations

Poland is a founding member of the United Nations, belongs to most international organisations and maintains diplomatic relations with 173 countries. In 1967, Poland joined the General Agreement on Tariffs and Trade ("**GATT**") and is a member of the World Trade Organisation ("**WTO**"), the successor to GATT. In 1986, Poland rejoined the International Bank for Reconstruction and Development (the "**World Bank**") and the International Monetary Fund (the "**IMF**"), having withdrawn its original memberships in 1950. Poland is also a member of the International Finance Corporation (the "**IFC**") and was a founding member of the European Bank for Reconstruction and Development (the "**EBRD**"). In 1996, Poland was accepted for full membership in the Organisation for Economic Co-operation and Development ("**OECD**").

In December 1991, Poland signed a "Europe Agreement" with the European Communities, now the EU, establishing a trade and political association between Poland and the EU. The Europe Agreement became fully effective in 1994. On 8 April 1994, Poland submitted a formal application for full EU membership. The timing of Poland's accession to the EU will depend on the assessment by the EU of Poland's compliance with certain economic, political and social criteria as well as the approval by all EU member states. Poland has established a Committee for European Integration led by the Prime Minister which is co-ordinating the progress being made to adapt Poland's legislation and structures to applicable EU directives and is co-operating closely with the Ministries responsible for formulating the proposals for such legislation and structures. At present, Poland has already made significant progress on the road to full membership of the European Union, mostly due to a special procedure of harmonisation of Polish law with the *acquis communautaire*, approved by all political powers. A Commission for European Law has been established in the Polish Sejm. It has made a significant impact on the pace of passing legal acts referring to Polish efforts to reach compliance with the *acquis*. At present, accession negotiations have been provisionally closed on 13 chapters out of total number of 29 chapters that have been opened. The Polish government has targeted 1 January 2003 as the date of Polish entry to the European Union. In order to achieve this goal Poland and the European Union have agreed to conclude negotiations in all chapters by mid-2002. Poland is likely to be included in the first wave of the forthcoming EU enlargement.

The 2000 annual report of the EU Commission published in November 2000 indicates that Poland is a functioning market economy and it should be able to cope with competitive pressure and market forces within the EU in the near term. The EU report emphasises that Poland has maintained adequate macroeconomic stability. Its growth performance has again been impressive and the pace of privatisation has been encouraging (there has been further restructuring in sensitive sectors, such as the coal and defence industries, as well), although there are some delays in the steel sector and restructuring of agriculture.

Considerable progress has been achieved in industrial policy, justice and home affairs, adopting legislation in key areas of the internal market *acquis*, standards, certification and state aid. The Commission has highlighted the need to continue efforts towards ensuring medium-term fiscal sustainability.

Poland's Europe Agreement does not require a certain timetable to be met by Poland for compliance with EU environmental directives. In addition there are certain positions which the Republic has requested transitional periods to be implemented after EU accession. These include the acceptance by the EU of the recently enacted law banning farm and building land sales to non-Polish persons or companies and a six year ban on purchases of land used for industrial purposes, both following the Republic's accession to the EU. In the negotiations on its agricultural position, the Republic has not requested any exemption from the major principles of the EU's Common Agricultural Policy ("**CAP**"). However, despite the EU's Agenda 2000 suggesting that direct compensatory rights will not be enlarged to cover new Eastern European members, in accordance with the provisions of the *acquis communautaire*, the Republic has submitted its position on agriculture on the basis that the benefit of all current CAP rights, including direct compensatory aid for farmers, should be applied in Poland. Short transitional periods for the transport sector to allow restructuring of privatised previously state-run transport services have also been requested. To date some requests for transitional measures have been examined favourably by the Commission, including those in the financial services sector. Acceptance of these types of requests has already advanced negotiations in certain chapters, and will have a positive impact on rapid closure of negotiations in remaining chapters

In November 1992, Poland signed an agreement on free trade with the member countries of the European Free Trade Association ("**EFTA**"). From 2001, according to this agreement, Poland removed tariff barriers for almost all industrial goods from EFTA Countries.

In March 1993, Poland was among the founding members of the Central European Free Trade Association ("**CEFTA**"), which currently includes Poland, Bulgaria, Hungary, the Czech Republic, Romania, Slovenia and the Slovak Republic. The underlying Central European Free Trade Agreement consists of a series of bilateral trade agreements and provides for the establishment of a free trade zone among CEFTA member countries by 2001. The gradual elimination of almost all tariff and non-tariff barriers for almost all industrial products was achieved in 1996.

On 12 March 1999, Poland became a member of the North Atlantic Treaty Organisation ("**NATO**").

THE ECONOMY

Background

On 1 January 1990, the first post-communist government introduced the economic reform programme known as the "Economic Transformation Programme" or the "Balcerowicz Plan" after the first post-communist Deputy Prime Minister and Minister of Finance. This radical economic reform programme was designed to stabilise the economy and promote structural reforms. Key elements included drastic reductions of state subsidies to state enterprises, elimination of administrative controls on most prices, introduction of limited convertibility of the zloty and opening the economy to external competition.

Between 1990 and 1991, the economy adjusted following the introduction of new institutions and regulations as a consequence of such reforms. This period was characterised by a sharp fall in GDP and a sharp rise in unemployment. 1992 to 1995 saw an improvement in the economy with inflation falling in each year and GDP growth accelerating from 2.6 per cent. in 1992 to 7 per cent. in 1995. Poland became the first country in the region to exceed the GDP levels that existed prior to the post-communist reforms with a peak in 1995 (7 per cent.) and an average of more than 5 per cent. between 1992 and 1998. The GDP growth in 1998 was 4.8 per cent. The year 1999 saw some slow-down in the Polish economy, mainly as a result of external factors, with headline inflation in December reaching 9.8 per cent. (with an annual average rate of inflation for 1999 of 7.3 per cent.). In 1999 GDP growth fell to 4.1 per cent., and remained at 4.1 per cent. in 2000.

Nine years of post-communist reforms have resulted in deep structural changes in the economy. The most striking change has been the development of the private sector. Since 1990, the contribution of the private sector to production and employment has significantly increased, due both to the growth of newly established private enterprises and to the government's programme of privatisation of state-owned assets and enterprises. Prior to 1990, the private sector accounted for less than one quarter of GDP and was largely concentrated in agriculture, services and small-scale manufacturing. Since then, the private sector has grown substantially. In 2000 employment in the private sector accounted for 72.3 per cent. of the workforce, producing approximately 2/3 of GDP.

In the course of 1998 and 1999 Poland experienced a volatile rate of inflation. However, since the beginning of the third quarter of 2000 inflationary pressure eased and inflation dropped from 11.6 per cent. at the end of July to 8.5 per cent. at the end of December.

Poland has successfully weathered consecutive external shocks during the same period. The first was the dissolution of the Council for Mutual Economic Assistance ("**COMECON**") in 1991, which resulted in a one-year contraction of GDP and a complete reorientation of Poland's trade from eastern to western markets. Whilst the South-Asian crisis in 1997 had no significant impact on the economy, this was followed by the Russian crisis in August 1998 which is estimated to have cost Poland between 1.5 per cent. to 2 per cent. of GDP in that year. Despite these events and a slower rate of overall growth in 1999 and 2000 Poland has remained among the fastest growing economies in Europe.

As a general principle, the Polish government considers it to be inappropriate that the government should own and manage businesses. The primary goal of the privatisation of state and local government properties is therefore to reduce the role of the government in the Polish economy and to create a favourable environment for private capital. In April 1999, the Finance Ministry put forward a "strategy of public finance and development for 2000-2010", the objective of the strategy being economic growth and the reduction of unemployment. The strategy indicates a preference for completing the privatisation process and the lowering of public expenditure and taxation. In the "active" scenario (adopted by the government) under the strategy, the share of public spending in GDP will be cut to 33-35 per cent. from the level of 42 per cent. in 2000.

Recent Economic Performance

GDP

Real GDP grew by 4.1 per cent. in 1999. GDP growth slowed in the fourth quarter of 1998 and the first quarter of 1999 in response to a sharp contraction of demand from Russia and lower than expected economic growth in the EU (particularly in Germany). Both of these external factors influenced the GDP performance in the first quarter of 1999, when GDP grew by only 1.5 per cent. In addition, the government implemented significant reforms in the public sector (administration, pensions, healthcare and education) in the same period (see "Public Finance – Social Expenditures"). These reforms, which were as comprehensive and wide-ranging as the stabilisation package introduced in Poland at the beginning of the 1990's, also had an impact on economic growth. However, in the second quarter, GDP growth accelerated to 3 per cent. and further accelerated to 5 per cent. and 7 per cent. in the third and fourth quarters, respectively. In the course of 2000, due to very tight monetary conditions, GDP growth started to slow. Real growth dropped from 6 per cent. in the first quarter to 3.3 per cent. in the third quarter. According to preliminary estimates GDP growth in 2000 reached 4.1 per cent.

The following table sets out nominal and real GDP during the years 1995 to 2000.

Gross Domestic Product

	1995	1996	1997	1998	1999	2000[1]
Nominal GDP (in PLN billions)	308.1	387.8	472.4	553.6	615.6	690.4
U.S.$ equivalent (in billions)	127.1	143.8	144.0	158.4	155.2	158.8
Real GDP growth (per cent.)	7.0	6.0	6.8	4.8	4.1	4.1
Per capita GDP (PLN)	7,980	10,037	12,218	14,304	15,875	17,769
U.S.$ equivalent	3,292	3,722	3,724	4,094	4,001	4,088
PLN/U.S.$ Exchange Rate (average)	2.4244	2.6965	3.2808	3.4937	3.9675	4.3464

Source: Central Statistical Office and Ministry of Finance

Notes:

(1) Estimates

Inflation

Since 1990, the year-on-year inflation rate measured by the consumer price index ("**CPI**") has been gradually declining from almost 250 per cent. in 1990 to 8.6 per cent. in 1998, reaching its lowest rate in February 1999 (5.6 per cent.). The National Bank of Poland's ("**NBP**") inflation target for 1999 was between 8 per cent. and 8.5 per cent. In late 1999, inflation began to rise reaching 9.8 per cent. in December 1999 fuelled by increases in food and fuel prices. However, average yearly inflation fell from 11.8 per cent. in 1998 to 7.3 per cent. in 1999. Inflation continued to rise in the first half of 2000 before declining gradually during the remainder of 2000. Year-on-year CPI amounted to 8.5 per cent. and to 10.1 per cent. on average in the year 2000. The Monetary Policy Council ("**MPC**") inflation target ranges for the years 2000 and 2001 were 5.4 – 6.8 and 6 – 8 per cent. respectively. The year-on-year annual increase in the producer price index ("**PPI**") decreased from approximately 193 per cent. in 1990 to 4.8 per cent. in 1998, reaching its lowest rate in February 1999 (3.7 per cent.). In the second half of 1999 the PPI began to rise reaching 8.1 per cent. in December 1999 and declining to 6.7 per cent. in November 2000. An anti-inflationary policy has always been a core policy of the stabilization programme in Poland. In September 1998 the NBP also adopted a "Medium Term Strategy in Monetary Policy 1999-2003" where a direct inflation target below 4 per cent., to be achieved by 2003, was set. At the beginning of 2000 inflation, driven mainly by rising agricultural and oil prices, was still increasing, reaching its peak in July with 11.6 per cent. Then inflation started to decrease and the CPI went down to 8.5 per cent. at the end of December 2000.

The following table shows the year-on-year rates of CPI and PPI in the period from 31 December 1996 to 31 December 2000.

	Twelve months ended 31 December				
	1996	**1997**	**1998**	**1999**	**2000**
			(in per cent.)		
Consumer Prices (CPI)	18.5	13.2	8.6	9.8	8.5
CPI (yearly average)	19.9	14.9	11.8	7.3	10.1
Produce Prices (PPI)[(1)]	11.2	11.5	4.8	8.1	6.7[(2)]

Notes:

(1) From 1996 "basic prices" that is prices decreased by tax on the product and increased by subsidies related to the particular product.

(2) November 2000 (December 1999=100).

Source: Central Statistical Office

Wages

The following table shows the percentage change in nominal and real wages during the years 1995 to 1999 (data for 2000 is still not available).

	Nominal and Real Net Wages[(1)(4)]				
	1995	**1996**	**1997**	**1998**	**1999[(3)]**
			(in per cent.)		
All Sectors:					
Nominal Wages	31.8	26.7	23.5	17.0	12.5
Real Wages	3.0	5.7	7.3	4.5	4.7
Enterprise Sector:[(2)]					
Nominal Wages	32.3	27.0	22.9	17.4	10.6
Real Wages	3.4	5.9	6.8	4.8	3.0

Notes:

(1) Net of taxes.

(2) Includes those units which carry out economic activities in forestry, logging and related service activities, sea fishing, mining, quarrying, manufacturing, electricity, gas, steam and hot water supply, construction, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communication, real estate activities, renting and business activities, sewage and refuse disposal, sanitation and similar activities, recreational, cultural and sporting activities and other service activities.

(3) Figures for 1999 are gross.

(4) In the period January – September 2000 nominal wages increased by 11.2 per cent. (all sectors) and 10.2 per cent. (enterprise sector).

Source: Central Statistical Office

Since 1995 real wages have increased at nearly the same level as real GDP, whilst productivity has been improving gradually. Since January 1995, a new law on wage negotiations has replaced a "penalty tax" wage policy with a consensus-based approach based upon negotiations between labour and management, and guided by indicative norms set by a tripartite commission of representatives of government, labour and employers. This commission sets annual levels for permissible increases in nominal wages for employees of state-owned enterprises. These limits were 27 per cent. in 1995, 21.8 per cent. in 1996, 17 per cent. in 1997, 12.5 per cent. in 1998 and 10.5 per cent. in 1999. For the years 2000 and 2001, the limits were set at 6.8 per cent. and 9.2 per cent. respectively.

Employment

Before 1989, unemployment was not officially recognised in Poland for political reasons, and over-employment was evident in many enterprises. Registered unemployment levels peaked in the first quarter of 1994 at 16.7 per cent. The unemployment rate fell from 16.4 per cent. in 1993 to 10.4 per cent. at the end of 1998 before rising to 13.1 per cent. in December 1999 and 15 in December 2000. The rise in 2000 was mainly attributed to slower growth, demographic effects, ongoing restructuring of industry and to the increased willingness of people to register as unemployed resulting from the increased benefits in the health system reforms implemented at the beginning of 1999 (see "Public Finance – Social Expenditure – Health Service Reform").

The following table shows the year-end unemployment rate in Poland for each of the years from 1995 through 2000.

Unemployment

1995	1996	1997	1998	1999	2000
(end of year in per cent.)					
14.9	13.2	10.3	10.4	13.1	15

Source: Central Statistical Office

The following table shows the employment in Poland by major sector in the years 1995 to 1999.

Employment by Major Sector(1)
(in thousands)

	1995	1996	1997(2)	1998(2)	1999(2)
Agriculture, hunting and forestry	4,194	4,359	4,365	4,344	4,322
Fishing	14	13	13	12	12
Industry	3,729	3,757	3,761	3,650	3,427
Construction	827	869	948	938	915
Trade and repair	1,903	1,900	2,061	2,106	2,094
Hotels and restaurants	186	188	202	222	216
Transport, storage and communication	838	832	865	859	838
Financial intermediation	268	286	305	327	389
Real estate and business activities	554	594	688	752	776
Public administration and defence	381	403	432	431	440
Education	896	912	902	908	908
Health and social work	1,003	1,010	1,029	1,021	967
Other community, social and personal service activities	335	365	371	350	388
Employment Total	15,129	15,487	15,941	15,921	15,692

Notes:

(1) Excluding budgetary entities conducting activity within the scope of national defence and public safety.

(2) As of 30 September.

Source: Central Statistical Office

Strikes, a frequent form of political and economic protest in the 1980s, have changed in nature and frequency during recent years. The number of strikes in Poland decreased from 6,351 in 1992 to 920 in 1999. The number of working days lost through strikes also declined from 2,360,392 in 1992 to 106,893 in 1999. The sharp decline in the number of strikes during the period 1992 to 1999 was, among other things, a consequence of the overall improved performance of the economy. However, in 2000 there were a few spectacular strikes, for instance a nurses' strike.

The Privatisation Process

General

Since 1990, successive Polish governments have pursued an extensive ownership transformation programme. As a result of the continued privatisation process, the number of state enterprises decreased from 8,453 in 1990 to only 2,268 as of December 2000 (source: the Central Statistical Office). A considerable number of the remaining state enterprises are in the process of being privatised, wound up, or are involved in recovery or bankruptcy procedures.

The primary methods for the transfer of state-owned enterprises and assets to private ownership used in Poland are discussed below:

Direct Privatisation

Direct privatisation involves the sale, contribution to a joint venture or long-term finance lease (including purchase payments over ten years) of the assets of a state enterprise.

By the end of November 2000, the Ministry of the State Treasury had accepted privatisation projects involving direct privatisation in relation to 1,994 state enterprises. In the period from January 2000 until the end of November 2000, this method covered 147 entities. In quantitative terms, direct privatisation still remains the most effective method of privatisation. In respect of the privatisation processes in progress (i.e. accepted by the Ministry of the State Treasury), 92.5 per cent. were completed by the end of November 2000 and 1,844 state enterprises have been deleted from the register of state enterprises (117 of these were deleted in the period from January to the end of November 2000). As of 30 November 2000, revenues for the State from the direct privatisation amounted to PLN 0.5 billion. When this method is used, then at the end of the privatisation process all assets of a state-owned enterprise are distributed to private owners and the State does not retain any residual assets or shares.

Capital Privatisation

Capital (or indirect) privatisation involves the transformation of a state enterprise into a joint stock company owned by the State Treasury and administered by the Ministry of the State Treasury. The next stage involves the transfer of the shares of such company by public offer or negotiated sale and is organised by the Ministry of the State Treasury.

Out of the 1,498 enterprises accepted for privatisation in this way, 282 companies had been commercialised by means of capital privatisation by the end of November 2000 and the shares were disbursed to external investors. Of these 282 companies, 20 were privatised between January 2000 and November 2000. In respect of those 20 companies, 12 companies' shares were sold through a public invitation to negotiations, 7 companies' shares were sold by tender and one company's shares were sold through a public offer. As of 30 November 2000, revenues for the State from capital privatisation amounted to PLN 26.5 billion.

Capital privatisation generally provides for the sale of up to 70 per cent. of the shares of a company in an initial public offering or to a strategic investor. Generally, 15 per cent. of the shares in the company are reserved for distribution to employees free of charge. At least 10 per cent. of the shares belonging to the State Treasury in each of companies reorganised as commercial companies are allocated for purposes related to the social insurance system reform. A further 5 per cent. of the shares belonging to the State Treasury in each of the companies so created from the commercialisation (or budgetary revenues from sales of these shares) are allocated to meet claims of former owners of property which was taken by the State Treasury. Finally, 2 per cent. of shares of State Treasury Corporations (companies previously wholly owned by the State Treasury) may be allocated to the Foundation for Polish Science (to be used for development of Polish science and technology) and another 2 per cent. to increase the capital of the Agency for Industrial Development (for restructuring of State Treasury Corporations).

A reserve is also created for the purpose of enfranchisement (to allow the general population to benefit from the privatisation), which includes:

- 7 per cent. of the shares of State Treasury Corporations (companies 100 per cent. owned by the State Treasury) created from commercialisation;
- state enterprises' assets founded by province governors (voivods); and
- shares of companies, in which the State Treasury has less than 10 per cent. of share capital.

