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Confidential

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THE STATE TREASURY OF

THE REPUBLIC OF POLAND

Represented by

THE MINISTER OF FINANCE

€750,000,000

5.50 per cent. Notes due 2012

Issue Price: 98.32 per cent.

The €750,000,000 5.50 per cent. Notes due 2012 (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 12 March 2012. See "Terms and Conditions of the Notes – Redemption and Purchase".

The Notes will bear interest from and including 12 March 2002 at the rate of 5.50 per cent. per annum payable annually in arrear on 12 March in each year. The first payment of interest will be made on 12 March 2003 for the period from and including 12 March 2002 to but excluding 12 March 2003. 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.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (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 March 2002 (the "**Closing Date**") with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). 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".

Credit Suisse First Boston

Schroder Salomon Smith Barney

JPMorgan

Merrill Lynch International

Morgan Stanley

UBS Warburg

Alpha Bank

Bankgesellschaft Berlin Aktiengesellschaft

BCP Investimento, SA

Commerzbank Securities

DePfa Group

DZ BANK AG

Handelsbanken Trading

HypoVereinsbank

ING Barings

NBG International

UBM-UniCredit Banca Mobiliare

Westdeutsche Landesbank Girozentrale

Offering Circular dated 8 March 2002

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 Offering Circular.

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 at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. 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 6 March 2002 was PLN 4.1473 = U.S.$1.00, whilst the National Bank of Poland's foreign exchange rate for euro on the same date was PLN 3.6134 = €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.

*Outstanding debt securities in foreign currency of the Republic are at the date of the Offering Circular rated Baa1 * by Moody's Investors Service and BBB+ ** by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.*

In connection with this issue, Credit Suisse First Boston (Europe) Limited (the "Stabilising Manager") (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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* Definition of Moody's Investor Services: Bonds that are rated "Baa" are considered as medium grade obligations, i.e. they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

** Definition of Standard & Poor's Rating Group: An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

CONTENTS

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 5.50 per cent. Notes due 2012 (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 March 2002 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between Citibank, N.A. 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 and including 12 March 2002 (the "**Issue Date**") at the rate of 5.50 per cent. per annum (the "**Rate of Interest**"), payable in arrear on 12 March in each year (each an "**Interest Payment Date**"), subject as provided in Condition 6. The first Interest Payment Date will be 12 March 2003 (for the period from and including 12 March 2002 to but excluding 12 March 2003).

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 required to be paid in respect of a Note on any date other than an Interest Payment Date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 12 March 2012, 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:

(a) presented for payment 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(d) presented for payment 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 a fiscal agent and, if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law. 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. 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(b).

(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 Convention on Diplomatic Relations signed in 1961, or "consular premises" as such term is defined in the Vienna Convention on 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 €735,712,500, 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 a common depositary for Euroclear and Clearstream, Luxembourg. 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) both Euroclear and Clearstream, Luxembourg are 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 March 2002 (the "**Deed of Covenant**") executed by the Republic). Under the Deed of Covenant, persons shown in the records of Euroclear or Clearstream, Luxembourg 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 Euroclear and/or (as the case may be) Clearstream, Luxembourg 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 a Permanent Global Note (or by the Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg 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 Euroclear or Clearstream, Luxembourg; *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*).

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 (approximately 27.9 per cent. of Poland's total land area) and 185,000 square kilometres of arable land (approximately 57.4 per cent. of Poland's total land area).

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 other 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, numbering approximately 350,000 persons and concentrated in Silesia. Smaller ethnic and national groups have cultural ties to such neighbouring states as the 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 century to the early twentieth century, Poland re-emerged as an independent and 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 majority, rather than the two-thirds majority required prior to the approval of the Constitution. 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 the responsibility of 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.

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 and the President by a 60 per cent. majority vote in the presence of at least half of the total number of deputies. 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, to 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 of receipt thereof from the government, or (ii) the Sejm fails to pass a vote of confidence in the government following attempts to nominate a government in the manner provided under 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 must then receive a vote of confidence from the Sejm.

On 1 January 1999, regional administration in Poland underwent 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, 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 that 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 that 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 23 September 2001. As a result of such elections a coalition government, led by Leszek Miller, was formed by an electoral coalition of the Democratic Left Alliance

(“**SLD**”) – Labour Union (“**UP**”) and the Polish Peasants’ Party (“**PSL**”), all left-of-centre, popular parties. The SLD-UP received 41.04 per cent. of the votes in the elections, whereas PSL received 8.98 per cent. The SLD-UP and PSL won 46.9 and 9.1 per cent. of the seats in the Sejm respectively (and 75 and 4 per cent. of seats in the Senate respectively). SLD is a social-democrat party of communist descent, with a significant number of leaders (including Prime Minister Leszek Miller) who played a part in the pre-1989 political scene. PSL is a party which represents peasants. SLD and PSL have previously governed together, between 1993 and 1997. The main opposition party, Civic Platform (“**PO**”), which won 14.1 per cent. of seats, comprises mainly market-oriented, liberal groups of businessmen and professional persons. These elections also saw, for the first time, a strongly anti-European party, the Polish Families League (“**LPR**”) win mandates in the Parliament. Eurosceptic groups are present also in PSL and the populist Self-Defence (“**Samoobrona**”) party. The main goals of the governing coalition are economic reform, privatisation and Poland’s membership of the European Union.

The following table shows a breakdown of the distribution of seats in the Sejm and the Senate as of mid January 2002, thereby taking into account changes in each party’s membership since the elections held on 23 September 2001.

Composition of the Sejm (by parliamentary clubs)

	Seats
Democratic Left Alliance (SLD)	200
Labour Union (UP)	16
Civic Platform (PO)	57
Self-Defence (Samoobrona)	51
Law and Justice (PiS)	44
Polish Peasants’ Party (PSL)	41
Polish Families League (LPR)	36
Popular Conservative Party (SKL)	8
Unaffiliated	7
Total	460

Composition of the Senate (by parliamentary clubs)

	Seats
Democratic Left Alliance and Labour Union Parliamentary Group (SLD-UP)	75
Senat 2001	14
Peasants’ and Independent Parliamentarians Group	5
Unaffiliated	6
Total	100

The next parliamentary elections are scheduled to be held in September 2005.

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 (the “**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 (the “**OECD**”).

In November 1992, Poland signed an agreement on free trade with the member countries of the European Free Trade Association (“**EFTA**”). By 2001, and in accordance with the terms of this agreement, Poland had 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.

Eu Accession

In December 1991, Poland signed a "Europe Agreement" with the European Communities, now the European Union (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.

As a result of the conclusions of the European summit in Goeteborg in June 2001, which were confirmed in Laeken in December 2001, the first wave of enlargement of the EU is anticipated as soon as 1 January 2004. Poland has been mentioned as one of ten countries to be involved in this historical event. If Poland accedes to the EU, it will allow Poles to take part in the elections to the European Parliament in 2004 for the first time in history. In order to achieve this goal, both Poland and the EU will have to keep up with the present pace of talks and conclude negotiations in all chapters by the end of 2002.

The progress of adaptation by Poland's legislation and structures of applicable EU directives is co-ordinated by the Committee for European Integration led by the Prime Minister. Poland has already made significant progress with respect to attaining full membership of the European Union. This is mainly a result of a special procedure for the harmonisation of Polish law with the a*cquis communautaire*, approved by all major political powers and implemented by the Polish Parliament. The timing of Poland's accession to the EU will depend mainly on the assessment by the EU of Poland's administrative capability for implementing the *acquis communautaire* and successful institution building. The first general assessment of the effective implementation of the *acquis communautaire* by Poland will be carried out by the European Council at Seville in June 2002, on the basis of the Action Plan drawn up by the European Commission.

The newly adopted negotiation strategy of the Polish government promises to advance negotiations effectively during the Spanish presidency of the EU. Poland intends to make a decisive contribution towards ensuring that negotiations can be concluded by the end of this year. At present, accession negotiations have been provisionally closed in 20 chapters out of the total number of 29 that have been opened. Final agreement in many fields has been reached, including chapters of paramount importance such as free movement of persons, the environment, freedom to provide services or financial control. At this stage Poland is keen to make further substantial progress in 6 of the remaining chapters by mid-2002 so as to pave the way for final conclusions in 3 chapters that will carry substantial financial weight (though there is currently no available estimate for the costs of implementing these 3 chapters). These are namely – agriculture, regional policy and budget.

On 30 January 2002, the European Commission published a paper containing its proposals on the common financial framework for the forthcoming enlargement of the EU. This document sets out ceilings for financial means that may be transferred from the EU to new member states in the first 3 years following the accession of such member states to the EU (i.e. 2004-2006). The Polish government is currently working on a response to the European Commission's proposals.

The 2001 annual report of the EU Commission published in November 2001 once again confirmed Poland as being a functioning market economy that should be able to cope with competitive pressure and market forces within the EU in the near term. The EU report emphasises that 2001 has seen intensive work with significant progress on the adoption of the *acquis communautaire*.

The economic criteria for EU accession are that, by the time of accession, a country be a functioning market economy, and that it be able to cope with competitive pressure and market forces within the EU. Accession is currently not conditional on meeting quantitative targets on specific economic variables, and in its latest Regular Report the European Commission states that the existing criteria will remain necessary and sufficient conditions for accession.

The economic dialogue between Poland and the EU has recently been significantly strengthened, due to the Pre-Accession Economic Programme ("**PEP**"). The PEP is prepared by the Polish authorities and evaluated by the European Commission. It is discussed at meetings between the Economic & Financial Committee and candidate countries. The European Commission then reports its assessment of the PEP estimations, fiscal notifications and conclusions of the meeting to the ECOFIN Council and the final opinion on the PEP is eventually communicated.

The aim of the PEP and the overall Pre-Accession fiscal surveillance procedure is to bring Poland closer to the economic policy co-ordination procedures that it will follow when it becomes a Member State of the EU. As a Member State, Poland will be obliged to comply with a Convergence Programme (preparing a Member State with a derogation for the adoption of the euro, to achieve a high standard of sustainable convergence and meet the Maastricht criteria) and the Stability Programme (helping a Member State which meets the Maastricht criteria and has adopted the euro to maintain a high degree of sustainable convergence).

Due to earlier arrangements, the PEP will be updated by the Polish side by the end of August 2002.

Both sides will focus more precisely on figures concerning the economic performance (i.e. convergence criteria) when it comes to Polish accession to the European Monetary Union, which is one of the top priorities of the Polish government after attaining membership of the EU.

In connection with Poland's accession to the EU, the Polish government attaches great importance to exploring new ways of participating in EU affairs in order to familiarise itself further with the EU's working methods. This includes attending meetings at the highest level. For this reason, it looks forward to taking an active part in the drafting committee in respect of the Act of Accession, scheduled to start working from March 2002, and, for the first time as a candidate country, being present at the Barcelona European Council on 15 March 2002.

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", named 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 1992 and 1998 the average GDP growth rate was higher than 5 per cent. The GDP growth rate in 1998 was 4.8 per cent. The first half of 1999 saw a slowdown in the Polish economy but, in the second half, the economy saw further rapid development, accompanied by a surge in inflation, whereby headline inflation in December 1999 reached 9.8 per cent. (with an annual average rate of inflation for 1999 of 7.3 per cent.). This rapid growth was sustained until the second half of 2000, when domestic demand slowed significantly. However, the negative tendencies in domestic demand were compensated by foreign trades results. The GDP growth rates for 1999 and 2000 were 4.1 per cent. and 4.0 per cent. respectively.

In the year 2001, the negative tendencies in domestic demand continued, mainly as a result of stronger than predicted effects of restrictive monetary policy. However, again the lower domestic demand was partly compensated by good exports results. According to preliminary data estimates, the growth rate for the year 2001 amounted to 1.1 per cent.

Twelve 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, 73 per cent. of the employed were working in the private sector, producing approximately two-thirds of GDP (compared with 36.2 per cent. in 1994).

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. Restrictive monetary policy in the course of 2001 resulted in a lowering of the year-on-year CPI rate to 3.6 per cent. in December.

Poland has successfully weathered certain external events during the last twelve years. The dissolution of the Council for Mutual Economic Assistance ("**COMECON**") in 1991, resulted in a one-year contraction of GDP and a complete reorientation of Poland's trade from eastern to western markets. The Russian crisis in August 1998 is estimated to have cost Poland between 1.5 per cent. to 2 per cent. of GDP in that year.

As a general principle, the Polish government considers it to be inappropriate for the government to 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 late January 2002, the Polish government approved a four-year economic plan, entitled "Entrepreneurship – Development – Labour" (the "**EDL Plan**"), to lower unemployment, develop infrastructure and restore Poland's faltering economic growth to 5 per cent. within two years. The EDL Plan includes proposals for the amendment of Poland's restrictive labour code, the reduction of bureaucratic obstacles to business (by reducing the number of approvals and permits required to conduct business), the mobilisation of new financing for Poland's infrastructure (by using state guarantees to generate private financing) and the encouragement of employers to hire new graduates (by subsidising employers' social security contributions and supporting volunteer jobs in local administration). To improve housing construction, the government will back a programme of long-term fixed rate mortgage loans. In the field of public finances, the EDL Plan provides for an annual public expenditures' growth rate of 1 percentage point over the forecasted rate of inflation. In this sense, the budget will not be used to stabilise an economic cycle, meaning that any increase in public revenues will not be used to increase public spending. The structure of expenditures in the budget will be reorganised by redirecting spending away from social transfers to infrastructure modernisation projects. The EDL Plan also aims for Poland to accede to the EU in 2004 and, therefore, aims to prepare the economy for the absorption of pre-accession and structural funds.

Recent Economic Performance

GDP

Real GDP grew by 4.1 per cent. in 1999. In the course of 2000, due to very tight monetary conditions, GDP growth started to slow. Real growth dropped from 5.9 per cent. in the first quarter to 3.1 per cent. in the third quarter. In the first half of 2001, negative tendencies in domestic demand continued due to stronger than expected effects of restrictive monetary policy. Over the course of 2001, notwithstanding increased consumer demand (by 1.8 per cent. as compared to the year 2000), aggregated domestic demand contracted by 2.0 per cent. owing to lower investment demand and a decrease in the stock of inventories. However, lowered domestic demand was offset by positive results in exports, such that GDP growth was 1.1 per cent. for 2001 (according to preliminary data).

