MINISTERSTWO FINANSÓW

# PUBLIC DEBT IN POLAND

## Annual Report 2007

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# 1

# INTRODUCTION

Ladies and Gentlemen,

We would like to present to you the 2007 Annual Report on Public Debt in Poland which contains basic elements of debt management in Poland in 2007 in the context of macroeconomic background and in comparison to previous years.

In 2007 real GDP amounted to 6.6% yoy amid the CPI yearly average inflation rate of 2.5%. The State budget deficit was PLN 16.0 bn only 53.3% of the amount projected in the Budget Act. The general government deficit amounted to PLN 23.7 bn accounting for 2% of GDP.

Public debt increased by PLN 21.2 bn, to PLN 527.4 bn which was equal to 45.2% of GDP (a decrease by 2.6 percentage point).

General government debt increased by PLN 22.4 bn, to PLN 527.6 bn which was equal to 45.2% of GDP (a decrease by 2.4 percentage point).

At the end of 2007 Poland met convergence criteria on: long-term interest rates, HICP inflation, general government debt to GDP ratio and general government deficit to GDP ratio.

The strong results of Polish economy, its prospects for further dynamic growth and improving position of public finance were reflected by decisions of rating agencies to upgrade Poland's foreign currency rating – Fitch upgraded Poland to A- on 18th January and Standard & Poor's also upgraded Poland to A- on 29th March. Thereby, 12 years after the first assignment of a rating, Poland's credit rating as determined by the three most important rating agencies has achieved a level of "A". Moreover Standard & Poor's upgraded Poland's rating outlook from stable to positive at the beginning of 2008.

Net borrowing requirements in 2007 were PLN 35.4 bn, PLN 14.7 bn lower than anticipated. The conducted issuing policy constituted the "Public Sector Debt Management Strategy for 2007-2009" and its update for 2008-2010. The executed sale of Treasury securities was a result of assessment of current market conditions and a comparison of long-term financing costs and risk evaluation.

On the domestic market 68 Treasury securities auctions were held, including 49 Treasury bond auctions (30 auctions, 8 non-competitive auctions and 11 switching auctions). The bid-to-cover ratio at Treasury bond auctions was 308.5% with the average sale amounting to PLN 1.5 bn.

In 2007 the yield curve was lengthened. On 13th June the first ever auction of 30-year fixed rate bond denominated in PLN was held. As planned the nominal amount of PLN 1 bn was issued however the demand was PLN 3.0 bn. The average yield amounted to 5.557%.

On foreign markets in 2007 Poland issued bonds with a total face value equivalent to EUR 2.7 bn, including: 15-year bonds with a face value of EUR 1.5 bn on the euro market, two tranches of bonds on the Swiss franc market: a 5-year tranche with a face value of CHF 500 million (equivalent to ca. EUR 303 million), a 12-year tranche with a face value of 1 bn (equivalent to ca. EUR 606 million) and 30-year bonds on the Japanese yen market with a face value of JPY 50 bn (equivalent to ca. EUR 308 million).

The international financial press commended the Swiss franc bond issue launched by Poland in 2007 which received the award "Swiss Franc Bond of the Year". IFR magazine awards the best executed bond among all issuers each year.

At the end of 2007 the average maturity of the State Treasury debt increased to 5.3 years (domestic debt average maturity was 4.3 years) and duration amounted to 3.6 years (domestic debt duration was 2.9 years).

The investor base has widened. In Poland, net assets of final investors – pension funds, investment funds and insurance companies – increased by 23.9%, to PLN 401.0 bn. Non-banking investors' involvement in domestic Treasury securities increased by PLN 20.7 bn, to PLN 217.8 bn, and foreign investors' involvement increased by PLN 0.1 bn, to PLN 74.5 bn.

On the secondary market the value of domestic Treasury bond transactions increased by 15%, to PLN 7,425.9 bn. The liquidity of the secondary bond market enabled investors investing large sums of money to enter the market and also to leave it. The ratio of the average value of transactions to the average outstanding level of 5-year benchmark was 419.7%.

We do hope that this Report will bring you closer to issues concerning public debt, debt management, and the Treasury securities market in 2007.

Also, we invite you to visit our website, www.mf.gov.pl, where you can find additional information on Treasury securities and the issuing policy, including a detailed statistical annex to this publication.

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Ministry of Finance

# 2

# MACROECONOMIC ENVIRONMENT OF PUBLIC DEBT MANAGEMENT

## Acceleration of Gross Domestic Product growth rate

The real rate of GDP growth in Poland was 6.6% in 2007 (compared to 6.2% in 2006), and nominal GDP was PLN 1,167.8 bn.
The components of the GDP growth rate were as follows:

a) domestic demand - input on the level of +8.4 pp, including:
- general consumption - input on the level of +4.3 pp,
- gross accumulation - input on the level of +4.1 pp, including:
  - investments - input on the level of +3.8 pp,
  - change in current assets - input in the level of +0.3 pp,

b) net exports - input on the level of -1.8 pp.

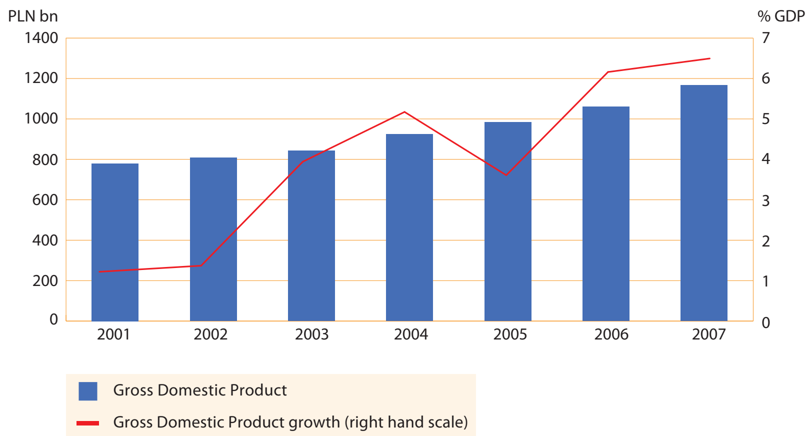
Strengthening of domestic demand was the result of accelerating investments, with 19.3% growth (the highest growth in 10 years), and the rising rate of general consumption growth (growth rate of 5.3%).
The high growth rate of investments was the result of:

a) sustaining high inflow of capital to Poland in form of foreign direct investment (FDI) (EUR 12.8 bn in 2007, 15.1 bn in 2006),
b) making use of European Union funds within the new financial perspective of the years 2007-13,
c) growth in consumption demand.

Household consumption grew in real terms by 5.2% (4.9% in 2006), and group consumption by 5.8% (5.8% in 2006). The growth rate acceleration in household consumption was mainly the result of:

a) significant improvement of labour market resulting in fall of the unemployment rate in economy,
b) growing wages in economy,
c) growth in household sector debt,
d) transfers of European Union funds to farmers,
e) transfers of income from Poles working abroad.

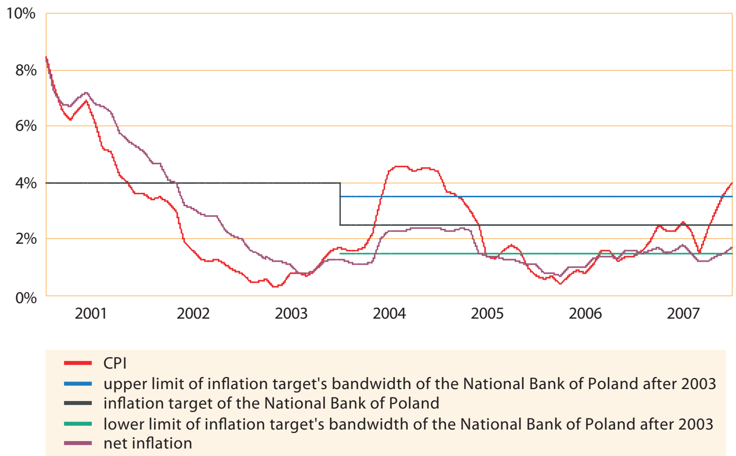
Chart 2.1
Nominal Gross Domestic Product and real Gross Domestic Product growth in 2001-2007



## Moderate growth in CPI

The yearly average consumer price index (CPI) of goods and services in 2007 rose by 1.5 pp, to 2.5%. CPI at the end of 2007 was 4.0% yoy and was above the upper limit of the inflation target bandwidth of the National Bank of Poland (2.5% ± 1 pp). The growth in inflation resulted from rising food and oil prices on the global market. For the same period, inflation in European Union was 3.2%. However, core inflation, i.e. base inflation net of food and fuel prices, at the end of 2007 was at the very low level, i.e. 1.7% yoy and was higher by 0.1 pp.

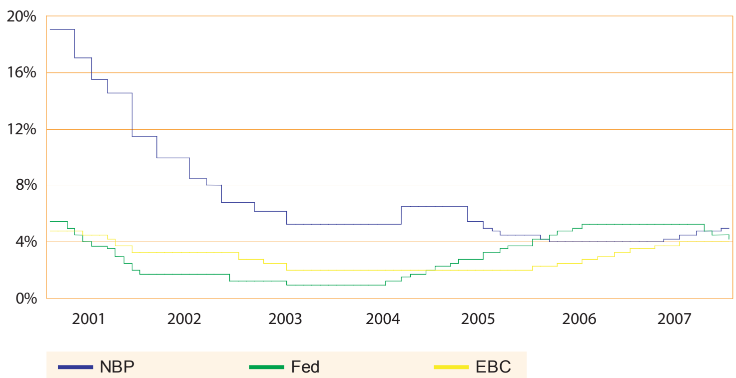
Chart 2.2
CPI inflation and net price index in 2001-2007 (corresponding month of previous year = 100)




## Increase of NBP interest rates

In 2007 the NBP reference rate was increased by 1.0 pp from 4.0% at the end of 2006 to 5.0% at the end of 2007. At the same time ECB raised its interest rates by 0.5 pp from 3.5% up to 4.0% while the US Federal Reserve decreased its rates by 1.0 pp from 5.25% to 4.25%. As a result, the Polish reference rate drew level with the Fed rate in September and in October the Polish rate exceeded the Fed one and this difference grew to 0.75 pp at the end of the year. Interest rates increases both in Poland and in the euro zone resulted from high current and expected inflation, while easing the monetary policy by Fed was dictated by fears of a recession in the US.

Chart 2.3
Key reference rates in 2001-2007

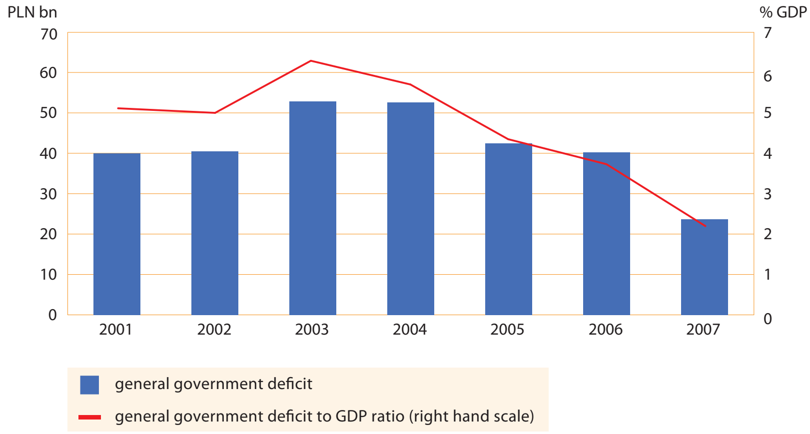


## Fall in the general government deficit

In 2007 the general government deficit as a percentage of GDP fell by 1.8 pp. to 2.0% (PLN 23.7 bn). The deficit was the result of:

a) balance of central government sector -3,2% of GDP (PLN -37.2 bn),
b) balance of local government sector +0.1% of GDP (PLN +0.5 bn),
c) balance of social security funds sector +1.1% of GDP (PLN +13.0 bn).

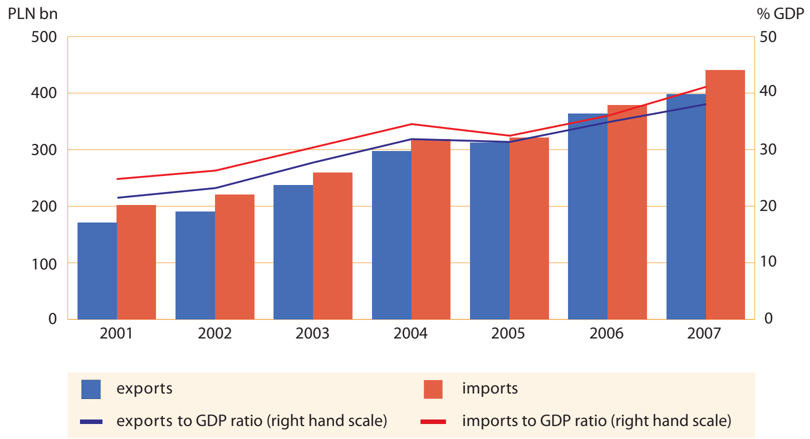
Chart 2.4
General government deficit in 2001-2007




## High growth rate of exports and imports

In 2007 the significant slowdown in growth rate of exports occurred in parallel with slightly weakening growth rate in imports - the increase in growth rates of both exports and imports was respectively 9.4% (16.6% in 2006) and 16.5% (17.9% in 2006). The foreign trade to GDP ratio increased: the exports to GDP ratio rose by 3.0 pp to 37.3%, and imports to GDP ratio rose by 5.6 pp to 41.3%.

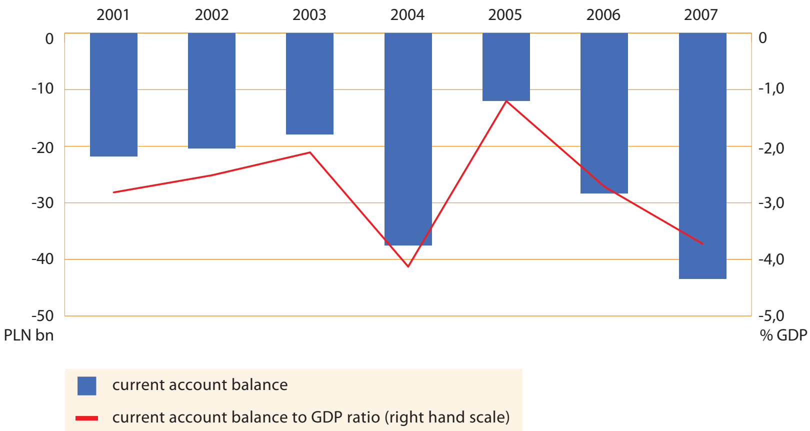
Chart 2.5
Exports and imports in 2001-2007 (according to NBP data)



## Safe level of current account balance

The negative current account balance in 2007 rose by 1.0 pp. to 3.7% of GDP. The change in the current account was the result of the negative impact of the balance of goods and the income balance, and the slight improvement of the balance of services and other current transfers. As in previous years, the current account deficit in 2007 was fully financed by the inflow of FDI. The sharp rise of the deficit in 2004 was the result of a deteriorating income account (PLN -14.1 bn in 2003, PLN -41.9 bn in 2004), connected with growing incomes gained by foreign investors from FDI in Poland (balance of PLN -34.7 bn in 2004, compared to PLN -8.1 bn in 2003).

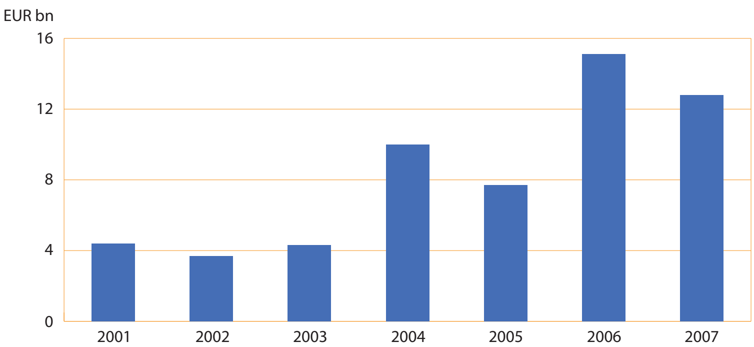
Chart 2.6
Current account balance in 2001-2007




## High FDI growth

The value of foreign financial resources located in Poland in the form of FDI in 2007 reached EUR 12.8 bn. It was 14.8% lower than in 2006, when it reached the record high at EUR 15.1 bn. The main components of FDI inflow, as in 2006, were reinvested earnings (41.5%) and investor loans (36.2%).

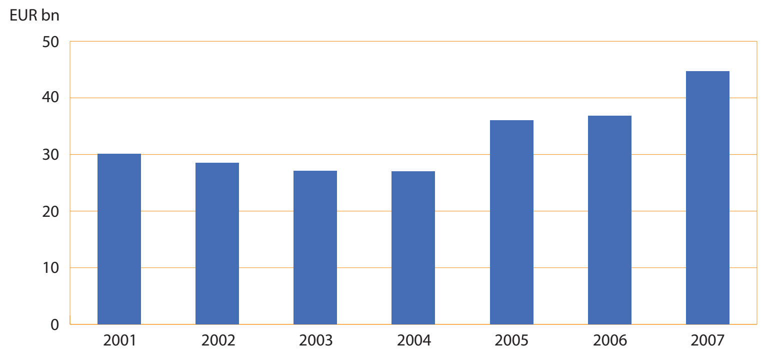
Chart 2.7
Foreign Direct Investments in 2001-2007



## High currency reserve assets level

In 2007 the balance of official reserve assets rose by EUR 7.9 bn, to EUR 44.7 bn, which constituted 14.5% of GDP. The growth rate was 21.3%. The increase of official reserve assets was result of the inflow of European Union funds within the new financial perspective of the years 2007-2013, FDI inflow and transfers of income from Poles working abroad.
From the beginning of 2001 through the end of 2007, the value of official reserve assets denominated in EUR rose by 14.6 bn. The highest growth took place in 2005, which was connected with the inflow of EU funds, when the growth rate was 33.3%.