Mass Privatisation – National Investment Funds Programme

The National Investment Funds Programme (the "**NIF Programme**") was started in 1995. It was implemented on the basis of the Law of 30 April 1993 on National Investments Funds. 512 large and medium sized state-owned companies were approved for participation in the programme. The formal transfer of the shares of these companies to 15 closed-end National Investment Funds ("**NIFs**") was completed by December 1996. Each company initially had the same shareholding structure: 33 per cent. held by a "lead" NIF; 27 per cent. distributed equally to all other NIFs; up to 15 per cent. distributed, free of charge, to employees; and 25 per cent. retained by the State Treasury. The NIFs, which are managed by consortia of professional fund managers, are expected to assist in the restructuring of companies participating in the programme, with a view to increasing their value. All adult citizens resident in Poland were entitled to participate in the NIF Programme by purchasing for PLN 20 (much less than the attributable book value) a Universal Share Certificate convertible into 15 shares, representing one share in each of the 15 NIFs. Out of 28 million eligible Poles, approximately 25.8 million acquired the certificates. As of 31 December 1998 25.5 million certificates had been converted into NIF shares that are listed on the Warsaw Stock Exchange ("**WSE**").

As a result of ownership transformation, in December 1999, the State Treasury owned between 10.74 per cent. and 16.2 per cent. of the shares in the National Investment Funds.

In 2000 the process of concentration of NIFs shares continued. According to the end-2000 data, 14 investors own more than 10 per cent. of shares in NIFs. The process of consolidation of minority NIFs portfolios has also begun. At the end of 2000 shares of 27 companies participating in the programme were listed at the Warsaw Stock Exchange (WSE). Shares of another 12 companies were traded on the regulated over-the-counter market (CTO). By the end of December 2000, the process of liquidation has been launched in 11 cases, and bankruptcy proceedings have been started in respect of 58 companies. Bankruptcy was declared in respect of 3 companies.

Privatisation by Sector

Telekomunikacja Polska S.A.

In November 1998, the Ministry of the State Treasury completed the first stage of the privatisation of Telekomunikacja Polska S.A. ("**TPSA**"). It sold 15 per cent. of TPSA's share capital (210 million shares and depository receipts listed on the Warsaw and London Stock Exchanges) in an initial public offering. An additional 15 per cent. of shares were given to employees.

On 25 July 2000, the Minister of the State Treasury sold another 35 per cent. of TPSA to a consortium made up of France Telekom S.A. and Kulczyk Holding for PLN 18.6 billion (approximately U.S.$ 4.3 billion). France Telekom purchased 25 per cent. of the shares and Kulczyk Holding purchased the other 10 per cent. of shares. In addition, on 11 April 2000, the consortium was granted the right to purchase an additional 16 per cent. of TPSA from the State Treasury (10 per cent. by 31 July 2001, and 6 per cent. under the second public offering).

PLL LOT S.A.

The privatisation of the national airline, LOT S.A. ("**LOT**") was approved by the Council of Ministers in April 1999. In December 1999, an initial 10 per cent. stake was sold to SAirGroup (the parent company of Swissair). In January 2000, SAirGroup increased its stake in LOT to 37.6 per cent. LOT S.A. has joined the Qualiflyer alliance of 11 airlines. It is expected that a further sale of shares in LOT before the end of 2001 will be made by way of an initial public offering.

Polskie Koleje Panstwowe — Polish State Railway

In September 2000 the Parliament passed a law on the commercialisation, restructuring and privatisation of the Polish State Railway ("**PKP**"). As a consequence, in December 2000 PKP was transformed into a state owned joint stock company ("**PKP S.A.**") with capital of PLN 10 billion. The process of restructuring of PKP S.A. includes the following:

- the establishment by PKP S.A. of operating companies, a management company for railway lines and other subsidiaries;
- the management of assets, in particular through company contributions, and the sale, lease and disposal of redundant real estate (including housing properties);
- a change in the level and structure of employment; and
- the conversion of liabilities held in established subsidiaries into stock and shares of PKP S.A.

PKP S.A. is required to establish operating subsidiaries for railway passenger transport and railway freight transport within 6 months from the date that it is entered on the commercial register.

The Energy Sector

The electric energy sector's privatisation intensified during 1999 and 2000. Individual privatisation projects that were initiated in previous years were continued and on 16 May 2000 the Polish government approved the "*Integrated Schedule of the Electric Energy Sector's Privatisation and the Electric Energy Market's Introduction*". The sector's privatisation is consistent with previously accepted strategic assumptions which include the sector's consolidation through privatisation, the formation of groups for simultaneous privatisation made up of entities with different potential and economic condition, and ensuring a balanced participation of individual investors in the electric energy market.

(i) Power plants' sub-sector

During 2000, "ZE PAK Power Group", Elektrownia T. Kosciuszko S.A. and Elektrownia Polaniec were privatised. It is expected that during 2001 Elektrownia Belchatow S.A., Elektrownia Skawina, Poludniowy Koncern Energetyczny, Elektrownia Rybnik S.A., Elektrownia Kozienice, Elektrownia Stalowa Wola, Elektrownia Ostroleka and Elektrownia Dolna Odra will be privatised.

(ii) Thermal electric power stations' sub-sector

During 2000, Elektrocieptownie Warszawskie S.A. (sold to Swedish investor Vattenfall), Zespol Elektrocieplowni Wroclawskich KOGENERACJA S.A., Elektrocieplownie Wybrzeze S. A., and Elektrocieplownia Bedzin S.A. were privatised. It is expected that during 2001 Elektrocieplownia Poznan S.A., Elektrocieplownia Bialystok S.A., Elektrocieplownia Zielona Gora S.A., Elektrocieplownia Tychy S.A., Elektrocieplownia Torun and ENERGOTOR S.A. will be privatised.

(iii) Energy distribution sub-sector

A privatisation strategy for the energy distribution sub-sector in Poland was prepared in August 1999. The strategy provides for a group privatisation of all 33 energy distribution companies by the end of 2002.

In December 2000, Gornoslaski Zaklad Energetyczny was privatised. In 2001 privatisation activities will include Grupa Polnoc (which consists of 8 energy distribution companies), STOEN S.A. Grupa Poludniowa (which consists of 4 energy distribution companies) and Grupa Poludniowo-Wschodnia (which consists of 3 energy distribution companies).

The Coal Mining Industry

In June 2000 the privatisation strategy for KWK Bogdanka S.A. was accepted – privatisation will be carried out by way of public invitation to negotiations. Completion of the privatisation process in both the KWK Bogdanka S.A. and KWK Budryk S.A. coal mines is planned for 2001.

*Polskie Gornictwo Naftowe i Gazownictwo S.A. ("**PGNiG**") — Polish Oil & Gas Company*

On 23 May 2000 the Council of Ministers approved the motion of the Minister of the State Treasury to accept a programme named "*Changes in the organisational restructuring program in the PGNIG S.A. utility*". The programme approved by the Council of Ministers will be implemented in accordance with the following assumptions:

– the relevant parts of the PGNiG utility will be separated to form newly created companies which will be established and owned by PGNiG (one company will be involved in exploration and production, and four will be distribution companies); and

– the State Treasury will remain a shareholder in PGNiG, which will carry out management of the existing gas import, and transmission and storage contracts;

– except for the possibility of earlier sale by PGNiG of shares in the separated exploration and production company, it is assumed that the draft plan for sector privatisation (including the necessary legal framework) was submitted to the Council of Ministers by the Ministry of the State Treasury early in 2001 (which should be immediately after the separation and registration of companies 100 per cent. owned by PGNiG).

The Oil Industry

In November 1999, the shares of Polski Koncern Naftowy ("**PKN**"), which owns the country's largest refinery and a retail network of petrol stations, were listed on the Warsaw Stock Exchange. The listing valued PKN at approximately PLN 9.3 billion. In June 2000, a second tranche of 26 per cent. was sold for approximately U.S.$ 200 million and PLN 765.6 million. The State Treasury (together with state holding Nafta Polska S.A.) currently holds 28.44 per cent. of PKN shares and these will probably be sold in blocks by public offering.

The Steel Industry

The State Treasury holds an interest in 21 entities which are to be privatised in the steel sector (it owns 100 per cent. of 8 entities, more than 50 per cent. of another 2 entities, and has a minority stake in the remaining 11 entities). The privatisation of steel plants is proceeding in accordance with the schedule approved by the Ministry of the State Treasury and with the *Restructuring Programme of the Polish Iron and Steel Industry*. The main objective is the privatisation of the largest steel plants in the sector: Huta Katowice S.A., Huta im. Tadeusza Sendzimira S.A., Huta Florian S.A. and Huta Cedler S.A. It is expected that the privatisation of these companies will be concluded in 2001.

The Sugar Industry

In June 2000, shareholders of Poznansko-Pomorska Spolka Cukrowa S.A. agreed to sell shares in the sugar plants belonging to the Poznan Group. The shares were sold to the German company Nordzucker AG in August 2000. In October 2000, Nordzucker AG also acquired shares in the Torunska Group. In November 2000 the State Treasury signed the agreement with a French group Saint Louis Sucre on the sale of 95 per cent. of Slaska Spolka Cukrowa (which included 16 state entities). The transaction was worth PLN 250.5 million. Other privatisations in the industry are also well advanced.

The Spirits Industry

In order to reduce privatisation costs and accelerate negotiations with investors, enterprises from the spirits sector were divided into 4 groups. The first group includes the Polmos (a common trademark covering all the relevant spirit sector enterprises) companies in Krakow, Lublin and Szczecin. The second group includes the Polmos companies in Starogard Gdanski, Siedlce, Bielsko-Biala and Konin. The third group comprises the Polmos companies of Poznan and the final group comprises the Polmos companies in Lancut, Torun, Jozefow and Kutno. The privatisation of each of these groups is at varying stages of completion. It is envisaged that the sale of shares of Przemysl Fermentacyjny Akwawit S.A. in Leszno will take place in the third quarter of 2001 by public offering. Other state-owned enterprises to be privatised directly or through liquidation include Zaklady Przemyslu Spirytusowego Polmos (Sieradz), Warszawska Wytwornia Wodek Koneser (Warsaw), Zyrardowskie Zaklady Przemyslu Spirytusowego Polmos (Zyrardow), Lodzkie Zaklady Przemyslu Spirytusowego Polmos (Lodz) and Przedsiebiorstwo Przemyslu Spirytusowego Polmos (Warsaw).

The Pharmaceutical Industry

A number of privatisations in this industry have been completed recently. In July 2000, 52.5 per cent. of shares in Zaklady Farmaceutyczne Polpharma S.A. (worth approximately PLN 231 million) were sold to a consortium consisting of Spectra Management Sp.z o.o, TUR Warta S.A. and Prokom Investments S.A.

In August 2000, the Ministry of the State Treasury issued a public invitation to negotiate the purchase of shares in Polfa Lublin S.A.. The privatisation of Polfa Lublin S.A. is expected to be completed in the second or third quarter of 2001. Negotiations are continuing regarding the sale of a majority share package in Tarchominskie Zaklady Farmaceutyczne S.A.

The Heavy Chemical Industry

The privatisation of this sector is expected to be completed in 2001. On 23 December 2000, the Minister of the State Treasury accepted recommendations from its adviser (Business Management & Finance S.A) on the privatisation strategy for certain companies in the sector. According to the strategy, it expects to commence negotiations in respect of the privatisation of Zaklady Chemiczne Police and Kedzierzyn. A public offer is expected in respect of the privatisation of Zaklady Azotowe Pulawy.

The Banking Sector

The pace of ownership transformations conducted in the banking sector was accelerated between 1997 and 2000. By the end of 2000, the following banks had been privatised: Bank Rozwoju Eksportu S.A., Wielkopolski Bank Kredytowy S.A., Bank Slaski S.A., Bank Gdanski S.A., Bank Przemyslowo-Handlowy S.A., Bank Handlowy w Warszawie S.A., Powszechny Bank Kredytowy S.A., Polski Bank Rozwoju S.A., Bank Pekao S.A. and Bank Zachodni S.A.

Work on the last stage of Pekao S.A.'s privatisation also continued in 2000. This stage consisted of the sale of about 9.17 per cent. of its shares by way of public offering (PLN 308,5 million). The public offering of 13.4 million shares of the A series which belong to the State Treasury began in late October 2000. The shares were divided into the following two tranches: a tranche for individual domestic investors (60 per cent. of the offer) and a tranche for individual strategic investors (40 per cent. of the offer). Bank Pekao S.A. also offered 50 million shares of C and D series for sale. The public offering of shares of the C series was addressed to the main investors UniCredito Italiano and Allianz Aktiengesellschaft. The shares of the D series were offered to the European Bank for Reconstruction and Development. At present the State Treasury owns 7.98 per cent. of Pekao S.A. shares. The Ministry of the State Treasury does not envisage the sale of the residual shares.

On 21 June 2000, the agreement between the State Treasury and Austria Creditanstalt International AG bank to sell 2,799,465 shares (10.29 per cent.) of Powszechny Bank Kredytowy S.A. was concluded. This sale realised PLN 335,935,800 for the State Treasury. The Treasury continues to hold 3.97 per cent. of PBK. The rest of the shares in Powszechny Bank Kredytowy S.A. are owned by Bank Austria Creditanstalt International AG (56.9 per cent.) and Bank of New York (8.51 per cent.).

Preparations for the privatisation of Powszechna Kasa Oszczednosci Bank Panstwowy ("**PKO BP**") began in early January 2000. The Council of Ministers gave consent to transform PKO BP into a State Treasury Corporation and this transformation took place on 12 April 2000. As a consequence, its legal status changed and its name was changed to Powszechna Kasa Oszczednosci Bank Polski S.A. ("**PKO BP S.A.**"). In December 2000, the State Treasury increased the capital of PKO BP S.A. and transferred to it the State Treasury's shares in five companies (KGHM S.A., Stalexport S.A., BRE S.A., BOS S.A. and Bank Handlowy S.A.) valued at more than PLN 400 million. At the same time, the National Bank of Poland ("**NBP**") concluded an agreement with PKO BP S.A. and exempted it from the transfer of part of the obligatory reserve for 2001. The NBP also decided to buy back from PKO BP S.A. some NBP bonds issued in 1999 and which were in the possession of PKO BP S.A. In January 2001, a public invitation to tender to be an adviser on the privatisation of PKO BP S.A. was published. The Law on the Treasury's sureties for repayment of certain housing credits passed in November 2000 became effective in January 2001. According to this law, the State Treasury will guarantee the repayment of housing credits of the so-called "old portfolio" (90 per cent. of the portfolio) and will exempt the bank from further creation of reserves for old housing credits.

During 2000, Parliament passed a law on the Operation of Co-Operative Banks, their process of uniting and on banks forming associations. According to the draft law, a co-operative banking structure would be changed from a three-level structure to a two-level structure. Co-operative banks would be able to merge and to choose to form an independent association with a bank.

The first merger of co-operative banks has begun with the signing of initial agreements between Bank Gospodarki Zywnosciowej S.A. ("**BGZ S.A.**") and three regional banks (Mazowiecki Bank Regionalny, Dolnoslaski Bank and Pomorsko-Kujawski Bank Regionalny). In June 2000, the shareholders of Bank Gospodarki Zywnosciowej S.A. adopted a resolution to issue series C shares (this allows the bank to increase its capital).

The Insurance Sector

In November 1999 via a public invitation to negotiations, a consortium consisting of Eureko B.V. and BIG Bank Gdanski S.A. purchased 30 per cent. of the shares of Powszechny Zaklad Ubezpieczen S.A. (according to the strategy of privatisation of the company adopted by the Council of Ministers in March 1999). In March 2000 an invitation appeared for tender to select an adviser to the Minister of the State Treasury during the realisation of further stages of privatisation of PZU S.A.

In July 2000, a consortium made up of ABN AMRO Bank (Polska) S.A., ABN AMRO Securities (Polska) S.A., RCF Polska Sp. z o.o., Merrill Lynch International and Dom Inwestycyjny BRE Banku S.A. was selected to act as the adviser to the Minister of the State Treasury during the second stage of PZU S.A.'s privatisation. The consortium advises the Minister of the State Treasury in matters regarding preparation, organisation and realisation of domestic and international public offerings and will advise in respect of the sale of PZU S.A. shares.

In October 1999, the State Treasury sold 19.8 per cent. of Warta S.A. to Kulczyk Holding S.A. Warta S.A is the second largest property insurance company in Poland with approximately 13.8 per cent. of the market.

Restitution

The government estimates the actual scale of restitution claims that will be accepted will be approximately PLN 43 billion. Under the draft restitution law (which the Parliament is currently debating), in order to cover restitution claims the State Treasury would assign PLN 22.9 billion of real estate owned by the State Treasury, PLN 23.5 billion of real estate owned by municipalities and up to PLN 20.5 billion of capital assets. It is presumed that the implementation of the programme will continue during the next 10 years.

Once implemented, the legislation will allow restitution in kind for those claimants who can evidence their losses and who are eligible, provided that restitution in kind will not violate the ownership rights of current owners. Where restitution in kind is not possible, claimants would be issued with restitution vouchers, which could be used to buy other property from the state or local authorities, or participation units in a special investment fund. The State Treasury will contribute to this fund capital assets comprising 5 per cent. of stocks and shares of companies that have already been privatised (these have been retained since 1993 by the State Treasury as a restitution reserve) and 15 per cent. of stocks and shares in companies that are to be privatised within 2000-2005.

Prior to 1990, many individuals and businesses were deprived of their property under post-war communist nationalisation or expropriation laws. Under current law, restitution claims may only be enforced if the property was nationalised illegally and compensation claims may not be enforced if the nationalisation law provided for compensation and no compensation was paid. The only successful claims for restitution have been in cases where non-legislative, administrative procedures have been used. Between 1989 and 1997, approximately 10,000 claims were filed of which approximately 4,500 were concluded, resulting in 70 per cent. being decided in favour of the claimants. Repatriation of property owned by the religious communities continues to be returned under current restitution proceedings contained in the Administrative Code. In March 1999, the Republic of Poland, the State Treasury of the Republic of Poland, PZU S.A. and Warta S.A. ("**Warta**") were named as defendants in an action commenced in the United States District Court for the Northern District of Illinois. The plaintiffs claimed to be U.S. citizens representing a world-wide class of plaintiffs who are Jewish and who owned real property, or who are the heirs or representatives of Jews who owned real property, in Poland at the end of World War II, and whose real property was allegedly seized by the Polish government. The plaintiffs also sued regarding life and property insurance policies issued by PZU S.A. and Warta that they claimed went unpaid after Poland nationalised these insurance companies. Defendants' motion to dismiss was granted in its entirety on September 29, 1999, on the ground that the defendants could not be sued under the U.S. Foreign Sovereign Immunities Act. The dismissal was upheld on appeal by the U.S. Court of Appeal for the Seventh Circuit. The U.S. Supreme Court refused to hear the case. In a separate action commenced in June 1999 in the United States District Court for the Eastern District of New York on behalf of eleven named plaintiffs, the Republic of Poland and the Ministry of the Treasury of the Republic of Poland were named as defendants. Plaintiffs claim to represent a world-wide class of Jews whose property was expropriated during or after World War II. On December 22, 1999, the Defendants filed a motion to dismiss the actions. Following a hearing on the motion, the parties are currently awaiting the judge's decision in that respect.

Foreign Direct Investment ("FDI")

According to estimates by the Polish Agency for Foreign Investment ("**PAIZ**")*, the cumulative aggregate of individual foreign direct investment transactions exceeding U.S.$1 million in Poland between 1990 and mid-2000 was U.S.$38.9 billion. In the first half of 2000, the inflow of foreign direct investment reached U.S.$3.7 billion. The following tables show a breakdown of foreign direct investment as at the end of June 2000 by country of origin and by sector.