The following table sets out nominal and real GDP during the years 1997 to 2001:

Gross Domestic Product

	1997	**1998**	**1999**	**2000**	**2001(1)**
PLN					
Nominal GDP (in PLN billions)	472.4	553.6	615.1	684.9	722.3
U.S.$ equivalent (in billions)	144.0	158.4	155.0	157.6	176.4
Real GDP growth (per cent.)	6.8	4.8	4.1	4.0	1.1
Nominal per capita GDP (PLN)	12,221	14,316	15,914	17,723	18,694
U.S.$ equivalent	3,725	4,097	4,011	4,078	4,566
% Change (year-on-year)	0.0	10.0	-2.1	1.7	12.0
Population (thousands)	38,650	38,666	38,654	38,646	38,641(2)
% Change (year-on-year)	0.08	0.04	-0.03	-0.02	-0.01
Zloty/U.S.$ Exchange Rate	3.2808	3.4937	3.9675	4.3464	4.0939
% Change (year-on-year)	21.7	6.5	13.6	9.6	-5.8

Notes:

(1) Preliminary data.

(2) As of the end of June 2001.

Source: GUS – Central Statistical Office

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 3.6 per cent. in 2001. The only exception to this trend was in 1999, when inflation rose from 8.6 per cent. at the end of 1998 to 9.8 per cent. at the end of 1999. From August 2000, the CPI rate has continued to decrease steadily as a result of very low dynamics in demand, a high level of supply of agricultural products and declining global crude oil prices. As at 31 December 2000, the inflation rate was 8.5 per cent. (10.1 per cent. yearly average) and up to December 2001 it declined to 3.6 per cent.

An anti-inflationary policy has always been a core policy of the stabilisation programme in Poland. In September 1998, the Monetary Policy Council ("**MPC**") adopted a "Medium Term Strategy in Monetary Policy 1999-2003", which aims to lower the inflation rate to under 4 per cent. by 2003. The inflation rate targets to be met under this strategy were 8.0 to 8.5 per cent. (6.6 to 7.8 per cent, after amendment) in 1999, 5.4 to 6.8 per cent. in 2000, 6.0 to 8.0 per cent. in 2001 and 4.0 to 6.0 per cent. in 2002.

The year-on-year annual increase in the producer price index ("**PPI**") has fallen from nearly 193 per cent. at the end of 1990 to 5.6 per cent. at the end of 2000. Over the course of 2001, annual growth in the PPI contracted further and in December 2001 producer prices were lower by 0.3 per cent. compared with December 2000 (according to preliminary data).

The following table shows the year-on-year rates of CPI and PPI for the years 1997 to 2001:

CPI and PPI *(end of year/per cent.)*

	1997	1998	1999	2000	2001
Consumer Prices (CPI)	13.2	8.6	9.8	8.5	3.6
CPI (yearly average)	14.9	11.8	7.3	10.1	5.5
Producer Prices (PPI)	11.5	4.8	8.1	5.6	-0.3(1)

Note:

(1) Preliminary data.

Source: GUS – Central Statistical Office

Wages

The following table shows the percentage change in nominal and real wages during the years 1997 to 2001:

Nominal and Real Net Wages *(per cent.)*

	1997	1998	1999	2000	2001(2)	2001(3)
All Sectors:						
Nominal Wages	23.5	17.0	12.5	11.1	8.0	n.a.
Real Wages	7.3	4.5	4.7	1.0	1.9	n.a.
Enterprise Sector:(1)						
Nominal Wages	22.9	17.4	10.6	11.4	7.2	7.1
Real Wages	6.8	4.8	3.0	1.3	1.1	1.6

Notes:

Data prior to 1999 is net, and from 1999 onwards is gross.

(1) 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.

(2) January to September.

(3) January to December.

n.a. means data is not available.

Source: GUS – Central Statistical Office

Under Polish law wage levels are determined by negotiations between employees and management, 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 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. For the year 2002, the limit has been set at 5.6 per cent.

Employment

Before 1989, unemployment was not officially recognised in Poland for political reasons, and over-employment was evident in many enterprises. The unemployment rate fell from 16.4 per cent. in 1993 to 10.4 per cent. at the end of 1998 before rising to 15.1 per cent. in December 2000 and 17.4 per cent. in December 2001. The rises in 2000 and 2001 were mainly attributed to slower growth, demographic effects, ongoing restructuring of industry and an increase in the number of people registering as unemployed as a result of the increased benefits obtainable following 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 the years from 1997 to 2001:

Unemployment

(end of year/per cent.)

1997	1998	1999	2000	2001
10.3	10.4	13.1	15.1	17.4

Source: GUS – Central Statistical Office

The following table shows the number of persons employed in Poland by major sector for the years 1997 to 2001.

Employed Persons by Major Sector(1)

(as of 30 September/thousands)

	1997	1998	1999	2000	2000(2)	2001(2)
Agriculture, hunting and forestry	4,365	4,344	4,322	4,304	139	132
Fishing	13	12	12	10	8	5
Industry	3,761	3,650	3,427	3,134	2,803	2,647
Construction	948	939	915	815	572	521
Trade and repair	2,061	2,106	2,094	2,074	874	861
Hotels and restaurants	202	222	216	226	107	107
Transport, storage and communication	865	859	838	779	611	577
Financial intermediation	305	327	389	299	287	233
Real estate and business activities	688	752	776	823	518	531
Public administration and defence	432	431	440	493	439	521
Education	902	908	908	903	898	892
Health and social work	1,029	1,021	967	908	844	784
Other community, social and personal service activities	371	350	388	391	196	187
Total Employed Persons	15,941	15,921	15,692	15,159	8,295	7,998

Notes:

(1) Excluding budgetary entities involved in national defence and public safety.

(2) Data covers non-complete statistical population – excluding private farmers and employees of budgetary entities involved in national defence and public safety.

Source: GUS – 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 44 in 2000. The number of working days lost through strikes also declined from 2,360,392 in 1992 to 74,300 in 2000. The sharp decline in the number of strikes during the period 1992 to 2000 was, among other things, a consequence of the overall improved performance of the economy.

The Privatisation Process

General information

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 2,054 as of December 2001 (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-owned enterprise.

By 31 December 2001, the Ministry of the Treasury had accepted 2,086 privatisation projects regarding direct privatisation. In the period from 1 January 2001 until 31 December 2001, this method covered 74 entities. In quantitative terms, direct privatisation still remains the most effective method of privatisation. By 31 December 2001, 1,928 state enterprises have been removed from the register of state enterprises (55 of these were removed in the period from 1 January to 31 December 2001). Between 1 January 2001 and 31 December 2001, state revenues from the direct privatisation amounted to PLN 0.36 billion.

Capital Privatisation

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

Out of the 1,515 commercialised enterprises, 315 companies had been privatised by means of indirect (capital) privatisation by the end of December 2001. The shares were disbursed to external investors. Between 1 January 2001 and 31 December 2001, 32 companies had been privatised by means of indirect (capital) privatisation. In respect of those 32 companies, 21 companies' shares were sold through a public invitation to negotiations and 11 companies' shares were sold by tender. Between 1 January 2001 and 31 December 2001, state revenues from capital privatisation amounted to PLN 6.45 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, employees are granted up to 15 per cent. of the shares in the company free of charge. A further 5 per cent. of shares owned by the Treasury in each of the companies created as a result of commercialisation (or budgetary revenues from sales of these shares) is allocated to meet claims of former owners of property, which was taken by the Treasury. Moreover, legal regulations allow the allocation of 2 per cent. of a Treasury Corporation's (a company solely owned by the Treasury) shares to the Foundation for Polish Science (to be used for the development of Polish science and technology) and 2 per cent. to increase the capital of the Agency for Industrial Development (to be used for the restructuring of Treasury Corporations).

A reserve is also created for the purpose of enfranchisement (to allow ordinary citizens to profit from the privatisation), which includes:

- 7 per cent. of the shares of Treasury Corporations created as a result of commercialisation, and
- shares of companies in which the Treasury holds less than 10 per cent. of the share capital.

According to the EDL Plan, essential parts of the Polish economy's ownership transformations are scheduled to be completed by the year 2005. By then, the government intends that Poland should have an ownership structure similar to that of EU countries. The EDL Plan aims mainly to improve and support competition, management efficiency and the development of capital markets. Privatisation will be an active part of the government's economic policy. Revenues from privatisation will mainly be applied towards the economy and infrastructure projects. Such revenues will also be used to make payments in respect of restitution claims and to support reforms to the social insurance structure.

The state will continue to control Poland's infrastructure and networks: such as airports, seaports, railroad networks and electric energy and gas grids. The state ownership structure will also remain in sectors where full regulation cannot be implemented (mainly areas of public utility services) and in the betting and lotteries sectors.

By July 2002, the government will produce legal and organisational solutions in respect of the restructuring of state-owned enterprises and companies. A *Restructuring Fund*, containing share reserves of the Treasury, will also be set up by the Treasury to support the privatisation process (by, for example, increasing the market value of an enterprise and putting into practice public and private partnerships).

Mass Privatisation – National Investment Funds Program

The National Investment Funds Program (the "**NIF Program**") was started in 1995. It was implemented on the basis of the Law of 30 April 1993 on National Investment Funds ("**NIFs**"). The main objectives of the NIF Program were to introduce mechanisms to accelerate and widen the scope of ownership transformation and also to reduce privatisation costs.

As a result of ownership transformation processes, according to the end-2001 data, the Treasury owned between 10.74 and 16.12 per cent. of shares in the NIFs.

17 investors own more than 10 per cent. of shares in one NIF. The process of consolidation of minority NIFs portfolios has been continued. At the end of December 2001, shares of 27 NIFs portfolio companies were listed at the Warsaw Stock Exchange Shares of another 12 portfolio companies were traded on the over-the-counter market. By the end of 2001, 12 companies were in the process of liquidation and bankruptcy proceedings had been started in respect of 79 companies. The Treasury had sold its shares in 117 companies participating in the NIF Program.

Privatisation by Sector

The Ministry of the Treasury and the Council of Ministers are currently reviewing the process of privatisation in the various sectors discussed below. Announcements regarding these reviews are expected in March 2002.

Telekomunikacja Polska S.A. (Polish Telecom)

In September 2001 the Minister of the Treasury and a consortium made up of France Telecom and Kulczyk Holding signed a contract concerning the purchase of additional 12.5 per cent. of Telekomunikacja Polska S.A. *("**TP S.A.**")* shares. At present, the structure of TP S.A. shareholders is as follows: the Treasury – 22.6 per cent. of shares, France Telecom and Kulczyk Holding – 47.5 per cent., small investors on the stock market – 29.89 per cent. At the same time, the France Telecom and Kulczyk Holding consortium was given a "soft option" (meaning that the exercise of the option is binding on the Ministry of the Treasury) to purchase an additional 2.5 per cent. of the shares (and one further share) by the end of 2002, which would give the consortium a controlling shareholding in TP S.A.

The third stage of TP S.A.'s privatisation is still pending, though the government expects that 15 per cent. of the shares of TP S.A. will be sold by way of 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). LOT is a member of the Qualiflyer alliance of 11 airlines. In November 2001, in order to prevent LOT from suffering the problems experienced by SAirGroup, the Ministry of the Treasury provided it with shares of selected companies in the Treasury's possession (the value of the total share package amounted to PLN 400 million). As a result of this operation and a new issue of shares, the Ministry of the Treasury increased its stake in LOT from 52 per cent. to 67.96 per cent. SAirLines Europe B.V. holds 25.1 per cent. The residual 6.94 per cent. stake is held by employees.

As a consequence of the Swissair bankruptcy (the leader of the 11 airlines alliance), the Ministry of the Treasury is looking for a new alliance for LOT. It is expected that a new potential strategic investor will be found in 2002.

Polskie Koleje Państwowe S.A. (Polish State Railway)

In September 2000, the Parliament passed a law on the commercialisation, restructuring and privatisation of the Polskie Koleje Państwowe S.A. ("**PKP**"). In December 2000, PKP was transformed into a state-owned joint-stock Treasury Corporation with a share capital of PLN 10 billion. In 2001 and as a result of this restructuring process, 8 operating subsidiaries were established: PKP Energetyka, PKP InterCity, PKP Linia Hutnicza Szerokotorowa, PKP Szybka Kolej Miejska w Trójmieście, PKP Warszawska Kolej Dojazdowa, PKP Przewozy Regionalne and PKP Cargo oraz PKP Telekomunikacja Kolejowa. The government intends to privatise these subsidiaries. The railway tracks will not be privatised.

The Power Sector

The power sector's privatisation has been under way in accordance with the update to the "*Integrated Schedule for the Privatisation of the Power Sector and Introduction of the Power Market*", approved by the Council of Ministers in June 2001.

In 2001, the process of privatisation was proceeding in accordance with the aforesaid Program. This included the sale of shares of Elektrownia Rybnik S.A., Elektrownia Skawina S.A. (January 2002), Elektrociepłownia Białystok S.A. and Elektrociepłownia Zielona Góra S.A. The privatisation of other entities, including 8 power distribution companies (the G-8 Group), is currently taking place.

The Coal Mining Industry

In December 2001, the Ministry of the Treasury approved pre-privatisation analyses of the Polish coalmine KWK Budryk S.A. Final decisions on the privatisation will depend on conclusions agreed by the Minister of the Treasury, the Minister of Finance and the Minister of Economy.

The privatisation of KWK Bogdanka S.A. has not been completed. The Ministry of the Treasury expects that a new invitation to negotiations will be sent to potential investors by the end of June 2002.

Under the EDL Plan, the government intends to privatise all restructured coal mines.

Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil & Gas Company)

As a result of the implementation of the restructuring programme of *Polskie Górnictwo Naftowe i Gazownictwo S.A. "**PGNiG**",* four distribution companies and one search and production company were established:

- Warszawska Spółka Gazownictwa Sp. z o.o.,
- Śląska Spółka Gazownictwa Sp. z o.o.,
- Pomorsko-Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- Karpacka Spółka Gazownictwa Sp. z o.o.,
- Górnictwo Naftowe Sp. z o.o.

In May 2001, the Council of the Ministers approved *"Assumptions of gas sector privatisation in Poland"*, which determines the general privatisation strategy for companies formed out of PGNiG. Distribution companies will remain in the hands of the Treasury and revenues from the privatisation of other entities will be used to make investments in the Polish gas networks.