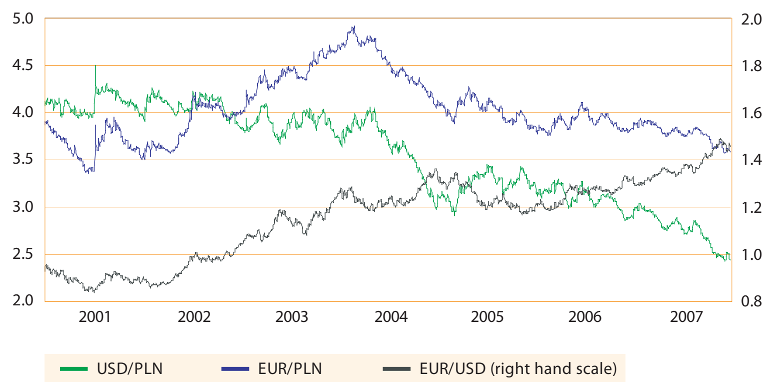
Chart 2.8
Official reserve assets in 2001-2007




## Zloty's appreciation

In 2007 the zloty gained sharply against the dollar (16.3%) and less significantly against the euro (6.5%). At the end of the year the USD/PLN and the EUR/PLN exchange rates were 2.4350 PLN and 3.5820 PLN respectively, compared to 2.9105 PLN and 3.8312 PLN respectively at the end of 2006. The zloty's appreciation resulted from the strong Polish macroeconomic indicators and from the NBP interest rates increases. The dollar's weakness on global forex markets (the dollar weakened against the euro by 10.5% in 2007) had an additional influence on the zloty's appreciation against the American currency. Investors' fears of a recession in the US economy and the Fed's interest rates decreases were the main reasons for the dollar's depreciation.

Chart 2.9
USD/PLN, EUR/PLN and EUR/USD rates in 2001-2007



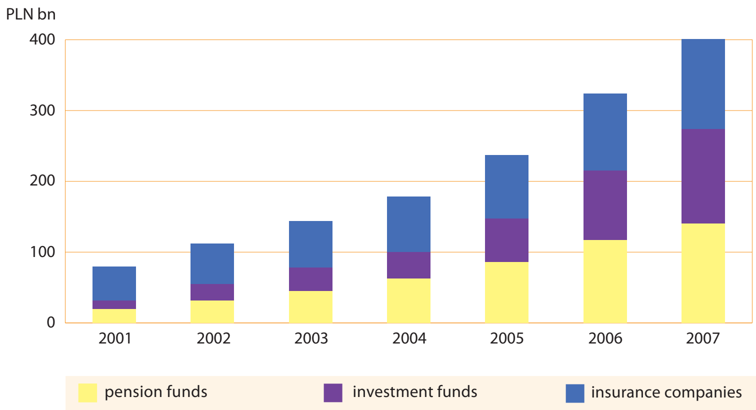
## Rapid increase in net assets of domestic non-banking financial sector

The year 2007 marked another consecutive year of increase in net assets of the domestic non-banking financial sector. The increase was noted in all the main segments:

a) investment funds - increase of 35.6%, to PLN 134.0 bn,
b) pension funds - increase of 20.1%, to PLN 140.0 bn,
c) insurance companies - increase of 17.3%, to PLN 126.9 bn.

Total net assets of these three groups of entities increased by 23.9%, to PLN 401.0 bn.

Chart 2.10
Net assets of pension funds, investment funds and insurance companies in 2001-2007




## Rating upgrade

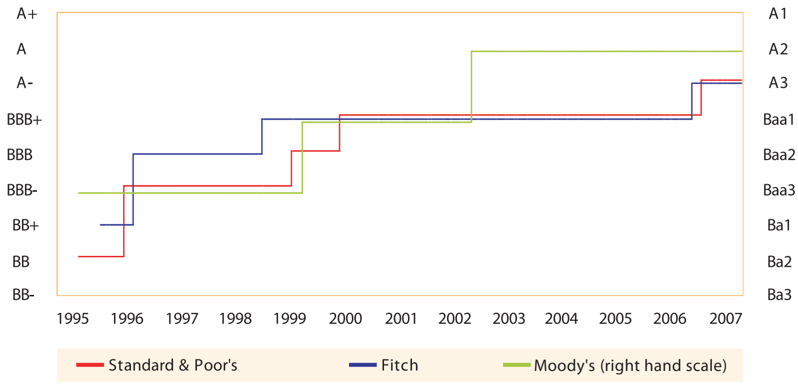
The strong results of the Polish economy, its prospects for further dynamic growth, and the improving position of public finance were reflected in the assessment of Poland's credit rating made periodically by the three most important rating agencies: Standard & Poor's, Moody's and Fitch. Two of them, Standard & Poor's and Fitch, upgraded Poland's rating (long-term foreign currency rating) from BBB+ to A- at the beginning of 2007. Moreover Standard & Poor's upgraded Poland's rating outlook from stable to positive at the beginning of 2008.
This means that 12 years after the first assignment of a rating, Poland's credit rating as determined by the three most important rating agencies has achieved a level of "A".

## Poland's rating

| | Foreign currency | | Local currency | | Outlook |
|---|---|---|---|---|---|
| | Long term | Short term | Long term | Short term | |
| Standard&Poor's | A- | A-2 | A | A-1 | positive |
| Fitch | A- | F2 | A | no[1] | stable |
| Moody's | A2 | P-1[2] | A2 | no[1] | stable |

[1] not rated
[2] country ceiling rating

Chart 2.11
Poland's rating on issues in foreign currency in 1995-2007

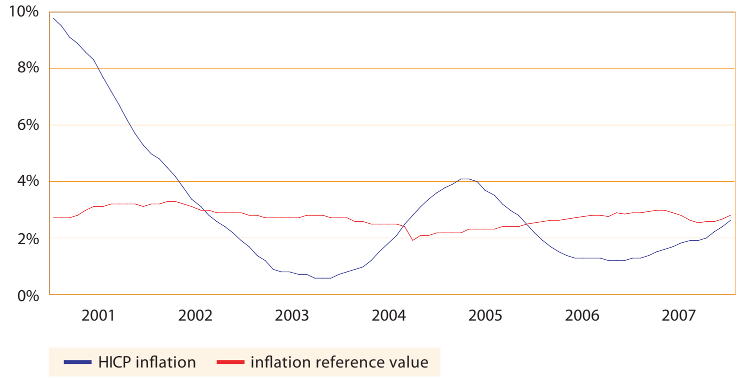


# 3

# CONVERGENCE CRITERIA FULFILMENT

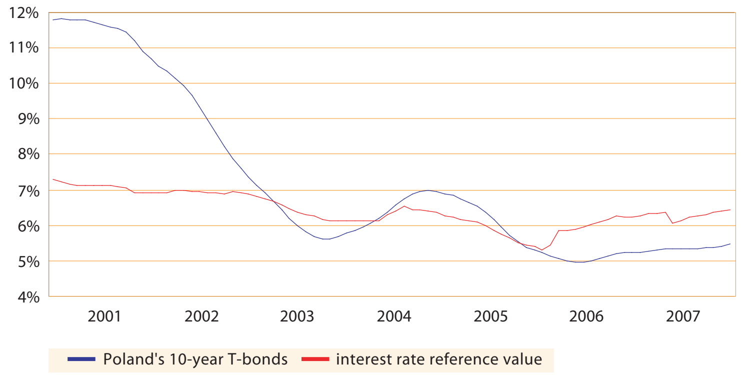
**HICP inflation criterion** (Harmonized Indices of Consumer Prices) – a reference value is determined by the average of inflation in the three countries with the lowest inflation, plus 1.5 pp. Since November 2005 Poland has met this criterion on a constant basis. From March 2006 till April 2007 Poland was in the basket of three countries with the lowest inflation thus Polish HICP was used to calculate the reference value for countries wishing to adopt euro.

Chart 3.1
HICP inflation in 2001-2007



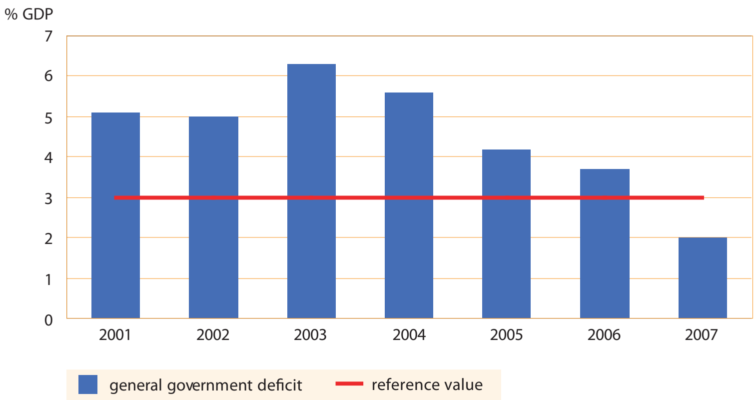

**Interest rates criterion** – a reference value is determined by the average of interest rates in the three countries with the lowest inflation, plus 2 pp. Since November 2005 Poland has met this criterion on a constant basis.

Chart 3.2
Interest rate in 2001-2007



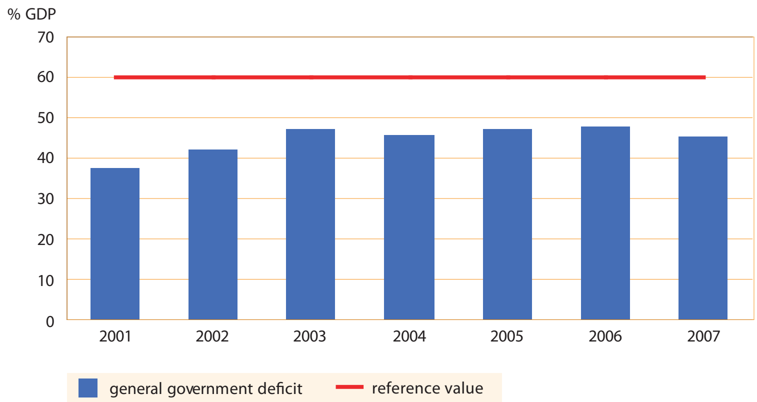
**General government deficit criterion** – the general government deficit amounted to 2% of GDP in 2007 much lower than the reference value of 3% of GDP. The decrease of the general government deficit below 3% of GDP and its projected further lessening in the next years resulted in removing the excessive deficit procedure for Poland by ECOFIN in July 2008.

Chart 3.3
General government deficit to GDP ratio in 2001-2007




**General government debt criterion** – debt remains at a stable and safe level, significantly below the reference value of 60% of GDP.

Chart 3.4
General government debt to GDP ratio in 2001-2007



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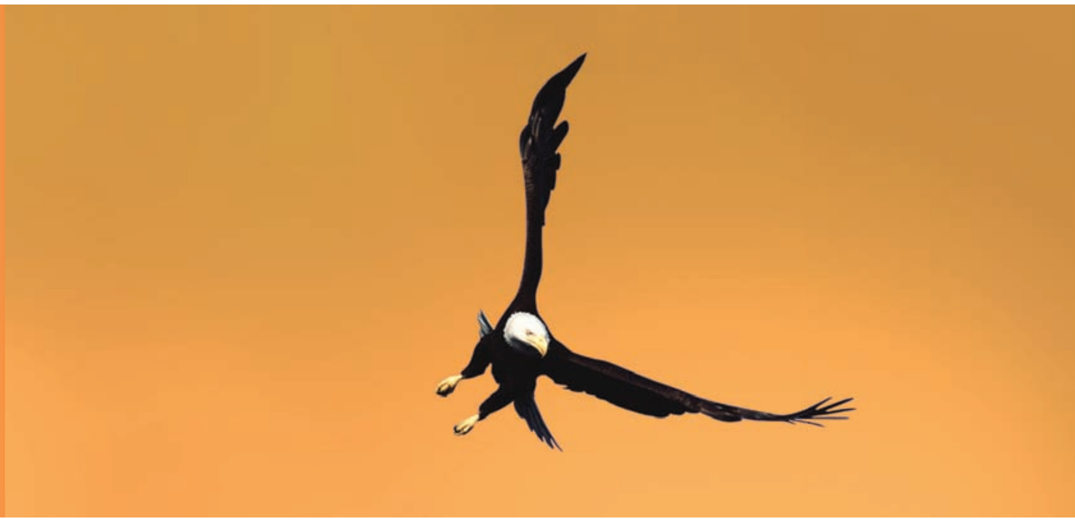


# LEGAL FRAMEWORK OF PUBLIC DEBT

The Polish legal system incorporates standards which ensure the effective control of the public debt level.

The Constitution of the Republic of Poland includes:

a) ban on incurring loans and granting financial guarantees which would cause public debt to exceed 60% of GDP,
b) ban on financing budget deficit by central bank.

The Public Finance Act includes:

a) detailed precautionary and remedial procedures if public debt to GDP ratio exceeds 50%, 55% and 60%,
b) obligation by the Minister of Finance to present 3-year public finance sector debt management strategy.

The public finance sector debt management strategy is prepared each year by the Minister of Finance, submitted for ratification by the Council of Ministers and presented to the Parliament together with the justification of the Budget Act. This document covers a three-year horizon and contains the State Treasury debt management strategy and the strategy concerning other public finance sector debt. Among other items, it includes:

a) goals and tasks,
b) forecasts of macroeconomic indicators for Poland and other markets in horizon covered by strategy,
c) analysis of risk factors connected with public debt,
d) expected results of achieving strategy,
e) threats to achievement of strategy.

In 2007 debt management was carried out on the basis of the Public Sector Debt Management Strategy for 2007-2009, as updated for 2008-2010.

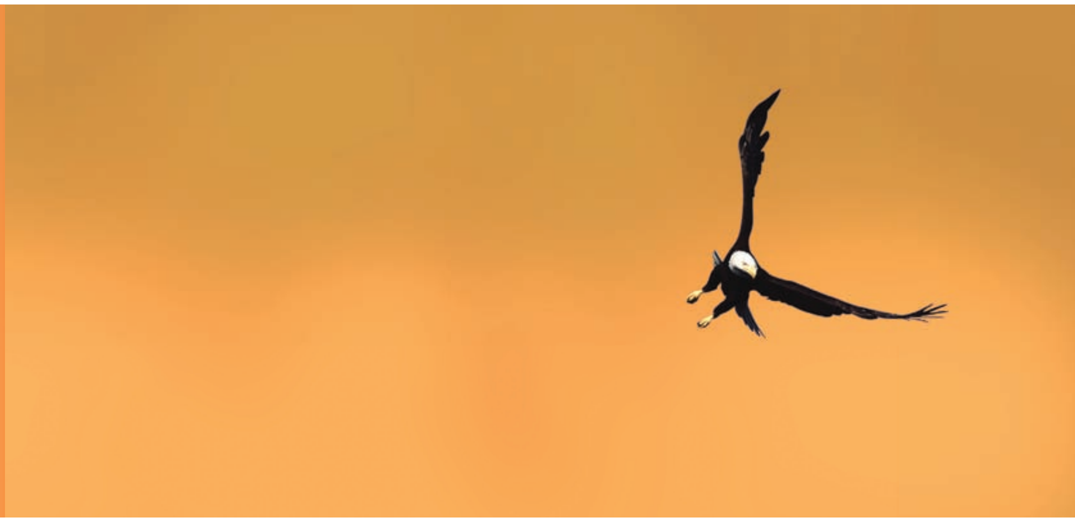
The goal of the strategy was minimizing long-term costs of debt service in terms of adopted constraints with respect to the level of:

a) refinancing risk,
b) exchange rate risk,
c) interest rate risk,
d) State budget liquidity risk,
e) other types of risks, particularly credit risk and operational risk,
f) debt service cost over time.

Tasks of the strategy were:

a) increasing liquidity, efficiency and transparency of Treasury securities market,
b) development of Primary Dealers system,
c) effective communication with financial markets participants,
d) development of the State budget liquidity management system.

# 5



# FINANCING OF STATE BUDGET BORROWING REQUIREMENTS

## Issuance policy

The issuing policy in 2007 was execution of the "The Public Finance Sector Debt Management Strategy in the years 2007-2009" as updated for 2008-2010 taking market and budget situation into account. The executed sale of Treasury securities was a result of current market conditions and a comparison of long-term financing costs and risk evaluation. The most important factors which affected the issuing policy were the following:

a) lower than projected level of net borrowing requirements of the State budget,
b) increase of base interest rates on the domestic and euro market,
c) turmoil on the US financial market connected with the mortgage credit market,
d) appreciation of zloty vs. euro and US dollar.

## Lower than projected in the Budget Act net borrowing requirements

The net borrowing requirements of the State budget declined in 2007 by PLN 10.0 bn, to PLN 35.4 bn (PLN 14.7 bn lower than projected in the Budget Act). The executed level was a result of:

lower requirements:

a) State budget deficit (PLN 16.0 bn, as against projected level of PLN 30.0 bn),
b) balance of EU funds (PLN 1.2 bn, as against projected level of PLN 2.8 bn),
c) loans balance (PLN 0.1 bn, as against projected level of PLN 1.1 bn).

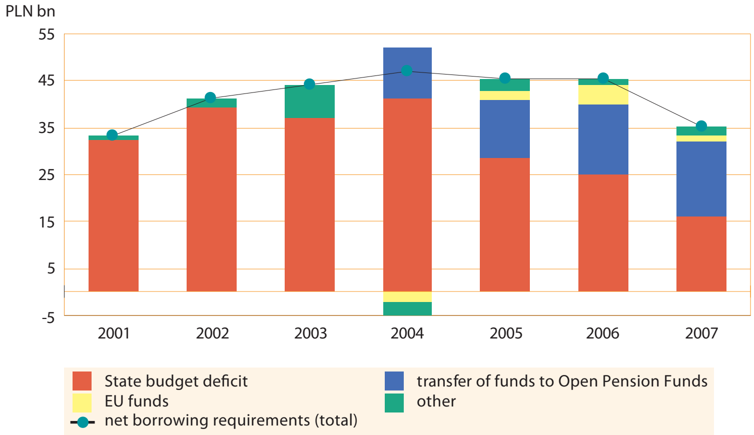
and higher requirements:

a) transfer of funds to Open Pension Funds (PLN 16.2 bn, as against projected level of PLN 14.5 bn),
b) balance of liquid funds (PLN 1.6 bn, as against projected level of PLN 0.0 bn).

In the structure of net borrowing requirements of the State budget during the last few years the following trends are present:

a) decreasing contribution of budget deficit – from 97.0% in 2001, 55.3% in 2006 to 45.1% in 2007,
b) increasing contribution of funds transferred to Open Pension Funds – from 22.5% in 2004, 32.9% in 2006 to 45.9% in 2007.