* Statistics prepared by PAIZ are calculated on a different basis from those prepared by NBP. PAIZ obtains statistical information from an external source entity, unlike NBP which contacts data directly. PAIZ looks at total investment contemplated in investment agreements, rather than looking at the amount of money which moves through the Polish banking system. In addition, where payments are made by instalments, PAIZ will calculate the amount of overall investment (forward looking) unlike NBP which will only include the amount of the then current instalment. Finally, PAIZ follows the OECD definition of "direct investment" which includes funds paid by a foreign entity on behalf of a Polish entity to serve such Polish entities' foreign commitments. NBP's estimates FDI by reference only to money related to foreign direct investment that passes directly through the banking system.

Foreign Direct Investment in Poland –breakdown by country (at the first half of 2000)

No.	Country of Origin	Capital Invested	Planned Investment	Number of investors
		(millions of U.S.$)		
1	USA	6,396.5	2,648.1	128
2	Germany	6,234.4	2,277.5	189
3	France	4,091.1	1,614.0	70
4	Netherlands	3,714.7	692.8	58
5	Italy	3,273.8	607.0	67
6	Great Britain	2,646.1	259.0	36
7	Multinational Corporations	2,617.6	401.9	20
8	Korea	1,617.4	658.5	5
9	Sweden	1,302.0	610.8	48
10	Russia	1,249.5	338.5	2
11	Ireland	813.7	100.0	3
12	Austria	770.4	214.5	34
13	Switzerland	709.8	317.1	16
14	Denmark	537.1	47.5	30
15	Belgium	469.8	299.1	23
16	Japan	361.6	137.0	12
17	Norway	350.3	148.2	15
18	Portugal	319.5	323.5	4
19	Spain	296.1	0.0	7
20	Finland	258.0	63.0	20
21	Canada	255.3	36.5	21
22	Croatia	173.0	16.0	2
23	Turkey	100.1	58.0	4
24	Israel	83.4	20.0	5
25	Australia	68.0	22.0	3
26	Czech Republic	51.2	0.0	4
27	China	45.0	45.0	2
28	Liechtenstein	29.5	12.0	3
29	Republic of South Africa	25.0	40.0	1
30	Luxembourg	11.6	0.0	2
31	Malaysia	10.7	2.2	1
32	Cyprus	7.2	6.5	2
33	Slovenia	6.0	50.0	1
34	Taiwan	5.7	200.0	1
35	Greece	1.5	4.0	1
Total value of FDI over U.S.$1 million		**38,902.5**	**12,270.2**	**840**
Estimated value of FDI below U.S.$1 million		**4,114.8**		
Total FDI in Poland		**43,017.3**		

Source: *PAIZ*

Foreign Direct Investment in Poland – breakdown by activity (at the first half of 2000)

Activities according to the European Classification of Activities (ECA)	Capital invested *(millions of U.S.$)*	Planned investment
Manufacturing:	18,177.9	5,476.3
Food, drinks and tobacco products	4,755.9	966.9
Transport equipment	4,454.6	1,062.4
Other non-metal goods	2,263.9	1,178.5
Electrical machinery and apparatus	1,668.0	416.2
Pulp and paper, publishing and printing	1,443.8	431.3
Chemicals and chemical products	1,325.0	447.6
Machinery and equipment	532.1	207.5
Rubber and plastics	467.2	251.4
Metals and metal product	383.4	200.1
Furniture and consumer goods	380.4	263.0
Fabrics and textiles	246.7	32.7
Wood and wooden products	240.0	36.2
Leather and leather products	16.9	0.5
Financial intermediation	9,218.6	1,473.6
Trade and repair	3,791.1	1,767.0
Construction	2,254.8	841.0
Transport, storage and communication	2,181.7	656.5
Community, social and personal services	1,585.2	479.1
Power, gas and water supply	788.1	1,111.0
Hotels and restaurants	537.1	225.2
Real estate and business activities	269.6	210.1
Mining and quarrying	68.3	4.4
Agriculture, hunting and forestry	30.1	8.0
Total value of FDI over U.S.$1 million	**38,902.5**	**12,270.2**
Estimated value of FDI below U.S.$1 million	**4,114.8**	
Total FDI in Poland	**43,017.3**	

Source: PAIZ

Subject to certain restrictions, the Polish Foreign Investment Law generally allows for full repatriation of capital, dividends and profits by foreign investors. Generally, foreign investors are not required to obtain any special permits to invest in Polish companies, although there are restrictions on the maximum holding of foreign shareholders permitted in certain sectors, such as the TV networks and newspaper groups.

Principal Sectors of the Economy

Economic growth in Poland since 1992 has benefited most sectors of the economy. Until the end of 1995, principally net exports and investment had driven Poland's GDP growth, but since the end of 1995, GDP growth has increasingly come from private domestic consumption as well as investment.

The following tables illustrate the composition and growth of GDP in selected sectors for the years indicated.

Percentage Composition	GDP by Selected Sector[1]				
	1995	1996	1997	1998	1999
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
of which:					
Agriculture, hunting and forestry	6.0	5.5	4.8	4.1	3.4
Fishing	0.0	0.0	0.0	0.0	0.0
Industry	27.6	26.1	25.7	24.2	23.6
Mining and quarrying	3.6	3.3	3.1	2.5	2.3
Manufacturing	20.6	19.5	19.5	18.8	18.3
Energy; gas; water supply	3.4	3.3	3.0	2.8	3.0
Construction	6.3	6.5	6.9	7.6	7.6
Trade and repair	17.4	18.2	18.4	18.1	18.2
Hotels and restaurants	0.8	0.9	0.9	1.0	1.1
Transport, storage and communication	5.7	5.6	5.7	5.6	5.8
Financial intermediation	0.9	0.9	1.2	1.4	1.8
Real estate and business activities	7.1	7.5	8.5	10.2	10.4
Public administration and defence	4.8	5.0	4.7	4.7	4.4
Education	3.5	3.6	3.7	3.7	3.9
Health and social work	3.6	3.6	3.6	3.5	3.5
Other community, social and personal service activities	3.4	3.5	3.3	3.5	3.5
Private households with employed persons	0.0	0.0	0.0	0.0	0.0

Notes:

(1) For the year 2000 data not yet available.

Source: Central Statistical Office

Real GDP Growth by Selected Sector[1]

	1995	1996	1997	1998	1999[1]
Agriculture hunting and forestry	10.4	2.4	1.1	5.9	(1.7)
Fishing	(8.3)	7.0	(10.5)	(25.6)	24.0
Industry:					
Mining and quarrying	1.5	4.7	(4.3)	(10.8)	(2.6)
Manufacturing	13.7	8.8	14.4	7.5	4.0
Energy; gas; water supply	2.1	3.5	0.6	(1.2)	1.0
Total industry	10.4	7.6	10.3	4.3	3.0
Construction	5.8	2.8	13.6	9.3	3.5
Trade and repair	5.0	6.1	8.1	5.0	7.5
Hotels and restaurants	6.1	15.9	7.2	12.7	16.3
Transportation, storage and communication	2.3	5.4	5.6	6.3	8.8
Financial intermediation	21.4	11.3	2.9	9.2	27.5
Real estate and business activities	5.8	0.9	(0.7)	3.4	(0.4)
Public administration and defence	4.2	4.4	5.9	1.6	6.2
Education	1.4	1.3	0.9	4.9	3.2
Health and social work	1.6	1.5	0.7	0.5	(11.8)
Other community, social and personal service activities	2.0	6.7	(6.1)	1.3	3.9
Private households with employed person	1.2	6.4	8.9	4.9	2.2

Notes:

(1) For the year 2000 data not yet available.

Source: *Central Statistical Office*

Industry

Prior to 1992, decreases in industrial activity were most evident in the iron and steel industries, light industry (such as production of textiles, clothing and leather goods) and the fuel and energy sectors. Since 1993, the effect of economic reforms resulted in a steady increase in domestic demand, which has stimulated a recovery initially in the food industry, and later in other sectors.

Mining and Quarrying

Poland has substantial mineral resources. In 1997, Poland was ranked eighth in the world and fourth in Europe in the production of refined copper and silver and, at the then present level of output, workable copper reserves in Poland were predicted to last for almost 100 years. In 1996, Poland was one of the largest exporters, and the world's third largest producer of sulphur. Poland also has significant resources of zinc, lead, natural gas, salt and other minerals.

Coal

The Polish economy relies heavily upon coal as a fuel source, and is expected to remain coal intensive for the foreseeable future. In 1998, approximately 98 per cent. of primary energy consumed were derived from fossil fuels.

In June 1998 the government approved a long-term restructuring plan of the coal-mining sector. The restructuring is intended to reduce the number of mines and the level of employment in the sector, as well as improve the efficiency of coal production in Poland until 2002. Of the 52 mines in Poland in 1998, 9 have already been closed. Another 15 will be closed or partially closed. According to the programme, employment in the sector is being reduced by 115,000 people, from 243,300 persons at the end of 1997 to 128,300 in 2002. At the end of 2000 there were 158,000 people working in the sector. Production has fallen from 137 million tonnes per year in 1988 to approximately 82.7 million tonnes in 2000. At the end of this programme the mining sector is expected to become profitable. The workers leaving mines are subject to special incentives. In 1998, the government offered miners a retirement package. The package included early retirement schemes, superannuation benefits and a dismissal package of a lump sum of 24 times monthly wages, resulting in a significant number of miners opting for redundancy. The coal reform is financed from the budgetary sources (in the 2000 budget there was PLN 1.8 billion set aside for this purpose, including loans from the World Bank), the Labour Fund and the Social Insurance Fund. The net losses made by the mines were reduced significantly from PLN 3.4 billion in 1999 to PLN 1.3 billion in the first 10 months of 2000.

Steel

Restructuring of the steel sector started in Poland in the beginning of 1990's, in compliance with the guidelines of the government programme accepted in 1992 and then amended by the "Polish Steel Industry Restructuring Programme" accepted by the government in mid-1998. The report on restructuring developments and further guidelines to the process, adopted in September 1999, reflects the acceleration of restructuring due to the current developments in the steel market both in Poland and elsewhere as well as the latest results and future capabilities of the Polish steel sector. Employment in the steel sector was reduced from over 78,000 at the end of 1998 to 47,000 by the end of 2000. The Programme aims to reduce the workforce in the steel sector to between 30,000 and 33,000 employees by the end of 2003 and to make the steel plants self-sustainable by 2005. All the plants are in the process of privatisation. The restructuring programme is being financed from the state budget (PLN 200 million in the projections for years 2000 – 2003), the European Union's PHARE support programme which provides funding for projects in central European countries (the same amount) and the plants' own means.

Oil and Gas

Poland's oil and gas sector is dominated by the state-owned Polish Oil and Gas Company, which is responsible for the exploration for oil and gas and the importation, transmission, storage and distribution of gas. Poland's oil reserves are small, covering less than 2 per cent. of consumption in 1997. Poland currently has seven oil refineries, with a total distillation capacity of 18.6 million tonnes per annum. However, these refineries require modernisation in order to enable them to raise the quality of their products and to meet increasingly stringent environmental standards.

Poland's natural gas reserves were equal to about 33 per cent. of domestic consumption in 1999 and geologically documented resources were estimated at 146 cubic kilometres as of year-end 1997. Domestic production of gas consists of indigenous high methane natural gas, low methane natural gas, coke oven gas and manufactured gas. Historically, all gas imports have come from the Russian Federation.

Electricity

Total electricity generation in Poland in 1999 was 142 terawatt-hours, which was in excess of domestic consumption. Electricity consumption increased in 1993 through 1998, primarily as a result of the growth in industrial production. Because of Poland's domestic coal reserves, electricity generation relies heavily on coal fired power plants. Poland's electricity industry is primarily organised into three tiers, consisting of companies concerned with generation, high voltage transmission and distribution. All of the relevant companies are in the process of being organised into financially independent joint stock companies. The core institution in this sector is the state-owned Polish Power Grid Company, which purchases electricity from the 36 public power generation companies and from industrial self-producers and sells electricity to 32 local public distribution companies. The Polish electricity system participates in the Western European power system. Privatisation or consolidation of companies in the electricity sector was spurred by the enactment of new energy legislation in May 1997.

Automotive

Until the beginning of the 1990s, the Polish automotive industry was dominated by a few state-owned companies. Since 1990, the number of cars produced and the investment by foreign automotive companies have increased significantly. Poland is currently one of the fastest growing markets in Europe in terms of new car sales, with the new car market increasing from 220,000 units in 1992 to 650,000 units in 1999. The leading car manufacturers in Poland are FIAT, Daewoo and General Motors with combined existing and future investment commitments of over U.S.$ 4.5 billion. However, in the year 2000 the automotive industry experienced a drop in the sale of new cars. In the January – November period the estimated sales accounted for 451,483, which was a 22 per cent. decline in comparison to the same period of 1999.

Construction

The system of public subsidies in the state, communal, and co-operatives construction sectors were dismantled, beginning in 1990. As a result, growth in the construction industry has come mostly from the private sector.The low purchasing power of the Polish population and the long-term perspective of such investments have resulted in a general decline in the number of housing completions since 1990. Since the beginning of 1997, the sector has recovered. Increased construction activity has taken place in large cities, with significant investment coming from foreign capital. However, in the year 2000 due to the slowdown in the economy a decline of 0.4 per cent. as compared to the previous year, was observed in this sector.

Agriculture

While agriculture accounted for approximately 4.1 per cent. of GDP at the end of 1998, it employed more than 19 per cent. of the workforce. By the end of 1999, agriculture as a percentage of GDP had fallen further to an estimated 3.4 per cent. This disproportionality is related to the substantial fragmentation of ownership within the agricultural sector, which is characterised by numerous private farms each with a small average area of land. The private sector manages approximately 90 per cent. of agricultural land in Poland, while the remaining 10 per cent. belongs to the public sector. Grains, such as wheat and rye, and potatoes dominate arable production, although production of industrial crops, such as sugar beets, is also significant. Other agricultural production largely comprises cattle and pig farms. The Russian crisis of 1998 severely affected Polish food exports, which forced domestic food prices down. Lower food prices substantially decreased farmers' profits leading to social unrest and slowing down the trade liberalisation process.

Other

The proportion of Poland's GDP represented by services is continuously increasing with GDP growth in 1999 of 7.5 per cent. in the trade sector, 8.8 per cent. in the transportation and communication sector and 27.5 per cent. in the financial intermediation sector.

Infrastructure

Polish State Railways operates suburban railways in all major cities and by the end of 1999, operated approximately 22,891 kilometres of rail track, of which approximately 11,967 kilometres was electrified. The government has begun to restructure the Polish State Railways (PKP) in an effort to improve operational efficiency. Under the plan, separate passenger, freight and infrastructure companies will be established from PKP's assets, under a new PKP holding company. The privatisation is expected to end by 2005. By the year 2005, the 210,000 workforce will be reduced by some 50,000.

Poland has over 249,000 kilometres of hard-surfaced public roads. The first privately financed motorway development is to be the 255-kilometre stretch of the A-2 between the German frontier (Swiecko) via Poznan to Konin. The first 149-kilometre installment will be completed by 2005 and will cost Euro 875 million. The first privately operated toll motorway, the 60 km A4 between Krakow and Katowice, was opened in 2000. The new act on motorway construction is currently being put in force by the government. According to the new law the government will be involved to a larger extent in co-financing road infrastructure programmes through the Agency for Motorway Construction.

The Polish merchant shipping fleet in 1999 comprised 149 vessels with a total capacity of 3 million tonnes. Poland has several ports equipped to service ocean-going vessels. Poland has 12 airports of which nine handle international air traffic. The national airline, LOT, maintains regular connections with 32 countries and 49 cities, including 6 in Poland. The number of regular domestic and international flights has been increasing significantly due to the process of restructuring of LOT after its acquisition by SAirGroup. Okecie will be a hub of SAirGroup operations in Central and Eastern Europe.

The telecommunications network in Poland is operated mostly by TPSA, the joint stock company created from the former telecommunication operations of the Polish Post, Telephone and Telegraph state monopoly. Recently there has been a significant increase in demand for telecommunications services in Poland. By the end of 1999, the number of telephone lines had grown to 10 million, an increase of 206 per cent. since 1990. By 31 December 1999, the number of telephone lines per 100 inhabitants had grown to 26. The Ministry of Telecommunication opened a public tender for three long-distance fixed-line licences in October 1999. Three licences were issued to groups led by Polish Railways/ Britain's National Grid, local telecoms firm Netia and Polish Oil Group (PKN) at the end of January 2000. There are a number of local independent operators. TPSA has exclusive rights to provide international public telephone services in Poland until 31 December 2002. The Polish mobile telephone market has three companies with operating licences: PTK Centertel, PTC Era and Polkomtel, each consisting of consortia of Polish and various foreign companies. By the end of 1999, approximately four million subscriptions for mobile telephone services had been recorded and rapid growth in this sector continued in 2000 leading to around seven million users at the end of the year. In December 2000, the Ministry of Telecommunication assigned three UMTS licenses to 3 existing domestic mobile operators.

Poland is a net energy importer on an oil equivalent basis. Poland's energy policy has evolved considerably over recent years to support the country's transition to a market economy. New energy legislation implemented in 1997 introduced third party access (limited to domestic energy producers) to the energy distribution network, providing for gradual liberalisation of energy prices and established a central regulatory agency charged with regulating and overseeing the energy industry.

Since 1990, the government has introduced policies designed to create or improve incentives to industry to become more efficient, reduce costs and direct the attention of industry towards environmental issues. Poland has signed a multilateral agreement with the Czech Republic, Hungary and the Slovak Republic setting common targets for the improvement of air quality by the year 2000. Although Poland's industrial sectors already meet a number of EU industrial environmental standards, additional legislative changes will be necessary to comply fully with applicable EU environmental directives. Estimates of the total cost of bringing all industrial sectors into compliance with these rules, which are likely to be substantial, are currently being prepared.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Poland's current account has been in deficit since 1996. The deficit rose in the years 1997 – 2000 reaching U.S.$11.6 billion in 1999. The monthly deficit topped off in March 2000 (U.S.$1,346 million) coming down to U.S.$416 million in November (preliminary data). In 2000 the current account deficit reached U.S.$9,892 million, compared to U.S.$11,569 million in 1999. The main source of the current account deficit has been the widening deficit on the balance of merchandise trade. Measured by the official balance of payments statistics the trade deficit reached U.S.$14.4 billion in 1999 and $13.1 billion in 2000 (preliminary data). Poland's merchandise exports in dollar terms grew from approximately U.S.$10.9 billion in 1990 to U.S.$28.3 billion in 2000 (preliminary data). In 1998, exports grew despite a slowdown in Poland's Western European export markets, particularly Germany, Poland's largest trade partner. Poland's merchandise imports in dollar terms grew from U.S.$8.6 billion in 1990 to U.S.$41.4 billion in 2000 (preliminary data), fuelled by rising domestic demand. Slowdown experienced by the main trading partners of Poland in 1999 resulted in a decline in trade turnover, as exports declined by 12.5 per cent. and imports declined by 7.1 per cent. In 2000 exports grew by 7.3 per cent. and imports by 1.7 per cent. (preliminary data), compared to 1999.