The Oil Industry

The privatisation of Rafineria Gdańska S.A. is currently taking place. Negotiations between the Ministry of the Treasury and the British consortium Rotch Energy Ltd. were not concluded in 2001. The provision of financial security for this transaction by Rotch Energy Ltd. to the Ministry of the Treasury is currently the subject of negotiations.

The sale of 17.86 per cent. of PKN "Orlen" shares, held by Nafta Polska S.A., depends on the finalisation of the privatisation of Rafineria Gdańska S.A. It is expected that decisions concerning the ownership transformation of the company will be taken in the 2nd quarter of 2002.

The Steel Industry

It is envisaged that the privatisation of the Polish steel sector, as set out in the "*Update to the Government Restructuring Program of the Steel Sector*" and adopted by the Council of Ministers on 5 June 2001, would be preceded by restructuring and possible consolidation of the metallurgy sector. The consolidation would be accomplished in accordance with the Law on Metallurgy Restructuring, passed by the Parliament in July 2001.

The government intends to incorporate the assets of selected steel plants (including the largest entities in the sector: Huta Katowice S.A., Huta im. Tadeusza Sendzimira S.A., Huta Florian S.A. and Huta Cedler S.A.) into a company established with a strategic investor or into the company Polskie Huty Stali S.A. (Polish Steel Plants). Polskie Huty Stali S.A. would consist of assets of the above mentioned steel plants.

The Sugar Industry

Under the Law on regulation of the sugar market in Poland of September 2001, the government expects to create a new entity called *Polish Sugar*, which will consolidate all sugar companies that have yet to be privatised.

The long-lasting conflict between the Ministry of Interior and Administration and the French company Saint Louis Sucre regarding the acquisition of Śląska Spółka Cukrowa S.A. has ended. In November 2001, the Supreme Court decided that *the Law on Acquisition of Realties by Foreigners* had not been violated by Saint Louis Sucre and the Ministry of Interior and Administration dropped proceedings against Saint Louis Sucre. However, before this acquisition may be completed, the Polish Civil Courts are to review the acquisition contract in March 2002, and determine whether such contract remains valid.

Due to a court decision involving Śląska Spółka Cukrowa S.A. and the five sugar factories, called Grupa Gdańska, which has led to an order preventing disposals of shares in such companies, it is not currently possible to establish *Polish Sugar*. This is because the inclusion of these companies in the entity *Polish Sugar* could result in a refusal to register *Polish Sugar* as a company. Hence, the Ministry of the Treasury is considering amendments to the Law of June 25, 2001 on *regulation of the sugar market in Poland* regarding art. 20, which determines the rules concerning the creation of *Polish Sugar*.

The Spirits Industry

In order to reduce privatisation costs and accelerate negotiations with investors, enterprises in the spirits sector were divided into 4 groups. The first group includes the Polmos companies in Kraków, Lublin and Szczecin. The second group includes the Polmos companies in Starogard Gdański, Siedlce, Bielsko-Biała and Konin. The third group comprises the Polmos Poznań and the final group comprises the Polmos companies in Łancut, Toruń, Jozefów and Kutno. The privatisation of each of these groups is at varying stages of completion. The privatisation process of the following companies has been finalised: Polmos in Kutno – March 2001, Polmos in Poznań – July 2001, Polmos in Stargard Gdański – August 2001, Polmos in Lublin – September 2001. It is envisaged that the sale of shares of Przemysł Fermentacyjny Akwawit S.A. (Leszno) will take place in the 4th quarter of 2002 by public offering. In case of Polmos Białystok, Siedlce, Łancut, Toruń i Wrocław, privatisation procedures are well advanced. Other state-owned enterprises to be privatised directly or through liquidation include Zakłady Przemysłu Spirytusowego Polmos (Sieradz), Warszawska Wytwórnia Wódek Koneser (Warsaw), Żyrardowskie Zakłady Przemysłu Spirytusowego Polmos (Żyrardow), Łódzkie Zakłady Przemysłu Spirytusowego Polmos (Łódź) and Przedsiębiorstwo Przemysłu Spirytusowego Polmos (Warsaw).

The Pharmaceutical Industry

The privatisation of Polfa Lublin S.A. is at an advanced stage and exclusive negotiations are taking place with a single strategic investor (the consortium named *Spectra Holding*). The Ministry of the Treasury expects these negotiations to be completed soon. However, the privatisation of Polfa Tarchomin S.A. has been cancelled because two prospective investors (the Polish company *Prokom Investments* and the Slovenian company *Lek*) have withdrawn their offers.

A decision is expected soon in relation to the privatisation of Polfa Grodzisk S.A. ("**PG S.A.**"). The Council of Ministers has issued an agreement to proceed with the direct privatisation of PG S.A. This transaction will be concluded through the incorporation of PG S.A.'s assets into a company whose shares will be held by private investors.

The Heavy Chemical Industry

The privatisation strategy of this sector, approved by the Government in 2000, envisages the individual privatisation of each company. In 2001, the privatisations proceeded as follows:

Zakłady Chemiczne Police S.A. – the public invitation to purchase 85 per cent. of the company's shares was cancelled. A decision concerning the method of privatisation will be preceded by further sector analyses.

Zakłady Azotowe Kędzierzyn S.A. – the Ministry of the Treasury issued a public invitation to purchase 85 per cent. of the company's shares. However, the privatisation procedure has been suspended.

Zakłady Azotowe Puławy S.A. — the initial public offering scheduled for 2001 was cancelled due to a lack of interest by potential investors. A decision concerning the method of privatisation will be preceded by further sector analyses.

Zakłady Azotowe w Tarnowie-Mościcach S.A. – the Ministry of the Treasury issued a public invitation to purchase 85 per cent. of the company's shares. Negotiations with selected investors are currently taking place.

The Defence Industry

The Program of Restructuring of the Defence Industry and Assistance in Technological Modernisation of the Armed Forces of the Republic of Poland was adopted by the Council of Ministers in February 1999. It envisages the privatisation of 26 defence industry companies. 6 production companies and 3 special trading companies are excluded from this process. In 2001, the aforesaid Program proceeded as scheduled. This included the sale of shares of Państwowe Zakłady Lotnicze "Warszawa-Okęcie" S.A. and Wytwórnia Sprzętu Komunikacyjnego "PZL-Rzeszów" S.A. As regards the other companies, the process of privatisation is currently taking place.

The Banking Sector

The pace of ownership transformations conducted in the banking sector 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 Śląski S.A., Bank Gdański S.A., Bank Przemysłowo-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.

Preparations for privatisation of Powszechna Kasa Oszczędności Bank Państwowy ("**PKO BP**") began in early January 2000. The Council of Ministers gave consent to transform PKO BP into a 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 Oszczędności Bank Polski S.A. ("**PKO BP S.A.**"). In December 2000, the Treasury increased the capital of PKO BP S.A. and transferred to it the 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 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 held by PKO BP S.A. 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 Treasury will guarantee the repayment of housing credits of the so-called "old portfolio" (90 per cent. of the portfolio) and will exempt the banks from further creation of reserves for old housing credits. An analysis of the banking sector and a strategy for its privatisation and restructuring are being developed by the Ministry of Treasury in cooperation with representatives from the Ministry of Finance, the NBP, Union of Polish Banks (Związek Banków Polskich), PKO BP S.A., Bank Gospodarki Żywnościowej S.A. and Bank Gospodarstwa Krajowego.

According to the EDL Plan, Bank Gospodarstwa Krajowego will become "the bank of the Treasury". In this capacity, it will participate in governmental development and structural programmes. PKO BP S.A. will specialise in providing services to the public. The Treasury will keep the majority of shares in PKO BP S.A., however, a sale of the minority block of shares or the establishment of a strategic partnership may also take place. The government will analyse the future role of Bank Gospodarki Żywnościowej S.A. and decide whether it should be an institutional supervisor for co-operative banks or commercial banks. A new development programme for Bank Pocztowy S.A. will be elaborated.

The Insurance Sector

In November 1999, a consortium consisting of Eureko B.V. and BIG Bank Gdański S.A. purchased 30 per cent. of the shares of Powszechny Zakład Ubezpieczeń S.A. ("**PZU S.A.**"). This purchase was made in accordance with the privatisation strategy of PZU S.A., adopted by the Council of Ministers in March 1999.

In October 2001, the Ministry of the Treasury and Eureko B.V. signed a contract for the sale of 21 per cent. of PZU S.A.'s shares. However, the contract was not completed because the Minister of Internal refused to consent to the purchase of certain real estate. In January 2002, the Minister of the Treasury, presented *proposal of partnership* to the consortium Eureko B.V., BIG Bank Gdański S.A. and BIG BG Inwestycje S.A.. At present, negotiations concerning the privatisation and development of PZU S.A. are taking place between the Ministry of the Treasury and the aforesaid consortium.

Restitution

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 on the basis of the administrative procedures, if the property was nationalised illegally. Successful claims for restitution have been in cases where both administrative and civil procedures have been used. Between 1989 and 1997, approximately 10,000 claims were filed of which approximately 4,500 were concluded (70 per cent. being decided in favour of the claimants). Property owned by the religious communities continues to be returned under current restitution proceedings contained in the Administrative Code.

In an 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 22 December 1999, the Defendants filed a motion to dismiss the actions for lack of jurisdiction. At the date of this Offering Circular, the court has not yet ruled on this matter.

In January 2001, Parliament passed the restitution law that was vetoed by the President in February. At present, a new draft restitution law is being elaborated in the Ministry of the Treasury. The draft provides that the restitution claims will be satisfied by granting compensations (not in cash) to enable former owners to buy property which was formerly owned by the family of the relevant former owners or to buy other properties from the resources to be used for this purpose. The government estimates that the value of expected restitution claims under the new draft restitution law will amount to PLN 25 billion (not including property unlawfully confiscated in Warsaw and property of people resettled from eastern lands).

Simultaneously, budgetary revenues from sales of 5 per cent. of shares owned by the Treasury in each of the companies created from the commercialisation are allocated in the Restitution Fund to meet claims of former owners of property, which was taken by the State Treasury.

Litigation

The Republic is engaged in a number of lawsuits connected directly with privatisation. The consolidated amount of potential compensation resulting from such litigation is PLN 155,292,800 (including PLN 14,632,810 to Nordzucker AG), U.S.$1,353,054 (to Bain & Company of the United Kingdom) and DEM 5,000,000 (to Lutz Ingo Schaper - shareholder of Saar Papier Vertriebs GmbH). The consolidated amount does not include potential compensation resulting from any claims from employees of privatised companies, restitution claims or cases where the suit has yet to be filed.

Foreign Direct Investment ("FDI")

According to estimates by the Polish Agency for Foreign Investment ("**PAIZ**")*, the cumulative aggregate of FDI transactions in Poland between 1990 and mid-2001 was U.S.$52.3 billion. The inflow of FDI reached U.S.$3.7 billion in the first half of 2000 and U.S.$10.6 for the full year 2000. U.S.$3.3 billion was invested in the first half of 2001.

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* 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 collects data directly. PAIZ looks at total investment contemplated in investment agreements, rather than 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), while NBP 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 entity's foreign commitments. NBP's estimates FDI by reference only to money related to foreign direct investment that passes directly through the banking system.

In January 2002, a new bill on Financial Support for Investment was accepted by the government and the bill is currently before Parliament. This bill, if passed, would enable investors to apply for public assistance (of up to euro 3500 for every new job created or up to euro 1150 for the training of a new employee) regardless of whether the investment is made in a special economic zone or not. It would also grant tax breaks of up to ten years and improve local infrastructure and the natural environment. The key elements for obtaining such public assistance would be (i) in respect of a new investment, an investment of at least euro 10 million or the creation of at least 20 jobs or (ii) in respect of an existing investment, an investment of at least euro 0.5 million and maintaining at least 100 jobs. PAIZ sees attracting investments that bring in technological innovations as a priority.

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.

The following tables show (i) a breakdown of FDI by country of origin and (ii) a breakdown of FDI by sector, each as at the end of June 2001:

Foreign Direct Investment in Poland –breakdown by country (as at 30 June 2001)

No.	Country of Origin	Capital Invested	Planned Investment	Number of investors
		(millions of U.S.$)		
1	France	8,535.00	1,268.9	81
2	USA	7,458.70	2,024.9	123
3	Germany	6,339.60	1,617.1	203
4	Netherlands	4,404.30	554.8	67
5	Italy	3,491.50	1,170.4	62
6	Great Britain	2,630.80	281.4	38
7	Multinational	2,323.00	815.1	19
8	Sweden	2,196.10	332.1	55
9	Korea	1,616.30	25.2	4
10	Russia	1,255.40	301.0	2
11	Austria	1,202.10	154.4	39
12	Ireland	1,046.70	0.0	3
13	Switzerland	897.30	321.6	20
14	Denmark	783.20	74.7	36
15	Belgium	576.00	75.8	22
16	Norway	542.60	178.0	15
17	Japan	505.20	90.0	11
18	Greece	501.50	4.0	2
19	Finland	416.60	69.6	18
20	Portugal	413.70	74.8	5
21	Spain	385.80	0.0	7
22	Canada	250.00	41.3	14
23	Croatia	173.00	16.0	2
24	Turkey	100.10	58.0	4
25	Luxembourg	77.80	4.0	6
26	Australia	67.00	4.0	2
27	Israel	55.40	20.0	4
28	China	45.00	45.0	2
29	Czech Republic	39.50	0.0	4
30	Republic of South Africa	35.00	95.5	2
31	Lichtenstein	31.90	27.0	4
32	Cyprus	17.00	0.0	2
33	Slovenia	10.00	50.0	1
34	Taiwan	5.70	200.0	1
35	Malta	1.00	–	1
Total value of FDI over U.S.$1 million		**48,429.8**	**9,994.6**	
Estimated value of FDI below U.S.$1 million		**3,844.2**		
Total FDI in Poland		**52,274.0**		

Source: PAIZ

Foreign Direct Investment in Poland – breakdown by sector (as at 30 June 2001)