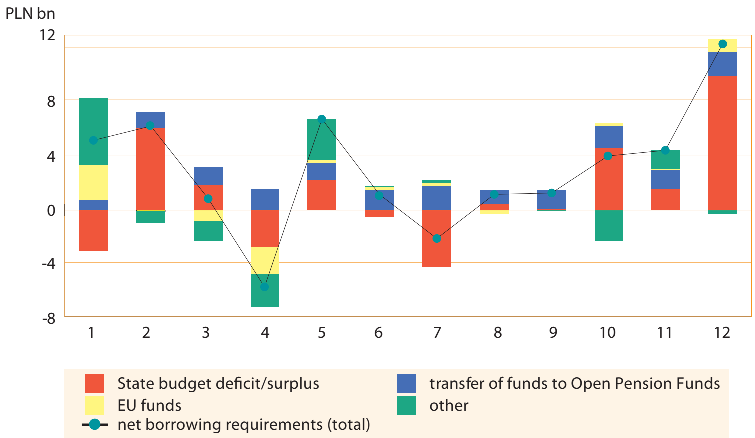
## Chart 5.1
## Net borrowing requirements of the State budget in 2001-2007




EU funds = prefinancing balance + funds from structural funds balance
other = domestic and foreign currency liquid funds balance + domestic and foreign granted loans balance + participation in international organizations + compensations

The level of net borrowing requirements of the State budget during the year was significantly varied, which was mainly determined by State budget deficit performance: the highest requirements were met in the fourth quarter, whereas the lowest in the third quarter. In four months (January, April, June, July) the budget recorded surplus, whereas within two months budget was almost balanced (August, September). The highest deficit was recorded in December.

## Chart 5.2
## Monthly net borrowing requirements of the State budget in 2007




EU funds = prefinancing balance + funds from structural funds balance
other = domestic and foreign currency liquid funds balance + domestic and foreign granted loans balance + participation in international organizations + compensations

## Fall in gross borrowing requirements

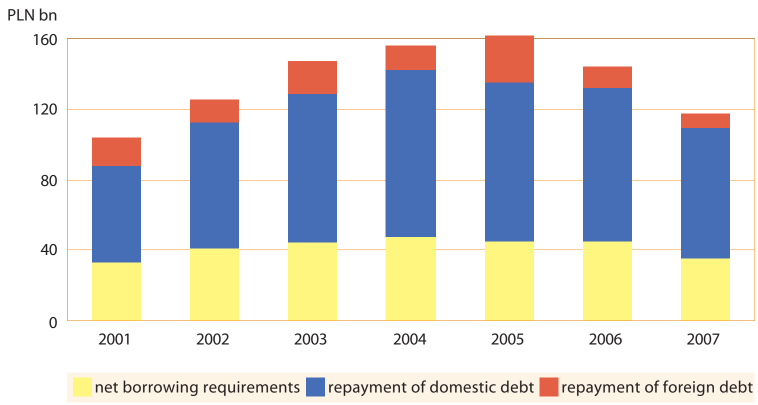
The gross borrowing requirements of the State budget declined in 2007 by PLN 26.6 bn to PLN 117.5 bn. This was PLN 12.5 bn lower than projected in the Budget Act. This figure was an outcome of:

a) lower net borrowing requirements of the State budget,
b) larger buy-backs of Treasury securities on domestic market (buy-backs of bonds which mature in 2008 on Treasury bond switching auctions),
c) higher repayment of foreign debt (early repayment of Brady bonds as well as FMF loan repayments connected with F-16 financing programme).

The structure of gross borrowing requirements was as follows:

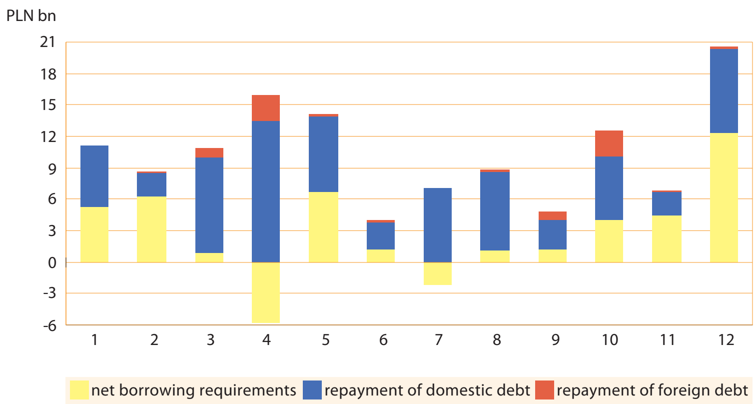
a) net borrowing requirements 30.1%,
b) domestic debt repayment 63.2%,
c) foreign debt repayment 6.7%.

Chart 5.3
Gross borrowing requirements of the State budget in 2001-2007




The monthly schedule of gross borrowing requirements of the State budget in 2007 was significantly varied. This resulted from unequal schedules of both net requirements and repayment of debt (mainly domestic debt). A factor reducing the variability of domestic debt repayment were switching auctions of Treasury bonds which led to decrease redemptions in original date-to-maturity.

Chart 5.4
Monthly gross borrowing requirements of the State budget in 2007



## Dominant share of domestic market in borrowing requirements financing

In the financing structure of both net and gross requirements, domestic market was dominant, as like in the former years. The share of domestic market amounted to 81.2% (89.1% in 2006) for the net financing borrowing requirements and 87.6% (88.2%) for the gross financing. The share of foreign financing was 14.9% against 9.9% in 2006 (gross requirements 11.2% and 11.5% respectively). The role of proceeds from privatization also increased from 1.0% to 3.9% (gross requirements from 0.3% to 1.2%).

Chart 5.5
Financing of net borrowing requirements of the State budget in 2001-2007

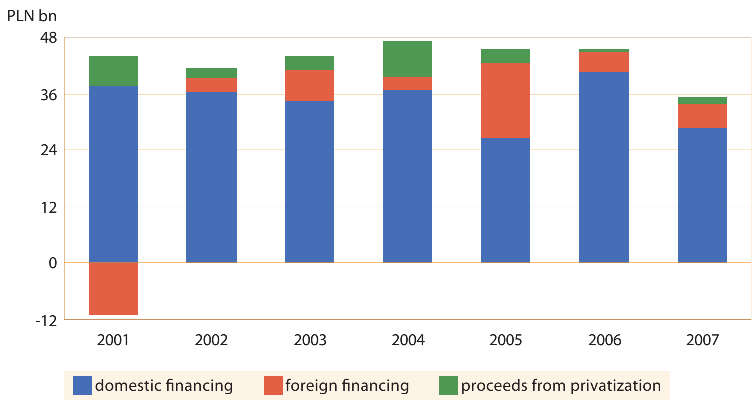
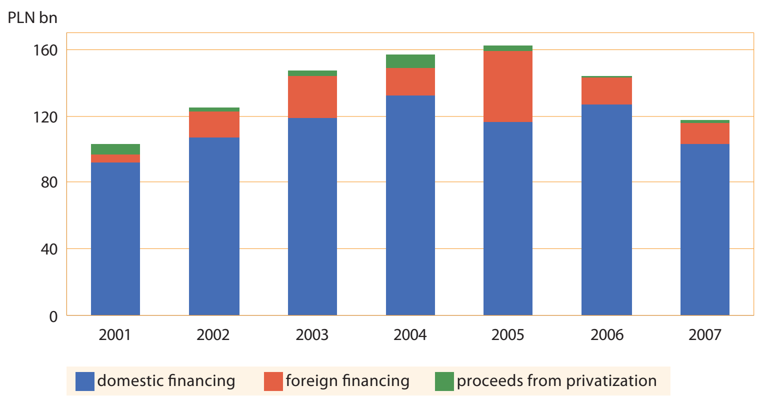



Chart 5.6
Financing of gross borrowing requirements of the State budget in 2001-2007




## Dominant share of domestic Treasury bonds in sale of Treasury securities

In 2007 the State Treasury debt increased by PLN 38.2 bn as a result of issuing Treasury securities. The increase of debt in Treasury bonds issued both on the domestic and foreign market amounted to PLN 41.4 bn against the decrease of debt in Treasury bills by PLN 3.2 bn.

Chart 5.7
Change of State Treasury debt (issued Treasury securities) in 2001-2007

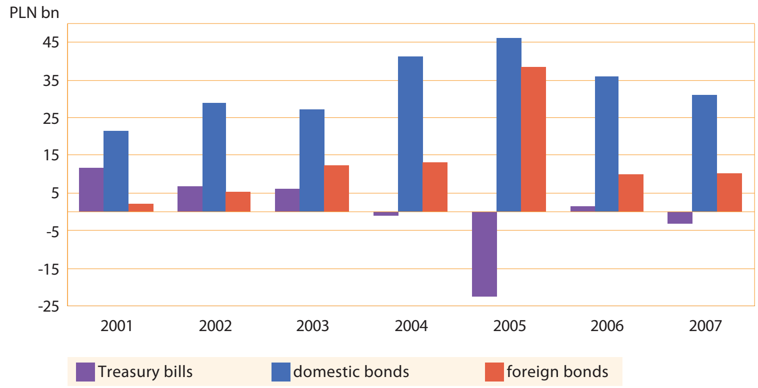
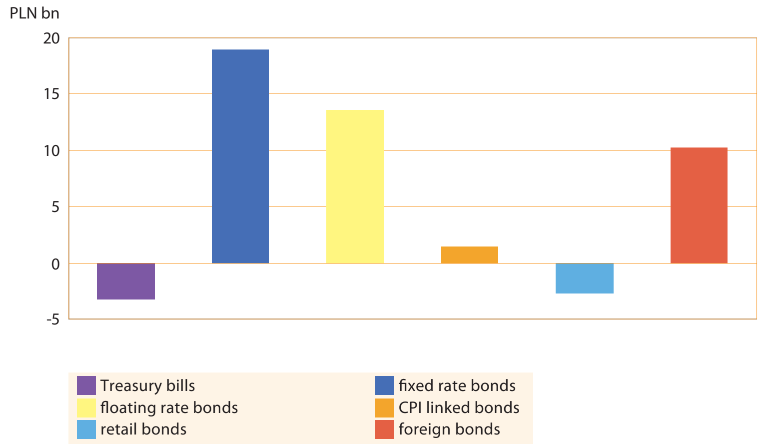
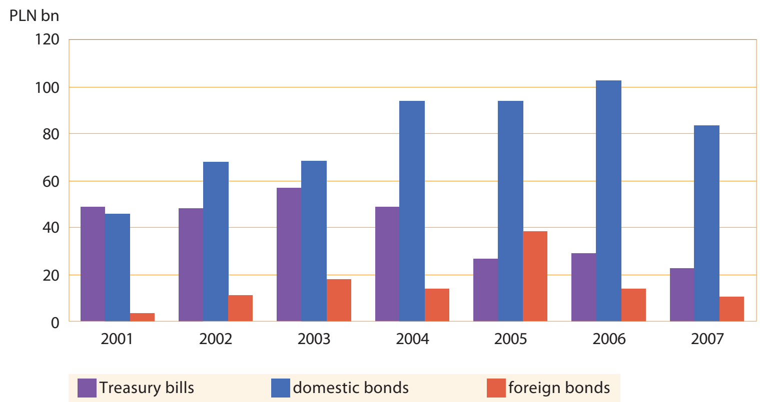



Chart 5.8
Change of State Treasury debt (issued Treasury securities) in 2007



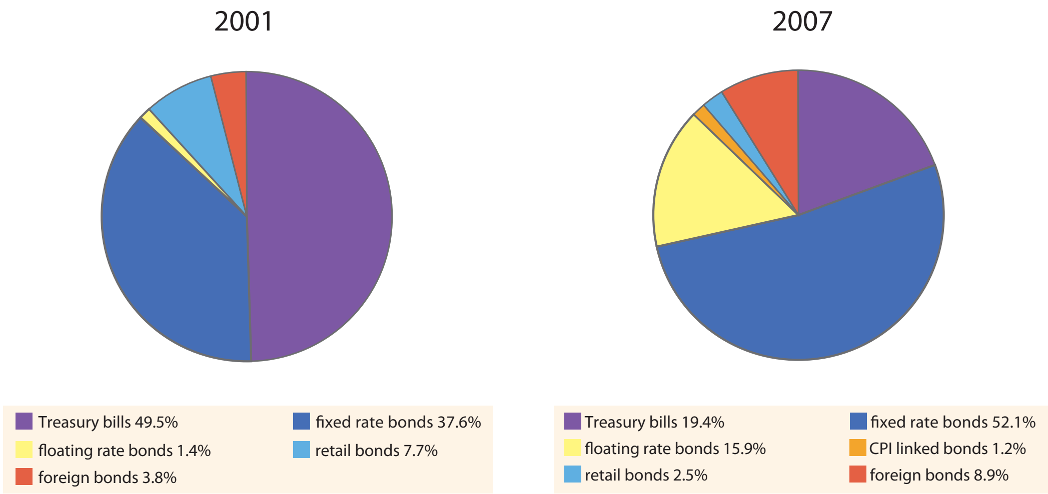

In the structure of Treasury securities sale in 2007 there was an increase of Treasury bonds share offered on the domestic market to 71.6% (70.6% in 2006) and a decrease of Treasury bills share to 19.4% (20.0% in 2006). The amount of foreign bond issues was mainly determined by the level of requirements in foreign currencies and decreased to 8.9% (9.4% in 2006).

Chart 5.9
Sale of Treasury securities on domestic and foreign markets in 2001-2007



The sale structure of Treasury securities changed substantially in the period 2001-2007. In 2007 domestic fixed rate bonds made up the greatest share (52.1%) whereas in 2001 the greatest share was made up of Treasury bills (49.5%). At the same time the share of bonds issued on foreign markets increased from 3.8% in 2001 to 8.9% in 2007.

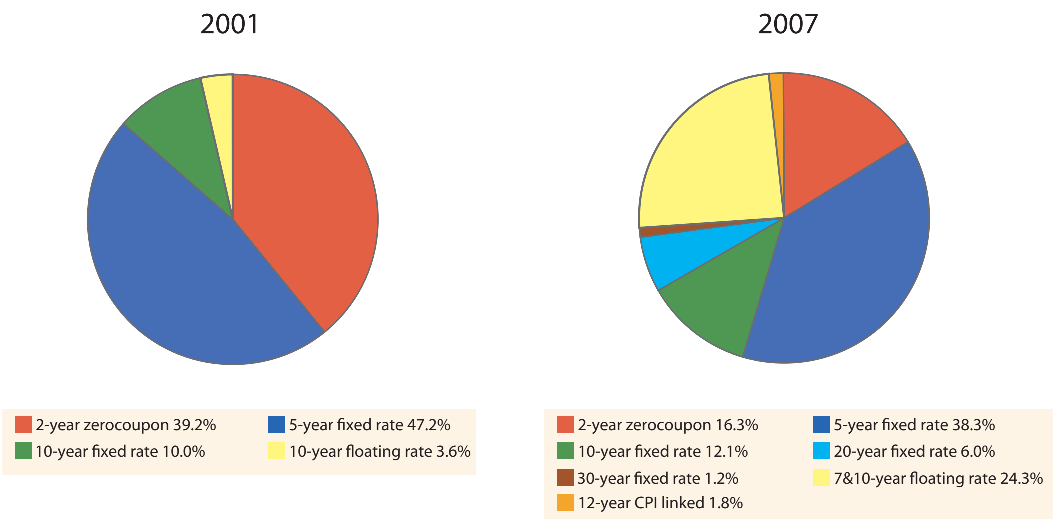
Chart 5.10
Sale of Treasury securities on domestic and foreign markets in 2001 and in 2007




## Increase in sale of domestic long-term maturity bonds

In the structure of wholesale domestic bonds sales offered at auctions in 2007 there was an increase in the proportion of long-term maturity instruments, compared to 2001. In 2007 the total share 10-, 20- and 30-year bonds in the structure of sales reached 19.3% (in 2001 the share of 10-year bonds reached 10.0%, 20- and 30-year bonds were not sold). On the other hand there was a decrease in sales of 2-year bonds, from 39.2% in 2001 to 16.3% in 2007.

Chart 5.11
Structure of sales of domestic Treasury bonds sold at auctions in 2001 and in 2007



## Foreign bond issues in 2007

In 2007 Poland launched the following bonds on foreign markets:

a) a 15-year fixed coupon bond denominated in euro with a face value of EUR 1.5 bn,

b) a two-tranche issue of fixed coupon bonds denominated in Swiss franc – a 5-year bond with a face value of CHF 500 m and a 12-year bond with a face value of CHF 1 bn,

c) a 30-year fixed coupon bond denominated in Japanese with a face value of JPY 50 bn.

The transactions were lead-managed:

a) in the case of the euro-denominated bond, by:
- Deutsche Bank,
- Société Générale,
- UBS,

b) in the case of Swiss franc-denominated bonds, by:
- Credit Suisse,
- Unicredit,

c) in the case of the yen-denominated bond, by:
- Daiwa SMBC,
- Mitsubishi UFJ.

The transactions were launched under the following issuance programmes:

a) Euro Medium Term Note Programme (EMTN) in the case of euro and Swiss franc bonds,

b) Shelf on the Japanese market.

| Issue date | Currency | Nominal amount (in millions) | Maturity date | Yield |
|---|---|---|---|---|
| 18 Jan 2007 | EUR | 1 500 | 18 Jan 2022 | 4.528% |
| 15 May 2007 | CHF | 500 | 15 May 2012 | 2.868% |
| 15 May 2007 | CHF | 1 000 | 15 May 2019 | 3.203% |
| 16 Nov 2007 | JPY | 50 000 | 16 Nov 2037 | 2.810% |

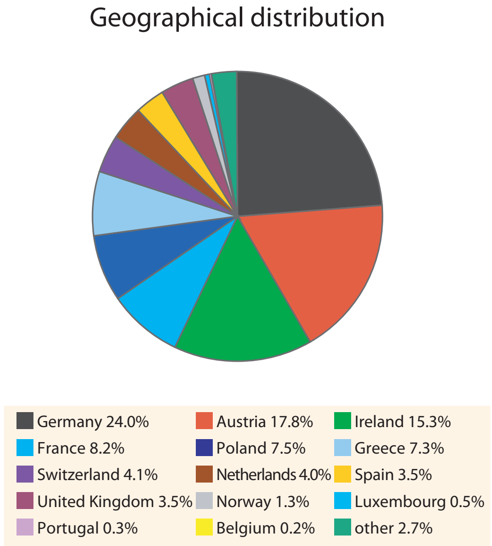
The Swiss franc bond issue aroused wide interest of investors and was also received very well by Swiss and international financial press. Poland received the prestigious award "Swiss Franc Bond of the Year" from International Financing Review (IFR). IFR selects and awards the best executed bond issue in a particular currency among all issuers each year.