Following significant export increases in the first 8 months of 1998, growth in the dollar value of exports fell to nearly zero (year-on-year) in the period between September 1998 and March 1999. Since September 1998, officially registered exports to Russia (until then accounting for 8 per cent. of total exports) dropped by almost 80 per cent. due to deteriorating terms of trade caused by the Russian crisis. However, the latter months of 1999 saw an increase (year-on-year) in the value of exports, with DM-value exports up 6 per cent. in September 1999.

In the first nine months of 2000, 71 per cent. of Polish exports were to European Union countries, with Germany being the main trade partner (35.2 per cent. of Polish exports). The proportion of exports to Russia is steady, accounting for approximately 2.5 per cent. in the last two years. The pace of export growth was higher than the growth of imports.

Since 1995, the Polish economy has experienced a tendency towards increasing capital inflows. Together with unrecorded trade, these capital flows have more than covered the official trade deficit. Foreign direct investments ("**FDI**") have been increasing steadily from U.S.$.542 million in 1994 to U.S.$9.4 billion in 2000 according to NBP figures. Due to the different methodology used, these differ from figures prepared by PAIZ (see "The Economy – Foreign Direct Investment") Foreign investors started to purchase domestic treasury bills in 1992, but the volumes were marginal. Their involvement increased significantly in 1995 to U.S.$.1.5 billion. Since then, several waves of portfolio inflows responded positively to favourable interest differentials and expectations of nominal exchange rate appreciation. In 1999 portfolio inflows represented approximately one fifth of direct investments. Portfolio inflows increased from U.S.$1.4 billion in 1999 to U.S.$2.5 billion in 2000 and now represent one fourth of direct investments.

As a result there were substantial and continuous increases in foreign exchange reserves until 1998. The strengthening dollar and the worsening current account balance in 1999, despite increased foreign direct investment and portfolio inflows, resulted in the decrease of foreign exchange reserves from U.S.$27.3 billion in December 1998 to U.S.$26.4 billion in December 1999 and further decreased to U.S.$25.7 in November 2000. During the next few years, net capital inflows are expected to be maintained at a high level fuelled by a growing economy, integration with the EU and continued privatisation of core sectors.

The following table sets out Poland's balance of payments and related statistics for the years 1994 through 2000.

Exhibit 1. Balance of Payments on a Cash Basis

(U.S.$ millions)

	1994	1995	1996	1997	1998	1999	2000(1)
A. CURRENT ACCOUNT	677	5,310	-1,371	-4,312	-6,858	-11,569	-9,892
Trade balance	-895	-1,912	-8,179	-11,320	-13,720	-14,380	-13,145
Goods: exports	17,024	22,878	24,453	27,229	30,122	26,347	28,277
Goods: imports	17,919	24,790	32,632	38,549	43,842	40,727	41,422
Services: net	59	146	-213	305	-509	-1,624	-1,689
Services: credit	2,102	3,192	3,383	3,724	3,677	3,310	3,524
Transportation	848	1,062	935	1,089	975	724	870
Travel	126	222	435	590	664	669	819
Other	1,128	1,908	2,013	2,045	2,038	1,917	1,835
Services: debit	2,043	3,046	3,596	3,419	4,186	4,934	5,213
Transportation	272	457	570	408	537	546	646
Travel	316	422	625	679	770	823	903
Other	1,455	2,167	2,401	2,332	2,879	3,565	3,664
Income: net	-2,835	-613	-356	-458	-567	-804	-730
Income: credit	523	1,038	1,481	1,440	2,677	1,899	2,432
Income: debit	3,358	1,651	1,837	1,898	3,244	2,703	3,162
of which: due and paid	1,185	1,630	1,829	1,893	3,234	2,694	3,152
Current transfers: net	634	544	1,002	1,150	1,942	1,604	1,681
General government	112	220	73	102	408	221	260
Other sectors	522	324	929	1,048	1,534	1,383	1,421
Current transfer: debit	1,779	1,868	2,221	1,845	2,543	2,209	2,163
General government	112	220	73	102	428	269	318
Other sectors	1,667	1,648	2,148	1,743	2,115	1,940	1,845
Current transfer: credit	1,145	1,324	1,219	695	601	605	482
General government					20	48	58
Other sectors	1,145	1,324	1,219	695	581	557	424
Unclassified transactions on current account: net	3,714	7,145	6,375	6,011	5,996	3,635	3,991
B. CAPITAL AND FINANCIAL ACCOUNT	-1,236	3,785	4,708	4,868	10,993	8,253	7,931
Capital account	9,214	285	90	90	72	47	26
Financial account	-10,450	3,500	4,618	4,778	10,921	8,206	7,905
Direct investment: net	542	1,134	2,741	3,041	4,966	6,348	9,299
Polish direct investment abroad		2	-27	-36	-163	-123	-123
Foreign direct investment in Poland	542	1,132	2,768	3,077	5,129	6,471	9,422
Portfolio investment: net	-624	1,171	241	2,098	1,330	1,449	2,850
Polish portfolio investment abroad (assets)	-624	1	282	815	-180	12	352
Equity securities		127	-17	56	-42	-173	-23
Debt securities	-624	-126	299	759	-138	185	375
Foreign portfolio investment in Poland (liabilities)	0	1,170	-41	1,283	1,510	1,437	2,498
Equity securities		233	689	599	952	885	635
Debt securities		937	-730	684	558	552	1,863
Other investment: net	-10,368	1,195	1,636	-361	4,625	409	-4,244
Polish assets	-2,359	287	6,532	-872	2,213	-2,691	-2,851
Long-term credits extended	-21	71	-22	-82	-82	-11	123
Drawings	76	5	55	227	260	198	171
Repayments	55	76	33	145	178	187	294
Short-term credits extended	-21	-22	-5	-60	-16	13	28
Drawings	151	187	153	189	147	53	172
Repayments	130	165	148	129	131	66	200
Other assets	-2,317	238	6,559	-730	2,311	-2,693	-3,002
Currency and deposits	-2,317	238	829	-825	2,260	-2,713	-3,020
Other			5,730	95	51	20	18
Polish liabilities	-8,009	908	-4,896	511	2,412	3,100	-1,393
Long-term credits received	-8,695	-82	-5,941	416	1,669	2,056	190
Drawings	894	702	819	1,189	3,235	4,405	3,551
Repayments	9,589	784	6,760	773	1,566	2,349	3,361
of which: due and paid	1,696	503	964	711	1,506	2,297	3,313
Short-term credits received	-31	88	85	592	-46	440	139
Drawings	485	431	597	1,201	334	934	543
Repayments	516	343	512	609	380	494	404
Other liabilities	717	902	960	-497	789	604	-1,722
Currency and deposits(2)	717	902	960	-448	830	606	-1,722
Other				-49	-41	-2	0
C. NET ERRORS AND OMISSIONS	772	720	486	2,487	1,801	3,484	2,634
OVERALL BALANCE	213	9,815	3,823	3,043	5,936	168	673
D. FINANCING OF OVERALL BALANCE	-213	-9,815	-3,823	-3,043	-5,936	-168	-673
Official Reserve Assets 2/	-1,513	-8,432	-3,828	-3,044	-5,926	-159	-618
Credits from IMF	610	-1,400					0
Exceptional financing	690	17	5	1	-10	-9	-55

(1) Preliminary data

(2) In May 2000 the category "Gross Official Reserves" was replaced by "Official Reserves Assets". As a consequence, the following items of the balance on a cash basis changed in comparison to previously published figures:
- "Currency and deposits",
- "Official reserves assets".

This change consisted in shifting the liabilities side of NBP repo transactions from previously compiled "Gross Official Reserves" to "Currency and deposits". For comparison purposes the data from 1996 through November 2000 were adjusted accordingly.

Source: National Bank of Poland

Foreign Trade

Notable developments in Poland's foreign trade policy since 1990 have been the elimination of the state monopoly in foreign trade, a general lowering of tariffs and the effective removal of most currency conversion restrictions and repatriation of profits. This has occurred alongside the dissolution of the COMECON in 1991 and a more general move towards exports to western markets, in particular, the EU.

Direction of Trade

The geographic breakdown of Poland's trade has changed dramatically in recent years. In the late 1980s, trade in non-convertible currencies represented by all of the COMECON countries accounted for nearly 50 per cent. of Poland's total trade. By 1999, trade with former COMECON members accounted for less than 16 per cent. of total trade, while the EU accounted for approximately 67 per cent. of total trade, with Germany being Poland's largest trading partner (36.1 per cent. of Polish exports and 25.2 per cent. of imports in 1999). The same proportions were evident in the first nine months of 2000.

The following table sets out the geographic distribution of Poland's trade for the years 1995 to 2000.

Geographic Distribution of Polish Trade

	1995		1996		1997		1998		1999		I-IX 2000[1]	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	(in per cent.)											
Developed Countries:												
Germany	38.3	26.6	34.4	24.7	32.9	24.1	36.3	26.4	36.1	25.2	35.2	24.2
Other EU countries	31.7	38.0	31.8	39.2	31.1	39.7	32.0	39.2	34.4	39.7	35.5	37.8
Other developed countries	5.0	9.7	5.5	9.7	5.0	9.7	5.3	9.1	5.8	9.2	6.2	9.2
Total developed countries	**75.0**	**74.3**	**71.7**	**73.6**	**69.0**	**73.5**	**73.6**	**74.7**	**76.3**	**74.1**	**76.9**	**71.2**
Central and Eastern Europe:												
CEFTA	5.4	5.6	6.1	5.8	6.8	6.3	7.2	6.4	8.2	6.7	8.2	7.2
Russian Federation	5.6	6.7	6.8	6.8	8.4	6.3	8.4	6.3	2.9	1.4	2.5	9.0
Other Central and Eastern Europe	6.5	3.5	7.6	2.9	9.2	2.3	5.5	0.7	5.9	6.1	6.2	2.1
Total Central and Eastern Europe..................	**17.5**	**15.8**	**20.5**	**15.5**	**24.4**	**14.9**	**21.1**	**13.4**	**17.0**	**14.2**	**16.9**	**18.3**
Developing Countries..........	8.0	11.0	7.8	10.9	6.6	11.6	5.3	11.9	6.7	11.7	6.2	10.5
Total....................................	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Preliminary data.

Source: Central Statistical Office

Composition of Trade

The largest export items in 1998 were furniture, coal, steel products, textiles, cars, shipping vessels and agricultural products (fresh and frozen fruits and dairy and meat products), while imports have increasingly comprised investment-related products such as machinery and transport equipment.

The following table sets out the composition of Poland's exports for the years 1995 to 2000.

Composition of Exports[(1)]

	1995		1996		1997		1998		1999		I-IX 2000[(2)]	
	U.S.$ millions	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**[(3)]
Natural Resource-Based Goods:												
Food and Live Animals	2,100	9.1	2,460	10.1	3,027	11.8	2,840	10.1	2,328	8.5	1,764	7.7
Beverages and Tobacco	164	0.7	131	0.5	104	0.4	96	0.3	101	0.4	87	0.4
Non-Food Raw Materials (excluding fuel)	1,029	4.5	825	3.4	820	3.2	804	2.9	839	3.0	669	2.9
Mineral Fuels, Lubricants & Related Materials	1,870	8.2	1,675	6.8	1,719	6.7	1,546	5.5	1,377	5.0	1,192	5.2
Animal and Vegetable Oil	35	0.2	38	0.2	43	0.2	38	0.1	46	0.2	17	0.1
Subtotal	5,198	22.7	5,129	21.0	5,711	22.2	5,324	18.9	4,691	17.1	3,729	16.3
Manufactured Goods:												
Chemicals and Related Products	1,774	7.8	1,887	7.7	2,027	7.9	1,899	6.7	1,696	6.2	1,549	6.7
Manufactured Goods Classified Chiefly by Material	6,314	27.6	6,316	25.8	6,830	26.5	7,116	25.2	6,986	25.5	5,834	25.4
Machinery and Transport Equipment	4,828	21.1	5,719	23.4	5,560	21.6	8,022	28.4	8,278	30.2	7,615	33.1
Miscellaneous Manufactured Articles	4,772	20.8	5,380	22.1	5,611	21.7	5,861	20.8	57,50	21.0	4,242	18.5
Non-Classified	9	0.0	9	0.0	13	0.0	7	0.0	6	0.0	–	0.0
Subtotal	17,697	77.3	19,311	79.0	20,040	77.8	22,905	81.1	22,716	82.9	19,240	83.7
Total	**22,895**	**100.0**	**24,440**	**100.0**	**25,751**	**100.0**	**28,229**	**100.0**	**27,407**	**100.0**	**22,969**	**100.00**

Notes:

(1) Based on customs data and the State Information Technology Consortium ("**SITC**").

(2) Preliminary data.

(3) I-IX 1999 = 100 per cent.

Source: Central Statistical Office

The following table sets out the composition of Poland's imports for the years 1995 to 2000.

Composition of Imports[(1)]

	1995		1996		1997		1998		1999		I-IX 2000[(2)]	
	U.S.$ millions	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**	**U.S.$ millions**	**per cent.**[(3)]
Natural Resource-Based Goods:												
Food and Live Animals	2,339	8.1	3,143	8.5	2,894	6.8	2,968	6.3	2,537	5.5	1,887	5.3
Beverages and Tobacco	217	0.7	250	0.6	299	0.7	302	0.6	368	0.8	146	0.4
Non-Food Raw Materials (excluding fuel)	1,562	5.4	1,737	4.7	1,762	4.2	1,655	3.5	1,419	3.1	1,218	3.4
Mineral Fuels, Lubricants & Related Materials	2,651	9.1	3,389	9.1	3,710	8.7	2,964	6.3	3,281	7.2	3,771	10.5
Animal and Vegetable Oil	189	0.7	216	0.6	239	0.6	282	0.5	190	0.4	119	0.3
Subtotal	6,958	24.0	8,735	23.5	8,904	21.0	8,171	17.4	7,795	17.0	7,141	19.9
Manufactured Goods:												
Chemicals and Related Products	4,340	14.9	5,120	13.8	5,839	13.8	6,404	13.6	6,584	14.4	5,213	14.5
Manufactured Goods Classified Chiefly by Material	6,266	21.6	7,455	20.2	8,283	19.6	9,711	20.6	9,526	20.7	7,247	20.2
Machinery and Transport Equipment	8,688	29.9	12,272	33.0	15,228	36.0	18,273	38.8	17,544	38.2	13,211	36.8
Miscellaneous Manufactured Articles	2,701	9.3	3,435	9.2	3,950	9.4	4,412	9.4	4,380	9.5	3,071	8.5
Non-Classified	97	0.3	120	0.3	104	0.2	83	0.2	82	0.2	36	0.1
Subtotal	22,092	76.0	28,402	76.5	33,403	79.0	38,883	82.6	38,116	83.0	28,741	80.1
Total	**29,050**	**100.0**	**37,137**	**100.0**	**42,308**	**100.0**	**47,054**	**100.0**	**45,911**	**100.0**	**35,882**	**100.0**

Notes:

(1) Based on customs data and SITC.

(2) Preliminary data.

(3) I-IX 1999 = 100 per cent.

Source: Central Statistical Office

Trade Policy

Average tariff levels have gradually decreased since 1994. In the year 2000 the average effective tariff rate was 3.06 per cent. and for the year 2001 is projected to be 2.61 per cent. The import surcharge was eliminated on 1 January 1997. Tariffs are scheduled to decrease further over the next several years as a result of multilateral agreements with the EU, EFTA and CEFTA, covering approximately 75 per cent. of Poland's trade, as well as pursuant to Poland's membership in the World Trade Organisation ("**WTO**"). However, in February 1997, Poland reimposed a temporarily suspended 10 per cent. tariff on grain and grain products as a result of its concern over the importing of subsidised foodstuffs from EU countries. The government also introduced further import tariffs on certain foodstuffs in late 1999 in an attempt to support local farmers and producers.

Foreign Exchange and Gold Reserves

The following table sets out Poland's official reserve assets at the end of each of the years 1996 to 1999 and for each of the months from January to November 2000.

Exhibit 2. Official Reserve Assets[1]

(U.S.$ millions)

	Official Reserve Assets[2] excluding Gold	Gold	Total Official Reserve Assets	Months of Import Coverage[3] in Total Official Reserve Assets
1996	18 030.5	189.0	18 219.5	6.7
1997	21 140.8	262.4	21 403.2	6.7
1998	27 325.1	950.0	28 275.1	7.7
1999	26 354.3	959.4	27 313.7	8.0
2000				
January	26 019.3	936.4	26 955.7	8.0
February	25 293.8	970.7	26 264.5	8.0
March	25 325.6	914.8	26 240.4	7.7
April	24 591.8	909.4	25 501.2	7.7
May	24 869.3	900.1	25 769.4	7.8
June	25 033.4	952.7	25 986.1	7.8
July	24 705.2	915.0	25 620.2	7.6
August	24 615.2	915.8	25 531.0	7.5
September	24 510.9	904.8	25 415.7	7.5
October	25 204.8	874.5	26 079.3	7.6
November	25 653.9	889.6	26 543.5	7.8

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaces that used previously, i.e. "Gross Official Reserves". The latter differed from the former in relation to the treatment of repo transactions. Gross Official Reserves included the value of net repo transactions (difference between assets and the liabilities side of repo transactions). The category of Official Reserve Assets, introduced from 31 May, 2000, comprises only assets side repo transactions, which treatment is in line with the IMF definition. For comparison Official Reserve Assets from 1996 to December 2000 were adjusted backwards.

(2) Including Reserve Position in IMF.

(3) Average imports of goods.

Source: National Bank of Poland

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Polish Banking System

Until 1989, the Polish banking system was controlled by the state with business decisions being subordinated to the political priorities of the state. The banking sector until 1989 was composed of the National Bank of Poland ("**NBP**"), four state-owned specialist banks, two state controlled banks and co-operative banks. The nature of this system reduced the role of banks within the banking system to a minimum. To remedy this, a two-tier banking system was established, with the NBP as the central bank and a range of private banks competing in the market.

The reform of the Polish banking system began in 1989, when about 400 branches of the NBP were transformed into nine regional commercial banks. All of these regional banks were converted into joint-stock companies. In 1989 Parliament adopted a new Banking Law and an Act on the National Bank of Poland. As a result of these changes in legislation and administrative procedures, a relatively large number of new private banks were opened.

At the beginning of its economic transformation, Poland faced a crisis resulting from a considerable increase in problem loan portfolios in many banks (which was partly a result of the recession of 1990 and 1991). In 1993 the Law on Financial Restructuring of Banks and Enterprises was enacted. This law allowed banks, through so-called "conciliation agreements" to restructure many of their problem loans by such methods as cancellation or rescheduling of debt or the conversion of debt into equity. In addition, the Ministry of Finance went on to recapitalise state-owned commercial banks which had taken steps to restructure their loan portfolios through issuance of various long-dated maturity bonds.

Polish banks are relatively small in terms of equity and have limited branch coverage. As a consequence many of them see consolidation as a means of further development. Examples of market-driven consolidation to date are the following important mergers and acquisitions: Bank Inicjatyw Gospodarczych S.A. with Bank Gdanski S.A.; Kredyt Bank S.A. with Polski Bank Inwestycyjny S.A.; Bank Rozwoju Eksportu S.A. with Polski Bank Rozwoju S.A.; Wielkopolski Bank Kredytowy with Bank Zachodni; and the local branch of Citibank with Bank Handlowy. Following special regulations adopted by Parliament the Pekao S.A. Group was created out of four banks in September 1996, which merged into one bank on 1 January 1999.