Activities according to the European Classification of Activities (ECA)	Capital invested (millions of U.S.$)	Planned investment (millions of U.S.$)
Manufacturing:	20,237.9	4,308.0
Food, drinks and tobacco products	5,379.8	518.1
Transport equipment	5,306.6	304.8
Other non-metal goods	2,755.7	805.9
Pulp and paper, publishing and printing	1,559.3	376.0
Electrical machinery and apparatus	1,581.8	380.4
Chemicals and chemical products	1,267.4	436.9
Rubber and plastics	591.2	198.9
Furniture and consumer goods	458.8	287.9
Metals and metal product	408.9	776.2
Wood and wooden products	379.0	38.2
Machinery and equipment	281.1	128.8
Fabrics and textiles	252.8	55.0
Leather and leather products	15.5	0.9
Financial intermediation	11,116.9	700.3
Transport, storage and communication	5,604.7	529.3
Trade and repairs	4,628.7	722.8
Construction	2,678.1	958.6
Community, social and personal services	1,622.1	594.0
Power, gas and water supply	1,225.2	384.8
Hotels and restaurants	697.6	262.2
Real estate and business activities	491.7	1,521.4
Mining and quarrying	87.0	0.0
Agriculture, hunting and forestry	39.9	13.1
Total value of FDI over U.S.$1 million	**48,429.8**	**9,994.56**
Estimated value of FDI below U.S.$1 million	**3,844.2**	
Total FDI in Poland	**52,274.0**	

Source: PAIZ

Principal Sectors of the Economy

Economic growth in Poland since 1992 has benefited most sectors of the economy. Until the end of 1995, net exports and investment were the principal factors behind 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 years1996 to 2000:

GDP by Selected Sector

Percentage Composition	1996	1997	1998	1999	2000
	(per cent.)				
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
of which:					
Agriculture, hunting and forestry	5.5	4.8	4.1	3.4	3.3
Industry	26.1	25.7	24.2	23.7	23.4
Mining and quarrying	3.3	3.1	2.5	2.3	2.4
Manufacturing	19.5	19.6	18.9	18.4	18.1
Energy; gas; water supply	3.3	3.0	2.8	3.0	2.9
Construction	6.5	6.9	7.6	7.7	7.3
Trade and repair	18.2	18.4	18.1	18.0	18.3
Hotels and restaurants	0.9	0.9	1.0	1.1	1.1
Transport, storage and communication	5.6	5.7	5.6	5.9	6.0
Financial intermediation	0.9	1.2	1.4	1.9	2.0
Real estate and business activities	7.5	8.5	10.2	10.3	11.0
Public administration and defence	5.0	4.7	4.7	4.4	4.7
Education	3.6	3.7	3.7	3.9	4.1
Health and social work	3.6	3.6	3.5	3.3	3.0
Other community, social and personal service activities	3.5	3.3	3.5	3.5	3.6

Source: GUS – Central Statistical Office

Real GDP Growth by Selected Sector *(per cent.)*

	1996	1997	1998	1999	2000	2001[(1)]
Agriculture hunting and forestry	2.4	1.1	5.9	(0.6)	(6.0)	
Fishing	7.0	(10.5)	(25.6)	66.3	(2.8)	
Industry:						
Mining and quarrying	4.7	(4.3)	(10.8)	(1.6)	4.6	
Manufacturing	8.8	14.4	7.5	4.2	7.1	
Energy; gas; water supply	3.5	0.6	(1.2)	(1.5)	3.7	
Total industry	7.6	10.3	4.3	3.0	6.5	(0.6)
Construction	2.8	13.6	9.3	3.5	(0.7)	(7.6)
Trade and repair	6.1	8.1	5.0	7.1	3.9	
Hotels and restaurants	15.9	7.2	12.7	17.0	6.1	
Transportation, storage and communication	5.4	5.6	6.3	10.5	3.2	
Financial intermediation	11.3	2.9	9.2	36.3	13.3	
Real estate and business activities	0.9	(0.7)	3.4	(2.6)	4.6	
Public administration and defence	4.4	5.9	1.6	6.2	6.1	
Education	1.3	0.9	4.9	3.3	1.3	
Health and social work	1.5	0.7	0.5	(13.8)	(1.6)	
Other community, social and personal service activities	6.7	(6.1)	1.3	2.8	1.6	
Private households with employed person	6.4	8.9	4.9	2.2	2.1	

Note:

(1) Only figures for "Total Industry" and "Construction" are currently available and these figures are according to preliminary data.

Source: GUS – 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 stimulated a recovery initially in the food industry, and later in other sectors. This trend was steady until 1998, when the Russian crisis resulted in sold industrial production decreasing to a growth rate of 3.5 per cent. in 1999 (compared to 11.5 per cent. in 1997). The growth in sold industrial production rose to a rate of 6.8 per cent. in 2000, but in 2001, as a result of tight monetary conditions, it fell by 0.2 per cent. The Ministry of Finance forecasts a growth rate of 1.8 per cent. for 2002.

Mining and Quarrying

Poland has substantial mineral resources. Poland is a large producer of refined copper and silver and, at the present level of output, workable copper reserves in Poland are predicted to last for almost 100 years. Poland is also a large producer of sulphur. Poland also has significant resources of zinc, lead, 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 June 1998, the government approved a long-term restructuring programme for 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 improving the efficiency of coal production in Poland. Of the 57 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 will be reduced by 115,000 employees, from 243,300 employees at the end of 1997 to 128,300 in 2002. At the end of 2000, there were 155,000 people working in the sector. Production has fallen from 137 million tonnes per year in 1997 to approximately 103.9 million tonnes in 2001. Once the programme is completed, the mining sector is expected to become profitable. Workers leaving the mines are given 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 worth 24 times the relevant monthly wages. This resulted in a significant number of miners opting for redundancy. The programme is financed by the state budget (the subsidy from the budget in 2000 was PLN 1.6 billion), the Labour Fund and the Social Insurance Fund. The net losses made by the coal-mining sector were reduced significantly from PLN 3.4 billion in 1999 to PLN 1.6 billion in 2000 and 0.5 billion in the first half of 2001. For the year 2001, according to preliminary data released by the Ministry of Economy, this sector earned PLN 171 million. However, this positive result is mainly due to the government writing off or delaying payments on the debt owed to it by the coal companies. If it had not been for this partial debt write off and delayed repayment, this sector would have sustained losses amounting to PLN 1.2 billion.

Steel

Restructuring of the steel sector in Poland started 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, reflected the acceleration of restructuring due to 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 employees 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 30,000 employees by the end of 2003 and to make the steel plants self-sustainable by 2005. All the steel plants are in the process of being privatised. The restructuring programme is being financed by the state budget (PLN 200 million in the projections for the years 1999 to 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 import, transmission, storage and distribution of gas. Poland's oil reserves are small, covering less than 4 per cent. of consumption in 2000. Poland currently has seven oil refineries, which require modernisation in order to enable them to raise the quality of their products and to meet increasingly stringent environmental standards.

In the year 2000, 27 per cent. of natural gas consumption used natural gas obtained from domestic sources. 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 and EU member states.

Electricity

Total electricity generation in Poland in 2000 was 148 terawatt-hours, which was in excess of domestic consumption. Electricity consumption increased in 1993 through 2000, 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 have been 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 power generation companies and from industrial self-producers and sells electricity to 32 local distribution companies. However, the importance of this company is expected to diminish as competition develops in the energy market. An energy exchange market has been in operation since July 2000. 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. Car sales in Poland increased from 220,000 units in 1992 to 650,000 units in 1999. However, the number of new cars sold decreased to 479,000 in 2000 and further decreased to 327,000 in 2001. 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.

Construction

Since 1990, the system of public subsidies in the state, communal and co-operatives construction sectors has been dismantled. As a result, growth in the construction industry has come mostly from the private sector. From the beginning of 1997, there was an increase in construction activity 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. This tendency persisted in 2001, when construction production contracted by 9.9 per cent. as compared to 2000.

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 Polish workforce. By the end of 2000, agriculture as a percentage of GDP had fallen further to 3.3 per cent. There is substantial fragmentation of ownership within the agricultural sector, which is characterised by numerous private farms each having 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 a slowing of the trade liberalisation process.

Other

The proportion of Poland's GDP represented by services is continuously increasing. In 2000, services accounted for 18.3 per cent. of GDP, the transportation and communication sector accounted for 6.0 per cent. and the financial intermediation sector accounted for 2.0 per cent.

Infrastructure

PKP operates suburban railways in all major cities and, by the end of 2000, operated approximately 22,560 kilometres of rail track, of which approximately 11,826 kilometres was electrified. The government has begun to restructure PKP in an effort to improve operational efficiency. Under this restructuring plan, separate passenger, freight and infrastructure companies have been established from PKP's assets, under a new PKP holding company. The privatisation is expected to be completed by 2005. By the year 2005, the 210,000 workforce will be reduced by some 50,000.

Poland has over 250,000 kilometres of hard-surfaced public roads. The first privately financed motorway development is to be the 255-kilometre stretch of the A2 between the German frontier (Świecko) via Poznań to Konin. The first 149-kilometre instalment will be completed by 2005 and will cost euro 875 million. The first privately operated toll motorway, the 60 km A4 between Kraków and Katowice, was opened in 2000. A new act on motorway construction is currently being put into force by the government. According to this new law, the government will be involved to a larger extent in co-financing road infrastructure programmes through the Agency for Motorway Construction.

In 2000, the Polish merchant shipping fleet comprised 128 vessels with a total capacity of 2.5 million tonnes. Poland has several ports equipped to service ocean-going vessels. Poland has 12 airports of which nine handle international air traffic. In 2000 scheduled flights were maintained with 42 foreign cities (in 51 countries) and 9 cities in Poland.

The telecommunications network in Poland is operated mostly by TP S.A., 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 2000, the number of telephone lines had grown to over 10 million, an increase of 226 per cent. since

1990. By 31 December 2000, the number of telephone lines per 100 inhabitants had grown to 28. 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 PKP/Britain's National Grid, local telecoms firm Netia and Polish Oil Group (PKN) at the end of January 2000 and, so far, two of them are providing services. There are a number of local independent operators. TP S.A. 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 S.A., PTC Era S.A. and Polkomtel S.A., 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. There are currently no estimates available for the total cost of bringing all industrial sectors into compliance with these rules.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Poland's current account has been in deficit since 1996. This deficit has continued to increase annually, until reaching a peak in December 1999 (with a monthly deficit of U.S.$1,692 million). Since then, the current account has gradually improved, declining to U.S.$9,946 million in 2000. According to preliminary data, the current account deficit has further reduced to U.S.$7,040 million in 2001.

Measured by the official balance of payments statistics the trade deficit reached U.S.$14.4 billion in 1999, $13.2 billion in 2000 and U.S.$7.04 billion in 2001. 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 and U.S.$30.28 billion in 2001.

During 2001, notwithstanding significantly lower economic growth amongst Poland's major trading partners and the relatively strong Polish currency, no negative impact on exports has been detected.

In the first eleven months of 2001, 69.3 per cent. of Polish exports were to EU countries, with Germany being the main trade partner (34.5 per cent. of Polish exports). The proportion of exports to Russia accounts for less than 3 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 have been increasing steadily from U.S.$.542 million in 1994 to U.S.$8.3 billion in 2000 according to the NBP's preliminary figures. However, this tendency reversed in 2001, when foreign direct investments amounted to U.S.$6.6 billion. Due to the different calculation methods used by the NBP, these figures differ from those prepared by PAIZ (see "The Economy – Foreign Direct Investment" above). In 1999, portfolio inflows represented approximately an amount equal to one fifth of direct investments. Portfolio inflows increased from U.S.$1.4 billion in 1999 to U.S.$2.7 billion in 2000, but decreased to U.S.$1.9 billion in 2001. Portfolio inflows now represent one third of direct investments. In the last quarter of 2000 and the first quarter of 2001 a significant inflow of portfolio investments in Polish bonds was observed. However, this tendency was not sustained in subsequent quarters of 2001.

The strengthening dollar and the worsening current account balance in 1999 and early 2000, 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.$24.7 in June 2000. Since then, reserves have been gradually increasing, reaching U.S.$28.0 billion in October 2001. Foreign exchange reserves fell U.S.$25.2 billion in November 2001 as a result of a loan that the NBP granted to the Ministry of Finance to prepay Poland's debt owed to Brazil. The loan is to be repaid in foreign currency in four instalments over the next two years.

The following table sets out Poland's balance of payments and related statistics for the years 1997 to 2001:

Balance of Payments on a Cash Basis

(U.S.$ millions)