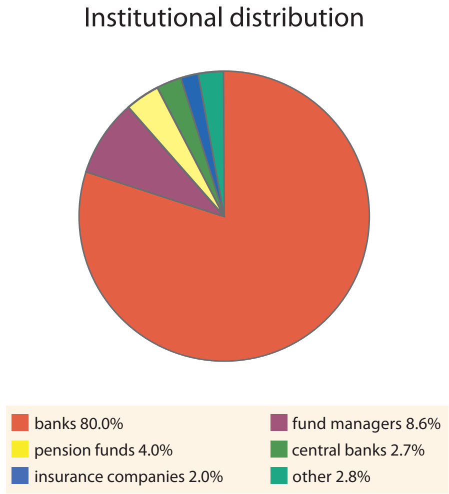
The 30-year Japanese yen bond issue also aroused wide interest of specialized press and market participants. It was the largest ever 30-year Samurai bond issue.

## Diversified geographical distribution of euro issue

The geographical distribution of euro-denominated bonds issued in 2007 was well diversified, with orders submitted by investors from 16 countries. The share of traditional buyers of Polish securities, i.e. investors from Germany, Austria and Ireland, was 57.1%. The share of domestic investors was also substantial, at 7.5%. Institutional distribution was dominated by banks as in the case of previous bond issues on the euro market.

Chart 5.12
Geographical and institutional distribution of euro-denominated bonds issued in 2007

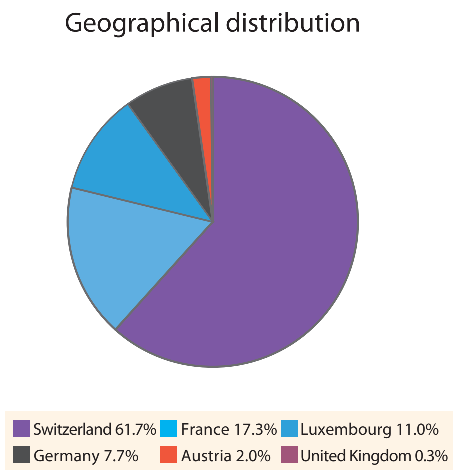


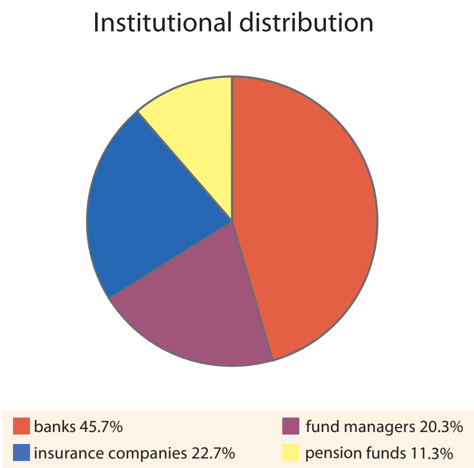




## Swiss investors' strong appetite for Polish bonds

The geographical distribution of State Treasury bonds issued in the Swiss franc market was dominated by Swiss investors having more than 60% of bonds. There was significant share of investors buying also other issues of Polish foreign bonds, i.e. investors from France, Luxembourg, Germany.
The issue aroused wide interest among non-banking institutions with their final share exceeding 54%.

Chart 5.13
Geographical and institutional distribution of Swiss franc-denominated bonds issued in 2007 (both tranches altogether)

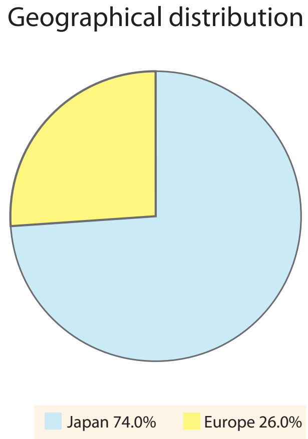


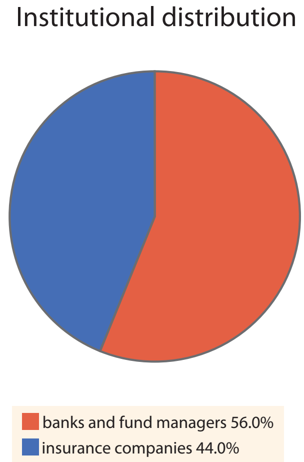



### Japanese investors the main buyers of yen-denominated bonds

In the case of the Japanese yen bond issue the biggest demand was from Japanese investors, as usual. Moreover the 30-year bond issue had the most ever share of Japanese investors within the all bonds issued by the State Treasury and it amounted to 74%.
The institutional distribution was diversified equally within each group of investors with a little bigger share of banks and fund managers (56%).

Chart 5.14
Geographical and institutional distribution of yen-denominated bonds issued in 2007



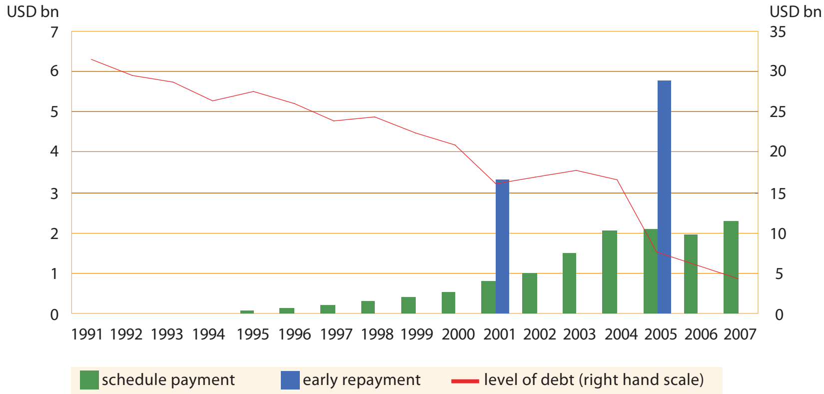




## Liabilities incurred before 1989

### Further decrease of indebtedness towards Paris Club creditors

As a result of the agreement reached in April 1991 with seventeen creditor countries on restructuring and reduction of debt, Poland obtained a 50% reduction of the total debt in net present value terms. This meant a decrease in outstanding principal to USD 26.4 bn in 1994. Those liabilities, except the ones to Japan, were to be repaid in increasing semi-annual instalments through 31 March 2009.
From 2001 Poland began making early repayments to Paris Club creditors. The first transaction in 2001 concerned Brazil (USD 3.3 bn). In 2005 Poland declared its readiness to repay all remaining indebtedness. Some countries consented to that transaction and as a result in 2005 total early repayments were made in the equivalent of USD 5.8 bn.
As of the end of 2007 debt to the seven countries was USD 4.2 bn. The biggest creditors were France (USD 1.5 bn) and Austria (USD 1.0 bn). The other creditor countries were Canada, Japan, Italy, Belgium and Norway.
Poland's readiness to repay all its remaining liabilities to the Paris Club creditors ahead of schedule is still valid.

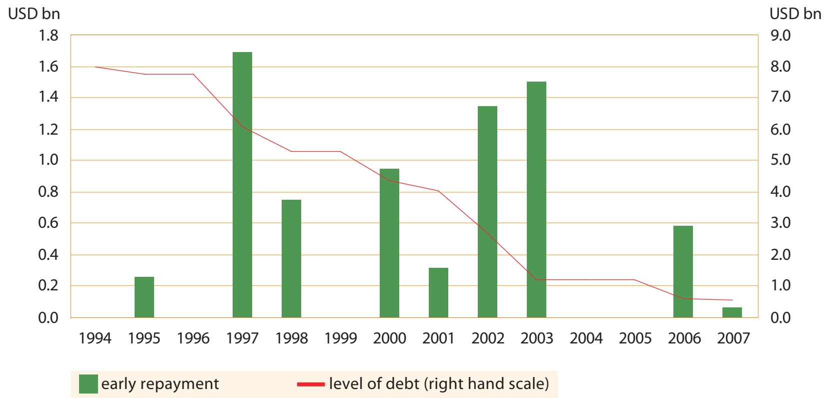
Chart 5.15
Liabilities to Paris Club (excluding Ecofund) in 1991-2007 (recalculated to USD as of the end of the year)




## Continuation of early repayment of Brady Bonds

In March 1994 Poland signed an agreement with representatives of commercial banks that are creditors of Poland (London Club) on reduction of its debt. The agreement reduced this debt from USD 13.2 bn, to USD 8 bn, and converted the remaining debt into USD-denominated bonds (Brady Bonds).
From 1995, taking advantage of the favourable market situation, Poland began early repayment of those liabilities by using call options.
In 2007 Poland redeemed bonds amounting to USD 0.1 bn.
As of the end of 2007, debt in Brady Bonds was USD 0.5 bn. This means that since 1995, Poland has repaid USD 7.5 bn ahead of schedule, i.e. 93.75% of the original debt.

Chart 5.16
Brady Bonds in 1994-2007



# 6

# STRUCTURE OF PUBLIC DEBT

Changes in the level and structure of the public debt in 2007 resulted from the financial situation of public sector units (mainly State budget borrowing requirements), the macroeconomic situation (i.e. GDP growth, exchange rates and interest rates) and debt management decisions (concerning the profile of State Treasury debt).

## Debt-to-GDP ratio decline

During 2007 public debt rose by PLN 21.2 bn, to PLN 527.4 bn, of which:

a) domestic debt - according to place of issue criterion - of PLN 403.3 bn, increase of PLN 25.9 bn and according to the residency criterion of PLN 335.0 bn, increase of PLN 25.6 bn,
b) foreign debt - according to place of issue criterion - of PLN 124.1 bn, decrease of PLN 4.7 bn. and according to residency criterion of PLN 192.4 bn, decrease of PLN 4.4 bn.

The debt-to-GDP ratio fell to 45.2% at the end 2007, from 47.8% at the end 2006, with:

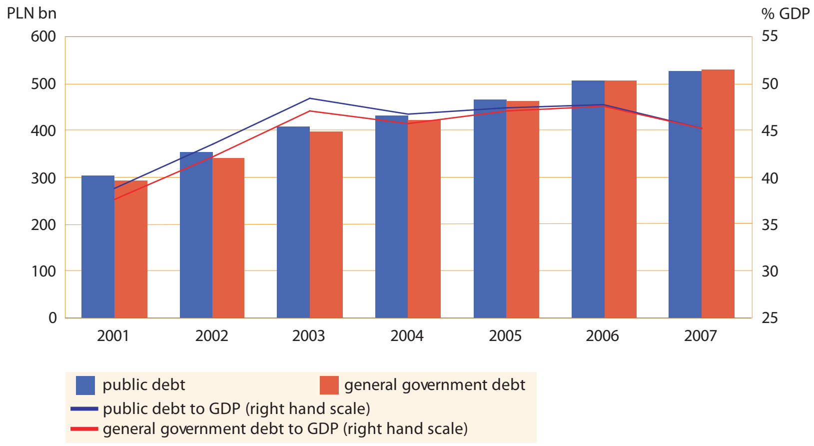
a) domestic debt - according to place of issue criterion at 34.5% of GDP (decrease of 1.1 pp) and according to residency criterion at 28.7% of GDP (decrease of 1.5 pp),
b) foreign debt - according to place of issue criterion at 10.6% of GDP (decrease of 0.5 pp) and according to residency criterion at 16.5% of GDP (increase of 2.1 pp).

General government debt (GGD) is the definition used for comparative purposes within the European Union. GGD was PLN 527.6 bn (45.2% of GDP) at the end of 2007, compared to PLN 505.1 bn (47.7% of GDP) at the end of 2006.

Main differences between public debt (debt as measured according to domestic methodology) and general government debt:

a) Scope of the public sector:
    - Research and development units are excluded from general government sector, but National Road Fund (KFD) is included.
b) Debt categories:
    - Treatment of matured payables. Unlike GGD, public debt includes matured payables (i.e. obligations whose payment deadline has passed and which have not been time-barred or written off). This results from different accounting rules used in both cases (cash vs. accrual). In accordance with EU methodology, mature payables are an expenditure on the accrual basis and thus are included in net borrowing/net lending, and not in debt.
c) Treatment of contingent debt:
    - Unlike public debt, GGD may include contingent debt. When specified requirements or criteria are met, contingent debt becomes a debt of the entity issuing a surety or guarantee (debt assumption operation).

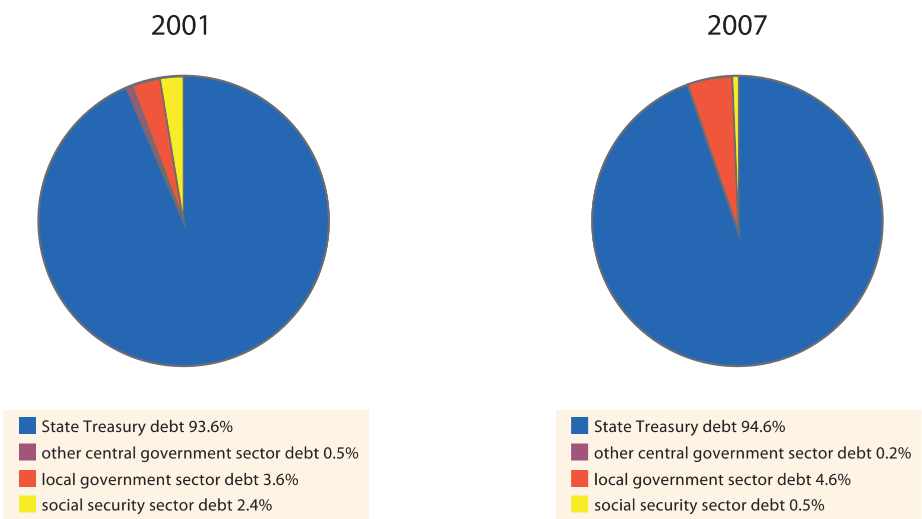
Chart 6.1
Public debt and general government debt in 2001-2007




## Dominant share of State Treasury debt in public debt

In 2007 State Treasury debt had a dominant share in the structure of public debt, at 94.6%. The share of local sector debt was 4.6%. Nevertheless, the rate of debt growth of local governmental units and their unions in the years 2001-2007 was almost twice as fast as the growth rate of State Treasury debt (127.0% and 76.6%, respectively).
Public debt as of the end of 2007, after consolidation, comprised the following elements:
a) central government sector debt, PLN 500.2 bn increase of PLN 22.3 bn,
b) local government sector debt, PLN 24.5 bn increase of PLN 1.2 bn,
c) social security sector debt, PLN 2.7 bn decrease of PLN 1.0 bn.

Chart 6.2
Public debt by sub-sectors in 2001 and 2007



## Dominant share of domestic debt in total State Treasury debt

State Treasury debt (before consolidation) in 2007 was PLN 501.5 bn (an increase of approximately PLN 23.0 bn), of which:

a) domestic debt was PLN 380.4 bn (increase of PLN 28.0 bn),
b) foreign debt was PLN 121.1 bn (decrease of PLN 5.1 bn).

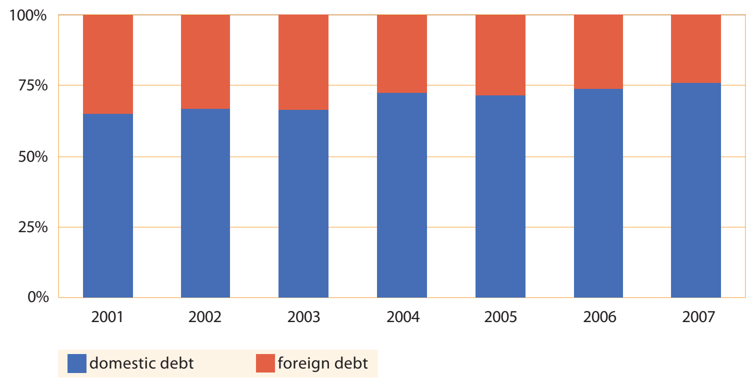
The main factors which caused an increase of the State Treasury debt were:

a) change in debt as a result of State budget financing requirements (PLN 33.7 bn),
b) conversion of Social Security Fund (ZUS) liabilities to Open Pension Funds (OFE) – PLN 1.4 bn,
c) indexation - IZ0816 bond (PLN 273.0 million),
d) capitalization of interest – bonds issued for Bank Gospodarki Żywnościowej SA (PLN 10.0 million).

Factors which caused a decrease of State Treasury debt were:

a) domestic currency appreciation in relation to foreign currencies in which some elements of State Treasury debt are denominated (PLN 11.0 bn),
b) decrease due to redemption of Labour Fund debt (PLN 1.6 bn).