By June 2000 there were 75 commercial banks in Poland, of which 27 were banks with majority Polish-held equity (3 state bank and 24 joint-stock banks) and 48 were banks with majority foreign-held equity (this group of banks includes 2 branches of foreign banks and 46 joint-stock banks). There were also 757 co-operative banks. The equity held by foreign parties constituted 55.34 per cent. of the share capital of commercial banks.

The National Bank of Poland

The NBP is the central bank of Poland. The NBP is governed by the Act on the National Bank of Poland of 29 August 1997 (the "**NBP Act**") and the Banking Law of 29 August 1997 (the "**Banking Law**"). Both Acts were established to be consistent with EU standards and the basic rules of the European System of Central Banks are taken into account. Bank independence is essential for the credibility of and a prerequisite for the move to European Economic and Monetary Union. The NBP is headed by 3 governing bodies: the President, the Management Board (consisting of 6 – 8 Members (including 2 Deputy Presidents)) and the Monetary Policy Council (see below). The President of the NBP is appointed by the Parliament on the motion of the President of the Republic of Poland for a six-year term, with strictly limited rights of recall.

The principal responsibilities of the NBP are monetary, credit and exchange rate policy and bank regulation and supervision. The NBP is specifically responsible for issuing banknotes and coins, acting as banker to the central government and to other banks in the banking system, acting as custodian of the country's gold and foreign exchange reserves and acting as a bank of rediscount and lender of last resort to other banks.

The new Constitution of the Republic of Poland and NBP Act confirmed the NBP's independence. The legislation also established a new NBP body, the Monetary Policy Council. The role of the Monetary Policy Council is to draw up annual monetary policy guidelines and submit these to the Sejm for its information, together with the submission by the Council of Ministers of the draft Budget. The Council determines the monetary policy guidelines for each year and on the basis of those guidelines, formulates decisions concerning the central bank key policy instruments: interest rates, required reserves ratios, open market operations, NBP loan and credit facilities and the exchange rate policy. The Monetary Policy Council is also required to present a report to the Sejm on the performance of the monetary policy guidelines within five months of the end of the fiscal year. Under the NBP Act, the powers of the President are separated from those of the Monetary Policy Council and the Management Board of the NBP. The Monetary Policy Council is headed by the President. The Monetary Policy Council consists of 10 members, namely the President and 9 other members drawn from outside the NBP. Members are appointed for a tenure of 6 years. The tenure of all of the current members began in February 1998. In accordance with its implementing legislation, three members of the Monetary Policy Council are appointed by the Sejm, three by the Senate, and three by the President of Poland. The Monetary Policy Council meets at least once a month. The Council rules in the form of resolutions adopted by a majority vote, in the presence of at least five members, including the Chairperson of the Council (the President of the NBP). In the event of a tied vote, the Chairperson has a casting vote. The positions taken by Council members during votes are published in official publications.

General exchange rate rules are established by the Council of Ministers upon consultation with the Monetary Policy Council. The implementation of exchange rate and monetary policy is within the sole authority of the NBP.

Under the NBP Act, the activities of banks are supervised by the Commission for Banking Supervision – see "Bank Regulation and Prudential Standards" below. The Commission is responsible for issuing banking licences and overseeing insolvency and liquidation proceedings in the banking sector. The decisions of the Commission, together with the responsibilities it assigns, are carried out and co-ordinated by the General Inspectorate of Banking Supervision which is a separate organisational unit within the structure of the NBP .

Monetary Policy

The ultimate goal of central bank monetary policy is to reduce the rate of inflation, and, over time, to attain price stability. This stance is required to provide a strong foundation for a sustainable economic growth. In September 1998 the Monetary Policy Council published its medium-term strategy for the monetary policy of the NBP, "The Medium-Term Monetary Policy Strategy 1999-2003", which is one of the basic documents published by the Monetary Policy Council, which clearly presents the general philosophy of the NBP's monetary policy for the near future. The document underlines the strategic goal of Poland to integrate the economy with the EU, and thereafter with EMU. The EMU price stability criterion implies that Poland will have to reduce inflation to a level not exceeding 4 per cent. annually by 2003.

Along with the growing integration of the Polish economy with the global economy, and given the need to break inflationary expectations, the primary monetary policy concept for the years 2001 through 2003 is based upon a strategy directed against inflation.

The strategy of direct inflation targeting assumes abandoning intermediate targets. The NBP reacts to any available information on factors, which could jeopardise reaching the inflation target set for a given year. In pursuing this target, the NBP applies available monetary policy instruments.

The direct inflation targeting strategy is accompanied by the expanded exchange rate flexibility. One of the condition of an accession of Poland to the EMU will be the inclusion of the zloty in the second stage of the exchange rate mechanism system for at least two years, which should be preceded by a period of a floating exchange rate. As of 12 April 2000, a fully floating exchange rate regime for the zloty was introduced. This move constituted the final stage in the consistent policy of increasing exchange rate flexibility. In fact, over the last two years, the zloty exchange rate has already been largely floated within a crawling band, with the band being gradually widened to +/- 15 per cent. The move to a new exchange rate mechanism in 2000 had been previously announced in the monetary Policy Guidelines for the Year 2000.

Money Supply

In 1999, the broad money supply expanded by 19.3 per cent. in nominal terms, or by 8.6 per cent. in inflation-adjusted terms. In the January-November period of 2000, broad money supply increased by 10.5 per cent. in nominal terms and 1.8 per cent. in real terms.

The following table sets out selected monetary aggregates for the years 1996 to 2000.

Monetary Aggregates

Items	**1996**	**1997**	**1998**	**1999**	**2000**[(1)]
			(in PLN millions)		
1. Cash in circulation	23,563.9	27,255.9	30,225.3	38,082.7	33,545.4
2. Demand deposits (zloty)	28,767.4	34,430.4	41,444.4	50,118.2	46,586.8
3. Demand deposits (foreign exchange)	8,724.5	10,433.4	9,814.4	11,187.2	11,734.1
4. Narrow Money (1+2+3)	**61,055.8**	**72,119.7**	**81,484.0**	**99,388.1**	**91,866.3**
5. Time deposits (zloty)	60,793.2	83,863.5	115,464.6	135,591.5	166,188.7
6. Time deposits (foreign exchange)	14,668.0	20,387.1	23,828.1	28,516.4	33,100.4
7. Repurchase agreement	145.4	21.4	3.1	2.7	2.4
8. Broad Money (4+5+6+7)	**136,662.4**	**176,391.7**	**220,779.8**	**263,498.8**	**291,157.8**

(1) January-November

Source: NBP

Interest Rates

Until 1998, the NBP sought to achieve its targets in relation to certain monetary aggregates by setting two official NBP rates: the rediscount rate and the lombard rate. Within the framework of the adopted strategy, the NBP uses all the available information and applies a suitable mix of monetary policy instruments to reach the pre-determined inflationary target.

The lombard rate is the basic interest rate of the NBP. The lombard rate determines the ceiling (the upper limit) of inter-bank market interest rates and it reflects the general direction of monetary policy adjustments.

Since 1998, the predominant reference rate has been the floor for the yield on 28-day NBP bills. The 28-day NBP bills are the main securities used in open market operations, which are conducted to manage the liquidity on the market.

The following table sets out the levels of interest rates set by the NBP on the dates shown since 1994.

NBP Interest Rates

In force since		Rate for Refinancing credit (per cent.)	Lombard Rate (per cent.)	Rediscount Rate (per cent.)	Reference Rate 28-day NBP bill rate (per cent.)
1994.............................	13.05	33	31	28	
1995.............................	21.02	35	34	31	
	29.05	31	30	27	
	18.09	29	28	25	
1996.............................	18.01	*	26	25	
	17.07	*	25	25	
1997.............................	04.08	*	27	24.5 (26.1)	
1998.............................	26.02				24
	23.04				23
	21.05	*	26	23.5 (25)	21.5
	17.07	*	24	21.5 (22.6)	19
	10.09				18
	29.10	*	22	20 (21.05)	17
	10.12	*	20	18.25 (19.1)	15.5
1999.............................	21.01	*	17	15.5 (16.1)	13
	18.11		20.5	19	16.5
2000.............................	24.02		21.5	20	17.5
		31.08	23.0	21.5	19.0

* One percentage point over lombard rate

Source: NBP

Mandatory Reserves

During the period of sustained excess liquidity in the banking system, the reserve requirement has been the main instrument of the NBP, helping to increase the efficiency of the monetary transmission mechanism. In periods of rising excess liquidity the NBP used to increase the ratio of the mandatory reserves. On 30 September 1999 the rate of required reserves was reduced to 5 per cent., whether for demand deposits, time deposits or foreign currency deposits. This reduction coincided with the issue of long-dated maturity bonds by the NBP. Banks were required to purchase these bonds to limit the banking system liquidity. Throughout 1999 the Monetary Policy Council stressed the necessity of a gradual modification of the system of reserve requirements in the direction of incorporating the actual needs of monetary policy and bringing the system closer to the arrangements adopted by the European Central Bank. Further changes of required reserve depend on the conditions of monetary policy implementation and the competitiveness of the Polish banking system. In 2000 no major changes in mandatory reserves policy were undertaken.

Official Reserves Requirement On Selected Deposits

Enforcement date		Zloty deposits saving	Zloty deposits time	Zloty deposits demand	Foreign currency deposits time	Foreign currency deposits demand
				(*in per cent.*)		
1991	20/10	25	10	30		
1992	20/05		10	25		
	20/09		10	23		
1994	20/02		10	23	0.5	0.75
	31/10		10	20	1	1
1995	31/03		9	20	1	1
1996	29/02		9	20	2	2
	30/06		9	17	2	2
1997	28/02		9	20	4	4
	31/05		11	20	5	5
1999	30/09		5	5	5	5

Source: NBP

Open Market Operations

Open market operations are the NBP's main instrument for adjustments of the banking system reserves supply. A proper selection of instruments used in such operations depends on the specific prevailing market conditions. The goal of the Monetary Policy Council is to develop an environment where long-term interest rates are determined by the market. As a result, the NBP generally concentrates on short-term operations (at present these are 28-day maturity operations).

On 30 September 1999, simultaneously with the reduction in reserve requirements ratios and the issue of long-dated maturity bonds by the NBP, the government restructured its public sector liabilities to the central bank by converting them into marketable securities. The NBP thus obtained negotiable Treasury securities, which are now available for sale to the banks for the purpose of draining liquidity. This operation will help the NBP to work toward a state of operational shortage of liquidity within the banking system. This will improve the transmission mechanism within the interest rate channel and bolster the impact of the NBP interest rate on the economy.

Foreign Exchange Regulations

On 1 June 1995, Poland formally acceded to the obligations under Article VIII of the IMF Articles of Agreement providing for full current account convertibility of the zloty. According to the Foreign Exchange Law Poland liberalised the financial account with regard to medium and long-term capital. The liberalisation of short-term capital was limited, and further steps need to be, and will be, taken before Poland's entry into the EU. In the area of capital movements the majority of capital flows between Poland and abroad have been liberalised. Some degree of restriction still exists on direct investment in specific economic sectors, real estate acquisitions and short term financial transactions.

The convertibility of the zloty is regulated by the new Foreign Exchange Law of 18 December 1998 (the "**Foreign Exchange Law**"). The Foreign Exchange Law consolidates all existing foreign exchange rules and regulations, extends full convertibility of the zloty to all types of current account transactions, clarifies the status of foreign exchange banks, provides for use of the zloty in foreign trade transactions and includes special drawing rights at the IMF ("**SDRs**") and the euro within its definition of foreign currency.

The Foreign Exchange Law gives foreign investors the right to purchase foreign exchange with zlotys for transfer of profits and repatriation of capital without a special foreign exchange permit. Pursuant to regulations promulgated by the Minister of Finance under the Foreign Exchange Law, a number of other foreign exchange transactions are generally permitted to be undertaken without the necessity of obtaining special foreign exchange permits from the NBP.

Exchange Rate Policy

Since January 1990, Poland has utilised various fixed exchange rate mechanisms. The zloty was fixed against the dollar from January 1990 until May 1991 and then fixed against a basket of currencies until October 1991. Since then, Poland has used a "crawling peg" system according to which the central exchange rate of the peg is devalued against a basket of currencies at a fixed daily percentage. Initially the central rate was devalued at a preannounced rate cumulating to 1.8 per cent. per month and the intervention limits were set, respectively, 2 per cent. above and 2 per cent. below the central rate. Later the devaluation rate was gradually diminished to 0.5 per cent. and the intervention band has widened to +/– 15 per cent. in 1999. Since 12 April 2000 the Polish currency has been floated. The monthly devaluation rate, the central parity rate and the trading band were abolished, while a policy of effective full flotation of the zloty has been followed.

The NBP sets an official exchange rate (the "**Fixing Rate**") only an accounting device and has no significance for transactions.

The following table sets out the official exchange rates set by the NBP as of the following dates and for the following periods.

Official PLN/U.S.$ Exchange Rate(1)

	Year ended 31 December					
	1995	1996	1997	1998	1999	2000
End of period	2.4680	2.8755	3.5180	3.5040	4.1483	4.1432
Average	2.4244	2.6965	3.2808	3.4937	3.9675	4.3464

Notes:
(1) Since May 1995, reflects Fixing Rates.
Source: NBP

Bank Regulation and Prudential Standards

The Commission for Banking Supervision supervises the activities of banks in Poland, including developing guidelines for all Polish banks. Since 1992, the NBP's supervisory powers have been augmented by a strengthening of the powers of the NBP's General Inspectorate of Banking Supervision, the role of which is to enforce banking regulation and to ensure compliance with banking laws.

The current prudential standards include a minimum 8 per cent. risk weighted capital ratio calculated substantially in accordance with international standards, monthly monitoring of the limits for foreign exchange positions (capital requirement introduced from 31 March 2001), classification of the quality of bank assets, specific provisions with respect to problem loans (100 per cent. for non-performing or "lost" loans, 50 per cent. for doubtful loans, 20 per cent. for substandard loans and 1.5 per cent. for the "to be watched" category) and limits on foreign exchange positions. The NBP also produces a quarterly bulletin, which analyses the performance of banks generally within the Polish sector. Each bank is required to provide the NBP with the information required in this report. In addition, every 10 days banks are required to report to the NBP their FX positions as at closing of each of the previous 10 days.

The NBP has assisted in the implementation of the new regulatory framework through on-site supervision. The NBP has endeavoured to prevent potential bankruptcies by facilitating mergers with larger Polish banks and foreign institutions.

The NBP Act established the Commission for Banking Supervision composed of the president of the NBP, the Director of the General Inspectorate of Banking Supervision, along with representatives of the President of the Polish Republic, the Minister of Finance, the Chairperson of the Securities and Exchange Commission and the President of the Bank Guarantee Fund. The 1998 Banking Act also provided the rules and procedures for the establishment and the organisation of state banks, co-operative banks and joint-stock banks as well as a requirement of the approval of the Commission for Banking Supervision for any purchase exceeding 10 per cent. (and specified percentage figures thereafter) of a bank's shares.

The 1998 Banking Act also provides for the Chairperson of the Securities and Exchange Commission, acting in agreement with the Commission for Banking Supervision, to establish special limits for banks engaged in operations on the capital markets.

The Law on the Bank Guarantee Fund provides for bank-funded deposit insurance for all banks through the creation of a guarantee fund (the "**Guarantee Fund**"). The Guarantee Fund operations are financed by mandatory bank contributions. The Guarantee Fund provides the following coverage for:

1. 100 per cent. of funds deposited in Polish banks in zloty and foreign currencies (irrespective of the number of accounts opened by a depositor) ("**Funds**") up to the equivalent of Euro 1,000;
2. 90 per cent. of Funds within the range of Euro 1,000 to 15,000;
3. from the year 2002 – 90 per cent. of Funds within the range of Euro 1,000 to 18,000; and
4. from 1 January 2003 – 90 per cent. of Funds within the range of Euro 1,000 to 22,500.

Capital Markets

Warsaw Stock Exchange

In 1991, Poland enacted legislation regarding public trading in securities and the establishment of the Warsaw Stock Exchange (the "**WSE**"), and on 16 April 1991, the WSE resumed its operations after an interval of 52 years.

On 10 October 1994, the WSE was admitted to the International Federation of Stock Exchanges as a full member. The WSE is comprised of the "main" and "parallel" markets with the main market requiring a larger market capitalisation and stricter disclosure requirements than the parallel market.

Current securities legislation (Law on the Public Trading of Securities of 21 August 1997 (the "**Law on the Public Trading of Securities**")) regulates the public offering of securities and the operations of securities brokers, and under it the Polish Securities and Exchange Commission (the "**Securities Commission**"), equipped with enforcement powers, is entrusted with supervising the securities market. The Securities Commission has authority over all offerings and establishes reporting requirements and operating practices. Its authority has been further expanded by its ability to enforce punitive charges for misconduct or misinformation. The Law on the Public Trading of Securities also provides a revised definition of securities (to include derivatives – see below), liberalises the rules and procedures for introducing shares to public trading, expands the activities of brokerage houses, introduces regulations related to securities lending and short sales and harmonises Polish securities regulations to the respective requirements of the OECD and EU. The law also provides for comprehensive regulations in the area of capital markets in Poland and the derivatives sector. On 16 January 1998, futures contracts based on the stock market index – WIG

20 – were quoted for the first time. Warrants were first introduced on the WSE on 9 March 1998. Currently the warrants are based on stocks of major companies and indices.

In November 2000 WSE implemented the new quotation system, WARSET. Securities on WSE are quoted in one of the following systems: the single price auction system with one auction, single price auction system with two auctions and continuous trading.

Settlement in Poland is conducted on a delivery-versus-payment basis. Each investor is required to hold a securities account and a cash account with a local broker or custodian and each broker and custodian is required to hold a securities account in the National Securities Depository and maintain a cash account with a clearing bank. The process of accounting, and the preparation of data for settlement and registration, are fully computerised.

All securities admitted for public trading are required to be deposited in the form of a global certificate with the National Securities Depository and are traded in book-entry form only. Shareholders are supplied with depository receipts and accounts statements from the broker or custodian with whom they hold an account.

At the end of December 2000, the WSE consisted of 37 members (brokerage houses), of which 13 were foreign owned. Out of the 49 brokerage houses operating in Poland, 6 were owned by banks and 43 were operating as independent entities (including 11 asset management firms). Further, 20 banks provided investment accounts. There were 1779 licensed brokers and 177 investment advisors. There exists a process of proprietary transition of brokerage houses, relying on a structural, financial and organisational transition. Also, at the end of December 2000, the following instruments were listed on the WSE: equity shares of 212 companies (and 14 national investment funds), 48 bond issues, rights to shares, warrants and futures contracts (euro exchange rate, U.S.$ exchange rate and the WIG 20 index). At the end of 2000, total market capitalisation of the listed companies was approximately PLN 130 billion (U.S.$ 32 billion).

Foreign investors may engage in transactions on the WSE on the same terms as domestic investors and may repatriate trading profits in foreign currency without obtaining any further permits under Poland's foreign exchange regime.

The following table sets forth selected indicators relating to the WSE as at 31 December for the years 1995 to 2000:

The Warsaw Stock Exchange

	As at and for the year ended 31 December					
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Market Capitalisation(1):						
(in PLN millions)	11,271	24,000	43,766	72,442	123,411	130,000
(in U.S.$ millions)(2)	3,657	8,346	12,441	20,674	29,750	31,707
(%of GDP)	3.7	6.2	9.3	13.2	20.2	(5)
Turnover Values						
(in PLN millions)(3)	13,671	29,895	52,342	62,305	95,026	181,000
WIG Index	7,585	14,342	14,668	12,795	18,083	17,847
Average P/E(4)	7.8	12.3	14.9	12.6	36.2	15.9
Dividend Yield	2.3	1.2	1.5	0.9	0.6	0.8
Listed Companies	65	83	143	198	221	212

Notes:

The table excludes bonds, derivatives and instruments other than stocks.