	1997	1998	1999	2000	2001 Q1	2001 Q2	2001 Q3	2001 Q4[1]	2001[1]
A. CURRENT ACCOUNT	**-4,309**	**-6,862**	**-11,558**	**-9,946**	**-2,170**	**-2,205**	**-949**	**-1,716**	**-7,040**
Trade balance	**-11,320**	**-13,720**	**-14,380**	**-13,168**	**-3,148**	**-2,778**	**-2,735**	**-3,019**	**-11,680**
Goods: exports	27,229	30,122	26,347	28,256	7,436	7,508	7,459	7,879	30,282
Goods: imports	38,549	43,842	40,727	41,424	10,584	10,286	10,194	10,898	41,962
Services: net	**305**	**-508**	**-1,624**	**-1,684**	**-287**	**-194**	**-185**	**-175**	**-841**
Services: credit	3,724	3,678	3,310	3,516	977	953	1,054	1,092	4,076
Transportation	1,089	975	724	870	243	254	288	262	1,046
Travel	590	664	669	819	187	221	260	251	917
Other	2,045	2,039	1,917	1,827	547	478	506	579	2,113
Services: debit	3,419	4,186	4,934	5,200	1,264	1,147	1,239	1,267	4,917
Transportation	408	537	546	646	196	160	171	144	672
Travel	679	770	823	903	235	244	271	188	935
Other	2,332	2,879	3,565	3,651	833	743	797	935	3,310
Income: net	**-455**	**-571**	**-793**	**-761**	**165**	**-632**	**-89**	**-328**	**-884**
Income: credit	1,439	2,657	1,881	2,255	866	620	582	594	2,662
Income: debit	1,894	3,228	2,674	3,016	701	1,252	671	922	3,546
of which: due and paid	1,889	3,218	2,665	3,007	699	1,250	669	919	
Current transfers: net	**1,150**	**1,942**	**1,605**	**1,680**	**370**	**425**	**692**	**484**	**1,971**
General government	**102**	**408**	**221**	**260**	**35**	**37**	**136**	**68**	**276**
Other sectors	**1,048**	**1,534**	**1,384**	**1,420**	**335**	**388**	**556**	**416**	**1,695**
Current transfer: debit	695	601	605	480	162	143	849	680	2,629
General government		20	48	58	44	25	167	92	400
Other sectors	695	581	557	422	118	118	682	588	2,229
Current transfer: credit	1,845	2,543	2,210	2,160	532	568	157	196	658
General government	102	428	269	318	79	62	31	24	124
Other sectors	1,743	2,115	1,941	1,842	453	506	126	172	534
Unclassified transactions on current account: net	**6,011**	**5,995**	**3,634**	**3,987**	**730**	**974**	**1,368**	**1,322**	**4,394**
B. CAPITAL AND FINANCIAL ACCOUNT	**4,864**	**11,000**	**8,235**	**7,656**	**2,323**	**1,025**	**1,564**	**-1,188**	**3,724**
Capital account	**90**	**71**	**47**	**14**	**-4**	**-4**	**-3**	**9**	**-2**
Financial account	**4,774**	**10,929**	**8,188**	**7,642**	**2,327**	**1,029**	**1,567**	**-1,197**	**3,726**
Direct investment: net	**3,041**	**4,966**	**6,348**	**8,171**	**1,225**	**1,451**	**1,306**	**2,520**	**6,502**
Polish direct investment abroad	-36	-163	-123	-123	-108	36	-19	-9	-100
Foreign direct investment in Poland	3,077	5,129	6,471	8,294	1,333	1,415	1,325	2,529	6,602
Portfolio investment: net	**1,531**	**1,700**	**866**	**2,587**	**2,400**	**-952**	**-24**	**581**	**2,005**
Polish portfolio investment abroad (assets)	248	-130	-551	-90	280	-71	-84	-45	80
Equity securities	56	-42	-173	-223	1	-50	-1	-17	-67
Debt securities	192	-88	-378	-67	279	-21	-83	-28	147
Foreign portfolio investment in Poland (liabilities)	1,283	1,830	1,417	2,677	2,120	-881	60	626	1,925
Equity securities	599	954	885	871	124	-10	43	-81	76
Debt securities	684	876	532	1,806	1,996	-871	17	707	1,849
Other investment: net	**-362**	**4,627**	**404**	**-3,386**	**-1,059**	**149**	**337**	**-4,706**	**-5,279**
Polish assets	**-872**	**2,176**	**-2,691**	**-2,928**	**-882**	**-55**	**46**	**-2,563**	**-3,454**
Long-term credits extended	-82	-83	-11	124	-53	-7	24	24	-12
Drawings	227	261	198	171	92	58	31	40	221
Repayments	145	178	187	295	39	51	55	64	209
Short-term credits extended	-60	-15	14	23	7	0	6	5	18
Drawings	189	147	53	172	18	23	20	43	104
Repayments	129	132	67	195	25	23	26	48	122
Other assets	-730	2,274	-2,694	-3,075	-836	-48	16	-2,592	-3,460
Currency and deposits	-825	2,261	-2,713	-3,098	-836	-47	15	-2,593	-3,461
Other	95	13	19	23	0	-1	1	1	1
Polish liabilities	**510**	**2,451**	**3,095**	**-458**	**-177**	**204**	**291**	**-2,143**	**-1,825**
Long-term credits received	416	1,669	2,056	1,255	-327	343	221	-2,378	-2,141
Drawings	1,189	3,235	4,405	4,578	781	1,472	1,430	1,597	5,280
Repayments	773	1,566	2,349	3,323	1,108	1,129	1,209	3,975	7,421
of which: due and paid	711	1,507	2,297	3,295	1,108	1,128	1,209	3,960	7,405
Short-term credits received	592	-45	441	145	-81	-171	75	3	-174
Drawings	1,201	334	934	550	61	67	207	232	567
Repayments	609	379	493	405	142	238	132	229	741
Other liabilities	-498	827	598	-1,858	231	32	-5	232	490
Currency and deposits[2]	-449	829	600	1,855	231	32	-5	232	490
Other	-49	-2	-2	-3	0	0	0	0	0
C. NET ERRORS AND OMISSIONS	**2,488**	**1,798**	**3,492**	**2,965**	**1,035**	**669**	**-492**	**1,612**	**2,824**
OVERALL BALANCE	**3,043**	**5,936**	**169**	**675**	**1,188**	**-511**	**123**	**-1,292**	**-492**
D. FINANCING OF OVERALL BALANCE	**-3,043**	**-5,936**	**-169**	**-675**	**-1,188**	**511**	**-123**	**1,292**	**492**
Official Reserve Assets[2]	-3,044	-5,927	-160	-619	-1,180	514	-120	1,295	509
Credits from IMF									
Exceptional financing	1	-9	-9	-56	-8	-3	-3	-3	-17

Notes:

(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 of payments on a cash basis changed in comparison to previously published figures:

- "Currency and deposits",
- "Official reserves assets".

This change consisted in shifting the liabilities of NBP repo transactions from "Gross Official Reserves" to "Currency and deposits". For comparison purposes the data from 1997 through November 2000 was adjusted accordingly.

Source: NBP

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, and the EU in particular.

Direction of Trade

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. In 2000, trade with former COMECON members accounted for less than 18 per cent. of total foreign trade, whereas trade with EU members accounted for approximately 64.6 per cent. of total foreign trade, with Germany being Poland's largest trading partner (accounting for 34.9 per cent. of Polish exports and 23.9 per cent. of imports in 2000). No significant changes in trade structure were observed in the first nine months of 2001.

The following table sets out the geographic distribution of Poland's trade for the years 1997 to 2001:

Geographic Distribution of Polish Trade

(per cent.)

	1997		1998		1999		2000		2001(1)	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Developed Countries:										
Germany	32.9	24.1	36.3	26.4	36.1	25.2	34.9	23.9	34.5	24.1
Other EU countries	31.1	39.7	32.0	39.2	34.4	39.7	35.0	37.3	34.8	37.3
Other developed countries	5.0	9.7	5.3	9.1	5.8	9.2	6.4	9.7	5.9	8.5
Total developed countries	**69.0**	**73.5**	**73.6**	**74.7**	**76.3**	**74.1**	**76.3**	**70.9**	**75.2**	**69.9**
Central and Eastern Europe:										
CEFTA	6.8	6.3	7.2	6.4	8.2	6.7	8.4	7.1	8.7	7.5
Russian Federation	8.4	6.3	5.6	5.1	2.6	5.9	2.7	9.4	2.9	8.9
Other Central and Eastern Europe	8.4	2.0	7.6	1.6	6.2	1.6	6.2	2.0	6.6	1.9
Total Central and Eastern Europe(2)	**23.6**	**14.6**	**20.4**	**13.1**	**17.0**	**14.2**	**17.3**	**18.5**	**18.2**	**18.3**
Developing Countries	7.4	11.9	6.0	12.2	6.7	11.7	6.4	10.6	6.6	11.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Preliminary data for January to November 2001.

(2) Since 1 January 1999 and in accordance with the catalogue of Eurostat, this includes European countries of the former USSR.

Source: GUS – Central Statistical Office

Composition of Trade

The most significant export items in 2000 were transportation equipment and products (automobiles and automobile parts, boats and shipping vessels), machinery, appliances and their parts, steel and steel products, wood and wooden products, mineral products and agricultural products (meat products, fresh and frozen fruits and dairy products). 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 1997 to 2001:

Composition of Exports[1]

	1997		1998		1999		2000		2001[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.**
Natural Resource-Based Goods:										
Food and Live Animals	3,026	11.8	2,840	10.1	2,328	8.5	2,367	7.5	2,448	7.4
Beverages and Tobacco	104	0.4	96	0.3	102	0.4	120	0.4	128	0.4
Non-Food Raw Materials (excluding fuel)	820	3.2	804	2.9	839	3.0	894	2.8	837	2.5
Mineral Fuels, Lubricants & Related Materials	1,719	6.7	1,546	5.5	1,377	5.0	1,610	5.1	1,869	5.7
Animal and Vegetable Oil	43	0.2	38	0.1	46	0.2	23	0.1	16	0.0
Subtotal	5,712	22.3	5,324	18.9	4,692	17.1	5,014	15.8	5,298	16.1
Manufactured Goods:										
Chemicals and Related Products	2,027	7.9	1,899	6.7	1,696	6.2	2,151	6.8	2,073	6.3
Manufactured Goods Classified Chiefly by Material	6,830	26.5	7,116	25.2	6,986	25.5	7,856	24.8	7,938	24.1
Machinery and Transport Equipment	5,560	21.6	8,022	28.4	8,278	30.3	10,820	34.2	11,823	35.9
Miscellaneous Manufactured Articles	5,611	21.7	5,861	20.8	5,750	20.9	5,805	18.3	5,766	17.5
Non-Classified	13	0.0	7	0.0	6	0.0	7	0.0	4	0.0
Subtotal	20,040	77.7	22,905	81.1	22,716	82.9	26,639	84.2	27,604	83.9
Total	**25,751**	**100.0**	**28,229**	**100.0**	**27,407**	**100.0**	**31,651**	**100.0**	**32,902**	**100.0**

Notes:

(1) Based on customs data and the Standard International Trade Classification.

(2) Preliminary data for January to November 2001.

Source: GUS - Yearbook of Foreign Trade Statistics, Central Statistical office

The following table sets out the composition of Poland's imports for the years 1997 to 2001:

Composition of Imports[1]

	1997		1998		1999		2000		2001[2]	
	U.S.$	**per cent.**	**U.S.$**	**per cent.**	**U.S.$**	**per cent.**	**U.S.$**	**per cent.**	**U.S.$**	**per cent.**
Natural Resource-Based Goods:										
Food and Live Animals	2,894	6.8	2,968	6.4	2,537	5.5	2,558	5.2	2,441	5.3
Beverages and Tobacco	299	0.7	302	0.6	368	0.8	198	0.4	214	0.5
Non-Food Raw Materials (excluding fuel)	1,762	4.2	1,655	3.5	1,419	3.1	1,643	3.4	1,459	3.2
Mineral Fuels, Lubricants & Related Materials	3,710	8.7	2,964	6.4	3,281	7.2	5,297	10.8	4,698	10.2
Animal and Vegetable Oil	238	0.6	282	0.6	190	0.4	164	0.3	155	0.3
Subtotal	8,904	21.0	8,171	17.5	7,795	17.0	9,860	20.2	8,967	19.5
Manufactured Goods:										
Chemical and Related Products	5,839	13.8	6,405	13.7	6,584	14.3	6,882	14.1	6,764	14.7
Manufactured Goods: Classified Chiefly by Material	8,283	19.6	9,711	20.8	9,526	20.7	9,789	20.0	9,532	20.7
Machinery and Transport Equipment	15,228	36.0	18,273	38.3	17,544	38.2	18,114	37.0	16,661	36.2
Miscellaneous Manufactured Articles	3,950	9.4	4,412	9.5	4,380	9.6	4,218	8.6	4,033	8.8
Non-Classified	104	0.2	83	0.2	82	0.2	78	0.2	61	0.1
Subtotal	33,403	79.0	38,883	82.5	38,116	83.0	39,080	79.9	37,051	80.5
Total	**42,308**	**100.0**	**47,054**	**100.0**	**45,911**	**100.0**	**48,940**	**100.0**	**46,019**	**100.0**

Notes:

(1) Based on customs data and Standard International Trade Classification.

(2) Preliminary data for January to November 2001

Source: GUS – Yearbook of Foreign Trade Statistics, Central Statistical Office

Trade Policy

In the year 2000, the average effective tariff rate was 2.98 per cent. and for the year 2001 it is projected to be 2.61 per cent. 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 of the World Trade Organisation. 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 import 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 1997 to 2000 and for each of the months from January to December 2001:

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**
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	26,564.3	901.4	27,465.7	8.0
2001				
January	27,233.4	874.4	28,107.8	7.1
February	27,834.0	881.8	28,715.8	8.1
March	27,146.2	852.1	27,998.3	7.9
April	26,869.3	870.0	27,739.3	8.0
May	26,161.1	884.3	27,045.4	7.7
June	26,218.3	894.7	27,113.0	7.8
July	26,965.3	879.0	27,844.3	8.0
August	27,129.8	902.6	28,032.4	8.0
September	27,331.0	969.1	28,300.1	8.2
October	27,977.9	921.8	28,899.7	8.3
November	25,215.5	911.1	26,126.7	7.5
December	25,650.5	914.7	26,565.2	7.6

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "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 the assets and the liabilities side of repo transactions). The category of Official Reserve Assets, introduced from 31 May, 2000, comprises only the assets side of repo transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1997 to July 2000 were adjusted backwards.

(2) Including Reserve Position in IMF.

(3) Average imports of goods.

Source: NBP

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.

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 Gdański S.A.; Kredyt Bank S.A. with Polski Bank Inwestycyjny S.A.; Bank Rozwoju Eksportu S.A. with Polski Bank Rozwoju S.A.; the Warsaw branch of ING Bank N.V. and Bank Śląski S.A.; Citibank (Poland) S.A. with Bank Handlowy w Warszawie S.A.; Powszechny Bank Kredytowy S.A. and Bank Przemysłowo-Handlowy S.A.; and Wielkopolski Bank Kredytowy S.A. with Bank Zachodni S.A. (the last two examples being results of mergers of banks' foreign shareholders). Following special regulations adopted by Parliament, the Group Pekao S.A. was created out of four banks in September 1996, which merged into one bank on 1 January 1999.

In December 2001, there were 69 commercial banks in Poland, of which 23 were banks with majority Polish-held equity and 46 were banks with majority foreign-held equity. 61.3 per cent. of such commercial banks' equity was held by foreign investors. There were also 642 co-operative 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 these pieces of legislation 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 to 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 to other banks.

The Constitution of the Republic of Poland and the NBP Act confirmed the NBP's independence. The legislation also established the 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, the 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 each 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 of the NBP 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. 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 published by the Monetary Policy Council and presents the general philosophy of the NBP's monetary policy for the near future. This document underlines the strategic goal of Poland to integrate the economy with the EU, and thereafter with EMU. Medium-Term Monetary Policy Strategy (1999-2003) implies that Poland will have to reduce inflation to a level not exceeding 4 per cent. annually by 2003. The NBP adopted a direct inflation targeting strategy with a target set at 4 per cent. for 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 conditions for Poland's accession 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 2000.