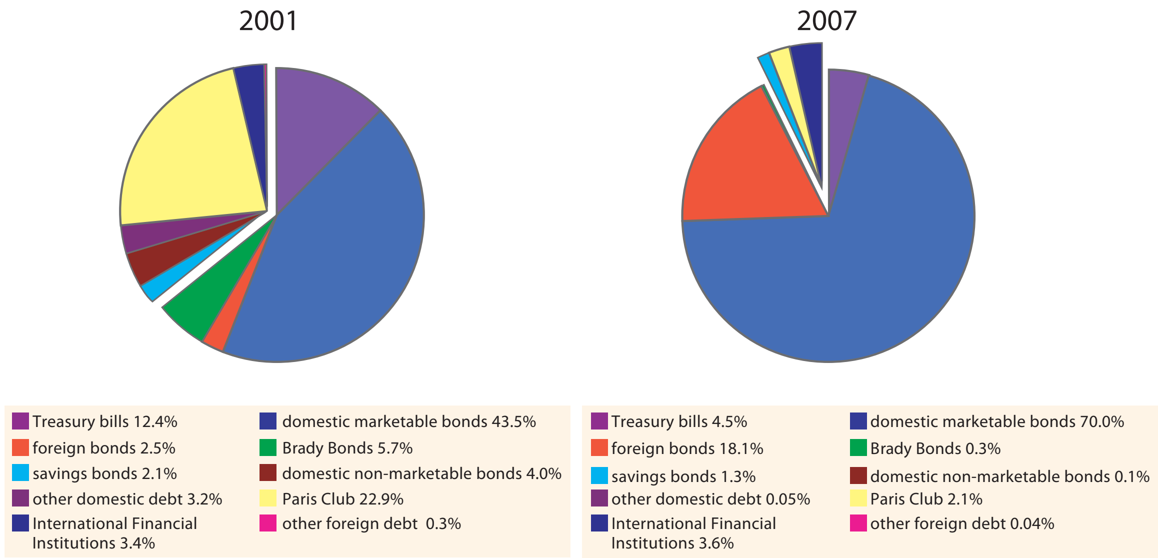
Chart 6.3
Structure of State Treasury debt according to place of issue criterion in 2001-2007



## Increased share of marketable debt in domestic State Treasury debt

In the years 2001-2007 a significant change was observed in the profile of State Treasury debt instruments in favour of marketable bonds, with an increase in the share in these securities from 64.1% at the end of 2001 to 92.9% at the end of 2007. This was mainly the result of the increased share of marketable bonds issued on domestic and foreign markets and the decreased share of debt to the Paris Club.

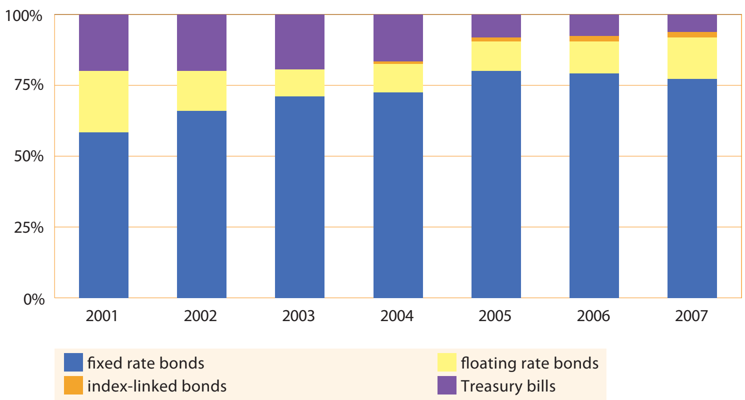
Chart 6.4
Structure of State Treasury debt by instrument in 2001 and 2007




## Major share of fixed rate bonds in structure of domestic State Treasury debt

State Treasury debt in marketable bonds was PLN 380.2 bn in 2007, including:
- a) Treasury bills, PLN 22.6 bn (5.9%),
- b) fixed rate bonds, PLN 294.6 bn (77.5%),
- c) floating rate bonds, PLN 54.8 bn (14.4%),
- d) index-linked bonds, PLN 8.2 bn (2.2%).

Chart 6.5
Structure of domestic State Treasury debt in Treasury securities in 2001-2007

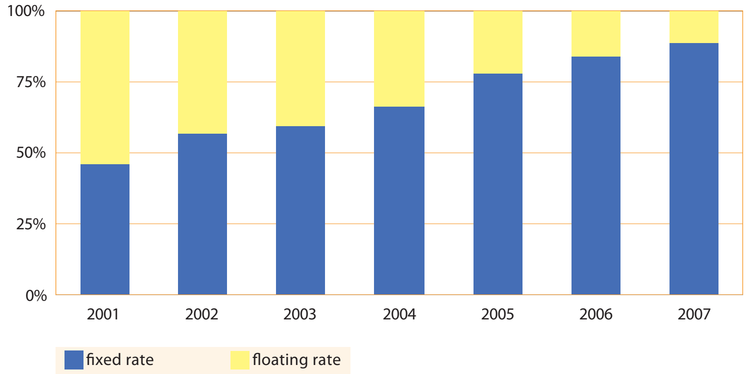


## Major share of fixed rate debt in structure of State Treasury foreign debt

State Treasury foreign debt (according to the place of issue criterion) in 2007 was PLN 121.1 bn, of which:

a) fixed rate, PLN 107.7 bn (88.9%),
b) floating rate, PLN 13.4 bn (11.1%).

Chart 6.6
Structure of foreign State Treasury debt in 2001-2007

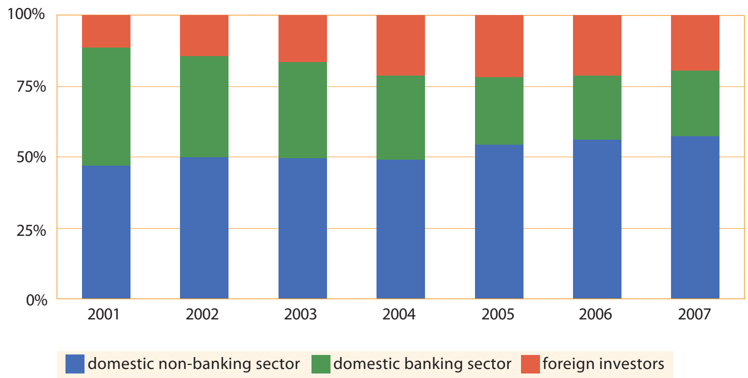



## Major share of domestic non-banking sector debt in structure of domestic State Treasury debt

The creditor structure of domestic State Treasury debt in 2007 was as follows:

a) domestic non-banking sector, PLN 218.1 bn (increase of PLN 20.7 bn),
b) domestic banking sector, PLN 87.9 bn (increase of PLN 7.2 bn),
c) foreign investors, PLN 74.5 bn (increase of PLN 0.1 bn).

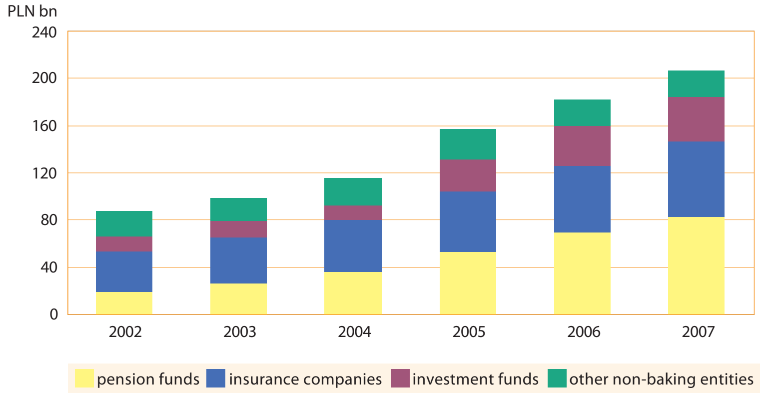
Chart 6.7
Structure of domestic State Treasury debt by holders in 2001-2007




The structure of Treasury bonds issued on the domestic market held by domestic non-banking sector creditors as of the end of 2007 was:

a) pension funds, PLN 83.0 bn (increase of PLN 13.6 bn),
b) insurance companies, PLN 63.7 bn (increase of PLN 7.3 bn),
c) investment funds, PLN 37.5 bn (increase of PLN 3.3 bn),
d) other non-banking entities, PLN 22.5 bn (decrease of PLN 0.3 bn).

Chart 6.8
Domestic non-banking investors' portfolio of domestic Treasury bonds in 2002-2007




## State Treasury debt service costs

The 2007 Budget Act assumes that expenditures for the debt service amount in total to PLN 28.0 bn (the foreign debt service PLN 6.3 bn, the domestic debt service PLN 21.8 bn). However within 2007 the Minister of Finance decided to change the limits assigned for the foreign and domestic debt service. It resulted in:

a) decreasing expenditures for the foreign debt service to PLN 5.3 bn,
b) increasing expenditures for the domestic debt service to PLN 22.8 bn.

Changes incorporated to the expenditure schedule were caused by the lower than projected cost of the foreign debt service and other foreign operations, and also lower amount of sureties and guaranties owed to the State Treasury. It was mainly a result of:

a) more favourable exchange rates of USD/PLN and EUR/PLN than they were estimated (for executed payments),
b) lower than estimated interest rates level in foreign markets,
c) lower interest paid by Brady bonds (as a result of early repayments),
d) lower expenditures for the F-16 financing programme,
e) lower than projected amount of loans drawn from multilateral financial institutions,
f) borrowers repayment of some liabilities granted as State Treasury sureties and guarantees.

In 2007 the debt service expenditures amounted in total to PLN 27.6 bn accounting for 98.3% of the planned amount. The foreign debt service expenditures amounted to PLN 5.0 bn and the domestic debt service expenditures amounted to PLN 22.6 bn.

Chart 6.9
State Treasury domestic debt service costs in 2007

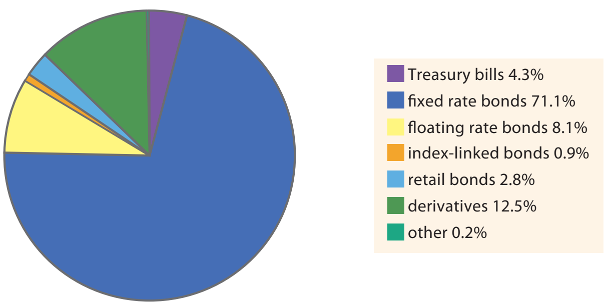
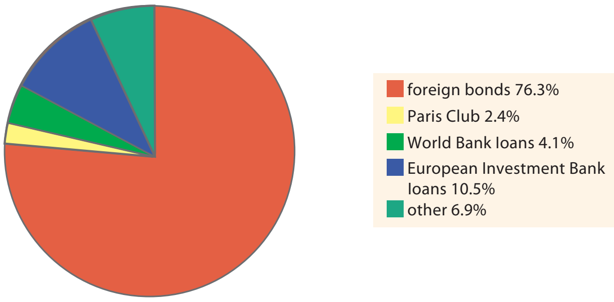
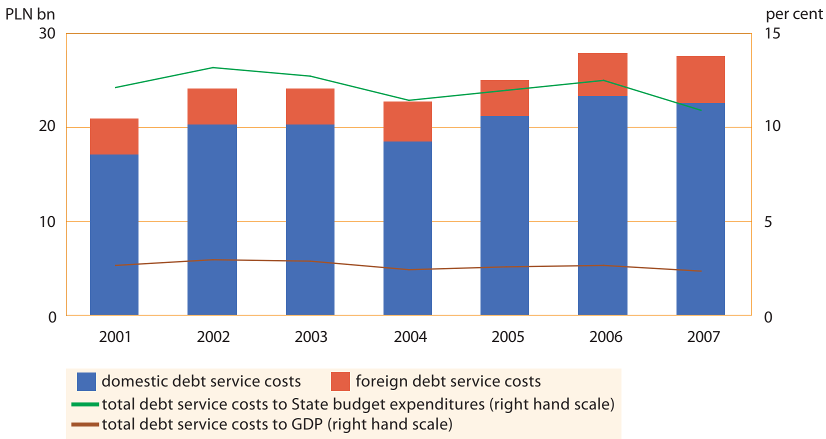


Chart 6.10
State Treasury foreign debt service costs in 2007




As compared to 2006 the debt service expenditures were lower in 2007 by PLN 0.3 bn or 1%. The ratio of debt service expenditures to GDP decreased from 2.6% in 2006 to 2.4% in 2007. At the same time the ratio of debt service expenditures to overall budget expenditures decreased from 12.5% to 10.9%.

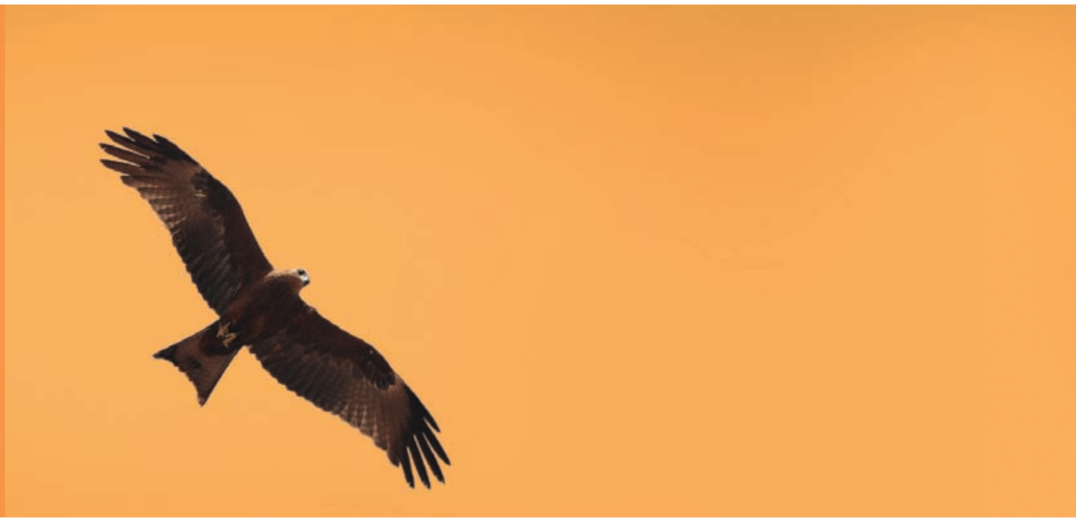
Chart 6.11
State Treasury debt service costs in 2001-2007




## Derivatives transactions

In 2007 the Ministry of Finance concluded interest rate swaps transactions on the financial market with the nominal value of PLN 44 bn. The aim of this transactions was to spread over the time a part of expenditures connected with the cost of borrowing in 2008. As a result the costs paid in 2007 amounted to PLN 2.98 bn and the net costs in 2008 will be reduced by PLN 3.07 bn.

# 7



# RISK MANAGEMENT

In 2007 the issuance policy and operations involving debt components made it possible to improve the risk level associated with the structure of State Treasury debt, especially refinancing risk, exchange rate risk and interest rate risk.

## Decrease of refinancing risk

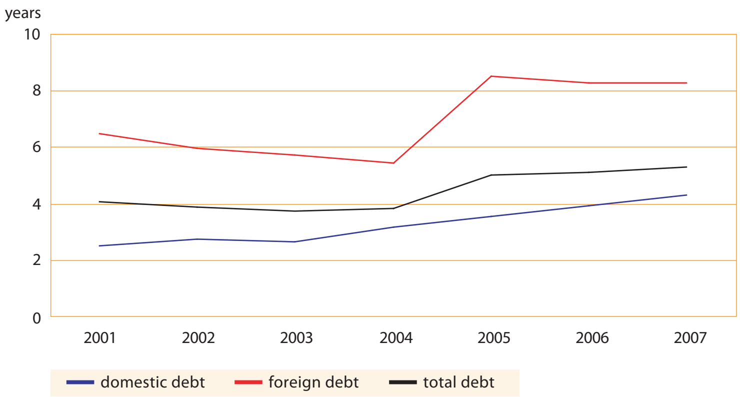
The average time to maturity (ATM), when the total State Treasury debt has to be refinanced, rose from 5.11 to 5.30 years in 2007.
The ATM of domestic marketable debt significantly rose from 3.94 to 4.33 years. The main factors influencing this change were:

a) increase of debt in mid- and long-term Treasury bonds,
b) decrease of debt in Treasury bills,
c) large scale of switching auctions.

The ATM of foreign debt stood at 8.28 years and did not change in relation to 2006. The main factors that made possible to sustain the level of ATM were:

a) shortening maturity of existing debt,
b) new foreign issuance on euro, yen and Swiss franc market.

Chart 7.1
Average maturity of State Treasury debt in 2001-2007



## Efforts to smooth State Treasury debt maturity profile

At the end of 2007 the total value of State Treasury debt due for payment in 2008 was PLN 82.9 bn, i.e. 16.5% of the total debt, including:

a) domestic debt of PLN 75.2 bn,

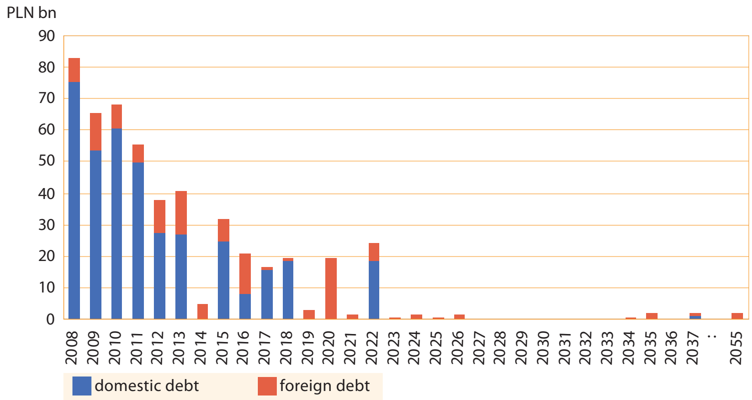
b) foreign debt of PLN 7.7 bn.

Smoothing the maturity profile was achieved by:

a) proper selection of maturity of new bond issues,

b) early redemption of bonds with approaching maturity dates on switching auctions.

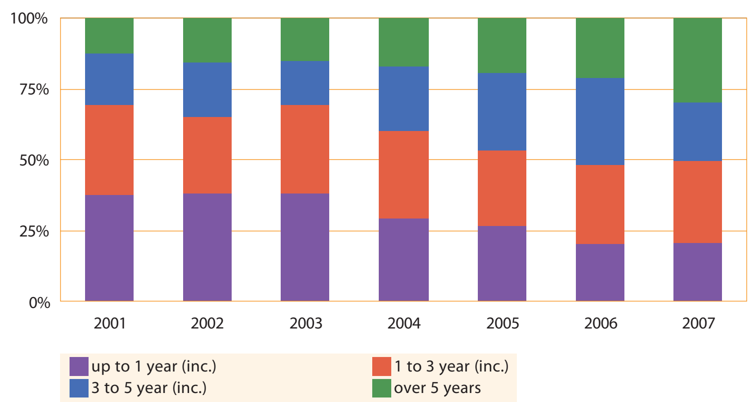
Chart 7.2
State Treasury debt maturity profile




## Steady increase in share of Treasury securities with residual maturities above 5 years in domestic State Treasury debt

In 2007 the share of Treasury securities with residual maturities below 1 year in the domestic State Treasury debt increased from 20.0% to 20.5%. The share of Treasury bills decreased from 7.4% to 5.9%. At the same time the share of Treasury securities with residual maturities between 1 and 3 years increased from 28.1% to 29.3% and with maturities above 5 years increased from 20.9% to 29.9%. The share of securities with residual maturities between 3 and 5 years decreased from 31.0% to 20.3%.