(1) Includes both the main and parallel markets.

(2) PLN amounts have been converted to U.S.$ based on year-end official exchange rates.

(3) Includes both purchases and sales; includes off-session block transactions.

(4) Excludes the parallel market.

(5) Data not yet available.

Shares are not only traded on the WSE. There is also a regulated, secondary, public over-the-counter (OTC) market called the Central Table of Offers operated by Central Table of Offers, a joint stock company (Centralna Tabela Ofert S.A.).

Investments funds

The principles for creating and operating investment funds are specified by the Act on Investment Funds of 28 August 1997 (the "**Act on Investment Funds**"), which established open-end investment funds, specialised open-end investment funds, closed-end investment funds and mixed investment funds.

In 2000, the Securities Commission prepared a draft amendment to the Act on Investment Funds. It is aimed at enabling the creation of a new kind of investment fund – the specialised closed-end fund – which will be a venture capital fund, as well as eliminating some ambiguities concerning the interpretation of the Act on Investment Funds and simplifying the procedures concerning creating of funds and fund corporations.

At the end of 2000, the Securities Commission granted permits to 21 fund corporations managing 86 funds.

Treasury Securities

Trading of Treasury bonds on the secondary market can be conducted through the WSE. However, most Treasury bond trading is being concentrated on the unregulated OTC market with the total value of annual transactions accounting for over 90 per cent. of the total value of transactions executed in all markets. This is due to lower transaction charges in the OTC market in comparison with the cost of transactions executed on the WSE.

Insurance market

An important feature of the Polish insurance market is its domination by three big insurance companies, which have the largest market share by amount of gross premiums written. According to data as at 30 September 2000, the largest market share is held by PZU S.A. (35.6 per cent.), followed by PZU Zycie S.A. (20.7 per cent.) and Commercial Union Polska – TU Zycie S.A. (7.6 per cent.). In the period mentioned above the foreign direct investment (FDI) in the insurance sector continued to grow. The number of insurance companies with a majority of foreign-equity rose to 41. At the end of September 2000, FDI reached PLN 1.5 billion (compared to PLN 1.2 billion in 1999). Foreign capital accounted for 53.9 per cent. (compared to 50.1 per cent. in 1999) of total equity capital of the insurance companies. At the end of September 2000, the cumulative amount of FDI in the life assurance sector reached PLN 732.9 million and PLN 790.2 million in the non-life insurance sector.

According to data as of 30 September 2000 investments by insurance companies rose to PLN 29.8 billion – compared to PLN 24.4 billion in 1999, and increased by the 22.3 per cent. In the life assurance market investment totalled around PLN 17.6 billion by the end of September 2000 compared to PLN 13.7 billion by the end of 1999, and increased by 28.7 per cent. In the non-life insurance market, investments reached PLN 12.2 billion compared to PLN 10.7 billion by the end of 1999, and increased by 13.9 per cent. The investments of insurance companies were primarily concentrated in debt securities (73.2 per cent.) followed by equities, other variable-income securities and units in investment funds (8.3 per cent.) and bank deposits (6.8 per cent.).

By 31 December 2000 69 licensed insurance companies operated in Poland namely, 35 life assurance and 34 non-life insurance companies.

PUBLIC FINANCE

In Poland, the public finance sector is treated as consisting of the state budget, extra budgetary funds connected broadly with social transfer payments and the separate budgets of the local governmental authorities (*voivodships, poviats and gminas*).

Fiscal policy from 1990 to 2000 has been shaped by a desire to reduce inflation and to keep the state budget deficit consistent with the monetary policy objectives. Under the Constitution, the NBP could not provide for financing of the budget deficit after 1998. Since 1993, the state budget deficit has remained below 4 per cent. of GDP as well as below the target set out in the applicable state budget. However, preliminary figures for 2000 suggest that the general government deficit rose to 3.8 per cent. of GDP, against a budgeted figure of 2.8 per cent.

Total government spending as a percentage of GDP increased from 45.3 per cent. in 1991 to 47.5 per cent. in 1994 and decreased to 44.4 per cent. in 1999. Preliminary estimates predict this to decrease to 42.1 per cent. in 2000. However, the structure of government spending changed significantly during that period. A steep decline in subsidies to state-owned enterprises has been matched by a steep increase in cash transfer payments to individuals, particularly unemployment benefits and pension payments.

The following tables set out certain information regarding Poland's public finances for the years 1996 to 1999, as well as the preliminary data for 2000 and the Draft 2001 Budget Act.

Fiscal Trends 1996-2001

	1996[3/]	1997[3/]	1998	1999	2000[2,5/]	2001[1/]
PLN million						
State Budget Balance................	-12,197	-12,441	-13,192	-12,479	-15,400	-20,540
Revenues..............................	95,925	113,234	126,560	125,922	135,221	161,026
Expenditures.........................	108,842	125,675	139,752	138,401	150,621	181,566
General Government Balance...	-8,233	-7,022	-14,301	-19,914	-26,131	-23,001
Revenues..............................	170,474	206,563	227,284	253,343	268,747	314,513
Expenditures.........................	178,707	213,585	241,585	273,257	294,878	337,514
Percentage Share of GDP						
State Budget Balance................	-3.3	-2.6	-2.4	-2.0	-2.2	-2.6
Revenues..............................	24.7	24.0	22.9	20.5	19.6	20.6
Expenditures.........................	28.1	26.6	25.2	22.5	21.8	23.2
General Government Balance...	-2.1	-1.5	-2.6	-3.2	-3.8	-2.9
Revenues..............................	44.0	43.7	41.1	41.2	38.9	40.2
Expenditures.........................	46.1	45.2	43.6	44.4	42.7	43.2
Primary State Budget Balance[4/]	0.4	0.8	0.9	1.0	0.4	0.2
Memo						
GDP (PLN million)....................	387,827	472,350	553,560	615,560	690,400	781,724

Notes:

1/ 2001 Budget Act Draft.

2/ Estimates.

3/ Adjusted for new methodology excluding privatisation from budgetary revenues.

4/ Excluding interest payments calculated on cash basis.

5/ Revenues exclude intra State Budget and intra General Government transfers, Ministry of Finance's methodology allows excluding them from the year 2000 on.

Please Note: Polish budget figures are presented on a cash basis. Funds derived from foreign sources (such as transfers from the European Union, grants, etc.), not returnable, are not included in Polish budget figures.

Source: Ministry of Finance

Local Government Budgets 1996-2001[1]

	1996	1997	1998	1999[3]	2000[3][4]	2001[2][3]
			(in PLN millions)			
Total Revenues	30,956	39,497	46,119	64,878	73,301	85,172
Total Expenditure	31,499	40,504	47,495	65,846	76,625	88,223
Balance	-543	-1,007	-1,376	-968	-3,324	-3,051
As Percentage of GDP	-0.1	-0.2	-0.2	-0.2	-0.5	-0.4
GDP	387,827	472,350	553,560	615,560	690,400	781,724

Notes:

(1) Including inter-sector transfers.

(2) 2001 Draft Budget Act.

(3) Since 1999 Local Government Budgets consists of gminas budgets, poviat budgets, and voivodships budgets.

(4) Estimates.

Source: Ministry of Finance

Selected Extra-Budgetary Funds 1996-2001

	1996	1997	1998	1999	2000[1]	2001[2]
			(in PLN millions)			
Social Insurance Fund Balance	980	-1,199	-818	-6,493	-6,436	0
Revenues	52,198	62,636	71,960	73,910	80,205	100,538
Budget Transfers	10,851	13,172	14,472	11,248	18,019	29,290
Expenditures	51,218	63,835	72,778	80,403	86,641	100,538
Agricultural Social Insurance Fund Balance	76	14	5	-4	-21	-5
Revenues	8,094	10,069	11,316	13,638	14,436	16,115
Budget Transfers	7,550	9,444	10,652	12,891	13,682	15,288
Expenditures	8,018	10,055	11,311	13,642	14,457	16,120
Labour Fund Balance	122	426	303	-98	-861	-589
Revenues	7,540	7,011	5,119	5,481	6,061	7,535
Budget Transfers	4,939	3,800	1,263	819	1,008	1,880
Expenditures	7,418	6,585	4,816	5,579	6,922	8,124
Health Fund Balance				-847	-891	0
Revenues				20,913	23,336	26,648
Budget Transfers				2,501	184	213
Expenditures				21,761	24,227	26,648

Notes:

(1) Estimates.

(2) 2001 Budget Act Draft.

Source: Ministry of Finance

The State Budget

The Budget Process

The fiscal year for the Polish government is the calendar year. Under the Constitution, the Council of Ministers must present a draft budget to the Sejm at the latest 3 months prior to the next fiscal year. The budget then proceeds through the regular legislative process. If a budget has not been approved by the Sejm and the Senate before the beginning of the new fiscal year, the government is empowered by law to manage public finances on the basis of the draft budget until a budget is adopted. If no budget has been agreed by Parliament and presented to the President for signing within four months of the Council of Ministers submitting the draft to the Sejm, the President may dissolve Parliament. The 2000 Budget Act was approved on 21 January 2000. In the year 2000 the government postponed presentation of the draft of the 2001 budget by six weeks due to unexpected changes in the legal and macroeconomic environments, namely rejections by the Parliament of proposed amendments to the VAT Act which cut a significant proportion of projected revenues and much weaker than expected 2000 inflation and GDP figures. It was presented on November 15, 2000 and in following months the government has made an amendment, which takes into account effects of revised macroeconomic assumptions (such as lower GDP growth) as well as results of third generation mobile telecommunication (UMTS) licence auctions.

The following tables set out the state revenues and expenditures and their percentage of GDP for the years 1996 to 2000 and the envisaged revenues and expenditure contained in the draft of the 2001 Budget Act.

State Budget Revenues 1996-2001

	(in PLN millions)					
	1996	**1997**	**1998**	**1999**	**2000**(1)(3)	**2001**(2)(3)
Total Revenues	**95,924.7**	**113,234.4**	**126,559.9**	**125,922.2**	**135,220.9**	**161,026.4**
Tax Revenues	*90,362.8*	*105,725.8*	*120,026.0*	*118,342.9*	*125,012.7*	*142,507.4*
Indirect Taxes (Excise, VAT)	46,803.2	55,252.4	64,432.3	74,567.2	79,997.0	94,485.9
Corporate Income Tax	10,730.3	13,264.0	14,809.0	15,060.4	16,786.8	17,588.8
Personal Income Tax	26,171.9	29,941.5	34,664.0	23,115.2	23,011.5	25,618.7
Custom Duties	6,498.3	7,037.3	6,076.5	5,566.0	5,203.2	4,814.0
Abolished Taxes	159.2	230.6	44.2	34.1	14.2	–
Non-tax Revenue	*5,534.5*	*7,034.5*	*6,526.3*	*7,514.0*	*10,121.1*	*17,019.3*
Dividends	1,225.1	1,167.1	1,000.8	596.5	856.7	650.0
Central Bank Profits	359.3	1,135.1	321.9	502.4	2,205.6	4,874.0
Revenue of Budgetary Units	3,384.1	3,518.5	4,105.6	5,393.7	5,975.0	6,820.2
Revenue from UMTS licence						3,126.2
Other Revenue	565.9	1,213.9	1,098.0	1,021.4	1,083.8	1,548.9
Foreign Revenues	*27.3*	*474.1*	*7.7*	*65.4*	*87.2*	*1,499.7*
Revenues as a Percentage of GDP						
Total Revenues	**24.7**	**24.0**	**22.9**	**20.5**	**19.6**	**20.6**
Tax Revenues	*23.3*	*22.4*	*21.7*	*19.2*	*18.1*	*18.2*
Indirect Taxes (Excise, VAT)	12.1	11.7	11.6	12.1	11.6	12.1
Corporate Income Tax	2.8	2.8	2.7	2.4	2.4	2.3
Personal Income Tax	6.7	6.3	6.3	3.8	3.3	3.3
Custom Duties	1.7	1.5	1.1	0.9	0.8	0.6
Abolished Taxes	0.0	0.0	0.0	0.0	0.0	-0.0
Non-Tax Revenue	*1.4*	*1.5*	*1.2*	*1.2*	*1.5*	*2.2*
Dividends	0.3	0.2	0.2	0.1	0.1	0.1
Central Bank Profits	0.1	0.2	0.1	0.1	0.3	0.6
Revenue of Budgetary Units	0.9	0.7	0.7	0.9	0.9	0.9
Revenue from UMTS licence						0.4
Other Revenue	0.1	0.3	0.2	0.2	0.2	0.2
Foreign Revenues	*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	*0.2*
GDP	**387,827**	**472,350**	**553,560**	**615,560**	**690,400**	**781,724**

Notes:

(1) Estimates.

(2) 2001 Budget Act Draft.

(3) Excluding intra State Budget transfers; Ministry of Finance's methodology allows excluding intra State Budget transfers from the year 2000.

Source: Ministry of Finance

State Budget Expenditures 1996-2001

	(in PLN millions)					
	1996	**1997**	**1998**	**1999**	**2000**[(4)]	**2001**[(5)]
Total State Budget Expenditures[(6)]	**108,842**	**125,675**	**139,752**	**138,401**	**150,621**	**181,566**
of which						
Subsidies[(1)]	2,525	2,695	2,589	2,425	3,185	2,654
Foreign Debt Service	3,370	3,683	3,770	3,884	4,267	5,298
Social Insurance	17,565	21,228	25,219	29,436	37,635	51,787
Current Expenditures of the Budget Sphere	57,650	65,806	70,258	56,566	56,507	66,040
Settlements with Banks, Domestic Debt, Service and Guaranties	13,607	14,840	16,743	16,579	15,758	18,660
Capital Expenditures[(2)]	6,071	7,701	9,436	7,389	7,409	8,834
Subsidies to Local Authorities[(3)]	8,054	9,722	11,737	22,122	25,860	28,293
Expenditures as a Percentage of GDP						
Total State Budget Expenditures	**28.1**	**26.6**	**25.2**	**22.5**	**21.8**	**23.2**
of which						
Subsidies[(1)]	0.7	0.6	0.5	0.4	0.5	0.3
Foreign Debt Service	0.9	0.8	0.7	0.6	0.6	0.7
Social Insurance	4.5	4.5	4.6	4.8	5.5	6.6
Current Expenditures of the Budget Sphere	14.9	13.9	12.7	9.2	8.2	8.4
Settlements with Banks, Domestic Debt, Service and Guaranties	3.5	3.1	3.0	2.7	2.3	2.4
Capital Expenditures[(2)]	1.6	1.6	1.7	1.2	1.1	1.1
Subsidies to Local Authorities[(3)]	2.1	2.1	2.1	3.6	3.7	3.6
GDP	**387,827**	**472,350**	**553,560**	**615,560**	**690,400**	**781,724**

Notes:

(1) Subsidies to enterprises.

(2) Capital expenditures include investments and equity contributions.

(3) General subventions to local governments; since 1996 the educational subsidy is included, since 1998 road infrastructure subsidy is included.

(4) Estimates.

(5) 2001 Budget Act Draft.

(6) Excluding intra State Budget transfers (from 2000 on).

Source: Ministry of Finance

The 2001 Budget Act Draft

The draft of 2001 Budget Act provides for budget revenues of PLN 161.03 billion, an increase over 2000 revenues of 19.1 per cent. with expenditures set at PLN 181.57 billion, an increase in expenditure of 20.5 per cent. The central government expects all tax-based revenues to increase by 14 per cent. in 2001. Indirect taxes are expected to account for 58.67 per cent. of total revenues, falling from 60.42 per cent. in 2000. In the 2001 Budget Act Draft, budgeted corporate and personal income taxes are expected to account for 10.9 per cent. and 15.9 per cent., respectively, of total revenues, declining from 12.4 and 17.0 per cent. of total revenues in 2000.

Non-tax revenues are expected to increase by 68 per cent., mainly based on an increase in foreign revenues (such as proceeds from the sale of U.S. Treasury securities which served as collateral for Polish Brady Bonds and were released after executing call options on some of those collateralised bonds; foreign revenues also include interest paid on loans granted by Poland to external borrowers). The share of non-tax revenues of total budget revenues expected for 2001 is 10.6 per cent. of total revenues compared to of 7.5 per cent. in 2000.

In the 2001 Budget Act Draft, expenditures are budgeted to increase at a slightly higher rate than revenues. The state budget deficit is projected to be at the level of PLN 20.5 billion or 2.6 per cent. of GDP (compared to 2.2 per cent. in 2000).

Taxation

The principal taxes forming the Polish tax system are, tax on goods and services ("**Value Added Tax**" or "**VAT**"), corporate income tax ("**CIT**"), personal income tax ("**PIT**") and excise tax. There are also local taxes collected directly by the local authorities or tax offices acting on behalf of such authorities. Local taxes include agricultural tax, forest tax and real estate tax.

The Polish tax system has been significantly reformed during recent years in order to adapt it to the needs of a converging economy. The basic reforms of the Polish tax system were adopted between 1991 and 1993. In 1999 the government proposed comprehensive tax reform legislation (including new regulations on VAT, CIT and PIT, each as defined below). The reform aims at simplifying the tax system, reducing the tax burdens for corporates and individuals and lifting most tax reliefs mainly in the form of pre-tax deductions. A reduction in tax rates for corporates was implemented in 2000. A reform in PIT abolishing some deduction allowances and adjusting the PIT law to meet new regulations implemented in CIT is planned in 2001. The tax reforms seek to harmonise taxation in line with taxation in EU countries by decreasing direct taxation and increasing indirect taxation.

Financing the State Budget Deficit

The Ministry of Finance expects that the estimated state deficit of PLN 20.5 billion or 2.6 per cent. of estimated GDP will be financed principally through the issuance of medium-term (two and five-year maturities) and longer term (ten-year) Treasury securities to domestic financial and non-financial institutions and individuals, as well as to foreign investors, with the remainder financed by privatisation receipts.

Corporate Income Tax

In November 1999, the President approved the government's proposed CIT and VAT tax reforms, providing for reduction of the CIT rate from 34 per cent. to 30 per cent. in 2000, 28 per cent. in 2001 and 2002, 24 per cent. in 2003 and 22 per cent. in 2004. Dividends are subject to a 20 per cent. flat withholding tax rate, which will be reduced to 15 per cent. in 2001. The amount withheld from the dividends paid to a corporate taxpayer is deducted from the amount of the CIT calculated at the regular rate. Such deduction may be made in a given fiscal year or in the following fiscal years, thus resulting in an economic tax exemption of domestic inter-company dividends. Cross-border payments of dividends, interest and royalties are subject to a 20 per cent. withholding, unless the relevant double taxation treaty provides otherwise.

Personal Income Tax

PIT is levied at progressive tax rates, which are currently 19 per cent., 30 per cent. and 40 per cent. The tax reform project accepted by Parliament in October 1999 provided for a reduction of the tax rates to 19 per cent., 29 per cent. and 36 per cent. in 2000 and eventually two bands of 18 per cent. and 28 per cent. in 2001, coupled with the abolition of most existing tax reliefs from 2000. Despite this Parliamentary approval however, the President vetoed the PIT tax reform in late November 1999. In 2000 the government submitted and Parliament accepted PIT tax reforms with some minor modifications, including limiting the number of tax reliefs available.