Money Supply

In 2000, the broad money supply expanded by 11.7 per cent. in nominal terms, or by 3.0 per cent. in inflation-adjusted terms. In the January to September period of 2001, broad money supply increased by 8.9 per cent. in nominal terms and 4.4 per cent. in real terms.

The following table sets out selected monetary aggregates for the years 1997 to 2001:

Monetary Aggregates(1)

Items	1997	1998	1999	2000	2001
	(in PLN millions)				
1. Cash in circulation	27,255.9	30,225.3	38,082.7	34,112.7	38,212.6
2. Demand deposits (zloty)	34,430.4	41,444.4	50,108.2	48,409.3	51,945.2
3. Demand deposits (foreign exchange)	10,433.4	9,814.4	11,188.1	11,236.1	13,758.6
4. Narrow Money (1+2+3)	**72,119.7**	**81,484.0**	**99,379.5**	**93,758.1**	**103,916.4**
5. Time deposits (zloty)	83,863.5	115,464.6	135,550.1	168,919.0	191,651.3
6. Time deposits (foreign exchange)	20,387.1	23,828.1	28,516.4	31,734.5	39,236.0
7. Repurchase agreement	21.4	3.1	2.7	2.6	0.9
8. Broad Money (4+5+6+7)	**176,391.7**	**220,779.8**	**263,448.7**	**294,414.2**	**334,804.6**
Annual Changes *(per cent.)*					
Broad Money M2 (nominal)	29.1	25.2	19.3	11.7	13.7
Broad Money M2 (deflated by CPI)	14.0	15.3	8.7	3.0	9.8
Memo					
Consumer Price Index Dec/Dec	113.2	108.6	109.8	108.5	103.6

Note:

(1) Presentation and aggregation based on the methodology used for IFS purposes.

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.

In December 2001, the NBP introduced a new official rate for deposit standing facilities (the deposit rate). The level of this rate was set at 7.5 per cent.

The following table sets out the interest rates levels set by the NBP on the dates shown since 1997:

NBP Interest Rates

In force since		Lombard Rate *(per cent.)*	Rediscount Rate *(per cent.)*	Minimum 28-day NBP bill reverse repo rate *(per cent.)*	Deposit Rate *(per cent.)*
1997	04.08	27	24.5		
1998	26.02			24	
	23.04			23	
	21.05	26	23.5	21.5	
	17.07	24	21.5	19	
	10.09			18	
	29.10	22	20	17	
	10.12	20	18.25	15.5	
1999	21.01	17	15.5	13	
	23.09	17	15.5	14	
	18.11	20.5	19	16.5	
2000	24.02	21.5	20	17.5	
	31.08	23.0	21.5	19.0	
2001	1.03	22.0	20.5	18.0	
	29.03	21.0	19.5	17.0	
	28.06	19.5	18.0	15.5	
	23.08	18.5	17.0	14.5	
	26.10	17.0	15.5	13.0	
	29.11	15.5	14.0	11.5	7.5
2002	31.01	13.5	12.0	10.0	6.5

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 reserves depend on the conditions of monetary policy implementation and the competitiveness of the Polish banking system. In 2000 and 2001, no major changes in mandatory reserves policy were undertaken. At the end of 2001, the Monetary Policy Council reduced the reserve requirements ratio to 4.5 per cent. Furthermore the Board of NBP eliminated the possibility to hold up to 10 per cent. of banks' reserves in the form of declared vault cash. These decisions became effective on 1 January 2002 and shall be applied to reserve requirements that are transferred on or after 28 February 2002. This solution brings the Polish mandatory reserve system closer to the minimum reserves system adopted by the European Central Bank.

Official Reserves Requirement On Selected Deposits

Effective on		Zloty deposits		Foreign currency deposits	
		time	demand	time	demand
		(per cent.)			
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[(1)]	30/09	5	5	5	5
2002[(2)]	01/01	4.5	4.5	4.5	4.5

Notes:

(1) There were no changes between 1 June 1997 and 29 September 1999.

(2) There were no changes between 1 October 1999 and 31 December 2001.

Source: NBP

Open Market Operations

Open market operations are the NBP's main instrument for adjusting 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 towards 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. However, some degree of restriction still exists on residents performing direct investment in non-OECD countries or countries with which Poland does not have agreements on bilateral protection of investments, 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

From October 1991, Poland 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, of 2 per cent. above and 2 per cent. below the central rate. Later the devaluation rate was gradually diminished to 0.3 per cent. and the intervention band was 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 as an accounting device and that rate has no significance for transactions.

The following tables set out the official PLN/U.S.$ and PLN/EUR exchange rates set by the NBP for the years shown:

Official PLN/U.S.$ Exchange Rate

	Year ended 31 December					
	1997	**1998**	**1999**	**2000**	**2001**	**2002**[(1)]
End of period	3.5180	3.5040	4.1483	4.1432	3.9863	4.1637
Average	3.2808	3.4937	3.9675	4.3464	4.0939	4.0649

Note:

(1) January only.

Source: NBP

Official PLN/EUR Exchange Rate

	Year ended 31 December			
	1999	**2000**	**2001**	**2002**[(1)]
End of period	4.1689	3.8824	3.5219	3.5929
Average	4.2270	4.0110	3.6685	3.5950

Note:

(1) January only.

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 (i) Polish Implementation of Capital Adequacy Principles, that are fully consistent with EU Directives, being a minimum 8 per cent. risk weighted capital ratio calculated substantially in accordance with international standards, (ii) monthly monitoring of the limits for foreign exchange positions (capital requirement introduced from 31 March 2001), (iii) 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 (iv) 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 on 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 Republic of Poland, the Minister of Finance, the Chairperson of the Securities and Exchange Commission and the President of the Bank Guarantee Fund. The 1997 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 1997 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. from 1 January 2002, 90 per cent. of Funds within the range of euro 1,000 to euro 18,000; and

3. from 1 January 2003, 90 per cent. of Funds within the range of euro 1,000 to euro 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, supervises the securities and commodities markets. 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 with the respective requirements of the OECD and EU. The Law on the Public Trading of Securities 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, the WSE implemented the new quotation system, WARSET. Securities on the 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 October 2001, there were 30 member brokerage houses operating on the WSE, of which 13 were foreign owned. Out of the total number of 42 brokerage houses operating in Poland, 5 were owned by banks and 37 were operating as independent entities. There were also 12 asset management firms operating in Poland. Furthermore, 19 banks provided investment accounts. There were 1819 licensed brokers and 195 investment advisors.

At the end of October 2001, the following instruments were listed on the WSE: equity shares of 216 companies (and 14 national investment funds), 50 state treasury bond issues, 1 company bond issue, 1 investment certificate issue, warrants and futures contracts (euro exchange rate, U.S.$ exchange rate, stock indices and stock prices).

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

The following table sets forth selected indicators relating to the WSE for the years 1997 to 2001:

The Warsaw Stock Exchange

	Year ended 31 December				
	1997	**1998**	**1999**	**2000**	**2001**
Market Capitalisation(1):					
(in PLN millions)	43,766	72,442	123,411	130,000	103,370
(in U.S.$ millions)	12,441	20,674	29,750	31,707	25,931
(% of GDP)	9.3	13.2	20.2	19.0	14.18
Turnover Values					
(in PLN millions)(2)	52,342	62,305	95,026	181,000	84,000
WIG Index	14,668	12,795	18,083	17,847	13,922
Average P/E(3)	14.9	12.6	36.2	15.9	65.9
Dividend Yield	1.5	0.9	0.6	0.8	1.3
Listed Companies	143	198	221	212	230

Notes:

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

(1) Includes both the main and parallel markets.

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

(3) Excludes the parallel market.

Source: WSE and Ministry of Finance

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 the creation of funds and fund corporations.

As of August 2001, the Securities Commission had granted permits to 20 fund corporations managing 98 funds.

Pension funds

At the end of December 2001, there were 17 pension funds operating on the market. Their total value of assets amounted to PLN 19.409 billion and their two-year average year of return was equal to 21.464 per cent.

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

The Polish insurance market is dominated by four insurance companies, which have the largest market share by amount of gross premiums written. According to data as at 30 September 2001, the largest market share is held by PZU S.A. (35.1 per cent.), followed by Powszechny Zakład Ubezpieczeń Życie S.A. (20.9 per cent.), then TUiR Warta S.A. (7.6 per cent.) and Commercial Union Polska – TU Życie S.A. (7.5 per cent.). In 2001, FDI in the insurance sector continued to grow. The number of insurance companies with a majority of foreign-equity rose to 47, compared to 41 in September 2000. At the end of September 2001, FDI reached PLN 2.45 billion, compared to PLN 1.5 billion in 2000. Foreign capital accounted for 67.1 per cent. (compared to 53.9 per cent. in 2000) of total equity capital of the insurance companies. At the end of September 2001, the cumulative amount of FDI in the life assurance sector reached PLN 1,204 million and PLN 1,246 million in the non-life insurance sector.

According to data as of 30 September 2001, investments by insurance companies rose to PLN 38.9 billion, an increase of 19 per cent. in the period January to September 2001. In the life assurance market, investment totalled around PLN 23 billion by the end of September 2001, compared to PLN 19 billion by the end of 2000, an increase of 13.7 per cent. In the non-life insurance market, investments reached PLN 15.9 billion, compared to PLN 13.7 billion by the end of 2000, an increase of 15.9 per cent. The investments of insurance companies were primarily concentrated in debt securities (77.3 per cent.) followed by equities, other variable-income securities and units in investment funds (6.74 per cent.) and bank deposits (6.36 per cent.).

At the beginning of 2002, there were 72 licensed insurance companies operated in Poland. Of these, 36 were life assurance and 36 were non-life insurance companies.

PUBLIC FINANCE

In Poland, the public finance sector is treated as consisting of the state budget, extra budgetary funds and agencies 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 was 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. In the years 1993 to 2000, the state budget deficit remained below 4 per cent. of GDP as well as below the target set out in the applicable state budget. However, preliminary figures for 2001 suggest that the general government deficit rose to 5.6 per cent. of GDP, against a budgeted figure of 3.0 per cent.

The increase in the estimated economic deficit level up to approximately 5.0 per cent. of GDP in 2001 and around 4.8 per cent. in 2002 is basically a result of increases in the state budget deficit. However, a rule has been adopted providing that an increase in state budget expenditures will not be higher than one percentage point over inflation and that revenues projections will be in line with macroeconomic forecasts. This, together with complying with the EU's tax regulations, implies that it is possible to lower the deficit to 3.9 per cent. and 3.6 per cent. of GDP in the years 2003 and 2004 respectively.

The higher deficit in 2001 is attributed to the significant worsening of economic conditions in Poland, which directly affects tax revenues. Corporate income tax is the most sensitive to such changes. The current reduction in income tax revenues is attributed to a material deterioration in corporate profits, which is the result of both lower domestic demand and the strong Polish currency. Revenues from value added tax are affected by changes in domestic product structure, which have been observed in the last two years. The main factor which has determined growth in GDP to date has been individual consumption, which traditionally contributes significantly to value added tax revenues. However, in 2000 and 2001 individual consumption contracted, while at the same time exports (which are taxed at a zero rate of value added tax) increased.

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 42.7 per cent. in 2000. According to Ministry of Finance estimates, this share increased to 46.0 per cent. in 2001. 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 1997 (1998 in the case of the table headed "Economic Deficit") to 2000, as well as the preliminary data for 2001 and the Draft 2002 Budget Act.

Fiscal Trends 1997-2002

(in PLN millions)

	1997[1]	1998	1999	2000	2001[2]	2002[3]
State Budget Balance	-12,441	-13,192	-12,479	-15,391	-32,580	-40,000
Revenues	113,234	126,560	125,922	135,664	140,300	143,970
Expenditures	125,675	139,752	138,401	151,055	172,880	183,970
General Government Balance	-13,560	-14,301	-19,893	-21,288	-40,513	-45,981
Revenues[4]	200,025	227,284	253,970	271,249	291,542	299,535
Expenditures[4]	213,585	241,585	273,863	292,537	332,055	345,516
Percentage Share of GDP						
State Budget Balance	-2.6	-2.4	-2.0	-2.2	-4.5	-5.2
Revenues	24.0	22.9	20.5	19.8	19.4	18.8
Expenditures	26.6	25.2	22.5	22.1	23.9	24.1
General Government Balance	-2.9	-2.6	-3.2	-3.1	-5.6	-6.0
Revenues	42.3	41.1	41.3	39.6	40.4	39.2
Expenditures	45.2	43.6	44.5	42.7	46.0	45.2
Primary State Budget Balance[5]	0.8	0.9	1.0	0.4	-1.6	-1.9
Memo						
GDP (PLN million)	472,350	553,560	615,115	684,926	722,300	764,817

Notes:

(1) Adjusted for new methodology excluding privatisation from budgetary revenues.

(2) Preliminary data.

(3) Forecast (Draft Budget Act 2002).

(4) Excluding intra General Government transfers.

(5) Excluding interest payments calculated on cash basis.

Source: Ministry of Finance

Economic Deficit

	(in PLN billions)				
	1998	**1999**	**2000**	**2001**(1)	**2002**(2)
State budget balance	-13.2	-12.5	-15.4	-32.6	-40.0
Local budgets balance	-1.4	-1.0	-3.1	-4.8	-4.9
Health-care sector balance (since 1999 Health Funds)	-3.3	-0.8	0.7	0.0	0.0
Funds balance	0.3	-6.1	-0.6	-3.3	-1.1
State and local extrabudgetary units balance	-0.1	0.4	0.3	0.4	0.5
Other elements balance				-0.2	-0.5
Compensation			-3.4	-2.5	-2.8
Transfers to pension funds		2.3	7.6	8.7	11.6
Demographic Reserve Fund					0.2
UMTS license revenue				-2.7	
State Treasury special fund payment			-0.4		
Economic deficit	-17.7	-17.7	-14.3	-37.0	-37.0

	(in % of GDP)				
	1998	**1999**	**2000**	**2001**(1)	**2002**(2)
State budget balance	-2.4	-2.0	-2.2	-4.5	-5.2
Local budget balance	-0.3	-0.2	-0.5	-0.7	-0.6
Health-care sector balance (since 1999 Health Funds)	-0.6	-0.1	0.1	0.0	0.0
Funds balance	0.1	-1.0	-0.1	-0.5	-0.1
State and local extrabudgetary units balance	-0.0	0.1	0.0	0.1	0.1
Other elements balance				0.0	-0.1
Compensation			-0.5	-0.3	-0.4
Transfers to pension funds		0.4	1.1	1.2	1.5
Demographic Reserve Fund					0.0
UMTS license revenue				-0.4	
State Treasury special fund payment			-0.0		
Economic deficit	-3.2	-2.8	-2.1	-5.1	-4.8

Notes:

(1) Preliminary data.