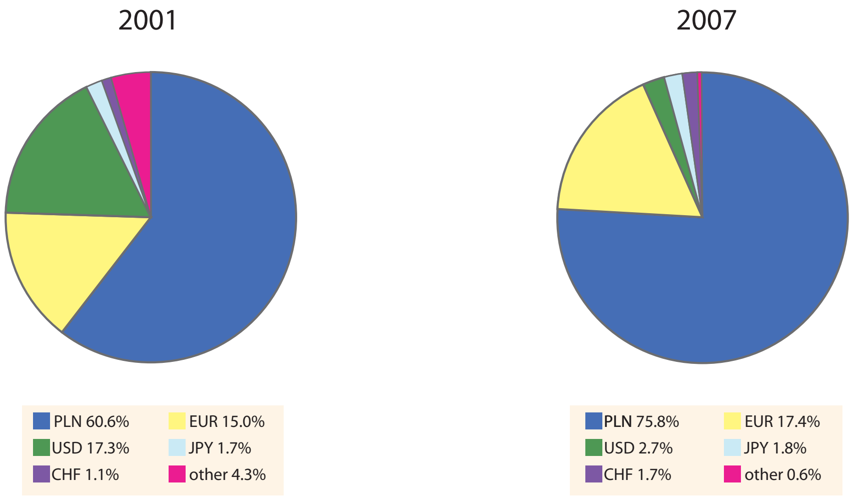
Chart 7.3
Residual maturity of domestic Treasury securities in 2001-2007



## Decrease of exchange rate risk

Domestic State Treasury debt in PLN in 2007 was PLN 380.4 bn, making up 75.8% of total State Treasury debt, compared to 73.6% in 2006 and 60.6% in 2001. This means there has been a significant decrease of the exchange rate risk.

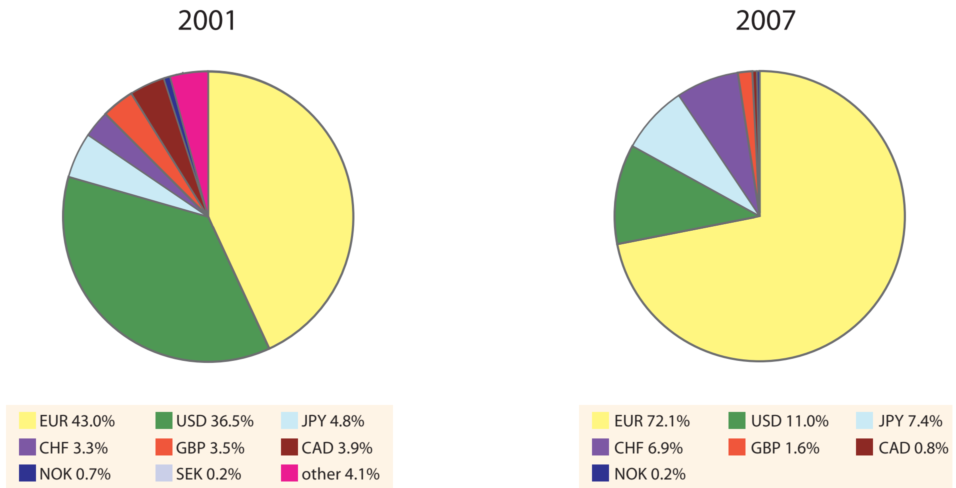
Chart 7.4
Currency structure of State Treasury debt in 2001 and 2007




## Strategic role of euro market in foreign financing

The prevailing part of the foreign State Treasury debt was denominated in euro, whose share rose steadily from 43.0% in 2001 to 72.1 % at the end of 2007. In other currencies, there was a significant decrease in the share of the US dollar (from 36.5% to 11.0%) and a rise in the share of the Japanese yen (from 4.8% to 7.4%) and the Swiss franc (from 3.3% to 6.9%).

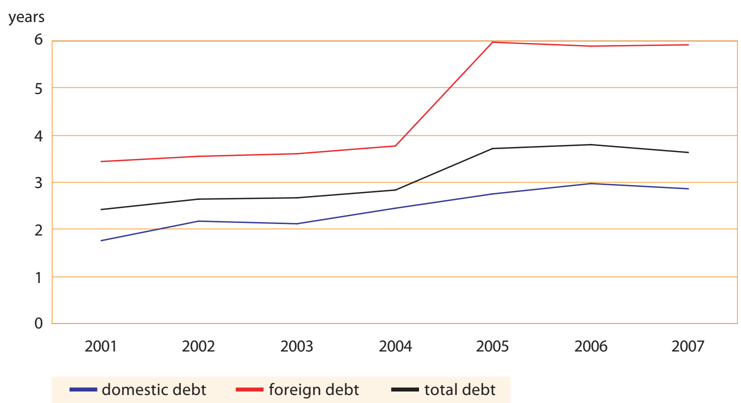
Chart 7.5
Currency structure of external State Treasury debt in 2001 and 2007



## Safe level of interest rate risk

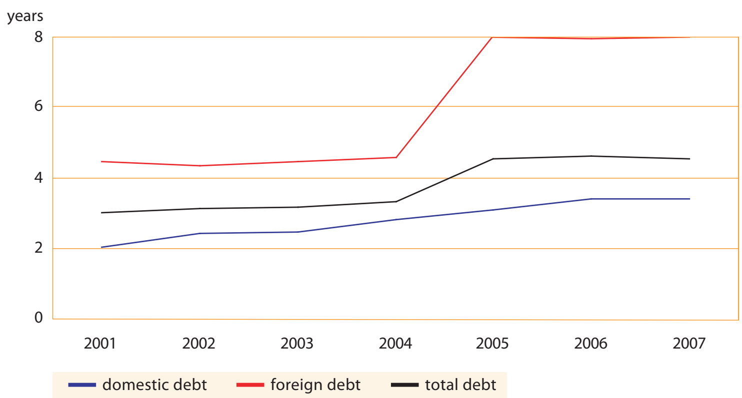
In 2007, duration, which measures the average time of adjustment of the debt servicing costs to changes in interest rates, decreased from 3.78 to 3.63 years for State Treasury debt in Poland. Fall in the duration level means an increase of the interest rate risk for the State Treasury debt. The duration of domestic State Treasury debt decreased from 2.99 to 2.85 years. This was the result of a significant increase in the average time to maturity of debt (from 3.94 to 4.33 years), an increase in the share of marketable instruments with a floating interest rate (from 11.3% to 14.3%) and an issuance of T-bills at the end of the year. The duration of foreign debt decreased slightly, from 5.90 to 5.92 years, it was the result of an increase in ATM and the share of marketable instruments with a fixed interest rate from 84% to 89%. Interest rate risk concerning the foreign debt remained at a safe level.

Chart 7.6
Duration of State Treasury debt in 2001-2007




An additional measure of interest rate risk is the average time to refixing (ATR). ATR is expressed as the average time of fixing the debt servicing costs. Unlike duration, ATR includes inflation-linked bonds and does not depend on the levels of market interest rates.
In 2007 the ATR of State Treasury debt decreased from 4.61 to 4.53 years, while the ATR of domestic debt decreased slightly from 3.40 to 3.39 years and the ATR of foreign debt increased from 7.91 to 8.05 years.

Chart 7.7
ATR (Average Time to Refixing) of State Treasury debt in 2001-2007



## Level of public funds in State budget accounts

The level of domestic and foreign currency resources enabled safe financing of the budget borrowing requirements in 2007.

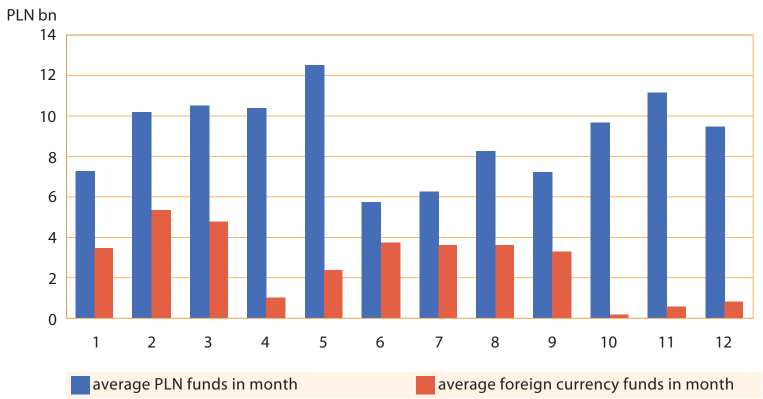
The level of foreign currency resources resulted from foreign markets issuances of bonds denominated in the following currencies: Euro, Swiss frank and Japanese yen and loans incurred from the European Investment Bank.

The high volatility of the level of domestic currency funds resulted mainly from:

a) irregular distribution of borrowing requirements within the year,
b) trying to keep the stable level of Treasury Securities issuances during the year and taking into account the seasonal demand from investors on financial markets,
c) the real level of budget borrowing requirements in relation to the forecasts,
d) actual and estimated market situation, mainly in the segment of medium and long term fixed rate Treasury bonds.

Funds in PLN were accumulated at NBP and Bank Gospodarstwa Krajowego (interbank market) in the form of deposits. Foreign currency funds were accumulated at NBP in the form of deposits.

Chart 7.8
Average level of PLN and foreign currency funds in State budget accounts in 2007



# 8

# TREASURY SECURITIES SECONDARY MARKET

Trading on the secondary market for Treasury bills and bonds denominated in PLN is performed on the non-regulated OTC market and the MTS Poland electronic platform operated by MTS-CeTO S.A. Additionally, trading on the secondary market for Treasury bonds is also conducted on the regulated markets of the Warsaw Stock Exchange and MTS-CeTO S.A.
Registration and settlement of transactions are handled by the NBP Registry of Securities - RPW (T-bills) and the National Depository for Securities - KDPW S.A. (T-bonds denominated in PLN).
Trading on the secondary market for Treasury bonds denominated in foreign currencies issued after 1995 and Brady's bonds is conducted on the non-regulated OTC market. Furthermore, trading in the euro-denominated T-bonds with amounts outstanding above EUR 1 bln is conducted on the NewEuroMTS market operated by EuroMTS Ltd.
Settlement of transactions in Treasury bonds denominated in foreign currencies is handled by Euroclear, Clearstream and the Depository Trust Company as well as the Japan Securities Depository Centre.

## Increase in transactions value for domestic Treasury bonds

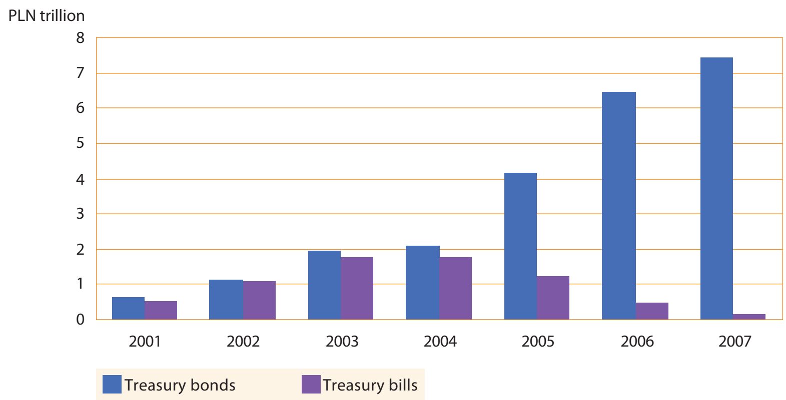
In 2007 transactions worth PLN 7,584.1 bn were concluded on the secondary market for Treasury securities denominated in PLN, including:

a) Treasury bonds transactions of PLN 7,425.9 bn (97.9%),
b) Treasury bills transactions of PLN 158.2 bn (2.1%).

The value of Treasury bond transactions surged by PLN 966.5 bn (15.0%) in comparison to 2006, while the value of Treasury bill transactions fell by PLN 317.6 bn (66.8%). The increase in turnover of Treasury bonds denominated in PLN was the result of:

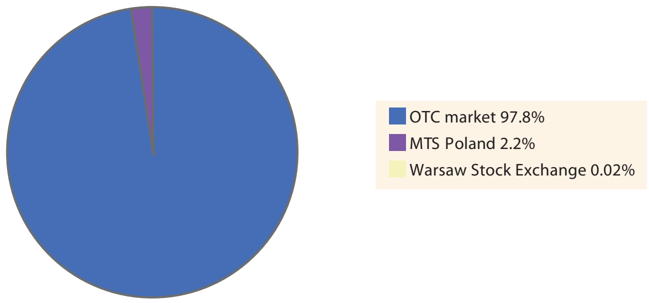
a) reduced number of new issues and increased face value,
b) growth in domestic non-banking sector,
c) development of Primary Dealers system.

Chart 8.1
Value of transactions in domestic Treasury securities in 2001-2007



In 2007 the trading in Treasury bonds denominated in PLN was focused on the non-regulated OTC market (97.8%). Turnover on MTS Poland amounted to about 2.2%, while trading at the Warsaw Stock Exchange did not exceed 0.1%.

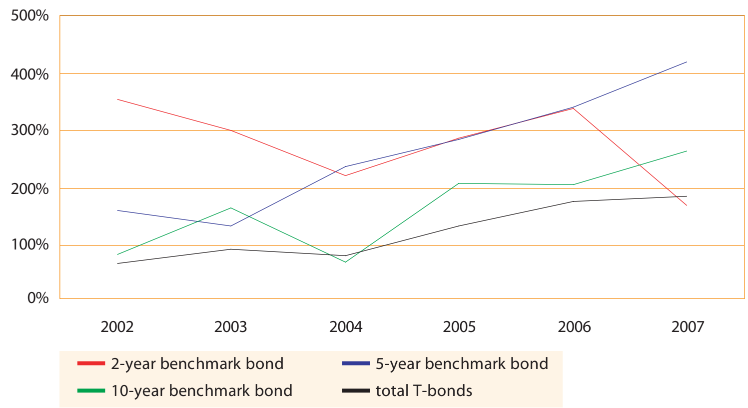
Chart 8.2
Domestic Treasury bonds turnover structure in 2007




## Improvement in liquidity of secondary market for domestic Treasury bonds

In 2007 the liquidity of the secondary market (calculated as the ratio of average value of transactions to average amount outstanding) improved for most benchmark T-bonds denominated in PLN. Liquidity ratios for 5-year and 10-year benchmark bonds rose from 341.6% to 419.7% and from 206.1% to 264.2% respectively. The decrease of the ratio for 2-year benchmark bonds (from 339.1% to 170.9%) resulted from lower supply of 2-year bonds on the primary market in 2007 (the sale was 53.3% lower than in 2006). The liquidity ratio for the whole domestic secondary market increased from 176.2% to 185.4%.

Chart 8.3
Secondary market liquidity ratio for domestic benchmark Treasury bonds in 2002-2007

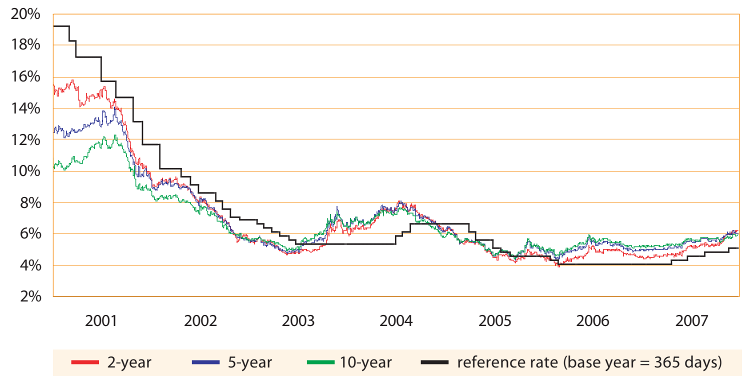


## Yields of domestic Treasury bonds

In 2001-2007 yields of Treasury bonds issued on the domestic market decreased significantly. The yields of 2-, 5- and 10-year T-bonds on the secondary market dropped by 9.45 pp, 6.59 pp and 4.93 pp respectively. This mainly resulted from:

a) decrease of the NBP reference rate by 14.0 pp,
b) improvement of Polish macroeconomic indicators,
c) decrease of investment risk (rise in ratings),
d) entry of Poland into European Union and prospects of adopting the euro.

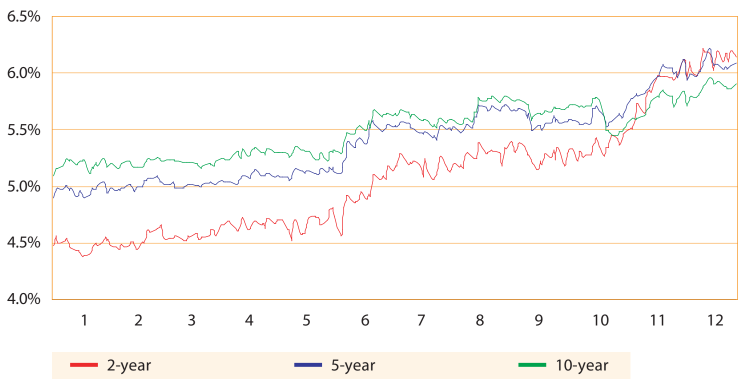
Chart 8.4
Yields of domestic Treasury bonds in 2001-2007




## Increase in yields of domestic Treasury bonds in 2007

In 2007 yields of 2-, 5- and 10-year Treasury bonds rose by 156 bp, 110 bp and 67 bp respectively, to 6.14%, 6.09% and 5.91% respectively. The yield increase resulted from rising NBP interest rates and expectations for further tightening of the monetary policy. The foreign investors' outflow had also a significant impact on the weakening of the Polish debt market (between May and half of October foreign investors decreased their Polish Treasury bonds portfolios by PLN 10.3 bn).