Value Added Tax

In general, except for some specific services, all business activity in Poland is subject to a flat-rate Value Added Tax, which was introduced in 1993 and which replaced the domestic and import turnover taxes. VAT is levied on all goods sold in, or imported into, Poland, as well as on services rendered in Poland. Polish VAT is similar in its operation to the current VAT in the member states of the European Union. The VAT Law provides for tax rates of 22 per cent. (standard rate), reduced tax rates of 7 per cent. (for some basic food products, products for children, and certain other services), 4 per cent. for pharmaceuticals and 0 per cent. (for fertilisers, exported goods and services and some other specifically listed services). Subject to the VAT reform of November 1999, VAT rates will be subject to further adjustments in order to fall in line with EU VAT directives in 2000-2002.

Social Expenditures

Four social security and pension funds are administered by the State and are partially or wholly financed by contributions from employers and employees. The revenues of these funds are not shown as revenues in the state budget. Two of these funds do, however, receive significant transfers from the state budget and such transfers are shown as expenditures in the 2001 Budget Act Draft.

The social insurance fund and the labour fund are the largest extra-budgetary funds and rely on state budget transfers to supplement their own off-budget revenues. For example, in 1999 16 per cent. of the revenues of the social insurance fund and 14.7 per cent. of the revenues of the labour fund came from state budget transfers.

Direct Budgetary Social Expenditures

The growth of social expenditures paid directly from the state budget or paid as transfers from the state budget to extra-budgetary funds, and their projected continued growth based on current legal entitlements and demographic trends, represent a significant threat to Poland's ability to limit the budget deficit in the medium term. Prior to 1996, social security benefits were indexed by law to average wages in the economy, and since then they have been indexed by law to inflation projected by respective budget acts. As a result of the rapid increase in average wages from 1994 through 1996, social security benefits increased at an accelerated rate during this period. The growth in social expenditures is attributable to a combination of adverse demographic trends, early retirement, higher unemployment, and the linkage of benefits to prices. Such expenditures have increased from 4.5 per cent. of GDP in 1991 to 5.4 per cent. of GDP in 1995, but decreased to 4.9 per cent. of GDP in 1996. The increase of funds transferred into the second pillar of the pension system (see below) of PLN 11 billion estimated in 2000, compared to PLN 4 billion in 1999 is reflected in the budgetary expenditures in macroeconomic terms representing a long-term saving for the whole economy and reducing the negative impact of the budget deficit on national savings by 1.1 per cent. of GDP in 2000.

Pension System Reform

On 1 January 1999, the "pay-as-you-go" pension system in Poland was replaced with a multipillar system. The multipillar system is divided into 3 pillars; the first is an improved version of the mandatory pay-as-you-go system; the second is compulsory private pension funds managed by private institutions and pension institutions; and the third is a voluntary capitalised fund, such as an employee pension scheme and individual pension insurance policies. These two latter pillars are supervised by the Superintendency of Pension Funds. For persons below 30 as of 1 January 1999, participation in the first two pillars has become mandatory. Persons between 30 and 50 chose by the end of 1999 whether they would pay into a private pension scheme, or remain in the pay-as-you-go scheme. As of 1 December 2000 there were 21 second pillar pension funds with a membership of around 10.4 million people accounting for PLN 8.462 billion of pension funds' assets. The investment strategy of pension funds is regulated by law (for example there are restrictions on the type of assets held in the portfolio). As of 1 December 2000 Treasury Securities and stocks listed on the Warsaw Stock Exchange constitute the majority of total assets held by such funds. (accounting for 60.1 and 29.7 per cent. respectively).

It is intended that the reformed pension scheme will reduce state budgetary liabilities to the social security system and in turn provide more liquidity in domestic markets as a result of the significant flow of funds into privately managed pension funds. (The funds are only allowed to invest 5 per cent. of their funds in foreign currencies and/or foreign assets). Due to a shortfall in the system upon its implementation, only part of the state collected pension funds have been transferred to private pension funds. In addition, as the reforms gained public approval, more people than previously expected decided to join the second pillar, which has resulted in higher transfers from the central budget in 2000.

Health System Reform

At the same time as the pension system reforms were introduced, the management and funding of the health service was overhauled. The main reform was the introduction of the *Kasa Chorych* (healthcare fund) through which employers are required to make a mandatory payment of 7.5 per cent. of each individual employee's wages into the fund. There are 16 regional and 1 branch health care authorities responsible for purchasing medical services directly from suppliers within budgetary constraints. Whilst the reforms initially increased government expenditure and are expected to continue to do so for two years, thereafter the reforms are expected to result in decreased government spending from 2002 once the efficiency of the system is improved.

Local Budgets

In Poland, the local governments are largely self-financing, with their own separate budgets and revenue base (consisting mainly of property taxes and an allocated share of income taxes collected by the central government).

The following table sets out the local government revenues and expenditures for the years 1994 – 2000 and assumptions for 2001 budgets.

Local Government Revenues and Expenditures

				(in PLN millions)				
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000[1]**	**2001[2]**
Revenues:								
Own Revenues	6,047	8,781	11,561	15,390	17,214	18,863	37,341	45,300
General/Subsidies/ and Educational Subsidies	2,220	2,939	8,054	9,722	11,737	22,122	25,860	28,293
Transfers for Own Tasks	395	933	1,508	1,844	2,307	5,340	n.a.	n.a.
Transfers for Ordered Tasks	2,725	2,724	2,251	2,972	3,418	8,443	n.a.	n.a.
Other Revenues	3,421	4,616	7,582	9,569	11,443	10,110	10,100	11,579
Total Revenues........	14,808	19,993	30,956	39,497	46,119	64,878	73,301	85,172
Expenditure:								
Wages	2,743	3,696	7,707	9,633	11,220	22,364	n.a.	n.a.
Wage Related Expenses	1,219	1,693	3,550	4,505	5,260	4,332	n.a.	n.a.
Local Government Subsidies	2,805	3,309	3,694	4,448	5,173	6,072	n.a.	n.a.
Investments	3,364	4,658	7,056	9,681	10,937	12,581	14,054	17,434
Other Expenditures	4,773	6,472	9,492	12,237	14,905	20,497	62,571	70,789
Total Expenditures ..	14,904	19,828	31,499	40,504	47,495	65,846	76,625	88,223
Balance:	-96	165	-543	-1,007	-1,376	-968	-3,324	-3,051

Notes:

(1) Estimates.

(2) Projections from the 2001 Budget Act Draft and local government budgets.

Note: n.a. means data are not available.

Source: Ministry of Finance

PUBLIC DEBT

Overview

For reporting purposes relating to external and internal debt, Poland classifies as public debt only debt incurred directly by the state ("**State Treasury debt**"), by the local governments and by entities belonging to the public finance sector as defined by the public finance law. It does not include debt incurred by state-owned financial institutions, including the NBP and other state owned enterprises. The Ministry started to collect data on public debt in the end of 1999 after the new law on public finance required to do so.

Total public sector debt

	December 1999 (PLN million)	July 2000 (PLN million)	September 2000 (PLN million)[1]	Structure – September 2000 (per cent.)
Public finance sector debt	273,467.5	288,886.7	297,762.5	100
Government sector debt	267,280.3	282,405.4	290,811.5	97.7
of which state treasury debt	264,370.3	279,507.8	287,584.3	96.6
Local government units debt	6,187.2	6,481.3	6,951.0	2.3

Note:

(1) Preliminary data.

Source: Ministry of Finance

STATE TREASURY DEBT

The Ministry of Finance classifies the debt as internal or external according to where such debt was issued. According to this methodology, as internal debt are counted all domestic instruments, regardless of the status of their holder (domestic or foreign), and external debt includes only debt issued outside of Poland. This methodology is not consistent with the one used by the National Bank of Poland, which differentiated as to who the holders of such debt is as such better describes the impact of debt on the current account.

In nominal terms, Poland's total State Treasury debt has grown from PLN 152.2 billion at the end of 1994 to PLN 273.7 billion at the end of November 2000. This nominal growth came primarily from growth in internal State Treasury debt used to finance budget deficits and to make payments to external creditors. However, total debt has steadily decreased in proportion to Poland's growing GDP.

Poland has steadily used the increase in internal debt to fund the repayment of external debt. For example, by the end of 2000, Poland had repurchased more than U.S.$3 billion in outstanding Brady Bonds. See "State Treasury External Debt."

In 1991 and 1994 respectively, Poland concluded significant debt reduction and restructuring agreements with 17 creditor countries (the "**Paris Club**") and more than 500 commercial bank creditors (the "**London Club**"), restructuring the equivalent of U.S.$33 billion and U.S.$14 billion of external indebtedness, respectively. See "-External Debt – Paris Club and London Club Agreements."

As a result of these measures and because of the growth in GDP during 1994 through 1999, the ratio of Poland's State Treasury external indebtedness to GDP during the same period has been reduced from 43.0 per cent. at the end of 1994 to 21.0 per cent. at the end of 1999. During the same period, in dollar terms, the ratio of annual external debt service for interest payments on State Treasury debt to annual exports was reduced from 4.7 per cent. to 3.7 per cent.

The following table sets out categories of Poland's State Treasury debt for the years 1994 to November 2000 as aggregate amounts and as percentages of nominal GDP.

State Treasury Debt[(1)]

	At 31 December						
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**November 2000**
	(in PLN Millions except for percentages)						
Internal State Treasury Debt	55,876	66,160	79,609	104,058	121,182	134,676	146,800
per cent. of GDP	25.0	21.5	20.5	22.0	21.9	21.9	n/a
External State Treasury Debt	96,361	101,107	105,994	117,592	116,218	129,694	126,936
per cent. of GDP	43.0	32.8	27.3	24.9	21.0	21.0	n/a
Total State Treasury Debt	152,238	167,267	185,603	221,650	237,400	264,370	273,736
per cent. of GDP	68.0	54.3	47.9	46.9	42.9	42.9	n/a
GDP	223,897	308,104	387,827	472,350	553,560	615,560	690,400

Notes:

(1) Nominal value of public debt.

Debt Management

Under Polish law the Minister of Finance must specifically approve the terms of all direct internal debt and external debt incurred by the State.

Under the Constitution, the government is prohibited from incurring loans or issuing guarantees or sureties as a result of which the public debt would exceed three fifths of the annual GDP.

The Act on Public Finance of 1998 requires an official debt management strategy to be prepared and attached to the Budget Act annually. The long-term debt management strategy was approved by the Parliament together with the Budget Act for 2000 in early 2000 and it is being updated on the yearly basis. The document provides for the further limiting of foreign debt as a percentage of the total public debt, the increase in average maturity, an improvement in the amortisation profile and the limiting of other components of risk associated with debt management.

While the stated policy of the government is to avoid an increase in gross external indebtedness of the state, gross external debt expressed in dollar terms may increase during periods of general depreciation of the dollar as against other currencies in which Poland's external debt is denominated. The government continues to restrict the issuance of State guarantees mainly to major investment projects, in the areas of infrastructure and environment.

Internal State Treasury Debt

From the end of 1994 to the end of 1999, Poland's internal State Treasury debt increased in nominal terms (but decreased as a percentage of GDP) from PLN 55.9 billion (25 per cent. of GDP) at the end of 1994 to PLN 134.7 billion (22 per cent. of GDP) at the end of 1999. This nominal increase reflects the government's policy of borrowing internally to finance the annual budget deficit and to make payments and repayments to external creditors, as well as the depreciation of the zloty.

Internal public debt comprises three categories:

(i) Marketable Treasury securities, including short-term Treasury bills, as well as fixed and floating rate Treasury rate bonds with maturities from one year to ten years, both issued at market prices to financial and non-financial institutions and to individuals;

(ii) Securities not freely marketable, issued on a registered basis and transferred to certain domestic state-owned financial institutions; and certain other state debt in the form of long-term liabilities issued in connection with the restructuring of the state banking system and other debt; non-marketable debt is being gradually exchanged for marketable debt; and

(iii) Savings bonds, which are sold to private persons exclusively and are not freely marketable.

As of the end of November 2000 the proportion of the various types of securities in the total amount of internal debt was as follows: Treasury bills – 16.9 per cent.; Treasury bonds – 62.9 per cent.; non-marketable bonds – 9.5 per cent.; and savings bonds – 1.2 per cent.

The Ministry of Finance auctions Treasury bills at a discount from face value in maturities from one to 52 weeks. In November 2000, the percentage of total marketable Treasury securities outstanding constituted by Treasury bills was 26.3 per cent., a significant decrease from 52.2 per cent. in 1994. Issues of marketable Treasury bonds currently outstanding include fixed rate, floating rate, and savings instruments with one, two, three, four, five and ten year maturities. Such bonds constituted 69.5 per cent. of total outstanding Treasury securities in November 2000.

In addition to Treasury bills and Treasury bonds (considered as “active” Treasury securities), the state has also issued “passive” Treasury securities.

In the second half of 1999 PLN 16.5 billion of “passive” bonds held by NBP were converted into market-based Treasury securities, to prevent and help to reduce any excess liquidity in the banking sector. In the year 2000 the debt incurred by the health care system was also exchanged for marketable Treasury securities. The intention of the government is to exchange all “passive” debt into “active” debt.

External State Treasury Debt

As of 30 November 2000, Poland had outstanding PLN 126.9 billion of State Treasury external debt, a modest increase in nominal PLN terms since 1994, but a significant decrease as a proportion of GDP (from 43.0 per cent. in 1994 to 21.0 per cent. in 1999). The repayment and prepayment of external debt is in line with the Government’s debt management policies.

Consistent with this policy, the Ministry of Finance repurchased in 1997 and 1998 U.S.$2.4 billion of bonds issued by the Republic in 1994 to its creditors in connection with its commercial debt restructuring (“**Brady Bonds**”). To finance the repurchase, the Minister of Finance issued and sold to the NBP bonds maturing on 27 October 2024. The NBP funded the purchase of the bonds from its international reserves. In October 2000 Poland executed the call option on Discount and New Money Brady Bonds amounting to U.S.$943 million. The call was funded by proceeds from the privatisation of TPSA. As a result of repurchasing and calling, the total outstanding principal amount of Brady Bonds was reduced to U.S.$4.4 billion.

The following table sets out Poland's external State Treasury debt for the years 1995 to 2000.

STATE TREASURY EXTERNAL DEBT

(in U.S.$ millions)

	1995	1996	1997	1998	1999	2000(1)
MEDIUM- AND LONG-TERM STATE TREASURY EXTERNAL DEBT	**40 503**	**36 858**	**33 209**	**33 167**	**31 264**	**28 046**
LOANS	32 513	28 708	26 366	27 062	25 180	22 672
Paris Club	27 904	26 463	24 247	24 808	22 800	20 222
Multilateral	1 516	1 733	1 687	1 884	2 061	2 193
The World Bank	*1 432*	*1 638*	*1 559*	*1 632*	*1 656*	*1 720*
European Investment Bank	*74*	*72*	*93*	*209*	*333*	*391*
European Bank for Reconstruction and Development	*9*	*23*	*36*	*42*	*34*	*27*
Council of Europe Development Bank	*0*	*0*	*0*	*0*	*38*	*55*
Russia	2 359	0	0	0	0	0
Other	735	512	432	370	320	257
BONDS	**7 990**	**8 151**	**6 843**	**6 105**	**6 084**	**5 373**
Brady Bonds	7 740	7 740	6 054	5 306	5 306	4 362
Foreign bonds	250	411	790	799	778	1 011
SHORT-TERM STATE TREASURY EXTERNAL DEBT	**0**	**0**	**217**	**0**	**0**	**0**
TOTAL STATE TREASURY EXTERNAL DEBT	**40 503**	**36 858**	**33 426**	**33 167**	**31 264**	**28 046**

Notes:

(1) Data as of 31 October, 2000.

STATE TREASURY EXTERNAL DEBT BY CURRENCY COMPOSITION

Data as of 31st October, 2000

	Equivalent in U.S.$ millions	**per cent.**
USD (1)	14 196	50.6
EUR (2)	9 408	33.5
JPY	1 480	5.3
CAD	1 051	3.7
GBP	898	3.2
CHF	788	2.8
NOK	182	0.6
SEK	42	0.2
Total	**28 046**	**100.00**

Notes:

(1) USD and credits from the World Bank denominated in "currency pool".

(2) Currencies of EMU members.

The following table sets out the medium- and long-term external State Treasury debt service projections by type of creditor for the years 2001 to 2010 and beyond. The data contained in the table does not assume any refinancing of existing debt.

PROJECTED STATE TREASURY EXTERNAL DEBT SERVICE REQUIREMENTS
(in U.S.$ millions)

	2001[1]	2002[2]	2003	2004	2005	2006	2007	2008	2009	2010	2011 and beyond
PRINCIPAL PAYMENTS	**1 278**	**1 401**	**1 858**	**2 653**	**2 878**	**3 288**	**3 719**	**4 135**	**2 322**	**907**	**3 652**
Loans	**1 132**	**1 351**	**1 758**	**2 229**	**2 729**	**3 139**	**3 569**	**3 986**	**2 173**	**155**	**482**
Paris Club	891	1 183	1 571	2 018	2 501	2 906	3 336	3 794	2 003	19	75
Multilateral	164	156	176	200	217	221	223	180	159	125	353
Other	77	12	11	11	11	11	11	11	11	11	54
Bonds	**146**	**50**	**99**	**424**	**149**	**149**	**149**	**149**	**149**	**752**	**3 169**
Brady Bonds	25	50	99	124	149	149	149	149	149	249	3 069
Foreign Bonds	121	0	0	300	0	0	0	0	0	504	100
INTEREST PAYMENTS	**1 089**	**944**	**925**	**876**	**773**	**687**	**582**	**446**	**309**	**259**	**1 528**
Loans	**757**	**654**	**614**	**564**	**490**	**415**	**319**	**195**	**68**	**30**	**79**
Paris Club	588	538	508	468	406	343	260	149	32	3	5
Multilateral	158	110	101	92	80	68	56	44	34	25	67
Other	10	5	4	4	4	3	3	3	2	2	7
Bonds	**332**	**290**	**311**	**312**	**283**	**272**	**263**	**250**	**241**	**229**	**1 449**
Brady Bonds	232	231	251	253	245	234	225	212	203	191	1 395
Foreign Bonds	100	59	60	59	38	38	38	38	38	38	54
TOTAL DEBT SERVICE	**2 367**	**2 344**	**2 783**	**3 529**	**3 651**	**3 975**	**4 301**	**4 581**	**2 632**	**1 167**	**5 179**
Loans	**1 888**	**2 004**	**2 373**	**2 793**	**3 219**	**3 554**	**3 889**	**4 181**	**2 241**	**185**	**561**
Paris Club	1 479	1 722	2 080	2 486	2 907	3 250	3 596	3 943	2 035	22	80
Multilateral	322	266	278	292	297	289	278	224	193	150	420
Other	88	17	15	15	15	15	14	14	14	13	61
Bonds	**478**	**340**	**410**	**736**	**432**	**422**	**412**	**400**	**390**	**981**	**4 618**
Brady Bonds	257	281	351	377	394	384	374	362	352	440	4 464
Foreign Bonds	221	59	60	359	38	38	38	38	38	542	154

Notes:

(1) Year 2001 – estimates prepared for the Budget Act.

(2) Year 2002 and beyond – based on preliminary data as of 31st October, 2000.