(2) Forecast (Draft Budget Act 2002).

Source: Ministry of Finance

Local Government Budgets 1997-2001[1]

	1997	1998	1999	2000	2001[2]	2002[3]
			(in PLN millions)			
Total Revenues	39,497	46,119	64,878	72,610	78,517	82,090
Total Expenditure	40,504	47,495	65,846	75,747	83,348	87,013
Balance	-1,007	-1,376	-968	-3,137	-4,831	–4,923
As Percentage of GDP	-0.2	-0.2	-0.2	-0.5	-0.7	–0.6
GDP	472,350	553,560	615,115	684,926	722,300	764,817

Notes:

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

(2) Preliminary data.

(3) Forecast (Draft Budget Act 2002).

Source: Ministry of Finance

Selected Extra-Budgetary Funds 1997-2002

	1997	1998	1999	2000	2001[1]	2002[2]
			(in PLN millions)			
Social Insurance Fund Balance	-1,199	-818	-6,493	-3,603	-3,401	-1,195
Revenues	62,636	71,960	73,910	81,285	92,257	97,986
Budget Transfers	13,172	14,472	11,248	17,499	24,247	29,926
Expenditures	63,835	72,778	80,403	84,888	95,658	99,581
Agricultural Social Insurance Fund Balance	14	5	-4	-280	3	5
Revenues	10,069	11,316	13,638	14,014	15,966	16,294
Budget Transfers	9,444	10,652	12,891	13,213	14,883	15,399
Expenditures	10,055	11,311	13,642	14,294	15,963	16,289
Labour Fund Balance	426	303	-98	-1,068	-239	19
Revenues	7,011	5,119	5,481	6,092	8,370	9,824
Budget Transfers	3,800	1,263	819	1,000	2,858	3,844
Expenditures	6,585	4,816	5,579	7,160	8,609	9,805
Health Fund Balance			-847	698	0	0
Revenues			20,913	23,928	26,634	27,083
Budget Transfers			2,501	176	201	133
Expenditures			21,761	23,230	26,634	27,083

Notes:

(1) Preliminary data.

(2) Forecast (Draft Budget Act 2002).

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 least 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. In 2000, the government postponed the presentation of the draft 2001 budget by six weeks due to unexpected changes in the legal and macroeconomic environments, namely the rejection by the Parliament of certain proposed amendments to the VAT Act, which cut a significant proportion of projected revenues and much weaker than expected inflation and GDP figures for 2000. It was presented on 15 November 2000 and in following months the government made an amendment, which takes into account effects of certain revised macroeconomic assumptions (such as lower GDP growth) as well as result of third generation mobile telecommunication (UMTS) licence auctions. In 2001, the government presented a draft act to Parliament before the end of September, as required by law. However, after the elections the new government introduced substantial amendments to this draft. The draft budget as amended is currently subject to parliamentary review. On 15 February 2002, the lower house of Parliament passed the budget, increasing the revenues projection and expenditures by PLN 1.2 billion, as compared to the draft budget presented by the government. The budget as amended has to be passed through the higher house of the Parliament and signed by the President before it becomes law. The figures for the draft 2002 Budget Act set out in this Offering Circular are from the draft 2002 Budget Act presented by the government.

The following tables set out the state revenues and expenditures and their percentage of GDP for the years 1997 to 2000, projected execution of the 2001 Budget Act and the envisaged revenues and expenditure contained in the draft 2002 Budget Act:

State Budget Revenues 1997-2002

	(in PLN millions)					
	1997	**1998**	**1999**	**2000**	**2001**[(1)]	**2002**[(2)]
Total Revenues	**113,234.4**	**126,559.9**	**125,922.2**	**135,663.9**	**140,300.0**	**143,970.0**
Tax Revenues	*105,725.8*	*120,026.0*	*118,342.9*	*124,724.2*	*123,127.7*	*133,754.8*
Indirect Taxes (Excise, VAT)	55,252.4	64,432.3	74,567.2	79,670.5	82,369.1	89,901.6
Corporate Income Tax	13,264.0	14,809.0	15,060.4	16,867.7	13,272.3	13,833.8
Personal Income Tax	29,941.5	34,664.0	23,115.2	23,088.6	22,386.2	26,540.4
Custom Duties	7,037.3	6,076.5	5,566.0	5,080.3	4,086.1	3,479.0
Abolished Taxes	230.6	44.2	34.1	17.1	14.0	–
Non-tax Revenue	*7,034.5*	*6,526.3*	*7,514.0*	*10,805.9*	*15,999.4*	*10,149.2*
Dividends	1,167.1	1,000.8	596.5	929.7	826.7	600.0
Central Bank Profits	1,135.1	321.9	502.4	2,205.6	4,868.8	2,673.3
Revenue of Budgetary Units	3,518.5	4,105.6	5,393.7	6,523.3	6,315.3	5,589.7
Revenue from UMTS licence					2,719.8	
Other Revenue	1,213.9	1,098.0	1,021.4	1,147.3	1,268.8	1,286.2
Foreign Revenues	*474.1*	*7.7*	*65.4*	*133.8*	*1,172.9*	*66.0*
Revenues as a Percentage of GDP						
Total Revenues	**24.0**	**22.9**	**20.5**	**19.8**	**19.4**	**18.8**
Tax Revenues	*22.4*	*21.7*	*19.2*	*18.2*	*17.0*	*17.5*
Indirect Taxes (Excise, VAT)	11.7	11.6	12.1	11.6	11.4	11.8
Corporate Income Tax	2.8	2.7	2.4	2.5	1.8	1.8
Personal Income Tax	6.3	6.3	3.8	3.4	3.2	3.5
Custom Duties	1.5	1.1	0.9	0.7	0.6	0.5
Abolished Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Non-Tax Revenue	*1.5*	*1.2*	*1.2*	*1.6*	*2.2*	*1.3*
Dividends	0.2	0.2	0.1	0.1	0.1	0.1
Central Bank Profits	0.2	0.1	0.1	0.3	0.7	0.3
Revenue of Budgetary Units	0.7	0.7	0.9	1.0	0.9	0.7
Revenue from UMTS licence					0.4	–
Other Revenue	0.3	0.2	0.2	0.2	0.2	0.2
Foreign Revenues	*0.1*	*0.0*	*0.0*	*0.0*	*0.2*	*0.0*
GDP	**472,350**	**553,560**	**615,115**	**684,926**	**722,300**	**764,817**

Notes:

(1) Preliminary data.

(2) Forecast (Draft Budget Act 2002).

Source: Ministry of Finance

State Budget Expenditures 1997-2002

	1997	1998	1999	2000	2001[4]	2002[5]
			(in PLN millions)			
Total State Budget Expenditures	**125,675**	**139,752**	**138,401**	**151,055**	**172,880**	**183,970**
of which						
Subsidies[1]	2,695	2,589	2,425	2,482	2,325	1,512
Foreign Debt Service	3,683	3,770	3,884	4,297	3,794	4,400
Social Insurance	21,228	25,219	29,436	36,699	46,566	53,111
Current Expenditures of the Budget Sphere	65,806	70,258	56,566	58,532	64,431	63,543
Settlements with Banks, Domestic Debt, Service and Guaranties	14,840	16,743	16,579	15,757	20,630	23,436
Capital Expenditures[2]	7,701	9,436	7,389	7,428	5,700	7,968
Subsidies to Local Authorities[3]	9,722	11,737	22,122	25,860	29,434	30,000
Expenditures as a Percentage of GDP						
Total State Budget Expenditures	**26.6**	**25.2**	**22.5**	**22.1**	**23.9**	**24.1**
of which						
Subsidies[1]	0.6	0.5	0.4	0.4	0.3	0.2
Foreign Debt Service	0.8	0.7	0.6	0.6	0.5	0.6
Social Insurance	4.5	4.6	4.8	5.4	6.4	6.9
Current Expenditures of the Budget Sphere	13.9	12.7	9.2	8.5	8.9	8.3
Settlements with Banks, Domestic Debt, Service and Guaranties	3.1	3.0	2.7	2.3	2.9	3.1
Capital Expenditures[2]	1.6	1.7	1.2	1.1	0.8	1.0
Subsidies to Local Authorities[3]	2.1	2.1	3.6	3.8	4.1	3.9
GDP	**472,350**	**553,560**	**615,115**	**684,926**	**722,300**	**764,817**

Notes:

(1) Subsidies to enterprises.

(2) Capital expenditures include investments and equity contributions.

(3) General subventions to local governments; since 1997, the educational subsidy is included and since 1998, road infrastructure subsidy is included.

(4) Preliminary data.

(5) Forecast (Draft Budget Act 2002).

Source: Ministry of Finance

The 2002 Budget Act

The 2002 Budget Act provides for *inter alia* (i) budget revenues of PLN 143.97 billion, an increase of 2.6 per cent. over 2001 revenues and (ii) expenditures of PLN 183.97 billion, an increase of 5.5 per cent. over 2001 expenditures. The central government expects all tax-based revenues to increase by 8.6 per cent. in 2002. Indirect taxes are expected to account for 62.4 per cent. of total revenues, rising from 58.7 per cent. in 2001. In the 2002 Budget Act, budgeted corporate and personal income taxes are expected to account for 9.6 per cent. and 18.4 per cent., respectively, of total revenues, as compared to 9.5 per cent. and 16.7 per cent. of total revenues in 2001.

Non-tax revenues in 2002 are expected to decrease to 36.6 per cent. This is mainly as a result of extraordinary revenues in 2001, such as inflows from the UMTS licence sales and foreign revenues (which include (i) 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 and (ii) interest paid on loans granted by Poland to external borrowers). The share of non-tax revenues in total budget revenues expected for 2002 is 7.0 per cent. of total revenues compared to 11.4 per cent. in 2001.

In the 2002 Budget Act, 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 40 billion or 5.2 per cent. of GDP (compared to 4.5 per cent. in 2001).

Financing the State Budget Deficit

The Ministry of Finance expects that, in the year 2002, the estimated state budget deficit of PLN 40 billion or 5.2 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.

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 government is seeking to harmonise taxation in line with taxation in EU countries by increasing indirect taxation. However, in 2002, due to deteriorating tax revenues some direct taxes had to be implemented (see sections below).

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. Since 1 January 2001, dividends have been subject to a 15 per cent. flat withholding tax rate. 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 are subject to 15 per cent. withholding tax, 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. In 2000, the government submitted, and Parliament accepted, PIT tax reforms with some minor modifications, including limiting the number of tax reliefs available. In 2002, further changes were introduced, the major ones being the taxation of incomes from interest on savings, bonds and investment funds (at a rate of 20 per cent.) and restructuring reliefs on purchasing apartments and houses.

Value Added Tax

In general, except for some specific services, all business activity in Poland is subject to a flat-rate Value Added Tax. 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 levied in the member states of the EU. The VAT Law provides for tax rates of 22 per cent. (standard rate), reduced tax rates of 7 per cent. (for unprocessed agricultural products, and 0 per cent. (for production means for agriculture, 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 2002 and following years. Since 1 January 2002, VAT rates have been introduced (at a rate of 7 per cent.) on childrens' articles (with some exceptions), cosmetic materials and certain magazines, and the VAT rate for certain services has risen from 7 per cent. to 22 per cent.

Excise Tax

Excise tax is levied on *inter alia*: alcohol, tobacco, fuel, automobiles, some electronic appliances, cosmetic products, yachts, salt, gambling machines and fur clothing. In 2002, it is proposed that an excise tax of 0.02 PLN per kilowatt be introduced in respect of power consumption. The proposal has yet to be accepted by Parliament, however, if implemented, the government estimates that such a tax will raise about PLN 2 billion per annum.

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 Draft 2002 Budget Act.

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) amounted to PLN 8.7 billion in 2001, compared to PLN 7.5 billion in 2000 and PLN 2.3 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 1.2 per cent. of GDP in 2001.

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 involves, 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. The two latter pillars are supervised by the Superintendency of Pension Funds. As of 1 January 1999, for persons below the age of 30, participation in the first two pillars has become mandatory. Persons between the age of 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 31 December 2001, there were 17 second pillar pension funds with a membership of more than 10.6 million people accounting for PLN 19.409 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 31 December 2001, Treasury Securities and stocks listed on the Warsaw Stock Exchange constituted the majority of total assets held by such funds. (accounting for 66 and 28 per cent. respectively).

Pension reform aimed at reducing 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 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 7.75 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 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 1997 to 2002:

Local Government Revenues and Expenditures

	(in PLN millions)					
	1997	**1998**	**1999**	**2000**	**2001**(1)	**2002**(2)
Revenues:						
Own Revenues	15,390	17,214	21,753	24,127	38,796	41,025
General/Subsidies/ and Educational Subsidies	9,722	11,737	22,122	25,860	29,434	30,000
Transfers for Own Tasks	1,844	2,307	4,227	5,927	n.a.	n.a.
Transfers for Ordered Tasks	2,972	3,418	6,666	6,700	n.a.	n.a.
Other Revenues	9,569	11,443	10,110	9,996	10,287	11,065
Total Revenues	39,497	46,119	64,878	72,610	78,517	82,090
Expenditure:						
Wages	9,633	11,220	22,364	27,700	n.a.	n.a.
Wage Related Expenses	4,505	5,260	4,332	5,096	n.a.	n.a.
Local Government Subsidies	4,448	5,173	6,072	5,460	n.a.	n.a.
Investments	9,681	10,937	12,581	13,298	14,246	16,024
Other Expenditures	12,237	14,905	20,497	24,193	69,102	70,989
Total Expenditures	40,504	47,495	65,846	75,747	83,348	87,013
Balance:	-1,007	-1,376	-968	–3,137	-4,831	-4,923

Notes:

(1) Preliminary data.

(2) Forecast.

n.a. means data is 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 sector debt in 1999 after a new law on public finance obliged it to do so.

Total public sector debt

	(PLN millions)		
	1999	**2000**	**2001**[(1)]
Public finance sector debt	273,383	280,474	285,711
Government sector debt	267,196	271,097	278,094
of which State Treasury debt	263,541	265,888	271,147
Local government units debt	6,187	9,377	7,616

Note:

(1) As of 30 June 2001.