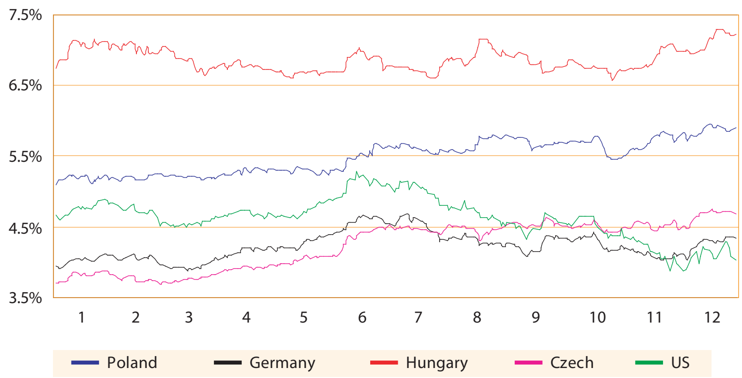
Chart 8.5
Yields of domestic Treasury bonds in 2007



## Increase in spreads between long-term Treasury bond yields in Poland and on core markets

In 2007 the long-term bond yields in Poland, Germany, Hungary and the Czech Republic rose by 67 bp, 38 bp, 38 bp and 96 bp respectively, while the yields in the US fell by 67 bp. These changes resulted in broadening of spreads between the long-term bond yields in Poland and Germany from 128 bp to 157 bp and between Poland and the US from 54 bp to 187 bp at the end of 2007.

Chart 8.6
Yields of 10-year Treasury bonds in 2007




## Yields of 10-year euro-denominated Treasury bonds

Yields of Polish Treasury securities denominated in euro increased in 2007, in line with trends on core markets. The yield of 10-year euro-denominated bonds maturing on 1/02/2016 increased by 47 bp. During the same period, the 10-year Bund yield increased by 35 bp, the 10-year Italian BTP yield increased by 33 bp, and the 10-year Greek GGB yield increased by 36 bp. Consequently, the difference between yields of long-term euro-denominated bonds issued by Poland and Germany widened to 49 bp (between Poland and Italy, the difference grew to 25 bp, and between Poland and Greece to 23 bp) at the end of 2007.

In asset swap terms, the spread of Polish Treasury securities increased in comparison with the asset swap spread of Bunds by 11 bp (the difference between both spreads at the end of 2007 was 46 bp). Similarly, the difference between asset swap spreads of Polish and Italian and Greek Treasury securities widened by 14 bp and 11 bp (to 25 bp and 23 bp), respectively.

The increase of yield and asset swap spread and a growing difference of Polish Treasury bonds quotations and German, Italian or Greek ones at the end of 2007 were a result of the worsening financial situation in the US which also influenced other foreign markets. Investors became reluctant to buy bonds of issuers rated below the highest AAA rating.

Chart 8.7
Yields of 10-year euro-denominated Treasury bonds in 2007

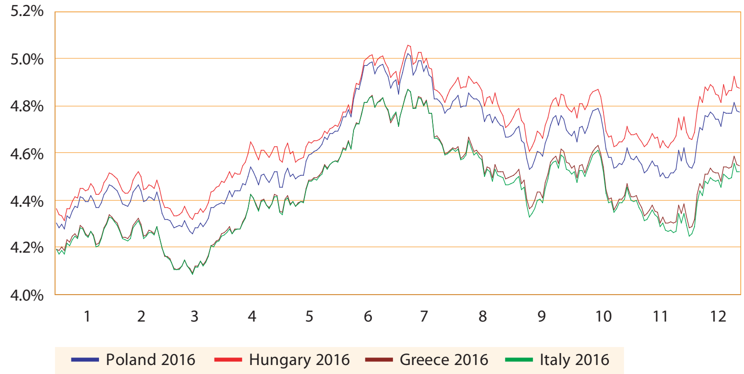
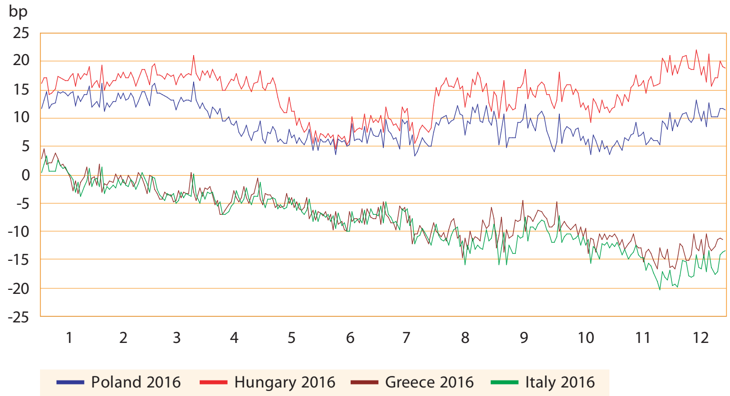



Chart 8.8
Mid asset swap spreads of 10-year euro-denominated Treasury bonds in 2007



# 9

# PUBLIC RELATIONS POLICY

## Publication of financing schedules of State budget borrowing requirements

The Minister of Finance regularly announces:

a) amount and structure of annual financing of State budget borrowing requirements,
b) annual calendar of domestic Treasury security auctions,
c) quarterly financing schedule of State budget borrowing requirements,
d) monthly supply schedules of domestic Treasury securities.

## Meetings and consultations with investors

a) on domestic market

The Ministry of Finance arranges regular meetings with Primary Dealers (via the Treasury Securities Market Participants Council) and domestic non-banking investors. If the need and interest arise meetings with foreign investors are also arranged.

b) on international market – non-deal roadshows

To promote Treasury bonds issued on domestic and international markets, the Ministry of Finance arranges meetings with investors abroad. The meetings are aimed to present Poland as an issuer of Treasury bonds, current and forecasted macroeconomic position of Poland and issuing plans. Marketing actions conducted so far in the form of meetings with foreign investors have aroused wide interest, enabling the Ministry of Finance to present Poland and encourage investment in the Polish financial market.

In 2007 roadshow meetings with foreign investors were held in Italy, Greece, Portugal, Spain, Sweden, Denmark, Switzerland, Singapore and Japan.

## Websites in Reuters, Bloomberg and Internet

Websites at www.mf.gov.pl, and at Reuters [PLMINFIN] and Bloomberg [PLMF], provide:

a) constantly updated results of Treasury bonds auctions,
b) current level of debt,
c) current coupons and indexation coefficients,
d) information on Primary Dealers.

The website www.mf.gov.pl also provides additional information, including:

a) legal acts establishing rules for issuance of Treasury securities (decrees of Minister of Finance, lists of issues of Treasury bonds and bills, regulations for acting as Primary Dealer),
b) information on international bond issuance,
c) publications (Public Finance Sector Debt Management Strategy, information on State Treasury debt, public debt, and data from Treasury securities secondary market).

# 10

# CONTACT DETAILS

## MINISTRY OF FINANCE

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ul. Świętokrzyska 12
00-916 Warszawa
Poland
tel.: +48 22 694 50 00, 694 50 31
fax: +48 22 694 50 08
e-mail: sekretariat.dp@mofnet.gov.pl
http://www.mf.gov.pl
http://www.obligacjeskarbowe.pl
Reuters: PLMINFIN
Bloomberg: PLMF<GO>

## Other contacts:

### NATIONAL BANK OF POLAND
ul. Świętokrzyska 11/21
00-919 Warszawa
tel.: +48 22 653 10 00
fax: +48 22 826 41 23
http://www.nbp.pl

### POLISH FINANCIAL SUPERVISION AUTHORITY
plac Powstańców Warszawy 1
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tel.: +48 22 33 26 600
fax: +48 22 33 26 793 (602)
http://www.knf.gov.pl

### NATIONAL DEPOSITORY FOR SECURITIES
ul. Książęca 4
00-498 Warszawa
tel.: +48 22 537 93 43
fax: +48 22 627 31 11
e-mail: kdpw@kdpw.pl
http://www.kdpw.pl

### MTS-CeTO S.A.
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fax: +48 22 579 81 01
e-mail: mts-ceto@mts-ceto.pl
http://www.mts-ceto.pl

### EuroMTS Ltd.
30 Old Broad Street
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United Kingdom
tel.: +44 20 7786 6001
fax: +44 20 7786 6000
http://www.euromts-ltd.com

### WARSAW STOCK EXCHANGE
ul. Książęca 4
00-498 Warszawa
tel.: +48 22 628 32 32
fax: +48 22 628 17 54
http://www.gpw.pl

# PRIMARY DEALERS IN 2008

**ABN Amro Bank (Polska) S.A.**
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02-134 Warszawa

**Bank BPH S.A**
al. Pokoju 1
31-548 Kraków

**Bank Gospodarki Żywnościowej S.A.**
ul. Kasprzaka 10/16
01-211 Warszawa

**Bank Handlowy w Warszawie S.A.**
ul. Senatorska 16
00-923 Warszawa

**Bank Millennium S.A.**
Al. Jerozolimskie 123A
02-017 Warszawa

**Bank Polska Kasa Opieki S.A.**
ul. Grzybowska 53/57
00-950 Warszawa

**BRE Bank S.A.**
ul. Senatorska 18
00-950 Warszawa

**Calyon**
9, quai du Président Paul Doumer
92920 Paris La Défense Cedex

**Deutsche Bank Polska S.A.**
al. Armii Ludowej 26
00-609 Warszawa

**HSBC Bank plc**
8 Canada Square
London E14 5HQ

**ING Bank Śląski S.A.**
ul. Sokolska 34
40-086 Katowice

**Kredyt Bank S.A.**
ul. Kasprzaka 2/8
01-211 Warszawa

**Lehman Brothers International (Europe)**
25 Bank Street
London E14 5LE

**Powszechna Kasa Oszczędności Bank Polski S.A.**
ul. Puławska 15
00-975 Warszawa

**Société Générale S.A. Oddział w Polsce**
ul. Marszałkowska 111
00-102 Warszawa

# APPENDIX 1 – RULES OF TAXATION ON TREASURY SECURITIES

Treasury securities may be acquired by residents and non-residents as defined in the Act on foreign exchange law dated 27 July 2002 (OJ No 141, item 1178, as amended) who are natural persons or legal persons or commercial companies without legal personality, except Treasury savings securities which in general may be acquired by natural person.
The Treasury savings securities may be acquired also by associations, other non-profit organizations, foundation entered in the court register, in case of non residents, also in other official register, unless specifically provided in the condition of issue of securities.
According to article 2 paragraph 1 subparagraph 1 of the Act on foreign exchange law the term "residents" means:

a) natural persons with a place of residence in the country, legal persons with a registered seat in the country, as well as other entities, with a registered seat in the country, capable of assuming obligations and acquiring rights in their own name and on their own behalf; branch offices, representative offices and enterprises established by non-residents in the country are also residents,
b) Polish diplomatic missions, consular offices, other Polish representative offices and special missions entitled to diplomatic or consular immunities and privileges.

Whereas in accordance with article 2 paragraph 1 subparagraph 2 of the Act on foreign exchange law the term "non-residents" means:

a) natural persons with a place of residence abroad, legal persons with a registered seat abroad, as well as other entities with a registered seat abroad, capable of assuming obligations and acquiring rights in their own name and on their own behalf; non-residents are also those branch offices, representative offices and enterprises located abroad which have been established by residents,
b) foreign diplomatic missions, consular offices, other foreign representative offices and special missions as well as international organisations entitled to diplomatic or consular immunities and privileges.

Taxation on the income (revenues) from capital gains are regulated in the Acts:

a) 26 July 1991 on Personal Income Tax (OJ of 2000 No 14, item 176 as amended),
b) 15 February 1992 on Corporate Income Tax (OJ of 2000 No 54, item 654 as amended).

According to Article 3 paragraph 1 of the Act on Personal Income Tax, natural persons with the domicile within the territory of the Republic of Poland are subject to the taxation of their whole income (revenues) irrespective of the place where their receive it (full tax liability).
According to Article 3 paragraph 1 of the Act on Personal Income Tax, natural person with the domicile on the territory of the Republic of Poland means any person who:

a) within the territory of the Republic of Poland has centre of personal and economic interests (centre of vital interests),
b) is present within the territory of the Republic of Poland for a period longer than 183 days in fiscal year.

According to article 30a paragraph 1 subparagraph 2 of the Act on Personal Income Tax, the income received from interest and discount on securities (include Treasury securities) are subject to a final withholding tax at a rate of 19%.
According to article 21 paragraph 1 subparagraph 119 of the Act on Personal Income Tax, the income from interest on securities issued by the State Treasury are exempt to the amount equal to interest paid by an investor at the time of purchase from the Issuer. In case of bonds acquired on secondary market the income from whole interest on securities are subject to a final withholding tax at a rate of 19%. The income (revenues) is taxable at the time of payment or when left at the bond holder's disposal.

In case of bonds with interest capitalization the income is subject of tax at the time of payment or when it has been left at the disposal of the taxpayer. The rule also applies to redemption of bonds. When the bonds are prematurely redeemed only the actual income left at the bond holder's disposal (accrued interest minus early redemption fee) is subject to tax.
The income derived from sale of securities (including Treasury securities) is subject to a 19% tax rate.
According to article 19 of the Act dated 12 November 2003 amending the Act on PIT and other acts (OJ Nr 202, item 1956, as amended), the income from sale of securities acquired before 1 January 2001 are exempt from income tax.
The income derived from sale of securities is not aggregated with the taxpayer's other income and should be shown in a separate form (PIT 38).
In case of natural persons having limited tax liability, defined in Article 3 paragraph 2a of the Act on Personal Income Tax, the income received from securities issued on domestic market also shall apply to agreements for the avoidance of double taxation between Republic of Poland and country of seat or domicile of non resident. Nevertheless, the rate tax from a relevant agreement for the avoidance of double taxation or any failure to pay the income tax shall apply in the case when a residency certificate of the taxpayer for tax purposes has been delivered.
In accordance with Article 3 paragraph 1 of the Act on Corporate Income Tax, if taxpayers have their seat or place of management within the territory of the Republic of Poland their worldwide income (total income) is taxable in Poland.
The income of legal persons from interest, discount and sale of securities (including Treasury securities) are pooled with other incomes and are taxable according to general rules.
According to Article 19 paragraph 1 of the Act on Corporate Income Tax the tax shall amount to 19 per cent of the tax base.
In accordance with Article 3 paragraph 2 of the Act on Corporate Income Tax, taxpayers (legal persons) not having their seat or place of management in Poland, are subject to Polish tax only on the income derived from Poland.
The rules of taxation on interest received by legal persons not having their seat or place of management within the territory of the Republic of Poland are regulated in Article 21 of Act on Corporate Income Tax. According to Article 21 paragraph 1 subparagraph 1 of the Act on Corporate Income Tax, income tax on revenues interest received within the territory of the Republic of Poland by the taxpayers from interest shall be assessed in the amount of 20 per cent of revenues.
Whereas the income from sale of securities (including Treasury securities) received within Poland by legal persons having their seat or place of management in Poland or abroad, are subject to tax at 19% rate.
However taxation of the income realized within the territory of the Republic of Poland by taxpayer not having their seat or management office within the territory of Poland, from indicated above titles, also shall apply with referred to agreements for the avoidance of double taxation between Poland and another country of seat or domicile of non resident. In such cases the rate tax from a relevant agreement for the avoidance of double taxation or any exemption to pay the income tax shall apply in the case when a residency certificate of the taxpayer for tax purposes has been delivered.
Additionally the Minister of Finance, according to its Orders, decided to withhold the collection of income tax on income received by non residents from bonds issued on foreign markets in 1995-2007.

# APPENDIX 2 – CHARTS DATA

Chart 2.1
NOMINAL GROSS DOMESTIC PRODUCT AND GROSS DOMESTIC PRODUCT GROWTH IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Nominal Gross Domestic Product, PLN bn | 779.6 | 808.6 | 843.2 | 924.5 | 983.3 | 1060.0 | 1167.8 |
| Gross Domestic Product growth | 1.2% | 1.4% | 3.9% | 5.3% | 3.6% | 6.2% | 6.6% |

Chart 2.2
CPI INFLATION IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Inflation as of the end of December (December previous year = 100) | 3.6% | 0.8% | 1.7% | 4.4% | 0.7% | 1.4% | 4.0% |
| Inflation yearly average | 5.5% | 1.9% | 0.8% | 3.5% | 2.1% | 1.0% | 2.5% |

Chart 2.4
GENERAL GOVERNMENT DEFICIT IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| General government deficit, PLN bn | 40.0 | 40.5 | 52.8 | 52.6 | 42.5 | 40.2 | 23.7 |
| General government deficit to GDP ratio | 5.1% | 5.0% | 6.3% | 5.7% | 4.3% | 3.8% | 2.0% |

Chart 2.5
EXPORTS AND IMPORTS IN 2001-2007 (ACCORDING TO NBP DATA)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Exports, PLN bn | 170.6 | 190.5 | 237.3 | 297.7 | 312.0 | 363.8 | 398.1 |
| Exports to GDP ratio | 21.9% | 23.6% | 28.1% | 32.2% | 31.7% | 34.3% | 37.3% |
| Imports, PLN bn | 201.9 | 220.1 | 259.5 | 318.4 | 321.0 | 378.4 | 440.8 |
| Imports to GDP ratio | 25.9% | 27.2% | 30.8% | 34.4% | 32.6% | 35.7% | 41.3% |

Chart 2.6
CURRENT ACCOUNT BALANCE IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Current account balance, PLN bn | -21.8 | -20.4 | -17.9 | -37.5 | -12.0 | -28.3 | -43.4 |
| Current account balance to GDP ratio | -2.8% | -2.5% | -2.1% | -4.1% | -1.2% | -2.7% | -3.7% |

Chart 2.7
FOREIGN DIRECT INVESTMENTS IN 2001-2007

| EUR bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Foreign Direct Investments in Poland | 4.4 | 3.7 | 4.3 | 10.0 | 7.7 | 15.1 | 12.8 |

Chart 2.8
OFFICIAL RESERVE ASSETS IN 2001-2007

| EUR bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Official reserve assets | 30.1 | 28.5 | 27.1 | 27.0 | 36.0 | 36.8 | 44.7 |

Chart 2.9
USD/PLN, EUR/PLN AND EUR/USD RATES IN 2001-2007

as of the end of a year

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| USD/PLN | 3.9863 | 3.8388 | 3.7405 | 2.9904 | 3.2613 | 2.9105 | 2.4350 |
| EUR/PLN | 3.5219 | 4.0202 | 4.7170 | 4.0790 | 3.8598 | 3.8312 | 3.5820 |
| EUR/USD | 0.8904 | 1.0496 | 1.2578 | 1.3559 | 1.1845 | 1.3202 | 1.4592 |

yearly average

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| USD/PLN | 4.0978 | 4.0811 | 3.8898 | 3.6484 | 3.2347 | 3.1047 | 2.7686 |
| EUR/PLN | 3.6725 | 3.8553 | 4.3979 | 4.5294 | 4.0231 | 3.8960 | 3.7843 |
| EUR/USD | 0.8959 | 0.9454 | 1.1317 | 1.2444 | 1.2450 | 1.2562 | 1.3708 |