PARIS CLUB AND LONDON CLUB AGREEMENTS

Background

At 31 December 1990, the total external debt of Poland was approximately U.S.$48.5 billion. Most of this debt was incurred in the 1970s under central planning when foreign credits, both official and commercial, were used to finance Poland's foreign trade deficit and as a means to postpone needed economic reforms. Despite the rationing of foreign exchange and goods during the period, the projected annual foreign trade deficit was often exceeded due to the failure of exports to reach projected levels. The cumulative value of foreign trade deficits in the years 1973 to 1979 was approximately U.S.$15.7 billion, and by the second half of the 1970s, official reserves had diminished. In March 1981, in the context of domestic political strife and economic crisis, Poland applied to its Paris Club and London Club creditors for a rescheduling of its principal obligations.

During the 1980s, Poland concluded multiple rescheduling agreements with the Paris Club and the London Club, the first being that with the Paris Club in April 1981. Following the imposition of martial law in Poland in December 1981, Poland suspended its repayments of Paris Club debt until 1984 when negotiations for a second rescheduling with the Paris Club resumed. By the late 1980s, Poland had concluded several rescheduling agreements with the Paris Club, the last one in February 1990 providing for the creation of a special task force to investigate the possibility of comprehensive debt relief for Poland. Poland concluded rescheduling agreements with the London Club twice in 1982 and once in each of 1983 and 1984. These rescheduling agreements treated the debt crisis as a crisis of liquidity rather than as a structural crisis and generally covered only principal repayments scheduled for the relevant one-year period. Certain payments were refinanced through the extension of 1983 and 1984 Revolving Short Term Trade Related Agreements ("**RSTAs**"). Poland concluded its last rescheduling agreement of the 1980s with the London Club in July 1988 (the "**1988 RA**").

During the period from 1981 through 1994, Poland was in default in the payment of principal and arrears with respect to certain of its contractual payment obligations to its Paris Club and/or London Club creditors. The amounts of total payments in arrears varied from U.S.$25 million to U.S.$2,222 million in the case of interest and U.S.$76 million to U.S.$4,125 million in the case of principal.

Current Paris Club Agreement

On 21 April 1991, Poland and the Paris Club signed an agreement (the "**Paris Club Agreement**") encompassing all of Poland's medium and long-term official credits granted by Paris Club members before January 1984. When consolidated as of 1 April 1991, these credits amounted to approximately U.S.$33 billion. The Paris Club Agreement is a framework agreement or protocol that sets out the overall level and terms of debt reduction. In contrast to previous restructuring agreements, it reduced debt payments rather than simply postponing them. To assist Poland during the first three years of the Economic Transformation Programme, the Paris Club Agreement extended a grace period for all principal payments until 1995 and limited interest payments during the period April 1991 to March 1994 to 20 per cent. of interest due on the consolidated amount outstanding.

The Paris Club Agreement was designed to accord Poland a two-stage 50 per cent. debt reduction in net present value terms. The first stage, which took effect on 1 April 1991, involved a 30 per cent. reduction in net present value terms. The second stage came into effect as of 1 April 1994 as a result of the satisfaction of several conditions, including (i) implementation of an economic stabilization and reform programme under the supervision of the IMF, (ii) punctual payments of amounts due under the Paris Club Agreement, and (iii) Poland's having obtained a "comparable" debt reduction agreement with its London Club commercial creditors. The Paris Club Agreement was implemented through various bilateral agreements pursuant to which official creditors could choose among various options for principal or interest rate reduction in order to achieve the stated reduction. Depending on the option selected, progressively higher semi-annual repayments of principal are to be made ending in the years 2009 or 2014. Further reductions of up to 10 per cent. of the relevant principal amount due to each creditor, or U.S.$20 million, whichever is higher, are possible on the basis of debt swaps, for instance in return for investments in environmental projects. The total forgiveness of principal owed to Paris Club creditors was U.S.$6.2 billion.

Current London Club Agreement

In March 1994, after more than four years of negotiations, Poland and its commercial bank creditors agreed to the terms of a comprehensive reduction and restructuring of the external debt owed to London Club commercial creditors under the 1988 RA and the 1983 and 1984 RSTAs, including all associated interest in arrears. This agreement (the "**London Club Agreement**") came into effect on 27 October 1994 (the "**Effective Date**").

The London Club Agreement was executed on a voluntary basis by over 500 creditor banks which were owed, before giving effect to the agreement, approximately U.S.$14.3 billion in principal and interest arrears. The Ministry of Finance estimated, based on its own market interest rate projections at the time of the Effective Date, that the implementation of the London Club Agreement reduced these liabilities by 49.2 per cent. in net present value terms, through forgiveness of interest arrears, debt buy-backs and bond exchanges. The reduction affected all components of this debt and provided for forgiveness of U.S.$783 million of Poland's total accrued interest obligations of U.S.$4.3 billion and reductions in principal of U.S.$1,892 million through buy-backs and U.S.$2,425 million through bond exchanges.

On the Effective Date, Poland bought back approximately 24 per cent. of its medium-term debt, settled 19 per cent. of its interest arrears and 26 per cent. of its outstanding trade lines. As a result of creditor selection among various refinancing options, the remaining indebtedness under the 1988 RA and the RSTAs was converted into U.S.$2.97 billion in Discount Bonds, U.S.$0.93 billion in Par Bonds, U.S.$0.39 billion in Debt Conversion Bonds, U.S.$2.67 billion in PDI Bonds (interest arrears bonds), and U.S.$0.89 billion in RSTA Bonds (trade line bonds). In addition, creditors selecting Debt Conversion Bonds subscribed to U.S.$0.138 billion of New Money Bonds. The principal of the Discount Bonds, Par Bonds and RSTA Bonds is collateralised by zero-coupon U.S. treasury bonds.

Compliance with Current Paris Club and London Club Agreements

Poland is currently in compliance with all these agreements and is not in default in relation to any of its external creditors.

COMECON Agreements

In connection with the demise of COMECON in the early 1990s, Poland entered into negotiations with its COMECON trading partners to settle all outstanding indebtedness, both denominated in convertible currencies and in transfer rubles. In 1994, Poland completed an agreement with Germany, which had succeeded to the claims of the former German Democratic Republic. The small net amount outstanding in German marks was repaid in 1996. Poland repaid its indebtedness in transfer rubles to the Slovak Republic in 1996 and paid the outstanding 9 million in a transfer rubles owed to the Czech Republic by payment in kind in 1997.

In 1995, Poland finalised the settlement of all its debt to former COMECON banks, namely IBEC (International Bank of Economic Co-operation) and IIB (International Investment Bank), totalling U.S.$697 million.

On 13 November 1996, Poland reached an agreement with the Russian Federation providing for immediate cancellation of all mutual claims, including the equivalent of U.S.$2.3 billion of convertible currency debt owed by Poland to Russia.

POLAND'S TOTAL EXTERNAL DEBT

The National Bank of Poland compiles data on external debt in compliance with the following definition established by international organisations: "Gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal".

The definition refers to gross debt, i.e. comprises selected external liabilities of Poland (not diminished by external assets). The term "contractual liabilities to repay principal or to repay interest" excludes equity participation from the definition of external debt. The term "principal with or without interest" means that the external debt definition covers also non-interest-bearing liabilities since they result in a contractual obligation to repay. The term "interest with or without principal" means that the definition comprises also liabilities with no maturity. The term "disbursed and outstanding" excludes potential liabilities, i.e. undisbursed portions of existing loans.

The distinction between internal and external (foreign) debt has been made based on the concept of residence only, i.e. irrespectively of the currency in which such debt is owed.

External debt includes the following financial instruments:

(a) intercompany loans;

(b) current accounts and time deposits held by non-residents with Polish banks;

(c) debt securities held by non-resident portfolio investors;

(d) trade credits; and

(e) other loans and credits (including financial lease).

POLAND: EXTERNAL DEBT*

As of 28 December, 2000

ITEMS	Stock at end of period in millions of U.S.$				
	1996	1997	1998	1999	end of September 2000
Monetary authorities	**265**	**792**	**925**	**1,844**	**394**
Other investment	**265**	**792**	**925**	**1,844**	**394**
Loans	78	58	32	23	17
Currency and deposits**/	187	734	893	1,821	377
Central and local government1/	**36,271**	**34,402**	**34,098**	**32,124**	**32,363**
Debt securities2/, 3/	**7,562**	**7,818**	**7,037**	**6,925**	**9,150**
Bonds and notes	6,884	7,343	6,672	6,779	8,989
Money-market instruments	678	475	365	146	161
Other investment	**28,709**	**26,584**	**27,061**	**25,199**	**23,213**
Loans	28,708	26,584	27,061	25,199	23,213
Other liabilities	1	0	0	0	
Banks	**2,518**	**3,683**	**5,131**	**6,553**	**6,177**
Loans from direct investors (Intercompany loans)	**87**	**141**	**160**	**139**	**191**
Debt securities	**200**	**488**	**236**	**10**	**101**
Bonds and notes	200	306	215	10	101
Money-market instruments	0	182	21	0	0
Other investment	**2,231**	**3,054**	**4,735**	**6,404**	**5,885**
Loans	488	1,104	2,084	3,681	3,298
Currency and deposits	1,685	1,950	2,651	2,723	2,587
Other liabilities	58	0	0	0	0
Other sectors	**8,487**	**10,771**	**19,009**	**23,829**	**24,862**
Loans from direct investors (Intercompany loans)	**2,681**	**4,326**	**6,218**	**7,106**	**7,913**
Debt securities	**107**	**347**	**1,416**	**2,272**	**2,595**
Bonds and notes	31	325	1,328	2,249	2,591
Money-market instruments	76	22	88	23	4
Other investment	**5,699**	**6,098**	**11,375**	**14,451**	**14,354**
Trade credits***	2,197	1,862	3,560	4,656	4,323
Loans	3,502	4,236	7,815	9,750	9,997
Other liabilities				45	34
TOTAL EXTERNAL DEBT	**47,541**	**49,648**	**59,163**	**64,350**	**63,796**
of which:					
Long-term	**42,572**	**44,541**	**50,746**	**53,739**	**55,358**
Short-term4/	**4,969**	**5,107**	**8,417**	**10,611**	**8,438**

*/ Compiled in compliance with the requirements of international organizations (IMF, OECD, World Bank), which are described in the methodical notes.

**/ In May 2000 previously presented category "Gross Official Reserves" was replaced with the category "Official Reserve Assets". The difference between the two is reflected in repo transactions presentation. "Gross Official Reserves" comprised net repo transactions, i.e. the difference between assets and liabilities sides of transactions, while "Official Reserve Assets" include only assets side of the repo transactions. As a consequence of this change, the stock of liabilities side repo transactions is presented under "Current accounts and deposits". For comparison, previous years data have been adjusted accordingly. See also methodical notes.

***/ In March 1999, regulations imposing reporting obligations on non-residents with regard to information for the balance of payments and international investment position purposes were changed. The scope of reporting units was extended, and penalties for noncompliance introduced. In this context, the NBP has received data from units not covered by the reporting obligation in the past. Accordingly, the figure for outstanding trade credits for 1998-1999 has changed. Since it was not possible to adjust data for 1996-1997, adjusted time series are presented for 1998-1999.

1/ Data were adjusted to include external debt of local government.

2/ For 1999 – the securities issued in the domestic market (Treasury bonds and Treasury bills) – according to Ministry of Finance information "Zadluzenie Skarbu Panstwa" (State Treasury Indebtedness).

3/ The securities issued in the international markets (Brady bonds and Eurobonds) was adjusted such securities held by Polish residents.

4/ Since information on a breakdown by maturity on trade credits is not available the total amount was included into short-term debt.

Relationship with Multilateral Financial Institutions

Since 1990, Poland has received substantial financial and technical support from various multilateral financial institutions including the World Bank, the European Investment Bank (the "**EIB**"), the European Bank for Reconstruction and Development ("**EBRD**") and the International Monetary Fund ("**IMF**"). At 31 December 1998, the aggregate of multilateral credits disbursed to Poland totalled approximately U.S.$4.1 billion, or 9.6 per cent. of Poland's total external debt.

The World Bank

The World Bank has provided significant financial support to Polish structural reforms as well as to the development of the Polish financial, transport and energy sectors. As of 31 December 2000, the World Bank had committed a total of approximately U.S.$3.98 billion in medium and long-term credits to Poland, approximately U.S.$3.33 billion of which had already been disbursed.

The World Bank is also providing advisory services to Poland in many areas, including in connection with Poland's application to join the EU.

EIB

At 31 December 2000, the EIB had loans of Euro 3.3 billion extended to Poland and had committed a total of Euro 1.6 billion for Polish projects, with disbursements scheduled over several years. Euro 1.75 billion have already been disbursed.

EBRD

As of 31 December 2000, the EBRD had committed a total of Euro 1.86 billion for Polish projects, with disbursements scheduled over several years. This includes equity investments of Euro 790.6 million, credits to the private sector of Euro 744.1 million and credits to the public sector of Euro 331.8 million.

IMF

Poland rejoined the International Monetary Fund in 1986. In 1990, Poland concluded a Stand-by arrangement with the IMF amounting to SDR 545 million and in 1991 an Extended Fund Facility Arrangement amounting to SDR 1,828.6 million. The funds drawn under these programmes were used in the first years of Polish transformation and also for the purposes of financing debt reduction under London Club settlement in October 1994.

In 1995 Poland repaid all outstanding amounts drawn from the IMF.

Currently the IMF performs standard Article IV consultations with Poland on a 12-month cycle, however Poland invites the IMF in mid-year to review its fiscal and monetary policies.

Poland is a member of IMF's Special Data Dissemination System and provides to the public information about its practices and standards in disseminating economic and financial data.

In 1999, Poland was invited to join the Operational Budget of the IMF. This is to be regarded as a confirmation of the country's strong financial position and economic stability.

IDA

Since 1988, Poland has been a member and contributor to the International Development Association (the "**IDA**"), which grants preferential long-term loans to the world's poorest countries. As of 31 December 2000, contribution to the IDA amounts to SDR 13.5 million (approximately SDR 9.5 million of which had already been paid in)

NIB

Although Poland is not a member of the Nordic Investment Bank it has access to its resources.

As of 31 December 2000, the Nordic Investment Bank had committed loans in a total of approximately U.S.$258.3 million to Poland, approximately U.S.$140.2 million of which had already been disbursed.

CEDB

Poland is a member of the Council of Europe Development Bank (CEDB) since 1998. As of 31 December 2000, the total value of loans granted amounted to PLN 387.2 million, PLN 304 million have already been disbursed.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Poland of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

REPUBLIC OF POLAND

Prior to the issuance of the Notes, the Ministry of Finance will issue an Order regarding taxation of the Notes. Pursuant to this Order, payments of principal of and interest on the Notes to an individual who is a non-resident of the Republic of Poland or to a legal entity that has neither its seat nor its management in, nor maintains a permanent establishment in, Poland (together "**Non-Polish Holders**") will not be subject to taxation in the Republic of Poland, and no withholding of any Polish tax will be required on any such payments. In addition, gains realised by Non-Polish Holders derived from the sale or exchange of the Notes by Non-Polish Holders will not be subject to Polish Income tax.

No Polish stamp duty will apply to transfers of the Notes between Non-Polish Holders.

TAXATION IN GERMANY

In the Federal Republic of Germany, interest payments in respect of Notes held in custody by a bank in Germany to persons who are tax residents of Germany (or non-residents provided that the interest income falls in a category of income from German sources, such as income effectively connected with a German trade or business; income from the letting and leasing of German property, etc.) are subject to an advanced interest income tax (*Zinsabschlagsteuer*) of 30%. In addition, there is a solidarity-surcharge tax (*Solidaritätszuschlag*), of 5.5%, on the income tax, so that the total rate is 31.65%. The tax withheld may later be credited as a prepayment for purposes of income tax assessment.

Accrued interest for the time of ownership is also subject to this advanced interest income tax and solidarity-surcharge tax.

The above summary describes the principal applications of German withholding tax. For their particular case investors should obtain individual tax advice.

PROPOSED EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments and subject to the proposals not being required to be applied to Notes issued before 1 March 2001.

SUBSCRIPTION AND SALE

Deutsche Bank AG London, Merrill Lynch International, ABN AMRO Bank N.V., Bank Austria Aktiengesellschaft, BNP Paribas, Credit Suisse First Boston (Europe) Limited, Bankgesellschaft Berlin Aktiengesellschaft, Depfa Investment Bank Limited, Dresdner Bank AG London Branch, Chase Manhattan International Limited, Salomon Brothers International Limited, Societe Generale, UniCredit Banca Mobiliare S.p.A. and UBS AG, acting through its business group UBS Warburg, (the "**Managers**") have, in a subscription agreement dated 8 February 2001 (the "**Subscription Agreement**") upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe and pay for the Notes at their issue price of 5.5 per cent. of their principal amount less a combined management and underwriting commission of 0.125 per cent. of their principal amount and a selling concession of 0.200 per cent. of their principal amount. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

UNITED STATES OF AMERICA

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each Manager has further represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

REPUBLIC OF POLAND

The Notes have not been and will not be registered under the Polish Law on Public Trading in Securities dated 21 August 1997, as amended. Each Manager has further agreed that it has not offered or sold and will not offer and sell any Notes to residents in the Republic of Poland as part of their initial distribution.

REPUBLIC OF GERMANY

Each Manager has further represented and agreed not to offer or sell Notes in the Federal Republic of Germany other than in compliance with the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) or any other law applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

GENERAL

No action has been or will be taken in any jurisdiction by the Republic or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

THE NETHERLANDS

The Notes are being offered in The Netherlands under the Euro-securities exemption pursuant to article 6 of The Netherlands' exemption regulation of the Securities Supervision Act of 1995 (*Vrijstellingsregeling Wet Toezicht Effectenverkeer 1995*) and accordingly each of the Managers and the Issuer represent and agree that it has not publicly promoted and shall not publicly promote (either electronically or otherwise) the offer or sale of the Notes (including any rights representing an interest in the Global Note) by conducting a general advertising or cold-calling campaign in The Netherlands.

GENERAL INFORMATION

1. Responsibility

The Republic has obtained all necessary consents, approvals and authorisations in the Republic of Poland in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to the Draft Budget Act for 2001 and the executed Order of the Minister of Finance on the conditions of issuing treasury bonds to be offered on foreign markets dated 7 September 1999.

2. Litigation

Except as disclosed in this Offering Circular, the Republic is not involved in any litigation of arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Republic is aware, is any litigation or arbitration pending or threatened.

3. Material Change

Since 31 December 2000 there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the condition (financial, economic or political) or general affairs of the Republic that is material in the context of the issue of the Notes.

4. Documents available for inspection

Application has been made to list the Notes on the Luxembourg Stock Exchange. For so long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, the Republic will maintain a Paying Agent in Luxembourg. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected during normal business hours at the offices of the Paying Agent in Luxembourg:

(a) the Fiscal Agency Agreement;

(b) the Deed of Covenant; and

(c) certified English translations of the Order of the Minister of Finance on the conditions of issuing treasury bonds to be offered on foreign markets dated 7 September 1999, the executed Order of the Minister of Finance dated 29 February 2000 concerning the exemption to collect income tax on certain types of income of Polish non-residents and the Letter of Issue No. 4/2001 of the Minister of Finance.

Application will be made to list the Notes on the Frankfurt Stock Exchange. The Global Notes has been deposited with CBF.

The documents mentioned in this Offering Circular may be inspected during usual business hours on any business day from the date hereof and so long as any of the Notes remain outstanding at the offices of Deutsche Bank Aktiengesellschaft, Grosse Gallusstrasse 10-14, D-60272 Frankfurt am Main.

5. Notes

The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a

United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

6. Delivery of Notes

The Notes have been accepted for clearance through CBF. The WKN is 610165, ISIN is DE0006101652 and the Common Code is 012422172.

ISSUER

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