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. Accordingly, all domestic instruments, regardless of the status of their holder (domestic or foreign) are regarded as internal debt, and external debt includes only debt issued outside of Poland. This methodology is not consistent with that used by the NBP, which looks to the holder is and thus 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 291.8 billion at the end of September 2001. 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 (except for 2001 when a slight increase was noted).

It is Poland's intention to reduce its stake of foreign debt. For example, by December 2001, Poland had repurchased more than U.S.$3.3 billion in outstanding Brady Bonds and all Paris Club Debt owed to Brazil (U.S.$3.321 billion). 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" below.

As a result of these measures and because of the growth in GDP from 1994 to 2001, the ratio of Poland's State Treasury external indebtedness to GDP has, according to preliminary data, been reduced from 43.0 per cent. at the end of 1994 to 13.7 per cent. at the end of 2001.

The following table sets out categories of Poland's State Treasury debt for the years 1997 to September 2001 as aggregate amounts and as percentages of nominal GDP:

State Treasury Debt

	At 31 December				
	1997	**1998**	**1999**	**2000**	**2001[1]**
	(in PLN Millions except for percentages)				
Internal State Treasury Debt	104,058	121,182	134,676	145,982	186,180
per cent. of GDP	22.0	21.9	21.9	21.3	25.8
External State Treasury Debt	117,592	116,218	129,694	120,835	98,909
per cent. of GDP	24.9	21.0	21.1	17.6	13.7
Total State Treasury Debt	221,650	237,400	264,370	266,817	285,089
per cent. of GDP	46.9	42.9	43.0	39.0	39.5
GDP	472,350	553,560	615,115	684,926	722,300

Note:
(1) Preliminary data.
Source: Ministry of Finance

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 updated on a 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

Poland's internal State Treasury debt has increased from PLN 66.1 billion (21.5 per cent. of GDP) at the end of 1995 to PLN 186.18 billion (25.8 per cent. of GDP) at the end of December 2001. This increase reflects the government's policy of borrowing internally to finance the annual budget deficit and to make payments and repayments to external creditors.

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 December 2001 the proportion of the various types of securities in the total amount of internal debt was as follows: Treasury bills – 18.9 per cent.; Treasury bonds – 66.3 per cent.; non-marketable bonds – 6.1 per cent.; and savings bonds – 3.2 per cent.

The Ministry of Finance auctions Treasury bills at a discount from face value with maturities from one to 52 weeks. In December 2001, the percentage of total internal Treasury securities outstanding constituted by Treasury bills was 20 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 70.1 per cent. of total outstanding Treasury securities in December 2001.

In addition to Treasury bills and Treasury bonds (considered as "active" Treasury securities), the state has also issued "passive" (non-marketable) Treasury securities.

In the second half of 1999, PLN 16.5 billion of "passive" bonds held by the NBP were converted into market-based Treasury securities, to prevent and 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 the end of December 2001, Poland had PLN 98.9 billion of State Treasury external debt outstanding, which was a modest increase in nominal PLN terms since 1995, but a significant decrease as a proportion of GDP (from 32.8 per cent. in 1995 to 13.7 per cent. at the end of December 2001). 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 TP S.A.. In April 2001, Poland repurchased U.S.$289.5 million RSTA bonds. As a result of such repurchases and call exercises, the total outstanding principal amount of Brady Bonds was reduced to U.S.$4.07 billion.

In November 2001, Poland prepaid its debt owed to Brazil, its largest creditor in the Paris Club (see – "London and Paris Club Agreements"). The nominal amount of U.S.$3.32 billion was prepaid for U.S.$2.46 billion. The transaction was funded by a loan from the NBP's international reserves and will be repaid in foreign currency in four instalments over the next two years.

The following table sets out Poland's external State Treasury debt for the years 1997 to 2001:

STATE TREASURY EXTERNAL DEBT

	(in U.S.$ millions)				
	1997	**1998**	**1999**	**2000**	**2001**
MEDIUM- AND LONG-TERM STATE TREASURY EXTERNAL DEBT	**33,209**	**33,167**	**31,264**	**29,164**	**24.812**
LOANS	26,366	27,062	25,180	23,725	18,951
Paris Club	24,247	24,808	22,800	21,173	16,303
Multilateral	1,687	1,884	2,061	2,311	2,457
The World Bank	*1,559*	*1,632*	*1,656*	*1,752*	*1,739*
European Investment Bank	*93*	*209*	*333*	*462*	*518*
European Bank for Reconstruction and Development	*36*	*42*	*34*	*25*	*23*
Council of Europe Development Bank	*0*	*0*	*38*	*68*	*177*
Other	432	370	320	241	190
BONDS	**6,843**	**6,105**	**6,084**	**5,440**	**5,862**
Brady Bonds	6,054	5,306	5,306	4,362	4,048
Foreign bonds	790	799	778	1,077	1,814
SHORT-TERM STATE TREASURY EXTERNAL DEBT	**217**	**0**	**0**	**0**	**0**
TOTAL STATE TREASURY EXTERNAL DEBT	**33,426**	**33,167**	**31,264**	**29,165**	**24,812**

Source: Ministry of Finance

STATE TREASURY EXTERNAL DEBT BY CURRENCY COMPOSITION

Data as of 31 December 2001

	Equivalent in U.S.$ millions	**per cent.**
EUR	10,680.4	43.0
USD	9,057.0	36.5
JPY	1,180.7	4.8
Pool[(1)]	1.020.0	4.1
CAD	968.6	3.9
GBP	869.1	3.5
CHF	816.1	3.3
NOK	181.0	0.7
SEK	39.4	0.2
Total	**24,812.3**	**100.0**

Note:

(1) Credits from the World Bank denominated in "currency pool".

Source: Ministry of Finance

The following table sets out the medium- and long-term external State Treasury debt service projections by type of creditor for the years 2002 to 2011 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)

	2002(1)	2003(2)	2004	2005	2006	2007	2008	2009	2010	2011 and beyond
PRINCIPAL PAYMENTS	**1,337**	**1,611**	**2,343**	**2,490**	**2,843**	**3,254**	**3,612**	**2,055**	**944**	**4,430**
Loans	**1,288**	**1,512**	**1,919**	**2,341**	**2,694**	**3,105**	**3,463**	**1,906**	**166**	**667**
Paris Club	1,046	1,290	1,666	2,082	2,437	2,837	3,237	1,701	16	63
Multilateral	184	206	237	249	247	258	216	196	140	558
Other	57	15	16	11	9	9	9	9	9	46
Bonds	**50**	**99**	**424**	**149**	**149**	**149**	**149**	**149**	**779**	**3,763**
Brady bonds	50	99	124	149	149	149	149	149	249	2,780
Foreign bonds	0	0	300	0	0	0	0	0	530	984
INTEREST PAYMENTS	**928**	**809**	**778**	**692**	**627**	**549**	**444**	**342**	**299**	**1,399**
Loans	**556**	**462**	**430**	**373**	**318**	**250**	**157**	**64**	**34**	**101**
Paris Club	399	350	325	286	243	185	107	24	3	5
Multilateral	154	107	102	84	73	62	49	39	30	92
Other	3	4	3	3	3	2	2	2	2	4
Bonds	**373**	**348**	**348**	**319**	**309**	**300**	**287**	**278**	**265**	**1,298**
Brady bonds	219	238	239	231	221	211	199	189	177	1,195
Foreign bonds	154	110	110	88	88	88	88	88	88	103
TOTAL DEBT SERVICE	**2,266**	**2,421**	**3,122**	**3,183**	**3,470**	**3,803**	**4,057**	**2,397**	**1,244**	**5,829**
Loans	**1,843**	**1,974**	**2,349**	**2,714**	**3,012**	**3,354**	**3,620**	**1,970**	**200**	**768**
Paris Club	1,445	1,640	1,992	2,368	2,680	3,022	3,344	1,724	19	67
Multilateral	338	314	338	333	320	321	265	235	171	650
Other	60	20	19	14	12	12	11	11	11	50
Bonds	**422**	**447**	**773**	**468**	**458**	**449**	**436**	**427**	**1,044**	**5,061**
Brady bonds	268	338	363	380	370	361	348	339	426	3,975
Foreign bonds	154	110	410	88	88	88	88	88	618	1,086

Notes:

(1) Year 2002 – estimates prepared for the Budget Act.

(2) Year 2003 and beyond – based on preliminary data as of 31 December 2001.

Source: Ministry of Finance

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 stabilisation 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.

POLAND'S TOTAL EXTERNAL DEBT

The NBP 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 definition comprises 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 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 leases).

POLAND'S EXTERNAL DEBT[1]

ITEMS	Stock at end of period in millions of U.S.$				
	1997	1998	1999	2000	2001[6]
Monetary authorities	**791**	**925**	**1,844**	**436**	**396**
Other investment	**791**	**925**	**1,844**	**436**	**396**
Loans	58	32	23	15	10
Currency and deposits	733	893	1,821	421	386
Central and local government[2]	**34,402**	**34,098**	**32,121**	**32,980**	**32,777**
Debt securities[3][4]	**7,818**	**7,037**	**6,922**	**9,231**	**9,799**
Bonds and notes	7,343	6,672	6,777	9,073	9,572
Money-market instruments	475	365	145	158	227
Other investment	**26,584**	**27,061**	**25,199**	**23,749**	**22,978**
Loans	26,584	27,061	25,197	23,747	22,976
Other liabilities	0	0	2	2	2
Banks	**3,683**	**5,131**	**6,548**	**6,122**	**6,821**
Loans from direct investors (Intercompany loans)	**141**	**160**	**134**	**200**	**156**
Debt securities	**488**	**236**	**10**	**110**	**140**
Bonds and notes	306	215	10	110	140
Money-market instruments	182	21	0	0	0
Other investment	**3,054**	**4,735**	**6,404**	**5,812**	**6,525**
Loans	1,104	2,084	3,681	3,595	3,871
Currency and deposits	1,950	2,651	2,723	2,217	2,654
Other liabilities	0	0	0	0	0
Other sectors	**10,771**	**18,981**	**24,884**	**29,259**	**31,787**
Loans from direct investors (Intercompany loans)	**4,326**	**6,218**	**7,080**	**8,409**	**7,369**
Debt securities	**347**	**1,416**	**2,705**	**3,487**	**4,075**
Bonds and notes	325	1,328	2,682	3,386	4,062
Money-market instruments	22	88	23	101	13
Other investment	**6,098**	**11,347**	**15,099**	**18,063**	**20,343**
Trade credits	1,862	3,560	5,225	5,572	5,552
Loans	4,236	7,787	9,758	12,269	14,604
Other liabilities			116	222	187
TOTAL EXTERNAL DEBT	**49,647**	**59,135**	**65,397**	**69,497**	**71,781**
of which:					
Long-term	**44,541**	**50,722**	**54,182**	**59,998**	**61,988**
Short-term[5]	**5,108**	**8,413**	**11,215**	**9,499**	**9,793**

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

(2) Data adjusted to include external debt of local government.

(3) 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).

(4) The securities issued in the international markets (Brady bonds and Eurobonds) exclude such securities held by Polish residents.

(5) Since information on a breakdown by maturity on trade credits is not available the total amount was included into short-term external debt.

(6) To end of 3rd Quarter.

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 EBRD and the IMF. As at 31 December 2001, Poland's liabilities to multilateral financial institutions amounted to U.S.$2.46 billion, or 9.9 per cent. of the Polish State Treasury's total external debt.

International Bank for Reconstruction and Development

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 30 November 2001, World Bank had committed a total of approximately U.S.$4.04 billion in credits to Poland, approximately U.S.$3.49 billion of which had already been disbursed.

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

European Investment Bank

As of the end of December 2001, the EIB's commitment in loans to Poland was EUR 4.59 billion, out of which EUR 2.34 billion had already been disbursed.

European Bank for Reconstruction and Development

As of 31 October 2001, the EBRD had signed 155 direct investments and regional projects worth EUR 2.54 billion (with a total project value EUR 11.2 billion). Out of this, EUR 1.72 billion has been disbursed. 65 per cent. is debt and 35 per cent. is equity participation. 86 per cent. of the investment has been made in the private sector and 14 per cent. in the public sector. The EBRD commitment includes state budget loans of U.S.$41.3 million (fully disbursed).

International Monetary Fund

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.

International Development Association

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 2001, the Polish contribution to the IDA amounted to SDR 13.5 million (out of which SDR 11.1 million had already been paid in).

Nordic Investment Bank

Although Poland is not a member of the Nordic Investment Bank (the "**NIB**"), it has access to the NIB's resources.

As of 31 December 2001, the NIB had committed loans of approximately U.S.$235.39 million to Poland, approximately U.S.$177.8 million of which has already been disbursed.

Council of Europe Development Bank

Poland is a member of the Council of Europe Development Bank (the "**CEDB**") since 1998. The total value of loans granted by the CEDB amounts to PLN 1.02 billion, PLN 765.6 million of which has 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 own 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.

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.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited, Salomon Brothers International Limited, Alpha Bank A.E., BCP Investimento - Banco Comercial Portugu•s de Investimento, SA, Bankgesellschaft Berlin Aktiengesellschaft, Commerzbank Aktiengesellschaft, DePfa Investment Bank Limited, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, Bayerische Hypo- und Vereinsbank AG, ING Bank N.V., London Branch, J.P. Morgan Europe Limited, Merrill Lynch International, Morgan Stanley & Co. International Limited, National Bank of Greece, S.A., Svenska Handelsbanken AB (publ), UBS AG, acting through its business group UBS Warburg, UniCredit Banca Mobiliare S.p.A. and Westdeutsche Landesbank Girozentrale, London Branch, (the Ò**Managers**Ó) have, in a subscription agreement dated 8 March 2002 (the Ò**Subscription Agreement**Ó) upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 98.32 per cent. of their principal amount less a combined management and underwriting commission of 0.10 per cent. of their principal amount and a selling concession of 0.125 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 and Markets Act 2000 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.

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.

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 2002 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 or 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 2001, 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 dated 12 March 2002;

(b) the Deed of Covenant dated 12 March 2002; 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. 7/2002 of the Minister of Finance.

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 Euroclear and Clearstream, Luxembourg. The ISIN is XS0144238002 and the Common Code is 014423800.

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