Chart 2.10
NET ASSETS OF PENSION FUNDS, INVESTMENT FUNDS AND INSURANCE COMPANIES IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Pension funds | 19.4 | 31.6 | 44.8 | 62.6 | 86.1 | 116.6 | 140.0 |
| Investment funds | 12.1 | 22.8 | 33.2 | 37.5 | 61.3 | 98.8 | 134.0 |
| Insurance companies | 48.0 | 57.6 | 65.7 | 77.9 | 89.6 | 108.3 | 126.9 |
| Total | 79.5 | 112.0 | 143.7 | 178.0 | 237.0 | 323.6 | 401.0 |

Charts 3.3 i 3.4
GENERAL GOVERNMENT DEFICIT TO GDP RATIO AND GENERAL GOVERNMENT DEBT TO GDP RATIO IN 2001-2007

| % GDP | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| General government deficit | 5.1 | 5.0 | 6.3 | 5.7 | 4.3 | 3.8 | 2.0 |
| General government debt | 37.6 | 42.2 | 47.1 | 45.7 | 47.1 | 47.7 | 45.2 |

Chart 5.1
NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| State budget deficit | 32.4 | 39.4 | 37.0 | 41.4 | 28.4 | 25.1 | 16.0 |
| Transfer of funds to Open Pension Funds | 0.0 | 0.0 | 0.0 | 10.6 | 12.6 | 14.9 | 16.2 |
| EU funds* | 0.0 | 0.0 | 0.0 | -2.1 | 1.9 | 4.2 | 1.2 |
| Other** | 1.0 | 1.9 | 7.0 | -2.9 | 2.5 | 1.2 | 2.0 |
| Net borrowing requirements total | 33.4 | 41.3 | 44.0 | 47.1 | 45.3 | 45.4 | 35.4 |

*EU funds = prefinancing balance + funds from structural funds balance
**other = domestic and foreign currency liquid funds balance + domestic and foreign granted loans balance + participation in international organizations + compensations

Chart 5.2
MONTHLY NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2007

| PLN bn | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| State budget deficit/surplus | -3.1 | 6.1 | 1.8 | -2.8 | 2.2 | -0.6 | -4.3 | 0.3 | 0.1 | 4.6 | 1.6 | 9.9 |
| Transfer of funds to Open Pension Funds | 0.7 | 1.1 | 1.3 | 1.5 | 1.3 | 1.4 | 1.8 | 1.2 | 1.3 | 1.6 | 1.3 | 1.7 |
| EU funds* | 2.6 | -0.2 | -0.9 | -2.0 | 0.2 | 0.2 | 0.2 | -0.4 | 0.0 | 0.2 | 0.2 | 1.0 |
| Other** | 5.0 | -0.8 | -1.4 | -2.4 | 3.0 | 0.1 | 0.2 | -0.1 | -0.2 | -2.4 | 1.3 | -0.4 |
| Net borrowing requirements total | 5.2 | 6.3 | 0.8 | -5.7 | 6.7 | 1.1 | -2.2 | 1.1 | 1.2 | 4.0 | 4.4 | 12.3 |

*EU funds = prefinancing balance + funds from structural funds balance
**other = domestic and foreign currency liquid funds balance + domestic and foreign granted loans balance + participation in international organizations + compensations

Chart 5.3
GROSS BORROWING REQUIREMENTS OF STATE BUDGET IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Net borrowing requirements | 33.4 | 41.3 | 44.0 | 47.1 | 45.3 | 45.4 | 35.4 |
| Repayment of domestic debt | 54.1 | 71.0 | 84.6 | 95.6 | 90.1 | 86.6 | 74.2 |
| Repayment of foreign debt | 15.9 | 12.8 | 18.6 | 13.6 | 26.6 | 12.1 | 7.9 |
| Gross borrowing requirements total | 103.3 | 125.1 | 147.2 | 156.3 | 162.0 | 144.1 | 117.5 |

Chart 5.4
MONTHLY GROSS BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2007

| PLN bn | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net borrowing requirements | 5.2 | 6.3 | 0.8 | -5.7 | 6.7 | 1.1 | -2.2 | 1.1 | 1.2 | 4.0 | 4.4 | 12.3 |
| Repayment of domestic debt | 5.9 | 2.3 | 9.1 | 13.5 | 7.2 | 2.6 | 7.0 | 7.5 | 2.7 | 6.1 | 2.3 | 8.0 |
| Repayment of foreign debt | 0.0 | 0.1 | 0.9 | 2.4 | 0.2 | 0.2 | 0.0 | 0.2 | 0.9 | 2.5 | 0.2 | 0.2 |
| Gross borrowing requirements total | 11.2 | 8.6 | 10.9 | 10.2 | 14.1 | 4.0 | 4.9 | 8.8 | 4.8 | 12.6 | 6.9 | 20.5 |

Chart 5.5
FINANCING OF NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic financing | 37.6 | 36.4 | 34.3 | 36.9 | 26.7 | 40.4 | 28.7 |
| Foreign financing | -10.8 | 2.9 | 6.7 | 2.8 | 15.8 | 4.5 | 5.3 |
| Proceeds from privatization | 6.5 | 2.0 | 3.0 | 7.4 | 2.8 | 0.4 | 1.4 |
| Total | 33.4 | 41.3 | 44.0 | 47.1 | 45.3 | 45.4 | 35.4 |

Chart 5.6
FINANCING OF GROSS BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic financing | 91.7 | 107.4 | 119.0 | 132.5 | 116.8 | 127.0 | 102.9 |
| Foreign financing | 5.1 | 15.8 | 25.3 | 16.4 | 42.4 | 16.6 | 13.1 |
| Proceeds from privatization | 6.5 | 2.0 | 3.0 | 7.4 | 2.8 | 0.4 | 1.4 |
| Total | 103.3 | 125.1 | 147.2 | 156.3 | 162.0 | 144.1 | 117.5 |

Chart 5.7
CHANGE OF STATE TREASURY DEBT (ISSUED TREASURY SECURITIES) IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Treasury bills | 11.8 | 6.8 | 6.0 | -1.2 | -22.5 | 1.4 | -3.2 |
| Domestic bonds | 21.4 | 29.0 | 27.0 | 41.2 | 46.1 | 35.9 | 31.2 |
| Foreign bonds | 2.0 | 5.4 | 12.3 | 13.0 | 38.3 | 9.8 | 10.2 |
| Total | 35.2 | 41.3 | 45.3 | 53.0 | 61.9 | 47.2 | 38.1 |

Chart 5.9
SALE OF TREASURY SECURITIES ON DOMESTIC AND FOREIGN MARKETS IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Treasury bills | 48.5 | 48.0 | 57.0 | 48.7 | 26.9 | 29.0 | 22.6 |
| Domestic bonds | 45.8 | 67.6 | 68.4 | 93.8 | 94.1 | 102.4 | 83.3 |
| Foreign bonds | 3.8 | 10.9 | 18.2 | 14.1 | 38.3 | 13.6 | 10.4 |
| Total | 98.1 | 126.5 | 143.6 | 156.6 | 159.4 | 145.0 | 116.2 |

Chart 5.15
LIABILITIES TO PARIS CLUB (EXCLUDING ECOFUND) IN 1991-2007 (RECALCULATED TO USD AS OF THE END OF THE YEAR)

| USD bn | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Schedule payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.8 | 1.0 | 1.5 | 2.1 | 2.1 | 2.0 | 2.3 |
| Early repayment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.3 | 0.0 | 0.0 | 0.0 | 5.8 | 0.0 | 0.0 |
| Level of debt | 31.5 | 29.6 | 28.7 | 26.4 | 27.5 | 26.1 | 23.9 | 24.4 | 22.5 | 20.9 | 16.0 | 16.9 | 17.7 | 16.6 | 7.6 | 6.0 | 4.2 |

Chart 5.16
BRADY BONDS IN 1994-2007

| USD bn | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Early repayment | 0.0 | 0.3 | 0.0 | 1.7 | 0.7 | 0.0 | 0.9 | 0.3 | 1.3 | 1.5 | 0.0 | 0.0 | 0.6 | 0.1 |
| Level of debt | 8.0 | 7.7 | 7.7 | 6.1 | 5.3 | 5.3 | 4.4 | 4.0 | 2.7 | 1.2 | 1.2 | 1.2 | 0.6 | 0.5 |

Chart 6.1
PUBLIC DEBT AND GENERAL GOVERNMENT DEBT IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Public debt, PLN bn | 302.1 | 352.4 | 408.3 | 431.4 | 466.6 | 506.3 | 527.4 |
| Public debt to GDP ratio | 38.8% | 43.6% | 48.4% | 46.7% | 47.5% | 47.8% | 45.2% |
| General government debt, PLN bn | 292.8 | 340.9 | 396.7 | 422.4 | 462.7 | 505.1 | 527.6 |
| General government debt to GDP ratio | 37.6% | 42.2% | 47.1% | 45.7% | 47.1% | 47.7% | 45.2% |

Chart 6.3
STRUCTURE OF STATE TREASURY DEBT ACCORDING TO THE PLACE OF ISSUE CRITERION IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic debt | 185.0 | 219.3 | 251.2 | 291.7 | 315.5 | 352.3 | 380.4 |
| Foreign debt | 98.9 | 108.6 | 127.8 | 111.2 | 124.7 | 126.2 | 121.1 |
| Total | 283.9 | 327.9 | 378.9 | 402.9 | 440.2 | 478.5 | 501.5 |

Chart 6.5
STRUCTURE OF DOMESTIC STATE TREASURY DEBT IN TREASURY SERURITIES IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Treasury bills | 35.2 | 42.0 | 48.1 | 46.9 | 24.4 | 25.8 | 22.6 |
| Treasury bonds | 140.8 | 170.3 | 197.9 | 240.0 | 287.6 | 324.7 | 357.6 |
| fixed rate bonds | 102.7 | 140.4 | 175.3 | 209.1 | 249.7 | 278.2 | 294.6 |
| floating rate bonds | 38.1 | 29.9 | 22.6 | 28.3 | 33.2 | 40.1 | 54.8 |
| index-linked bonds | 0.0 | 0.0 | 0.0 | 2.6 | 4.7 | 6.5 | 8.2 |
| Total | 176.0 | 212.4 | 246.0 | 286.9 | 312.0 | 350.5 | 380.2 |

Chart 6.6
STRUCTURE OF FOREIGN STATE TREASURY DEBT IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Fixed rate | 45.7 | 61.9 | 75.8 | 73.9 | 97.5 | 106.2 | 107.7 |
| Floating rate | 53.2 | 46.7 | 52.0 | 37.3 | 27.1 | 20.0 | 13.4 |
| Total | 98.9 | 108.6 | 127.8 | 111.2 | 124.7 | 126.2 | 121.1 |

Chart 6.7
STRUCTURE OF DOMESTIC STATE TREASURY DEBT BY HOLDERS IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic non-banking sector | 87.0 | 109.4 | 123.9 | 143.6 | 171.5 | 197.3 | 218.1 |
| Domestic banking sector | 77.3 | 78.6 | 86.1 | 85.8 | 75.0 | 80.6 | 87.9 |
| Foreign investors | 20.7 | 31.4 | 41.1 | 62.3 | 68.9 | 74.4 | 74.5 |
| Total | 185.0 | 219.3 | 251.2 | 291.7 | 315.5 | 352.3 | 380.4 |

Chart 6.8
DOMESTIC NON-BANKING INVESTORS PORTFOLIO OF DOMESTIC TREASURY BONDS IN 2002-2007

| PLN bn | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Pension funds | 19.2 | 26.1 | 36.1 | 52.8 | 69.4 | 83.0 |
| Insurance companies | 34.9 | 39.2 | 43.9 | 51.4 | 56.4 | 63.7 |
| Investment funds | 11.9 | 13.8 | 12.3 | 27.1 | 34.2 | 37.5 |
| Other non-banking entitites | 20.9 | 19.4 | 23.6 | 25.6 | 22.1 | 22.5 |
| Total | 86.9 | 98.5 | 115.9 | 156.9 | 182.1 | 206.7 |

## Chart 6.11
## STATE TREASURY DEBT SERVICE COSTS IN 2001-2007

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Total debt service costs, PLN bn | 20.9 | 24.0 | 24.1 | 22.7 | 25.0 | 27.8 | 27.6 |
| domestic, PLN bn | 17.1 | 20.3 | 20.4 | 18.5 | 21.3 | 23.3 | 22.6 |
| foreign, PLN bn | 3.8 | 3.7 | 3.8 | 4.2 | 3.7 | 4.5 | 5.0 |
| Total debt service costs to GDP ratio | 2.7% | 3.0% | 2.9% | 2.5% | 2.5% | 2.6% | 2.4% |
| Total debt service costs to State budget expenditures ratio | 12.1% | 13.1% | 12.8% | 11.5% | 12.0% | 12.5% | 10.9% |

## Chart 7.1
## AVERAGE MATURITY OF STATE TREASURY DEBT IN 2001-2007

| years | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic debt | 2.51 | 2.73 | 2.66 | 3.15 | 3.57 | 3.94 | 4.33 |
| Foreign debt | 6.50 | 5.96 | 5.72 | 5.46 | 8.51 | 8.28 | 8.28 |
| Total debt | 4.09 | 3.90 | 3.75 | 3.82 | 5.01 | 5.11 | 5.30 |

## Chart 7.3
## RESIDUAL MATURITY OF DOMESTIC TREASURY SECURITIES IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| up to 1 year (inc.) | 66.5 | 80.8 | 93.2 | 84.8 | 83.3 | 70.0 | 77.8 |
| 1 to 3 years (inc.) | 55.3 | 57.1 | 77.3 | 87.3 | 82.5 | 98.5 | 111.4 |
| 3 to 5 years (inc.) | 32.9 | 41.2 | 38.2 | 65.6 | 86.2 | 108.6 | 77.3 |
| over 5 years | 21.4 | 33.2 | 37.2 | 49.1 | 60.0 | 73.4 | 113.6 |
| Total | 176.0 | 212.4 | 246.0 | 286.9 | 312.0 | 350.5 | 380.2 |

## Chart 7.4
## CURRENCY STRUCTURE OF STATE TREASURY DEBT IN 2001-2007

| PLN bn | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| PLN | 172.1 | 212.7 | 250.4 | 291.7 | 315.5 | 352.3 | 380.4 |
| EUR | 42.6 | 50.7 | 72.2 | 69.5 | 81.8 | 89.4 | 87.3 |
| USD | 49.0 | 41.9 | 32.8 | 22.9 | 22.7 | 17.3 | 13.3 |
| JPY | 4.7 | 4.7 | 5.6 | 6.3 | 9.0 | 9.5 | 9.0 |
| CHF | 3.3 | 3.6 | 3.5 | 3.8 | 6.2 | 5.8 | 8.4 |
| Other | 12.3 | 14.3 | 14.5 | 8.7 | 5.0 | 4.1 | 3.1 |
| Total | 283.9 | 327.9 | 378.9 | 402.9 | 440.2 | 478.5 | 501.5 |

## Chart 7.6
## DURATION OF STATE TREASURY DEBT IN 2001-2007

| years | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic debt | 1.75 | 2.16 | 2.12 | 2.44 | 2.76 | 2.99 | 2.85 |
| Foreign debt | 3.43 | 3.56 | 3.62 | 3.77 | 5.98 | 5.90 | 5.92 |
| Total debt | 2.41 | 2.65 | 2.66 | 2.84 | 3.73 | 3.78 | 3.63 |

Chart 7.7
ATR (AVERAGE TIME TO REFIXING) OF STATE TREASURY DEBT IN 2001-2007

| years | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Domestic debt | 2.05 | 2.41 | 2.44 | 2.80 | 3.07 | 3.40 | 3.39 |
| Foreign debt | 4.43 | 4.35 | 4.45 | 4.55 | 7.99 | 7.91 | 8.05 |
| Total debt | 2.99 | 3.11 | 3.15 | 3.31 | 4.51 | 4.61 | 4.53 |

Chart 7.8
AVERAGE LEVEL OF PLN AND FOREIGN CURRENCY FUNDS IN STATE BUDGET ACCOUNTS IN 2007

| PLN bn | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average PLN funds | 7.3 | 10.2 | 10.5 | 10.4 | 12.5 | 5.8 | 6.3 | 8.3 | 7.2 | 9.7 | 11.2 | 9.5 |
| Average foreign currency funds | 3.5 | 5.4 | 4.8 | 1.0 | 2.4 | 3.8 | 3.6 | 3.6 | 3.3 | 0.2 | 0.6 | 0.8 |
| Total | 10.8 | 15.6 | 15.3 | 11.4 | 14.9 | 9.5 | 9.9 | 11.9 | 10.6 | 9.9 | 11.8 | 10.3 |

Chart 8.1
VALUE OF TRANSACTIONS IN DOMESTIC TREASURY SECURITIES IN 2001-2007

| PLN trillion | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Treasury bonds | 0.6 | 1.1 | 2.0 | 2.1 | 4.2 | 6.5 | 7.4 |
| Treasury bills | 0.5 | 1.1 | 1.8 | 1.8 | 1.2 | 0.5 | 0.2 |
| Total | 1.1 | 2.2 | 3.8 | 3.9 | 5.4 | 6.9 | 7.6 |

Chart 8.3
SECONDARY MARKET LIQUIDITY RATIO FOR DOMESTIC BENCHMARK TREASURY BONDS IN 2002-2007*

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| 2-year benchmark bond | 353.59% | 300.64% | 221.53% | 286.7% | 339.1% | 170.9% |
| 5-year benchmark bond | 160.50% | 134.01% | 237.65% | 285.0% | 341.6% | 419.7% |
| 10-year benchmark bond | 84.75% | 164.96% | 70.98% | 208.5% | 206.1% | 264.2% |
| Total T-bonds | 70.11% | 93.77% | 83.75% | 134.0% | 176.2% | 185.4% |

* ratio of average value of transactions to average amount outstanding

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